

Estia 
Health

ANNUAL REPORT

2020-21









A decorative image on the left side of the page showing a lamp with a white shade and a gold base, a bouquet of purple and white flowers, and a white textured ball on a wooden table.

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



Chairman and CEO's Message

This has been a challenging year for Estia Health, with the publishing of the Final Report of the Royal Commission into Aged Care Quality and Safety and the ongoing impact of the COVID-19 pandemic.

COVID-19 has affected all in the community and we are pleased to report that the Company's leadership, balance sheet strength, strong culture and focus on clinical governance and quality enabled Estia Health to meet the many challenges we have faced.

The COVID-19 pandemic significantly impacted the residential aged care sector, especially in Victoria. Outbreaks in 11 of our Victorian homes resulted in many of our residents and employees contracting the virus and very sadly 36 residents passed away with COVID-19.

We have built on the preparations undertaken at the beginning of the pandemic in early 2020, with a focus on frequent communication with residents and employees, strengthening of education to upskill our people in infection prevention and control and drawing on expert partners when required.

Good governance and providing the resources required to meet the exceptional circumstances have been important in meeting the challenges presented by the pandemic. A COVID-19 Board Sub-committee met regularly throughout the period to provide oversight of the actions needed to manage our response.

In the year \$24.3 million of direct incremental costs associated with the pandemic were committed across our workforce, infection prevention and control (IPC), personal protective equipment (PPE), cleaning, waste disposal and employees and family welfare and support. \$20.1 million of these incremental costs were incurred in the first half year with \$4.2 million incurred in the second half year.

Although our workforce and operations were significantly challenged during the year, the depth and skills of our leadership team enabled the Company to manage the emergency in Victoria while maintaining close to normal operations in other states. This was

also made possible by the more than 7,500 strong Estia Health team, who delivered compassionate and high-quality care to residents and support for their families in sometimes very difficult circumstances.

Despite these events, Estia Health returned to profit this year and reinstated the payment of a dividend. Directors declared a fully franked final and total dividend of 2.3 cents a share for the year. The class action was settled without admission of liability.

Performance for the year to June 2021

Our net profit after tax was \$6.0 million (FY20: \$116.9 million loss) on 4.4 per cent higher revenue of \$665.4 million and after \$12.4 million in class action settlement costs. Revenue was supported by grants of \$21.4 million provided to cover the COVID-19 costs during the pandemic and temporary government funding.

Average occupancy for mature homes across the whole Estia Health portfolio was 91.2 per cent, with occupancy for mature homes in Victoria averaging 85.9% and outside of Victoria averaging 94.0% over the year.

We achieved net Refundable Accommodation Deposit (RAD) inflows of \$30.6 million, including \$5.9 million from our new home in Blakehurst which opened in February 2021, bringing RAD balances to \$863.9 million at 30 June 2021.

Estia Health is in a strong financial position with net bank debt of \$81.1 million at year end and total debt facilities of \$330.0 million with a maturity date of





Dr. Gary H Weiss AM
Chairman



Ian Thorley
Chief Executive Officer

15 November 2022 and \$210.9 million undrawn at 30 June 2021.

Royal Commission and reform

The Royal Commission into Aged Care Quality and Safety (the Royal Commission) handed down its Final Report in February 2021, containing 148 recommendations. The complex nature of the challenges facing the sector was demonstrated by the breadth of the Final Report. The Australian Government accepted 126 of these recommendations and has commenced the design and consultation process. The 2021 Federal Budget included a headline \$17.7 billion funding increase over four years for the sector.

While we are broadly supportive of the Government's response to the Royal Commission, further detail is required to fully assess the financial and operational impact that this will have on the sector and individual providers. It is also important that the pricing and funding arrangements announced in the Budget structurally address the margin compression that has been a feature of the aged care sector, so as to enable efficient providers of quality aged care services to meet community expectations while achieving an adequate rate of return.

At this stage many of the reform changes are subject to design and consultation with the sector. There are considerable new regulatory, governance and prudential requirements but we do not expect these will have a significant additional burden on Estia Health given the reporting and governance standards required of an ASX listed company.

The most significant impact of the Government response to date is the move to more competitive markets with the abolition of the Aged Care Approvals Round (ACAR) licensing system and with that, the current restrictions on supply. The publication of performance standards will also enhance consumer choice and ultimately improve care standards, increase the range of services and

improve asset quality. Subject to appropriate funding, ACAR reform provides conditions that could see a restructuring of the sector.

Growth

In the year we continued our prudent approach to growth, investing \$49.0 million, increasing capacity with the opening of one new home, closing our small Keilor Downs home in Victoria and continuing the refurbishment program.

Our new Blakehurst home opened in February 2021, replacing the original 42-place home which was demolished in 2018. Following a \$41.2 million project capital investment, this home has seen strong occupancy growth in the short period since opening. This home also includes our first Wellness Centre and provides reablement services to residents and the broader community.

We will be commencing construction of two new homes at Aberglasslyn and St Ives, both in New South Wales in FY22. This is consistent with our approach of continually improving our portfolio, retiring smaller, older homes and bringing on new homes to meet the future needs and expectations of the community. The homes we have commissioned in the last three years have performed strongly.

Sustainability

Our sustainability initiatives are value-creating and intrinsic to the achievement of our business objectives. We recognise that the long-term viability and profitability of our organisation depends on the wellbeing of our people, supporting and integrating within our local communities and the continued health of the natural environments we rely upon.

Materiality assessments have validated our prioritisation of social and governance matters, particularly resident care and human capital as being the highest risks for the company.

Our carbon reduction investment which commenced three years ago has resulted in energy efficient projects being introduced into 94 per cent of homes. Our plastic reduction program that resulted in the removal of 240,000 plastic items last year will continue in FY22 with the removal of single use plastic eating and drinking items. This should see a further nine tonnes of waste diverted from land fill. The microfibre cleaning system currently being rolled out supports the efficient use of water, improved infection prevention and control outcomes and reduced manual handling incidents.

Clinical governance

The changing regulatory environment has required investment in additional resources and systems. This included the implementation of the Serious Incident Response Scheme (SIRS) in FY21, the review of psychotropic drug management and use of restraints - all adopted in line with recommendations of the Royal Commission and now being implemented.

The COVID-19 response has seen the appointment of infection prevention and control roles into all homes and the development of a partnership with HICMR, a national infection control group who undertakes education and independent auditing of our infection control practices.

Our clinical governance program is also independently chaired to ensure a high level of review over our clinical outcomes and performance.

During the year 95 accreditation visits were made to 60 homes. All homes have remained fully accredited during the period, although 10 homes received a report of unmet outcomes during FY21. Of the expected outcomes examined in these visits, we achieved 96.5 per cent of outcomes fully met and continually examine how we can fully meet requirements on all occasions.

In FY22 we intend to implement electronic medication management and prescribing systems, and this will further support our quality use of medicines and provide information to analyse the use of drugs and monitor prescribing practices.

People at the heart of Estia Health

The ageing of the Australian population over the next 20 years will provide support for growth in residential aged care. The 85 years and over cohort which will double in the next 20 years to 1 million people by 2040 will create ongoing demand for residential services.

Being a people organisation, our ongoing success will continue to rely upon our more than 7,500 employees and the work that they do every day to meet our core purpose to 'enrich and celebrate life together'. We have a number of multi-year workforce initiatives

to ensure Estia can compete for talent, including opportunities for career development through programs provided by EstiaAcademy which has been significantly enhanced to grow our own management ready leaders. Our e-learning capabilities have seen significant development over the past 12 months in response to the pandemic. We have provided extensive opportunities for practical work experience to introduce students to the careers available in the aged care sector. Our diversity and gender equality programs have seen the reduction in gender pay gaps and this is an ongoing and important area of focus.

With central services employees working from home for extended periods and extra demands required of our home-based employees, we launched a new wellbeing program EstiaWell, to support our employees mental health and overall wellbeing.

Estia believes that the vaccination of our employees is the first line of defence to meet the ongoing challenges presented by COVID-19. We have supported our team members by conducting an in-reach employee vaccination program throughout all our homes, together with education-led communication initiatives. Estia believes this was the most effective way of supporting our people to overcome misinformation and hesitancy about the vaccines and to ensure we meet the Government's requirement of 100% aged care workforce receiving at least their first vaccination dose by 17 September 2021.

On behalf of the Estia Health Executive Team and Board we would like to thank our employees for their extraordinary effort and dedication during an incredibly challenging year.

We also wish to acknowledge and sincerely thank our residents and their families for their understanding. This has been a very difficult time for them all - we thank you for your support as we navigate this pandemic together.

We also thank our shareholders for their continued support.

We look forward to continuing to play a critical role in delivering safe, high-quality and sustainable aged care services for all Australians.

Yours sincerely,



Dr. Gary H Weiss AM
Chairman



Ian Thorley
Chief Executive Officer





Sector Trends

1. Residential aged care – an essential service

The aged care sector accounts for 1.2% of Australia’s GDP, provides services to more than 1.3 million older Australians and employs more than 366,000 people¹.

The structural ageing of the Australian population over the next 20 years will support underlying growth in aged care services. The 85 years and over cohort will increase from just under 500,000 people in 2020 to just over a million people by 2040.

As people live longer, with more complex and chronic conditions, they require a higher acuity of care that prevents them from living independently at home. Residential aged care is needs-based and enables complex high-quality care to be efficiently delivered by an array of nurses, carers and other healthcare professionals. This complements the broader healthcare sector and supports those that can no longer care for their family or loved one with the available home care services.

Estia Health’s response:

- Our Workforce Strategy is focused on culture, career progression and a compelling value proposition for our people, to ensure we attract and retain dedicated healthcare workers in a competitive market
- Differentiated services and products competitively priced and relevant to the needs of each local community
- Strong local professional health and education partnerships to support the diverse and changing needs of older people and develop the required workforce through upskilling and practical clinical education
- Strong clinical governance and investment in training to support more complex needs for the aged

¹ <https://www.health.gov.au/resources/publications/ninth-report-on-the-funding-and-financing-of-the-aged-care-industry-july-2021>

2. Impact of the Royal Commission

The Final Report² into the Royal Commission into Aged Care Quality and Safety (the Royal Commission) was published in February 2021. 148 recommendations were made to significantly reform the aged care sector and the government responded in the 2021-22 Federal Budget with a proposed \$17.7 billion increase in funding over the next four years³.

126 of the recommendations were broadly accepted by the government and are likely to lead to greater costs, compliance and administrative requirements. Reforms are grouped into five key areas: governance and prudential regulation, quality and safety, workforce, funding and financing, transparency and competitive markets.

With the introduction of greater transparency for consumers and with the removal of restrictive supply practices associated with ACAR, success in the sector will depend on a provider’s ability to compete and provide better quality service and value for money.

Estia Health’s scale and capability as well as a strong balance sheet, delivers a competitive advantage and enables us to work towards achieving our vision to provide *‘trusted aged care that is accessible to all’*.

Estia Health’s competitive advantage includes:

- A diversified portfolio
- Delivering occupancy ahead of market averages and peers
- Strong balance sheet
- Leadership depth and capability

² <https://agedcare.royalcommission.gov.au/publications/final-report>

³ <https://budget.gov.au/index.htm>



3. Customer choice and expectations

Recognising the importance of customer experience, the government introduced eight Aged Care Quality Standards in 2019, with Standard One focused on the fundamentals of resident dignity and choice. The aim was to ensure residential aged care providers help customers make informed choices, understand their options and be as independent as possible to live the life they want.

Research⁴ we conducted in FY20 and FY21 demonstrates customers have increasingly higher expectations of quality services and are focused on reablement, maintaining function and enjoyment of life. The government's proposed star rating system will provide transparency for consumers, empowering them to make informed choices on services, clinical care and price.

Residential aged care providers will have greater opportunity to offer differentiated services and products that are competitively priced and relevant to the needs and expectations of the local community.

Estia Health's response:

- Continuous culture of improvement with a person-centred care model
- Continued evolution of organisational culture, values, principles and behaviours, centred around the resident
- Regular surveying, measuring satisfaction of overall customer experience
- Highly developed sales and marketing expertise with strong links to local communities

⁴ Customer Research conducted for Estia Health, Instinct and Reason 2019 and 2020

4. Workforce trends

In 2018, The Aged Care Workforce Taskforce released A Matter of Care – Australia's Aged Care Workforce Strategy⁵ setting out 14 actions for the aged care sector to grow and sustain their workforce to ensure they can provide services to meet care needs, now and into the future. The government supported the Strategy with \$2.6 million included in the 2019-20 Federal Budget⁶ to establish the Aged Care Workforce Industry Council (Workforce Industry Council) and implement the Strategy. In the 2020-21 Federal Budget⁷, a further \$10.3 million was committed to support the Workforce Industry Council reforms.

The pausing of skilled migration and the growth in demands of the broader healthcare sector means the competition for talent is intensifying and workforce is now the sector's greatest challenge. The further focus on the National Disability Insurance Scheme (NDIS) and the additional 80,000 home care packages over the next two years will also contribute to workforce challenges for the aged care sector.

Our Workforce Strategy includes:

- Continued employee engagement and growth of our organisation's culture, including development of a strong employee value proposition
- *EstiaAcademy*, to provide learning and development opportunities for all employees and promote a culture of continuous learning
- Maintenance of a limited casual workforce (7.5%) with a focus on retaining long-term, skilled employees
- *EstiaWell*, focussing on the safety and particularly the psychological wellbeing of employees

⁵ <https://www.health.gov.au/resources/publications/a-matter-of-care-australias-aged-care-workforce-strategy>

⁶ <https://archive.budget.gov.au/2019-20/>

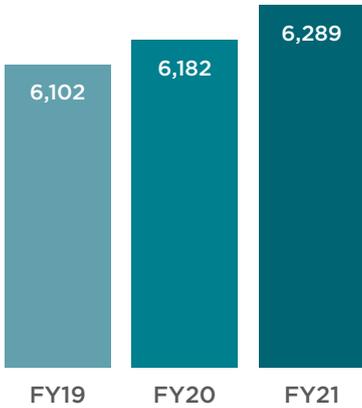
⁷ <https://budget.gov.au/index.htm>



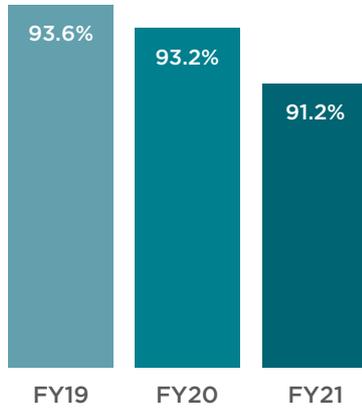
Key Highlights

Financial performance

OPERATIONAL PLACES



AVERAGE OCCUPANCY¹



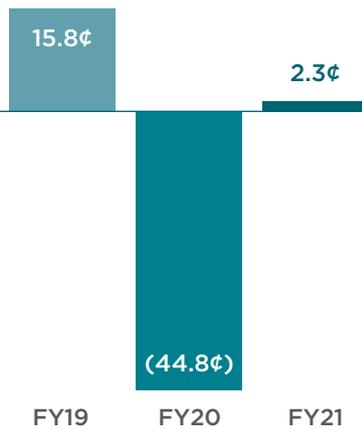
OPERATIONAL REVENUE²



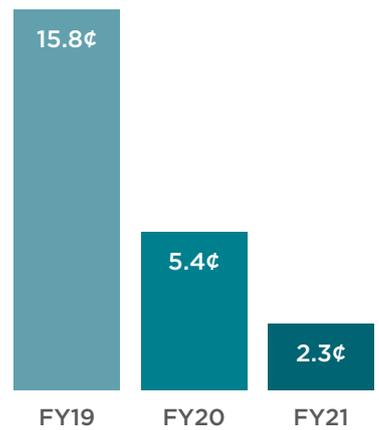
PROFIT AFTER TAX Before Class Action and Impairment Expense



EARNINGS PER SHARE

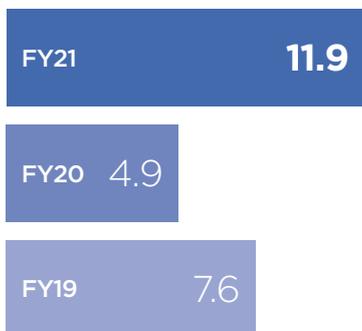


DIVIDENDS PER SHARE



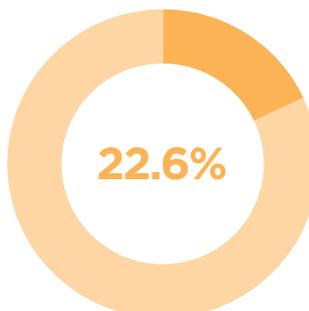
Health and safety

LTIFR³



Employees

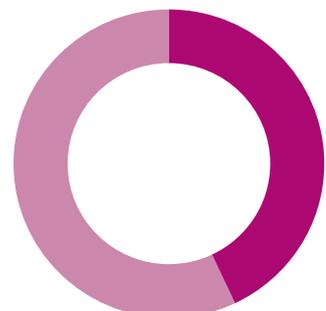
EMPLOYEE TURNOVER



Sector average 29%⁴

Gender diversity

BOARD AND EXECUTIVE POSITION COMPOSITION



¹ Mature homes only

² Excludes AASB 16 imputed DAP

³ Lost Time To Injury Frequency Rate (LTIFR) 12 month rolling average

⁴ Table 2.9 page 23 - <https://www.health.gov.au/sites/default/files/documents/2021/09/2020-aged-care-workforce-census.pdf>



Network of homes



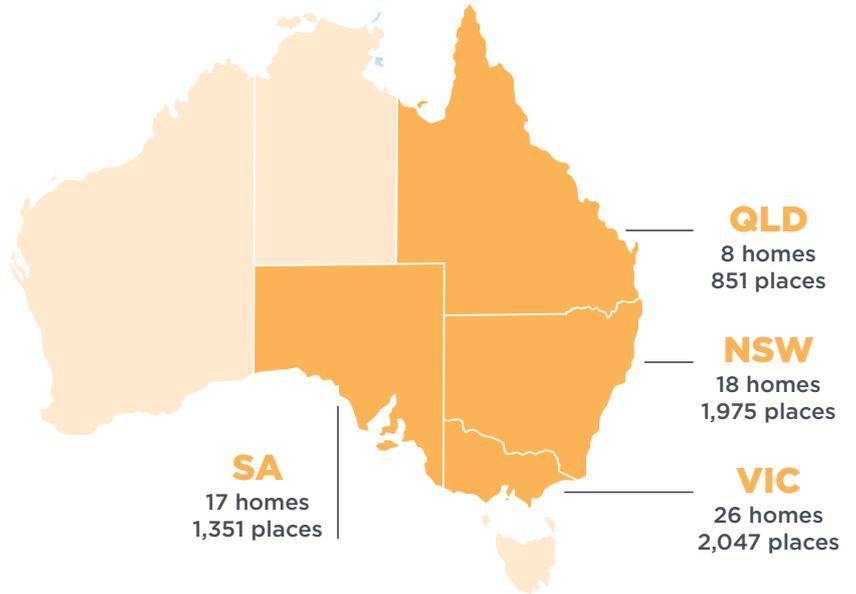
69 operational homes
 6,224 places^{5,6}
 5,176 (91%) single rooms
 90 average places per home
 62 freehold sites



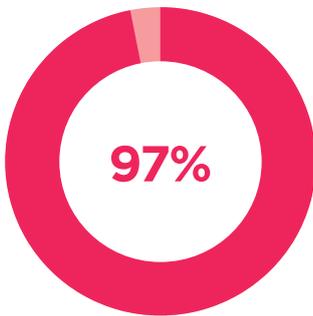
Over 7,500 employees



Care delivered to more than 8,000 older Australians annually



Compliance



97% expected ACQSC outcomes fully met

Sustainability



20% electricity generated from Estia Health renewable energy initiatives

Professional development

EMPLOYEES TRAINED ACROSS MULTIPLE PROFESSIONAL DEVELOPMENT PROGRAMS



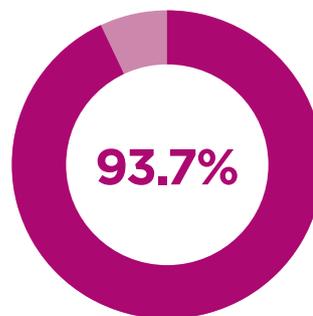
TRAINING DELIVERED (HOURS)



- 7,989 hours for IPC leads
- 3,870 remaining IPC and PPE related training for all other employees

Consumer Experience Report (CER)

8,242 CER SURVEYS CONDUCTED



Average 93.7% satisfaction rating across the network⁷

⁵ Total operational places at 20 August 2021

⁶ As at 24 August 2021, 56 homes with 5,256 beds qualify for the significant refurbishment higher accommodation supplement

⁷ Satisfaction defined as percentage of responses that report experience as "most of the time" or "always"

Our Executive Team

With extensive experience from residential aged care, healthcare and other industries, our Executive team strives to ensure we consistently provide high-quality residential care to everyone who chooses to be part of the Estia Health family. As a team, they are responsible for setting and leading our Corporate and Sustainability Strategy and working to ensure Estia Health is Australia's most trusted residential aged care provider, providing access to residential aged care to all who need it.

Ian Thorley

Chief Executive Officer and Managing Director

Ian has over 30 years' health and aged care experience in both Australia and overseas. Appointed as Chief Executive Officer in October 2018, Ian was previously Estia Health's Chief Operating Officer from October 2016.

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

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

Sean Bilton

Chief Operating Officer and Deputy Chief Executive Officer

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

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

Steve Lemlin

Chief Financial Officer

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

Joining in February 2017 as Chief Financial Officer, Steve is responsible for corporate finance and investor

relations and also leads the broader finance team in supporting our homes to deliver the best experience for our residents through accurate and timely management information.

Lisa Keogh

Chief People Officer

Lisa joined in September 2020, bringing with her more than 20 years' experience in leading People and Culture teams both in Australia and overseas.

As Chief People Officer, Lisa leads a dedicated team, working to attract and develop the best available talent in the sector, maintaining a safe workplace and a motivated workforce capable of delivering excellent care and service for our residents and their families.

Leanne Laidler

Chief Quality and Risk Officer

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

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

Damian Hiser

Chief Customer Officer

Damian is a senior healthcare executive, with over 30 years' experience in the private healthcare sector in Australia and overseas and the last 10 years in aged care in Australia. Appointed to the role of Chief Customer Officer in October 2017, Damian is responsible for programs that improve the experience for residents and their families as they navigate the difficult and emotional journey into aged care, to help make the transition as easy as possible.





Clockwise from left: Sean Bilton, Damian Hiser, Lisa Keogh, Mark Brandon OAM, Fiona Caldwell, Rita Sheridan, Steve Lemlin, Leanne Laidler and Ian Thorley.

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

Fiona Caldwell
Chief Information Officer

With over 25 years’ experience in various IT strategic and operational leadership capacities, Fiona brings a wealth of practised knowledge and a sound background in managing IT solutions and projects.

Appointed to the role of Chief Information Officer in October 2017, Fiona leads Estia Health’s IT team in the delivery of modern and innovative technologies and services and seeks to advance the level of assistance and amenities available at Estia Health.

Mark Brandon, OAM
Chief Policy and Regulatory Officer

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

As Chief Policy and Regulatory Officer, Mark’s remit includes key stakeholder relationship management and oversight of regulatory compliance.

Rita Sheridan
Chief Development and Property Officer

Rita’s career spans capital development in the aged care and accommodation sectors, residential construction and commercial interior design. Appointed to the role in March 2018, Rita leads capital development and property maintenance programs.

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

Full biographies available at www.estiahealth.com.au/who-is-estia-health/our-executive-team

Our Approach to Measuring Progress and Impact

Through our network of 69 homes, Estia Health cares for over 8,000 older Australians each year. This comes at an important time in people’s lives, when they cannot live independently, requiring a level of support beyond what can be provided by their families, loved ones or home care services.

Our singular focus is to put resident care at the centre of all our actions. This is made possible through the dedication of our more than 7,500 employees and healthcare partners working with residents and families to deliver on our purpose, *‘to enrich and celebrate life together’*.

Underpinning our purpose and vision is a culture of a *‘family where everyone belongs’*, expressed through everyday actions by our team in their varied and valued roles.

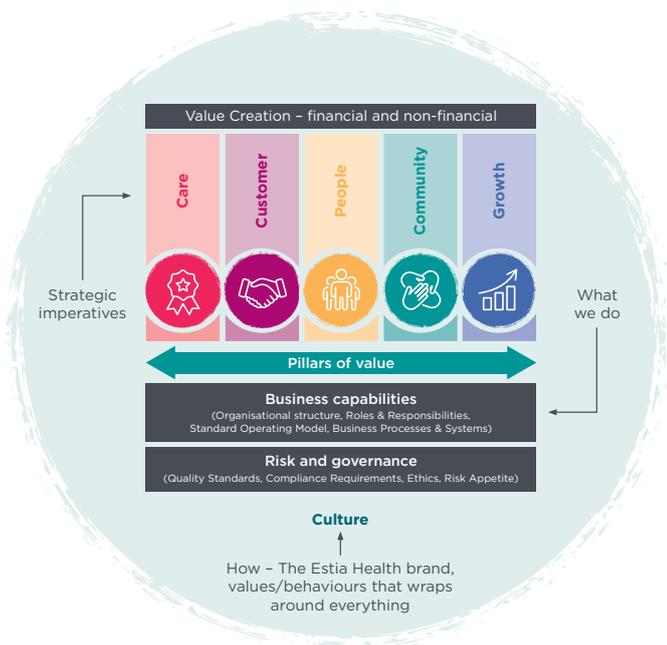
Our Corporate Strategy is expressed in five strategic pillars: Care, Customer, People, Community and Growth, underpinned by a Sustainability Strategy that is value-creating and intrinsic to the achievement of those pillars.

Setting the scene

In FY20 we introduced our vision, purpose, strategic priorities and sustainability goals. This year, our approach to reporting includes addressing key trends influencing the aged care sector and the impact on Estia Health including our residents, their families and our people, and the communities in which we operate. We will demonstrate the importance of residential aged care as an essential social support for Australians and our role in the provision of those services.

The challenges of the COVID-19 pandemic over the past 18 months have had a significant impact on the Australian economy and particularly the healthcare system. We have met those challenges and have emerged as a more agile and adaptive organisation, continually evolving with changing community needs and the regulatory environment.

In FY21 we report on our progress in working to achieving our strategic pillar goals and priorities and present progress against other relevant indicators. A summary of these can be found on page 56.





Our Strategy – Care



Goal: To be considered as the number one quality provider of residential aged care services in Australia.

Success factors - 2024 target	2021 progress
100% met outcomes from the Aged Care Quality and Safety Commission assessment visits	95 assessment visits conducted in FY21 across 60 homes. Ten homes received unmet outcomes during FY21, four are still being resolved within the agreed timeframes (as at 20 August 2021). Of the expected outcomes examined in these visits, we achieved a 97% of fully met outcomes and continually focus on how we can fully meet requirements on all occasions. (FY20 result: 42 assessment conducted across 31 homes. Nine assessed as non-compliant, four of which were resolved during FY20)
Government recognition of our support and partnerships with Primary Health Networks (PHNs)	Opportunities for continued collaboration to support resident care, included trialling new government services including Wellbeing SA's My Home Hospital, a service that brings hospital-level care to people in their homes and residential aged care homes
Reduce complaints by 50% year on year to the Aged Care Quality and Safety Commission (ACQSC)	External complaints to ACQSC improved to be 28% below industry benchmark for most recently published period January – March 2021 (FY20 result: January – March 2020 4.8% above industry benchmark)
Reduce procedures, guidelines and forms by at least 50% to streamline clinical care processes	Work continued in streamlining our procedures, guidelines and forms to provide clearer guidance to our teams and reduce the time required to complete and review paperwork. COVID-19 required both new and amended procedures, guidelines and forms to be developed, with a significant number of documents being streamlined, updated or removed.



Highlights from the year



100% homes fully accredited*



External benchmarking of National Quality Indicators undertaken to support continuous improvement



Registered nurses employed 24/7 in all homes^



100% of homes completed COVID-19 outbreak simulations



COVID-19 resident vaccination program to ensure all residents had access to the vaccine

* As assessed by the Aged Care Quality and Safety Commission (ACQSC)

^ Meets the standard recommended by the Aged Care Royal Commission ahead of required date 1 July 2022

Our Strategy – Care *(Continued)*



Keeping people safe

COVID-19 continues to have a notable impact on our homes. The knowledge we have gained of the virus over the past 18 months has enabled us to adapt to the changing community transmission rates and put in place new systems and resources to ensure residents are safe and receiving high-quality care under significantly changed circumstances.

To protect our residents and employees our approach included:

- **Expert partnerships:** we partnered with HICMR, a national IPC company, to independently audit IPC practices across our homes to identify opportunities to continually improve and meet the highest standards as we learnt more about COVID-19. These audits will continue during FY22 as the pandemic continues to evolve.
- **Training:** as part of our mandatory training program, all our home-based employees completed enhanced IPC training. To oversee IPC practices at each home, we trained specialised ‘IPC Champions’ (Enrolled and Registered Nurses) in recognising COVID-19 symptoms, outbreak management, the principles of IPC as well as employee wellbeing. This IPC Champion role and training was introduced ahead of the Commonwealth Government’s program that mandated IPC Leads in every residential aged care home. That requirement has seen the introduction of these roles, with each individual needing to complete 100 hours of online education.
- **Simulations:** to learn from the outbreaks that occurred in our Victorian homes, COVID-19 outbreak simulations were conducted in all Estia Health homes. This four-hour practical exercise enhanced employees’ understanding and preparedness for a potential COVID-19 outbreak. Refreshers have also been completed throughout the year.
- **Vaccinations:** COVID-19 vaccination is the first line of defence in protecting our residents and employees. We conducted onsite resident vaccination clinics between February and June. All residents have been given the opportunity to receive both doses of the Pfizer vaccine through onsite clinics. To achieve our 100% employee vaccination target, all employees have been given the opportunity to receive both doses of the Pfizer vaccine through onsite clinics.

The important role of residential aged care

Residential aged care supports older Australians whose complex care needs impede their ability to live independently. Of the 8,000 residents we care for annually, 85%¹ have a diagnosis of dementia or a serious chronic condition that requires active clinical care and management.

Residential aged care is needs-based and an essential part of Australia’s healthcare continuum. We work in partnership with GPs, local Primary Health Networks, allied health professionals, community nurses and specialists, to coordinate individual care requirements for our residents.



Investing in care capability

We continue to strengthen clinical support with increased investment in our national Quality and Risk team. New roles have been established and new audit tools have been developed to monitor care and assess opportunities for continuous improvement. We are improving the clinical expertise of our teams through additional training and education resources.

We are also further simplifying care systems and processes to improve consistency and reliability across our network, utilising progressive technology. Our digital care systems will be enhanced with the progressive introduction of an electronic medication management system in FY22, providing greater accuracy and transparency over medication management and prescribing practices.

¹ Source: analysis of ABS 2018 disability, ageing and carers survey, ACFI annual report FY20, ACFI GEN data aged care snapshot, AIHW Dementia in Australia 2012, Estia Health anonymised resident data LEK research and analysis





Strengthened governance and continued compliance

We continued to strengthen our governance systems and processes with the introduction of the Clinical Development Steering Committee. The purpose is to improve the clinical skills related to delivering clinical policy and procedures, for better resident care outcomes.

In FY20, the appointment of a Professor of Primary Care as the independent Chair of the Clinical Governance Committee was a critical step in further enhancing clinical governance. In line with recommendations from the Royal Commission, independent clinical governance structures provide an important framework to improve resident outcomes.

In line with the introduction of the Aged Care Quality and Safety Commission's Serious Incident Response Scheme (SIRS) in April 2021, extensive education and training was delivered to enhance our established incident management policy and processes. Estia Health's Quality and Risk team monitor compliance with the new system, ensuring alleged or suspected instances of abuse or neglect are recorded and managed appropriately to support the delivery of safe, quality care to our residents.

Our person-centred approach

Our person-centred approach and strong clinical governance drives all aspects of resident care. During FY21 the importance of delivering a true person-centred approach was never clearer. Our teams demonstrated Estia Health's purpose to 'enrich and celebrate life together', support residents' individual needs in continually challenging circumstances, especially during the outbreaks in Victoria in late 2020. Our teams worked with families to create personalised care packages for residents struggling with isolation during restricted visitor access and delivered special food hampers to residents in hospital, so they had food they enjoyed eating.



Person-centred care – a weekend to remember

Resident care extends far beyond meeting daily needs and includes opportunities to celebrate residents’ past interests and hobbies, with enriching activities that support overall wellbeing.

All homes offer daily lifestyle activities that align with resident interests and hobbies. At our Hope Valley home in South Australia, the team saw the opportunity to collaborate on a particularly special project following a suggestion from a resident, who missed weekend breaks away and camping trips she had done all her life.

The home’s team presented a range of options for a weekend away and the response was overwhelmingly positive, with six residents confirming they would like to go on the weekend. Having voted for their preferred location, a Cockle Beach House on the Yorke Peninsula, the team began planning the logistics for the weekend.

The team included members of the lifestyle team, a Registered Nurse and a volunteer, who worked together to plan a weekend away that was safe and accessible for the residents, in a secluded and peaceful location. Residents enjoyed cooked breakfasts, beautiful dinners, a campfire

on the beach and trips out to see local sites and attractions.

Resident Lynn, who had the original idea, was asked how she had found the weekend away. She said, ‘it has been fantastic’. Vanessa from the lifestyle team, said of the planning and preparation ‘it was worth it to see the smiles on everyone’s faces’. One resident who attended the weekend was living in the home on a short-term respite stay, but based on future weekend away opportunities, chose to stay permanently.

The home was one of the winners of Estia Health’s inaugural Family Code Award in 2021 for the weekend away project, recognising the team’s commitment and innovation in designing an experience for residents. Since the initial weekend away, three additional weekend trips have now been completed, visiting different locations, aligned with different residents’ preferences. This has given 18 residents the opportunity for this unique experience and other Estia Health homes are now utilising the Hope Valley team’s planning as a framework to arrange their own weekends away.





Our Strategy – Customer



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

Success factors - 2024 target	2021 progress
Estia Health Consumer Experience Report (CER) scores greater than 93% satisfaction rating*	FY21: 93.7% satisfaction rating (FY20: 93.0%)
Net Promoter Score (NPS)** of 50 or more for likelihood of residents and families to recommend Estia Health	FY21: +51 Net Promoter Score: (FY20: +49)
Customer experience driving occupancy rates higher than peers	FY21: average occupancy 91.2% (FY20: 93.2%) Pre COVID-19 average occupancy 93.6%, consistently above sector and peers 31.6% of short-term respite residents moved into a home permanently (FY20: 37.5%)

"I wanted to take the time to thank you personally for everything that you and the staff have done in helping our family in regard to the care of my father.

It was a very difficult time, however the people at Estia Health gave us much needed comfort and support.

Our hearts are broken now with the death of both our parents. But we will remember them for being the wonderful people they were.

The way in which our father was treated by the wonderful staff in his final days, afforded him much needed dignity in his time of need. We are thankful that he was given a peaceful experience of death.

Our family is very grateful for the care he was given. I wanted to extend a personal thank you for all that the team has done for our family.

We will miss our father dearly. Words cannot describe our gratitude for all the team has done."

- Relative of Estia Health Figtree resident

* Satisfaction defined as percentage of responses that report experience as "most of the time" or "always"

** Net Promoter Score (NPS) measures the loyalty of a company's customer base with a score from -100 to +100, which is calculated from people responses to the question "How likely are you to recommend this organisation to a friend or family member?"



Highlights from the year



100% of homes passed their regulatory food safety audit



100% of chefs participated in educational masterclass series



Policy that **100%** fruit, vegetables, red meat and chicken served is Australian grown



97% of residents maintained or gained weight within three months of moving into an Estia Health home[^]

[^] Review of resident weights completed in March and July 2021 following Masterclass series on fortification. Metric is reviewed every three to four months.

Our Strategy – Customer *(Continued)*



Understanding our customers

Community expectations of residential aged care continue to evolve and we regularly conduct customer research to understand these expectations. In FY20 and FY21 we engaged with potential and existing customers to understand their experience when looking at residential aged care options for themselves or a family member. The research provided insight into their choice and decision-making process along the various stages of the aged care journey. This has now been used in the development of a customer value proposition and to support the positioning of our brand within the sector and our local communities.

The research demonstrated that gathering recommendations from family and friends is the most common way to find out information about aged care, followed by internet searches and then guidance by health care professionals. A focus in FY21 has been the development of a customer relationship management (CRM) system and redeveloping our website to provide a more consistent customer experience.

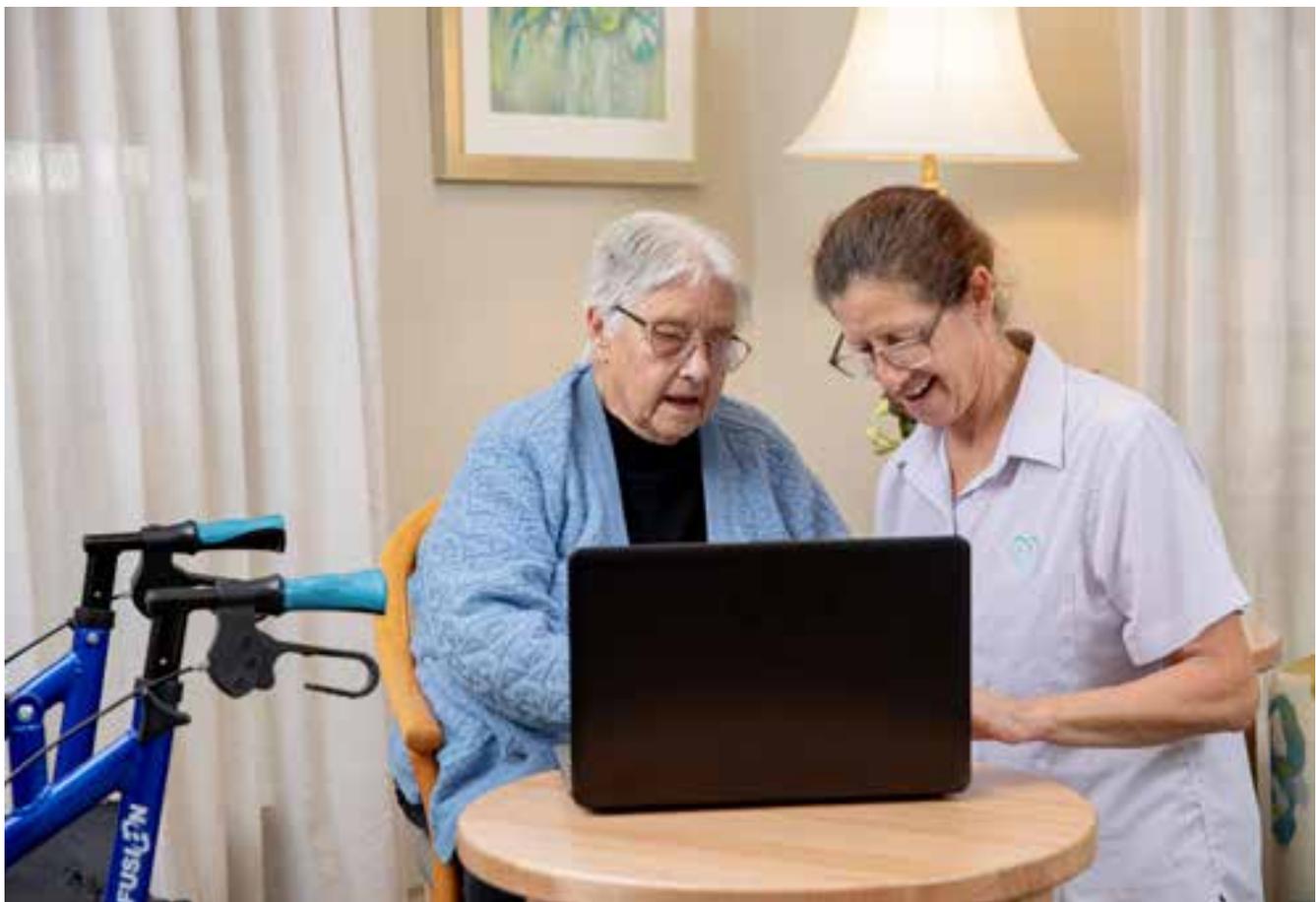
Increased access and communications

In the past year, with the challenges of the pandemic impacting all aspects of people’s ability to access healthcare, we have strengthened the support we offer our residents and families, increasing the number of client relations managers and client services officers across our network of homes.

The team have been critical to the customer experience, being agile in their approach, providing virtual access to information, regular communications updates and supporting continued care partnerships between our teams, residents and their families. We have truly demonstrated our principles of always approachable, taking responsibility and creating happiness while living our ‘One Family’ approach in challenging situations.

Customer experience

We monitor residents’ and their families’ satisfaction in each of our homes via our Consumer Experience Report (CER) survey, with our objective to survey residents and families at least twice a year. This has





provided opportunities for improvement and allowed us to conduct deeper analysis of results according to a resident’s needs, such as those with a mobility or cognitive impairment.

Over the past two years, resident and family satisfaction levels across our network of homes increased from 93.0% in FY20 to 93.7% in FY21.¹

Improving services

In line with our increased understanding of COVID-19, our cleaning protocols were reviewed to ensure they aligned with our updated IPC policies. In FY21 we introduced a microfibre cleaning system, which utilises enhanced technology to improve infection prevention and control, reduce potential manual handling injuries and reduce water usage by an estimated 1.9 megalitres.

¹ Source: Estia Health’s CER survey response data from CarePage business analytics, 30 June 2021

Managing a resident’s weight and nutritional needs is a vital aspect of caring for residents and one of the three key clinical indicators measured by the Aged Care Quality and Safety Commission (ACQSC).² Often if people have been living alone, they may be experiencing nutritional deficiency when moving into a residential aged care home and require a weight management program. Our ongoing chef masterclass series in FY21 focused on natural fortification of foods, rather than using supplements to give residents nutritional support. Following the masterclass program, a review of resident weights in March 2021 and again in July 2021, showed that 97% of residents had maintained or gained weight. This metric is reviewed every three to four months.

² External sector benchmarking of ACQSC using MOA portal and database - measure against 600 other residential aged care homes, using three quality indicators¹ (pressure injuries, use of physical restraint, unplanned weight loss)



Making every bite count – nutritious meals to support resident wellbeing

This year we continued to conduct in-person masterclasses which all Estia Health chefs attended. Training was delivered by our food partners including dietitians and nutritionists. Topics included innovation in textured modified diets in line with the International Dysphagia Diet Standardisation Initiative (IDDSI) framework to

support residents with swallowing or dysphagia caused by conditions and diseases like dementia, Parkinson’s or following a stroke. Training on food fortification provided an understanding of how to build nutrient-rich meals rather than adding supplements to support resident weight management.



Helping Chris find his purpose

Our chefs play a critical role in a resident’s life with food such an important aspect of daily enjoyment in addition to good nutrition.

Kunnal, Chef at Estia Health Epping in northern Sydney, saw the opportunity that food played in one of his resident’s lives.

Resident Chris is a retired chef and business owner. For over 40 years, he ran multiple fish and chip shops across Sydney and supplied home-made hamburgers to shops in the area. Sadly, when Chris’ wife passed away, he stepped back from the home’s activities. However, during a conversation, Chris shared his passion for food and life as a chef. Our team looked at opportunities to rekindle his passion for food and find purpose again.

The home hosted a Chef’s Table in the kitchen and invited Chris as a guest – cooking fish and chips and serving these fresh from the fryer onto the plate.

Chris loved the experience and since then has helped with food preparation and most recently took part in a barbeque excursion, where he enjoyed preparing, barbequing, carving and serving a beautiful piece of lamb to his fellow residents.

His most recent activity was introducing his famous home-made hamburgers to the home. Wearing his very own Estia Health chef’s jacket, Chris made and cooked the patties. The burgers were assembled with a sizzling hot beef pattie from the small portable charcoal barbeque, caramelized onions, a slice of smoked cheese, topped with his secret burger sauce, salad, tomato and onion inside a fresh bun. The burgers were served to all the residents, who thoroughly enjoyed them.

Read Doreen’s story on page 37 and Kevin’s story on page 44.





Our Strategy – People



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

Success factors - 2024 target	2021 progress
Zero preventable lost time injuries	LTIFR: 11.9* (FY20: 4.9) Impacted by COVID-19 – there is a continued focus on frequency, severity and cost of claims
70% uptake of employee wellbeing programs	<ul style="list-style-type: none"> • Launch of <i>EstiaWell</i> in November 2020, a dedicated wellbeing program • 4.48% of Estia Health employees utilising EAP services (FY20: 3.9%) reflective of COVID-19 environment and additional support required • New EAP partnership with REACH program delivered by qualified and registered psychologists. Available to all employees, their families and residents and their families as part of <i>EstiaPlus</i> services
50% of leadership roles recruited internally	28.5% of advertised** leadership roles recruited internally
15% or less employee turnover	Current turnover at 22.6%, sector average attrition is 29% ¹ (FY20: 18.3%) Continued focus on decasualisation of our workforce. 7.5% of total hours worked as by casual employees (FY20: 8.0%)
60% of employees completing engagement surveys	FY20 completed biannual employee engagement survey. FY22 will launch first pulse-based employee engagement survey to allow regular measurement of employee engagement and satisfaction levels

* LTIFR refers to Lost Time Injury Frequency Rate being the rolling average of the number of lost time injury claims per 1 million hours worked.

** Leadership roles include central services positions that report to an executive and/or have people leadership responsibility, as well as Executive Directors and Care Directors, does not include non-advertised roles

¹ The Aged Care Workforce Census 2020, Table 2.9 page 23



Highlights from the year



Health and safety:

- COVID-19 vaccination program targeting 100% of employees receive their first dose by 17 September
- Launched EstiaWell, our dedicated wellbeing program to support employees to focus on their health and wellbeing



Supporting and upskilling our people:

- 14,884 professional development programs completed (10,429 in FY20)
- 70 infection prevention and control leads in our homes, completing
 - 11,859 hours of training
 - 9,127 hours of training completed in clinical development, understanding dementia and behaviour management



Diversity and inclusion:

- 47% of Board and Executive Leadership team positions held by women
- 120 leaders completed diversity and inclusion training



Career pathways:

- 1661 vocational student placements across 97% of homes
- Secured 130 nurse graduate places as part of government's Aged Care Transition to Practice Program



Our Strategy – People *(Continued)*



A continued culture of safety

Ensuring our homes and offices are safe places for our employees to work is a major priority with continued and evolving strategies in place to manage risks, including the impact of COVID-19. During the second wave of the pandemic in Victoria, a number of our employees contracted COVID-19 which contributed to our FY21 LTIFR being higher than FY20.

At the commencement of the pandemic we initiated a new category of leave (quarantine leave) to ensure that our employees could confidently take leave if they were showing signs of illness that might indicate an exposure to COVID-19. This was in addition to our employees Enterprise Bargaining Agreement (EBA) entitlements. During the pandemic, approximately 9,800 work weeks of sick and/or quarantine leave were taken by employees, including leave supported by the government.

For homes that experienced COVID-19 outbreaks, we employed onsite counsellors and psychologists to provide in-person on-the-ground support for our teams and residents and ensured that regular communications provided clear, up-to-date information for residents, families and our employees.

To support our culture of injury prevention, we have actively encouraged increased reporting of potential hazards, near misses and mandatory work, health and safety training of all employees.

We have adaptable and flexible working models for our central services teams who have been required to work remotely throughout the pandemic. We also actively review the welfare of our employees who have been working remotely for extended periods.



Embracing health and wellbeing

We launched *EstiaWell* in November 2020, our dedicated wellbeing program to support employees to focus on their health and wellbeing. *EstiaWell* includes a calendar of activities and initiatives offering a broad range of wellbeing services. In FY22 we will continue to embed engagement programs and benefits, with a particular focus on employee mental health and will review targets to reflect this important area of focus. We will replace our target of a reduction in unplanned leave days, originally included within our Sustainability Framework, with targets more reflective of employee mental wellbeing.

Attracting and retaining high-quality talent

Availability of a skilled workforce continues to be one of the most significant challenges for the health and aged care sectors. It demands a strategic approach from residential aged care providers, government and other stakeholders to establish programs which will ensure sufficiently skilled and dedicated people are committed to build their careers in caring for some of Australia's most vulnerable people.

Our workforce strategy includes:

- **Attraction:** in FY21 we commenced a project to develop and define Estia Health's unique employee value proposition. This will be utilised across all aspects of the employee journey to support our positive brand reputation and focus on attracting and retaining a highly engaged workforce.
- **Retention:** over the last year we enhanced *EstiaAcademy*, to provide learning and development opportunities for all employees and promote a culture of continuous learning. Our casual workforce strategy is designed to provide full and rewarding jobs, retaining a stable and long-term skilled workforce.

EstiaAcademy has three priorities:

1. **Foundational focus:** supporting the onboarding of employees to be work ready, with mandatory training for residential aged care as well as ongoing mandatory training for all existing employees. We have also established relationships with registered training organisations (RTOs) and developed systems for the management of student and trainee placements in our homes.





2. **Talent and leadership:** supporting emerging and existing leaders to fulfil career aspirations through our Emerging Leaders Program and the Executive Director and Care Director Leadership Essentials Program. There is formal succession planning across all levels of the organisation, with 'Ready Now' plans in place for Executive Leadership roles.
3. **Performance and capability:** ongoing training and education for all roles, with development programs for carers, cleaners and clinical team members. Engaging with expert clinical partnerships to deliver specific education programs, including wound management, pressure injuries and complex behaviour training.

Embracing diversity

One of our core principles is embracing diversity and we actively celebrate the breadth and diversity of people across our organisation.

We are committed to addressing the representation of women across all leadership and Board appointments. In 2017, the Board established an objective of achieving 30% female representation on the Board. In 2018 this objective was expanded to a gender diversity target for both the Board and the Executive team of at least 30% of each gender. In FY21, gender diversity figures saw 47% of Board and Executive Leadership roles held by women.

We have reported against a set of standardised gender equality indicators provided by the Workplace Gender Equality Agency (WGEA). This report can be found on our website at [estiahealth.com.au](https://investors.estiahealth.com.au/investor-centre/?page=corporate-governance) under the Investor/Corporate Governance section.*

In addition to gender, Estia Health's Diversity Policy promotes equality in relation to ethnicity, faith, disability, age and educational experience. In FY21, 120

of our leaders completed a two month inclusion and diversity leadership program, with further education planned for FY22.

Survey insights - employee engagement

In FY20 and FY21 we undertook research to better understand key stakeholders and support the development of the Estia Health brand, including our customer and employee value propositions and to inform our ongoing communications, recruitment and marketing strategies.

In FY21, 893 employees across a broad range of roles were surveyed on their motivations for working in residential aged care and for Estia Health specifically.

Results indicated the following levels of satisfaction:

- 68% of those surveyed stated they are satisfied with working in the aged care industry, 29% neutral.
- The overall experience with working at Estia Health was positive. 55% stated they were highly satisfied with their work while 40% provided a passive rating – neither satisfied nor dissatisfied.
- When considering Estia Health as a good place to work, employees rated most favourably the following criteria: 85% stating the connection with residents, 82% stating facilities are clean and hygienic and having a good quality of care, while 81% rated Estia Health as a safe place to work.

Source: Brand positioning & customer segmentation research, Instinct & Reason, December 2020.

* <https://investors.estiahealth.com.au/investor-centre/?page=corporate-governance>

Embracing diversity

In FY21, we launched a 12-month national calendar of awareness days, with initiatives to engage employees across the organisation. All homes and central office teams took part in a number of events, with the top four events celebrated including: International Nurses Day (66 homes), International Women’s Day (56 homes), RU OK Day (50 homes) and Harmony Week (49 homes).

Embracing diversity – Pride Month

During Pride Month, members of the Executive and Senior Leadership team led an all Central Services meeting and shared their own experiences of embracing diversity during their careers and the importance of bringing awareness to the issue, while embedding it into everyday action as a core part of Estia Health’s culture.



‘Estia Health is a great place to be. The staff and the residents are all friendly and supportive to everyone. I had an awesome experience on my two weeks’ placement. The nurses were so helpful and patient teaching us things I didn’t know. Thank you, Estia Health.’

- Nursing student

A career in caring

Jenny has been the Executive Director at Estia Health Merrylands for the past 12 years and has had a long, fulfilling and experienced career in aged care. She started as an Assistant in Nursing (AIN) in 1993, where she began working weekends to gain experience while studying full-time for her Bachelor of Nursing degree.

Graduating in 1994, Jenny spent a number of years as a Registered Nurse, before being given the opportunity for further training to become a Staff Training Officer. After this role, she was promoted to the role of Quality Systems Manager, responsible for auditing and implementing policies and procedures.

In 2001 while pregnant with her first son, Jenny was promoted to the Assistant Director of Nursing role. After her son’s birth, Jenny returned to full-time work after just four months, continuing in the role until the birth of her second son. With a young family at home, Jenny took six months maternity leave before returning to work part-time where she was promoted to Care Director, responsible for overseeing all clinical care delivered in the home and leading a team of nurses and carers.

Five years later, she commenced a job-share with the Executive Director, which she continued until both her children started school, when she then took on the role full-time.

Jenny spoke of her long and fulfilling career in aged care ‘I love my role, but more importantly I love meeting so many wonderful residents and their families and helping in any way possible. I love that many of my team have shared a lot of my personal journey here, as well as meeting new employees along the way. I look forward to many more years to come’.





Our Strategy – Community



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

Success factors – 2024 target	2021 progress
All homes have active community engagement plans identifying local social and environmental initiatives	100% of homes have community connections and partnerships*
Defining the causes that align with Estia Health and measure impact using the Social Impact Framework	All homes surveyed to identify the community causes they support to integrate into Social Impact Framework
Volunteer programs with high satisfaction levels	93% of homes have volunteers supporting residents with a range of activities Ongoing COVID-19 restrictions have impacted some community-based activities and the re-launch of the National Volunteer Program

‘I am so appreciative of how you have been incredibly easy to work with and so supportive in me being able to support carers and their loved ones well. You have made me look very good at my job! I have been able to speak to carers with confidence knowing that you will guide the carers with ease and clarity so well. This is an incredibly valued asset to my work!’

‘It is a challenging time to be a carer of an aged frail person and anything I can do to assure a carer that they can take a break to recuperate is going to be based on establishing trust and assurance.’

Thank you again.’

- Community-based support network representative

* Community partnerships include health networks and local community groups or organisations and education training relationships.



Highlights from the year



119,416 days of short-term respite care provided (FY20: 105,923)



31.6% of short-term respite residents chose to move permanently



93% of homes are supported by volunteers



97% of homes offer nursing and vocational student placements

Our Strategy – Community *(Continued)*



Growing our community networks

Currently operating 69 residential aged care homes across four states gives Estia Health reach into many communities. To achieve our goal of having a positive social impact we seek to develop meaningful local relationships to support those of our communities who require residential aged care services.

We define our 'communities' to include:

- **Health networks:** hospitals, local Primary Health Networks (PHNs), residents' GPs, community nurses, local allied health services and community partners. Our relationships with local healthcare partners give us the ability to provide residents with comprehensive care within our homes to avoid unnecessary hospitalisation. Our homes also participate in local research projects and partnerships, including the advancement of dementia care and palliative care. Many of our Queensland homes are participating in the Specialist Palliative Care in Aged Care (SPACE) Project, a government funded project to improve access to specialist palliative care for residents with complex end-of-life needs
- **Resident networks:** connections with local RSLs, cultural associations, sports teams, churches and other places of worship ensures residents can continue their hobbies, support their teams and

practise their religion – all contributing to residents feeling a sense of purpose and belonging

- **Employees:** as the majority of our employees live locally to their Estia Health home they are advocates for their community. We ask our employees for their insights on how to strengthen community relationships
- **Training providers:** we work closely with TAFEs, RTOs and universities to provide students practical learning experience and exposure to the rewarding careers that are available in residential aged care. In FY21, 1,661 vocational student placements in care, nursing, allied health, physiotherapy and hospitality roles, gained hands on practical experience in our homes
- **Suppliers and other partners:** in the past year, the strength of our supplier relationships has been critical, finding solutions to the ongoing COVID-19 challenges to ensure we continued to deliver high-quality essential care and services for our residents

Providing access to care when needed

Residential aged care is a critical part of the healthcare continuum providing an increasing range of sub-acute services to meet the complex care needs of our ageing population. It is also vital to enable our ageing population to live independently in their own homes by providing regular periods of short-term



respite care when their carers need support with the demands of being a full-time informal carer of a family member or friend, which often results in carer's fatigue.

This year, we provided 119,416 days of short-term respite care, with 31.6% residents choosing to move into the home permanently. Our short-term respite program ensures residents receive nutritious, freshly cooked meals, social and engaging lifestyle activities and access to 24/7 nursing care.

Community connections

In FY21, notwithstanding COVID-19 restrictions, our homes supported our residents to maintain their local community connections. We surveyed our 69 homes to assess their community connections and identified:

- The dominant affiliations are with churches, other places of worship, cultural clubs and associations, RSLs, Lions Clubs and Probus groups and associations unique to each home's local communities. Four homes have established relationships with Carer's Australia, the national peak body representing unpaid and informal carers.
- 93% of our homes have volunteers, offering support across a range of activities including pet visits, book clubs, gardening and art, one-on-one companionship including supporting specific cultural connections.
- 64% of homes have intergenerational programs ranging from children visiting from day care centres and local schools through to university students. Programs involve arts and crafts, entertainment and performances, pen-pal programs and one-on-one mentorship programs.

Supporting community causes

Each of our homes have their own unique identity, reflecting their local community, residents and employees. 67% of our homes supported charities through fundraising activities with causes chosen by the residents and employees. Cancer Council's Biggest Morning Tea events were hosted by nearly 60% of our homes, as were other community causes, including bushfire charities and Dementia Australia fundraising events.

We continue to progress our Corporate and Sustainability Strategies, with a focus to identify and support social causes where we can have the most positive impact. In FY22 we will progress our Social Impact Framework to define these social causes and our commitments in supporting them.



When a short stay becomes a permanent move

Doreen spent many years living in Melbourne, supported by her son who was her full-time carer. Doreen felt it was time for a tree change – so they moved to Wodonga. Shortly after the move, she came to our Wodonga home for a two-week short-term respite stay to give her son a break.

During her stay, she enjoyed getting involved in daily activities including arts and crafts, exercise classes, bingo, going for walks and having time to relax.

Doreen said 'I came here on respite and I stayed about a fortnight and I enjoyed it so much. I relaxed, there was nothing tense about the place, the staff were marvelous, they look after you so well. The food to me is home cooked food... you're never hungry and if you are hungry, you ask for something else. We are really well looked after.'

After her two-week stay, Doreen and her son decided she would greatly benefit from staying in the home permanently. 'I loved it so much that I knew this was the place I was going to come to when I was ready. I went home, got ready and I haven't regretted it. I never will, because it's a place like home.'

Read Chris' story on page 26 and Kevin's story on page 44.

Enriching activities for all



93 special interest groups*
*Includes book club, gardening clubs, art clubs and men's club



46 communities supported with charity fundraising events



90+ resident cultural backgrounds

Celebrating special milestones



88 Centenarians and older in our homes



• Information sourced from annual home survey





Our Strategy – Growth



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

Success factors - 2024 target	2021 progress
Enhancement of homes through significant and strategic refurbishments	<p>\$27.2m invested</p> <ul style="list-style-type: none"> • Significant refurbishments of nine homes and 787 resident places with approved amenity (\$3.4m) • Nurse call and close circuit television (CCTV) enhancements (\$5.0m) • Asset life-cycle replacements, improvements and sustainability initiatives (\$16.8m) • Information technology (IT) and systems improvements (\$2.0m)
Expansion through new or brownfield developments and acquisitions	<p>Greenfield developments - \$0.7m invested</p> <ul style="list-style-type: none"> • Mt Barker, SA - Development Approval (DA) advanced <p>Brownfield development - \$21.1m invested</p> <ul style="list-style-type: none"> • Opened a new home in Blakehurst, NSW • Advanced expansion of Burton, SA • Advanced second stage DA for Toorak Gardens, SA
Service development including access to allied health services	Opening of Estia Health’s first Wellness Centre - offering residents and the community access to specialist reablement services
Environmentally friendly programs to improve climate resilience and reduce dependence on non-renewable energy sources as per our Sustainability Strategy	94% of homes have at least one renewable energy initiative (solar, LED lighting). Investigating further energy initiatives and agreements to achieve renewable energy targets and carbon emissions reductions



Highlights from the year



\$49.0m investment in greenfield, brownfield and refurbishment projects (FY20: \$80.6m)



9 homes significantly refurbished in period. (FY20: 13)



61 homes have completed CCTV enhancements (eight in progress but delayed due to COVID-19 access restrictions)



1st Estia Health onsite Wellness Centre opened



Our Strategy – Growth *(Continued)*



Responsible growth and enhancement

During FY21 we actively managed the portfolio with the opening of Blakehurst in southern Sydney and undertook refurbishment in nine homes, notwithstanding the restricted access caused by the COVID-19 pandemic. We also closed our Keilor Downs home having assessed all redevelopment options for this small home. During this period, project design and approvals were advanced pending greater clarity of both the impact of COVID-19 on the economy and the underlying investment returns for residential aged care developments. In FY22 we will be commencing two new homes in New South Wales.

We also undertook a review of design principles to incorporate some of the small group living concepts brought before the Royal Commission. We have evolved designs to provide more intimate dining and communal areas and achieve a more home-like environment in our homes. Other design innovation projects included the design and wayfinding for people living with dementia or other cognitive impairments.

The recommendation of the Royal Commission to abolish the ACAR licencing system removes supply constraints and provides opportunity for investment in areas that have been previously restricted. This reform signals a change in government policy to more open and competitive markets that will drive improved quality and innovative services. We are supportive of this and other reforms, which will lead to greater consumer choice and potentially a restructure of the sector to favour companies that have strong balance sheets and scale of operation.



Infection Prevention and Control

The impact of COVID-19 has focused attention to ways of improving the design of residential aged care homes. In FY21 we conducted a review of air filtration systems and sought advice from infection prevention and control experts to update a new services brief for minimum requirements for future developments.

Temporary ‘Safe Visit Rooms’ were set up in each home during the COVID-19 pandemic. Individual rooms were identified and adapted to be used to support safe and ongoing connection between families and residents during the peak period of COVID-19 community transmission.

Safety enhancements

61 of our homes have had CCTV upgrades in common areas. The program would have been completed in FY21 however this was impacted due to COVID-19 access restrictions. Other systems and technology upgrades included the completion of the next tranche of 19 homes having call-bell systems upgraded to contemporary technology.

Service innovation

In FY21, in partnership with Concentric Rehabilitation, we opened our first allied health reablement and rehabilitation Wellness Centre, as part of our new home in Blakehurst, which has been positively received by residents and the local healthcare community. We will look to expand this reablement care model into other homes across our network in FY22.

Climate risk

This year we continued assessing the physical risk of climate change to our portfolio and commenced a climate exposure and vulnerability assessment of all homes and development sites. This is the first step in our roadmap in meeting the recommendations from the Taskforce for Climate-Related Financial Disclosures (TCFD).

From this assessment an organisation-wide climate resilience tool has been developed, which will be used for a deeper assessment of assets with a higher physical risk of longer-term climate change and development of adaptation plans for these assets, if required. The climate resilience tool will also be used in assessment of potential new sites for further growth and outputs from the tool will be integrated into the latest upgrade to Estia Health’s emergency management processes, assessing fire, flood and other risks.



Looking ahead

The structural ageing of the Australian population over the next 20 years will support underlying growth in aged care services. The 85 years and over cohort will increase from just under 500,000 people in 2020 to just over a million people by 2040.¹

While increased home care funding announced in the May 2021 Federal Budget for 80,000 new places over the next two years will address the current waiting list, it is unlikely to dramatically reduce the potential demand for residential aged care, particularly at the higher levels of complex care. We intend to evaluate

the home care opportunity and how it might be profitably and effectively delivered alongside our residential aged care services.

We believe that residential aged care remains a fundamental component of the healthcare continuum and the opening up of protected markets will provide investment opportunities for those providers who can meet the quality standards and increased range of services and innovation that will be demanded by informed customers.

Development	Nature of Development	Total New Places	Net Additional Places	Land Held	Development Approval	Licenses Secured	Completion / Target
Completed 2021							
Blakehurst, NSW	Brownfield	105	105	✓	✓	✓	Feb-21
In progress							
Burton, SA	Expansion	24	24	✓	✓	✓	Sep-22
Future							
St Ives, NSW	Greenfield	118	118	✓	✓	✓	
Aberglasslyn, NSW	Greenfield	118	118	✓	✓	✓	
Mt Barker, SA	Greenfield	118	88	✓	Planning Approval	Partial	
Toorak Gardens, SA	Brownfield	118	82	✓	Planning Approval	Partial	
Total - Future development		472	406				



Artist's impressions – Above: Estia Health Toorak Gardens in SA | Below L to R: Estia Health Aberglasslyn in NSW and Estia Health Mt Barker in SA

¹ <https://www.health.gov.au/resources/publications/ninth-report-on-the-funding-and-financing-of-the-aged-care-industry-july-2021>

Case study

Meeting community expectations – Estia Health Blakehurst



Opened in February 2021, our Blakehurst home is an example of asset recycling to create contemporary resident services and achieve acceptable financial returns.

The older style small 42 place home was replaced with a contemporary development for 105 residents which reached 63.8% occupancy within four months of opening, reflecting the organisation’s ability to match new developments to the needs of local communities.

Reablement will be one of the essential elements in meeting the changing needs of residential aged care services. Our Blakehurst home is the first of our 69 homes to offer tailored reablement and rehabilitation as an additional service for the home’s residents and the local community delivered at an onsite Wellness Centre. Services are also available to short-term respite residents coming to the home, as opposed to seeking rehabilitation in hospital.

Kevin’s goal

Before Kevin moved in to our Blakehurst home, he had experienced several falls and was using a walker to get about, which meant he had lost some of his confidence and independence.

Kevin’s goal was to regain his fitness and not need his walker. Kevin decided to move into the home because of the Wellness Centre and available equipment. His immediate focus was to reduce his risk of falls by regaining his balance, along with managing his knee pain so that he could easily use the stairs when visiting his friends.

After Kevin moved in, he started coming to the gym every day, using the exercise bike and pulley equipment, attending weekly physio classes and seeing a member of the physiotherapy team. He is now able to walk independently without his walker, although still has it by his side for extra support.



‘My goal is to regain fitness which includes the muscles in my back, so I will be able to walk without a walker. I go on the rowing machine, on the leg press, I ride the bike, and I use the rowing pullies. My balance and walking have improved, and I now try and walk without my four-wheel walker.’

Read Chris’ story on page 26 and Doreen’s story on page 37.





Our Approach to Sustainability

We recognise the long-term viability and profitability of our organisation depends on the wellbeing of our people, supporting and integrating within our local communities and the continued health of the natural environments we rely upon. Our 2020-2024 Sustainability Strategy provides focus areas and associated targets to help us mitigate any negative impacts, as well as maximise any potential positive value that could result from the way we do business.

In FY21 we continued to progress key projects and initiatives to move towards achieving the priority targets set within our Sustainability Framework across the three core areas of our Strategy: supporting our people, enhancing our community and respecting our environment. (see diagram on following page)

Our approach to sustainability is a dynamic process. The impacts of the COVID-19 pandemic since the inception of our Sustainability Strategy have changed key elements of how we operate and will likely continue to do so for some time. The increase in use of disposable Personal Protective Equipment (PPE), for example, impacts on our waste diversion from landfill. We will continue to monitor the external environment and adjust our Sustainability Strategy and targets, so they remain appropriate and relevant to the three core elements of our Strategy.

Supporting our people

The competition for talent, attracting and retaining a skilled workforce, remains one of the greatest challenges facing the aged care sector. Our workforce strategy based on culture, career progression and a compelling value proposition aims to differentiate us from others in the sector. Therefore, the goals we have established are integrated and reported against within the strategic people pillar. **See page 28.**

Enhancing our community

Our residential aged care homes provide vital social infrastructure to their local communities. Our homes' connections with local health networks allow us to provide quality care to our residents and support those that require access to residential aged care services. Equally, our homes also provide vocational education opportunities for their local community. The role of our community relationships helps our residents feel a sense of connection and belonging. Therefore, the goals we have established are integrated and reported against within the strategic community pillar. **See page 34.**

Respecting our environment

We recognise that protecting our environment is a critical issue and key responsibility to ensure the future sustainability of our organisation and the protection of the environment for future generations. To support this, we have a responsibility to reduce unnecessary waste and minimise our consumption of finite resources to work towards reducing our contribution to climate change.





Highlights from the year



Climate resilience:

- Commenced assessment of all Estia Health homes for climate exposure and vulnerability



Energy and carbon:

- Scope 1 and 2 emissions intensity dropped by 6% between FY19 and FY21



Supply chain:

- Identified high risk suppliers were screened in the FY20 and FY21 reporting periods
- Engagement process underway with identified high risk suppliers

Our approach to sustainability *(Continued)*

Respecting our environment - progress against target

Focus areas	Success factors - 2024 target	FY21 progress
Supply chain	100% of high-risk suppliers have completed an additional screening for modern slavery risk	Identified high risk suppliers were screened in the FY20 and FY21 reporting periods Engagement process underway with identified high risk suppliers
Water	Reduced average water consumption intensity* by 20%	In FY21 actual water usage was available, building on the FY19 spend based analysis** and allowing a baseline to be established to measure progress against FY21 initiatives towards reducing water consumption included a microfibre cleaning rollout to reduce water usage by an estimated 1.9 megalitres
Energy and carbon	20% reduction in operational emissions intensity (Scope 1 and 2)	Our FY21 environmental footprint review showed scope 1 and 2 emissions intensity dropped by 6% between FY19 and FY21 Driven by a decrease in diesel and natural gas consumption, as well as improvements in the emissions intensity of the electricity grid We also acknowledge the potential impact of COVID-19 on emissions from operations. As such, we will monitor emissions closely over the coming year and re-assess targets
Waste	50% of generated waste is diverted from landfill	Despite a significant increase in personal protective equipment (PPE)*** disposal due to the COVID-19 pandemic response, overall diversion of waste from landfill increased from 16% in FY19 to 17.6% in FY21 We continued to reduce our use of disposable plastic items, with the removal of disposable utensils and plastic pill cups, diverting approximately nine tonnes of waste from landfill We established a waste reduction working group to plan waste audits – these were paused due to COVID-19 access restrictions
Climate resilience	Undertake climate vulnerability and exposure assessment on all assets	Commenced assessment of all Estia Health homes and development for climate exposure and vulnerability A climate resilience tool developed from this assessment will allow deeper investigation of homes in areas of higher risk to long-term climate change and future adaptation planning

Measuring our progress

In FY19 we conducted an environmental baseline study which was an important step in understanding our organisation’s environmental impact and this allowed us to define our priorities and focus areas identified within our Sustainability Strategy.

This year we reviewed our environmental footprint again to assess our progress against the targets and review the performance of our assets and operations to inform any future updates to the Sustainability Strategy.

To ensure continued accuracy and ability for regular reporting, we will be introducing an Integrated Data Management System (IDMS) in FY22, enabling the efficient management of assets and ongoing measurement of environmental and social initiatives.

* Water consumption intensity calculated per occupied bed day
 ** FY19 data included water spend only, FY21 advanced to include KL consumption
 ***includes PPE being disposed in landfill





Renewable energy and portfolio efficiency

We have completed renewable energy and energy efficiency projects across our portfolio of homes, which included solar panel installation, LED lighting and upgrades to smart water meters.

During FY21, we generated 6,221MWh of solar energy, which equates to 20% of our overall electricity consumption across our homes and corporate offices. This year we began investigating offsite renewable energy procurement opportunities including the feasibility of Power Purchase Agreements (PPAs) to increase the overall use of renewable energy and support progress towards our emissions reduction targets.

In FY21 we took part in the National Australian Built Environment Rating System (NABERS) Accelerate pilot program, providing baseline data to support the development of a rating system of environmental performance specifically for aged care and retirement living buildings. The NABERS ratings program for residential aged care launched in August 2021.

Assessing the climate resilience of our portfolio

The 2009 Black Saturday bushfires and a decade later the 2019 bushfires, highlighted the importance of understanding and mitigating the risks of extreme weather events on our portfolio. In response we commenced climate vulnerability and exposure assessment on all assets and development sites to develop a climate resilience tool. The climate resilience tool will be used for deeper investigation of sites with a higher longer-term physical risk of climate change impact to assist future adaptation planning. This is the first step in our roadmap to meeting recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) and in FY22 we will begin scenario planning to identify key transition risk to the organisation.

Exposure category	Hot Days	Heatwaves	Flood	Rainfall Decline	Extreme Rainfall	Urban Heat Island	Storm	Hail	Bushfire	Cyclones	Sea Level Rise
Risk Level	Medium	Medium	Low	Low	Low	Medium	Medium	Low	Medium	Low	Low
Vulnerability	2.00	2.00	2.00	1.00	2.00	2.00	2.00	1.00	1.00	2.00	0.00
Exposure	4.00	4.00	1.00	2.00	2.00	4.00	3.00	1.00	5.00	1.00	1.00

Sample of the tool which details climate vulnerability and exposure of every Estia Health home.

Assessing supply chain risk

Our roadmap to addressing modern slavery risk in our supply chain incorporates ongoing engagement with suppliers. In FY21 we published our first Modern Slavery Statement for the period FY20, with 67 suppliers identified in high-risk categories screened to measure risk level. As part of our ongoing engagement, six of these suppliers took part in a Modern Slavery education workshop with Estia Health property and procurement teams. In FY21 we also surveyed all new suppliers for our FY21 Modern Slavery Statement in high-risk categories and 100% completed the screening process. The suppliers identified through the FY20 and FY21 screening have been integrated into our modern slavery roadmap and action plan to manage ongoing risk.

Estia Tier 1 Suppliers | Sectors of Operation:

Healthcare Services	15
Wholesale & Trade	9
Construction	5
Manufacturing	4
IT Services & Software	3
Accommodation & Food Service Activities	2
Agriculture, Forestry & Fishing	2
Domestic Work	1
Personal Services	1

Estia Tier 1 Suppliers | Country of Operation:



Sample of tier 1 suppliers for Estia Health: sector and countries of operation – both identified as risk factors.





Our Approach to TCFD Recommendations

This report represents Estia Health’s adoption of the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD).

Estia Health acknowledges the risks that climate change presents to the organisation and broader community and supports the need for action to limit global temperature rise to no more than 2 degrees above pre-industrial levels. Notwithstanding these climate change priorities, Estia Health’s first priority is the safety of its residents and employees and we are mindful of COVID-19 and pandemic matters in any climate change measures that we seek to implement and work towards.

Climate risks are classified into two categories:

- **Physical risk**

- Direct: following an acute event, events or longer-term shifts in the climate that may impact the operability or remaining life of assets, cause damage to assets, or;
- Indirect: such as supply chain disruption

- **Transition risk**

- Resulting from a move to a low carbon economy, which may result in regulatory, policy, legal, technological or market changes

Roadmap to Climate-Related Financial Disclosures (TCFD roadmap)

	Phase 1 (FY21)	Phase 2 (FY22-23)	Phase 3 (FY24+)
Governance	<ul style="list-style-type: none"> • Integrate climate risk into Executive Sustainability and Executive Risk Management Committee standing agendas (complete) 	<ul style="list-style-type: none"> • Integration of climate risk into all relevant corporate governance documentation • Quarterly reporting of climate risk and TCFD roadmap progress to Board Risk Management Committee • Climate-related risk disclosure aligned to TCFD recommendations (including scenario analysis) 	<ul style="list-style-type: none"> • Climate-related risk disclosure aligned to TCFD recommendations including financial exposure
Strategy	<ul style="list-style-type: none"> • Publish Sustainability Strategy with climate change targets (complete) • Commence assessment of physical risk through exposure and vulnerability assessment and development of climate resilience modelling tool • Commence emissions, waste and water reduction tactics in line with commitments in Sustainability Strategy 	<ul style="list-style-type: none"> • Detailed assessment of transition risk including scenario analysis against high and low emissions scenarios • Deeper investigation of physical risk and development of adaptation plans for higher risk assets • Portfolio-level approach for regularly reviewing climate change risk as an ongoing process • Implement Integrated Data Management System (IDMS) and use for advanced monitoring of performance at an asset level 	<ul style="list-style-type: none"> • Develop strategy for mitigation of transition risks, based on scenario planning • Implementation of climate change adaptation plans across all identified higher risk physical assets.



	Phase 1 (FY21)	Phase 2 (FY22-23)	Phase 3 (FY24+)
Risk management	<ul style="list-style-type: none"> Climate resilience assessment approach and investment approved and integrated to Executive Sustainability Committee and Executive Risk Management Committee responsibilities (complete) 	<ul style="list-style-type: none"> Bi-annual climate-related risk reporting to Executive Sustainability Committee and Board Risk Management Committee Integration of financial risks associated with climate change into risk management framework 	
Metrics and targets	<ul style="list-style-type: none"> Establish emission reduction targets that relate to energy, water, waste (complete) 	<ul style="list-style-type: none"> Review FY22 performance against targets Ongoing quarterly review of progress against emissions reduction targets 	<ul style="list-style-type: none"> Review targets and improve where possible, noting Estia Health's priority to manage through COVID-19 and pandemic events

Approach to TCFD recommendations

	TCFD recommendation	Our approach
Governance	<p>Describe the Board's oversight of climate-related risks and opportunities</p>	<p>Estia Health's Board and Board Risk Management Committee is responsible for providing oversight of climate-related risk management. The Risk Management Committee is a committee of the Board established in accordance with the Company's constitution and is authorised by the Board to assist it in fulfilling its statutory and regulatory responsibilities.</p> <p>The Risk Management Committee's Charter* details its responsibility for: economic, environmental (including climate risk), social sustainability and governance risks.</p> <p>The Committee meets as frequently as required to undertake its role effectively, however specifically regarding climate change risk:</p> <ul style="list-style-type: none"> Climate change risk is to be a regular agenda item at the Board Risk Management Committee. This will include the findings of scenario modelling and analysis of physical and transition risk. The Board will regularly assess progress against targets and commitments made in Estia Health's 2020-2024 Sustainability Strategy <p>For more information on Estia Health's governance structure and Risk Management Committee read the Corporate Governance Statement**</p>
	<p>Describe management's role in assessing and managing climate-related risks and opportunities</p>	<p>Assessing and managing climate-related risk is included in Estia Health's Sustainability Strategy. This is overseen by Estia Health's Executive Sustainability Committee, which represents the main management function for the integration of climate risk into actions.</p> <p>Climate risk is a standard agenda item at quarterly Sustainability Committee meetings.</p> <p>Existing tools to manage and monitor progress against climate risk actions include:</p> <ul style="list-style-type: none"> Measurement of carbon footprint against baseline, using an IDMS from FY22 onwards Energy supplier contract updates Emergency management plans Critical Incident Management team (CIMT) and systems to respond to emergency issues, including climate related impacts/events <p>Areas of underperformance are escalated to the Executive Risk Management Committee and Board Risk Management Committee</p>

* <https://investors.estiahealth.com.au/investor-centre/?page=corporate-governance>

** <https://investors.estiahealth.com.au/investor-centre/>

Our Approach to TCFD Recommendations *(Continued)*

	TCFD recommendation	Our approach
Strategy	<p>Impacts of climate-related risks (opportunities and threats) on the organisation's businesses, strategy and financial planning</p>	<p>Estia Health supports the need for action to limit global temperature rise to no more than 2-degrees above pre-industrial levels and is committed to understanding climate change risks and continually improving our climate change strategy.</p> <p>The key areas of focus for Estia Health in relation to TCFD recommendations for physical and transition risk include:</p> <p>Physical risk (FY22-23):</p> <ul style="list-style-type: none"> • Estia Health will progressively review and assess the climate change resilience of all homes. Actions and responses to the assessment will be initiated on a prioritised basis to preserve the safety of our residents and employees and to also maximise the preservation of asset values and earnings streams <p>Transition risk (FY22-24):</p> <ul style="list-style-type: none"> • A detailed review, including scenario planning of transition risk to identify those most relevant to the organisation to allow mitigation plans to be developed • Reducing Estia Health's reliance on grid-based fossil fuel energy and identifying further opportunities to mitigate this risk with renewable energy initiatives beyond those already implemented at 65 operating homes
	<p>Resilience of the organisation's strategy, taking into account different climate scenarios, including 2-degree scenario</p>	<p>Estia Health will undertake quantitative scenario analysis in Phase 2 of the TCFD roadmap, based on a low emissions scenario and high emissions scenario, which will include consideration of a 2-degree scenario. This is an important step to fully understand the impact of climate change to Estia Health.</p> <p>Phase 3 will seek to demonstrate the financial exposure of the organisation under these two scenarios.</p> <p>This work will influence future decisions and planning, as well as acting as an education piece for Estia Health management.</p>
Risk management	<p>Processes for identifying and assessing climate-related risks</p>	<p>Estia Health's Board Risk Management Committee has responsibility to oversee the organisation's climate-related risk management identification and strategy, with guidance, input and action from the Executive Sustainability Committee and Executive Risk Management Committee.</p> <p>In FY19, Estia Health undertook a materiality assessment, which was benchmarked to the Global Reporting Initiative (GRI) Standards. From a survey of over 2,000 internal and external stakeholders, it identified resilience to climate change as a material issue.</p> <p>Estia Health will repeat this materiality assessment in Phase 2 of our TCFD roadmap with the aim of updating and improving relevant data for use in risk-based decisions.</p>



	TCFD recommendation	Our approach
Risk management (continued)	Processes for managing climate-related risks	<p>Responding to climate-related risk is a focus within the ‘respecting our environment’ segment of Estia Health’s Sustainability Strategy and includes both physical and transition risks and opportunities.</p> <p>Physical risk:</p> <ul style="list-style-type: none"> • The climate resilience modelling tool developed in FY21 will be used for a deeper assessment of homes in the portfolio that have been identified at higher risk to the physical impacts of climate change. From this assessment climate risk adaptation plans will be developed as required. Ongoing, these homes will be monitored through the use of an IDMS • A sustainable procurement strategy will be developed, which will consider supply chain instability and risk <p>Transition risk:</p> <ul style="list-style-type: none"> • Estia Health’s Sustainability Strategy addresses several aspects of climate risk, including initiatives aimed at achieving a carbon emissions reduction • Emissions reduction initiatives will include a move to using more renewable energy, in addition to the renewable energy initiatives already introduced across 94% of homes in our portfolio <p>Additional actions related to transition risk will be updated in line with a scenario modelling and analysis in Phase 2 of Estia Health’s TCFD roadmap.</p>
	How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management	<p>The Board’s role is to set the risk appetite for the organisation, to oversee the risk management framework and satisfy itself that the framework is sound.</p> <p>The Board, Board Risk Management Committee and Executive Sustainability Committee collaborate to assess the influence of climate change on Estia Health’s operations and categorises risk to determine the acceptable threshold or risk tolerance for each identified risk. The business strategy can then be set with these risk parameters.</p> <p>In Phase 2 of Estia Health’s TCFD roadmap an updated materiality assessment will be completed and reflected in the business strategy and risk matrix.</p>
Metrics and targets	Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	<p>Estia Health’s Sustainability Strategy details targets in the areas of climate resilience, waste, energy, carbon and water. A baseline review was conducted in FY19 to measure the metrics of water usage (ML), fuel consumption (kms), greenhouse gas emissions (CO2), energy usage (MWh) and waste production (tonnes) against per operating bed day*.</p> <p>FY21 performance against this baseline will be reviewed and all updated data will be input into an IDMS for ongoing measurement.</p> <p>Estia Health will regularly measure performance against these targets, with the objective to review and re-assess targets, being mindful of our priority to have a safe environment for our residents and employees, notably as we manage through COVID-19 and pandemic events.</p>

*per operating bed day allows for metrics to be allocated as usage against number of residents living in our homes.

Progress Snapshot

The following Progress Snapshot provides a summary of FY21 progress across Estia Health Strategic Pillars and Sustainability Strategy.

Success factors - 2024 target	FY21 progress
 CARE	
100% met outcomes from the Aged Care Quality and Safety Commission assessment visits	95 assessment visits conducted in FY21 across 60 homes. Ten homes received unmet outcomes during FY21, four are still being resolved within the agreed timeframes (as at 20 August 2021). Of the expected outcomes examined in these visits, we achieved a 97% of fully met outcomes and continually examine how we can fully meet requirements on all occasions. (FY20 result: 42 assessment conducted across 31 homes. Nine assessed as non-compliant, four of which resolved during FY20)
Government recognition of our support and partnerships with Primary Health Networks (PHNs)	Opportunities for continued collaboration to support resident care, included trailing new government services including Wellbeing SA's My Home Hospital, a service that brings hospital-level care to people in their homes and residential aged care homes
Reduce complaints by 50% year on year to the Aged Care Quality and Safety Commission (ACQSC)	External complaints to ACQSC improved to be 28% below industry benchmark for most recently published period January – March 2021 (FY20 result: January – March 2020 4.8% above industry benchmark)
Reduce procedures, guidelines and forms by at least 50% to streamline clinical care processes	Work continued in streamlining our procedures, guidelines and forms to provide clearer guidance to our teams and reduce the time required to complete and review paperwork. COVID-19 required both new and amended procedures, guidelines and forms to be developed, with a significant number of documents being streamlined, updated or removed.
 CUSTOMER	
Estia Health Consumer Experience Report (CER) scores greater than 93% satisfaction rating*	FY21: 93.7% satisfaction rating (FY20: 93.0%)
Net Promoter Score (NPS)** of 50 or more for likelihood of residents and families to recommend Estia Health	FY21: +51 Net Promoter Score: (FY20: +49)
Customer experience driving occupancy rates higher than peers	FY21: average occupancy 91.2% (FY20: 93.2%) Pre COVID-19 average occupancy 93.6%, consistently above sector and peers 31.6 % of short-term residents moved into a home permanently (FY20: 37.5%)

* Satisfaction defined as percentage of responses that report experience as "most of the time" or "always"

** Net Promoter Score (NPS) measures the loyalty of a company's customer base with a score from -100 to +100, which is calculated from people responses to the question "How likely are you to recommend this organisation to a friend or family member?"



Success factors - 2024 target	FY21 progress
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 **PEOPLE**

Zero preventable lost time injuries	LTIFR: 11.9* (FY20: 4.9) Impacted by COVID-19 - there is a continued focus on frequency, severity and cost of claims
70% uptake of employee wellbeing programs	<ul style="list-style-type: none"> • Launch of EstiaWell in November 2020, Estia Health's first dedicated wellbeing program • 4.48% of Estia Health employees utilising EAP services (FY20: 3.9%) Reflective of COVID-19 environment and additional support required • New EAP partner with REACH program delivered by qualified and registered psychologists. Available to all employees, their families and residents and their families as part of EstiaPlus services
50% of leadership roles recruited internally	28.5% of advertised** leadership roles recruited internally
15% or less employee turnover	Current turnover at 22.6%, sector average attrition is 29% ¹ (FY20: 18.3%) Continued focus on decasualisation of our workforce. 7.5% of total hours worked as by casual employees (FY20: 8.0%)
60% of employees completing engagement surveys	FY20 completed biannual employee engagement survey. FY22 will launch first pulse-based employee engagement survey to allow regular measurement of employee engagement and satisfaction levels

 **COMMUNITY**

All homes have active community engagement plans identifying local social and environmental initiatives	100% of homes have community connections and partnerships [^]
Defining the causes that align with Estia Health and measure impact using the Social Impact Framework	All homes surveyed to identify the community causes they support to integrate into Social Impact Framework
Volunteer programs with high satisfaction levels	93% of homes have volunteers supporting residents with a range of activities Ongoing COVID-19 restrictions have impacted some community-based activities and the re-launch of the National Volunteer Program

* LTIFR refers to Lost Time Injury Frequency Rate being the rolling average of the number of lost time injury claims per 1 million hours worked.

** Leadership roles include central services positions that report to an executive and/or have people leadership responsibility, as well as Executive Directors and Care Directors, does not include non-advertised roles

¹ The Aged Care Workforce Census 2020, Table 2.9 page 23

[^] Community partnerships include health networks and local community groups or organisations and education training relationships.

Progress Snapshot *(Continued)*

Success factors - 2024 target	FY21 progress
 GROWTH	
<p>Enhancement of homes through significant and strategic refurbishments</p>	<p>\$27.2m invested</p> <ul style="list-style-type: none"> • Significant refurbishments of nine homes and 787 resident places with approved amenity (\$3.4m) • Nurse call and close circuit television (CCTV) enhancements (\$5.0m) • Asset life-cycle replacements, improvements and sustainability initiatives (\$16.8m) • Information technology (IT) and systems improvements (\$2.0m)
<p>Expansion through new or brownfield developments and acquisitions</p>	<p>Greenfield developments - \$0.7m invested</p> <ul style="list-style-type: none"> • Mt Barker, SA - Development Approval (DA) advanced <p>Brownfield development - \$21.1m invested</p> <ul style="list-style-type: none"> • Opened a new home in Blakehurst, NSW • Advanced expansion of Burton, SA • Advanced second stage DA for Toorak Garden, SA
<p>Service development including access to allied health services</p>	<p>Pilot of Estia Health's first Wellness Centre - offering residents and the community access to specialist reablement services</p>
<p>Environmentally friendly programs to improve climate resilience and reduce dependence on non-renewable energy sources as per our Sustainability Strategy</p>	<p>94% of homes have at least one renewable energy initiative (solar, LED lighting). Reviewing further energy initiatives and agreements to achieve renewable energy targets and carbon emissions reductions.</p>



Focus areas	Success factors - 2024 target	FY21 progress
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SUSTAINABILITY

Supply chain	100% of high-risk suppliers have completed an additional screening for modern slavery risk	Identified high risk suppliers were screened in the FY20 and FY21 reporting periods Engagement process underway with identified high risk suppliers
Water	Reduced average water consumption intensity* by 20%	In FY21 actual water usage was available, building on the FY19 spend based analysis** and allowing a baseline to be established to measure progress against FY21 initiatives towards reducing water consumption included a microfibre cleaning rollout to reduce water usage by an estimated 1.9 megalitres
Energy and carbon	20% reduction in operational emissions intensity (Scope 1 and 2)	Our FY21 environmental footprint review showed scope 1 and 2 emissions intensity dropped by 6% between FY19 and FY21 Driven by a decrease in diesel and natural gas consumption, as well as improvements in the emissions intensity of the electricity grid We also acknowledge the potential impact of COVID-19 on emissions from operations. As such, we will monitor emissions closely over the coming year and re-assess targets
Waste	50% of generated waste is diverted from landfill	Despite a significant increase in personal protective equipment (PPE)*** disposal due to the COVID-19 pandemic response, overall diversion of waste from landfill increased from 16% in FY19 to 17.6% in FY21 We continued to reduce our use of disposable plastic items, with the removal of disposable utensils and plastic pill cups, diverting approximately nine tonnes of waste from landfill We established a waste reduction working group to plan waste audits - these were paused due to COVID-19 access restrictions
Climate resilience	Undertake climate vulnerability and exposure assessment on all assets	Commenced assessment of all Estia Health homes and development for climate exposure and vulnerability A climate resilience tool developed from this assessment will allow deeper investigation of homes in areas of higher risk to long-term climate change and future adaptation planning

* Water consumption intensity calculated per occupied bed day

** FY19 data included water spend only, FY21 advanced to include KL consumption

***includes PPE being disposed in landfill







Tax Transparency Report

For the year ended 30 June 2021

Estia Health Limited

ABN 37 160 986 201

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Chief Financial Officer's Introduction

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

The Group's strategy remains to:

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

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

In creating a low tax risk environment, the Group:

- Maintains a framework that ensures compliance with all statutory tax obligations;
- Maintains a tax risk management framework including undertaking tax assessments before implementing material transactions or

arrangements that may lead to an increase in tax risk;

- Manages its tax affairs in a proactive manner in accordance with the relevant tax legislation; and
- Maintains constructive working relationships with the Australian Taxation Office ("ATO") and other relevant tax authorities.

The information provided in this Report is released on a voluntary basis in accordance with the recommendations contained in the Board of Taxation's Voluntary Tax Transparency Code. The Report should be read in conjunction with the financial statements on pages 73 to 173 of this Annual Report.

The Group is a tax resident of Australia and does not currently operate in foreign jurisdictions, nor has it entered into any international related party transactions or structures.

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



Steve Lemlin
Chief Financial Officer



TAX GOVERNANCE AND STRATEGY

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

The Group's approach to Tax Risk Management is to treat tax related matters responsibly in line with the relevant tax laws. The Group has a commitment to transparency, to providing full and timely disclosures and to act with integrity in all its tax related matters.

Where there is uncertainty around a tax position in relation to a transaction or a category of transactions, the Group will take into consideration the potential impact on shareholder value, its market reputation and the impact of possible penalties imposed by the ATO and other relevant authorities. Tax positions are taken only when it could be concluded in the circumstances, having regard to relevant authorities, that what is argued for is more likely to be correct than incorrect, as defined in the Taxation Administration Act 1953. Tax matters that are considered to be high risk are to be reported to the Board's Audit Committee for consideration. Where appropriate, the Group engages with its external advisers to receive tax advice.

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

TAX RECONCILIATIONS & CONTRIBUTIONS

INCOME TAX EXPENSE RECONCILIATION

A full reconciliation of the Group's accounting profit for the period to its income tax expense is included in Note B7 on page 125 of this Annual Report. The Group's accounting profit has been determined in accordance with Australian Accounting Standards (the "Standards"). From this accounting profit, the Group applies Australian tax legislation to determine its taxable income or loss for the period, by deducting allowable deductions from assessable income.

For the period, the Group has determined that it has taxable income to which it applied the Australian statutory income tax rate of 30% (2020: 30%) to calculate its tax expense.

	2021	2020
	\$'000	\$'000
Accounting profit / (loss) before income tax	9,064	(108,845)
Add: Goodwill impairment expense	-	136,059
Accounting profit before impairment and income tax expense	9,064	27,214
At the Australian statutory income tax rate of 30% (2020: 30%)	2,719	8,164
Adjustments in respect of income tax of previous year	79	61
Permanent differences	280	15
Utilisation of unrecognised tax losses	(13)	(176)
Income tax expense in the consolidated income statement	3,065	8,064
Effective tax rate	33.8%	29.6%

The Group's Effective Tax Rate ("ETR") for the current period is calculated as its income tax expense divided by accounting profit before impairment and income tax expense. The calculated ETR for the period of 33.8% deviates from the Australian statutory income tax rate of 30% due to differences between accounting profit and taxable income as explained above.

For the year ended 30 June 2020, goodwill impairment expense of \$136,059,000 was excluded from the above calculation as it was not an allowable tax deduction according to the relevant tax legislation.

TAX RECONCILIATIONS & CONTRIBUTIONS *(Continued)*

RECONCILIATION OF INCOME TAX EXPENSE TO CURRENT TAX PAYABLE

	2021	2020
	\$'000	\$'000
Income tax expense in the consolidated income statement	3,065	8,064
Add / (subtract):		
Net timing differences	(1,831)	8,090
(Under) / Over provision in prior years	(512)	294
Current tax expenses included in income tax expense	722	16,448
Add / (subtract):		
Tax payments to tax authorities	(6,064)	(9,336)
Net opening balance	6,504	(608)
Net current tax payable	1,162	6,504

EXPLANATION OF MATERIAL TEMPORARY AND NON-TEMPORARY DIFFERENCES

A detailed reconciliation of accounting profit to income tax expense and material temporary and non-temporary differences is disclosed in Note B7 on page 125 of this Annual Report.

Temporary differences result from differing recognition criteria between the tax and accounting treatment of certain transactions which result in transactions being recognised in different periods for tax and accounting periods.

The FY21 temporary difference of \$1,831,000 is represented as follows:

- In the current period, the Group completed the sale of its land in Mona Vale and recorded a pre-tax profit on sale of \$7,792,000. A taxable temporary difference arose as the profit was treated as taxable in the previous financial year when the Group entered into the contract of sale, however, the accounting profit was not recognised in the same financial year. This triggered the recording of a deferred tax asset on the Group's balance sheet. The sale has now completed, and the temporary difference reversed in the current period.
- During the year, the Group recognised an impairment loss on land of \$821,000. Under tax legislation, this represents an unrealised capital loss which, when realised, can be utilised against future realised capital gains. As a result, the tax deductibility of this expense was deferred, with a deferred tax asset recognised on the Group's balance sheet.
- The remaining balance is represented by movements in accrued expenses, payroll-related liabilities such as annual leave and differences in tax and accounting depreciation rates of buildings.



TAX RECONCILIATIONS & CONTRIBUTIONS *(Continued)*

SUMMARY OF TAX CONTRIBUTIONS

	2021	2020
	\$'000	\$'000
Taxes paid by type		
Payroll tax ^{1,2}	3,065	8,064
Income tax ¹	(1,831)	8,090
Fringe benefits tax	(512)	294
Council rates	722	16,448
Land tax		
Stamp duties	(6,064)	(9,336)
Total taxes paid	6,504	(608)
Taxes collected and remitted by type		
Employee PAYG withholding ¹	90,880	51,138
GST (collected and remitted)	1,774	214
GST (paid but reclaimed)	(14,892)	(15,671)
Total taxes collected and remitted, net	77,762	35,681
The above taxes were remitted to the following Australia revenue authorities:		
Australian Federal Government	83,932	45,158
State Governments	24,967	17,643
Local Governments	2,088	2,006
Total tax contributions, net	110,987	64,807

¹ During the financial year ended 30 June 2020, the Group participated in the various tax relief measures offered by the Australia Federal and State Governments and elected to defer the payment of corporate tax instalments, PAYG remittances and state based payroll taxes totalled \$22,285,000. These deferred tax liabilities were settled in full in the current year.

² Included in the current year was payroll tax of \$445,000 borne by the Group in relation to the Government funded COVID-19 aged care retention bonuses, which were remitted to the Group and distributed to the employees on behalf of the Government during the financial year.

Corporate Governance Statement

Estia Health's Corporate Governance Statement for 2021 (**Statement**) outlines our principal corporate governance practices in place during the financial year ended 30 June 2021. Copies of all governance documents referred to in this Statement can be found at investors.estiahealth.com.au¹

Our governance policies and practices have been consistent with the 4th edition of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (**ASX Governance Principles**) throughout the year. These policies and practices are reflected in this Statement as well as our Appendix 4G. The Statement is current as at 23 August 2021 and has been approved by the Estia Health Board on that date.

Our Corporate Governance Statement and Appendix 4G are available on the Estia Health website at investors.estiahealth.com.au¹

The Board and management team maintain high standards of corporate governance as part of our commitment to create value for our stakeholders through effective strategic planning, risk management, transparency and corporate responsibility.

We regularly review our governance practices in light of the growth in the Company and relevant emerging corporate governance developments.

2020-21 Areas of Governance focus

Key areas of governance focus and activities undertaken by the Board, its Committees and management during 2020-21 included:

- Strategic and financial performance
 - A Board and Executive team strategy session was held with a focus on reviewing the growth opportunities of the core residential service and broader aged care adjacencies. The major operational pillars supporting this strategy were considered
 - The Board reviews the financial performance of the business every month and approves an annual budget
- COVID-19 response
 - Established a COVID-19 Committee comprised of the Chair of the Board, and the Chairs of each of the Risk Management Committee and Audit Committee
 - Established a COVID-19 Critical Incident Management Team (CIMT) to oversee the response to the pandemic. All aspects of infection prevention and control (IPC) for resident and employee safety protocols for homes and offices. Implemented a regular weekly communication cadence to update employees on pandemic response changes, impacts to homes and colleagues. Established an internal online portal to continuously update employees on the changes to policies and procedures related to the company's response to the pandemic. Regular coordinated communications were issued to residents and their representatives during this time
- Our people
 - Established a People Committee to consider strategic actions and provide oversight of critical operational issues, with regard to the current and future supply and demand of a skilled workforce
 - Established the Work Health and Safety Committee to provide guidance and oversight on strategies to

¹ <https://investors.estiahealth.com.au/investor-centre/?page=corporate-governance>



support the health and wellness of the workforce and including the safety of residents

- Social and environment
 - Integrated environmental, social and governance issues into Estia Health's Corporate Strategy with resident care and human capital identified as the short-term material non-financial risks
 - Made further progress on integrated reporting and increased our disclosure and transparency on key sustainability issues
 - Reviewed opportunities to positively impact environmental issues and commenced roll out of various high value projects, including the development of a climate resilience tool to assess the physical risk of the portfolio as an initial step in meeting the Taskforce for Climate-Related Financial Disclosure recommendations
- Governance
 - Reviewed and updated relevant governance policies, charters, and practices to reflect the 4th Edition of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*
 - Approved internal audit program was developed by management, and oversight is provided by the Risk Management Committee
 - Continued oversight as management responded to COVID-19 and the impact of increased expectations and actions from regulators across the sector
 - Engaged and meeting with key regulators
 - Met with shareholders and proxy advisors as part of Estia Health's ongoing engagement to discuss matters relating to our business performance, governance and remuneration
 - Introduced legislated Modern Slavery Statement
- Risk
 - Established a Clinical Governance Committee
 - Reviewed cybersecurity risks and appropriate mitigation plans
 - Oversight of home accreditation outcomes, with a focus on Aged Care Quality Standards, particularly Standard 8
 - Reviewed WHS and people-associated risk plans for further improvements

Board committees

Our Board has delegated specific authority to six Board Committees, which assist the Board by examining various issues and making recommendations. A description of each Committee and its responsibilities are set out in our Statement.

In FY21 there were 63 formal Board and Board Committee meetings. Between formal meetings management provided the Board with material business and other updates as well as information

in response to requests from Board meetings. In addition, Board members have informal conversations with employees, which are important in assessing the culture within Estia Health and visits to homes are scheduled throughout the year and Director's attend the annual management conference. Due to COVID-19 restrictions, the home visits were paused and the Board transitioned to enabling virtual attendance at all Board and Board Committee meetings and meetings with management.

Our Board has established the following standing Committees, which assist with the execution of its responsibilities. The composition and effectiveness of the Committees are reviewed on an annual basis:

- Audit Committee;
- Risk Management Committee;
- Nomination and Remuneration Committee; and
- Property and Investment Committee

Each of these Committees operate in accordance with specific charters approved by our Board, which sets out its composition, functions and responsibilities.

In addition, our Board may establish ad-hoc committees or delegate authority to existing committees to oversee specific activities. During FY20, the Board established two additional committees, both of which remain in existence at the date of our Statement:

- Royal Commission and Regulatory Committee; and
- COVID-19 Committee

Also during the year the Board established a Class Action Committee for the sole purpose of assisting the Board with matters concerning the class action against the Company. As this matter has now been resolved, this committee is no longer required.

Details of the number of committee meetings held during the year and individual directors' attendance at these meetings can be found in the 2021 Directors' Report.

Responsibilities of management

Our CEO/MD oversees the day-to-day management of the business and, with the support of senior management, reports to the Board on the exercise of his delegated authority. Our CEO/MD has been delegated (as) the authority to manage the Company in accordance with the strategy, plans and policies approved by the Board. The delegations are reviewed by the Board from time to time.

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

Our Board

Estia Health's Board comprises a majority of Independent Non-executive Directors who, together with the Managing Director, have an appropriate balance of skills, knowledge, experience, independence and diversity. They each bring a wealth of experience to the Board's deliberations to enable the maximum benefit for our shareholders, residents, suppliers, employees, government regulators and members of the community in which Estia Health operates.

Dr. Gary H Weiss AM

Non-executive Director and Chairman

LL.B (Hons), LL.M (with Dist), JSD

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

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

Gary is Chairman of Cromwell Property Group Limited and Ardent Leisure Group Limited, Executive Director of Ariadne Australia Limited, and a Director of Thorney Opportunities Limited and Hearts and Minds Investments Limited. Gary is also a Commissioner of the Australian Rugby League Commission and a Director of the Victor Chang Cardiac Research Institute.

Gary was Chairman of Coats Group plc from May 2004 to April 2012, Chairman of Clearview Wealth Ltd from 2013 to May 2016, Chairman of Ridley Corporation from June 2015 to June 2020, Executive Director of Guinness Peat Group plc from 1990 to April 2011 and has held directorships of numerous companies, including The Straits Trading Co Limited, Tag Pacific Limited, Pro-Pac Packaging Limited, Premier Investments Ltd, Westfield Group, Tower Australia Limited, Australian Wealth Management Limited, Tyndall Australia Limited (Deputy Chairman), Joe White Maltings Limited (Chairman), CIC Limited, Whitlam Turnbull & Co Limited and Industrial Equity Limited.

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

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

Committees: Nomination and Remuneration Committee, Audit Committee, Property and Investment Committee, Royal Commission and Regulatory Committee (Chair), COVID-19 Committee.

Listed Company Directorships (including those in the last three years): Ariadne Australia Limited, Ardent Leisure Group Limited (Chair), Thorney

Opportunities Ltd, Hearts and Minds Investments Limited, Cromwell Property Group (Chair), Straits Trading Co. Ltd (resigned 30 September 2020), Ridley Corporation Limited (resigned 26 August 2020), Premier Investments Limited (28 July 2018).

Ian Thorley

Chief Executive Officer and Managing Director

MCom (UNSW), GAICD

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

Appointed as Chief Executive Officer in October 2018, Ian was previously Estia Health's Chief Operating Officer from October 2016.

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

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

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

Norah Barlow, ONZM

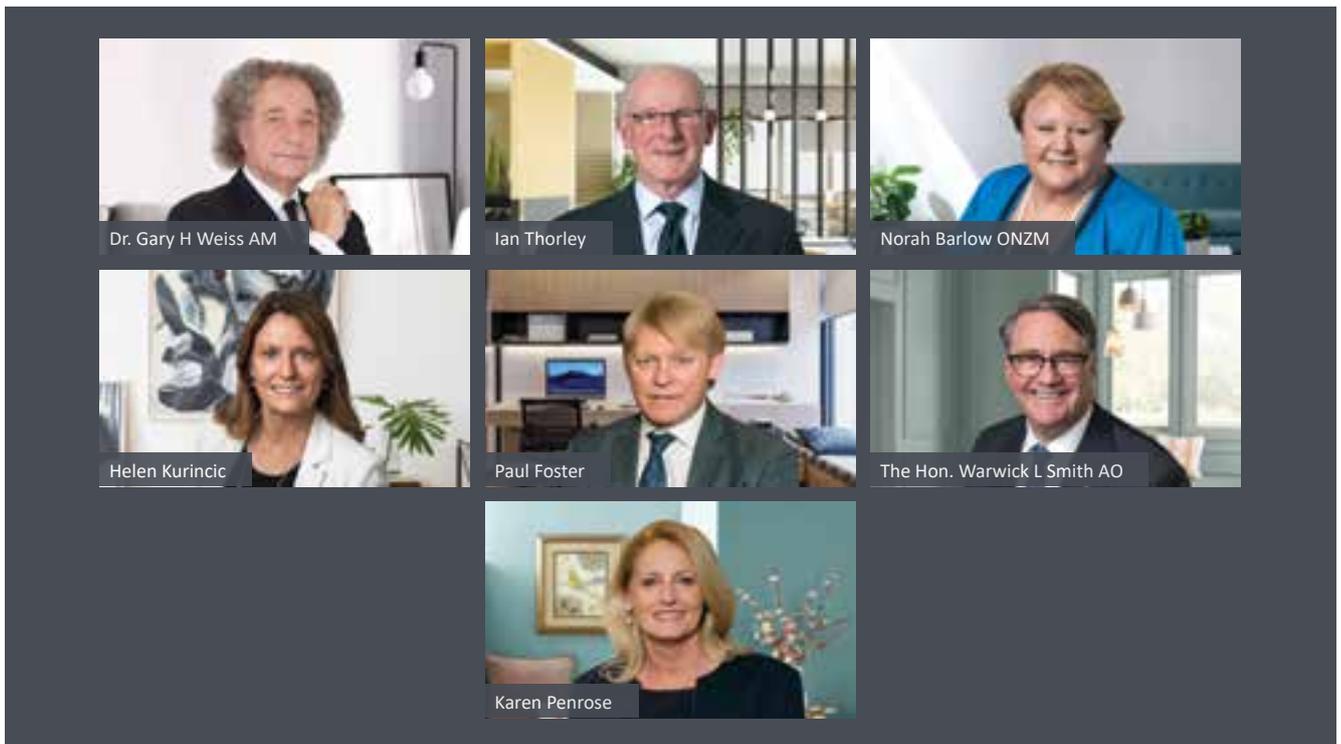
Non-executive Director

BCA, ACA, ONZM

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 healthcare sector. Norah also holds extensive experience as the highly-respected former CEO and former Director of Summerset Group, an NZX and ASX-listed company





named Australasia’s best retirement village operator four years running.

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

Norah was also a Non-executive Director of Ingenia Communities Group, Evolve Education Group Limited, and chair of the Audit Committee for Methven Limited. Norah stepped down as CEO of Estia Health in November 2018 and remains on the board as a Non-executive Director. Norah is currently Chief Executive of Heritage Lifecare Limited.

Committees: Property and Investment Committee.

Listed Company Directorships (including those in the last three years): Evolve Education Group Limited (resigned 18 September 2019).

Karen Penrose

Non-executive Director

B.Com (UNSW), FAICD and CPA

Karen is an experienced Company Director who has served as a full-time Non-executive Director since 2014 on the boards of ASX listed companies across the financial services, aged care, healthcare, resources and infrastructure sectors.

Karen’s executive career was in leadership and CFO roles, mainly in financial services. Karen worked with

CBA and HSBC for over 20 years. She is passionate about consumer outcomes and financial management and is well-versed in operating in a rapidly changing regulatory environment.

Karen is a Director and Chair of the Audit Committee of Bank of Queensland, Ramsay Health Care and Vicinity Centres. She is also Director of Marshall Investments Pty Ltd and Rugby Australia Limited.

Karen was formally a director of Future Generation Global Investment Company Limited, AWE Limited and Spark Infrastructure Group Limited.

Karen is a member of Chief Executive Women.

Committees: Audit Committee (Chair), Risk Management Committee, Royal Commission & Regulatory Committee, COVID-19 Committee.

Listed Company Directorships (including those in the last three years): Bank of Queensland Limited, Vicinity Centres, Ramsay Health Care, Spark Infrastructure Group (resigned May 2020), Future Generation Investment Company Limited (resigned October 2018).

Paul Foster

Non-executive Director

B.Comm, MA, MAICD

Paul holds a Bachelor of Commerce (with Merit) 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.

Paul is a Managing Director at Pacific Equity Partners, one of Australia's largest alternative investment management firms. He is also a Non-executive Director of WINconnect Pty Ltd, PEP Services Pty Ltd and PEP Advisory Services Pty Ltd.

Paul was a Director of the Opal Aged Care Group (formerly Domain Principal Group) between 2010 and 2015 and was Chairman of the Group in 2011. Paul was head of AMP Capital's Infrastructure investment business in Australia and New Zealand until 2015. Before AMP Capital, he was an investment professional at Macquarie Group and Perpetual Investments.

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

The Honourable Warwick L. Smith, AO

Non-executive Director

AO LLB

Warwick is a Non-executive Director of Seven Group Holdings (SGH), a leading Australian diversified operating and investment group with market-leading businesses with investments in a range of industrial services, oil and gas, and media businesses.

Warwick is also Chairman, Advisory Board of Australian Capital Equity, which has significant investment interests through its major shareholding in SGH. He is Chairman of Ord Minnett, a leading private wealth management group. In addition, he is also a Director of SGSP (Australia) Pty Ltd, Jemena Northern Gas Pipeline Pty Ltd and Wollar Solar Finance Pty Ltd.

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

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

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

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

Listed Company Directorships (including those in the last three years): Seven Group Holdings Limited, Magnis Energy Technologies Limited (resigned January 2020), Coates Hire Limited (resigned January 2019).

Helen Kurincic

Non-executive Director

MBA, Grad Dip Wom Stud, PBC Crit Care, Cert Nsg, FAICD FGIA

Helen holds a Master of Business Administration from Victoria University. Helen has extensive executive and Non-executive experience across the healthcare sector. Helen is Chairman of Integral Diagnostics Limited and McMillan Shakespeare Limited, and a Non-executive Director of HBF Health Limited and Victorian Clinical Genetics Service.

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

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

Committees: Risk Management Committee (Chair), Nomination and Remuneration Committee, COVID-19 Committee (Chair).

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

LEANNE RALPH

Company Secretary

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









Annual Financial Report

For the year ended 30 June 2021

Estia Health Limited

ABN 37 160 986 201

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Corporate information

ABN 37 160 986 201

DIRECTORS

Dr. Gary H Weiss AM
Chairman

Ian Thorley
Managing Director and CEO

Norah Barlow ONZM
Non-executive Director

Paul Foster
Nomination and Remuneration Committee Chair

Hon. Warwick L Smith AO
Property and Investment Committee Chair

Helen Kurincic
Risk Management Committee Chair

Karen Penrose
Audit Committee Chair

COMPANY SECRETARY

Leanne Ralph

REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street
Sydney NSW 2000

SOLICITORS

Minter Ellison

Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

Westpac Banking Corporation

275 Kent Street
Sydney NSW 2000

Commonwealth Bank of Australia

201 Sussex Street
Sydney NSW 2000

Australia and New Zealand Bank

242 Pitt Street
Sydney NSW 2000

AUDITORS

Ernst & Young

8 Exhibition Street
Melbourne VIC 3000



DIRECTORS' REPORT

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

DIRECTORS

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

DR. GARY H WEISS AM (CHAIRMAN)

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

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

IAN THORLEY (MANAGING DIRECTOR AND CEO)

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

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

NORAH BARLOW ONZM

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

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

PAUL FOSTER (NOMINATION AND REMUNERATION COMMITTEE CHAIR)

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

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

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

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

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

HELEN KURINCIC (RISK MANAGEMENT COMMITTEE CHAIR)

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

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

KAREN PENROSE (AUDIT COMMITTEE CHAIR)

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

Karen holds a Bachelor of Commerce from the University of NSW, CPA and FAICD.

DIRECTORS' REPORT

COMMITTEE MEMBERSHIP

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

Membership	Audit Committee	Nomination & Remuneration Committee	Risk Management Committee	Property & Investment Committee	Royal Commission & Regulatory Committee	COVID-19 Committee
Chair	Karen Penrose	Paul Foster	Helen Kurincic	Warwick Smith	Gary Weiss	Helen Kurincic
Member	Gary Weiss	Gary Weiss	Paul Foster	Gary Weiss	Warwick Smith	Gary Weiss
Member	Warwick Smith	Helen Kurincic	Karen Penrose	Paul Foster	Karen Penrose	Karen Penrose
Member				Norah Barlow		

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

DIRECTORS' MEETINGS

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

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

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

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

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

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



DIRECTORS' REPORT

DIRECTORS' HOLDINGS

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

Director	Number of ordinary shares
Dr. Gary H Weiss AM	78,312
Ian Thorley	138,001
Norah Barlow ONZM	129,474
Paul Foster	24,000
Hon. Warwick L Smith AO	182,000
Helen Kurincic	50,000
Karen Penrose	32,333

COMPANY SECRETARY

LEANNE RALPH

Leanne was appointed as Company Secretary on 3 April 2019. Leanne is an experienced Company Secretary and is a Fellow of the Governance Institute of Australia and a member of the Australian Institute of Company Directors.

PRINCIPAL ACTIVITIES AND STRATEGY

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

The Group's strategy is to:

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

THE MARKET IN WHICH ESTIA OPERATES

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

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

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

DIRECTORS' REPORT

THE MARKET IN WHICH ESTIA OPERATES (CONTINUED)

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

THE GROUP'S PORTFOLIO

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

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

CARE AND SERVICES

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

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

Each Estia home is managed by an Executive Director who leads a team of clinical staff, nurses, personal care assistants, lifestyle and allied health co-ordinators, chefs, cleaning, laundry and maintenance staff. During periods of lockdowns or restricted access associated with COVID-19, additional resident liaison staff are engaged as appropriate to assist families in keeping in touch with their loved ones, remotely or in person. In each home, Registered Nurses are rostered on all shifts, 24 hours a day, every day.

Clinical Care and Quality standards, protocols, policies and procedures are established centrally under the direction of the Clinical Governance Committee, chaired by an independent expert, Professor Simon Wilcock. The application of these policies and procedures at a home level is managed by each home Executive Director supported by regional and local educators and support teams.

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

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

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

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

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



DIRECTORS' REPORT

REGULATORY ENVIRONMENT, REFORM AND THE ROYAL COMMISSION INTO AGED CARE

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

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

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

ROYAL COMMISSION

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

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

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

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

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

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

GOVERNMENT RESPONSE TO THE ROYAL COMMISSION

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

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

DIRECTORS' REPORT

GOVERNMENT RESPONSE TO THE ROYAL COMMISSION (CONTINUED)

- Short-term financial relief by way of an of \$10 per day increase in the daily fee supplements from 1 July 2021. If this had been applied to the Group's occupied bed days in FY21 this would have equated to an additional \$20.6 million of revenue.
- Mandated minimum care hours from October 2023, with a commitment to increase funding to cover increased costs.
- A wide range of regulatory, supervisory, prudential, reporting and governance improvements which will be introduced over the next 18-24 months.
- The replacement of Aged Care Funding Instrument (ACFI) with a case-mix model (referred to as AN-ACC) by October 2022.
- Confirmation that an independent pricing authority will provide pricing recommendations to Government.
- An increase of 80,000 new home care packages over the next two years.
- Establishment of working groups or other bodies to undertake research or planning and propose detailed solutions in a range of areas, many of which are likely to have a material impact on financial outcomes but will not be known for some time including:
 - abolition of Aged Care Approval Round (ACAR) or allocated bed licences by 2024,
 - alternative capital funding sources to potentially replace Refundable Accommodation Deposits (RADs) from 2025
 - increased user-pay amended means or asset testing and any increase in resident co-contributions.

The Government Response has not yet defined:

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

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



DIRECTORS' REPORT

GOVERNMENT RESPONSE TO THE ROYAL COMMISSION (CONTINUED)

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

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

The Group will continue to advocate for its residents and appropriate sector reform and legislated changes to deliver a sustainable and high-quality aged care sector where funding and financing arrangements support the financial viability of efficient providers and provide investment returns sufficient to attract the capital required to meet the increase in expected demand and quality.

BED LICENCES

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

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

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

COVID-19

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

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

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

DIRECTORS' REPORT

COVID-19 (CONTINUED)

In July 2020 the Group was issued with Notices to Agree (“Notices”) from the Aged Care Quality and Safety Commission (“ACQSC”) in relation to the COVID-19 outbreaks at Heidelberg West and Ardeer respectively. These Notices required Estia to agree to undertake specified actions. All matters identified by the ACQSC have been addressed to the satisfaction of ACQSC and no further action is required from Estia.

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

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

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

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

The Group continues to work closely with each State’s Public Health Unit, the Commonwealth Department of Health and the ACQSC to manage and monitor residents’ and staff health, safety and well-being.

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

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

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

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

ACCREDITATION AND COMPLIANCE

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



DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

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

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

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

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

Occupancy

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

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

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

Revenues & Grants

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

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

	2021 \$'000	2020 \$'000
Temporary Funding Increases	11,826	
Grants to Reimburse Outbreak Related Costs	7,369	
Grants Provided as Personal Protective Equipment	2,231	
Total Government Temporary Funding and Grants	21,426	
	2021 \$'000	2020 \$'000
Government Revenue - Excluding Temporary Funding and Grants	443,218	426,188
Government Revenue -Temporary Funding	11,826	7,382
Government Grants	9,600	-
Resident and Other Revenue	147,406	146,310
Total Operating Revenue & Grants	612,050	579,880
Less: Government Grants	(9,600)	-
Imputed DAP Revenue on RAD or Bond Balances (AASB 16 impact)	42,316	43,407
Operating Revenue From New Homes in Ramp-Up	1,539	13,621
Total Revenue	646,305	636,908

Operational Costs

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

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



DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

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

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

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

* Presented on a combined basis as COVID-19 incremental expenses in the earlier table.

** Non-wage costs comprise Administration, Occupancy and Resident Expenses

Class Action Settlement

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

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

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

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

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

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

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



DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

DEVELOPMENTS, ACQUISITIONS AND DIVESTMENTS

New Developments and Capital Investment

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

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

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

Acquisitions

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

Divestments

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

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

DIVIDENDS

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those explained in this report relating to COVID-19, there were no significant changes in the state of affairs of the Group during the financial year ended 30 June 2021.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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



DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

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

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

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

The Group continues to advocate for appropriate sector reform and legislated changes which will result in a sustainable and high quality aged care sector where funding and financing arrangements support the financial viability of efficient providers and provide investment returns sufficient to attract the capital required to meet the increase in expected demand and quality.

DIRECTORS' REPORT

KEY BUSINESS RISKS

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

CHANGES TO REGULATORY OR FUNDING FRAMEWORK

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

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

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

Impact Any regulatory change or changes in Government policies in relation to existing legislation for the industry may have an adverse impact on the way the Group promotes, manages and operates its homes, and its financial performance and the carrying value of its assets, including bed licences. Changes to the regulatory framework could also impact on competition through deregulation or changes to capital requirements. Regulatory restrictions may also become more burdensome in the future, which may require the Group to dedicate more time and expenditure to ensuring that the Group complies with such regulations. Additional accreditation and other requirements, including changes in relation to accommodation and infection control emanating from COVID-19 may also result.

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

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

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



DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

WORKFORCE

Risk The Group's business depends on a specialised health and aged care workforce. There is a risk that the Group may not be able to recruit and retain a workforce that is appropriately skilled and trained to meet the existing or future demands of residents at its homes and/or a risk that a shortage of employees leads to upward wage pressure. Competition from other health care providers, such as the National Disability and Insurance Scheme ("NDIS"), hospitals, other residential aged care homes and home care services, for appropriately skilled staff and a general industry shortage of staff in key areas, such as nurses and other skilled staff may lead to upward pressure on wages and salaries.

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

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

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

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

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

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

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

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

RAD BALANCES

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

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

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

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

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

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

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

OCCUPANCY LEVELS MAY FALL

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

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

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



DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

OCCUPANCY LEVELS MAY FALL (CONTINUED)

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

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

FAILURE TO MEET CLINICAL CARE STANDARDS

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

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

Risk The Group maintains a documented system of clinical governance to promote and support the health, safety and quality of care provision to residents, with the objective of ensuring compliance with the applicable legislation and departmental policies.

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

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

ESTIA'S REPUTATION MAY BE DAMAGED

Risk The Group operates in an industry in which its reputation could be adversely impacted should it, or the aged care sector generally, suffer from any adverse publicity. The Group may also suffer reputational damage in the event of medical indemnity claims, litigation, or coronial inquests. The Group may also suffer from adverse media coverage and community sentiment towards the sector, particularly during events such as the recent Royal Commission and impact of COVID-19 in Victoria in 2020.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

ESTIA'S REPUTATION MAY BE DAMAGED (CONTINUED)

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

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

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

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

INFORMATION TECHNOLOGY SECURITY AND CYBERSECURITY

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

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

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

GROWTH MAY BE CONSTRAINED BY ABILITY TO SECURE BED LICENCES

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

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

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

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



DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

INABILITY TO RECRUIT AND RETAIN KEY PERSONNEL

Risk The Group may experience an inability to recruit and retain personnel to key leadership and management positions at home or executive level. This may be exacerbated if executives choose to leave the sector due to the multiple challenges faced and or negative media sentiment in response to the Aged Care Royal Commission and the impact of COVID-19. The decision may be triggered by opportunities that have greater financial reward or other benefits.

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

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

PANDEMIC OR EPIDEMIC

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

Impact **Local** impact may result in resident and staff infection at an Estia home, which may cause a home lock down, staff shortages and occupancy reduction. Cost increases may result from increased infection control activity including PPE costs, cleaning costs, and additional support staff. Revenue losses may result from occupancy reductions, and from the cessation of Additional Services billing. Reputational damage resulting from the manner in which an outbreak was managed may be longer lasting and may continue to impact occupancy and the ability to retain staff in the future.

Regional impact may result in reduced occupancy arising from community concerns about safety or local authority restrictions on access to homes even if an Estia home does not experience an outbreak. Staff shortages may result from illness, quarantining or movement restrictions. Staff shortages may also arise if multiple homes in a region experience outbreaks and require additional or "surge" staffing which may make it difficult for the Group to secure staff for its own homes.

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

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

In the event of an outbreak, policies and procedures are in place designed to rapidly isolate and test residents and staff, and introduce the wearing of appropriate PPE. Established processes are in place to escalate incidents to management. In the event of an outbreak during a pandemic, it is standard procedure to establish a Critical Incident Management Team to oversee home level response. Surge staffing plans have been designed to provide additional skilled resource from a variety of sources at short notice, and homes have access to regional PPE stock.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

PANDEMIC OR EPIDEMIC (CONTINUED)

Risk Strategy The extent of the financial impact associated from infection at a single home, or more than one home are mitigated by the fact that the Group's earnings are generated from 70 homes with a geographic dispersion in Australia. The Group maintains bank credit facilities well in excess of its normal day to day operational needs with the intention of maintaining solvency and liquidity during abnormal events such as infection outbreaks which may impact home profitability and RAD balances. No single home in the Group contributes more than 5% of Group operational cashflow, and most are below 3%.

Regional risk mitigation is managed by the relevant Regional Managers supported by central clinical and quality teams in adopting the Group's pandemic response guidelines. Central and regional management lead liaison with local and state authorities to ensure compliance with legislation and guidelines and to secure relevant information pertaining to the extent of infection in the area.

National risk mitigation is managed with Group-wide response guidelines and the declaration of a pandemic is a trigger for the establishment of the national Critical Incident Management Team ("CIMT") which will then lead the emerging national response. The CIMT comprises Executive Team members supported by internal and external technical experts and resource as required. Depending on the extent of the impact of the pandemic, key Executives may be seconded full-time to the CIMT and their operational roles backfilled.

COVID-19

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

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

Residents of residential aged care homes are generally frail, suffer from co-morbidities, dementia, are reliant on day-to-day personal and clinical care, and are approaching the end of their lives. These residents are the most vulnerable to the serious effects of COVID-19 infection.

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

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



DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

COVID-19 (CONTINUED)

Risk Strategy The Group has responded to the pandemic with the establishment of a Board COVID-19 Committee to provide governance oversight of the response to the pandemic. The Group has revised protocols and procedures in line with Australian Health Protection Principle Committee (AHPPC) guidelines and State Directions with the objective of minimising the risk of introducing COVID-19 infection into a home and infection spreads in the event of a resident or staff member testing positive for COVID-19.

Specific matters include:

- Entry and access protocols and procedures for staff, residents and visitors
- Infection Prevention Control processes, protocols, training, monitoring, and expertise including PPE usage and training
- COVID-19 response plans at each home
- Work Health Safety requirements for all the Group's homes and premises
- Business continuity plans continue to be revised
- Staff quarantine leave, rostering and single-home work requirements
- PPE supply chains, stock levels and logistics
- Insurance programs
- Applying for all applicable COVID-19 Government subsidy and grant assistance programs available
- Establishment of an in-house vaccination program for residents and staff.

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

CLIMATE RISK

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

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

Transition Risks

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

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

CLIMATE RISK (CONTINUED)

Impact	<p>Physical Risks</p> <p>Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets. Financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs, and employee safety. Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as bush fires, cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.</p>
Risk Strategy	<p>The Group has established a Sustainability Committee, which reports to the Board Risk Sub-Committee, which has responsibility for monitoring and providing advice to management and the board on activities which should be undertaken to mitigate the Group's exposure to climate change derived risks, both transition and physical risks. The Committee engages external consultants to conduct assessments and mitigation plans where appropriate, including climate change impact assessments for each home in the Group's portfolio including vulnerability to acute and chronic climate change conditions or events. New homes and potential acquisitions are assessed for climate change resilience as part of due diligence.</p>

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

PERFORMANCE RIGHTS

UNISSUED SHARES

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

SHARES ISSUED AS A RESULT OF THE VESTING OF PERFORMANCE RIGHTS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

The contract does not provide cover for the independent auditors.



DIRECTORS' REPORT

INDEMNIFICATION OF AUDITORS

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

NON-AUDIT SERVICES

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

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services, which represents 11% of the total fees received by the firm.

	\$
Tax compliance services	93,000
Total Non-audit Services	<u>93,000</u>

ROUNDING

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

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



Dr. Gary H Weiss AM
Chairman

DIRECTORS' REPORT

Remuneration report

Dear Shareholders,

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

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

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

Changes to FY21 Remuneration

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

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

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

FY21 Remuneration Outcomes

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

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

Looking Forward

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

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

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

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

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

Yours sincerely



Paul Foster
Chair of the Nomination and Remuneration Committee



DIRECTORS' REPORT

Remuneration report – audited

This report for the year ended 30 June 2021 (FY21) outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001(Cth), as amended* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

This report is presented under the following sections:

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

1. Introduction

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

There were no changes to the Board or KMP during FY21.

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

2. Remuneration governance

2.1 Nomination and Remuneration Committee

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

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

The Committee met six times in FY21. The managing director (MD) and CEO attends certain Committee meetings by invitation, where management input is required. The MD and CEO is not present during any discussions related to their own remuneration arrangements.

2.2 Use of Independent Remuneration Consultants

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

During the year ended 30 June 2021, the Nomination and Remuneration Committee engaged KPMG to provide advice regarding market practice and trends, and assistance with other ad-hoc matters.

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

2.3 Minimum Shareholding Policy

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

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

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

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

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

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

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



DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Group performance

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

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

4. Remuneration principles and strategy

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

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

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

5. Executive remuneration

5.1 Remuneration Framework and link to strategy

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

Component	Approach	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	<p>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.</p> <p>Group and individual performance are considered during the annual remuneration review.</p>	<p>Competitive remuneration packages that attract and retain high calibre employees from a diverse pool of talent.</p>
Short-Term Incentive Plan (STI)	<p>An STI was not granted in FY21 due to economic uncertainty due to the COVID-19 pandemic.</p> <p>The Board intends to return to STI grants in FY22.</p> <p>See section 5.3 for further commentary regarding the FY21 Retention Incentive.</p>	<p>Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term.</p> <p>Deferral of 25% of any STI award into equity increases alignment with shareholder interests.</p>
Long-term Incentive Plan (LTI)	<p>The FY21 LTI was delivered in the form of performance rights subject to the following performance condition, measured over a three-year period:</p> <ul style="list-style-type: none"> • Total shareholder return (TSR) performance: <ul style="list-style-type: none"> - 50% relative to constituents of the ASX300 excluding mining and energy companies; and - 50% relative to the weighted average performance of a group of listed companies involved in the provision of aged care services. <p>EPS was not included as a performance measure in the FY21 LTI given the challenge of setting appropriate targets at the beginning of the performance period.</p>	<p>The LTI is designed to drive sustainable value creation for shareholders, encourage retention and encourage a multi-year performance focus.</p> <p>Relative TSR focuses executives on generating returns for shareholders.</p> <p>A TSR comparator group of companies providing aged care services was introduced in order to assess performance against peers with which Estia competes for shareholder capital.</p> <p>The LTI is delivered in equity which aligns the interests of executives with achievement of increased shareholder wealth over the long-term.</p>



DIRECTORS' REPORT

Remuneration report – audited (continued)

Component	Approach	Link to business and remuneration strategy
Once-off Awards	The Company may grant once-off incentive awards, approved by the Board, where the circumstances warrant it. This may include the grant of retention incentives (see section 5.3 for further commentary regarding the FY21 Retention Incentive).	Once-off awards may be approved by the Board in order to retain or attract key talent, to ensure the achievement of Estia's business strategy, and to maximise long term shareholder outcomes.
Total Remuneration	<p>The overall remuneration framework is designed to support and drive the achievement of Estia's business strategy:</p> <ul style="list-style-type: none"> to be the leader in providing high quality residential aged care homes in Australia; to provide our residents with the highest standards of aged care services in an innovative, supportive and caring environment; and to deliver profitable growth through our robust development pipeline, significant refurbishment opportunities and through maximising the performance of our core assets. <p>A minimum shareholding policy is also in place to drive share ownership amongst NEDs and Senior Executives.</p>	

5.2 Fixed Annual Remuneration

FAR includes base salary, non-cash benefits such as travelling allowances (including any fringe benefits tax), as well as leave entitlements and superannuation contributions. Remuneration levels are reviewed annually by the Committee and the Board.

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

5.3 FY21 Retention Incentive

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

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

Key terms of the FY21 Retention Incentive are as follows:

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

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.4 Long-Term Incentive

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

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

Participation	LTI performance rights were offered to all members of executive KMP in FY21.	
Delivery of LTI	LTIs are delivered in the form of performance rights. On vesting, performance rights entitle the holders to ordinary shares.	
LTI opportunity	In FY21, all executive KMP had an LTI opportunity of 100% of FAR.	
Allocation methodology	The quantity of instruments granted under the LTI is determined using face value allocation methodology, using the volume weighted average price ('VWAP') for the 10 trading days immediately following (and not including) the date of release of annual results (i.e. LTI opportunity divided by VWAP share price).	
Performance conditions	100% of the FY21 LTI award is subject to a relative TSR performance measure, with two equally weighted comparator groups: <ul style="list-style-type: none"> • 50% relative to the ASX300 excluding mining and energy companies; and • 50% relative to the weighted average performance of a group of the following listed companies: Regis Healthcare (40% weighting); Japara Healthcare (40% weighting); Oceania Healthcare (10% weighting) and Summerset Group (10% weighting). TSR vesting schedules are provided below:	
	Estia's TSR relative to constituents of the ASX300 (excluding mining and energy companies)	Percentage of performance rights that vest
	Less than median of comparator group	Nil
	At median of comparator group	50%
	Between median and 75th percentile of comparator group	Straight line pro rata vesting between 50% and 100%
	Greater than 75th percentile of comparator group	100%
	Estia's TSR relative to the weighted average performance of aged care services peer group	Percentage of performance rights that vest
	Below weighted average performance	0%
	At weighted average performance	50%
	Straight line vesting	50% - 100%
15 percentage points above weighted average performance	100%	
Performance period	The performance rights granted in FY21 have a performance period of three years.	
Lapse of performance rights	Any performance rights that remain unvested at the end of the performance period will lapse immediately.	



DIRECTORS' REPORT

Remuneration report – audited (continued)

Total shares issued	The number of shares allocated on the vesting of all outstanding rights may not exceed 5% of the total number of shares on issue at the time of the offer.
Cessation of employment	<p>Unless the Board determines otherwise, if a participant's employment with the Group is terminated during the performance period as a 'good leaver' (i.e. as a result of genuine redundancy, death, terminal illness, total and permanent disablement, or any other reason as determined by the Board) they will be entitled to receive a pro-rata amount of their FY21 LTI Incentive (based on the proportion of whole months they were employed by the Group during the performance period). Any remaining unvested performance rights will lapse.</p> <p>If their employment with the Group is terminated in circumstances in which they are not considered a good leaver (e.g. resignation, or termination of employment initiated by the participant or the Group other than where such termination is as a good leaver), their FY21 LTI Incentive will immediately lapse.</p> <p>Notwithstanding the above, the Board may, subject to any requirement for shareholder approval, determine to treat any of the FY21 LTI in a different manner to that set out above upon participants ceasing to be an employee of the Group.</p>
Change of control	The Board may exercise its discretion to allow all or some unvested rights to vest if a change of control event occurs, having regard for the performance of the Group during the vesting period up to the date of a change of control event.
Clawback policy	The Board has the discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.

5.4.1 LTI Vesting Outcomes

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

5.5 Other Awards

No other incentive awards were granted to KMP in FY21.

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

6. Executive remuneration outcomes

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

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

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



DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Executive employment contracts

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

Name	FY21 FAR	Agreement commence	Agreement Expire	Notice of termination by Group	Employee Notice
Ian Thorley	\$720,000	23 October 2018	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months
Sean Bilton	\$500,000	23 October 2018	No expiry, continuous agreement	3 months (or payment in lieu of notice)	3 months
Steve Lemlin	\$489,038	1 February 2017	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months

8. Non-Executive Director fee arrangements

The Board seeks to set Non-Executive Director (NED) fees at a level which provides the Group with the ability to attract and retain NEDs of the highest calibre, whilst incurring a cost which is acceptable to shareholders. The NED fee pool is currently \$1,100,000 (last approved at 2019 AGM).

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

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

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

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

8.2 Non-Executive director remuneration

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

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



DIRECTORS' REPORT

Remuneration report – audited (continued)

9. Additional disclosures relating to performance rights and shares

9.1 Performance rights granted during the year

The table below discloses the number of performance rights granted during the year. Performance rights do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date. No options were granted to members of KMP during FY21.

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

9.2 Performance rights holdings of KMP and related parties

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

Rights forfeited represent 100% of those rights granted in FY19

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

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

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

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

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

^b Determined at the time of exercise.

^c Determined at the time of lapse.

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

9.4 Shareholdings of KMP and related parties

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

	Number of shares at 1 Jul 2020	Granted as remuneration	Exercise of rights	On Market trades	Number of shares at 30 June 2021	Held Nominally
Non-executive directors						
Gary Weiss	48,312	-	-	30,000	78,312	78,312
Paul Foster	24,000	-	-	-	24,000	-
Warwick Smith	117,000	-	-	65,000	182,000	182,000
Helen Kurincic	50,000	-	-	-	50,000	25,000
Karen Penrose	32,333	-	-	-	32,333	32,333
Norah Barlow	129,474	-	-	-	129,474	129,474
Executive director						
Ian Thorley	138,001	-	-	-	138,001	53,312
Senior executives						
Sean Bilton	6,719	-	23,055	-	29,774	-
Steve Lemlin	43,663	-	-	-	43,663	-
Total	589,502	-	23,055	95,000	707,557	500,431

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

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

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





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

As lead auditor for the audit of the financial report of Estia Health Limited for the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Paul Gower
Partner
24 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

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

The accompanying notes form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

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

The accompanying notes form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

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

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

The accompanying notes form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

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

The accompanying notes form part of these consolidated financial statements.



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

SECTION A: ABOUT THIS REPORT

A1 CORPORATE INFORMATION

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

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

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

A2 BASIS OF PREPARATION

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

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

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

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

A3 STATEMENT OF COMPLIANCE

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

A4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its controlled subsidiaries as at 30 June 2021 (refer to Note E6 for the group structure). Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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



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

SECTION A: ABOUT THIS REPORT (CONTINUED)

A5

CURRENT OR NON-CURRENT CLASSIFICATION

Assets are disclosed as current when they are expected to be converted to cash or receivable within 12 months of 30 June 2021. Liabilities are disclosed as current when they are due within 12 months of 30 June 2021 or when there is no unconditional right to defer settlement for at least 12 months after 30 June 2021.

A6

GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The potential impacts of COVID-19, have been taken into consideration in preparing the financial report on a going concern basis. The Group's current liabilities exceed current assets by \$916,789,000 as at 30 June 2021 (2020: \$909,644,000) resulting in a net deficiency of current assets. This mainly arises because of the requirement to classify Refundable Accommodation Deposits (RAD) and Independent Living Unit (ILU) entry contributions of \$864,437,000 (2020: \$837,497,000) as current liabilities.

RADs and Bonds are classified as a current liability as the Group does not have an unconditional right to defer settlement of any specific RAD or Bond for at least twelve months after the reporting date. The total RAD and Bond liability represents the sum of separate payments from individual residents in different locations with differing circumstances, and frequently a departing RAD and Bond paying resident is replaced quickly with a new RAD paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 - 2.5 years (refer Note D1 for further details).

The Group has a syndicated financing facility of \$330,000,000 of which \$212,167,000 remains undrawn as at 30 June 2021. This debt facility can be drawn down to repay RAD and bond refunds should the Group experience significant RAD and bond net outflows.

A7

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts and are reviewed on an ongoing basis. In making any judgement, estimate or assumption relating to reported amounts, management have also considered, where appropriate the impact of COVID-19.

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

Information about critical judgements, estimates and assumptions that affect the application of the Group's accounting policies within the year ended 30 June 2021 are included in the following notes:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION A: ABOUT THIS REPORT (CONTINUED)

A7

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Significant accounting judgements, estimates and assumptions

Note B1	Revenue and other income
Note B6	Finance costs
Note B7	Income Taxes recognition of deferred tax assets
Note C2	Allowance for expected credit losses
Note C3	Assets held for sale
Note C4	Property, plant and equipment impairment test
Note C5	Investment properties
Note C6	Intangible assets impairment test
Note C7	Right of use assets and lease liabilities
Note D4	Share-based payments



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE

B1 REVENUE AND OTHER INCOME

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

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

Total revenue includes the provision of accommodation, that is accounted for in accordance with AASB 16 *Leases* ("AASB 16"). This includes operating lease revenue which is recognised on a straight-line basis over the length of stay. In addition, revenue includes imputed revenue in relation to residents who have chosen to pay a RAD or bond. This is a non-cash amount.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B1 REVENUE AND OTHER INCOME (CONTINUED)

Disaggregation of Revenue

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

(a) Government Funded Residential Care Subsidies & Supplements

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

The Government may require a resident to pay a proportion of that subsidy or supplement dependent on their own financial circumstances. This is referred to as a Means Tested Care Fee ("MTCF"). The MTCF reduces the amount the Government pays directly to the provider as a result. The total MTCF included within the total Government Funded Residential Care Subsidies and Supplements was \$15,478,000 in the period (2020: \$16,920,000).

(b) Resident Daily Care Fees

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

(c) Other Resident Fees

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

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

The Group has determined that residents who choose to pay a RAD as bond for their accommodation services, that these arrangements meet the definition of a lease under AASB 16, accounting for leases. The Group has recognised as revenue an imputed non-cash charge for accommodation representing the resident's right to occupy a room under the arrangement. The accounting treatment required a non-cash increase in revenue for accommodation and a non-cash increase in finance cost on the outstanding RAD and Bond balance, with no net impact on the result for the period.

Other Income

During the year, the Group separately sold two surplus land sites within NSW at Mona Vale and Wollongong and one site within Victoria at Grovedale for a total of \$16,450,000 (2020: \$1,215,000) and recognised a net gain on sale of \$9,446,000 (2020: net gain on sale \$283,000).

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



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

SECTION B: OUR PERFORMANCE (CONTINUED)

B1

REVENUE AND OTHER INCOME (CONTINUED)

Contract Assets and Liabilities

AASB 15 *Revenue from contracts with customers* ("AASB 15") requires presentation of the following items separately in the statement of financial position:

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

SIGNIFICANT ACCOUNTING POLICY

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B2 EMPLOYEE BENEFITS EXPENSES

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

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

B3 ADMINISTRATIVE EXPENSES

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B4 OCCUPANCY EXPENSES

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

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

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

B5 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES

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

The Group has various leases for aged care homes, office space and minor office equipment. These leases are accounted for by recognising a depreciable right of use asset with an effective life equivalent to the term of the lease. Depreciation expense on right of use assets for the period was \$4,535,000 (2020: \$4,524,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B6 FINANCE INCOME AND COSTS

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

SIGNIFICANT ACCOUNTING POLICY

Interest income

Interest income is recognised based on the effective interest method.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Refer to Note D2 for information relating to loans and borrowings.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B7 INCOME TAX EXPENSE

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

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

Reconciliation of income tax expense and the accounting profit:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX EXPENSE (CONTINUED)

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

Reconciliation of deferred tax liabilities, net:

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX EXPENSE (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Current income tax

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

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

Deferred tax

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX EXPENSE (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

B8

EARNINGS PER SHARE

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

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

	2021 \$'000	2020 \$'000
Profit (Loss) attributable to ordinary equity holders of the Parent for basic and diluted earnings	5,998	(116,909)
	2021	2020
Weighted average number of ordinary shares for basic EPS	261,294,969	261,014,726
Effect of dilution	3,013,807	1,538,291
Weighted average number of ordinary shares for the effect of dilution	264,308,776	262,553,017
	2021 cents	2020 cents
Basic profit or (loss) per share	2.30	(44.79)
Diluted profit or (loss) per share	2.27	(44.79)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B9

CASH FLOW RECONCILIATION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B9

CASH FLOW RECONCILIATION (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Operating cash flow

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES

C1

CASH AND CASH EQUIVALENTS

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

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

SIGNIFICANT ACCOUNTING POLICY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2

TRADE AND OTHER RECEIVABLES

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

Allowance for expected credit loss

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

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

SIGNIFICANT ACCOUNTING POLICY

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In calculating the allowance for expected credit loss, the Group applies judgements when identifying customers with similar risk characteristics to group together in the provision matrix. The Group is also required to estimate the rate of allowance of expected credit loss for each group of customer, which requires the use of historical rates of default and assumptions based on future economic conditions, for instance a downturn in the Australian economy or adverse changes to the aged pension, that may materially impact on the ability to collect outstanding customer balances. Refer to D5 Credit Risk for additional information.

The Group determined that the risk characteristics of its customers were not significantly impacted by COVID-19 during the period. The Group observed there to be no significant shift in customer payment patterns and performance following the declaration of the COVID-9 pandemic in Australia from March 2020 that would materially impact the ability to collect outstanding debtors balances.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3

ASSETS HELD FOR SALE

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICY

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment

Note	Land \$'000	Buildings \$'000	Property Improvements \$'000	Furniture, fixtures & equipment \$'000	Motor vehicles \$'000	Construction in progress \$'000	Total \$'000
Cost							
Balance at 1 July 2019	192,840	504,816	64,823	92,045	989	47,593	903,106
Additions	3,148	-	2,783	9,884	65	51,981	67,861
Transfers	3,960	26,653	15,129	19,143	-	(64,885)	-
Disposals	(885)	(445)	(46)	(2,112)	(155)	-	(3,643)
Transfer to assets held for sale	(5,250)	-	-	(48)	-	(108)	(5,406)
Balance at 30 June 2020	193,813	531,024	82,689	118,912	899	34,581	961,918
Additions	-	750	3,238	9,195	246	30,583	44,012
Transfers	-	35,492	3,056	11,790	-	(50,338)	-
Disposals	-	(28)	(131)	(2,232)	(153)	(2,334)	(4,878)
Transfer to assets held for sale	(3,748)	-	-	-	-	-	(3,748)
Balance at 30 June 2021	190,065	567,238	88,852	137,665	992	12,492	997,304
Accumulated depreciation and impairment							
Balance at 1 July 2019	-	39,930	4,213	35,420	847	-	80,410
Depreciation expense	B5	11,498	4,148	17,431	72	-	33,149
Impairment expense	B5	4,844	858	589	-	2,213	8,504
Disposals	-	(445)	(30)	(2,046)	(149)	-	(2,670)
Balance at 30 June 2020	-	55,827	9,189	51,394	770	2,213	119,393
Depreciation expense	B5	11,352	5,238	19,694	41	-	36,325
Impairment expense	B5	821	-	-	-	159	980
Disposals	-	(30)	(131)	(2,175)	(152)	(2,372)	(4,860)
Balance at 30 June 2021	821	67,148	14,296	68,914	659	-	151,838
Net book value							
As at 30 June 2020	193,813	475,198	73,500	67,516	129	32,368	842,524
As at 30 June 2021	189,244	500,089	74,556	68,752	332	12,492	845,465



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

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C5 INVESTMENT PROPERTIES

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

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

SIGNIFICANT ACCOUNTING POLICY

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

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

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

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

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

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

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

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

Bed licences

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Goodwill

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group performs impairment testing on goodwill and intangible assets, such as bed licences, annually and also when an impairment indicator(s) exist. The Group considers the relationship between its market capitalisation and its net book value, among other factors, when reviewing for indicators of impairment.

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

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

Discount rate of 9.3% was applied to the cash flow forecasts, including terminal value. This rate reflects the current market assessments of the risks specific to the industry the CGU operates in, and also taking into consideration the time value of money. The calculation of the rate is based on the specific circumstances of the asset and is derived from its weighted average cost of capital.

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

The discount and growth rates used at 30 June 2021 in assessing the recoverable amount are as follows:

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C7

RIGHT OF USE ASSETS AND LEASE LIABILITIES

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

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

The Group had low value leases relating to office equipment such as printers and photocopiers. An amount of \$121,000 (2020: \$122,000) was recognised as an expense during the period.

Under its lease agreements, the Group incurs variable lease payments in the form of expenditure in relation to insurance, council and water rates, and water consumption. The Group recognised an amount of \$477,900 (2020:\$350,000) as an expense in the period.

SIGNIFICANT ACCOUNTING POLICY

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

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

Right-of-use-assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C7

RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Lease liabilities

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

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

Short term leases and leases of low value assets

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8 TRADE AND OTHER PAYABLES

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

C9 OTHER FINANCIAL LIABILITIES

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

Terms and conditions relating to independent living units (ILUs)

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

SIGNIFICANT ACCOUNTING POLICY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C10 PROVISIONS

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

SIGNIFICANT ACCOUNTING POLICY

General

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

Long service leave and annual leave

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION D: CAPITAL, FINANCING, RADS AND RISK

D1

REFUNDABLE ACCOMMODATION DEPOSITS AND BONDS

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

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

Terms and conditions relating to Refundable Accommodation Deposits ("RADs") and Accommodation Bonds ("Bonds")

The RADs and Bonds are paid by residents upon their admission to homes and are refunded after a resident departs a home in accordance with the Aged Care Act. Providers must pay a base interest rate on all refunds of RADs and bonds within legislated time frames and must pay a higher rate on refunds that are not made within legislated time frames.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D2 LOANS AND BORROWINGS

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

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

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

Terms and conditions of loans

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

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

The total debt facility available to Estia at 30 June 2021 was \$330,000,000. In addition, the Facility has an accordion feature which allows for the facility to be increased by an additional \$170,000,000, subject to lender participation and the satisfaction of specified terms and conditions of the accordion feature being satisfied. The Facility will mature in November 2022. Refer to D5 interest Rate Risk for further details.

SIGNIFICANT ACCOUNTING POLICY

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D3

ISSUED CAPITAL AND RESERVES

	2021 \$'000	2020 \$'000
<i>Issued and fully paid</i>		
Ordinary shares	803,459	803,397
Total share capital	803,459	803,397

(a) Movements in ordinary shares on issue

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

Ordinary shares have no par value per share.

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

Reclassification of prior period balance

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

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note D4 for further details of these plans.

(c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2021 is \$27,843,000 (2020: \$19,087,000).

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

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

D3

ISSUED CAPITAL AND RESERVES (CONTINUED)

(d) Dividends paid

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

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

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

(e) Dividend Reinvestment Plan (DRP)

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

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

D4

SHARE-BASED PAYMENTS

At 30 June 2021, the Group had the following share-based payments arrangements:

(a) Long-Term Incentive Plan (LTIP)

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

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

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

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

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

(b) Short-Term Incentive Plan (STIP)

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D4

SHARE-BASED PAYMENTS (CONTINUED)

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

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

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

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

(c) Retention Plan ("RP")

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

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

(d) Management Equity Plan (MEP)

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

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

The following table details the MEP loans outstanding at 30 June 2021. There has been no change since 30 June 2019.

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

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

(e) Movements during the year

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D4

SHARE-BASED PAYMENTS (CONTINUED)

(e) Movements during the year (continued)

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

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

(f) Expense recognised in profit or loss

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

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

SIGNIFICANT ACCOUNTING POLICY

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

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

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



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

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

D4 SHARE-BASED PAYMENTS (CONTINUED)

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

LTIP-Recognition and measurement of fair value

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

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

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

STIP-Recognition and measurement of fair value

The fair value of the performance rights issued under the STIP are determined at grant date. The number of shares issued are determined by the volume weight average share price of the Group in the 10 trading days prior to the release of the Group's annual results. The performance rights issued under the STIP during the year had a fair value of \$2.71 per right and related to the prior year's performance. The performance rights are deferred for a 12 month period and are settled in the Group's equity if the participants remains employed by the Group at the end of the 12 month period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and deposits. The Group is not exposed to commodity, equity risks or currency risk.

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

The sensitivity analyses have been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt are all constant at 30 June 2021 and 30 June 2020.

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

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2021 and 30 June 2020.

Interest rate risk

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

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

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

	Weighted average effective interest rates		Fixed or Floating
	2021 %	2020 %	
Cash and liquid assets	0.6	1.1	Floating
Bank loans	1.5	1.4	Floating
Refundable accommodation deposits – departed residents	2.3	2.9	Floating

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate sensitivity

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

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

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The maximum loss is equal to the carrying amount of the asset. The Group is exposed to credit risk from customer receivables and from its deposits with banks.

Approximately 76% (2020: 75%) of the revenue of the Group is obtained from Commonwealth Government funding. This funding is maintained for providers as long as they continue to comply with Accreditation standards and other requirements per the Aged Care Act.

Trade and other receivables

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

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

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

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

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

The following table provides information about the expected credit losses for trade receivables, excluding the Commonwealth Government balance of \$3,317,000 at 30 June 2021 (2020: \$3,323,000):

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

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

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

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

	On demand \$'000	Less than 12 months \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Year ended 30 June 2021					
Trade and other payables	837	36,960	-	-	37,797
Loans and borrowings	-	-	114,500	-	114,500
Refundable accommodation deposits and bonds	863,929	-	-	-	863,929
Other financial liabilities	508	-	-	-	508
Lease liabilities	-	6,005	20,335	59,950	86,290
Total Commitments	865,274	42,965	134,835	59,950	1,103,024
Year ended 30 June 2020					
Trade and other payables	926	58,601	-	-	59,527
Loans and borrowings	-	-	130,000	-	130,000
Refundable accommodation deposits and bonds	836,304	-	-	-	836,304
Other financial liabilities	1,193	-	-	-	1,193
Lease liabilities	-	6,123	22,102	67,225	95,450
Total Commitments	838,423	64,724	152,102	67,225	1,122,474

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

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent.

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 30 June 2021.



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

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

D6 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

Unobservable inputs	30 June 2021	30 June 2020
Discount rate	16.50%	15.00%
Growth rate	2.50%	2.85%
Cash flow term (years)	50	50

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

There were no transfers between levels during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

D6

FAIR VALUE MEASUREMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

The Group measures its investment properties, at fair value at each balance sheet date.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION E: OTHER INFORMATION

E1

RELATED PARTY DISCLOSURES

Note E6 provides the information about the Group's structure including the details of the subsidiaries and the holding company. Note D4 provides the information about the loans to related parties. There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

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

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

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

E2

COMMITMENTS AND CONTINGENCIES

Capital commitments

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

Bank guarantees

The Group has entered into a number of bank guarantees with its bankers in relation to the Group's rental agreements for leased properties, totalling \$4,559,000 (2020: \$4,000,000). These are secured against the borrowing facilities disclosed in Note D2. As at the date of signing this report, there are no calls against these guarantees.

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

SECTION E: OTHER INFORMATION (CONTINUED)

E3 AUDITOR REMUNERATION

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

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

E4 SUBSEQUENT EVENTS

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

E5 SEGMENT REPORTING

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



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

SECTION E: OTHER INFORMATION (CONTINUED)

E6

INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

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

Principal activities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION E: OTHER INFORMATION (CONTINUED)

E7 PARENT ENTITY INFORMATION

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

The information presented above relating to the Parent is prepared using the same accounting policies that apply to the Group, except for the recognition and measurement of investments in subsidiaries which are carried at cost.

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

Pursuant to Class Order 98/1418, Estia Health Limited entered into a deed of cross guarantee on 28th June 2021 with the following entities:

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

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

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



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

SECTION E: OTHER INFORMATION (CONTINUED)

E7

PARENT ENTITY INFORMATION (CONTINUED)

The Closed Group includes all entities listed in Note E6. The Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income of the Closed Group are the same as the Estia consolidated group.

E8

TREATMENT OF GST

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

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

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

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

E9

CHANGES IN ACCOUNTING POLICY

Changes in accounting policy, disclosures, standards and interpretations

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

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

Configuration or Customisation Costs in a Cloud Computing Arrangement

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

SECTION E: OTHER INFORMATION (CONTINUED)

E9

CHANGES IN ACCOUNTING POLICY (CONTINUED)

New and Amended Accounting Standards and Interpretations

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

Standards issued but not yet effective

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



DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Estia Health Limited, I state that:

1. in the opinion of the directors:
 - (a) the financial statements and notes of the consolidated entity for the financial year ended 30 June 2021 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note A3; and
 - (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
 - (d) there are reasonable grounds to believe that the Company and the controlled entities identified in Note E6 of the financial statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
2. This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2021.

On behalf of the Board



Dr. Gary H Weiss AM
Chairman



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Independent Auditor's Report to the Members of Estia Health Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Estia Health Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

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

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

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Carrying value of goodwill and bed licences

Why significant	How our audit addressed the key audit matter
<p>At 30 June 2021 the Group’s goodwill and bed licences balance was \$902 million which represents 48% of total assets.</p> <p>The Group reviews the carrying amount of goodwill and bed licences annually, or more frequently, if impairment indicators are present.</p> <p>The group of cash generating units (CGUs) to which goodwill and bed licences can be allocated is consistent with the operating segment as identified and disclosed in Note E5, which is the whole Group.</p> <p>The Group has used a discounted cash flow model to estimate the value in use of the assets. The estimates are based on conditions existing as at 30 June 2021. The impairment analysis was considered a key audit matter due to the process to estimate the recoverable amount being complex and requiring significant judgement including consideration of the continued effects of COVID-19.</p> <p>The Group has disclosed in note C6 to the consolidated financial report the assessment method, including the significant underlying assumptions, the results of the assessment and impairment loss as well as the impact of applying sensitivities.</p>	<p>We assessed the appropriateness of the allocation of goodwill and bed licences to the Group and composition of the carrying amount of the CGU.</p> <p>Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow valuation. In doing so, we:</p> <ul style="list-style-type: none"> ▶ Tested the mathematical accuracy of the discounted cash flow model; ▶ Assessed key assumptions such as Board-approved forecast cash flows, including working capital levels and cash flows related to refundable accommodation deposits; ▶ Assessed the impact of COVID-19 based on conditions existing and emerging at 30 June 2021 on cash flow forecast of revenues, operating costs and the effect of changes in residency mix; ▶ Assessed the Group’s current year actual results in comparison to prior year forecasts to assess forecasting accuracy; ▶ Assessed the Group’s assumptions for terminal growth rates in the discounted cash flow model in comparison to economic and industry forecasts; ▶ Assessed the adequacy of the estimated maintenance capital expenditure with reference to historical data; ▶ Assessed the impact of the announcements by the Government in response to recommendations from the Royal Commission into Aged Care Quality and Safety (“Royal Commission”), including their intention to abolish the Aged Care Allocation Round and associated supply restrictions on bed licences, noting that legislation has not yet been drafted or passed to give effect to this intention and the exact nature of any changes to the licencing regime remained uncertain as at 30 June 2021.



Why significant

How our audit addressed the key audit matter

- ▶ Assessed the discount rate through comparing the weighted average cost of capital for the Group with comparable businesses including the potential impacts of the government response to Royal Commission recommendations, announcement to abolish the Aged Care Allocation Round and COVID-19;
- ▶ Considered earnings multiples of comparable businesses as a valuation cross check to the Group's determination of recoverable amount.
- ▶ Performed sensitivity analysis in respect of the assumptions noted above to ascertain the extent of changes in those assumptions which either individually or collectively would materially impact the recoverable amount of the CGU and we assessed the likelihood of these changes in assumptions arising;
- ▶ Assessed the adequacy of the Group's disclosures of the key assumptions to which the outcome of the impairment test is most sensitive; that is, those that have the most significant effect on the determination of the recoverable amount of goodwill and bed licences.





Construction in Progress

Why significant

Costs incurred during the year that were capitalised to Construction in Progress amounted to \$31 million. This represents costs of development projects and significant refurbishments of existing aged care facilities.

The specific criteria to be met for capitalisation of development costs in accordance with Australian Accounting Standards involves judgement, including the feasibility of the project, intention and ability to complete the construction, ability to use or sell the assets, generation of future economic benefits and the ability to measure the costs reliably.

In addition, as a result of COVID-19, the Group reassessed whether ongoing projects remained feasible and therefore, likely to be completed. This resulted in further assessments of the recoverability of costs already incurred and capitalised. In the case of construction in progress, determining the recoverable amounts of projects under development requires additional judgement and use of assumptions which are affected by future market conditions or economic developments.

Costs are transferred to asset categories based on management's assessment of whether an asset is ready for use. Depreciation rates are applied based on the asset category.

Construction in Progress was considered a key audit matter due to the quantum of the balance and judgement required in applying the capitalisation criteria and undertaking the impairment analysis. The Group has disclosed in Note C4 to the consolidated financial report the capitalisation policy.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Agreed a sample of additions to supporting evidence and assessed the nature of amounts capitalised;
- ▶ Evaluated key assumptions applied and estimates made for amounts capitalised, including the feasibility of the project, the stage of the projects in the development phase and the measurement and completeness of costs included;
- ▶ Assessed whether costs were transferred to appropriate asset categories when ready for use on a timely basis and that the relevant depreciation or amortisation rates were applied;
- ▶ Considered whether there were any indicators of impairment present after examining the business case documentation of development projects, any impacts of COVID-19 on management adhering to the construction development timeline, enquiries of executives responsible for management of the projects and comparing the cost of development to forecasts;
- ▶ Assessed the key inputs in the determination of value in use of ongoing projects under construction and performed sensitivity analysis in respect of these inputs;
- ▶ Assessed the adequacy of the Group's disclosures regarding the timing that costs are recognised as an asset and the depreciation rates applied to each asset category.



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Revenue Recognition

Why significant	How our audit addressed the key audit matter
<p>Revenue is generated primarily through two sources, being Government Subsidies and Resident Billings. Both sources are subject to strict legislation, detailing the rates and charges that the Group receives for each resident.</p>	<p>We evaluated the effectiveness of key controls in relation to the capture and measurement of revenue transactions across all material revenue streams. In particular, we undertook the following procedures:</p>
<p>Income derived from resident billings is recognised as billed within the relevant month. Subsidies received from the Department of Health vary depending on a number of factors, including the resident’s financial means and level of care.</p>	<ul style="list-style-type: none"> ▶ Assessed whether ACFI assessments were prepared by an authorised person, and were calculated based on resident care assessments; ▶ Compared the government revenue recognised to payments received;
<p>The Group also received a temporary funding increase and COVID-19 related supplements which have been recognised in the year ended 30 June 2021.</p>	<ul style="list-style-type: none"> ▶ Tested whether resident revenue agreed to agreements, legislated billing rates, and payments received; ▶ Tested whether the application of the Daily Care Fee incorporated rate increases;
<p>The Group raises a government revenue accrual at year-end to recognise any differences between the monies received by Medicare at the start of the month (June) and additional monies the Group is entitled to arising from variations in resident occupancy levels or associated rates during June.</p>	<ul style="list-style-type: none"> ▶ Assessed whether resident additional service fees changes were approved and whether billing rates were correct.
<p>Revenue was considered a key audit matter given the effect of strict legislation, adjustment in rates by government from time to time, and the volume of transactions with residents and government.</p>	<p>We performed the following other audit procedures in relation to revenue:</p>
<p>The Group’s revenue recognition and disaggregation policies have been disclosed in note B1 to the consolidated financial report.</p>	<ul style="list-style-type: none"> ▶ Compared the revenue accrual to actual occupancy rates; ▶ Tested whether the revenue recognised related to performance obligations satisfied within the year; ▶ Assessed whether the COVID-19 support supplements received by the Group during the year related to performance obligations already satisfied within the year; ▶ Assessed the appropriateness of the financial statement disclosures in relation to the Group’s revenue recognition and disaggregation policies.





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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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



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- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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





Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 98 to 110 of the directors' report for the year ended 30 June 2021.

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

Responsibilities

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

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

Ernst & Young

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

Paul Gower
Partner
Melbourne
24 August 2021



Disclaimer

Acknowledgement

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

Estia Health acknowledges the Traditional Custodians of the lands throughout Australia in which we operate and pays its respects to elders both past, present and emerging. We recognise their rich cultures and continuing connection to land and waters. Aboriginal and Torres Strait Islander peoples are advised that this document may contain names and images of people who are deceased. All references to Indigenous people in this document are intended to include Aboriginal and/or Torres Strait Islander people.

Photography

Many of the photographs featured in this report were taken prior to or whilst the need for social distancing, wearing of masks and other Personal Protective Equipment (PPE), was not a requirement.

Reliance on third party information

This report may contain information that has been derived from publicly available sources that have not been independently verified.

No representation or warranty is made as to the accuracy, completeness or reliability of the information. No responsibility, warranty or liability is accepted by Estia Health, its officers, employees, agents or contractors for any errors, misstatements in or omissions from this report.

Not investment advice

This report is not intended and should not be considered to be the giving of investment advice by Estia Health or any of its shareholders, Directors, officers, agents, employees or advisers. The information provided in this presentation has been prepared without taking into account the recipient's investment objectives, financial circumstances or particular needs. Each party to whom this presentation is made available must make its own independent assessment of Estia Health after making such investigations and taking such advice as may be deemed necessary.

No offer of securities

Nothing in this report should be construed as either an offer to sell or a solicitation of an offer to buy or sell Estia Health securities in any jurisdiction.

Forward-looking statements

This report may include forward-looking statements. Although Estia Health believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, these statements are not guarantees or predictions of future performance, and involve both known and unknown risks, uncertainties and other factors, many of which are beyond Estia Health's control. As a result, actual results or developments may differ materially from those expressed in the statements contained in this presentation. Investors are cautioned that statements contained in this presentation are not guarantees or projections of future performance and actual results or developments may differ materially from those projected in forward-looking statements.

No liability

To the maximum extent permitted by law, neither Estia Health's nor its related bodies corporate, Directors, employees or agents, nor any other person, accepts any liability, including without limitation any liability arising from fault or negligence, for any direct, indirect or consequential loss arising from the use of this presentation or its contents or otherwise arising in connection with it.

Disclosure of non-IFRS financial information

Throughout this report, there are occasions where financial information is presented not in accordance with accounting standards. There are a number of reasons why Estia Health has chosen to do this including: to maintain a consistency of disclosure across reporting periods; to demonstrate key financial indicators in a comparable way to how the market assesses the performance of Estia Health; to demonstrate the impact that significant one-off items have had on Estia Health's performance. Where Estia Health's learnings have been distorted by significant items Management have used their discretion in highlighting these. These items are non-recurring in nature and considered to be outside the normal course of business. Unaudited numbers used throughout are labelled accordingly.

Additional Information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 02 September 2021.

(a) Distribution of shareholders

The distribution of issued capital is as follows:

SIZE OF HOLDING	NO. OF SHAREHOLDERS	ORDINARY SHARES	% OF ISSUED CAPITAL
100,001 and Over	71	222,510,532	85.11
10,001 to 100,000	906	21,925,887	8.39
5,001 to 10,000	1,094	8,286,165	3.17
1,001 to 5,000	2,920	7,844,993	3.00
1 to 1,000	1,859	874,065	0.33
Total	6,850	261,441,642	100.00

(b) Distribution of Performance Rights Holders

The distribution of unquoted Performance Rights on issue are:

SIZE OF HOLDING	NO. OF HOLDERS	UNLISTED PERFORMANCE RIGHTS	% OF TOTAL PERFORMANCE RIGHTS
100,001 and Over	7	2,657,198	87.44
10,001 to 100,000	7	381,653	12.56
5,001 to 10,000	0	0	0.00
1,001 to 5,000	0	0	0.00
1 to 1,000	0	0	0.00
Total	14	3,038,851	100.00

(c) Less than marketable parcels of ordinary shares

There are 469 shareholders with unmarketable parcels totalling 31,586 shares.

(d) 20 Largest Shareholders

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

NAME	NO. OF FULLY PAID ORDINARY SHARES	% OF ISSUED CAPITAL
1. J P Morgan Nominees Australia Pty Limited	44,825,404	17.15
2. HSBC Custody Nominees (Australia) Limited	38,159,037	14.60
3. Citicorp Nominees Pty Limited	35,835,232	13.71
4. National Nominees Limited	17,636,454	6.75
5. Network Investment Holdings Pty Ltd	17,245,858	6.60
6. Argo Investments Limited	11,809,250	4.52
7. Network Investment Holdings Pty Ltd	10,000,000	3.82
8. BNP Paribas Noms Pty Ltd <DRP>	9,447,392	3.61
9. 3RD Wave Investors Pty Ltd	4,250,000	1.63



(d) 20 Largest Shareholders (Continued)

NAME	NO. OF FULLY PAID ORDINARY SHARES	% OF ISSUED CAPITAL
10. Emalyn Holdings Pty Limited <JOHN KENNEDY A/C>	4,102,766	1.57
11. BNP Paribas Nominees Pty Ltd <AGENCY LENDING DRP A/C>	3,663,626	1.40
12. HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH SUPER CORP A/C>	2,340,873	0.90
13. Mr Mark Edward Kennedy <MARK EDWARD KENNEDY A/C>	1,910,678	0.73
14. Mrs Julia Michelle Manken & Mr Mike Darren Manken & Miss Jessica Kelly Manken <MANKEN FAMILY SUPER A/C>	1,525,000	0.58
15. Skip Enterprises Pty Ltd <FARQUHAR A/C>	1,442,768	0.55
16. Mark Edward Kennedy <MARK EDWARD KENNEDY FAMILY>	1,277,438	0.49
17. Custodial Services Limited <BENEFICIARIES HOLDING A/C>	1,202,809	0.46
18. Kennbros Pty Limited	1,156,834	0.44
19. CS Third Nominees Pty Limited <HSBC CUST NOM AU LTD 13 A/C>	1,141,150	0.44
20. Alphagen Capital Pty Ltd	1,000,000	0.38
Total for top 20 shareholders	209,972,569	80.31%
Balance of register	51,469,073	19.69%
Total Quoted Equity Securities	261,441,642	100.00%

(e) Unquoted Equity Securities

The Company had the following unquoted performance rights on issue as at 02 September 2021:

14 holders of performance rights issued as part of an employee incentive scheme	3,038,851	100.0%
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(f) Substantial Shareholders

The names of the Substantial Shareholders listed as disclosed by notices submitted to the ASX as at 21 August 2020:

NAME	NO. OF ORDINARY FULLY PAID SHARES	% OF ISSUED CAPITAL
Perpetual Limited and Subsidiaries	29,477,730	11.28
Seven Group Holdings Limited, Network Investment Holdings Pty Ltd & SGHs other subsidiaries	26,156,399	10.01
United Super Pty Ltd	18,788,331	7.19
Citigroup Global Markets Australia Pty Ltd	18,232,894	6.97

(g) Restricted Securities

The Company has 146,673 restricted securities on issue as at 02 September 2021, which become unrestricted on 01 July 2022.

(h) Voting Rights

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

Performance rights have no voting rights.

(i) On-Market Buy-Backs

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

Directory of Estia Health Homes

For all new resident enquiries call 1300 682 833

NEW SOUTH WALES		
Albury	289 Elizabeth Mitchell Drive, Thurgoona, 2640	02 6057 4100
Bankstown	74 Chiswick Road, Greenacre, 2190	02 8709 9200
Bexley	3-5 Eddystone Road, 2207	02 8318 1100
Blakehurst	392-394 Princes Highway, 2221	02 9171 3300
Camden	82 Old Hume Highway, 2570	02 4655 2531
Dalmeny	25-29 Noble Parade, 2546	02 4476 8744
Epping	64-66 Norfolk Road, 2121	02 9877 4300
Figtree	12 Suttor Place, 2525	02 4271 6855
Forster	105 Southern Parkway, 2428	02 6555 5699
Kilbride	70 Glendower Street, Rosemeadow, 2560	02 4633 1100
Kogarah	74-76 Rocky Point Road, 2217	02 9053 1800
Manly Vale	5-13 King Street, 2093	02 9951 0400
Merrylands	42 Cumberland Road, Greystanes, 2145	02 9631 1837
Ryde	94 Bowden Street, 2112	02 9809 3068
Taree	424 Wingham Road, 2430	02 6539 3700
Tea Gardens	42 Spinifex Avenue, 2324	02 4919 7000
Tuncurry	4 Bonventi Close, 2428	02 6554 7522
Willoughby	202 Mowbray Road, 2068	02 9958 8290
SOUTH AUSTRALIA		
Aberfoyle Park	39 Campus Drive, 5159	08 8370 5766
Aldgate	4 Gibb Road, 5154	08 8370 9311
Burton	367-379 Waterloo Corner Road, 5110	08 8280 2800
Craigmore	150 Adams Road, 5114	08 8256 8800
Daw Park	7 Lancelot Drive, 5041	08 8397 2100
Encounter Bay	150 Bay Road, 5211	08 8552 5100
Flagstaff Hill	40 Skyline Drive, 5159	08 8296 3456
Golden Grove	27-31 Capt Robertson Avenue, 5125	08 8251 9600
Hope Valley	1099 Grand Junction Road, 5090	08 8396 3167
Kadina	8 Mine Street, 5554	08 8821 2233
Kensington Gardens	421 The Parade, 5068	08 8331 8098
Lockleys	8 Mellor Avenue, 5032	08 8128 8888
Parkside	17 Robsart Street, 5063	08 8271 5679
Salisbury	7 Salisbury Highway, 5108	08 8182 6477
Salisbury East	8 Oakmont Court, 5109	08 8285 4600
Strathalbyn	7 Langhorne Creek, 5255	08 8536 3422
Toorak Gardens	401 Portrush Road, 5065	08 8431 5399



QUEENSLAND		
Albany Creek	55 Faheys Road West, 4035	07 3264 4850
Gold Coast	34 Scarborough Street, Southport 4215	07 5551 0307
Maroochydore	2-6 Amity Ave, 4558	07 5391 4800
Mount Coolum	15 Suncoast Beach Drive, 4573	07 5343 0200
Mudgeeraba	21-25 Old Coach Road, 4213	07 5565 0900
Nambour	27 Glenbrook Drive, 4560	07 5459 3600
Southport	40 William Street, 4215	07 5646 4170
Twin Waters	190 Ocean Drive, 4564	07 5646 4120
VICTORIA		
Altona Meadows	297 Queen Street, 3028	03 9369 4568
Ardeer	30 North Street, 3022	03 9360 4552
Bannockburn	71 McPhillips Road, 3331	03 5281 1991
Benalla	73 Samaria Road, 3672	03 5762 6933
Bendigo	9 Brown Street, Long Gully, 3550	03 5449 2400
Bentleigh	34-36 Clairmont Avenue, 3204	03 9557 2888
Coolaroo	15 Mladen Court, 3048	03 9309 0011
Dandenong	151 David Street, 3175	03 9792 4322
Epping	30 Epping Road, 3076	03 9408 8564
Glen Waverley	2B Grace Street, 3150	03 9562 5814
Grovedale	6A Perrett Street, 3216	03 5247 2000
Heidelberg	413-415 Waterdale Road, 3081	03 9455 0000
Keysborough	15 Stanley Road, 3173	03 8788 2700
Knoxfield	428 Scoresby Road, 3180	03 9763 1421
Leopold	52-60 Ash Road, 3224	03 5250 2156
Melton South	34-42 Brooklyn Road, 3338	03 9747 5600
Oakleigh East	23A Elizabeth Street, 3166	03 9544 8167
Plenty Valley	806 Plenty Road, South Morang, 3752	03 9404 8000
Prahran	241 Dandenong Road, Windsor, 3181	03 9533 7855
Ringwood	211-217 Wantirna Road, 3134	03 9879 5155
South Morang	879 Plenty Road, 3752	03 9404 8600
Victoria Heights	41-47 Victoria Street, Ironbark, 3550	03 5443 2731
Wattle Glen	45 Silvan Road, 3096	03 9718 2267
Werribee	8-10 Russell Street, 3030	03 9749 8000
Wodonga	240 Felltimber Creek Road, 3690	02 6043 5000
Yarra Valley	21 Hoddle Street, Yarra Junction, 3797	03 5967 5500

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