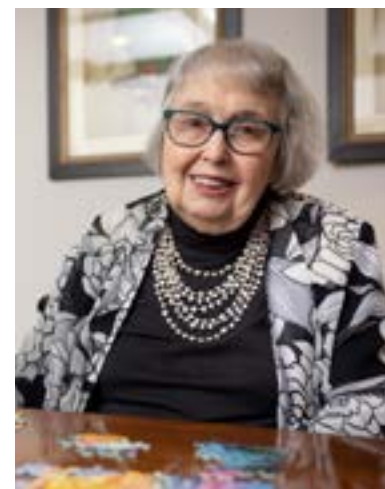




Estia 
Health

ANNUAL REPORT

2021-22







Acknowledgement of Country:

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to lands on which we operate our homes. We pay our respects to Elders past, present and emerging, for they hold the memories, the traditions, the culture and hopes of First Nations peoples.

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

About this Annual Report

Report structure

This report is designed to be read in its entirety. The required elements of the Directors' Report, including the Operating and Financial Review (OFR) as required by ASIC Regulatory Guide 247, are covered on **pages 55 to 107**. Specific commentary on Estia Health's financial performance is contained on **pages 109 to 159** and references information reported in the Annual Financial Report (**pages 53 to 167**). The Annual Financial Report includes Estia Health Limited (the Company or Parent Entity) and the entities it controlled (collectively the Group, the Consolidated Entity or Estia Health) at the end of, or during, the year ended 30 June 2022. Commentary on matters relating to performance and leadership may extend beyond 30 June 2022 where appropriate.

Throughout the report, the Consolidated Entity is referred to as Estia Health or the Group. The Directors' Declaration forms part of the Financial Report under the Corporations Act.

Voluntary reporting frameworks

Our 2021-22 Annual Report provides an overview of the Group's financial and non-financial performance. The structure of the report has changed compared to previous years and is guided by the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework, providing a useful basis for disclosing how value is created and sustained for shareholders and other stakeholders over time. The framework demonstrates consideration of risks and opportunities (both those arising from the Group's business and those existing in a broader operational context), as well as how purpose and values drive strategy.

Estia Health follows the guidance provided by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) voluntary disclosure framework. The financial year ending 30 June 2022 (FY22) TCFD report, comprised within,

details how the Group considers governance, risk management, strategy, metrics and targets in relation to climate change.

Forward-looking statements and materiality

This report includes information about Estia Health's performance for the period 1 July 2021 to 30 June 2022. Any forward-looking statements are based on the Group's current expectations, best estimates and assumptions as at the date of preparation, many of which are beyond the Group's control. These forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks, which may cause actual results to differ materially from those expressed in the report.

A matter is considered material if management and those charged with governance believe it could significantly impact the value created and delivered in the short, medium and long term.

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 or omissions from this report.

Not investment advice

This report is not intended and should not be considered to be investment advice by Estia Health or any of its shareholders, Directors, officers, agents, employees or advisers. The information provided in this report has been prepared without taking into account the recipient's investment objectives,

financial circumstances or particular needs. Each party to whom the report 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.

Disclosure of non-IFRS financial information

Throughout this report, there are occasions where financial information is presented not in accordance with accounting standards. Estia Health has done this for various reasons including: to maintain a consistency of disclosure across reporting periods; to demonstrate key financial indicators in a comparable way to how the market assesses performance; and to demonstrate the impact that significant one-off items have had on performance. Where Estia Health's earnings have been distorted by significant items, management has used discretion in highlighting these. These items are nonrecurring in nature and considered to be outside the normal course of business. Unaudited numbers used throughout are labelled accordingly.



Reporting suite

See the documents that make up our reporting suite at <https://investors.estiahealth.com.au/investor-centre/>, including:

Report	Key Information
Annual Report	The Annual Report sets out how Estia Health creates sustainable value. It describes the governance and business model, strategy operating context and operational performance and prospects. The report is primarily intended for current and prospective investors and other providers of financial capital, although it will be of interest to other stakeholders. It includes a detailed analysis of the Group's financial results and audited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS).
Financial Statements	The Financial Statements is an audited report prepared with reference to the International Financial Reporting Standards and applicable corporate regulations in Australia.
Corporate Governance Statement	The Corporate Governance Statement outlines the principal corporate governance practices in place during the financial year ended 30 June 2022.
Sustainability Report	The Sustainability Report is the disclosure of environmental, social and corporate governance data relevant to the Group, published later in 2022.
Investor Presentation	The Investor Information Pack provides a summary and analysis of operations during the financial year ended 30 June 2022.
Workplace Gender Equality Agency (WGEA) Report	The WGEA report details the gender ratio of employees and contractors in occupational categories, including apprentices and trainees.
Modern Slavery Report	The Modern Slavery Statement, prepared and delivered in accordance with the Modern Slavery Act 2018 (Cth), reports on the risks of modern slavery in the Group's operations and supply chains, and actions to address those risks.

Vision, Purpose and Values

Our Vision

Trusted aged care is accessible to all

Our Purpose

We exist to enrich and celebrate life together

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

Our Family Code

A family where everyone belongs

We achieve our purpose by living our family code.

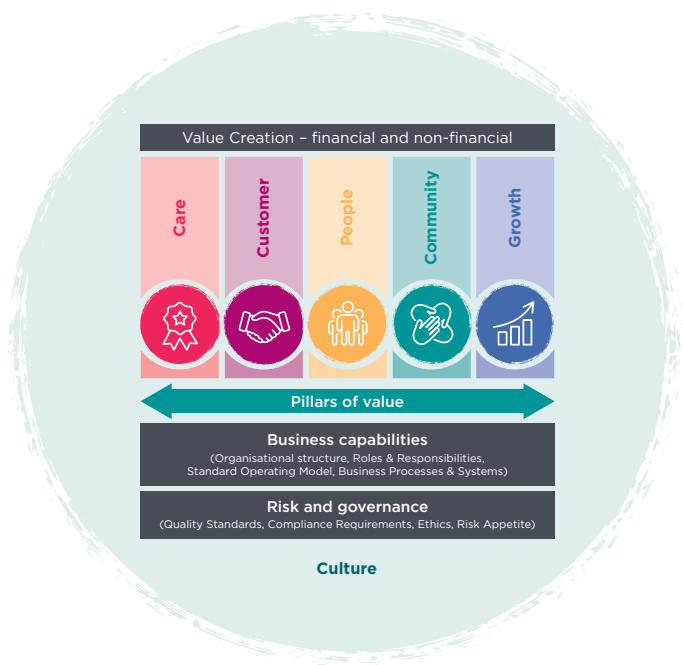
Our Principles

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

<p>Compassion</p> <p>We demonstrate care and understanding with empathy</p>	<p>Responsiveness</p> <p>We are approachable, we listen and we take action</p>	<p>Accountability</p> <p>We are responsible and always act with integrity</p>	<p>Respect</p> <p>We embrace individuality and choice</p>	<p>Collaboration</p> <p>We positively engage together to deliver our purpose</p>
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Estia Health value creation







Dr. Gary H Weiss, AM
Chairman

Chairman's Letter

Dear Shareholders,

On behalf of the Estia Health Board of Directors, I am pleased to present our 2022 Annual Report.

While the 2022 financial year was challenging, our strong culture, focus on clinical governance and care, and our organisation's leadership and strength of balance sheet, enabled us to meet the many demands that we faced. We have remained committed to our Vision, 'to provide trusted aged care that is accessible to all'.

Throughout this period our key focus continued to be the care, wellbeing, and safety of the 8,000 residents we support each year, together with the approximately 7,500 dedicated employees across our homes. The COVID-19 pandemic has been confronting and created anxiety for our residents, their relatives and our employees, all of whom have displayed remarkable resilience in working collaboratively to support each other, for which we are grateful.

Beyond the direct health impact of COVID-19, we have navigated the impact on our occupancy and financial outcomes, ongoing workforce challenges and the aged care reform agenda.

Our financial and operational results for FY22 reflect the ongoing challenging market and operating conditions in the aged care sector, not least of which is the ongoing pandemic. Amid these conditions, we have remained focused on keeping our residents and employees safe and to continue to advocate for a sustainable aged care sector which will meet the expectations of current and future generations.

Governance

Estia Health is committed to a robust and effective corporate governance framework which underpins our management approach and which supports the organisation in creating value. Our approach to corporate governance is set out on [our website](#), including our annual Corporate Governance Statement and key Governance Policies.

Our care model is underpinned by our clinical governance structure, vital given the high care needs of our residents, including those with a diagnosis of dementia. Our Clinical Governance Committee is independently chaired by Professor Simon Willcock, a respected aged care academic and practitioner, to ensure our clinical outcomes and performance receive appropriate oversight.

Our sustainability strategy showcases the Group's commitment to environmental, social and governance (ESG) issues and conducting business in a manner that is respectful to the environment and the communities in which we operate. We believe that integrating sustainability into our overall strategy, procedures and practices is imperative to creating value for all stakeholders.

Diversity plays a key role in fostering compassionate and welcoming communities. In line with industry norms, our overall workforce is predominantly female. Our commitment to diversity is demonstrated in the elimination of any material gender pay gap and the strong representation of females in senior management roles – 56% in the reporting period. I am pleased to report our Board of Directors and Executive both reflect gender parity.

CEO succession

This year we farewelled former Chief Executive Officer and Managing Director, Ian Thorley, following his decision to retire in July. Ian joined Estia Health in 2016 as Chief Operating Officer and has served in the role of Chief Executive Officer and Managing Director of Estia Health since October 2018.

The Board is grateful for the incredible contribution Ian delivered during his tenure with Estia Health, including successfully guiding the Group through the significant challenges presented by the COVID-19 pandemic, the Royal Commission into Aged Care Quality and Safety, and the ongoing operational and financial pressures facing Australia's aged care industry.

Following Ian's retirement, the Board appointed Sean Bilton, Estia Health's Chief Operating Officer and Deputy CEO, as our new Chief Executive Officer and Managing Director. Sean has more than two decades experience in healthcare and finance prior to joining Estia Health in 2018, and his appointment has ensured a seamless transition.

The Board is also pleased to have appointed Damian Hiser as Chief Operating Officer. Damian's 30 years' experience in the healthcare sector - the last five years with Estia Health - brings a wealth of experience and understanding of the complexities of aged care operations.

A smooth transition to an experienced and aligned leadership team in the current challenging environment was a priority for the Board. Directors are pleased that the Group's executive development and succession planning processes have supported the appointment of such strong internal candidates.

Board leadership

In March of this year, Non-Executive Director, the Hon. Warwick L. Smith AO, resigned as a Director of the Company. During his almost five-year tenure, Warwick made a significant contribution to the Group as Chair of the Property and Investment Committee, as well as a member of the Audit Committee and the Royal Commission and Regulatory Committee. Warwick's counsel and advice was integral as we navigated the Company through a difficult period. On behalf of the board, I would like to thank Warwick for his commitment and contribution.

From 1 September 2022, the Board formally welcomed Professor Simon Willcock as a Non-executive Director, following his ongoing involvement as the independent chair of Estia Health's Clinical Governance Committee since 2019. More information on Simon is available on [page 20](#).

I would also like to particularly acknowledge the resilience, dedication and empathy shown by my Board colleagues and the entire executive leadership team over the past year. COVID-19 and the Royal Commission have had an enormous impact on the aged care environment and these traits in our leadership team will stand Estia Health in good stead as the sector returns to more normal operating conditions.

Performance for the year to June 2022

Our net loss after tax of \$52.4 million (FY21: profit after tax of \$5.6 million) has been significantly impacted by the pre-tax bed licence amortisation charge of \$60.3 million (FY21: nil) resulting from the proposed abolition of the aged care licencing regime and COVID-19 incremental costs of \$50.4 million (FY21: \$24.3 million). Revenue was supported by government grants in the period of \$8.1 million to partially offset COVID-19 outbreak costs incurred. Applications submitted and

pending review and approval by Government, which relate to costs incurred during FY22, totalled \$29.3 million as of 23 August 2022.

Estia Health is in a sound financial position, with net bank debt of \$79.6 million at year end, with total debt facilities of \$330 million, representing significant undrawn capacity.

As a result of the after tax loss in the second half of FY22, Directors determined that there would be no final dividend declared and as a result the interim dividend of 2.35 cents remained the full dividend distributed for the year. The intent remains to recommence dividends once the Company returns to profit.

Remuneration approach

The Company's remuneration framework, policies and FY22 remuneration outcomes continue to be focused on achieving an alignment between resident, shareholder and employee interests, with a resident-focused quality performance 'gateway' remaining a pre-determining factor to the award and payment of short-term incentive entitlements, irrespective of operational and financial performance.

With recruitment hampered by reduced immigration and competition from the broader economy, the Group implemented strategies to attract and retain staff and have invested in increased training and development programs, career pathways, a sector leading graduate nurse program and more broadly in recruitment strategies, systems and resources.

Outlook

Our Board of Directors and leadership team are confident we have the operational capabilities and financial capacity to deliver on our ambition to respond to the projected increased demand for residential aged care into the future and further develop our service offering to ensure the sector continues to build trust with the communities where we operate.

We look forward to the opportunity to meet with shareholders and discuss the Group's performance and future prospects at our 2022 Annual General Meeting on 3 November 2022.

I would like to finish by acknowledging the efforts of my fellow directors and leadership team and once again thanking our employees, residents, families and the communities to which Estia Health belongs.

Yours sincerely,



Dr. Gary Weiss, AM
Chairman

September 2022

Chief Executive Officer and Managing Director's Report



Sean Bilton
CEO and Managing Director

The 2022 financial year was another difficult period for the aged care sector, with the continued impact of COVID-19 and the ongoing Government reform agenda shaping the context.

The rapid spread of the Omicron variant in early 2022 saw high levels of community transmission. Although many of Estia Health's homes were impacted, our vaccination programs and other infection prevention and control measures assisted in lowering the severity of illness, shortening recovery periods and decreasing mortality rates.

We expect the impact of COVID-19 to continue, and are committed to ensuring our management strategies and practices respond to the changing nature of the pandemic to support our residents and employees in remaining safe.

The Government's aged care sector reform agenda continues to be refined and will drive greater transparency, governance and competition, leading to better resident outcomes.

Estia Health has a robust operational platform, a strong financial position and is well-placed to take advantage of the growth opportunities likely to occur as a result of the reforms.

Competitive markets will enable stronger, more agile providers, such as Estia Health, to achieve better financial returns through scale, higher occupancy and an ability to attract and retain talented employees. This should be facilitated by the following reforms:

- The **abolition of bed licensing**, which will open previously protected areas to new supply and as a result provide greater choice for consumers. Transitional arrangements are already in place.
- The implementation of the **Australian National Aged Care Classification (AN-ACC)**, a case-mix model, will come into effect in October this year.
- Government will commence the **star rating system** from December 2022, providing an overall rating based on four criteria – compliance performance,

customer experience, quality indicators and average staff care minutes. This will provide greater transparency and drive continuous improvement.

- Perhaps most importantly, the recently expanded and renamed **Independent Health and Aged Care Pricing Authority (IHACPA)** will have responsibility for making recommendations to Government in relation to the costs of providing care from July 2023, replacing the current indexation system, which has traditionally delivered increases in funding below the level of input cost inflation.
- IHACPA and Government will consider the increased cost of **mandated care minutes** with an appropriate funding response, to ensure the financial sustainability of the sector.

Operational performance

The cornerstone of our strategy is to put residents at the centre of everything we do. This is possible through the dedication of our approximately 7,500 employees and healthcare partners working with residents and families to deliver on our purpose, 'to enrich and celebrate life together'.

Registered nurses are rostered at all Estia Health homes 24 hours a day, seven days a week, contributing to our strong clinical results. There remains close surveillance across the sector from the Aged Care Quality and Safety Commission and we are pleased that all our homes remained accredited during the period, with no Notices of Non-compliance, Notices to Agree or Sanctions issued.

Our employees are integral to everything we do. In a challenging environment for workforce, exacerbated by COVID-19 and record low unemployment, our priority has been to invest in career pathways, development opportunities via the *EstiaAcademy*, central support for local teams and enhanced recruitment and onboarding systems. Despite remaining above pre-pandemic levels, it was pleasing

to see our employee turnover level stabilise during the second half of FY22.

Average occupancy for mature homes across the Estia Health portfolio for the year was 91.6%, with spot occupancy of 92% at 19 August 2022. We achieved net Refundable Accommodation Deposit (RAD) inflows of \$22.8 million during the year, bringing RAD balances to \$884.1 million at the end of the reporting period.

Preparations for the new AN-ACC funding model are well progressed, with funding levels expected to increase in FY23 ahead of the introduction of mandated care minutes in FY24.

Our new home in Blakehurst in NSW (105 places), which opened in February 2021, reached operational maturity ahead of expectations and operates at full occupancy. We are pleased with the success of the innovative service models implemented at Blakehurst, including our first Wellness Centre, providing reablement services to residents as well as the broader community.

Portfolio management

Construction of two new homes in NSW at Aberglasslyn and St Ives is underway, with completion anticipated early FY24. Both homes are designed with significant amenity to support resident outcomes and the delivery of contemporary operating models. A 24-place expansion of Estia Health Burton in SA is also underway, expected to complete in Q2 FY23.

Two homes, in Keilor and Prahran, Victoria, were closed during CY21. These homes did not meet the contemporary requirements of the aged care sector, with all residents successfully re-settled at other Estia Health and nearby homes. The Keilor property was sold at a profit, with the proceeds deployed elsewhere in the business and the Prahran property lease was exited.

Our refurbishment program over recent years has resulted in 62 homes qualifying for the Higher Accommodation Supplement. Our program of home upgrades and asset life-cycle replacements will continue, ensuring our homes remain competitive.

Financial results FY22

While the reported financial performance is disappointing, the underlying results are sound considering the challenges that faced the sector during the period, and further progress was made on our strategic priorities.

In October 2021, Estia Health established a sector-leading \$330 million Sustainability Linked Financing Facility with targets focusing on greenhouse gas emissions, resident satisfaction, improved employee wellbeing and portfolio building energy efficiency.

In November 2021, the Board established an on-market buy-back scheme, reflecting a view that the current share price did not appropriately reflect the intrinsic value of the Group's assets and business. Estia Health acquired and cancelled 3.6m shares at a total cost of \$8m at an average price of \$2.18 per share during the period.

The share buy-back is part of the broader capital management strategy which is focussed on maintaining a strong balance sheet with flexibility to invest capital for future value-accretive options, while also seeking to provide shareholders a sustainable return through regular dividends targeted at a payout ratio of 70-100% of net profit after tax (prior to bed licence amortisation).

Outlook

We expect to see the industry benefit from higher occupancy as the impact of COVID-19 lessens and a reduction in new supply intersects with the ageing population, which will see the number of people over 85 increase by 60% in the next decade.

For the first time in four years, the regulatory landscape is nearing a point where we will have a significant degree of certainty. The Group is well-placed to benefit from opportunities created by a more competitive and transparent sector. Nevertheless, key challenges and uncertainties remain in the short term in the form of the introduction of AN-ACC and mandated care minutes, continued COVID-19 exposures and outbreaks, and the need to secure a committed and skilled workforce for the sector.

I'd like to acknowledge the incredible commitment and contribution made by my predecessor as CEO, Ian Thorley, who has retired after a long and distinguished career in healthcare, particularly the last six years here at Estia Health. It's been an honour to work with Ian and I am excited by the opportunity to build on his legacy.

I am grateful for the extraordinary commitment, dedication, passion and care shown by all our employees at Estia Health. They care for our residents at a time of deepest need, put others before themselves and over the last two years have been at the forefront in the battle against the pandemic. Their support and dedication is the key reason for the ongoing success of Estia Health.

Yours sincerely,



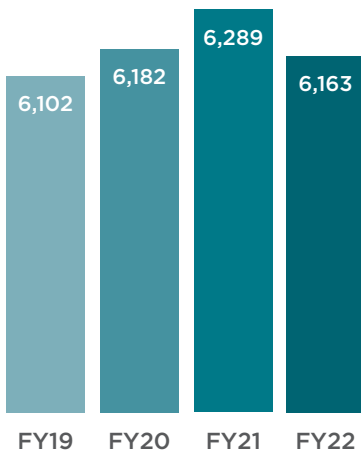
Sean Bilton
CEO and Managing Director

September 2022

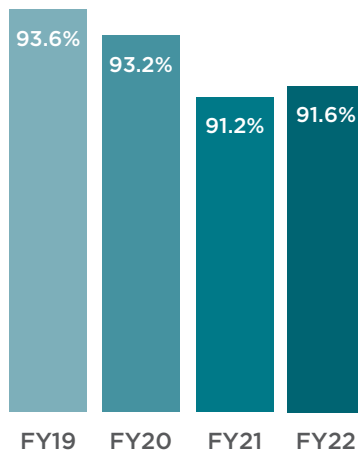
Key Highlights

Financial performance

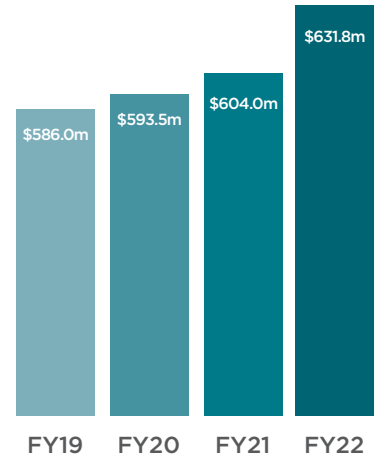
OPERATIONAL PLACES



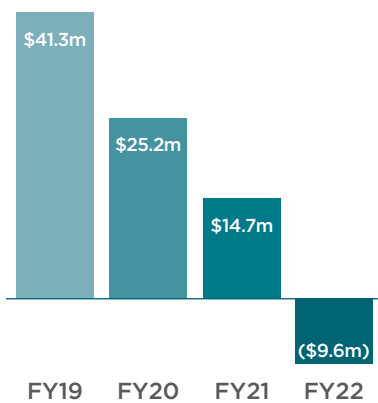
AVERAGE OCCUPANCY¹



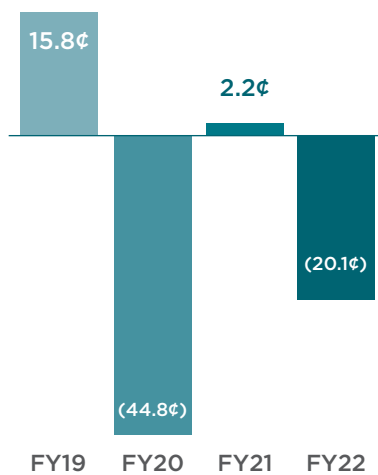
OPERATIONAL REVENUE²



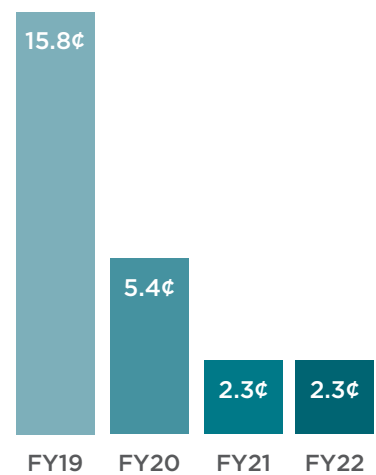
PROFIT AFTER TAX BEFORE CLASS ACTION, IMPAIRMENT & BED LICENCE AMORTISATION EXPENSE



EARNINGS PER SHARE



DIVIDENDS PER SHARE

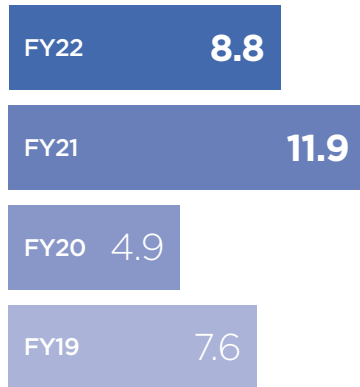


¹ Mature homes only

² Excludes AASB 16 imputed DAP and grant impacts

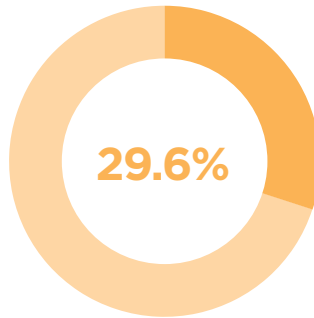
Health and safety

LTIFR³



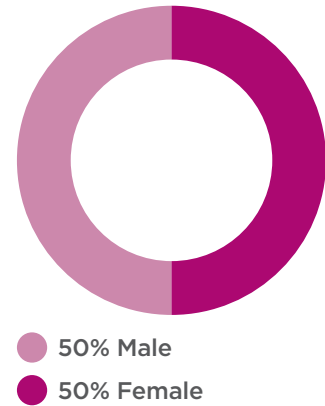
Employees

EMPLOYEE TURNOVER



Gender diversity

BOARD AND EXECUTIVE POSITION COMPOSITION

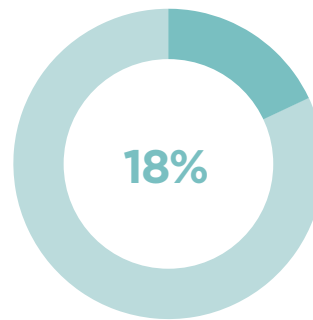


Compliance



Approximately 99% ACQSC accreditation requirements fully met

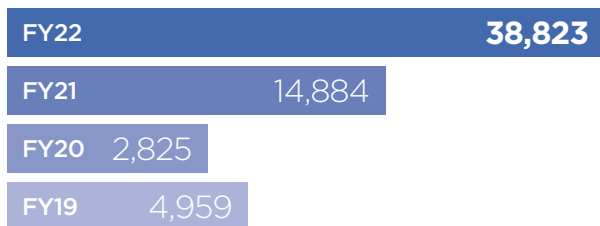
Sustainability



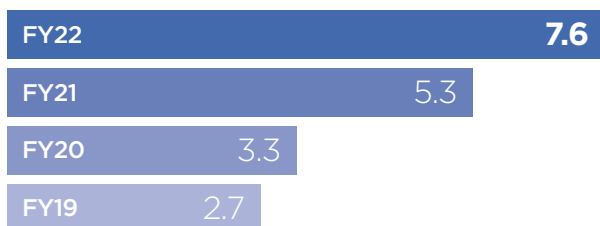
18% of waste was diverted from landfill despite increased PPE usage and disposal (FY21: 17.6%)

Professional development

PROFESSIONAL DEVELOPMENT PROGRAMS COMPLETED

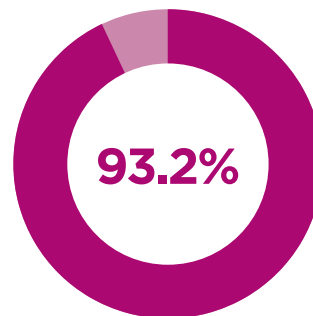


HOURS OF TRAINING PER EMPLOYEE



Consumer Experience Report (CER)

8,112 CER SURVEYS CONDUCTED



Average 93.2% satisfaction rating across the network⁴ (FY21: 93.7%)

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

⁴ Satisfaction defined as percentage of responses that report experience as "most of the time" or "always"

About Estia Health

Estia Health is one of Australia’s largest providers of residential aged care, with a footprint across four Australian states. The Group’s approach to aged care is underpinned by ensuring a network of homes that reflect the resident-centred services and needs valued within their local communities.

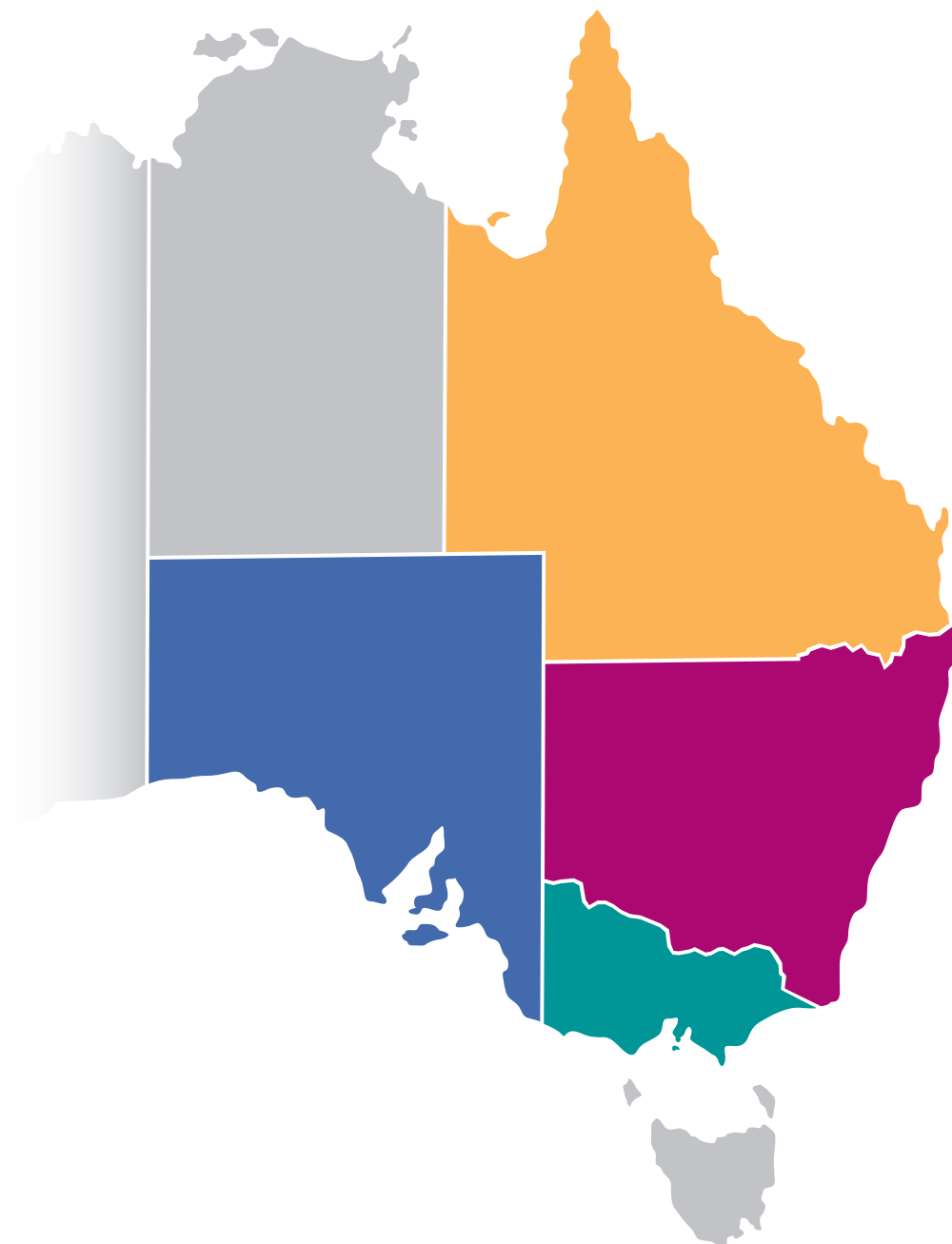
The team of approximately 7,500 nurses, carers and support staff care for around 8,000 residents each year across 68 homes.

Estia Health aims to create homes where everyone is welcome and reflect the needs of residents, the local communities and the people that support and work with the Group.

Residents are welcomed from all walks of life, with the Group’s purpose ‘to enrich and celebrate life together’. A program of capital investment and re-investment continues to increase capacity to care for ageing Australians and continually improves asset quality.

A committed and skilled workforce, led by an experienced management team, delivers care services which focus on the needs of residents and those that support them.

 <p>Homes 68 operational homes</p>	 <p>Places 6,163 operational places</p>
 <p>Freehold sites 62 freehold sites</p>	 <p>Single rooms 5,114 or 91% single rooms</p>
 <p>Employees Approximately 7,500 employees</p>	 <p>Residents cared for annually More than 8,000 residents in FY22</p>
 <p>Compliance by requirements ~99% ACQSC accreditation requirements fully met</p>	 <p>Consumer experience Over 8,000 consumer experience surveys conducted with 93.2% satisfaction</p>



NEW SOUTH WALES
18 homes

- | | |
|------------|-------------|
| Albury | Kilbride |
| Bankstown | Kogarah |
| Bexley | Manly Vale |
| Blakehurst | Merrylands |
| Camden | Ryde |
| Dalmeny | Taree |
| Epping | Tea Gardens |
| Figtree | Tuncurry |
| Forster | Willoughby |

QUEENSLAND
8 homes

- | | |
|--------------|-------------|
| Albany Creek | Mudgeeraba |
| Gold Coast | Nambour |
| Maroochydore | Southport |
| Mount Coolum | Twin Waters |

SOUTH AUSTRALIA
17 homes

- | | |
|----------------|--------------------|
| Aberfoyle Park | Kadina |
| Aldgate | Kensington Gardens |
| Burton | Lockleys |
| Craigmore | Parkside |
| Daw Park | Salisbury |
| Encounter Bay | Salisbury East |
| Flagstaff Hill | Strathalbyn |
| Golden Grove | Toorak Gardens |
| Hope Valley | |

VICTORIA
25 homes

- | | |
|----------------|------------------|
| Altona Meadows | Knoxfield |
| Ardeer | Leopold |
| Bannockburn | Melton South |
| Benalla | Oakleigh East |
| Bendigo | Plenty Valley |
| Bentleigh | Ringwood |
| Coolaroo | South Morang |
| Dandenong | Victoria Heights |
| Epping | Wattle Glen |
| Glen Waverley | Werribee |
| Grovedale | Wodonga |
| Heidelberg | Yarra Valley |
| Keysborough | |

The Aged Care Environment

Estia Health’s 68 homes have 6,163 operational places, providing residential aged care along with respite, transition and reablement to approximately 8,000 people, employing approximately 7,500 of the 370,000-strong aged care workforce. The Group makes up around 3% of Australia’s residential aged care market.

Estia Health’s scale and capability, focus on clinical governance and care, combined with a strong culture and leadership, ensures the Group is well placed to work towards achieving its vision to provide ‘trusted aged care that is accessible to all’.

Aged care in Australia

More than one million people access aged care services in Australia each year, primarily segmented into three areas of delivery that ensure flexible care is available:

- Home care, including the Commonwealth Home Support Programme and Home Care Packages
- Short-term care, including short-term restorative care, transition care and respite
- Residential care.

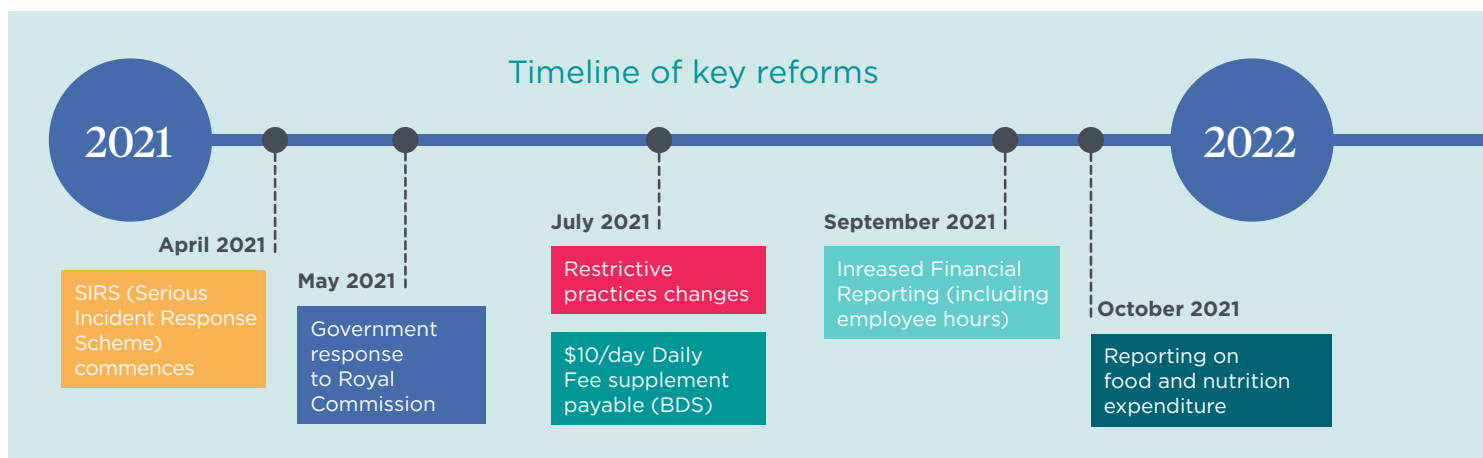
A range of services is available across these different settings, from assistance with everyday living activities and home modifications, to personal care, healthcare

and accommodation. Services are provided by not-for-profit, private and government bodies.

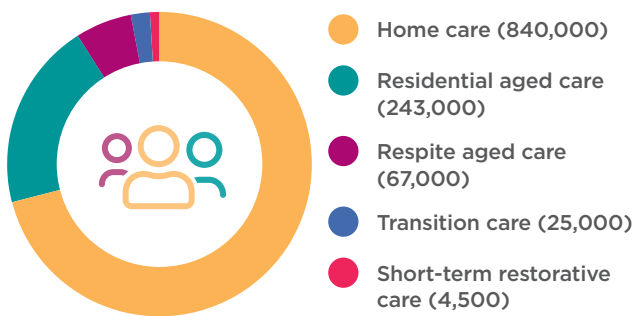
The residential aged care sector comprises 2,704 homes operated by 830 approved providers (as of 30 June 2021).¹

With the number of people aged over 85 expected to grow by 60% in the coming decade, benefit from higher occupancy is anticipated as the impact of COVID-19 decreases and bed licensing ceases.

¹ Department of Health 2020-21 Report on the Operation of the Aged Care Act 1997



Residential aged care accounts for 20% of support in Australia²



- Home care, providing entry-level services, enabling people to remain independent at home and in the community.
- Residential aged care, providing individualised health and hotel services to people living permanently in a facility
- Respite aged care, providing short-term stays in residential aged care facilities
- Transition care
- Short-term restorative care

During 2020-21, Government spending on aged care was more than \$23.6 billion, of which approximately \$14.3 billion (60%) was spent on residential aged care. Residential aged care supports senior Australians who can no longer live in their own home and includes accommodation and personal care 24 hours a day, as well as access to nursing and general health care services.

The remaining funds were spent on home care and support (33%) and on other care, including flexible care, workforce, service improvement, and assessment and information services (8%).³

² <https://www.aihw.gov.au/reports/australias-welfare/aged-care>

³ <https://www.gen-agedcaredata.gov.au/Topics/Spending-on-aged-care>

Continuum of care



Regulatory environment

The *Aged Care Act 1997* and the *Aged Care Quality and Safety Commission Act 2018* provide the regulatory framework for the funding and regulation of aged care services. The Department of Health and Aged Care is responsible for policy and compliance with the *Aged Care Act*, and the Aged Care Quality and Safety Commission provides national end-to-end regulation of services.

Legislative changes

The passing of the *Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022* on 2 August 2022 introduced a number of reforms including the new funding model (AN-ACC), which commences on 1 October 2022 and Independent Health and Aged Care Pricing Authority, with more changes still to be legislated, including a new aged care act. The implementation of the reforms will require considerable design, development and stakeholder consultation, all of which will need to be completed before the full impact to consumers and operators can be known.

It is anticipated that these changes will lead to a higher quality sector with greater choice and transparency available to residents.



Board and Governance

Estia Health’s Board comprises a majority of Independent Non-executive Directors who, together with the Chief Executive Officer / 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 optimal outcomes for residents, shareholders, employees, suppliers, government regulators and members of the community in which Estia Health operates.

Board of Directors

Dr. Gary Weiss, AM

Non-executive Director and Chair
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 Chair 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 Chair of Coats Group plc from May 2004 to April 2012, Chair of Clearview Wealth Ltd from 2013 to May 2016, Chair 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 Chair), Joe White Maltings Limited (Chair), 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.

Sean Bilton

Chief Executive Officer and Managing Director
(appointed July 2022)

BEC (UNSW), F FIN



Appointed as Estia Health’s Chief Executive Officer and Managing Director from 11 July 2022, having joined as Chief Operating Officer and Deputy CEO in October 2018, Sean brings a breadth of experience from more than a decade as a senior executive in the sector across a diverse range of roles.

Prior to joining Estia Health, Sean was Head of Commercial at Opal Aged Care and previous to that was an Investment Manager with AMP Capital Investors, responsible for managing assets in the aged care, agriculture and resources sectors.

Sean commenced his career in the Financial Advisory business of PricewaterhouseCoopers.

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

Norah Barlow, ONZM

Non-executive Director

BCA, ACA, ONZM

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



Norah is a highly experienced and respected executive and director, with an in-depth knowledge of the aged and health care sector. Norah accumulated extensive experience as the former CEO and 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 was appointed to the role of CEO of Estia Health in 2016 and remained on the board as a Non-executive Director when she stepped down from the role in November 2018. Norah is currently Chief Executive of Heritage Lifecare Limited.

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.



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 assets investment management firms. He is also a Director of 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 Chair 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.

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 Chair of Integral Diagnostics Limited and McMillan Shakespeare Limited, and a Non-executive Director of HBF Health Limited and Victorian Clinical Genetics Service and CUA Health Pty Ltd.

Helen was previously the Chief Operating Officer and Director of Genesis Care for seven years from 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.

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.



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, financial management and well-versed in operating in a rapidly changing regulatory environment.

Karen is a Director of Bank of Queensland, Ramsay Health Care, Cochlear Limited and Vicinity Centres. (Karen's resignation from Vicinity Centres is effective 15 September 2022). She is also Director of Marshall Investments Pty Ltd, Rugby Australia Limited and Ramsay Générale De Santé.

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.

Professor Simon Willcock

Non-executive Director
(appointed 1 September 2022)
MBBS (Hons 1), PhD, FRACGP,
GAICD



Simon is a General Practitioner and the Director of Primary Care and wellbeing at MQ Health (A Macquarie University health entity). He was previously Head of the Discipline of General Practice in the University of Sydney Medical Program.

His education and research interests include the health of doctors, generational change in the medical workforce, aged care, men's health and musculoskeletal medicine. Simon trained as a rural procedural GP and practiced in Inverell, NSW for seven years. For the past thirty years he has worked in academic and clinical practice in Sydney and has had a number of educational leadership roles.

Simon was until recently an elected board member and Chair of the Avant Mutual Group and is currently an elected board member and Deputy Chair of the Sydney North Health Network.

Ian Thorley and Warwick Smith resigned their Board positions during the reporting period.

Ian Thorley

Chief Executive Officer and
Managing Director (Resigned
July 2022)

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 until his retirement in July 2022, Ian was previously Estia Health's Chief Operating Officer from October 2016.

The Honourable Warwick L. Smith, AO

Non-executive Director
(resigned March 2022)
AO LLB



Warwick serves on a number of boards and was previously 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.



Corporate Governance

Estia Health’s Corporate Governance Statement for 2022 (**Statement**) outlines the Group’s principal corporate governance practices in place during the financial year ended 30 June 2022. Copies of all governance documents referred to in this Statement can be found at the [Estia Health investor website](#).

Governance policies and practices are consistent with the 4th edition of the ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations* (**ASX Governance Principles**). These policies and practices are reflected in this Statement as well as our Appendix 4G. The Statement was approved by the Board on 23 August 2022.

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

Governance practices are reviewed regularly in light of the growth in the Group and relevant emerging corporate governance developments.

Board committees

The Board has delegated specific authority to four Board committees, which assist the Board by examining various issues and making recommendations. The composition and effectiveness of the committees are reviewed on an annual basis, with a description of each committee and its responsibilities set out in the Corporate Governance Statement.

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

Each of these committees operate in accordance with specific charters clarifying composition, functions and responsibilities.

In addition, the Board may establish ad-hoc committees or delegate authority to existing committees to oversee specific activities. During FY20, the Board established two additional committees which operated through to 30 June 2022:

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

In FY22, 40 formal Board and Board committee meetings were held. 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 directors believe that informal conversations with staff are important in assessing the culture within Estia Health, resulting in visits to homes being scheduled throughout the year, with directors also attending the annual management conference.

Details of the number of committee meetings held during the year and individual directors’ attendance at these meetings can be found in the 2022 Directors’ Report.

Committee membership

The composition of the committees which operated during the financial year was as follows:

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	Norah Barlow ¹	Gary Weiss	Helen Kurincic
Member	Gary Weiss	Gary Weiss	Paul Foster	Gary Weiss	Warwick Smith ²	Gary Weiss
Member	Warwick Smith ²	Helen Kurincic	Karen Penrose	Paul Foster	Karen Penrose	Karen Penrose
Member	Helen Kurincic ³			Warwick Smith ²		

¹ Appointed as Chair effective 21 April 2022

² Resigned effective 31 March 2022

³ Appointed as member effective 21 April 2022

*These temporary committees ceased with effect from 1 July 2022.

Responsibilities of management

The Chief Executive Officer and Managing Director (CEO/MD) oversees the day-to-day management of the business and, with the support of the executive leadership team, reports to the Board on the exercise of his delegated authority. The CEO/MD has been delegated the authority to manage the Group in accordance with the strategy, plans and policies approved by the Board. The delegations are reviewed by the Board from time to time.

The CEO/MD, Chief Operating Officer (COO) and Chief Financial Officer (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.

FY22 Areas of governance focus

Key areas of governance focus and activities undertaken by the Board, its committees and management during FY22 included:

• Strategic and financial performance

- A Board and executive strategy session was held with a focus on reviewing the growth opportunities of the core residential service opportunities 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.

• People

- The operation of the Group Employment Remuneration and Payroll Compliance Committee continued to ensure payroll queries are investigated and communicated in a timely, consistent, comprehensive and documented basis through the organisation.
- Supportive and inclusive diversity-related workplace policies, programs and practices remained a focus.
- Additional activities included:
 - development of an employee value proposition
 - benefits program
 - job level framework
 - review of the performance of the Group's superannuation provider.

• Social and environment

- Environment, Social and Governance (ESG), including Estia Health's Sustainability Strategy, was integrated into the corporate strategy with resident care and human capital identified as the short-term material non-financial risks.
- Further progress was made on integrated reporting and increasing disclosure and transparency on key sustainability issues.
- Opportunities to positively impact environmental issues were reviewed and the roll out of various high value projects commenced, including the development of a Climate Resilience tool to assess the physical risk of the portfolio as an initial step in meeting the TCFD recommendations.

• Governance

- Relevant governance policies, charters and practices were reviewed in line with annual review requirements.
- An internal audit program developed by management was approved, with oversight provided by the Audit Committee and the Risk Management Committee.
- Ongoing engagement program with shareholders, proxy advisors, and key regulators.

• Risk

The Risk Management Committee focused on the following matters, in addition to its ongoing responsibilities:

- COVID-19 and infection control program management
- cybersecurity
- reports from the Clinical Governance Committee
- review and publication of the Company's 2nd Modern Slavery Statement
- workforce risks
- Person Centred Care Framework
- Sustainability Strategy review.

• Audit

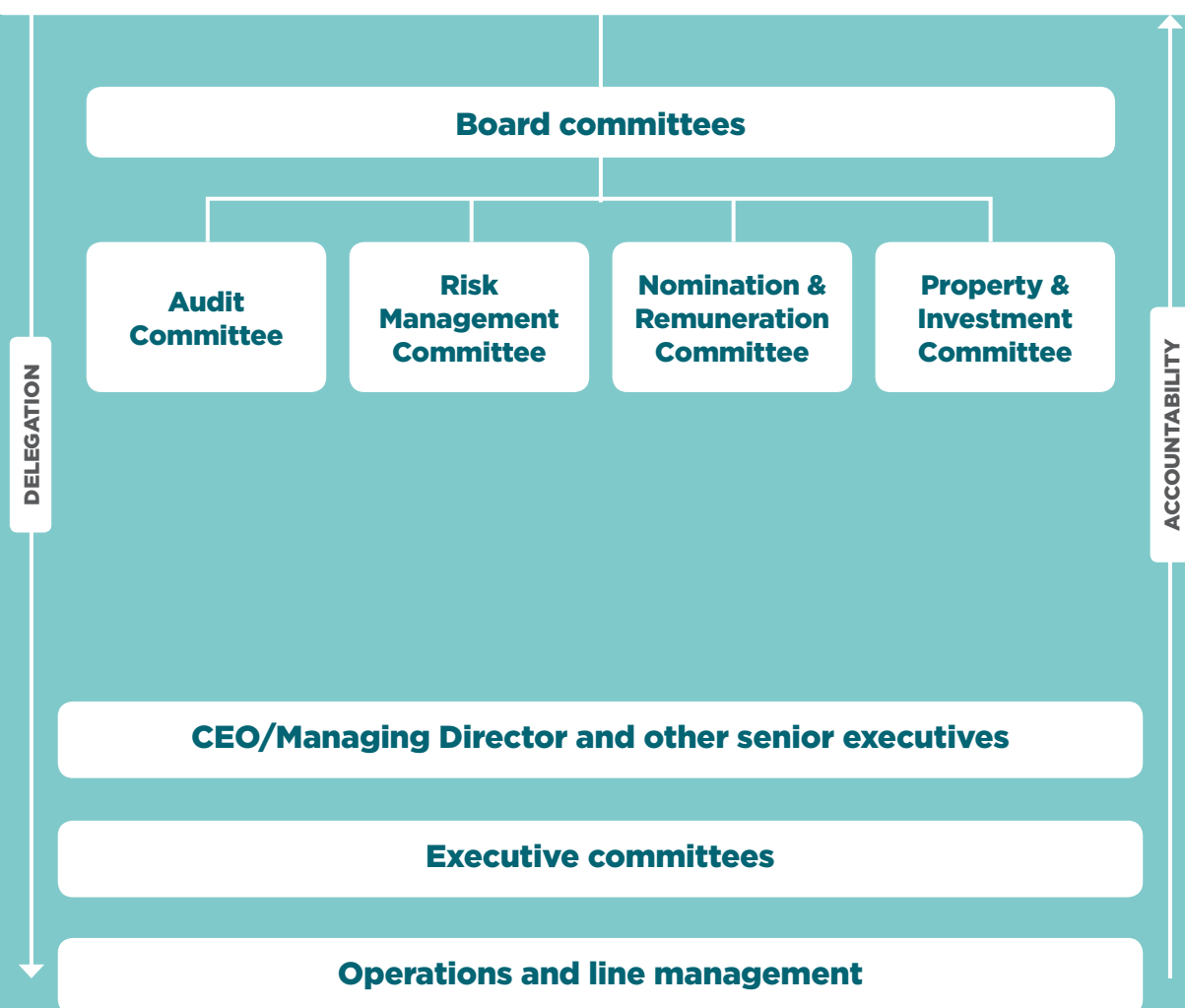
The Audit Committee assessed the following key operational impacts on the Group's financial results, in addition to its responsibilities under the committee charter:

- bed licence abolishment
- impacts of COVID-19 on asset valuations
- COVID-19 cost recovery grant recognition
- internal audit on Accounts Payable and Delegations, and Capital Expenditure
- validation of sustainability performance
- receipt of updates from the Employment Remuneration and Payroll Compliance Committee.

Estia Health Board

Formally delegates certain functions to Board Committees and to management via the Board and Committee Charters. Directly retains responsibility for a number of matters, including:

- overall strategic guidance, instilling of the Group’s values and approving the Code of Conduct
- oversight of management
- oversight of financial and capital management
- promotion of effective engagement with shareholders
- promoting ethical and responsible decision-making
- ensuring a robust risk management framework is in place
- establishing the Group’s risk appetite
- monitoring the systems of compliance, risk management and control
- oversight of the Group’s process for making timely and balanced disclosure of all material information
- oversight of policies governing the Group’s relationship with other stakeholders and those related to Environment, Social and Governance (ESG), Work Health and Safety (WHS) and other regulatory and statutory requirements.



Executive Leadership Team

Sean Bilton
Chief Executive Officer and
Managing Director
(appointed July 2022)



Appointed as the CEO and Managing Director at Estia Health in July 2022, Sean was previously in the roles of Chief Operating Officer and Deputy CEO since October 2018.

Sean is focussed on stewarding the Company through an unprecedented reform agenda following the Aged Care Royal Commission, including the implications for strategy and culture, focussed on further enhancing the Company’s reputation for quality care and being an employer of choice.

In his COO role, Sean managed the business through an unprecedented period of complexity and change including the ongoing COVID-19 pandemic.

Sean has worked for more than 15 years in the sector, his involvement commencing when an asset manager at AMP Capital, where he managed the integration of multiple acquisitions which were the genesis of the Opal Healthcare business, before joining Opal as the Head of Commercial in 2010. At Opal he oversaw the acquisition and development-led growth of the business, as well as customer acquisition, communications and marketing.

Fiona Caldwell
Chief Information Officer



Fiona has more than 25 years’ experience in IT strategic and operational leadership capacities, having worked in government and commercial sectors, including Village Roadshow, Cenitex and Tatts Group. She brings to Estia Health a wealth of practised knowledge and a sound background in managing data, 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 seeks to improve services, experience and engagement for residents, families and employees.

Fiona holds a Bachelor of Computing and Master of Business Administration from Monash University. She is also a Graduate and Member of the Australian Institute of Company Directors.

Cath Gillard
Chief People Officer



Cath’s professional career spans more than 25 years in human resources and employee relations. Prior to joining Estia Health in May 2022 as Chief People Officer, Cath was the Executive Director People and Culture at Australian Red Cross Lifeblood, a role she held for five years. Cath has also held senior human resources positions within the General Electric group of companies, Linfox and the Toll Group.

Earlier in her career, Cath practiced as an employment and industrial relations lawyer for over a decade with law firms Minter Ellison and Lander & Rogers. At the time, she provided legal advice across multiple industry sectors including health, state government, financial services, manufacturing and construction.

As Chief People Officer, Cath 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 residents and their families.

Cath holds a Bachelor of Laws (Honours) and a Bachelor of Arts from The University of Melbourne and a Masters of Management (Human Resources) from Monash University. She is a Graduate of the Australian Institute of Company Directors and is a Certified Human Resources Practitioner (Australian Human Resources Institute).

Damian Hiser
Chief Operating Officer



Appointed as Chief Operating Officer of Estia Health in July 2022, Damian Hiser is a senior healthcare executive, with more than three decades experience in the private health care sector both overseas and in Australia and most recently over ten years in aged care in Australia. Prior to his appointment as the COO, Damian was Chief Customer Officer from October 2017. Throughout the past two years Damian was instrumental in leading Estia Health’s response to COVID.

Damian brings a breadth of experience, financial acumen and understanding of the complexities of both health and aged care systems. With a unique ability to look at opportunities to improve both the customer and employee experience, Damian embodies Estia Health’s purpose ‘To enrich and celebrate life together’.

As Chief Operating Officer, Damian is responsible for leading Estia Health’s operations teams, initiating improvements to ensure the highest level of care

is delivered to over 8,000 residents in our homes annually. Damian ensures that every one of our 68 homes engage with their local communities and delivers exceptional and compassionate care for all our residents and their families.

Damian holds a Bachelor of Optometry (UNSW) and a Master of Business Administration (UTS).

Leanne Laidler
Chief Quality and Risk Officer



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

Prior to her appointment with Estia Health, Leanne held a number of senior executive roles inclusive of hospital CEO and Director of Nursing positions. Her experience spans a range of listed providers.

Leanne is responsible for leading Estia Health's delivery of high-quality care to 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.

Leanne is a Registered Nurse with a post registration Bachelor of Nursing awarded from Deakin University and a Master of Business from Monash University.

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 Estia Health in February 2017 as Chief Financial Officer, Steve is responsible for corporate finance and investor relations. He leads the broader finance team in supporting homes to deliver the best experience for residents through accurate and timely management information.

Prior to joining Estia Health, Steve was finance director at private equity owned Careers Training Group, which followed his role as CFO and then COO at leading digital advertising and engagement company, the White Agency, part of STW Australia's largest listed communications group. Steve has held senior financial leadership roles at MYOB/Solution 6, Reckon and Ramsay Health Care as well as leading a management buyout, turnaround and subsequent sale of a corporate training business.

Steve is a Fellow of the ICAEW and holds an Honours Degree in Accounting and Finance from the University of Lancaster, UK.

Michael Lockwood
Chief Development and Property Officer



Michael has worked in the property and construction industry for over 20 years, with more than half this time directly involved in the aged care and retirement living sectors. He has held roles working closely with developers, builders and not-for-profit operators.

Appointed to the role in April 2022, Michael is responsible for executing Estia Health's property growth and renewal strategy, as well as asset management across the portfolio.

Prior to joining Estia Health, Michael was the General Manager, Property and Housing for Catholic Healthcare and previously Construction Manager for Anglican Retirement Villages where he led the property strategy, new developments and property services.

Michael holds a Bachelor of Engineering (Civil) from the University of Technology, Sydney as well as a Master of Commerce (Property Investment & Development) from the University of Western Sydney.

Suzy Watson
General Counsel



Suzy was appointed to the role of General Counsel in October 2014 and in this role provides advice on a full spectrum of legal and compliance matters to support corporate activity, operations and strategic growth.

Previously in-house counsel for the Bupa Group both in Sydney and overseas, Suzy holds more than 15 years' experience in both private practice and in-house roles across healthcare, commercial and corporate law, and is a dual qualified lawyer in Australia and the United Kingdom. Suzy was awarded the 2016 Leonard Watson Chant Legacy scholarship (Governance Institute of Australia) and the National Industry Scholarship for Women in Leadership.

Suzy holds an LLM (Applied Law) majoring in In-House Legal Practice, an LLM in International Economic Law and a Bachelor of Arts (Hons) in Law and Government from the University of Manchester. She is currently enrolled in the Graduate Diploma of Applied Corporate Governance and Risk Management at the Governance Institute of Australia. Suzy is a Fellow of the Governance Institute of Australia, a member of the Law Institute of Victoria and the Association of Corporate Counsel.

Full biographies available at www.estiahealth.com.au

Business Value Drivers

Estia Health’s value creation strategy is expressed in five strategic pillars: Care, Customer, People, Community and Growth, underpinned by a strong culture and a focus on sustainability that are intrinsic to the creation of value via those pillars.

Success is measured by the value created within this framework over the long term, primarily for investors but including other stakeholder groups, as an operator and developer of residential aged care services. This is supported by an awareness of the Group’s comprehensive business capabilities and a disciplined approach to governance and risk management.

Our 5 pillars value creation strategy

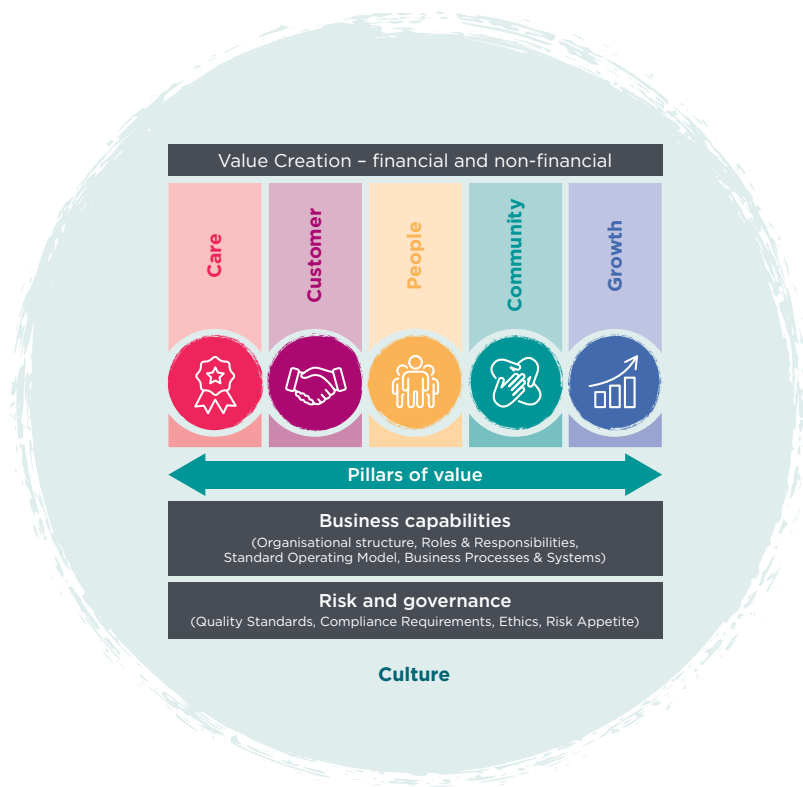
Strategic pillar	IIRC ¹ Capital alignment	Strategic pillar goal
	 <ul style="list-style-type: none"> • Intellectual capital – Organisational, knowledge-based intangibles, such as intellectual property, knowledge, systems, procedures and protocols 	To be considered a leader in the provision of quality residential aged care services in Australia
	 <ul style="list-style-type: none"> • Manufactured capital – physical objects available for use in the provision of services, such as our buildings and equipment 	
	 <ul style="list-style-type: none"> • Social and relationship capital – The institutions and relationships within and between communities and stakeholders and the ability to share information to enhance individual and collective well-being 	To be a leader in the provision of customer-centric residential aged care services in the sector
	 <ul style="list-style-type: none"> • Human capital – People’s competencies, capabilities and experience and their motivations to innovate 	To be an employer of choice, attracting and retaining skilled and engaged employees
	 <ul style="list-style-type: none"> • Natural capital – renewable and non-renewable environmental resources and processes supporting our past, current or future prosperity 	To have a positive social impact in the communities in which we operate
	 <ul style="list-style-type: none"> • Financial Capital – Funds available used in the provision of services and generated through operations or investments or obtained through financing 	To optimise shareholder returns by disciplined capital investment to provide trusted aged care services

¹ International Integrated Reporting Framework

Estia Health value creation

The International Integrated Reporting Framework (“IIRF”) describes six forms of capital (financial, manufactured, intellectual, human, social and relationship and natural). These forms of capital are stocks of value that are increased, decreased or transformed through the activities and outputs of an organisation.

In this report, Estia Health has illustrated how each of these forms of capital is created or preserved by the five distinct business value drivers in the course of the Group’s business activities, and detailed on the following pages.



How we deliver value	How we measure value
Our person-centred approach and strong clinical governance drives all aspects of resident care. Initiatives including working towards best in class accommodations, systems and processes, expert partnerships, training, simulations and reablement programs support our residents	<ul style="list-style-type: none"> • Outcomes from the Aged Care Quality and Safety Commission assessment visits • Monitoring complaints • Government recognition of our support and partnerships with Primary Health Networks
We embed a process of continuous improvement based on customer insights and actions identified through market research. This approach also measures customer satisfaction and advocacy	<ul style="list-style-type: none"> • Consumer Experience Report ratings • Net Promoter Score • Occupancy
We attract, develop and retain our team members through a culture of collaboration and continuous learning where success is recognised. We invest in developing individuals and capabilities to drive our success	<ul style="list-style-type: none"> • Preventable lost time injuries • Employee turnover • Engagement surveys • Uptake of employee wellbeing programs
We are focused on the implementation of environmental programs which improve climate resilience and reduce dependence on non-renewable energy sources as per our Sustainability Strategy	<ul style="list-style-type: none"> • Using the Social Impact Framework • Monitoring community engagement plans
We deliver returns to our shareholders and adopt a prudent approach to capital management	<ul style="list-style-type: none"> • Return on equity • EPS growth • Enhancement of our Homes and service provision

Our Performance – Care



Evidence of quality through greater transparency of clinical outcomes and the government proposed Star Rating system will empower consumers to make informed choice of service type and provider. Strong clinical governance and investment in workforce will be fundamental in underpinning quality and the trend to more complex services.

Goal

To be considered a leader in the provision of quality residential aged care services in Australia.

Highlights

- 
100% homes fully accredited
- 
Approximately 99% compliance with requirements of the Aged Care Quality Standards at ACQSC reaccreditations
- 
 Independently-chaired Clinical Governance Committee provided oversight, leadership and insight to best practice
- 
 Establishment of Estia Health's Aged Care Nursing Community of Practice, open for all clinical employees
- 
 Implementation of a centralised tracking system streamlining the recording and reporting of COVID-19 related infections
- 
 Standardised medication packaging pilot program introduced to enhance medicine safety
- 
 Centralised electronic record management for residents, including individual care plans
- 
 Nutrition needs addressed through centralised menu and food planning management, supported by expert nutrition advice and regular chef training
- 
 External complaints to ACQSC **28% below industry levels**

2024 Strategic plan targets	2022 Outcomes
100% met outcomes from the Aged Care Quality and Safety Commission assessment visits	All homes remained fully accredited at all times during the year and at the date of this report. During the year, no homes received a Sanction, a Notice to Agree or a Notice of Non-compliance. Subsequent to the year end, one home received a Notice of Non-compliance, which is being addressed. An organisation-wide capability building program for the group's homes' leaders on demonstrating compliance with the Aged Care Quality Standards occurred in this reporting period.
Government recognition of support and partnerships with Primary Health Networks (PHNs)	Opportunities for active engagement with government services continued, albeit at a lower level due to COVID-19 disruption, including the involvement of Estia Health in a research project with SA Government in post-hip fracture recovery.
Reduce complaints by 50% year on year to the Aged Care Quality and Safety Commission (ACQSC)	The group has remained below the sector's complaints levels for the year. External complaints to ASQSC were 28% below industry levels reported in the most recent ASQSC published data.
Reduce procedures, guidelines and forms by at least 50% to streamline clinical care processes	Of the documents reviewed, a 26% reduction was achieved. The streamlining of clinical workflows is ongoing, including the reduction in the number of assessments, care plans and care worklogs, resulting in increasing hours of direct care to residents.



Our Performance – Customer











Differentiated services and products competitively priced and relevant to the needs of each local community are fundamental to success and will underpin the delivery of compassionate care, support and engagement for residents and families. Highly developed sales and marketing skills, networks and links into local community and referrers are key enablers.

Goal

To be a leader in the provision of customer-centric residential aged care services to the sector.

Highlights

- 
100% of chefs participated in educational masterclass series, focusing on innovation and continuous improvement as well as emerging cultural backgrounds
- 
100% of homes passed their regulatory food safety audit
- 
57 lifestyle coordinators completed additional dementia training
- 
Satisfaction rates of residents and families with Estia Health homes holding firm above **93%**
- 
Increased community engagement and communication support responding to the changing nature of the COVID-19 pandemic
- 
Launch of bespoke website to support potential residents and their families through the process of choosing residential aged care
- 
Resident wellbeing supported through targeted programs including visiting pets, music and art activities
- 
Occupancy sustained above sector averages, despite overall decline during COVID-19

2024 Strategic plan targets	2022 Outcomes
Estia Health Consumer Experience Report (CER) scores greater than 93% satisfaction rating	93.2%
Net Promoter Score (NPS) of 50 or more for likelihood of residents and families to recommend Estia Health	47
Customer experience driving occupancy rates higher than peers	At 91.6%, occupancy remains higher than the sector average (At 30 June 2021, the average occupancy rate across all residential aged care places was 86.8%)*

* <https://www.gen-agedcaredata.gov.au/Topics/Providers,-services-and-places-in-aged-care>



Our Performance – People





Competition for talent is intensifying and a workforce strategy that differentiates providers based on culture, career progression and a compelling value proposition will be required to meet the increased demand for health care workers.


Goal


To be an employer of choice, attracting and retaining skilled and engaged employees.


Highlights


- 


Psychological first aid training delivered to **151** people across the organisation, including new Care Directors
- 


COVID-19 vaccination program ensuring **100%** of eligible employees received their booster vaccine
- 


In partnership with AssurePrograms, the launch of a Wellbeing app, providing timely and enhanced accessibility to tools and counselling to support the health and wellbeing of employees
- 


60 employees undertaking a formal qualification to cross-skill into roles including personal carer, enrolled nurse, health administration, commercial cookery and front-line leadership
- 

Training hours per person has continued to increase YOY, with **7.6 hours** invested per staff member in FY22
- 

50% of Board and executive leadership team and **56%** of senior leadership team positions held by women, with females constituting **86%** of participants in the 2022 Future Leader program
- 

1,936 vocational student placements (1661 in FY21) with **59** employees hired as trainees and being supported to gain a formal qualification in 'Individual Support' whilst working
- 

74 graduate nurses completed an Aged Care Transition to Practice program
- 

Stabilisation of employee turnover in the last quarter of FY22, despite remaining above pre-pandemic levels. A new Recruitment Centre of Expertise, and ongoing staff development via the *EstiaAcademy* are among strategies to improve attraction and retention
- 

Strong employee engagement, with **72%** overall response rates and engagement scores of **69%**

2024 Strategic plan targets	2022 Outcomes
Zero preventable lost time injuries	<p>LTIFR 8.8 (FY21 11.9)</p> <p><i>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.</i></p>
70% uptake of employee wellbeing programs	<p>3.8% of Estia Health employees utilised EAP services (FY21 4.5%), reflective of consistent support provided to employees and positive help-seeking behaviours.</p> <p>Psychological first aid training commenced across the organisation, providing tools and skills to support employees during challenging times and reduce the likelihood of psychological injury. 151 people have been trained so far with the program to continue through FY23.</p> <p>In partnership with AssurePrograms, a Wellbeing App was launched, providing more timely and enhanced accessibility to tools and counselling to support the enhanced health and wellbeing of employees.</p>
50% of leadership roles recruited internally	<p>38% of leadership roles were recruited internally (FY21 28.5%), demonstrating a strengthening internal talent pipeline.</p>
15% or less employee turnover	<p>Employee turnover was 29.6% (FY21 22.6%) at 30 June 2022.</p> <p>Continued focus on de-casualisation of workforce: 6.3% of total employee hours worked are by casuals (FY21: 7.5%).</p>
60% of employees completing engagement surveys	<p>72% of employees shared their voice as part of the 2021 engagement survey, with overall engagement at 69%.</p> <p>In March 2022, a more frequent listening strategy commenced, initially targeting onboarding and offboarding experiences.</p>



Our Performance – Community



Strong local professional health partnerships and networks to support the diverse and changing health needs of older people and a demonstrated commitment to maintaining local connections with the community.

Goal

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

Highlights



100% of Estia Health homes have established community partnerships with organisations such as health networks, local clubs, cultural groups and education providers, helping residents maintain their connections



A continuing focus on multi-generational partnerships, with **35%** of residents participating in programs with day care, school, college and university connecting residents with younger members of the community



88 centenarians and older in Estia Health homes as at 30 June 2022



99% of Estia Health homes offer a visiting pet, music or art program, with the majority of homes offering a combination of these programs



Volunteers provide assistance to residents at **82%** of homes



Locally-based dedicated sales and service teams who are connected to their communities

2024 Strategic plan targets	2022 Outcomes
All homes have active community engagement plans identifying local social and environmental initiatives	100% of homes have community connections and partnerships. Community partnerships include health networks and local community groups or organisations and education training relationship.
Defining the causes that align with Estia Health and measure impact using the Social Impact Framework	Community causes actively supported by homes included Dementia Australia, Cancer Council’s Biggest Morning Tea and Pinktober National Breast Cancer Month.
Volunteer programs with high satisfaction levels	82% of homes have volunteers supporting residents with a range of activities.



Our Performance – Growth



Abolition of ACAR removes artificial barriers to competition in areas where capable providers wish to operate. Operators with strong balance sheets and access to capital will be able to leverage scale including central overhead efficiency. These conditions will support consolidation within the sector subject to polices that provide appropriate returns.

Goal

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

Highlights



Estia Health’s newest home at Blakehurst achieved **98%** occupancy in June 2022 ahead of schedule and is now part of the mature portfolio



Commenced construction of new homes in NSW and expansion in SA in early 2022, which will add a further **260** places across the group / network



Total number of homes eligible for the Higher Accommodation Supplement (HAS) now at **62**, following significant refurbishment of eight more homes in FY22



Exchanged contracts to purchase a new site in Woodcroft (**120** places) and progressed design for two further development projects in Toorak Gardens and Mt Barker (**242** places), all in SA



Completed rollout of CCTV enhancements in all homes



Invested **\$12.4M** on capital upgrades across the year to increase service quality and resident amenities



Introduction of home-like dining spaces supporting resident independence, outdoor areas and Memory Support Unit gardens

2024 Strategic plan targets	2022 Outcomes
<p>Enhancements of homes through significant and strategic refurbishments</p>	<p>\$23.6M invested across a wide range of areas:</p> <ul style="list-style-type: none"> • Significant refurbishment of 8 homes and 610 resident places with improved amenity \$2.1M • Other refurbishment and home upgrades (servery and equipment installation) \$2.7M • Nurse call and CCTV \$4.7M • Asset life-cycle replacements and improvements \$12.4M ('Stay in Business' Capex FY22 actuals) • Information Technology (IT) and systems improvement \$1.7M
<p>Expansion through new or brownfield developments and acquisitions</p>	<p>Acquisitions - \$0.1M invested</p> <ul style="list-style-type: none"> • Exchanged contracts for a new site in Woodcroft, SA for a new approx. 120 place home <p>Greenfield developments - \$4.8M invested</p> <ul style="list-style-type: none"> • Commenced construction in St Ives, NSW \$2.3M • Commenced construction in Aberglasslyn, NSW \$1.7M • Completed detailed design for Mt Barker, SA \$0.8M <p>Brownfield developments - \$5M invested</p> <ul style="list-style-type: none"> • Finalised Blakehurst project \$0.3M • Commenced construction in Burton, SA \$2.6M • Completed detailed design for Toorak Gardens, SA, Bentleigh, VIC, and Lockleys, SA \$2.1M
<p>Environmentally friendly programs to improve climate resilience and reduce dependence on non-renewable energy sources as per Sustainability Strategy</p>	<p>Completed environmental assessments across 10 existing homes + 4 new developments</p>





Technology

New and innovative technologies provide opportunities to improve care, services and experience for residents, families and employees; and to streamline processes within homes to allow more time to focus on the provision of care.

Goals

Identify, trial and rollout solutions that support and enable the organisation to deliver on the strategic goals and objectives.

Highlights



New visitor management system implemented, integrating temperature and visitor compliance checking across homes



New CRM platform implemented to improve occupancy and customer acquisition



Increased investment and focus on cyber security



New website implemented providing better information about the organisation and its homes, and for people seeking a career with Estia Health



Upgraded Nurse Call system in selected homes, with WiFi upgrades commencing



Standardised medication packaging pilot program introduced to enhance medicine safety



New processes, systems and data developed to support the new funding model (AN-ACC)



Increased investment in automation and data analytics to streamline internal processes



Ongoing trialling of new technologies to improve resident care



COVID-19

Throughout the reporting period, COVID-19 continued to directly impact the residential aged care sector, with that impact ongoing into FY23.

The response of governments to the pandemic changed significantly during the year, from statewide lockdowns and severe restrictions on movement, to more risk assessed and targeted responses as state and national borders reopened and vaccination availability and requirements changed.

The high transmissibility of the Omicron variant, which became dominant in late 2021, resulted in rapidly increasing community infection rates which directly impacted the sector. Immigration restrictions, illness and quarantine requirements affected workforce availability, with supply chain, infection control measures and government mandates all resulting in disruption to the sector.

At the present time, it is likely the impact of COVID-19 in the community and aged care sector will continue for the foreseeable future. However, resident and staff vaccinations, supported by the wider availability of anti-viral medication, has resulted in significantly lower levels of acute illness and deaths compared to earlier periods of the pandemic.

In evolving its response to the pandemic, Estia Health built on previous preparation and learnings, with frequent communication with residents and employees, strengthening of education to upskill staff in infection prevention and control, and specialist advice when required.

Support for residents, families and employees continued with multiple vaccination clinics held at each home, with an ongoing focus on protection and safety, including psychological first aid training.

From an employee perspective, paid quarantine leave continued and was provided on top of personal (sick) leave, together with additional supplements paid during outbreak periods.

The COVID-19 Board sub-committee continued to meet regularly throughout the year to provide oversight of the actions needed to manage the Group's response. Throughout FY22, \$50.4 million of direct incremental costs associated with the pandemic were committed across the workforce, infection prevention and control (IPC), personal protective equipment (PPE), cleaning, waste disposal, welfare, communications and support.

After more than two years of the pandemic, the Group's frontline staff continue to demonstrate extraordinary support and care for residents and families at a time when many are also experiencing the consequences of COVID-19 within their own families and communities. Their dedication and commitment to supporting residents in such difficult circumstances is exceptional.

Sustainability

Estia Health cares for some of the most vulnerable members of society and residents' health and wellbeing in the 68 homes across Australia remains the over-riding priority. The 2020-2024 Sustainability Strategy recognises the long-term viability and profitability of the Group depends on the wellbeing of employees, supporting and integrating within local communities and the continued health of natural environments.

In FY22 Estia Health continued to progress key projects and initiatives to move towards achieving the priority targets set within the Sustainability Strategy, with a dynamic approach. This involves continually assessing the strategy, targets and reporting systems to consider the changing operating environment, impacts of COVID and growing expectations of organisations in taking committed action towards sustainability across all aspects of the business.

In November 2021, Estia Health refinanced its existing loans with an industry-first \$330 million sustainability linked Financing Facility to publicly demonstrate its environmental, social and governance commitment. The agreement has embedded independently-assessed targets aligned to its existing sustainability and organisational strategy and linked to goals including: reduced greenhouse gas emissions, improving resident engagement and satisfaction, supporting employee wellbeing and improving environmental performance.



2020-2024 Sustainability Framework

The 2020-2024 Sustainability Strategy has a framework of 11 focus areas and associated targets within the strategic pillars of **supporting our people**, **enhancing our community** and **respecting our environment**. The strategy is mapped against the United Nations' 17 Sustainable Development Goals (SDGs), adopted by the Member States of the UN in 2015, ensuring the approach is aligned with globally-recognised goals.



*Under the focus area of Wellbeing, the 2024 target has been updated, recognising the impacts of COVID-19.

Approach to sustainability

Foundation	Focus area	Alignment to SDG	Headline 2024 target
Supporting our people	Health & safety		Lost Time Injury Frequency Rate (LTIFR)
	Wellbeing		Estia Health employees who have completed psychological first aid training
	Diversity & inclusion	 	Gender pay gap for equivalent roles
	Training & development		Recruitment to leadership roles internally
Respecting our environment	Energy & carbon	 	Reduction in operational emissions intensity (Scope 1 and 2)
	Climate resilience		Assets assessed for vulnerability to climate change
	Waste		Generated waste diverted from landfill
	Water		Average water consumption intensity reduction
	Supply chain		'High risk' suppliers that have completed an additional screening for modern slavery risk
Enhancing our community	Community connection		Homes that have an active and bespoke community engagement plan updated annually
	Social impact		Designed, implemented, and annually report against a Social Impact Framework

			FY22 progress
	3.0	8.8	LTIFR reduction from HY122 of 10.75 despite COVID-19 impacts
	4.0%	2.16%	151 employees certified by Communicorp as completing psychological first aid training
	Zero	1.68%	Gender pay gap at 1.68% across corporate roles* *corporate roles consist of Estia Health's non-enterprise agreement-covered roles (4% of total employees), with the above percentage based on a weighted average.
	50%	38%	38% of leadership roles recruited internally* (HY22: 36%) *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.
	20%	5%	Scope 1 & 2 emissions intensity reduced by 5% between FY21 and FY22 (FY19-FY21: 7%)* *FY21 emissions intensity reduction of 6%, has been recalculated to 7% in FY22 due to improvements in data analysis.
	100%	100%	Climate vulnerability and exposure assessment completed on 100% of assets and future developments with further planning underway for required adaptation/mitigation activity
	50%	18%	18% of waste was diverted from landfill despite increased PPE usage and disposal (FY21: 17.6%)
	20%	Full impact will be assessed in FY23	Water consumption reduction initiatives continue, with 50 sites completing a microfibre rollout aimed at reducing water consumption and modernising all washing machines to ensure efficiency
	100%	13 potential high-risk suppliers completed a survey	Identified 'high risk' suppliers screened in the reporting period and progression of Estia Health's Modern Slavery Roadmap underway, including due diligence process
	100%	100%*	95.6% of homes offered nursing and student vocational placements with 1,936 placements made (HY22: 90%) All our homes have community connections and partnerships* *Community partnerships include health networks and local community groups or organisations and education training relationships
			134,790 days of short-term respite care provided, supporting unpaid careers in local communities (HY22: 67,900)

Risk Management

The Board, the Board Risk Management Committee and management level committees are committed to the development and implementation, monitoring, review and continuous improvement of Estia Health’s risk management approach and framework.

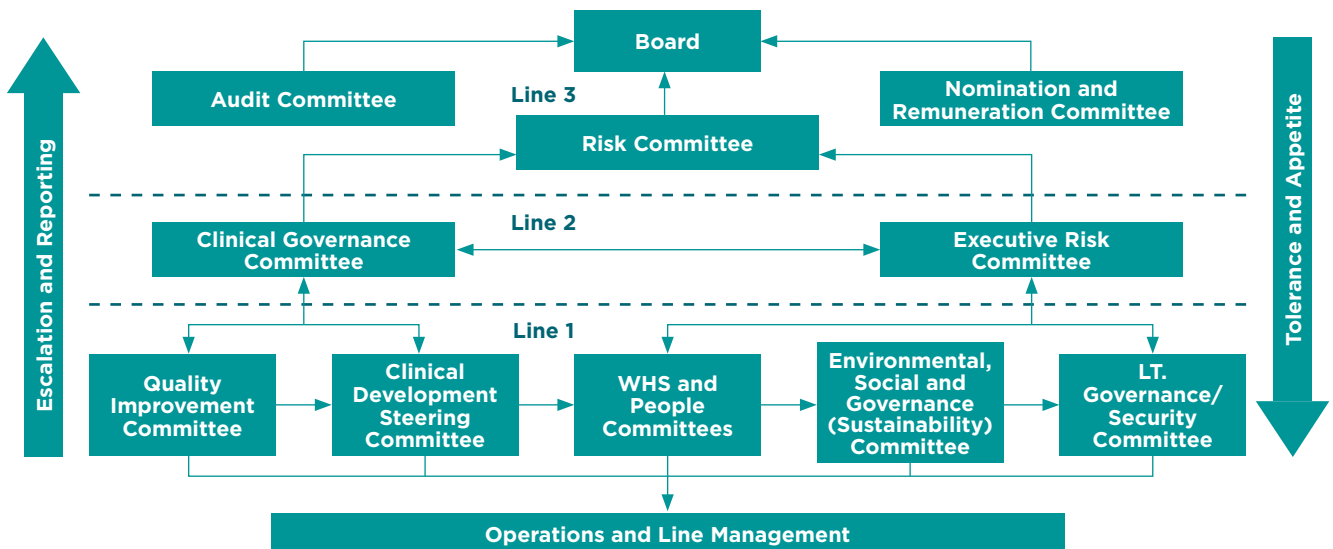
The Group’s risk management approach is an integrated, continuous process aimed at ensuring strategic and operational objectives are achieved and maintained, with internal control systems encompassing all policies, processes, standard operating procedures and practices established by management and / or the Board to provide reasonable assurance that:

- established corporate and business strategies and objectives are achieved
- risk exposure is identified and adequately monitored and managed
- resources are acquired economically, adequately protected and managed efficiently and effectively in carrying out the Group’s business

- significant financial, managerial and operating information is accurate, relevant, timely and reliable
- there is an adequate level of compliance with policies, standards, procedures and applicable laws and regulations.

The framework adopts a continuous improvement approach ensuring supporting process and practices continually evolve. While risk management is part of the responsibility of all Estia Health employees, managers, leaders and ultimately the Board, each risk has an identified executive leadership team member as an owner, with new and emerging risk reviewed regularly within the framework.

Risk Management Framework





Three lines of defence

Three Lines Model			
	1st Line Roles	2nd Line Roles	3rd Line Roles
Roles	<ul style="list-style-type: none"> • Front line employees and management • Operations and Executive management • Home-level Continuous Improvement Committee 	<ul style="list-style-type: none"> • Executive Risk Committee • Clinical Governance Committee (CGC) 	<ul style="list-style-type: none"> • Risk Committee (Board subcommittee) • Internal & External Audit
Responsibilities	<p>Executive Management Team</p> <ul style="list-style-type: none"> • Consider risk within strategic, operational and planning reviews • Understand and aware of legislative / regulatory obligations • Collaborate with 2nd line to effectively identify, measure and report risk and compliance breaches • Create and maintain a culture that proactively manages risk and compliance • Makes decisions being mindful of creating and protecting value <p>Line Management (Home, Central Services)</p> <ul style="list-style-type: none"> • Primary responsibility for effective day to day risk treatment • Ensures strong internal controls • Awareness of risk processes and how and where to escalate events • Following guidance on risk or risk events <p>Home Level – Continuous Improvement Committee</p> <ul style="list-style-type: none"> • Oversee and report to QIC and CDSC on effectiveness of quality and risk activities at home level 	<p>Executive Risk Committee</p> <ul style="list-style-type: none"> • Sets and implements policy/ process requirements in adherence to risk management framework • Provides non-clinical oversight • Takes reports from committees and Executive on risk matters <p>Clinical Governance Committee (CGC)</p> <ul style="list-style-type: none"> • Reviews policies and outcomes of clinical practice and oversight of clinical governance Quality and Risk Team • Independent oversight, coaching, support, challenge and monitoring of risk awareness, identification and management • Coordinate responses to key regulatory changes 	<p>Risk Committee</p> <ul style="list-style-type: none"> • Oversee the effectiveness of risk management system and controls • Oversee compliance with the legal and regulatory requirements • Make recommendations to the Board regarding risks, actions adequacy of risk framework and disclosure on risk <p>Internal & External Audit</p> <ul style="list-style-type: none"> • Evaluates and tests internal controls

Estia Health Board

Oversees Governance of Risk Management – Endorse Policy, Strategy & Framework





Tax Transparency Report

For the year ended 30 June 2022

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 with approximately 7,500 employees caring for over 8,000 residents each year across 68 homes in New South Wales, Queensland, Victoria and South Australia.

The Group's strategy is 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, developing and commissioning new homes, enhancing existing homes, complementary acquisitions
- 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
- Seeks to maintain 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 109 to 159** 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 responsibilities and the extent of our contribution to tax generation, collection and remittance to the relevant tax authorities in Australia.



Steve Lemlin
Chief Financial Officer

September 2022

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
- the provision of full and timely disclosures
- 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 the position taken is "more likely to be correct than incorrect", as defined in the Taxation Administration Act 1953. Tax positions taken in relation to significant items where this definition is considered as potentially open to challenge, are reported to the Board's Audit Committee. Where appropriate, the Group engages with its external advisers to receive 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 objectives and are not driven by the objective of securing tax outcomes.

TAX RECONCILIATIONS AND 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 B6 to the financial statement on **page 122**. 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 FY22, the Group has determined that it has taxable income to which it applied the Australian statutory income tax rate of 30% (2021: 30%) to calculate its tax expense.

	2022	2021¹
	\$'000	\$'000
Accounting (loss) / profit before income tax	(73,557)	8,502
At the Australian statutory income tax rate of 30% (2021: 30%)	(22,067)	2,551
Adjustments in respect of income tax of previous year	31	79
Permanent differences	840	280
Utilisation of unrecognised tax losses	-	(13)
Income tax (benefit) / expense	(21,196)	2,897
Effective tax rate	28.8%	34.1%

¹ Refer to Note E4 to the financial statements on **page 153** for details relating to the restatement of prior period comparative

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 28.8% deviates from the Australian statutory income tax rate of 30% due to differences between accounting profit and taxable income as explained above.

TAX RECONCILIATIONS AND CONTRIBUTIONS *(Continued)*

RECONCILIATION OF INCOME TAX EXPENSE TO CURRENT TAX PAYABLE

	2022	2021¹
	\$'000	\$'000
Income tax (benefit) / expense	(21,196)	2,897
Add / (subtract):		
Net timing differences	17,795	(1,663)
(Under) / Over provision in prior years	(2,137)	(512)
Current tax (benefit) / expenses included in income tax expense	(5,538)	722
Add / (subtract):		
Tax payments to tax authorities	(7,584)	(6,064)
Net opening balance	1,162	6,504
Net current tax (receivable) / payable	(11,960)	1,162

¹ Refer to Note E4 to the Financial Statements on **page 153** for details relating to the restatement of prior period comparative.

EXPLANATION OF CURRENT TAX RECOVERABLE

As at 30 June 2022, the Group has a current tax recoverable of \$11,960,000.

An amount of \$3,432,000, related to the tax loss arising in FY22, is expected to be refundable under the Loss Carry-Back measure, subject to finalisation of the 2021-22 tax return. The measure allows entities to carry back tax losses incurred during a fiscal year to claim a partial refund of income tax paid between 2019 and 2021.

An amount of \$8,534,000 related to the monthly PAYG income tax instalments paid during the year. The Group ceased making instalment payments once it became likely that the Group would not generate a taxable profit for the year. This balance is expected to be fully refundable upon the finalisation of the 2021-22 tax return.

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 B6 on **page 122** 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 temporary difference of \$17,795,000 is primarily related to the amortisation charge of \$58,701,000 relating to the bed licences that were acquired through historic business combinations. The amortisation of bed licences commenced during FY22 as a result of the Government's decision to abolish the Aged Care Approvals Round ("ACAR") which will be effective on 30 June 2024.

Under tax legislation, bed licences are classified as Capital Gain Tax ("CGT") assets, therefore the related depreciation is not deductible for tax purposes in the years when it occurs. However, a capital loss should become available to carry forward when the abolition of bed licences becomes effective on 30 June 2024 which could be utilised against future capital gains of the Group, subject to prevailing tax legislation and tax loss recoupment tests.

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 AND CONTRIBUTIONS *(Continued)*

SUMMARY OF TAX CONTRIBUTIONS

	2022	2021
	\$'000	\$'000
Taxes paid / (refunded) by type		
Income tax, net	7,584	6,064
Payroll tax ¹	20,715	24,034
Fringe benefits tax	70	106
Council rates	2,077	2,088
Land tax	653	405
Stamp duties, net ²	(531)	528
Total taxes paid, net	30,568	33,225
Taxes collected and remitted by type		
Employee PAYG withholding ¹	81,388	90,880
GST (collected and remitted)	629	1,774
GST (paid but reclaimed)	(15,670)	(14,892)
Total taxes collected and remitted, net	66,347	77,762
The above taxes were remitted to the following Australia revenue authorities:		
Australian Federal Government	74,001	83,932
State Governments	20,837	24,967
Local Governments	2,077	2,088
Total tax contributions, net	96,915	110,987

¹ During the financial year ended 30 June 2021, the Group settled payments of PAYG remittances and state-based payroll taxes of \$16,728,000 and \$2,113,000, respectively, which were deferred in the previous financial year under various tax relief measures offered by the Australia Federal and State Government.

² Included in the current year was a refund of stamp duties of \$977,000 from the NSW State Revenue Office.





Annual Financial Report

For the year ended 30 June 2022

Estia Health Limited

ABN 37 160 986 201

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Corporate Information

ABN 37 160 986 201

DIRECTORS

Dr. Gary H Weiss, AM
Chairman

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

Norah Barlow, ONZM
Property and Investment Committee Chair
(Appointed 21 April 2022)

Paul Foster
Nomination and Remuneration Committee Chair

Helen Kurincic
Risk Management Committee Chair

Karen Penrose
Audit Committee Chair

Professor Simon Willcock
(Commencing 1 September 2022)

Ian Thorley
Managing Director and CEO
(Resigned 11 July 2022)

Hon. Warwick L Smith, AO
(Resigned 31 March 2022)

COMPANY SECRETARY

Leanne Ralph

REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street
Sydney NSW 2000

SOLICITORS

Minter Ellison
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

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

Thomson Geer
Rialto South Tower
525 Collins Street
Melbourne VIC 3000

BANKERS

Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Commonwealth Bank of Australia
201 Sussex Street
Sydney NSW 2000

Australia and New Zealand Bank
242 Pitt Street
Sydney NSW 2000

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2022 for Estia Health Limited ("the Company") and its subsidiaries (collectively the "Group" or "Estia Health").

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 year unless otherwise stated.

More information relating to the Directors can be found in the investor centre section of the Group's website (<https://investors.estiahealth.com.au/investor-centre>).

Dr. GARY H WEISS, AM (CHAIRMAN)

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

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

SEAN BILTON (MANAGING DIRECTOR AND CEO)

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

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

NORAH BARLOW, ONZM (PROPERTY AND INVESTMENT COMMITTEE CHAIR)

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

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

PAUL FOSTER (NOMINATION AND REMUNERATION COMMITTEE CHAIR)

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

Paul holds a Bachelor of Commerce (with Merit) from the University of Wollongong and a Master of Arts from the University of NSW.

HELEN KURINCIC (RISK MANAGEMENT COMMITTEE CHAIR)

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

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

KAREN PENROSE (AUDIT COMMITTEE CHAIR)

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

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

PROFESSOR SIMON WILLCOCK

Simon will commence as an Independent Non-executive Director on 1 September 2022.

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

IAN THORLEY (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 resigned from the Board effective 11 July 2022.

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

HON. WARWICK L SMITH, AO

Warwick was appointed as an Independent Non-executive Director in May 2017. Warwick resigned from the Board effective 31 March 2022.

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 ¹	COVID-19 Committee ¹
Chair	Karen Penrose	Paul Foster	Helen Kurincic	Norah Barlow ²	Gary Weiss	Helen Kurincic
Member	Gary Weiss	Gary Weiss	Paul Foster	Gary Weiss	Warwick Smith ³	Gary Weiss
Member	Warwick Smith ³	Helen Kurincic	Karen Penrose	Paul Foster	Karen Penrose	Karen Penrose
Member	Helen Kurincic ⁴			Warwick Smith ³		

¹ The Royal Commission and Regulatory Committee and COVID-19 Committee were temporary committees which ceased with effect from 1 July 2022.

² Appointed as Chair effective 21 April 2022

³ Resigned effective 31 March 2022

⁴ Appointed as member effective 21 April 2022

DIRECTORS' MEETINGS

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

	Board Meetings		Audit Committee		Nomination & Remuneration Committee		Risk Management Committee		Property & Investment Committee	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Gary Weiss, AM	16	16	7	7	5	5	-	-	5	5
Ian Thorley	16	16	-	-	-	-	-	-	-	-
Norah Barlow, ONZM	16	15	-	-	-	-	-	-	5	5
Paul Foster	16	16	-	-	5	5	6	6	5	5
Warwick Smith ¹	12	12	6	5	-	-	-	-	3	3
Helen Kurincic	16	16	1	1	5	5	6	6	-	-
Karen Penrose	16	16	7	7	-	-	6	6	-	-

(A) Number of meetings eligible to attend.

(B) Number of meetings attended.

¹ Warwick Smith resigned from the Board effective 31 March 2022

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:

	Number of ordinary shares
Dr. Gary H Weiss, AM	78,312
Sean Bilton (commenced as Managing Director and CEO on 11 July 2022)	29,774
Norah Barlow, ONZM	129,474
Paul Foster	24,000
Helen Kurincic	50,000
Karen Penrose	36,833

On joining the Board from 1 September 2022, Professor Simon Willcock held nil shares.

COMPANY SECRETARY

LEANNE RALPH

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

PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Group during the year ended 30 June 2022 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the *Aged Care Act 1997* ("the Act").

The Group's strategy is to:

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

This strategy is reflected in five pillars: Care, Customer, People, Community and Growth, underpinned by the Group's Sustainability Strategy.

DIRECTORS' REPORT

THE MARKET IN WHICH ESTIA HEALTH OPERATES

Services Provided

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

About the Sector

The Department of Health's 2020-21 Report on the Operation of the Aged Care Act 1997 disclosed:

- 229,547 residential aged care operational places at 30 June 2021 (2020: 217,145), an increase of 5.7% from the prior year.
- there were 830 Approved Providers at 30 June 2021 (2020: 845) operating 2,704 separate homes (2020: 2,722).
- during the year ended 30 June 2021, services were provided to 243,117 permanent residents (2020: 244,363), and a further 67,775 people (2020: 66,873) received respite care, of whom more than half were later admitted to permanent care.
- 183,894 permanent residents in residential aged care homes at 30 June 2021 (2020: 183,989).
- total funding and subsidies provided to Approved Providers under the Act by the Australian Government in the year ended 30 June 2021 was \$14.1 billion.

The former Government's May 2021 response to the Report into Aged Care Quality and Safety ("the Royal Commission") by the Royal Commission provides for \$17.7 billion additional funding to the aged care sector over four years, of which \$8.7 billion is expected to be paid to residential aged care Approved Providers in relation to the delivery of services to residents.

Access to services

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

Regulatory Environment

The former Government's response to the Royal Commission proposed multiple reforms to the Residential Aged Care sector, many of which have now been legislated, including changes to funding models, introducing an independent pricing authority, removing capacity constraints on bed licenses, mandating minimum care minutes and increased transparency, reporting and governance. These reforms will change the financial and operational environment in which Estia Health operates. This is referenced further in this report.

Ageing Demographic

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

The Department of Health's 2020-21 Report on the Operation of the Aged Care Act 1997 reported:

- at 30 June 2021 there were:
 - 4.3 million people, or 16.2% of the Australian population aged 65 years and over, and
 - 529,000 people, or 2.0% of the population aged 85 years and over
- that by 30 June 2031 this would increase to:
 - 5.5 million people, or 18.2% of the population aged 65 years and over, and
 - 753,000 people, or 2.5% of the population aged 85 years and over.

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

DIRECTORS' REPORT

THE GROUP'S PORTFOLIO

The Group is one of the largest Approved Providers in Australia with 68 homes operating across four states.

	Number of homes	Number of places	Average home size	Significantly refurbished homes	Number of places in single rooms	Approximate number of staff
New South Wales	18	1,975	110	16	1,303	2,132
Queensland	8	851	106	8	782	1,031
South Australia	17	1,351	79	15	1,307	1,700
Victoria	25	1,986	79	23	1,722	2,515
Group	68	6,163	91	62	5,114	7,378

CARE AND SERVICES PROVIDED

The quality of care and services to residents is the foremost priority of the Group. The Group is committed to delivering the highest quality care to people who choose to trust in Estia Health at an important time in their lives. This is reflected in the Group's intention to create for residents, families and staff: "a family where everyone belongs".

Each Estia Health home provides care, accommodation and hotel and lifestyle services, led by an Executive Director who is supported by a team of nurses, clinical support staff, personal care assistants, lifestyle, allied health, chefs, cleaning, laundry and maintenance staff. Registered Nurses are rostered on all shifts, 24 hours a day, every day.

Clinical care and quality standards, protocols, policies and procedures are established centrally under the direction of the Clinical Governance Committee, chaired by an independent expert, Professor Simon Willcock, who will join the Board of Directors on 1 September 2022.

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

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

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

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

Regular surveying of resident satisfaction levels is conducted using the same criteria originally developed by the Aged Care Quality and Safety Commission ("ACQSC") using Consumer Experience Reports ("CER") during inspection visits to homes, which ask residents to respond to a series of question on a five-point scale. The Group achieved an overall average 93.2% (2021: 93.7%) satisfaction rating during the year to 30 June 2022, based on the number of responses that reported they were satisfied with services "most of the time" or "always".

DIRECTORS' REPORT

REGULATORY ENVIRONMENT AND REFORM POST ROYAL COMMISSION

The former Government's response to the Royal Commission recommendations in May 2021 was set out under 5 Pillars, which includes the provision of additional funding to the sector via a new model, offset by expectations of higher costs and increased regulatory requirements for operators. The current Government has indicated its support for the Royal Commission recommendations and proposed reforms, including the individual items set out below, but many remain unlegislated at the date of this Report.



Source: <https://www.health.gov.au/resources/publications/governance-pillar-5-of-the-royal-commission-response-a-new-aged-care-act>

DIRECTORS' REPORT

REGULATORY ENVIRONMENT AND REFORM POST ROYAL COMMISSION (CONTINUED)

The passing of the Aged Care and Other Legislation Amendment (Royal Commission Response) Act 2022 on 2 August 2022 confirmed a number of reforms including the new funding model ("AN-ACC") which commences on 1 October 2022 and the Independent Health and Aged Care Pricing Authority. Many changes are still to be legislated, including a new Aged Care Act.

The Labor Government has indicated its intention to implement additional reforms outlined in the policies it took to the May 2022 general election.

The implementation of many proposals requires considerable design, development and consultation, all of which will need to be successfully completed before the full impact to consumers and operators can be known.

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

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

The most significant proposed changes which may impact future financial performance relate to:

- the abolition of the Aged Care Approval Rounds ("ACAR") restrictive licensing regime;
- the replacement of the Aged Care Funding Instrument ("ACFI") with an alternative case-mix model (referred to as AN-ACC) in October 2022;
- expansion of the role of the Independent Hospital Pricing Authority to provide cost and pricing information to the Government in relation to aged care services from July 2023; and
- mandated minimum care minutes from October 2023.

DIRECTORS' REPORT

SECTOR FINANCIAL SUSTAINABILITY

The Group supports the views expressed in the UTS Discussion Paper "Sustainability of the Aged Care Sector" published in June 2022:

For senior Australians to receive services, there must be viable providers and, to be sustainable, the sector must be viable over the long-term. Efficient providers who deliver quality aged care services should be funded (from taxpayers and consumer contributions) to a level that enables them to be viable and prevent disruptive exits; funding should not be at a level that unnecessarily sustains poorly performing providers.

It is important to recognise that the business models and managerial competence of providers vary widely, as is shown by the differences in financial performance between the top and bottom quartiles of providers.

Source: <https://opus.lib.uts.edu.au/handle/10453/158194>

In July 2022, the Department of Health and Aged Care issued a Fact Sheet "Ensuring AN-ACC funding remains aligned with the cost of delivering residential aged care" which set out the role of the Independent Health and Aged Care Pricing Authority ("IHACPA") in relation to care funding as follows:

The Australian Government will be responsible for setting the aged care price under the AN-ACC funding model. The Independent Health and Aged Care Pricing Authority (IHACPA) will provide an annual AN-ACC price recommendation to the Government, commencing from 1 July 2023.

The role of the Independent Hospital Pricing Authority (IHPA) is being expanded to provide advice on aged care, in addition to its current role in setting prices for public hospital services. In recognition of this, the IHPA will be renamed to the IHACPA and it will provide publicly available pricing advice to Government on an annual basis. This process responds to Recommendations 11 and 115 of the Royal Commission into Aged Care Quality and Safety's final report.

The IHACPA will provide advice to Government that considers all costs and revenues for items in the Schedule of Specified Care and Services, ensuring that independent analysis of costs and changes in costs in the sector are considered by Government in setting funding levels. The IHACPA will also absorb the functions of the Aged Care Pricing Commissioner, giving it the power to regulate prices for residential aged care accommodation and extra services.

Source: <https://www.health.gov.au/resources/publications/ensuring-an-acc-funding-remains-aligned-with-the-cost-of-delivering-residential-aged-care>

The Government's response to advice from IHACPA in relation to funding levels to meet costs, which is expected to be made public, will be a key factor in establishing the financial sustainability of the sector in the future and the opportunity to deliver appropriate levels of return which reflect operational risk, regulatory requirements and the cost of capital. The extent to which the costs of delivering care and services are impacted by the ongoing impact of COVID-19 would also need to be reflected in IHACPA's advice.

The Group currently expects, based on material released by the Government, that total Government subsidies received by the Group will be likely to increase under the new AN-ACC funding model, and that costs will increase subsequent to October 2023 as a result of mandated minimum care minutes. It is not possible to predict the overall outcome of these changes on the Group at the present time, due to many uncertainties, including but not limited to, the final determination of the nature of work and workers whose time will be classified as mandated care minutes, the resident cohort at each home, the work of IHACPA and the Government's response to its analyses in relation to funding increased costs and care needs.

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

DIRECTORS' REPORT

COVID-19

COVID-19 continued to heavily impact the sector in the period and whilst the early indications were that national initiatives such as vaccination and the increased availability of testing were creating the circumstances for a return to a more stable operating environment, the emergence of the Omicron variant highlighted the risks and uncertainties which are expected to remain for the foreseeable future.

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

The Group has ensured that all staff without medical exemption were fully vaccinated in accordance with relevant State Health Directions. After obtaining appropriate legal advice, the employment contracts of staff who chose not to be vaccinated were terminated.

Residents are not required under State Health Directions to be vaccinated, however the Group has strongly encouraged and facilitated vaccination of residents.

The early months of the year saw a small number of outbreaks at homes, largely in Victoria, arising from the Delta variant. From mid-December 2021 onwards, the Omicron variant resulted in rapidly rising community infection rates which caused immense pressure on Australia's health system, with acute supply chain pressures, the collapse of the PCR testing regimes and a shortage of rapid antigen test kits. The furloughing of close contact and positive staff led to extreme workforce pressure, which eventually led to amended Health Directions reducing the isolation period for health care workers deemed as close contacts which facilitated an earlier return to work for some staff.

The rapid and widespread escalation of the Omicron variant in the community from December 2021 seriously impacted the entire aged care sector, with more than 60 of the Group's homes having experienced an outbreak by the end of January 2022, despite high levels of vaccination in residents and staff and the application of the Group's COVID-19 prevention and response plans in line with public health requirements.

As seen in the wider community, it is extremely difficult to detect and prevent asymptomatic transmission of the Omicron variant. However, resident and staff vaccinations, supported by anti-viral drugs, have resulted in significantly lower levels of acute illness and deaths following a positive COVID-19 test compared to earlier variants of COVID-19.

Since January 2022, the levels and frequency of positive cases in staff or residents has remained at a higher level than previously seen during earlier waves, consistent with infection rates in the wider community. Homes continue to see repeat outbreaks of shorter duration. Each instance causes disruption to the normal operating rhythm of homes, residents and staff with potential impacts on costs and occupancy levels. In keeping with the aged care visitor code, homes remain open to visitors, subject to appropriate infection prevention and control protocols.

Whilst infection rates associated with the most recent wave are currently declining, there is no indication that the impact of COVID-19 in the community and aged care sector will materially reduce in the short-term.

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

DIRECTORS' REPORT

WORKFORCE

Workforce remains a key priority and risk for the sector. Recent estimates by the Committee for Economic Development of Australia ("CEDA") report that the sector faces a shortage of 35,000 workers in the current year. CEDA has estimated that meeting Australia's direct care workforce needs by 2030 will require a net increase of around 170,000 workers¹. The requirement for the sector to increase mandatory care minutes from current sector average levels will likely further increase sector workforce shortages leading up to and beyond October 2023.

The creation of a sufficiently trained workforce was a key component of the former Government's response to the Royal Commission. Average pay and remuneration levels under Modern Aged Care Awards are significantly below other parts of the broader healthcare sector, and in particular compared to NDIS Modern Awards. The attractiveness of the sector has also been impacted by the effects of COVID-19, adverse media and negative sentiment during the Royal Commission. The Fair Work Commission is presently hearing a 'work value' case brought by the Health Services Union to increase average aged care pay rates by 25%. Although analysis of the cost implications of such an increase would fall within the remit of IHACPA, the Government has made a submission to the Fair Work Commission in August 2022 in support of the case, re-stating a commitment to funding an increase.

Staff engagement at Estia Health was measured at 69.0% in a survey undertaken in October 2021, which was considered a good result given the challenges being faced by the sector. Group staff turnover in the year increased to 29.4% compared to 2021 but stabilised in the second half of FY22 and remains a key focus of Management despite being less than commonly reported levels for the sector. Staff were supported throughout the pandemic with paid quarantine leave, increased pay rates during COVID outbreaks and increased investment in employee assistance programs. Nevertheless, vacancies and shortages exacerbated by COVID-19 resulted in increased overtime and agency usage, often at premium rates, and on occasion impacted the ability to admit new residents.

The Group has invested in a range of programs to increase attraction, retention, training and development of staff to allow it to compete with other providers and attract new staff to the sector.

The Group now operates Workers Compensation programs on a self-insured basis in NSW and South Australia, having passed the required quality and regulatory requirements. This has contributed to a reduction in costs, accelerated recovery and return to work timeframes. Lost Time Injury Frequency Rates ("LTIFR") reduced to 8.8 in the period from 11.8 in FY21.

Securing a sufficient, well-trained workforce will need ongoing and priority attention by providers, supported by Government policy and training institutions in coming years.

ACCREDITATION CARE AND QUALITY

The Aged Care Quality and Safety Commission ("ACQSC") increased its resources and activities in the period in line with the former Government's response to the Royal Commission recommendations and assumed responsibility for prudential and regulatory oversight.

The Group has implemented and complied with increased reporting obligations for all Approved Providers during the year including serious incident reporting, resident and staff vaccination levels and quarterly financial reporting.

All homes remained fully accredited at all times during the year and at the date of this report. During the year no home received a Sanction, a Notice to Agree or a Notice of Non-compliance. Subsequent to the year end, one home received a Notice of Non-compliance which is being addressed.

External complaints to ACQSC were 28% below industry levels reported in the most recent ACQSC published data.

¹ Source: "Duty of Care: Meeting the Aged Care Workforce Challenge" Published by CEDA

DIRECTORS' REPORT

ABOLITION OF ACAR AND IMPLICATIONS FOR BED LICENCE VALUATIONS

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

It is expected to create an environment where senior Australians benefit from increased competition which should positively impact the quality of accommodation and service offerings. Providers will have the opportunity to invest in previously protected markets and to attract residents by providing high quality differentiated offerings in locations matched to demand. This reform could prove to be a major catalyst for sector consolidation and the creation of a stronger, more competitive residential aged care sector driven by consumer choice.

Overall, there are expectations that the new arrangements will see a reduction in the number of lower quality homes and services in the sector, replaced by new better quality homes offering improved services. Competing in such an environment and being able to meet higher levels of governance, financial reporting and prudential standards will be challenging for a number of providers in the sector. Well-resourced residential aged care providers like Estia Health, with robust governance systems, committed management, skilled staff and strong balance sheets are well placed to play a leading role in the potential significant restructuring of the sector.

Importantly, the Government introduced transitional arrangements prior to June 2024 to allow Approved Providers the ability to potentially secure access to subsidised fees under the *Aged Care Act 1997* if they have beds ready to operate but do not have existing licences.

Accounting Implications

These changes will require legislation as part of the proposed new Aged Care Act for which the Government has indicated a target enactment date of 2023. Until such time, Approved Providers may only secure Government subsidies and fees if they hold appropriate licences or have secured approval under the transitional arrangements.

Prior to these changes, 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 balance was established under fair value accounting rules on the purchase of businesses by the Group from 2014 to 2016, when an open market value for bed licences existed with values varying over time and locations from \$25,000 to \$100,000 per bed licence.

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

Notwithstanding the Directors' view that the fair value of existing operational bed licences is nil, the directors have determined that in order to comply with Accounting Standards and the Group's accounting policy in relation to Goodwill and Intangible Assets (as set out in Note C6 to the Financial Statements), bed licences are now regarded as finite life intangible assets with the carrying value being amortised on a straight line basis over the period from 1 October 2021 to 30 June 2024.

The Financial Statements in this Report include a bed licence amortisation charge of \$42.7 million after tax. The carrying value of bed licences in the Balance Sheet at 30 June 2022 was \$160.9 million. Subject to no further changes in Government policy, an amortisation charge of approximately \$57.0 million (net of tax) is expected to be incurred in FY23 and in FY24. Other than the potential future tax implications explained below, the amortisation charge has no impact on the cash flows of the Group and nor does it impact the Group's compliance with its debt covenants or regulatory obligations.

Tax implications

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

The Group's financial performance reflects ongoing margin erosion caused by successive years of Government regulated fees and subsidies not keeping pace with input cost inflation. According to the accounting firm StewartBrown "Between 2017 and 2021, there has been a cumulative increase in the sector of 22% in the costs of providing ACFI care services, whereas ACFI revenues have only increased by 9%."¹

In the last two years the Group has also suffered the financial impacts of COVID-19, including lower occupancy and the increased costs of prevention and response, only some of which have been recovered under temporary funding support or re-imburement under Government Grant schemes.

In FY22 the Group incurred estimated incremental costs relating to the prevention and response to COVID-19 of \$50.4 million. Of this amount the Group has, at the date of this report, submitted grant claims of \$36.6 million which it believes are eligible for recovery under the grant schemes.

However, due to lengthy delays within the Department of Health processing grant claims for the sector, only \$7.1 million was either confirmed or paid during the year and as such was recognised as income of the year. This significant impact resulted in the Group reporting a loss before income tax, class action settlement and bed licence amortisation. Further details on grants are provided on page 68.

Four Year Summary Financial Performance^{2,3}

	2022 \$'000	2021 ⁴ \$'000	2020 ⁵ \$'000	2019 ⁵ \$'000
Government revenues – excluding temporary funding	472,525	443,218	426,188	427,909
Government temporary funding and grants	7,888	21,426	7,382	10,336
Resident and other revenues	149,004	147,406	146,310	147,594
Total operating revenues and grants	629,417	612,050	579,880	585,839
Employee benefits expenses	(444,033)	(431,355)	(404,272)	(385,703)
Non-staff expenses	(98,045)	(95,033)	(90,388)	(104,947)
COVID-19 incremental costs ⁶	(49,823)	(24,309)	(2,538)	-
EBITDA – Mature Homes⁷	37,516	61,353	82,682	95,189
Other income – asset disposals	912	9,487	214	35
Net impact of new homes / home closures	455	(625)	491	(1,222)
EBITDA – before class action settlement, goodwill impairment and bed licence amortisation	38,883	70,215	83,387	94,002
Depreciation, amortisation and impairment (excluding bed licence amortisation and goodwill impairment)	(45,122)	(42,808)	(39,119)	(29,184)
Net finance costs	(6,970)	(6,496)	(8,491)	(6,990)
(Loss) / Profit – before income tax, class action settlement, goodwill impairment and bed licence amortisation	(13,209)	20,911	35,777	57,828
Associated income tax credit / (expense)	3,586	(6,169)	(10,599)	(16,539)
(Loss) / Profit for the year – before class action settlement, goodwill impairment and bed licence amortisation	(9,623)	14,742	25,178	41,289
Bed licence amortisation	(60,349)	-	-	-
Class action settlement	-	(12,409)	-	-
Goodwill impairment	-	-	(144,622)	-
Associated income tax credit	17,610	3,272	2,535	-
(Loss) / Profit for the year	(52,362)	5,605	(116,909)	41,289

Page 71 "Reconciliation of Non-IFRS Information" contains a reconciliation of the above table to the Financial Statements. EBITDA and other measures are categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information, issued in December 2011.

1. StewartBrown (2021). Aged Care Sector Report (for the 12 months ended 30 June 2021). Sydney, p. 15, available at: https://www.stewartbrown.com.au/images/documents/StewartBrown_-_ACFPS_Financial_Performance_Sector_Report_June_2021.pdf
2. EBITDA and other measures are 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 year. This non-IFRS financial information, while not subject to audit, has been extracted from the financial records. These financial records have been used for the preparation of the financial report, which has been subject to an audit by the external auditors.
3. All reported figures exclude Imputed DAP revenue on RADs and the equivalent Imputed Interest on RADs which have a net effect of nil on reported profit. Note B1 of the Financial Statements provides further details.
4. In adopting the recently announced IFRIC changes for the accounting for SaaS arrangements the Group has re-stated certain previously reported information for consistency purposes.
5. Information reported with no adjustment for the IFRIC changes for the accounting for SaaS Arrangements.
6. Refer to the section under "Incremental costs associated with COVID-19 prevention and response" for details.
7. "Mature Homes" (which exclude homes from the date of closure) are homes that have been opened for more than 12 months or if open for less than 12 months have greater than 85% occupancy at the commencement of the financial year.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

Information as presented within the remainder of this Review of Financial Performance except for COVID-19 Costs Grant Recoveries – All homes on page 69 relates to the performance of the Group's Mature Homes.

Occupancy

Average group occupancy levels during the year have remained low compared to prior years. Performance has varied across the portfolio with the States most affected by COVID-19 during early waves, New South Wales and Victoria, showing a steeper decline and a slower recovery.

	Spot 19 August 2022	Average 2022	Average 2021	Average 2020
New South Wales	92.7%	91.1%	91.0%	93.1%
Queensland	96.2%	97.4%	96.1%	95.0%
South Australia	96.8%	96.3%	96.6%	96.2%
Victoria	86.3%	86.4%	85.9%	90.7%
Total Group	92.0%	91.6%	91.2%	93.2%

Total occupied bed days for the year were 2,030,143, representing a fall of 27,651 compared to the prior year, of which a net decrease of 24,973 was derived from homes closed during the year.

Key Operating Metrics

The impact of margin erosion is evident in key operating metrics shown below. The increasing demands of higher acuity residents and clinical care standards limit the Group's ability to increase its cost efficiency while maintaining high quality of care and services for residents.

	2022	2021	2020	2019
Available Bed Days	2,216,782	2,256,916	2,175,868	2,205,170
Occupied Bed Days	2,030,143	2,057,794	2,026,915	2,064,574
Operating Revenues per occupied bed day	\$306	\$287	\$283	\$279
<i>Increase</i>	6.7%	1.6%	1.3%	
Staff costs per occupied bed day (excl COVID-19)	\$200	\$191	\$186	\$187
<i>Increase / (Decrease)</i>	4.8%	2.9%	(0.6%)	
Non-staff costs per occupied bed day (excl COVID-19)	\$44	\$42	\$42	\$51
<i>Increase / (Decrease)</i>	5.0%	1.4%	(18.6%) ¹	
Annualised EBITDA on Mature Homes per occupied bed (excl COVID-19)	\$14,285	\$11,394	\$14,017	\$16,613

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

Revenues

Government revenues excluding temporary funding increased by \$29.3 million (6.6%) in the period of which \$20.3 million was attributable to the additional \$10/day Basic Daily Fee Supplement introduced by the Government with effect from 1 July 2021. Excluding this increase, Government revenues increased by \$9.0 million (2.0%), which was mainly due to the indexation of Fees and Subsidies and increased acuity leading to higher care subsidies.

Resident revenues increased by \$1.6 million (1.1%) in the period and were adversely impacted by the Maximum Permissible Interest Rate ("MPIR"), which is used to calculate Daily Accommodation Payments ("DAPs"), remaining at 4.0% in the period. The Group was also unable to deliver its full program of Additional Services to residents at some homes during COVID-19 outbreaks which led to the temporary suspension of Additional Services billings from time to time.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

The Group has sought to separately identify underlying costs from incremental costs relating to COVID-19 prevention and response, some of which were eligible for recovery under Government grant schemes, as set out below.

Staff costs

Staff costs (excluding incremental costs associated with COVID-19) increased in the period by \$12.7 million (2.9%). This resulted from increase in pay rates under the relevant Enterprise Agreements, increased overtime and agency usage. These increases were partly offset by the removal of costs associated with two homes closed in the year.

Non-staff costs

Non-staff costs (excluding incremental costs associated with COVID-19) increased in the period by \$3.0 million (3.2%). Ongoing procurement and purchasing benefits partly offset CPI increases.

Incremental costs associated with COVID-19 prevention and response

The impact on financial performance from COVID-19 in the period was significant. In the early part of the year, this was more evident in New South Wales and Victoria. As a result of the spread of the Omicron variant across the whole country as travel restrictions were lifted, these increased costs became evident across all States and homes in the latter part of the period.

Direct incremental costs related to COVID-19 protection and response at Mature Homes were approximately \$49.8 million (2021: \$24.3 million), of which \$35.9 million (2021: \$9.6 million) is estimated to be eligible for Government grants. Government grants are currently restricted to outbreak homes and do not cover preventative costs, nor all outbreak response costs.

Of the \$49.8 million (2021: \$24.3 million), staff costs accounted for \$36.5 million (2021: \$11.2 million) primarily from quarantine leave, agency costs, and higher over time and surge workforce supplements. Non-staff costs, primarily Personal Protective Equipment ("PPE"), COVID-19 tests, cleaning and waste disposal accounted for \$13.3 million (2021: \$13.1 million).

Non-staff costs are reducing as the severity and duration of outbreaks reduces, aided by high vaccination rates in staff and residents. Staff costs remain high due to general workforce shortages across the economy and ongoing higher levels of agency and overtime.

	H2 2022	H1 2022	2022	2021
Staff expenses	28,844	7,668	36,512	11,198
Non-staff expenses	8,930	4,381	13,311	13,111
Total incremental costs associated with COVID-19 prevention and response	37,774	12,049	49,823	24,309

The Group expects to continue to incur incremental COVID-19 prevention and response costs for the foreseeable future and whilst grant claims will be made for the proportion of costs which are eligible for reimbursement, it is likely that COVID-19 related incremental costs will continue to exceed grant recoveries.

COVID-19 Costs Grant Recoveries - All homes

Total incremental cost associated with COVID-19 prevention and response for the FY22 was \$50.4 million (2021: 24.3 million), of which \$49.8 million relates to Mature Homes (2021: \$24.3 million).

Approved Providers are able to apply for Government grants to recover some of the costs associated with COVID-19 outbreaks. Government grants do not presently cover preventative measures taken by the Group outside of outbreak periods in specific homes. Due to the volume of claims being processed across the sector, the Government's stated targets of confirming grants within 6-8 weeks of submission are not being met.

The grant scheme has been extended on three occasions to date, most recently to provide for cost reimbursement up to 31 December 2022.

The Group has determined that under Australian Accounting Standards, grant claims are not recognisable as income until such time as the Group has been issued with a formal confirmation letter from the Government for each grant claim. As a result of the delays with the Government's processes, a significant number and amount of grant claims relating to FY22 had not been confirmed by the Government at 30 June 2022 and as such are not recognised as income of the period, although the associated costs are reported in FY22.

Based on previous experience and the processes adopted by the Company prior to submission of grant claims, including the independent assurance of its submissions of claims exceeding \$150,000, the Company believes that its grant applications meet all eligibility criteria. However, approval of submitted claims is wholly managed by Government and as such the Company does not control nor can predict the outcome of its claims.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

COVID-19 Costs Grant Recoveries – All homes (Continued)

The status of grant claims submitted by the Group at the date of this report is shown below.

	2022 \$'000	2021 \$'000
Grant submitted during the year		
Confirmed and received before end of year	7,049	7,369
Confirmed but not received before end of year	23	-
Grant claims recognised as income during the year	7,072	7,369
Grant claims submitted before end of year		
- Subsequently confirmed which will be recognised as income in subsequent financial year	1,361	-
- Not yet confirmed at the date of this report	21,362	-
- Amounts of claims rejected	233	-
Total grant claims submitted during the year	30,028	-
Further grant claims submitted after end of year relating to current year's costs	6,575	-
Total grant claims submitted relating to current year's costs	36,603	7,369
Total grant claims relating to current year's costs not recognised as income for the year^(a)	29,298	-

^(a) These grants will be recognised as income of future periods upon approval by the Government of the applications.

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

The Group's balance sheet has \$541.7 million (2021: \$613.0 million) of equity supporting \$1,795.0 million (2021: 1,862.6 million) of total assets. The Group's capital and funding position is a product of the efficiency of operating profit to cash conversion, net RAD flows, capital investment and dividend distributions. At 30 June 2022, the Group had net bank debt of \$79.6 million (2021: \$81.1 million). Net operating cash inflows prior to RAD flows were \$32.7 million (2021: \$24.7 million) in the period.

There has been no significant change in the Group's financial position subsequent to 30 June 2022.

BED LICENCES

Total assets include bed licences with a carrying value of \$160.9 million (2021: \$221.3 million) at 30 June 2022, less an associated deferred tax liability of \$47.0 million (2021: \$64.6 million), resulting in a net carrying value of \$113.9 million (2021: \$156.7 million). The Directors consider that the fair value less cost to dispose of bed licences is nil. However, in accordance with Australian Accounting Standards, the licences are deemed to have a remaining value in use which requires the carrying value to be amortised over the period until formal abolition of licences on 30 June 2024.

GOODWILL

The carrying value of Goodwill in the Group Balance Sheet at 30 June 2022 was \$681.0 million (2021: \$681.0 million). Note C6 to the Financial Statements refers to the key assumptions relating to the assessment of this value. A key assumption, consistent with the going concern concept and recent reform proposals, particularly in relation to the operation of IHACPA, is that there will be a cessation of recent margin erosion in the sector caused by successive years of Government regulated fees and subsidies not keeping pace with input cost inflation.

LAND VALUATIONS

In accordance with the Group's accounting policy, land is accounted for at historical cost, with a carrying value of \$189.5 million (2021: \$189.2 million).

CBRE, as an accredited external independent valuer, undertook an assessment of the market value at 30 June 2022 of the Group's land holdings, which resulted in an assessed market value of approximately \$365,000,000. The valuation was performed by CBRE on a standalone basis without taking into consideration any relocation, closure, or dismantling cost. The valuation exercise undertaken by CBRE has not been subject to audit by the Group's external auditor.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL POSITION AND CASH FLOWS (CONTINUED)

RAD BALANCES

The balance of RADs (including amounts pending return to deceased resident estates, referred to as “probate liability”) at 30 June 2022 was \$884.1 million, compared to \$863.9 million at 30 June 2021, representing an increase of \$20.2 million (2021: \$27.6 million). As at 30 June 2022, RADs held on behalf of current residents totalled \$756.9 million (2021: \$761.1 million), with probate liability relating to departed residents increasing from \$102.8 million to \$127.2 million.

Average incoming RAD prices in the period were \$452,983 (2021: \$442,881) compared to outgoing RAD prices of \$405,621 (2021: \$406,447) and average current RAD held of \$339,896 (2021: \$326,874). A recovery in occupancy rates and the replacement of older RADs, including pre-June 2014 bonds, with higher-priced incoming RADs represents a potential positive future cash inflow.

DEBT AND FINANCING FACILITIES

During the year, the Group's existing syndicated loan was refinanced with a new \$330.0 million Sustainability Linked Syndicated Financing Agreement (“SLSFA”), financed by the Group's existing lenders.

The SLSFA also has an accordion feature (“Accordion”) which allows for the facility limit to be increased (subject to lender consent and approval) by an additional \$170.0 million.

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

In addition, the Group entered into a separate additional Guarantee Facility (“Guarantee Facility”) with Westpac Banking Corporation during the year which permits bank guarantees to be issued up to the value of \$8.0 million.

At 30 June 2022, \$100.0 million of the SLSFA had been drawn (2021: \$114.5 million) and Bank Guarantees on issue totalled \$7.7 million.

Under the SLSFA, the Group will be eligible for an interest rate margin reduction of up to 5 basis points per annum dependent on the level of achievement of sustainability targets embedded in the agreement. A failure to achieve any of the targets may result in a 5 basis points per annum increase in margins. These targets include:

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

The Group's performance against these targets in the year, which was independently reviewed, will result in a reduction of 3 basis points per annum over the next financial year.

Share Buy-Back

In November 2021 the Board considered that the Company's current share price did not appropriately reflect the intrinsic value of the Group's assets and business and accordingly determined to establish an on-market Share Buy-Back scheme (“Buy-Back”) to be conducted in accordance with the ASX rules.

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

The Buy-Back itself is not expected to impact the Group's ability to progress a disciplined growth strategy as the Government's Aged Care reform package progresses, in particular the abolition of the ACAR licensing restrictions, nor its ability to continue to pay dividends in line with the Group's targeted payout ratio.

The Buy-Back is permitted within the Group's debt facilities and has been funded from existing cash reserves and undrawn debt capacity. The Buy-Back commenced on 26 November 2021 for up to a 12-month period. Under the Corporations Act 2001, the Company may buy back up to 10% of issued capital in any 12-month period without shareholder approval.

The timing and actual number of shares to be purchased will be subject to the prevailing share price, market conditions, as well as any incremental capital requirements at the time and other considerations including any unforeseen circumstances. As a result, shareholders should be aware that there is no certainty that the Company will acquire any or all permitted shares under the Buy-Back and the Company reserves the right to suspend or terminate the Buy-Back at any time.

As at 30 June 2022 the Company had acquired and cancelled 3.6 million shares, representing 1.39% of the Issued Share Capital at a total cost of \$7.9 million with an average price of \$2.18 per share.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL POSITION AND CASH FLOWS (CONTINUED)

Class Action Settlement February 2021

On 15 February 2021 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 and a total settlement sum of \$38.4 million was paid in FY21. The Company contributed \$12.4 million to this settlement, with the balance being contributed by the Company's insurers.

RECONCILIATION OF NON-IFRS INFORMATION

The following tables provide a reconciliation of the non-IFRS financial information disclosed in the Four Year Summary Financial Performance as disclosed within the Operating and Financial Overview presented on page 66 of this report to the Financial Statements per ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information, issued in December 2011*.

	2022	2021 ¹	2020	2019
	\$'000	\$'000	\$'000	\$'000
Revenue				
Government revenues – excluding temporary funding	472,525	443,218	426,188	427,909
Government grants and temporary funding	7,888	21,426	7,382	10,336
Resident and other revenue	149,004	147,406	146,310	147,594
Total operating revenue and grants	629,417	612,050	579,880	585,839
Less: Government grants	(7,888)	(9,600)	-	-
Imputed DAP revenue on RAD and bond balances under AASB 16	39,328	42,316	43,407	-
Operating revenue from homes in ramp-up / closed homes	10,210	1,539	13,621	146
Total revenue	671,067	646,305	636,908	585,985
Employee benefit expenses				
Employee benefit expenses – Mature Homes	444,033	431,355	404,272	385,703
COVID-19 incremental costs – Mature Homes	36,512	11,198	931	-
Employee benefit expenses – Homes in ramp-up / home closures	8,228	1,555	10,797	1,101
Total employee benefit expenses	488,773	444,108	416,000	386,804
Non-staff expenses²				
Non-staff expenses – Mature Homes	98,045	95,033	90,388	104,947
COVID-19 incremental costs – Mature Homes	13,311	13,111	1,607	-
Non-staff expenses – Homes in ramp-up / home closures	1,693	609	2,334	267
Total non-staff expenses	113,049	108,753	94,329	105,214
Net finance costs				
Net finance costs excluding imputed interest expense on RAD and bond balances under AASB 16	6,970	6,496	8,491	6,990
Imputed interest expense on RAD and bond balances under AASB 16	39,328	42,316	43,407	-
Total net finance costs	46,298	48,812	51,898	6,990

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

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

DIRECTORS' REPORT

DEVELOPMENTS AND ACQUISITIONS

Developments

As the COVID-19 pandemic and ACAR reforms were better understood, the Group re-commenced development and expansion with the resumption of greenfield projects at St Ives and Aberglasslyn, both in NSW, and a brownfield development at Burton in South Australia. These developments, with a total of 256 new beds, are projected to open in 2023 and 2024. The land sites are already owned by the Group, and construction costs will total approximately \$88.7 million across the three sites, with in excess of 70% of the construction costs targeted to be recovered by RAD receipts across the three homes.

The financial and operational results from the new homes opened by the Group from 2018 to 2021 at Twin Waters, Southport, Maroochydore, Kogarah and Blakehurst have been in line with the Company's internal benchmarks and support the case for opening new homes, increasing the overall performance of the portfolio.

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

Capital Investment Summary

	\$'000
Significant refurbishment of 5 homes with 455 beds	2,077
Upgrades and enhancements to the nurse call and CCTV systems	4,688
Asset life-cycle replacements, improvements and sustainability initiatives	15,138
IT and systems improvements	1,276
Planning, design/ tendering and construction of Greenfield development projects	4,922
Planning, design/ tendering and construction of Brownfield development projects	4,954
Trademark	400
Total	33,455

Divestments

As previously advised, the Group's 46 bed home at Keilor Downs and 61 bed leased home in Prahran, both in Victoria, were closed during the year as neither met community expectations for residential aged care homes nor were they viable development sites for the Group.

All residents were assisted in finding new homes with Estia Health or other local providers. Staff were supported with continued employment at other Estia Health homes, or redundancy packages with appropriate support. Costs associated with the closures of \$0.7 million were incurred in the period.

The Keilor Downs site was sold in December 2021 for \$3.6 million, yielding a profit on sale of \$0.8 million, illustrating the strong underlying asset base of the Group's operations.

Acquisitions

There were no acquisitions completed during the year, 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.

DIVIDENDS

As a result of the reported Net loss after tax, excluding bed licence amortisation in the period, the directors determined not to declare a final dividend for the year.

Dividends paid during the year were as follows:

	Date paid	Fully franked dividend per share	Total dividend paid
Final dividend for the year ended 30 June 2021	17 September 2021	2.30 cents	\$6,012,000
Interim dividend for the year ended 30 June 2022	18 March 2022	2.35 cents	\$6,315,000

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those explained in this report there were no significant changes in the state of affairs of the Group during the financial year ended 30 June 2022.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

COVID-19 Grant Recoveries

Subsequent to 30 June 2022, the Group submitted 104 claims for a total amount of \$6.6m, and \$1.4m of claims submitted prior to 30 June 2022 were confirmed by the Government. These amounts are included in the table shown on page 69 of this report.

Changes in Directors of the Company

On 11 July 2022, Sean Bilton was appointed Managing Director and CEO of the Company, replacing Ian Thorley who stepped down on the same day.

On 22 July 2022, the Company announced that Professor Simon Willcock would join the Board with effect from 1 September 2022.

Passing of Government legislation

On 2 August 2022, the Aged Care and Other Legislation Amendment (Royal Commission Response) Bill 2022 (the "Bill") was enacted into legislation. The Bill implements nine measures to improve aged care and responds to 17 recommendations of the Royal Commission into Aged Care Quality and Safety.

The Bill establishes the Australian National Aged Care Classification (AN-ACC) funding model, a new Code of Conduct and banning orders, and extends the Serious Incident Response Scheme to all in-home care providers. It also extends the functions of the Independent Health and Aged Care Pricing Authority.

Other measures enshrine transparency and accountability of Approved Providers and improve quality of care and safety for older Australians receiving aged care services.

A second piece of aged care legislation, the Aged Care Amendment (Implementing Care Reform) Bill 2022, was introduced on 27 July 2022 but has not yet been passed into legislation.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The industry continues to grow in complexity and the acuity of residents is increasing as the incidence of residents presenting with dementia and extensive co-morbidities escalates. This will see a need for a growing sophistication of aged care providers with scale, systems, governance and leadership likely requirements in order to adapt to these changes, which may be similar to the evolution that has occurred in other parts of Australia's health care system over the last two decades.

Notwithstanding increased availability of home care services in the future, the aging population and increasing number of people aged over 85 in particular, is likely to lead to increased demand for residential aged care services.

Financial impacts of COVID-19, including lower occupancy and the increased costs of prevention and response are expected to continue for the foreseeable future and remain uncertain. The extent to which these costs will be recovered under temporary funding support or re-imburement under Government Grant schemes is also uncertain.

Following the Royal Commission, the Government responded with a major reform package which is currently being implemented and will impact future operations and performance of the sector and the Group.

The abolition of the ACAR's anti-competitive supply constraints will underpin opportunities for large, high-quality providers with strong balance sheets such as Estia Health to grow and benefit through scale, higher occupancy and attraction of workforce. The Group's financial and operational outcomes from its new homes demonstrates this capability. The abolition of ACAR may also lead to increased competition in some areas where the Group operates.

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

Whilst the operation of IHACPA and the impact on pricing and returns relative to input costs remain uncertain, Directors believe that the framework from these key reforms is in place to facilitate the evolution to a financially sustainable sector.

The UTS Discussion Paper "Sustainability of the Aged Care Sector" published in June 2022 notes:

"The consequences of having an unsustainable system are significant, particularly for senior Australians and their families. Future scenarios could see a loss of the recent improvements made or announced for implementation. An unsustainable system could also lead to a decline in the number of viable providers who deliver services to the elderly and pose challenging consequences for current and future taxpayers. "As the aged care sector becomes more consumer-driven and competitive, some providers will likely thrive and grow while others struggle to remain viable. At a sector level, the withdrawal of inefficient and low-quality providers improves overall service standards. These changes will increase overall efficiency and improve the sustainability of aged care"

It is currently expected that daily Government subsidies received by the Group will likely increase in FY23 under the new AN-ACC funding model, however there will be incremental costs including those associated with meeting mandated minimum care minutes from 1 October 2023.

The Government reform mandates a minimum average of 200 minutes of care, including 40 minutes provided by a Registered Nurse, will be required to be delivered by Approved Providers from 1 October 2023, followed by further increases from 1 October 2024. The exact number of minutes required at each home will depend on the average AN-ACC classifications at that time and cannot be determined at this stage with any degree of reliability. The Government's current proposal is that mandated minimum care minutes will not include allied health and lifestyle staff.

It is not possible to predict the overall outcome of these changes on the sector or the Group with any great certainty at the present time as it remains highly dependent on the finalisation of shadow assessments under the AN-ACC model, the Group's re-assessment submissions, the final determination of the nature of work and workers whose time will be classified as mandated care minutes, the resident cohort at each home, the work of IHACPA and the Government's response to its analyses in relation to funding increased costs and care needs.

As a result, there remain a large number of uncertainties which may impact the financial performance of the Group in the short to medium term until such time as the funding, pricing and mandated minimum care minute reforms are fully operational, which is unlikely to be sooner than FY24. In particular, there is no certainty over the level of financial returns or margin which IHACPA and the Government may factor into future pricing and subsidies.

In the face of these uncertainties, the Group will deploy capital cautiously to take advantage of growth opportunities with the objective of delivering earnings growth to shareholders.

DIRECTORS' REPORT

KEY BUSINESS RISKS

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

CHANGES TO REGULATORY OR FUNDING FRAMEWORK

Risk The Australian residential aged care industry is highly regulated, with more than 66.2% of the total revenue comprising funding from the Australian Government. Almost all of the Group's revenues were derived from services provided in accordance with the *Aged Care Act 1997* and approximately 68.1% was paid to the Group from the Australian Government directly. Capital flows from Refundable Accommodation Deposits ("RADs") are also governed by the same legislation.

As referenced on page 60 of this Directors' Report, the current and former Government have put forward multiple reform proposals following the Royal Commission into Aged Care, including, but not limited to a new funding model, mandated minimum care minutes, the appointment of an Independent Pricing Authority, the abolition of bed licence supply restrictions under ACAR and new capital and liquidity requirements.

Whilst some of these have now been enacted into legislation, many still require further legislation to be passed and will require further design, development, and consultation. Some of the proposals are likely to impact funding and subsidy levels, as well as resources and costs.

The Group continues to incur significant costs associated with the prevention of and response to COVID-19 outbreaks. As referenced earlier in this report, at present Approved Providers are able to apply for Government grants to recover some of the costs, however there is no certainty that the grant scheme will remain in place nor that grant applications made to the date of this report or in future will be accepted by the Government.

As a result, there remains significant uncertainty over 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 manages and operates its homes, its resultant financial performance and the carrying value of its tangible and intangible assets.

Changes to the regulatory framework could also impact on competition through deregulation or capital adequacy requirements.

Regulatory restrictions are becoming more burdensome, which required the Group to dedicate more resources and expenditure to ensuring that the Group complies with such regulations. Additional accreditation and other regulatory requirements, including changes in relation to accommodation, work, health and safety and infection control emanating from COVID-19 are also present.

Risk Strategy Ageing demographics point to increasing demand for aged care services. The Group 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 which may require adapting and changing its operations in order to continue to provide high quality services to residents and generate appropriate returns on the capital provided by shareholders. This process of continual review is undertaken with short, medium and long-term planning cycles. The Group seeks to proactively engage with Government and the sector to advocate for a regulatory and funding environment which supports a strong and financially sustainable sector.

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

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

WORKFORCE

Risk

The Group's business is heavily reliant 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 that this shortage of staff or external industrial sector-wide decisions, may lead to upward wage pressure.

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.

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, may increase this risk.

The ageing global population will create increasing demand for staff providing care services which may impact Australia's ability to secure sufficient immigration to support its need for an increased workforce in all sectors, including health and aged care.

The impact of COVID-19, the Royal Commission and increasing regulatory activities has resulted in adverse media and negative community sentiment about the sector which may reduce the attractiveness of the sector to potential and existing staff.

Impact

The relative attractiveness to potential staff 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 subsidies. 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 minutes per resident.

Risk Strategy

The Group has in place short, medium and long-term strategies and initiatives aiming to 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 arrangements;
- Building a differentiated employee value proposition;
- Diversifying recruitment and sourcing strategies to improve access to a broader network of potential staff;
- Developing effective career pathway and training and development programs; and
- 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)

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, senior leadership or executive level. This may be exacerbated if executives choose to leave the sector due to the multiple challenges faced including reform, negative public sentiment and the impact of COVID-19. The decision may be triggered by opportunities outside the sector which may offer 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 has a range of strategies, programs and procedures aimed at attracting and retaining key personnel. This includes benchmarking of remuneration and benefits packages designed to ensure the Group's offerings remain competitive both within the aged care sector and the general market. It also includes succession planning and development initiatives, and engagement programs.

RAD BALANCES

Risk	<p>Non-supported residents may choose to pay for accommodation by a RAD or a Daily Accommodation Payment, known as a DAP. Prices are set by Approved Providers and, subject to Aged Care Pricing Commissioner approval, can be in excess of \$500,000. However, Providers cannot determine whether a resident pays a RAD or a DAP. The Group has \$884.1 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.</p> <p>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.</p> <p>Whilst the Royal Commission recommended the replacement of the sector's \$32bn of residential aged care RADs by 2025, ACFA recommended, in its report to Government in March 2021, that no change be made to RAD financing regulations. At the present time there is no proposed legislation or indication from Government that RAD regulations will be amended. Nevertheless, it is possible that future regulatory change may be made resulting in the need to replace RADs with alternative sources of financing.</p>
Impact	<p>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.</p> <p>Extreme events resulting in very large net outflows may cause severe liquidity or solvency issues.</p> <p>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.</p>
Risk Strategy	<p>The Group regularly monitors and analyses RAD movements and trends across its portfolio of 68 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 \$330.0 million (2021: \$330.0 million), \$230.0 million (2021: \$215.5 million) was undrawn at 30 June 2022.</p> <p>The Group will monitor and contribute to any consultancy process, in the event the Government proceeds with a review of RADs.</p>

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

OCCUPANCY LEVELS MAY FALL

Risk	<p>The Group's occupancy levels may fall below expectations as a result of numerous factors, including but not limited to:</p> <ul style="list-style-type: none">• 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; and• Shortage of skilled workers may necessitate capacity restrictions.
Impact	<p>Reduced occupancy levels may adversely affect the Group's financial performance as it will lead directly to reduced revenues, but costs may not be able to be reduced in line with the lower occupancy.</p> <p>Reduced occupancy levels may also result in lower RAD balances requiring replacement by alternative financing sources.</p>
Risk Strategy	<p>The Group operates a centrally led occupancy team supported by regional and home specific customer service resources dedicated to assisting the process of securing new residents across the Group's 68 homes. Occupancy is pro-actively monitored and managed by this team including ongoing market and competitor analysis, and monitoring of customer satisfaction and preferences. 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 General Practitioners within the locale of each home.</p> <p>Further, the Group invests in traditional and digital marketing to promote and encourage enquiries and admission, including the use of respite as a precursor to permanent admission.</p> <p>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.</p>

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

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, staff 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 in profitability due to decreased occupancy and/or additional costs required to ensure clinical care standards are improved. Additionally, there may be an increase in legal or regulator action and an increase to medical indemnity and other costs.
Risk Strategy	<p>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 applicable legislation and departmental policies.</p> <p>The Group seeks to ensure that its clinical care standards are maintained at the highest levels and that any decline in standards are addressed swiftly. The Risk and Quality Management Frameworks, systems and processes provide clinical evaluation and 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 staff.</p> <p>The Group has a Clinical Governance Committee to provide clinical oversight and evaluation of clinical improvement strategy and performance. The Committee is independently chaired by Professor Simon Willcock, Director of Primary Care services at Macquarie University Hospital and Health Sciences Centre, who will also join the Estia Health board on 1 September 2022.</p> <p>The Group continually reviews its Group's clinical governance in light of evolving health standards, guidelines, regulatory requirements and best practice.</p>

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

REPUTATIONAL DAMAGE

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 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 government and / or community sentiment towards the sector, particularly during events such as the Royal Commission and impact of COVID-19. The Government plans to introduce a star rating system from December 2022 for all residential aged care services based on measurable indicators of quality and available data which may impact the Group's reputation.
Impact	<p>Any such damage to the Group's or the sector's reputation could result in existing residents moving out of the Group's homes or reduce the Group's ability to attract new residents to its homes, both of which could adversely impact the Group's financial performance, position and future prospects.</p> <p>Reputational damage, particularly associated with quality of care and star ratings, may impact the ability to hire and retain staff, and increased regulatory supervision or action. In extreme cases this may also adversely impact the willingness of lenders to continue providing funding.</p>
Risk Strategy	<p>The Group's Risk and Quality Management Framework monitors, analyses and reports clinical and care outcomes across the Group's 68 homes. Customer Experience Reports are undertaken to provide detailed feedback on resident and family experience.</p> <p>Complaints management procedures escalate matters to the Chief Quality and Risk 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.</p> <p>Central staff monitor and assess press, media and social media to identify areas where the Company's reputation may be reported in a way which may be damaging.</p> <p>The Group maintains a professional and comprehensive flow of relevant information to its lenders within the terms of its borrowing agreements.</p>

INFORMATION TECHNOLOGY SECURITY AND CYBERSECURITY

Risk	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.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

PANDEMIC OR EPIDEMIC

Risk	A pandemic or epidemic, such as COVID-19 may have a local, regional or national impact on the Group.
Impact	<p>Local impact may result in resident and staff infection at an Estia Health home, which may cause an increased level of restrictions in and to the home, staff shortages and occupancy reduction. Cost increases may result from increased infection control activity including PPE costs, cleaning costs and additional support staff. Revenue losses may result from occupancy reductions and from the cessation of Additional Services billing. Reputational damage resulting from the manner in which an outbreak was managed may be longer lasting and may continue to impact occupancy and the ability to retain staff in the future.</p> <p>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 Health 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.</p> <p>National impact may result in supply chain disruption, restrictions on population movement, and wider economic, health and social impacts which may be longer lasting.</p>
Risk Strategy	<p>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.</p> <p>In the event of an outbreak, policies and procedures are in place designed to rapidly isolate and test residents and staff and introduce 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 ("CIMT") to oversee the 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.</p> <p>The extent of the financial impact associated from infection at a single home, or more than one home are mitigated by the fact that the Group's earnings are generated from 68 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 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%.</p> <p>Regional risk mitigation is managed by the relevant Regional Managers supported by central quality and risk 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.</p> <p>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 CIMT which will then lead the emerging national response. The CIMT comprises Executive Team members supported by internal and external technical experts and resources as required.</p>

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

COVID-19

Risk	<p>On 18 March 2020 the World Health Organisation declared coronavirus caused by the COVID-19 virus a global pandemic. Continually emerging variants and sub-variants of the virus, the potential severity of the illness on the sick, elderly and frail, present an ongoing risk to the community and the Group.</p> <p>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.</p>
Impact	<p>The potential impacts of the COVID-19 pandemic on the business include but are not restricted to:</p> <ul style="list-style-type: none"> • reduced occupancy due to: families electing not to admit to, or to remove their loved ones from aged care; homes being closed to new admissions during outbreaks; and reputational damage associated with outbreaks at Estia Health 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 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 Health home and any resultant liabilities or regulatory action; • increased costs of responding to, and managing, community and home outbreaks which include PPE, rapid antigen testing costs, staff costs, medical and surgical supplies, cleaning and advisory support services; and • increased costs associated with changes to the operations and physical design of residential aged care homes which may result from legislative or other reviews.
Risk Strategy	<p>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 spread in the event of a resident or staff member testing positive for COVID-19. Specific matters include:</p> <ul style="list-style-type: none"> • An in-house vaccination program for residents and staff; • Entry and access protocols and procedures for staff, residents and visitors (including Rapid Antigen Testing); • Infection Prevention Control processes, protocols, training, monitoring, and expertise including PPE usage and training; • COVID-19 response plans at each home; • Work, Health and Safety requirements for all the Group's homes and premises; • Business continuity plans continue to be revised; • Staff quarantine and pandemic leave; • PPE supply chains, stock levels and logistics; • Anti-viral treatment for residents infected with COVID-19, where possible; and • Applying for all applicable COVID-19 Government subsidy and grant assistance programs available. <p>COVID-19 vaccination became a mandatory condition of employment for residential aged care workers on 17 September 2021. State and territory public health orders and directions are in place for residential aged care workers which define who must be vaccinated and by when, and limited exemptions that may apply. In a number of states and territories, residential aged care workers are required to be up to date with their COVID-19 vaccinations. In accordance with health orders and directions, the Group has required all staff without medical exemption to be vaccinated.</p>

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

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.

This Report contains a separate report in accordance with the Task Force on Climate-Related Financial Disclosures ("TCFD") on page 101 which references in more detail the Group's exposure and approach to managing Climate Risk.

GROWTH MAY BE CONSTRAINED BY ABILITY TO SECURE BED LICENCES

Risk The Government has announced the abolition of bed licencing and the Aged Care Approvals Rounds ("ACAR") from 30 June 2024. Under the transition rules in place, Approved Providers may apply for funding approval for new builds or expansions as required. The Group has secured conditional approval for a number of expansions under the transition rules.

Despite the transition rules operating, it is still possible that this change may not ultimately be legislated with the result that the Group may be constrained in its ability to increase capacity and grow earnings.

Impact If the proposed abolition of ACAR is not enacted, the Group 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 will apply for funding approvals within the transition rules as it progresses developments to ensure Government funding will be secured for those developments. Should legislation not be passed, the Group will continue to apply for licences in ACARs, 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.

ENVIRONMENTAL REGULATION

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

This Report contains the Group's TCFD Report on pages 101 to 107, setting out the Group's assessment of the risks and opportunities posed by climate change.

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

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

PERFORMANCE RIGHTS

UNISSUED SHARES

As at the date of this report, there were 3,709,553 unissued ordinary shares under performance rights (2021: 3,220,383).

SHARES ISSUED AS A RESULT OF THE VESTING OF PERFORMANCE RIGHTS

A total of 146,673 performance rights were exercised during the year ended 30 June 2022 (2021: 23,055) and were issued as shares on 1 July 2021. During the year ended 30 June 2022, 1,009,506 rights were granted (2021: 2,268,751) and 1,003,603 rights were forfeited (2021: 551,828).

DIRECTORS' REPORT

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

The contract does not provide cover for the independent auditors.

INDEMNIFICATION OF AUDITORS

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

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 19% (2021: 11%) of the total fees received by the firm.

	2022 \$'000
Tax compliance services	159
Sustainability Linked Loan assurance	20
Other	18
Total Non-audit services	197

ROUNDING

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

Signed in accordance with a resolution of Directors on 23 August 2022.



Dr. Gary H Weiss, AM

Chairman

Sydney

23 August 2022

DIRECTORS' REPORT

REMUNERATION REPORT

Dear Shareholders,

The Estia Health Limited ('Estia', the 'Company' or the 'Group') Board is pleased to present the Remuneration Report for the year ended 30 June 2022 ('FY22').

The FY22 financial year continued to be characterised by a challenging operational, financial and clinical landscape, largely associated with the ongoing COVID-19 pandemic and its impact upon the environment in which our residents and staff live and work. The challenges faced by the Company to attract and retain the best available talent at all levels of the organisation remain as acute as at any time in the history of the Residential Aged Care sector, exacerbated by broader healthcare industry staffing pressures.

The Company's remuneration framework, policies and FY22 remuneration outcomes continue to be focused on achieving an alignment between resident, shareholder and staff interests, with a resident-focused quality performance "gateway" remaining a pre-determining factor to the award and payment of short term incentive entitlements, irrespective of operational and financial performance.

The strong executive leadership capability built by the Company over past years was reflected in an orderly and successful succession planning process during FY22 that resulted in Sean Bilton, previously the Company's Deputy Chief Executive Officer and Chief Operating Officer ("COO"), being announced as the successor to Ian Thorley as the Company's Chief Executive Officer and Managing Director. This succession planning process and announcement also resulted in Damian Hiser, previously the Company's Chief Customer Officer, being announced as the successor to Sean as COO. Damian will be included in the Company's Key Management Personnel ("KMP") from FY23.

More broadly, the Company remains proudly at the forefront of gender-based leadership diversity, with the composition of the Company's senior executive team and non-executive Directors reflecting an equal split between male and female members. Estia is committed to merit-based recruitment and fair remuneration practices, especially when it comes to gender pay parity within its workforce. In addition to the development of a structured compensation framework that has strengthened the objectivity of job classifications, benchmarking and pay ranges the Company engaged its Remuneration Consultant, KPMG, to produce a Gender Pay Gap Report during FY22. This report showed continued gender pay gap improvement across all levels of the organisation, to 1.7% for employees whose employment terms are not governed by an enterprise agreement.

FY22 Remuneration Outcomes

After no short-term incentive (STI) was offered to executive KMP in FY21, the STI plan was reinstated in FY22.

In order for the FY22 STI to be eligible to vest, a resident quality gateway hurdle must be successfully achieved. This requires a range of ongoing compliance and accreditation targets to be met as a precondition for any of the STI to be eligible to vest, irrespective of financial and operational performance.

The Board is pleased to confirm that this gateway was achieved in FY22, and that FY22 STI vesting outcomes for executives ranged from 45 - 65% of their respective STI opportunities.

The FY20 long-term incentive ("LTI"), which had a three-year performance period that ended on 30 June 2022, did not vest as the respective Earnings Per Share (EPS) and relative Total Shareholder Return (TSR) targets were not met.

Looking Forward

On 26 April 2022, the Chair of the Board, Dr Gary H Weiss, AM, announced Sean Bilton would assume the role of Chief Executive Officer ("CEO") and Managing Director on 11 July 2022, succeeding Ian Thorley who had announced his intention to retire after almost four years in the role and nearly six years in senior executive positions at the Company.

Ian remained with the Company until 29 July 2022 to ensure a comprehensive and smooth transition. The Board thanks Ian for his significant contribution and commitment to Estia Health.

Upon his commencement in the role, Sean's fixed remuneration was increased to \$740,000 per annum, \$40,000 less than his predecessor. Sean's STI and LTI entitlements are equivalent to his arrangements as COO and that of his CEO role predecessor, at 50% and 100% of Fixed Annual Remuneration respectively.

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

The LTI opportunity for the Company's KMP continues to be subject to two equally weighted performance measures, relative total shareholder return ("TSR") and earnings per share. Given the decreasing number of directly comparable listed peer companies operating in the aged care industry, with the delisting of Japara Healthcare and Aveo Group in recent years, from FY22 onwards LTI TSR performance measures reference the performance of the ASX300 Index (excluding mining and energy). From FY23, in addition to these measures, the Board will overlay a qualitative assessment, which will involve it reviewing whether the LTI vesting outcome is appropriate having regard to a number of factors over the performance period, including the Group's environmental impact, quality of care, reputational impact and employee experience, further strengthening the link between remuneration outcomes and Environmental, Social and Governance ("ESG") performance.

On behalf of the Board, I am pleased to present to you the FY22 Remuneration Report for Estia Health and we look forward to welcoming you at the 2022 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 2022 (FY22) 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
7. Executive employment contracts
8. Non-executive director fee arrangements
9. Additional disclosures relating to performance rights and shares
10. Other transactions and balances with KMP and their related parties

1. Introduction

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

Key Management Personnel		
Dr. Gary H Weiss, AM	Non-Executive Chairman	Full year
Paul Foster	Non-Executive Director	Full year
Helen Kurincic	Non-Executive Director	Full year
Karen Penrose	Non-Executive Director	Full year
Norah Barlow, ONZM	Non-Executive Director	Full year
Hon. Warwick L Smith, AO ¹	Non-Executive Director	Until 31 March 2022
Ian Thorley ²	Chief Executive Officer (MD and CEO)	Full year
Sean Bilton ³	Chief Operating Officer and Deputy Chief Executive Officer (COO and Deputy CEO)	Full year
Steve Lemlin	Chief Financial Officer (CFO)	Full year

¹ Hon Warwick L Smith, AO resigned as a director of the Company, effective 31 March 2022.

² On 26 April 2022 Ian Thorley announced his intention to retire. He resigned as a director and CEO on 11 July 2022.

³ Sean Bilton assumed the role of MD and CEO of the Company, succeeding Ian Thorley, on 11 July 2022. Damian Hiser (formerly Chief Customer Officer) was appointed as the Chief Operating Officer with effect from 11 July 2022 and is considered as KMP from that date.

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 five times in FY22. 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 2022, the Nomination and Remuneration Committee engaged KPMG to provide advice regarding a range of remuneration related matters.

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

2.3 Minimum Shareholding Policy

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

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

- Board members accumulate and maintain a minimum holding in Estia Health shares equivalent to at least 50% of one year's prevailing base Board fees (excluding Committee fees); and
- Senior Executives (comprising the CEO and direct reports to the CEO) accumulate and maintain a minimum holding in Estia Health shares equivalent to at least 50% of one year's fixed annual remuneration.

Board members and the CEO are required to achieve the minimum target shareholding by the later of:

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

Other Senior Executives have five years from the above dates.

All members of KMP are in compliance with the policy as at 30 June 2022.

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	Restated 30 June	30 June	30 June	30 June
	2022	2021	2020	2019	2018
Revenue - \$'000	\$671,067	\$646,305	\$636,908	\$585,985	\$547,054
Net (loss) / profit after tax - \$'000	(\$52,362)	\$5,605	(\$116,909)	\$41,290	\$41,154
Share price at start of the year	\$2.47	\$1.53	\$2.64	\$3.29	\$3.05
Share price at the end of the year	\$1.91	\$2.47	\$1.53	\$2.64	\$3.29
Dividends paid per share – cents	2.4	0.0	13.2	16.0	15.8
Basic earnings per share – cents	(20.10)	2.15	(44.8)	15.8	15.8
Diluted earnings per share – cents	(20.10)	2.12	(44.8)	15.8	15.7
Vesting outcomes – CEO incentives					
Short term incentive vesting	45%	n/a	Nil	Nil	22%
Long term incentive vesting	Nil	Nil	Nil	Nil	Nil

4. Remuneration principles and strategy

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

As stated in the Diversity and Inclusion Policy¹, 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.

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

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

5. Executive remuneration

5.1 Remuneration Framework and Link to Strategy

In FY22, the executive remuneration framework comprised a mix of fixed annual remuneration, the short-term incentive plan and the long-term incentive plan. The Group aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive and delivering outcomes that are aligned to the experience of Estia's shareholders.

Component	Approach	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	FAR is set with reference to role, capability and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private. Group and individual performance are considered during the annual remuneration review.	Competitive remuneration packages that attract and retain high calibre employees from a diverse talent pool.
Short-Term Incentive Plan (STI)	In FY22, the STI was measured against group-wide targets comprising net profit after tax (NPAT), occupancy, people and safety. A resident quality gateway hurdle was in place, requiring a range of ongoing compliance and accreditation targets to be met as a precondition for any of the STI to be eligible to vest, irrespective of financial and operational performance. For executive KMP, the STI award is delivered in a mix of cash and equity. 75% of the award is delivered in cash, with the remaining 25% delivered in performance rights subject to 12-month deferral.	Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term. Deferral of 25% of any STI award into equity increases alignment with shareholder interests.
Long-term Incentive Plan (LTI)	The FY22 LTI was delivered in the form of performance rights subject to the following performance condition, measured over a three-year period: Total shareholder return (TSR) (50%) relative to constituents of the ASX300 excluding mining and energy companies; and Earnings Per Share (EPS) (50%).	The LTI is designed to drive sustainable value creation for shareholders, encourage retention and encourage a multi-year performance focus. The combination of EPS and relative TSR reflects internal and external performance measures and provides alignment with shareholder outcomes.
Once-off Awards	The Company may grant once-off incentive awards, approved by the Board, where the circumstances warrant it. This may include the grant of retention incentives. No such awards were granted to KMP in FY22.	Once-off awards may be approved by the Board in order to retain or attract key talent, to ensure the achievement of Estia's business strategy, and to maximise long term shareholder outcomes.
Total Remuneration	The overall remuneration framework is designed to support and drive the achievement of Estia's business strategy: <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. A minimum shareholding policy is also in place to drive share ownership amongst NEDs and Senior Executives.	
Board discretion	The Board also has a broad discretion to withdraw incentives in a range of circumstances where the Board considers appropriate.	

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

5.2 Fixed Annual Remuneration

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

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 Short Term Incentive

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

Participation	All executive KMP participated in the FY22 STI plan.
STI value	In FY22, all executive KMP had an STI opportunity of 50% of FAR
Performance conditions	<p>Estia is committed to delivering safe, high-quality and sustainable aged care services for all Australians.</p> <p>Estia's STI scorecard reflects this commitment.</p> <p>The STI is subject to a resident quality gateway hurdle which requires ongoing compliance and accreditation targets to be met in order for any STI awards to be made. This is a reflection of the importance Estia places on quality of care.</p> <p>The balance of the STI scorecard assesses performance against a balanced scorecard of measures including financial, customer, people and safety.</p> <p>The collective use of these performance measures highlights an appropriate balance on shareholder, resident and workforce outcomes, all of which are inter-related.</p>
Delivery of STI	<p>Performance against the measures is tested annually after the end of the financial year. All payments under the STI plan are determined and approved by the Committee and the Board.</p> <p>Once STI payments have been approved, they are delivered in cash and equity. For senior executives (including all executive KMP), 25% of any payment is deferred for a period of 12 months in the form of performance rights. The quantity of performance rights granted is determined using face value allocation methodology, using the volume weighted average price (VWAP) for the 10 trading days immediately following the release of results (i.e. deferred STI amount divided by share price).</p>
Cessation of employment	<p>For "Bad Leavers" (defined by the Group as resignation or termination for cause), any unpaid or deferred STI is forfeited, unless otherwise determined by the Board.</p> <p>For any other reason, the Board has discretion to award STI on a pro-rata basis taking into account time and the current level of performance against performance hurdles</p>
Clawback policy	The Board has the discretion to reduce, cancel or clawback any unvested performance-based remuneration (including deferred STI) in the event of serious misconduct or a material misstatement in the Group's financial statements.
Board discretion	The Board also has a broad discretion to withdraw incentives in a range of circumstances where the Board considers appropriate

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

5.3.1 STI Outcomes

In FY22, Estia met the resident quality gateway hurdle, which created eligibility for STI payments to be made subject to the achievement of STI scorecard measures. The gateway required:

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

The table below outlines the vesting outcome of STI measures, including group-wide KPI's and role specific measures applied to KMP during FY21.

An overview of executive KMP performance under the FY22 STI scorecard is detailed in the table below.

Performance measure	Weighting ¹	Outcome
Resident Quality	Gateway	Resident quality gateway met
Financial	20% - 40%	Net Profit After Tax ("NPAT") result of loss of \$52,362 was below threshold – nil vesting.
Customer	20%	FY22 occupancy of 91.6% was above target – partial vesting (75%)
People	20%	FY22 employee turnover rate did not exceed threshold – partial vesting (50%)
Safety	20%	FY22 Lost time injury frequency rates and Lost Time Injuries count both exceeded the stretch targets set and were material improvements on prior year performance – full vesting
Role specific measures	0% - 20%	A variety of role specific measures were used for different members of the executive KMP, including objectives related to roster efficiency, reporting accuracy and managing the transition from the ACFI to the AN-ACC funding system. These measures partially vested.

These outcomes resulted in STI vesting outcomes for the Group's Executive KMP's ranging from 45-65% of target as shown below.

Executive	STI opportunity (\$)	STI awarded (\$)	STI awarded (%)	STI foregone (%)
Ian Thorley	390,000	\$175,500	45%	55%
Sean Bilton	260,000	\$143,000	55%	45%
Steve Lemlin	257,019	\$167,063	65%	35%

¹ Ian Thorley has a 40% weighting for the Financial component and no role-specific component. The other executive KMP have 20% weighting against all measures.

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 FY22.	
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 FY22, 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	The FY22 LTI award is subject to two equally weighted performance measures: relative total shareholder return (TSR) and earnings per share (EPS), as defined below: <ul style="list-style-type: none"> • 50% relative to the ASX300 excluding mining and energy companies; and • 50% relative to Earnings Per Share (EPS) TSR vesting and EPS schedules are provided below:	
	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 FY24 EPS (\$)	Percentage of performance rights that vest
	Less than 0.083	Nil
	Equal to 0.083	25%
	Greater than 0.083 up to 0.10	Straight line pro-rata 25% to 100%
At or above 0.10	100%	
Performance period	The performance rights granted in FY22 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.	
Total shares issued	The number of shares allocated on the vesting of all outstanding rights may not exceed 5% of the total number of shares on issue at the time of the offer.	
Cessation of employment	Unless the Board determines otherwise, if a participant's employment with the Group is terminated during the performance period as a 'good leaver' (i.e. as a result of genuine redundancy, death, terminal illness, total and permanent disablement, or any other reason as determined by the Board) they will be entitled to receive a pro-rata amount of their FY22 LTI Incentive (based on the proportion of whole months they were employed by the Group during the performance period). Any remaining unvested performance rights will lapse. If their employment with the Group is terminated in circumstances in which they are not considered a good leaver (e.g. resignation, or termination of employment initiated by the participant or the Group other than where such termination is as a good leaver), their FY22 LTI Incentive will immediately lapse. Notwithstanding the above, the Board may, subject to any requirement for shareholder approval, determine to treat any of the FY22 LTI in a different manner to that set out above upon participants ceasing to be an employee of the Group.	

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

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 FY20 LTI performance rights, which had a three-year performance period that ended on 30 June 2022, did not vest, as the relevant earnings per share (EPS) and relative total shareholder return performance targets were not achieved.

5.5 Once-off Awards

As previously disclosed at our 2020 Annual General Meeting (“AGM”) and in our 2021 annual report, no FY21 STI was offered, given the challenges of setting meaningful targets in the height of the pandemic and a once-off retention-based grant of performance rights (“FY21 Retention Incentive”) was granted to our KMP. These awards vested on 1 July 2022 following the completion of the required two years' service.

No such awards were granted to KMP in FY22.

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

6. Executive remuneration outcomes

6.1 Executive remuneration for the year 1 July 2021 to 30 June 2022

	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 Incentive
Executive director														
Ian Thorley	2022	756,432	131,625	-	23,568	-	780,000	21,938	140,878	111,350	1,185,791	25%		
	2021	698,306	-	-	21,694	-	720,000	-	125,012	72,606	917,618	14%		
Senior executives														
Sean Bliton	2022	496,432	107,250	-	23,568	-	520,000	17,875	182,270	77,326	904,721	34%		
	2021	478,306	-	-	21,694	-	500,000	-	89,423	50,421	639,844	14%		
Steve Lemlin	2022	490,470	125,297	-	23,568	-	514,038	20,883	171,983	75,631	907,831	35%		
	2021	467,344	-	-	21,694	-	489,038	-	74,253	168,315	731,607	10%		
Total executives	2022	1,743,334	364,172	-	70,704	-	1,814,038	60,696	495,131	264,307	2,998,343			
	2021	1,643,955	-	-	65,083	-	1,709,038	-	288,688	291,342	2,289,069			

¹ The LTI share based expenses represents the fair value of the expense recognised in the year in accordance with AASB 2, *Share-based Payment* ("AASB 2") and does not reflect vesting of LTI rights in the period.

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

7. Executive employment contracts

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

Name	FY22 FAR	Agreement commence	Agreement Expire	Notice of termination by Group	Employee Notice
Ian Thorley	\$780,000	23 October 2018	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months
Sean Bilton	\$520,000	23 October 2018	No expiry, continuous agreement	3 months (or payment in lieu of notice)	3 months
Steve Lemlin	\$514,038	1 February 2017	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months

7.1 Ian Thorley

Ian Thorley stepped down from the role of MD & CEO effective 11 July 2022 and remained with the Company until 29 July 2022 to ensure a comprehensive and smooth transition to his successor Sean Bilton.

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

Ian is also eligible to receive payment in respect of his FY22 STI, having served the entire performance period. The 25% deferred component issued as deferred shares remains subject to forfeiture in line with the ordinary terms of the plan.

7.2 Sean Bilton

As announced on 26 April 2022, Sean Bilton formally assumed the role of MD & CEO of Estia Health on 11 July 2022.

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

Mr Bilton's notice period was also increased to 6 months.

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

8. Non-Executive Director fee arrangements

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

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

8.1 Director's FY22 Fee Structure

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

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

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 FY22 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees \$	Superannuation \$	Total fees \$
Non-Executive Directors				
Gary Weiss	2022	256,432	23,568	280,000
	2021	258,306	21,694	280,000
Paul Foster	2022	131,818	13,182	145,000
	2021	135,000	-	135,000
Warwick Smith	2022¹	98,182	3,068	101,250
	2021	114,155	10,845	125,000
Helen Kurincic	2022	125,000	12,500	137,500
	2021	114,155	10,845	125,000
Karen Penrose	2022	122,727	12,273	135,000
	2021	114,155	10,845	125,000
Norah Barlow	2022	121,250	-	121,250
	2021	110,000	-	110,000
Total	2022	855,409	64,591	920,000
	2021	845,772	54,228	900,000

¹ Represents Warwick Smith's remuneration for the year to the date of his resignation effective 31 March 2022.

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 FY22.

	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	167,526	12/11/2021	0.60	30/06/2024	Nil	30/06/2024
	167,525	12/11/2021	1.98	30/06/2024	Nil	30/06/2024
Senior Executives						
Sean Bilton	111,684	24/08/2021	0.70	30/06/2024	Nil	30/06/2024
	111,684	24/08/2021	2.07	30/06/2024	Nil	30/06/2024
Steve Lemlin	110,403	24/08/2021	0.70	30/06/2024	Nil	30/06/2024
	110,403	24/08/2021	2.07	30/06/2024	Nil	30/06/2024
Total	779,224					

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 FY20.

						Vested at 30 June 2022	
	Number of rights at 30-Jun-21	Granted as remuneration	Rights exercised	Rights Forfeited	Number of rights at 30-Jun-22	Exercise-able	Not exercise-able
Executive director							
Ian Thorley	886,686	335,051	-	(265,594)	956,143	-	-
Senior Executive							
Sean Bilton	615,754	223,367	-	(184,441)	654,680	-	-
Steve Lemlin	631,623	220,806	(91,241)	(118,522)	642,666	-	-
Former Executive							
Norah Barlow	103,882	-	-	(103,882)	-	-	-
Total	2,237,945	779,224	(91,241)	(672,439)	2,253,489	-	-

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	432,528	-	507,285	36%
Senior executive				
Sean Bilton	309,509	-	352,282	34%
Steve Lemlin	305,960	222,628	226,377	34%
Total	1,047,997	222,628	1,085,944	

^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 July 2021	Granted as remuneration	Exercise of rights	On Market trades	Number of shares at 30 June 2022	Held Nominally
Non-executive directors						
Gary Weiss	78,312	-	-	-	78,312	78,312
Paul Foster	24,000	-	-	-	24,000	-
Warwick Smith	182,000	-	-	-	182,000¹¹	182,000
Helen Kurincic	50,000	-	-	-	50,000	25,000
Karen Penrose	32,333	-	-	4,500	36,833	36,833
Norah Barlow	129,474	-	-	-	129,474	129,474
Executive director						
Ian Thorley	138,001	-	-	-	138,001	53,312
Senior executives						
Sean Bilton	29,774	-	-	-	29,774	-
Steve Lemlin	43,663	-	91,241	-	134,904	-
Total	707,557	-	91,241	4,500	803,298	504,931

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

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

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

¹ represents balance as at the date of resignation as at 31 March 2022

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

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 - FY22 – FY24 TCFD Roadmap
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5. Metrics and targets

1. OVERVIEW

About the Taskforce on Climate-related Financial Disclosures



This report is prepared in accordance with the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#). The TCFD was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks and investors in providing information to investors, lenders and insurance underwriters in relation to financial risks associated with climate change.

Figure 1: TCFD defined areas of governance, strategy, risk management, metrics and targets

Chief Executive Officer's Message

Climate change represents one of the greatest challenges to the global community, creating risks for businesses, as well as broader society. The impacts are already evident and will increase in coming years and decades. In line with the Company's commitment to operating ethically, sustainably and with a high level of governance we have committed to understanding climate-related risks and opportunities facing our business and embedding responses to these into our business strategy and operations.

The Company takes seriously its responsibility to reduce its own impact on climate change and to report to investors and stakeholders the potential impact of climate change on our operations. We care for some of the most vulnerable members of society and our residents' health and wellbeing in our 68 homes across Australia will always remain our over-riding priority. Within that framework, we are working to better understand climate-related impacts and what we can do to minimise our footprint.

We have made commitments to reduce the impact that our own operations have on the environment, including executing a Sustainability Linked Loan in October 2021. Whilst the impact of COVID-19 on the operations of our homes has impacted our ability to achieve some of our ambitions in the last 2 years, I am proud of the progress we have made and we will continue to collaborate with our suppliers, employees and residents to minimise our impact on the environment.

To provide greater understanding and transparency regarding our work, we present our FY22 approach to meeting the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) and the planned roadmap for continued disclosure over the coming years.

Sean Bilton
Chief Executive Officer

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

FY22 – FY24 TCFD Roadmap

Core element	Roadmap objective	Required activities	FY22	FY23	FY24
Governance Disclose the organisation's governance around climate-related risks and opportunities	Board has appropriate oversight and understanding of climate risks and opportunities through appropriate governance structures, education and engagement.	Strengthen Board and management oversight of climate-related risks through appropriate Committees. Establish cross-functional Steering Committee with explicit ownership and oversight of climate-related risks and opportunities.	▲	▲	
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business strategy and financial planning	Incorporate climate scenario analysis into strategy and financial planning.	<ul style="list-style-type: none"> Defining short, medium, long-term timeframes Identifying material risks and opportunities Modelling to assess financial impact <ul style="list-style-type: none"> Short-term Medium-term Long-term Having identified impacts and opportunities, establish the impact on strategy and financial planning, including modelling resilience to physical and transitional risk impacts under different climate scenarios.	▲	▶	
Risk management Disclose how the organisation identifies, assesses and manages climate-related risks	Integrate climate-related risks within the existing company-wide risk management framework.	Climate-related risks integrated into risk management processes to assess significance of climate risks alongside other risks. Climate-related risk assessments are integrated into Risk Committee and Development Committee decisions on investments and capital spending.	▲	▲	
Metrics and targets Disclose metrics and targets used to assess and manage climate-related risks and opportunities	Disclose metrics and set targets in line with TCFD cross-industry standard metrics.	Establish target and metrics for managing climate-related risks and opportunities.		▲	



Figure 2: Estia Health's TCFD roadmap

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

2. GOVERNANCE

TCFD recommendations - governance

Disclose the organization's governance around climate-related risks and opportunities

Recommended disclosures:

- a) Describe the board's oversight of climate-related risks and opportunities.
- b) Describe management's role in assessing and managing climate-related risks and opportunities

Board oversight

In FY20, the Board endorsed the Sustainability Strategy with 2024 targets to reduce the organisation's environmental impact as well as an ongoing process to assess homes' resilience to physical climate-related risks. The Board oversees progress against the targets through the mechanism of the Board-level Risk Committee with quarterly updates provided. Climate risk has also been identified within the organisation's Risk Management Framework and Risk Register.

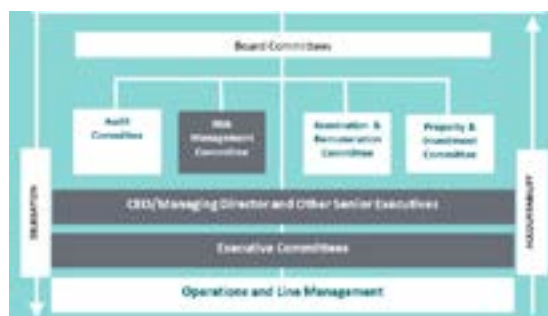


Figure 3: Governance structure as of 1 July 2022

Management's role

The following mechanisms and dedicated roles facilitate the continued assessment and management of climate-related risks and opportunities within the business:

- **Executive Sustainability Committee:**
Meetings were held quarterly, increasing to monthly in FY23, with the Head of Sustainability providing progress updates against the strategy and specific initiatives.
- **Steering Committees and Working Groups:**
Led by the Head of Sustainability, these Committees and Working Groups focus on specific areas of the Sustainability Strategy, with the relevant subject matter experts.

The Group Head of Risk and Covid Response oversees climate risk as one of the operational risks to the organisation and its embedding in the overall group-wide risk management framework.

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

3. STRATEGY

TCFD recommendations - strategy

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

Recommended disclosures

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

In assessing climate related risk, the Group determined the following time horizons.

Short-term (3 years) Medium-term (3-15 years) Long-term (more than 15 years)

A high-level assessment in FY22 identified the key focus areas for transition climate-related risks and opportunities which could have a significant effect on the operations, strategy and financial planning of the Group if not managed appropriately in the short-term. This exercise will be expanded to the medium and long-term in FY23.

A separate specific assessment of each Estia Health home was undertaken to identify any short-term physical risks to any home from extreme climate events. The results of both of these assessments are shown in figure 4, 6 and 7. In FY23 both assessments will be extended to consider medium- and long-term risks and opportunities.

Transition risks and opportunities

Category	Risk / opportunity	Impact in short-term 3 years
Energy	Risk: reduced supply and increased energy costs resulting in increased operating costs. Opportunity: investment in purchased renewables and enhancement of onsite solar. Opportunity to exceed existing carbon emissions and renewables targets working towards a net zero strategy.	Low
Carbon taxation	Risk: increased costs purchasing services and products, impacting revenue.	Low
Supply chain	Risk: climate change events disrupt food and other services production and supply routes, impacting access to required products and services for resident care. Opportunity: exploration of alternative sourcing pathways and sustainable purchasing process and structure accounting for impacted sourcing and supply chains.	Low
Litigation	Risk: risks of litigation and liabilities resulting from undisclosed exposure of the organisation to transition and physical climate impact, impacting brand and reputation.	Low
Policy and regulation	Risk: change in regulation, impacting building and energy efficiency increasing capital required to make required improvements. Opportunity: ambitious sustainability strategy addressing climate risk and opportunity ensuring a smooth transition to adapt to regulation and policy change.	Low
Reputation	Risk: in negative reputation resulting from Estia Health not taking positive action to reduce its environmental impact and mitigate and adapt to climate change. This results in a shift in consumer preferences, employee attraction and retention and investor preference. The result is an impact in revenue, workforce availability and available investment capital. Opportunity: Estia Health's action around climate-related risks results in positive reputation influencing consumer decisions, employee attraction and capital from investors.	Low

Figure 4: high-level assessment of identified potential transition risks and opportunities and impact in the short-term

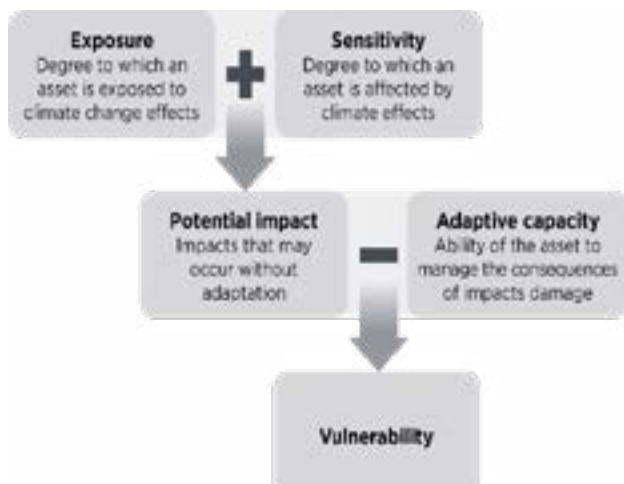
DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

Physical risks

In FY21 external advisors completed a climate change exposure assessment across all 68 Estia Health sites and new developments to identify the levels of exposure to potential climate hazards including temperature-related impacts, storms, floods and sea level rise. A threshold-based scoring system was used and an exposure score calculated for each climate variable, before being grouped to create an averaged exposure score for climate categories against each site.

A climate vulnerability assessment was then undertaken to understand each sites resilience to climate hazards, using the Füssel & Klein (2006) model defining "vulnerability" as an asset's exposure and sensitivity to that exposure minus its adaptative capacity.



Physical assets were assessed for vulnerability to climate hazards, including rooftops, guttering, windows, water supply, generators, heating/ventilation, information systems, lifts, as well as building access to deliver services and local transport.

The findings indicate that although the portfolio has exposure to climate-related risks, these are managed onsite through operational processes and resilience asset design (which is reflected by the generally low vulnerability of most assets to climate-related impacts). Sites assessed with potential high exposure and vulnerability combined, will be prioritised for further assessment to determine an appropriate response. The Group's 68 sites are geographically dispersed reducing the risk of one extreme climate event substantially impacting the whole Group.

Figure 5: vulnerability definition adapted from Füssel & Klein model, 2006

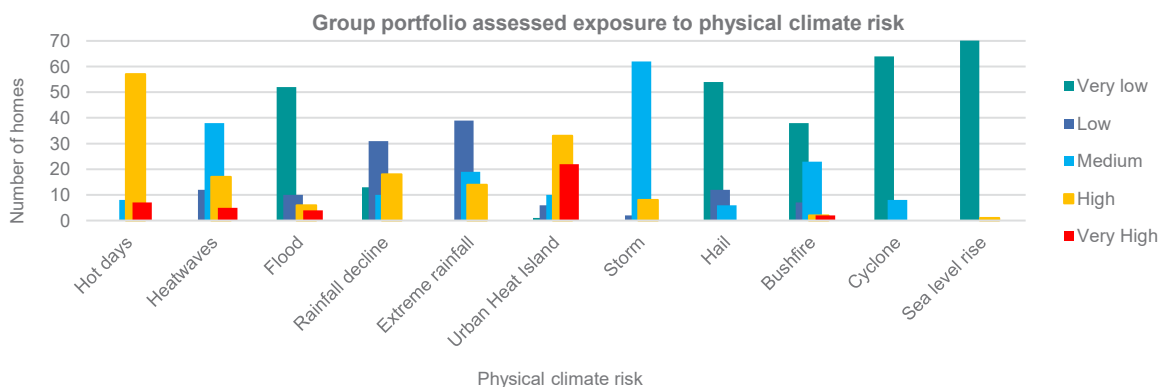


Figure 6: Group's assessed current exposure to physical climate risk

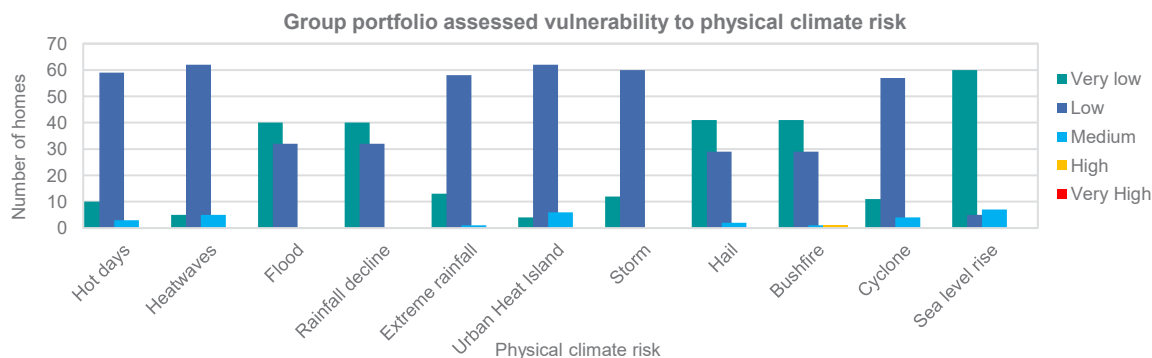


Figure 7: Group's assessed current vulnerability to physical climate risk. Risk rating scale is aligned to Estia Health's risk criteria

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

4. RISK MANAGEMENT

TCFD recommendations – risk management

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

Recommended disclosures

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

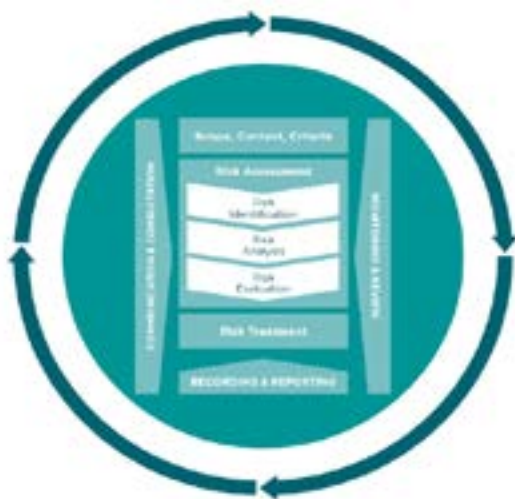
a) Process for identifying climate-related risks and opportunities

In FY22 a high-level risk identification, assessment and analysis was completed to identify physical and transition climate-related risks and opportunities understood to be relevant to the Group. In focusing on the short-term time horizon (3 years) as a priority to assess the potential risk and opportunity on the organisation's business strategy and financial planning, the exercise took into account recent climate events in Australia, work completed to assess the Group's portfolio to physical climate-related risk, as well as broader recent macroeconomic issues to best assess the relevant risk and opportunities to the business.

b) Process for managing climate-related risks

The analysis was attended by the Group's key executives and managers, including representatives from finance, property and development, hospitality, procurement and risk and sustainability, supported by external consultants. Assessments were completed using Estia Health's Risk Management Framework to determine the likelihood and consequence of each risk in line with the Group's risk appetite. This assessment will be undertaken each year and from FY23 will include scenario modelling, advanced financial modelling over the medium and long-term.

c) Integrating climate-related risk into Estia Health's Risk Management Framework



Climate change has been assessed and reflected within the Group's corporate risk profile relative to other risks that could prevent the achievement of strategic objectives.

Priorities have been established based on 'plausible' events that could occur taking into consideration the current operating and control environment.

Figure 6: Estia Health's Risk Management Process and Framework

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

5. METRICS AND TARGETS

TCFD recommendations – metrics and targets

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

Recommended disclosures

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

The Group's Sustainability Strategy will work towards establishing and regularly reviewing targets aligned with each TCFD defined cross-industry, climate-related metric categories. Current relevant metrics in the strategy include:

- Absolute carbon emissions (Scope 1 and 2) and intensity
- Onsite renewable energy generation
- Assessment of individual home resilience to physical risk.

TCFD Metric Category	Targets	Current Status
Greenhouse Gas (GHG) emissions Absolute Scope 1, Scope 2 and Scope 3; emissions intensity (MT of CO ₂ e)	By FY24: 20% reduction in operational carbon emissions intensity (Scope 1 and 2) ¹ from FY19 baseline	FY22 total emissions (Scope 1 and 2): 24,989 tCO ₂ e- FY22: 5% reduction from 2019 baseline FY21: 7% reduction from 2019 baseline ² Total 12% reduction against 2019 baseline The Group is assessing the most appropriate methodology for ongoing accurate measurement and reporting of indirect Scope 3 emissions.
Transition risks Amount and extent of assets of business activities vulnerable to transition risks (amount or percentage)	To be determined in FY23	Initial high-level analysis to determine relevant physical and transition risks to the Group in the short-term.
Physical risks Amount or extent of assets or business activities vulnerable to climate risks (amount or percentage)	By 2024: 100% of portfolio assessed for climate resilience	FY22: Initial high-level analysis to determine relevant physical and transition risks. 100% of homes assessed for exposure and vulnerability to physical climate change with further risk screening and assessments for specific homes planned.
Climate-related opportunities Proportion of revenue, assets or other business activities aligned with climate-related opportunities (amount or percentage)	To be determined in FY23	Previously the group has significantly invested in sustainability initiatives (onsite solar, efficiency of assets) and continues to investigate responsible investment options to support the strategy.
Capital deployment Amount of capital expenditure, financing or investment deployed to toward climate-related risks and opportunities (reporting currency)	To be determined in FY23	Capital investment of \$4.1 million to install solar panels, with 52 sites completed to date ³ In October 2021, the Group established a new \$330.0 million Sustainability Linked Loan with targets linked to reduced greenhouse gas emissions.
Internal carbon prices Prices on each ton of GHG emissions used internally by an organisation	Based on the industry and scale of the group, there are no immediate plans to develop and disclose internal carbon pricing.	
Remuneration Proportion of executive management remuneration linked to climate considerations (percentage, weighting, description or amount in reporting currency)	To be determined in FY23	The Group determined that at present other critical measures were of higher priority to management remuneration. This position will be assessed annually.

¹ Scope 1 and 2 emissions intensity calculated per occupied bed (kg CO₂-e/occupied bed day). Emission Factors as per NGA 2021: Australian National Greenhouse Account Factors (Measurement Determination) published 2021.

² FY21 emissions intensity reduction of 6%, has been recalculated to 7% in FY22 due to improvements in data analysis.

³ Capital investment includes total costs identified in assigned business cases and does not include ongoing maintenance costs. A total of 59 Estia Health sites have solar installations.



**Building a better
working world**

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

As lead auditor for the audit of the financial report of Estia Health Limited for the financial year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

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
23 August 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 \$'000	Restated ¹ 2021 \$'000
Revenue	B1	671,067	646,305
Other income	B1	8,966	19,087
Expenses			
Employee benefits and agency staff expense	B2	488,773	444,108
Administrative expenses	B3	27,729	23,318
Occupancy expenses	B4	21,087	21,054
Resident expenses		64,233	64,381
Depreciation, impairment and amortisation expense excluding bed licences		45,122	42,808
Amortisation of bed licences	C6	60,349	-
Class action settlement		-	12,409
Operating (loss) / profit for the year		(27,260)	57,314
Net finance costs	B5	46,298	48,812
(Loss) / Profit before income tax		(73,558)	8,502
Income tax (benefit) / expense	B6	(21,196)	2,897
(Loss) / Profit for the year		(52,362)	5,605
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (loss) / profit for the year, net of tax		(52,362)	5,605
(Loss) / earnings per share			
Basic	B7	(20.10)	2.15
Diluted	B7	(20.10)	2.12

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

The accompanying notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Notes	2022 \$'000	Restated ¹ 2021 \$'000
Current assets			
Cash and cash equivalents	C1	20,411	33,428
Trade and other receivables	C2	10,261	7,125
Prepayments and other assets		4,567	5,835
Consumable supplies	C3	4,714	2,985
Assets held for sale	C4	-	2,601
Income tax receivable		11,960	-
Total current assets		51,913	51,974
Non-current assets			
Property, plant, equipment	C5	840,343	845,465
Investment properties		750	750
Goodwill	C6	681,014	681,014
Bed licences and other intangible assets	C6	164,209	223,815
Right of use assets	C7	56,367	59,220
Prepayments		377	352
Total non-current assets		1,743,060	1,810,616
Total assets		1,794,973	1,862,590
Current liabilities			
Trade and other payables	C8	52,135	39,305
Other financial liabilities		466	508
Provisions	C9	63,126	59,962
Income tax payable		-	1,162
Lease liabilities	C7	3,686	3,897
Refundable accommodation deposits and bonds	D1	884,069	863,929
Total current liabilities		1,003,482	968,763
Non-current liabilities			
Lease liabilities	C7	58,766	61,225
Provisions	C9	8,542	6,059
Loans and borrowings	D2	98,487	113,833
Deferred tax liabilities	B6	83,959	99,617
Total non-current liabilities		249,754	280,734
Total liabilities		1,253,236	1,249,497
Net assets		541,737	613,093
Equity			
Issued capital	D3	795,748	803,459
Share-based payments reserve	D4	3,483	2,629
Accumulated losses		(257,494)	(192,995)
Total equity		541,737	613,093

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

The accompanying notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	Notes	Issued capital \$'000	Share-based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020, as previously reported		803,397	1,706	(196,354)	608,749
Effect of change in accounting policy (net of tax)	E4	-	-	(2,246)	(2,246)
Adjusted balance as at 1 July 2020		803,397	1,706	(198,600)	606,503
Profit for the year, as restated		-	-	5,605	5,605
Other comprehensive income		-	-	-	-
Total comprehensive income, as restated		-	-	5,605	5,605
Transactions with shareholders:					
Transfer from share-based payments reserve	D3	62	(62)	-	-
Repayment of management equity plan	D4	-	12	-	12
Share-based payments	D4	-	973	-	973
Balance as at 30 June 2021, as restated		803,459	2,629	(192,995)	613,093
Balance as at 1 July 2021, as restated		803,459	2,629	(192,995)	613,093
Loss for the year		-	-	(52,362)	(52,362)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	(52,362)	(52,362)
Transactions with shareholders:					
Shares repurchased and incremental costs	D3	(7,956)	-	-	(7,956)
Transfer from share-based payments reserve	D3	244	(244)	-	-
Share-based payments	D4	-	1,086	-	1,086
Repayment of management equity plan	D4	1	12	-	13
Dividends	D3	-	-	(12,137)	(12,137)
As at 30 June 2022		795,748	3,483	(257,494)	541,737

The accompanying notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 \$'000	Restated ¹ 2021 \$'000
Cash flows from operating activities			
Receipts from residents		145,005	145,716
Receipts from government		477,855	462,420
Payments to suppliers and employees		(575,983)	(569,768)
Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions		46,877	38,368
Interest received		18	520
Income taxes paid		(7,584)	(6,065)
Finance costs paid		(4,669)	(6,153)
Interest expense on lease liabilities		(1,911)	(1,943)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions		32,731	24,727
RAD, accommodation bond and ILU entry contribution received		268,430	256,599
RAD, accommodation bond and ILU entry contribution refunded		(245,629)	(226,007)
Net cash flows from operating activities	B8	55,532	55,319
Cash flows from investing activities			
Payments for intangible assets	C6	(1,676)	(939)
Proceeds from sale of property, plant and equipment		64	41
Proceeds from sale of assets held for sale	C4	3,550	15,385
Purchase of property, plant and equipment	C5	(31,780)	(47,098)
Net cash flows used in investing activities		(29,842)	(32,611)
Cash flows from financing activities			
Proceeds from repayment of MEP loans		1	-
Proceeds from borrowings		125,000	239,500
Repayment of borrowings		(139,500)	(255,000)
Payments for shares repurchased on-market and incremental costs		(7,956)	-
Dividends paid	D3	(12,137)	-
Repayment of lease liabilities		(4,115)	(4,380)
Net cash flows used in financing activities		(38,707)	(19,880)
Net decrease in cash and cash equivalents		(13,017)	2,828
Cash and cash equivalents at the beginning of the year		33,428	30,600
Cash and cash equivalents at the end of the year	C1	20,411	33,428

¹ Refer to Note E4 for details relating to the restatement of prior period comparative.

The accompanying notes form part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION A: ABOUT THIS REPORT

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

A1 CORPORATE INFORMATION

The Consolidated Financial Statements of Estia Health Limited (the "Company" or the "Parent") and its subsidiaries (collectively, the "Group" or "Estia Health") for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Directors on 23 August 2022.

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

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

A2 BASIS OF PREPARATION

This general purpose financial report:

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

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

A3 BASIS OF CONSOLIDATION

The Consolidated Financial Statements comprise the financial statements of the Company and its controlled subsidiaries as at and for the year ended 30 June 2022 (refer to Note E7 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 2022

SECTION A: ABOUT THIS REPORT

A4

CURRENT OR NON-CURRENT CLASSIFICATION

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

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

All other assets are classified as non-current.

A liability is current when:

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

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

A5

GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by \$951,569,000 as at 30 June 2022 (2021: \$916,789,000) resulting in a net deficiency of current assets. This mainly arises due to Refundable Accommodation Deposits ("RADs") of \$884,069,000 (2021: \$863,929,000) as current liabilities.

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

The Group has a syndicated financing facility of \$330,000,000 of which \$230,000,000 remains undrawn as at 30 June 2022 (2021: \$215,500,000). This debt facility can be drawn down to repay RAD and bond refunds should the Group experience significant RAD and bond net outflows. The Group also has a guarantee facility of \$8,000,000 (2021: nil) of which \$326,000 remains unused as at 30 June 2022 (2021: nil).

The potential future impact of COVID-19 on the Group's future cash flows has been taken into consideration in preparing the financial report on a going concern basis – For the impact of COVID-19 subsequent to the reporting period, please refer to Note E5 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION A: ABOUT THIS REPORT

A6

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Information about critical judgements, estimates and assumptions that are material to the financial statements relate to the following areas:

Significant accounting judgements, estimates and assumptions

Note B1	Revenue and other income
Note B5	Finance costs
Note C2	Allowance for expected credit losses
Note C5	Property, plant and equipment impairment test
Note C6	Intangible assets impairment test and bed licence amortisation
Note C7	Leases
Note C9	Provisions
Note D4	Share-based payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE

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

B1 REVENUE AND OTHER INCOME

	2022 \$'000	2021 \$'000
Revenue		
Government funded residential care subsidies & supplements ¹	459,082	456,120
Basic daily fee supplement	20,569	-
Resident daily care fees	110,411	106,569
Other resident fees ²	41,677	41,300
Imputed DAP revenue on RAD and bond balances under AASB 16 ²	39,328	42,316
Total revenue	671,067	646,305
Other income		
Net gain on disposals of assets held for sale	848	9,446
Net gain on disposals of property, plant and equipment	64	41
Government grants ³	8,053	9,600
Other income	1	-
Total other income	8,966	19,087

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

¹ Government funded residential care subsidies & supplements includes temporary additional funding of \$11,826,000 for the year ended 30 June 2021 provided by the Australian Government to support additional costs and workforce supply pressures resulting from COVID-19. No temporary additional funding was received during the current financial year.

² Other resident fees include operating lease revenue for the provision of accommodation, that is accounted for in accordance with AASB 16 Leases ("AASB 16"). In addition, the amount includes imputed revenue in relation to residents who have chosen to pay a RAD or bond which is a non-cash amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B1

REVENUE AND OTHER INCOME (CONTINUED)

³. *Monetary Government grants*

During the year, the Group submitted claims to the Federal Government relating to expenses incurred in managing the direct impacts of COVID-19 during the year as shown below:

	2022 \$'000	2021 \$'000
Grant submitted during the year		
Confirmed and received before end of year	7,049	7,369
Confirmed but not received before end of year	23	-
Grant claims recognised as income during the year	7,072	7,369
Grant claims submitted before end of year		
- Subsequently confirmed which will be recognised as income in subsequent financial year	1,361	-
- Not yet confirmed at the date of this report	21,362	-
- Amounts of claims rejected	233	-
Total grant claims submitted during the year	30,028	-
Further grant claims submitted after end of year relating to current year's costs	6,575	-
Total grant claims submitted relating to current year's costs	36,603	7,369
Total grant claims relating to current year's costs not recognised as income for the year^(a)	29,298	-

(a) These grants will be recognised as income subsequently upon the approval of related grant applications.

Non-monetary Government grants

PPE totalling \$980,000 (2021: \$2,231,000) received from the Government was consumed during the year, which supplemented its own purchases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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 1997 (the "Act"). The level of subsidy or supplement depends on a range of factors, including a resident's care needs, supported resident ratios in a particular home and whether a home has been newly built or significantly refurbished on or after 20 April 2012. The subsidies and supplements are calculated as a daily rate payable for each day that a resident is in a home.

The Government may require a resident to pay a proportion of that subsidy or supplement dependent on their own financial circumstances. This is referred to as a Means Tested Care Fee ("MTCF"). As a result, the MTCF reduces the amount the Government pays directly to the provider. The total MTCF included within the total Government Funded Residential Care Subsidies and Supplements was \$16,808,000 for the year ended 30 June 2022 (2021: \$15,478,000).

(b) Basic Daily Fee supplement

The Group receives Basic Daily Fee supplement in accordance with the provisions of the Aged Care Act 1997 which is introduced with effect from 1 July 2022 to support eligible aged care providers to deliver better care and services to residents with a focus on food and nutrition. The supplement is calculated as \$10 per day per resident.

(c) 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.

(d) 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.

(e) Imputed Revenue on RAD and Bond Balances under AASB 16 Leases ("AASB 16")

Accommodation services provided to residents who have elected to pay a RAD or accommodation bond are accounted for as a lease under AASB 16.

(f) Other Income

During the year, a facility in Keilor Downs, Victoria was closed, and later sold for a total of \$3,550,000 (2021: two properties sold for \$16,450,000) and recognised a net gain on sale of \$848,000 (2021: net gain on sale of \$9,446,000).

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.

(g) Contract assets and liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B1

REVENUE AND OTHER INCOME (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

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

The transaction price is allocated to performance obligations on the basis of their relative standalone selling prices and recognised as revenue 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 are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to compensation for expenses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised in profit or loss of the period in which it becomes receivable. When the Group receives grants of non-monetary assets, the replacement cost of the underlying assets received are initially recognised as inventory and deferred grant income, which subsequently get released to profit or loss based on the pattern of consumption of the benefits of the underlying asset. Government grants are considered as other income.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in Other resident fees. Total revenue includes imputed revenue in relation to residents who have chosen to pay a RAD or bond. Under AASB 16, the fair value of non-cash consideration (in the form of an interest-free loan) received from a resident that has elected to pay a RAD or accommodation bond is required to be recognised as income and correspondingly, interest expense with no net impact on profit or loss.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

COVID-19 related grant income

Based on previous experience and the processes adopted by the Group prior to submission of grant claims, the Group believes that its grant applications meet all eligibility criteria. However, the approval of submitted claims is wholly managed by and at the discretion of Government, and as such the outcome of the submissions cannot be predicted with certainty until they are approved formally by the Government. Therefore, the Group considered that the income associated with these grants shall be recognised in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* when the Group obtains reasonable assurance that the grants will be received which is upon receipt of approval from the Government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B2 EMPLOYEE BENEFITS AND AGENCY STAFF EXPENSES

	2022 \$'000	Restated ¹ 2021 \$'000
Salaries and wages expense	382,129	366,133
Superannuation expense	34,651	33,014
Other employee expenses including agency staff expenses	71,993	44,961
Total employee benefits and agency staff expenses	488,773	444,108

COVID-19 aged care retention bonuses

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. Total payments of \$4,385,000 for the year ended 30 June 2022 (2021: \$9,104,000) were therefore treated as a disbursement and were presented as a pass-through with no impact on the financial results.

B3 ADMINISTRATIVE EXPENSES

	2022 \$'000	Restated ¹ 2021 \$'000
Advertising and marketing expenses	1,313	1,326
Telephone and communication expenses	2,297	2,576
Travelling expenses	2,752	800
Printing and stationery expenses	1,196	1,179
Professional services expenses	6,609	5,561
Insurance premiums	5,241	4,200
Other administrative expenses	8,321	7,676
Total administrative expenses	27,729	23,318

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

B4 OCCUPANCY EXPENSES

	2022 \$'000	2021 \$'000
Repairs and maintenance expense	8,199	8,555
Other occupancy expenses	12,888	12,499
Total occupancy expenses	21,087	21,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B5

NET FINANCE COSTS

	2022 \$'000	2021 \$'000
Finance income		
Interest income from cash at banks	19	520
Total finance income	19	520
Finance costs		
Imputed interest expense on RAD and bond balances	39,328	42,316
Interest expense on accommodation bonds for departed residents	2,654	2,019
Interest expense on leases under AASB 16	1,911	1,943
Interest expense on bank loans	469	1,509
Other finance costs	1,955	1,545
Total finance costs	46,317	49,332
Net finance costs	46,298	48,812

SIGNIFICANT ACCOUNTING POLICY

Interest income

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

Borrowing costs

Borrowing costs comprise interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Refer to Note C7 for Interest expenses under AASB 16 and D2 for information relating to loans and borrowings.

Imputed interest on RAD

Refer to Note B1 revenue and other income.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B6 INCOME TAX

Major components of income tax expense

	2022 ² \$'000	Restated ¹ 2021 \$'000
<i>Current income tax</i>		
Current tax (benefit) / expense	(3,432)	1,155
Adjustments in respect of income tax of previous year	(2,106)	(433)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(17,795)	1,663
Adjustments in respect of income tax of previous year	2,137	512
Income tax (benefit) / expense	(21,196)	2,897

Reconciliation of income tax expense and accounting profit:

	2022 \$'000	Restated ¹ 2021 \$'000
Accounting profit before income tax	(73,558)	8,502
At the Australian statutory income tax rate of 30% (2021: 30%)	(22,067)	2,551
Adjustments in respect of income tax of previous year	31	79
Utilisation of previously unrecognised tax losses	-	(13)
Expenditure not allowable for income tax purposes		
- Other expenditure	840	280
Income tax (benefit) / expense	(21,196)	2,897

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

² Under Government's Loss Carry Back Tax Offset regime, the Group intends to carry back the tax loss incurred during the year against its income tax paid in earlier years, which is expected to result in a tax refund in the following financial year. As such, a current tax asset has been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B6 INCOME TAX (CONTINUED)

Major components of deferred tax

	Consolidated Statement of Profit or Loss and Comprehensive Income		Consolidated Statement of Financial Position	
	2022 \$'000	Restated ¹ 2021 \$'000	2022 \$'000	Restated ¹ 2021 \$'000
Accelerated depreciation and impairment	(1,539)	(3,672)	(61,388)	(59,849)
Lease liabilities	(3,153)	2,244	18,736	21,889
Provisions and accruals	1,876	2,028	23,951	22,075
Assets held for sale	-	(2,216)	-	-
Right of use assets	987	-	(16,910)	(17,897)
Bed licences	17,610	-	(46,961)	(64,571)
Other ¹	(123)	(727)	(1,387)	(1,264)
Deferred tax expense / (credit)	15,658	(2,343)		
Deferred tax liabilities, net			(83,959)	(99,617)

Reflected in the Consolidated Statement of Financial Position as follows:

Deferred tax assets	42,924	44,347
Deferred tax liabilities	(126,883)	(143,964)
Deferred tax liabilities, net	(83,959)	(99,617)

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

Reconciliation of deferred tax liabilities, net:

	Notes	\$'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 as at 1 July 2021, as previously reported		(100,747)
Effect of change in accounting policy (net of tax)	E4	1,130
Balance as at 1 July 2021, as restated		(99,617)
Income tax credit during the year recognised in profit or loss		17,795
Adjustments in respect of income tax of previous year		(2,137)
Balance as at 30 June 2022		(83,959)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B6

INCOME TAX (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the Australian Taxation Office (“ATO”). The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

Deferred tax

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B7 EARNINGS PER SHARE

	2022 cents	Restated ¹ 2021 cents
Basic (loss) / earnings per share	(20.10)	2.15
Diluted (loss) / earnings per share	(20.10)	2.12

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

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

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

Earnings used in calculation of EPS

	2022 \$'000	Restated ¹ 2021 \$'000
(Loss) / Profit attributable to owners of the Company	(52,362)	5,605

Weighted average number of shares used in calculating EPS

	2022 Number	2021 Number
Weighted average number of ordinary shares used in calculating basic EPS	260,519,150	261,294,969
Adjustment for calculation of diluted EPS:		
- Performance rights ^{2, 3}	2,559,858	3,013,807
Weighted average number of ordinary shares adjusted for the effect of dilution	263,079,008	264,308,776

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

² Performance rights granted to participants are considered to be potential ordinary shares and have been included in the determination of diluted EPS to the extent to which they are dilutive.

³ The shares that may dilute basic earnings per share in the future, were anti-dilutive for the year ended 30 June 2022 due to the loss for the year and therefore they were not included in the calculation of diluted earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B8 CASH FLOW RECONCILIATION

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

	2022 \$'000	Restated ¹ 2021 \$'000
(Loss) / Profit for the year	(52,362)	5,605
Adjustments to reconcile profit after income tax to net cash flows:		
Depreciation of property, plant and equipment	40,031	35,891
Depreciation on right of use assets	4,142	4,535
Amortisation of bed licences and other intangible assets	61,180	1,402
Impairment of property, plant and equipment	118	980
Net gain on disposal of property, plant and equipment	(64)	(41)
Net gain on sale of assets held for sale	(848)	(9,446)
Pre-FY14 accommodation bond retentions	(2,661)	(2,968)
Imputed revenue on RAD and bond balances	39,328	42,316
Imputed interest cost on RAD and bond balances	(39,328)	(42,316)
Income tax (benefit) / expense	(21,196)	2,897
Finance costs	409	865
Share-based payments	1,097	985
Movement in allowance for expected credit losses	(328)	(718)
(Increase) / Decrease in:		
Trade and other receivables	(2,864)	1,590
Prepayments and other assets	(1,447)	(2,397)
(Decrease) / Increase in:		
Trade and other payables	9,462	(16,577)
Provisions	5,646	8,189
Refundable accommodation deposits and bonds	22,801	30,592
Less: Income tax paid	(7,584)	(6,065)
Net cash flows from operating activities	55,532	55,319

¹ Refer to Note E4 for details relating to the restatement of prior period comparative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION B: OUR PERFORMANCE (CONTINUED)

B8

CASH FLOW RECONCILIATION (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Operating cash flow

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

(b) Reconciliation of liabilities arising from financing activities

	2021 \$'000	Net cash flows \$'000	Other \$'000	2022 \$'000
Non-current loans and borrowings	113,833	(14,500)	(846)	98,487
Lease liabilities	65,122	(5,987)	3,317	62,452
Dividends payable	-	(12,137)	12,137	-
Total liabilities from financing activities	178,955	(32,624)	14,608	160,939

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES

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

C1 CASH AND CASH EQUIVALENTS

	2022 \$'000	2021 \$'000
Cash at bank	20,357	33,300
Cash on hand	54	128
Total cash and cash equivalents	20,411	33,428

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 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C2 TRADE AND OTHER RECEIVABLES

	2022 \$'000	2021 \$'000
Trade receivables	6,586	6,767
Other receivables	4,642	1,653
Allowance for expected credit losses	(967)	(1,295)
Total trade and other receivables	10,261	7,125

Allowance for expected credit loss

	2022 \$'000	2021 \$'000
As at 1 July	1,295	2,013
Net remeasurement of allowance for expected credit losses	(20)	(302)
Utilised	(308)	(416)
As at 30 June	967	1,295

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 categories of receivables with similar credit risk characteristics, adjusted for any material expected changes to the future credit risk of that category to determine the lifetime expected credit losses at the reporting date.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In calculating the allowance for expected credit loss, the Group applies judgements when identifying receivables with similar risk characteristics to group together in the provision matrix. The Group estimates the rate of allowance of expected credit loss for each category of receivables, which requires the use of historical rates of default and assumptions based on future economic conditions, such as a downturn in the Australian economy or adverse changes to the aged pension, which may impact the ability to collect outstanding customer balances. Note D5 contains additional information in relation to Credit Risk.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C3 CONSUMABLE SUPPLIES

	2022 \$'000	2021 \$'000
Consumable supplies, at lower of cost or net realisable value	4,714	2,985
Total consumable supplies	4,714	2,985

During the year, the Group recognised the following expenses in resident expenses for consumable supplies carried at lower of cost or net realisable value.

	2022 \$'000	2021 \$'000
Consumption	4,966	6,131
Write-down of expired consumable supplies	298	688
Write-down of consumable supplies to net realisable value	28	318
Total consumable supplies expensed during the year	5,292	7,137



SIGNIFICANT ACCOUNTING POLICY

Consumable supplies are recorded using the First In First Out Method and are valued at the lower of cost and net realisable value, which is the estimated replacement cost.

C4 ASSETS HELD FOR SALE

	2022 \$'000	2021 \$'000
Assets held for sale	-	2,601
Total assets held for sale	-	2,601

The prior year balance represented a land site in Wombarra which has been subject to continued protracted negotiations over its sale. The Group has assessed that a commercial transaction eventuating between the parties within the next 12 months as being unlikely. As such, the carrying value of the land site was reclassified as Property, Plant and Equipment with no impact on the results of operations for the current period and any prior periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C5 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment

Note	Land \$'000	Buildings \$'000	Property improve- ments \$'000	Furniture, fixtures & equipment \$'000	Motor vehicles \$'000	Construction in progress \$'000	Total \$'000
Cost							
Balance at 1 July 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
Additions	-	-	2,745	9,400	79	22,843	35,067
Transfers	-	-	3,331	7,803	-	(11,134)	-
Disposals	-	-	(631)	(2,455)	(89)	(5)	(3,180)
Net transfer to assets held for sale	378	(3,323)	(737)	(787)	-	-	(4,469)
Balance at 30 June 2022	190,443	563,915	93,560	151,626	982	24,196	1,024,722
Accumulated depreciation and impairment							
Balance at 1 July 2020	-	55,827	9,189	51,394	770	2,213	119,393
Depreciation expense	-	11,352	5,238	19,694	41	-	36,325
Impairment expense	821	-	-	-	-	159	980
Disposals	-	(31)	(131)	(2,174)	(151)	(2,372)	(4,859)
Balance at 30 June 2021	821	67,148	14,296	68,914	660	-	151,839
Depreciation expense	-	13,275	6,378	20,308	70	-	40,031
Impairment expense, net of impairment reversals	113	-	-	-	-	5	118
Disposals	-	-	(603)	(2,384)	(90)	(5)	(3,082)
Transfer to assets held for sale	-	(3,154)	(694)	(679)	-	-	(4,527)
Balance at 30 June 2022	934	77,269	19,377	86,159	640	-	184,379
Net book value							
As at 30 June 2021	189,244	500,090	74,556	68,751	332	12,492	845,465
As at 30 June 2022	189,509	486,646	74,183	65,467	342	24,196	840,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C5

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

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

Property, plant and equipment acquired through business combination are initially measured at fair value at the date on which control is obtained.

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

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

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

De-recognition & Disposal

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

Impairment

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

The Group also assesses the indicators for impairment at each 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 or value in use. The carrying value is determined on a basis consistent with the way the recoverable amount of the CGU is determined. The carrying value of the CGU represents those assets that can be attributed directly or allocated on a reasonable and consistent basis.

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 re-assesses 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 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS

	Notes	Goodwill \$'000	Bed licences \$'000	Others \$'000	Total \$'000
Cost					
Balance at 1 July 2020, as reported		817,074	221,281	11,530	1,049,885
Effect of change in accounting policy	E4	-	-	(3,613)	(3,613)
Balance at 1 July 2020, as restated		817,074	221,281	7,917	1,046,272
Additions, as restated	E4	-	-	1,040	1,040
Balance at 30 June 2021, as restated		817,074	221,281	8,957	1,047,312
Additions		-	-	1,575	1,575
Disposal		-	-	-	-
Transfer to assets held for sale		-	-	(10)	(10)
Balance at 30 June 2022		817,074	221,281	10,522	1,048,877
Accumulated amortisation and impairment					
Balance at 1 July 2020, as reported		136,060	-	5,861	141,921
Effect of change in accounting policy	E4	-	-	(405)	(405)
Balance at 1 July 2020, as restated		136,060	-	5,456	141,516
Amortisation expense, as restated	E4	-	-	967	967
Balance at 30 June 2021, as restated		136,060	-	6,423	142,483
Amortisation expense		-	60,349	831	61,180
Disposal		-	-	-	-
Transfer to assets held for sale		-	-	(9)	(9)
Balance at 30 June 2022		136,060	60,349	7,245	203,654
Net book value					
As at 1 July 2020, as restated		681,014	221,281	2,461	904,756
As at 30 June 2021, as restated		681,014	221,281	2,534	904,829
As at 30 June 2022		681,014	160,932	3,277	845,223

¹ Refer to Note E4 for details relating to the restatement of prior period comparative

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Bed licences

Bed licences are initially carried at cost or if acquired in a business combination, at fair value at the date of acquisition in accordance with *AASB 3 Business Combinations*.

Subsequently, the Group's bed licences, which were previously carried at cost less any accumulated impairment losses, are now measured at cost less accumulated amortisation and any accumulated impairment losses following the release of the discussion paper *Improving Choice in Residential Aged Care – ACAR Discontinuation* on 30 September 2021 by the Australian Government. For details, refer to Significant Accounting Judgements, Estimates and Assumptions for bed licences.

Bed licences are tested for impairment when circumstances indicate that the carrying value may be impaired. Testing is performed in line with the procedures noted below in Goodwill.

Goodwill

Goodwill is initially measured at cost and represents the excess of the total consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the group of CGUs to which the goodwill relates. When the recoverable amount of the group of CGUs is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Other intangible assets

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

Refer to Note E4 for accounting policy in relation to configuration or customization costs in a cloud computing arrangement.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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

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

De-recognition and disposal

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(a) Impairment of goodwill and other intangible assets

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

For impairment testing purposes, goodwill and other intangible assets are allocated to CGUs (aged care facility) and a group of CGUs (Consistent with the operating segment identified in Note E6) that represent the lowest level within the Group at which these assets are monitored. The carrying value of the CGUs or the Group of CGUs was then compared against their recoverable amount. The recoverable amount 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 (2023 to 2027) 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 are the discount rate, long term growth rate, and the assumption that Government policy will result in the cessation of margin erosion and profitability experienced in recent years caused by a failure for Government funding increases to be consistent with input cost inflation. Sensitivity analysis on reasonably likely changes to these assumptions did not result in an outcome where impairment would be required.

Discount rate was applied to the cash flow forecasts, including the terminal value. This rate reflects the current market assessments of the risks specific to the industry the Group operates in, and 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 reflects an assessment of inflation and perpetual growth using market and economic data.

The discount and growth rates used at 30 June 2022 in assessing the recoverable amount are as follows:

	2022	2021
	%	%
Post-tax discount rate	9.0	9.3
Pre-tax discount rate	12.1	12.5
Long term growth rate	2.3	2.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C6

GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(b) Change in accounting estimates – Change in useful life assessment of bed licences

On 30 September 2021, the Australian Government released a discussion paper *Improving Choice in Residential Aged Care - ACAR Discontinuation*. The discussion paper has confirmed the intention to abolish the Aged Care Approvals Round (“ACAR”) and associated supply restrictions on bed licences which was first announced in May 2021. The reforms will see the discontinuation of the bed licences from 1 July 2024. During the transitional period providers can apply directly to the Australian Government confirmation of eligibility for Government subsidies when they are ready to operate.

Bed licences were previously recognised as intangible assets with an indefinite useful life and therefore were not amortised. Following the Government’s announcement and the information provided in the discussion paper in September 2021, the Group expects that the remaining useful lives of the bed licences will not extend beyond 1 July 2024, and have therefore determined that, notwithstanding the Directors’ view that the fair value less cost to dispose of these bed licences is nil, amortisation of bed licences from 1 October 2021 to 30 June 2024 on a straight-line basis is required, in order to comply with the Australian Accounting Standards and the Group’s accounting policy in relation to Goodwill and Intangible Assets,

The change in the useful life assessment was treated as a change in accounting estimates under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and therefore was recognised prospectively from 1 October 2021. As a result of the change, the amortisation expense recognised in the statement of profit or loss is \$60,349,000 (2021: nil) for the year ended 30 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C7 LEASES

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

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

Note	Property leases \$'000	Other equipment \$'000	Total right of use assets \$'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)
As at 30 June 2021	58,717	503	59,220	65,122
Additions	-	196	196	196
Depreciation expense	(3,999)	(143)	(4,142)	-
Interest expense	-	-	-	1,911
Lease payments	-	-	-	(5,987)
Remeasurement of leases	1,111	(18)	1,093	1,210
As at 30 June 2022	55,829	538	56,367	62,452

The Group had low-value leases relating to office equipment such as printers and photocopiers. An amount of \$90,000 (2021: \$121,000) was recognised as an expense during the year.

Under its lease agreements, the Group incurs payments in the form of expenditure in relation to insurance, council and water rates, and water consumption. The Group recognised an amount of \$447,000 (2021: \$478,000) as an expense during the year.

SIGNIFICANT ACCOUNTING POLICY

When a contract is entered into, the Group assesses whether a contract is, or contains, a lease. A lease arises when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

Right-of-use assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C7 LEASES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (Continued)

Lease liabilities

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

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short term leases and leases of low value assets

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

Interest expense on lease liabilities

Interest expense on lease liabilities is reported as a component of total finance costs. It is paid to the lessor over the duration of the lease for the right to use the leased assets which is calculated using IBR times the outstanding lease obligation which equals to the previous period's ending lease liability balance.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In determining the lease term used to ascertain total future lease payments, the Group considers relevant facts and circumstances that create an economic benefit to exercise an extension option. Option periods are only included in determining the lease term when they are reasonably certain to be exercised. 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 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 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C8 TRADE AND OTHER PAYABLES

	2022 \$'000	2021 \$'000
Trade creditors	14,719	13,692
Payroll liabilities	16,466	15,723
Sundry creditors and accruals	20,950	9,890
Total trade and other payables	52,135	39,305

C9 PROVISIONS

	2022 \$'000	2021 \$'000
Current		
Workcover provision	1,929	600
Annual leave provision	40,139	39,001
Long service leave provision	21,058	20,361
Total current provisions	63,126	59,962
Non-current		
Workcover provision	3,773	800
Long service leave provision	4,769	5,259
Total non-current provisions	8,542	6,059
Total provisions	71,668	66,021

Movements of workcover provisions

	2022 \$'000	2021 \$'000
At 1 July	1,400	-
Transfer during the year ¹	3,384	-
Net charge during the year	2,524	2,062
Utilised during the year	(1,606)	(662)
Balance at 30 June	5,702	1,400

1. In February the Group established self-insurance arrangements for workcover in South Australia, which involved a fully-funded transfer of pre-existing potential workcover liabilities from Return To Work South Australia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION C: ASSETS AND LIABILITIES (CONTINUED)

C9

PROVISIONS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Long service leave and annual leave

Long service leave or annual leave entitlements are not expected to be settled fully within the next 12 months but are recognised as a current liability when the Group does not have an unconditional right to defer settlement. The liability for long service leave and annual leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields 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.

Workcover provision

The Group is self-insured for worker's compensation and general liability claims for New South Wales and South Australia regions. Provisions are recognised based on claims reported and estimate of claims incurred but not reported. These provisions are determined on a discounted basis, using an actuary valuation performed at each reporting date.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Long service leave is measured based on the regulations of the states respectively. Management judgement is required in determining the following key assumptions used in the calculation of long service leave at the balance sheet date:

- future increases in salaries and wages;
- future probability of employee departures and period of service; and
- discount rate

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION D: CAPITAL, FINANCING, RADs AND RISK

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

D1 REFUNDABLE ACCOMODATION DEPOSITS AND BONDS

	2022 \$'000	2021 \$'000
Current residents	756,894	761,100
Departed residents	127,175	102,829
Total refundable accommodation deposits and bonds – amounts received	884,069	863,929

Terms and conditions relating to Refundable Accommodation Deposits and accommodation 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 Act. Providers must pay a Government set Base Interest Rate on all refunds of RADs and bonds within legislated time frames and must pay a higher rate on refunds that are not made within legislated time frames.

RADs and bond refunds are guaranteed by the Government under the Accommodation Payment Guarantee Scheme, in the event that a provider is unable to refund the amounts. Providers are required to maintain sufficient liquidity to ensure that they can refund all amounts as they fall due. As required under legislation, the Group maintains a Liquidity Management Policy, which is monitored on regular basis and a full review is undertaken on an annual basis as a minimum, with the intention of ensuring it has sufficient liquidity, in the form of cash or undrawn lines of credit, to meet its RAD and bond refund and other financial obligations as or when they fall due. To ensure that funds are readily available when required, the minimum level of funds chosen by the Group are met by undrawn lines of credit.

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 2022

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

D2 LOANS AND BORROWINGS

	2022 \$'000	2021 \$'000
Secured bank loans – Syndicated debt facility	100,000	114,500
Capitalised facility costs	(1,513)	(667)
Total loans and borrowings	98,487	113,833

At 30 June 2022, the Group had available \$230,000,000 (2021: \$215,500,000) of undrawn committed borrowing facilities, and \$326,000 (2021: nil) of unutilised guarantee facility.

Syndicated debt facility

During the year, the Group's existing syndicated loan was refinanced with a new \$330,000,000 Sustainability Linked Syndicated Financing Agreement ("SLSFA"), financed by the Group's existing lenders. The SLSFA also has an accordion feature ("Accordion") which allows for the facility limit to be increased (subject to lender consent and approval) by an additional \$170,000,000.

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

Under the SLSFA, the Group will be eligible for an interest rate margin reduction of up to 5 basis points per annum dependent on the level of achievement of sustainability targets embedded in the agreement. A lower level of achievement may result in a similar sized increase in margins. These targets include:

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

The Group's performance against these targets in the year, which was independently reviewed, will result in reduction of 3 basis points per annum over the next financial year.

Bank guarantee facility

In addition, the Group entered into a separate additional Guarantee Facility ("Guarantee Facility") with Westpac Banking Corporation during the year which permits bank guarantees to be issued up the value of \$8,000,000. Refer to Note E2 for further details in relation to the amount of utilised bank guarantees.

SIGNIFICANT ACCOUNTING POLICY

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

Subsequently, interest-bearing loans and borrowings are measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are 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 2022

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

D3 ISSUED CAPITAL AND RESERVES

	2022 \$'000	2021 \$'000
<i>Issued and fully paid</i>		
Ordinary shares ¹	795,748	803,459
Total share capital	795,748	803,459

(a) Movements in ordinary shares on issue

	2022		2021	
	Numbers of shares	\$'000	Numbers of shares	\$'000
Beginning of the financial period	261,294,969	803,459	261,271,914	803,397
Vesting of employee performance rights	146,673	244	23,055	62
Shares repurchased and incremental costs ²	(3,639,171)	(7,956)	-	-
Movement in management equity plan	-	1	-	-
End of the financial period	257,802,471	795,748	261,294,969	803,459

¹ Ordinary shares have no par value per share.

² On 26 November 2021, the Group commenced an on-market share buy-back of up to 10% of Estia's issued share capital for a period of up to 12 months. The equity instruments bought back as a result of the share buy-back have been deducted from the Group's equity and the associated shares have been cancelled.

(b) Share-based payments reserve

The share-based payments reserve arises from performance rights granted by Estia Health to its 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. Further information about share based payments is set out in Note D4.

(c) Franking credits

The franking credit balance of Estia Health Limited as at 30 June 2022 is \$26,162,000 (2021: \$24,551,000 (restated)).

(d) Dividends paid and proposed

On 24 August 2021, the Directors declared a fully franked final dividend for the year end 30 June 2021 of 2.30 cents per share representing 100% of profit after tax for the period of \$5,998,000. The dividend was paid to shareholders for \$6,013,000 on 17 September 2021.

On 22 February 2022, the Directors declared a fully franked interim dividend for the six months ended 31 December 2021 of 2.35 cents per share totalling \$6,135,000 (December 2020: nil). The dividend was paid to shareholders for \$6,124,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

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

D4 SHARE-BASED PAYMENTS

At 30 June 2022, the Group had the following share-based payments arrangements:

(a) Long-term Incentive Plan (“LTIP”)

Under the LTIP, awards are made to executives who make a significant contribution 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.

Details of performance rights granted prior to 1 July 2021 are disclosed in the relevant annual reports.

In the FY22 LTI award, 50% of the performance rights will vest subject to achieving the index Total Shareholder Return (“TSR”) hurdle, which is based on a relative TSR against a defined comparator group of companies comprising the ASX300 Index excluding mining and energy companies, and 50% of the performance rights will vest subject to achieving an EPS hurdle in the year ending 30 June 2024

The Group granted a total of 1,009,506 rights (2021: 1,629,361) during the year.

(b) Short-term Incentive Plan (STIP)

Under STIP, awards are made to key managers and executives who have significant contributions 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 performance rights to vest.

The STIP is measured on a combined basis of Group’s financial and other specific measures. 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 an risk management process

No performance rights were granted under the STIP during the year (2021: nil).

(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.

No performance rights were granted under the retention plan during the year ended 30 June 2022 (2021: 639,390). Retention performance rights issued in prior years vested during the year ended 30 June 2022 were 146,673 (2021: nil).

(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 2022. 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
MEP	50,000	100	100%	5.95%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

D4

SHARE-BASED PAYMENTS (CONTINUED)

(e) Movements during the year

The following tables illustrate the number and movements in performance rights, of which the weighted average exercise prices were nil (2021: nil), during the year:

	2022	2021
	Numbers of rights	Numbers of rights
Performance rights only		
Outstanding as at 1 July	3,220,383	1,526,515
Granted during the year	1,009,506	2,268,751
Forfeited during the year	(1,003,663)	(551,828)
Exercised during the year	(146,673)	(23,055)
Exercisable as at 30 June	3,079,553	3,220,383

The weighted average fair value of performance rights granted during the year was \$1.34 (2021: \$0.67). The weighted average share price at the exercise dates for the performance rights exercised during the year was \$2.44 (2021: \$2.71).

(f) Expense recognised in profit or loss

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

	2022 \$'000	2021 \$'000
Long-term incentive plan reversal	(320)	(143)
Long-term incentive plan expense	1,315	1,116
Short-term incentive plan expense	90	-
MEP expense	12	12
Share-based payments and MEP expense	1,097	985



SIGNIFICANT ACCOUNTING POLICY

The cost of equity-settled transactions is measured by reference to the fair value at the date at which the grant is made. The fair value is determined by an external valuer using the Monte Carlo simulation for the TSR performance hurdles and the Binomial model for the EPS performance hurdles.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

D4

SHARE-BASED PAYMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (Continued)

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

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled 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 performance rights is reflected as additional share dilution in the computation of diluted earnings per share.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Recognition and measurement of fair value

Long-term Incentive Plan

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.

The following table list the inputs to the models used for the LTIPs:

	FY22 Plan	FY21 Plan	FY20 Plan
Share price at grant date	\$2.20 and \$2.32	\$1.29	\$2.71
Dividend yield	4.0%	4.0%	3.0%
Volatility	50%	47%	30%
Risk free rate	0.2% - 1.0%	0.8%	0.7%
Fair value of right – TSR	\$0.60 - \$0.70	\$0.35 - \$0.70	\$0.68 - \$0.76
Fair value of right – EPS	\$1.98 - \$2.07	N/A	\$2.50
Fair value of right – RP		\$1.21	

Short-term Incentive Plan

The fair value of the performance rights issued under the STIP is determined at grant date. The number of shares issued are determined by the volume weight average share price of the Group in the 10 trading days following the release of the Group's annual results. The performance rights are deferred for a 12 month period and are settled in the Group's equity if the participants 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 2022

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 2022 and 30 June 2021.

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 2022 and 30 June 2021.

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 2022 and 30 June 2021.

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
	2022 %	2021 %	
Cash and liquid assets	0.6	0.6	Floating
Refundable accommodation deposits – departed residents	2.3	2.3	Floating
Bank loans	1.4	1.5	Floating

Subsequent to the end of the financial year, the Group entered into forward starting interest rate swaps (the "Contracts") to effectively fix part of its future floating interest rate risk exposure associated with its syndicated debt facility. The future financial benefit of the interest rate swaps will vary depending on the interest rate movements, therefore an estimate of it cannot be made at the date of this Report.

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 2022

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate sensitivity

The following table demonstrates the sensitivity to reasonably likely changes in interest rates on that portion of cash and cash equivalents and loans and borrowings, assuming all other variables remain constant, on Group's profit before tax and equity through the impact on floating rate financial instruments:

	Effect on profit before tax Higher / (Lower)		Effect on equity Higher / (Lower)	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
+ 100 basis points (2021: + 25 basis points)	(547)	(141)	(383)	(98)
+ 100 basis points (2021: + 25 basis points)	547	141	383	98

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 77% (2021: 76%) 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 Act.

Trade and other receivables

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

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 receivables.

Generally, trade and other receivables are written-off only if all reasonable avenues have been exhausted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The following table provides information about the expected credit losses for trade receivables, excluding the Commonwealth Government balance of \$5,060,000 as at 30 June 2022 (2021: \$3,317,000):

	Expected credit loss rate %	Gross carrying amount \$'000	Allowance for expected credit loss \$'000
As at 30 June 2022			
Current (not past due)	7%	1,593	108
<30 days past due	21%	412	85
30-60 days past due	28%	239	68
61-90 days past due	42%	132	56
>90 days past due	78%	835	650
Total	30%	3,211	967

	Expected credit loss rate %	Gross carrying amount \$'000	Allowance for expected credit loss \$'000
As at 30 June 2021			
Current (not past due)	6%	1,603	99
<30 days past due	17%	453	76
30-60 days past due	27%	229	62
61-90 days past due	36%	144	52
>90 days past due	85%	1,191	1,008
Total	36%	3,620	1,297

During the year, the Group's focus on the recovery of aged debtors has resulted in a 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 2022

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 acquisitions, capital investments 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
As at 30 June 2022					
Trade and other payables	1,172	50,963	-	-	52,135
Loans and borrowings (including future interest)	-	1,691	104,529	-	106,220
Refundable accommodation deposits and bonds	884,069	-	-	-	884,069
Other financial liabilities	466	-	-	-	466
Lease liabilities	-	5,497	20,193	55,788	81,478
Total	885,707	58,151	124,722	55,788	1,124,368
As at 30 June 2021					
Trade and other payables	837	36,960	-	-	37,797
Loans and borrowings (including future interest)	-	-	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	865,274	42,965	134,835	59,950	1,103,024

Capital management

The Group's objectives when managing capital are to ensure the Group continues as a going concern while providing optimal returns to shareholders and benefits for other stakeholders, and to maintain an appropriate capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may also adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the year ended 30 June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

D6 FAIR VALUE MEASUREMENT

Investment properties

	2022 \$'000	2021 \$'000
Independent living units	750	750
Total investment properties	750	750

The Group's investment properties represent ILU's 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.

These investment properties are measured at fair value, which is determined based on a valuation model recommended by the International Valuation Standards Committee that uses unobservable inputs (level 3 in fair value hierarchy) at the reporting date:

	2022	2021
Unobservable inputs		
Discount rate	16.5%	16.50%
Growth rate	2.46%	2.50%
Cash flow term (years)	50	50

There were no transfers between levels during the financial year.

SIGNIFICANT ACCOUNTING POLICY

Financial instruments on the balance sheet are measured at amortised cost.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION

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

E1 RELATED PARTY DISCLOSURES

Note E6 provides the information about the Group's structure including the details of the subsidiaries and the holding company. Note D4 (d) provides the information about the MEP loans, which was a legacy plan that offered a 10 year limited recourse loan to subscribe for MEP shares to its participants including the former Managing Directors and a number of senior employees of the Group. 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.

	2022 \$'000	2021 \$'000
Short-term employee benefits	2,963	2,490
Post-employment benefits	135	119
Share-based payments	820	580
Total compensation of key management personnel	3,918	3,189

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 2022, the remaining capital commitments amounted to \$60,331,000 (2021: \$5,547,000).

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 and self-insurance arrangement, totaling \$7,674,000 (2021: \$4,559,000). These are secured under the terms of the Facility as disclosed in Note D2. As at the date of signing this report, the Directors are not aware of any situations that have arisen that would require bank guarantees to be presented or redeemed.

Government grants

As at the end of the year, the Group had submitted applications to the Federal Government under the COVID-19 Aged Care Support Program Extension (also known as "ACPS" or "GO4863"), which is designed to minimise the risk of infection to aged care workers, residents and other consumers of aged care services and provide funding for out-of-pocket costs incurred as a result of COVID-19.

As at balance date, grant applications totalling \$21,362,000 (2021: nil) submitted before the year end but not yet approved by the Government have not been recognised as income for the year due to the considerations detailed in Note B1 under Significant Accounting Judgement, Estimates and Assumptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E3

AUDITOR REMUNERATION

	2022 \$'000	2021 \$'000
Audit or review of the financial report	810	723
Tax compliance services	159	93
Fees for assurance services that are not required by legislation to be provided by the auditor	38	17
Total auditor remuneration	1,007	833

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

E4

CHANGES IN ACCOUNTING POLICY

Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted in preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Group's Consolidated Financial Statements for the year ended 30 June 2021, except for the adoption of amendments to standards effective as of 1 July 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Changes in accounting policies - IFRIC agenda decision – 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) (also known as "Cloud Computing") arrangements. The Group has changed its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements. The effect of the changes as a result of changing this policy is described below.

Accounting policy - Software-as-a-Service (SaaS) arrangements

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement.

Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the company has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least and any changes are treated as changes in accounting estimates which are applied on a prospective basis.

Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to the SaaS access) are now recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are now recognised as expenses over the duration of the SaaS contract. Previously some costs had been capitalised and amortised over its useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E4

CHANGES IN ACCOUNTING POLICY (CONTINUED)

Impact of change in accounting policy

The change in policy has been retrospectively applied and comparative financial information has been restated, as follows:

Consolidated Statement of Financial Position

	2021 \$'000	1 July 2020 \$'000
Increase / (Decrease) in:		
Assets		
Other intangible assets	(3,769)	(3,208)
Total Assets	(3,769)	(3,208)
Deferred tax liabilities	(1,130)	(962)
Total Liabilities	(1,130)	(962)
Net assets	(2,639)	(2,246)
Retained earnings	(2,639)	(2,246)
Total equity	(2,639)	(2,246)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2021 \$'000
Increase / (Decrease) in:	
Employee benefits and agency staff expense	687
Administrative expenses	309
Depreciation and amortisation expense	(435)
Profit before tax	(561)
Income tax expense	(168)
Profit for the year	(393)
Earnings per share	
Basic (cents per share)	(0.15)
Diluted (cents per share)	(0.15)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E4

CHANGES IN ACCOUNTING POLICY (CONTINUED)

Impact of change in accounting policy (Continued)

Consolidated Statement of Cash Flows

	2021 \$'000
(Increase) / Decrease in:	
Payments to suppliers and employees	(996)
Net cash inflow from operating activities	(996)
Payments to acquire intangible assets	996
Net cash outflow from investing activities	996

New and Amended Accounting Standards and Interpretations

Other than the change in accounting policy as a result of the IFRIC agenda decision in relation to Cloud Computing costs disclosed above, the adoption of other amendments and interpretations which were applicable from 1 July 2020 did not have a significant impact on the financial statements of the Group.

Standards issued but not yet effective

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E5 SUBSEQUENT EVENTS

COVID-19 Grant Recoveries

Subsequent to 30 June 2022, the Group submitted 104 claims for a total amount of \$6,575,000, and \$1,361,000 of claims submitted prior to 30 June 2022 were confirmed by the Government. These amounts are also disclosed in Note B1.

Changes in Directors of the Company

On 11 July 2022 Sean Bilton was appointed Managing Director and CEO of the Company, replacing Ian Thorley who resigned on the same day.

On 22 July the Company announced that Professor Simon Willcock would join the Board with effect from 1 September 2022.

Passing of Government legislation

On 2 August 2022, the Australian Government passed the Aged Care and Other Legislation Amendment (Royal Commission Response) Bill 2022 (the "Bill"). the Bill implements nine measures to improve aged care and responds to 17 recommendations of the Royal Commission into Aged Care Quality and Safety.

The Bill establishes the Australian National Aged Care Classification ("AN ACC") funding model, a new Code of Conduct and banning orders, and extends the Serious Incident Response Scheme to all in-home care providers. It also extends the functions of the Independent Health and Aged Care Pricing Authority, which will lead to better price-setting for aged care.

Other measures enshrine transparency and accountability of approved providers and improve quality of care and safety for older Australians receiving aged care services.

A second piece of aged care legislation, the Aged Care Amendment (Implementing Care Reform) Bill 2022, was introduced on 27 July and is before the House of Representatives.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E6 SEGMENT REPORTING

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

E7 INFORMATION RELATING TO SUBSIDIARIES

The ultimate parent entity within the Group is Estia Health Limited.

The Consolidated Financial Statements incorporate the assets, liabilities and results of Estia Health Limited and the following controlled entities, that were held in both current and prior period unless otherwise stated:

100% owned Australian subsidiaries in a deed of cross guarantee with Estia Health Limited

Estia Finance Pty Limited

Estia Investments Pty Limited

Estia Health Residential Aged Care Pty Ltd (previously Kenna Investments Pty Ltd)

Hayville Pty Ltd

Camden Village Pty Ltd

Kilbride Village Pty Ltd

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E8 PARENT ENTITY INFORMATION

	2022 \$'000	Restated ¹ 2021 \$'000
<i>Information relating to Estia Health Limited</i>		
Current assets	331,667	553,054
Non-current assets	570,398	570,398
Total assets	902,065	1,123,452
Current liabilities	-	1,163
Non-current liabilities	223,634	455,670
Total liabilities	223,634	456,833
Net assets	678,431	666,619
Issued capital	795,748	803,459
Reserves	3,483	2,629
Accumulated losses	(120,800)	(139,469)
Total shareholders' equity	678,431	666,619
Profit / (Loss) for the year	30,806	(9,896)
Total comprehensive profit / (loss) for the year	30,806	(9,896)

¹ Comparative information has been restated to account for:

- (a) class action settlement costs of \$12,410,000 and its tax effect of \$3,723,000 which were previously recorded under a subsidiary within the Estia Group resulting in an increase of \$8,687,000 in loss for the year and a corresponding decrease in current assets, and
- (b) share-based payment expense of \$985,000 has now been recorded resulting in a decrease of \$985,000 in current assets and a corresponding increase in loss for the year and accumulated losses.

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.

Deed of cross guarantee

The parties to the deed of cross guarantee, as identified in Note E7, each guarantee the debts of the others. By entering into the deed, the subsidiaries are relieved from the requires of preparation, audit and lodgement of a financial report and a directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

Together with Estia Health Limited, the entities represent a 'Closed Group' for the purposes of the ASIC Instrument. The Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income of the Closed Group are the same as the Estia consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

SECTION E: OTHER INFORMATION (CONTINUED)

E9

TREATMENT OF GST

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

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

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST, where the GST is expected to be recoverable.

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 2022 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 2022 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note A3; and
 - (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
 - (d) there are reasonable grounds to believe that the Company and the controlled entities identified in Note E6 of the financial statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.
2. This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2022.

On behalf of the Board



Dr. Gary H Weiss, AM

Chairman

Sydney

23 August 2022



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working world**

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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 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

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

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



Carrying value of goodwill and bed licences

Why significant	How our audit addressed the key audit matter
<p>At 30 June 2022 the Group’s goodwill and bed licences balance was \$842 million which represents 47% of total assets.</p> <p>The Group reviews the carrying amount of goodwill 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 E6 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 2022 and are developed on an underlying assumption that adequate government funding will continue to be provided to cover the rising costs of providing aged care services.</p> <p>The bed licences were previously recognised as intangible assets with an indefinite useful life and therefore were not amortised. Following the release of the discussion paper “Improving Choice in Residential Aged Care - ACAR Discontinuation” on 30 September 2021 by the Australian Government, the Group determined that the bed licences are finite life assets and expects that the remaining useful lives of the bed licences will not extend beyond 1 July 2024. As a result, amortisation of these bed licences commenced from 1 October 2021 and will continue on a straight-line basis to 30 June 2024. The change in the useful life assessment was treated as a change in accounting estimate and therefore, was recognised prospectively from 1 October 2021. The amortisation expense recognised in the statement of profit or loss for the year ended 30 June 2022 is \$60,349,000 (2021: nil).</p>	<p>We assessed the appropriateness of the allocation of goodwill and bed licences to the group of CGUs and composition of its carrying amount.</p> <p>Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow model. 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 2022 on the cash flow forecast of revenues, operating costs and the effect of changes in residency mix; ▶ Assessed the Group’s current year actual results in comparison to prior year forecasts to assess forecasting accuracy; ▶ Assessed the Group’s assumptions for terminal growth rates in the discounted cash flow model in comparison to economic and industry forecasts; ▶ Assessed the adequacy of the estimated maintenance capital expenditure with reference to historical data; ▶ Assessed the discount rate through comparing the weighted average cost of capital of the Group with comparable businesses including the impacts of the government response to Royal Commission recommendations 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.



Building a better working world

Why significant	How our audit addressed the key audit matter
<p>Carrying value of goodwill and bed licences was considered a key audit matter due to the complexity involved in assessing the impact of the ACAR discontinuation, the quantum of the impact and significant judgement involved in determining future cashflows 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 and the results of the assessment.</p>	<p>We assessed the accounting implications of the discussion paper on ACAR Discontinuation and estimation of the useful lives of the bed licences. We also assessed management's determination of when amortisation should commence and checked the calculation of the amortisation expense.</p>

Construction in Progress

Why significant	How our audit addressed the key audit matter
<p>Costs incurred during the year that were capitalised to Construction in Progress amounted to \$23 million. This represents costs of development projects and significant refurbishments of existing aged care facilities.</p> <p>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.</p> <p>In addition, as a result of COVID-19, the Group continued to reassess 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.</p> <p>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.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ 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 for development projects by taking into account the approved business case, COVID-19 impacts, and costs incurred to date compared to budget. We also made enquiries of executives responsible for management of the projects; ▶ Assessed the key inputs in the determination of value in use of ongoing projects under construction and performed sensitivity analysis in respect of these inputs; ▶ 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.



Building a better working world

Why significant	How our audit addressed the key audit matter
<p>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 C5 to the consolidated financial report the capitalisation policy.</p>	

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>Income derived from resident billings is recognised as billed within the relevant month. Subsidies received from the Department of Health vary depending on a number of factors, including the resident’s financial means and level of care.</p> <p>From 1 July 2021, aged care providers (including Estia) are receiving an additional \$10 Basic Daily Fee subsidy from the government as a result of one of the recommendations from the Aged Care Royal Commission. This subsidy contributed \$20.6 million of revenue (included in government subsidies) during the year ended 30 June 2022.</p> <p>The Group raises a government revenue accrual at year-end to recognise any differences between the monies received by Medicare at the start of the month (June) and additional monies the Group is entitled to arising from variations in resident occupancy levels or associated rates during June.</p> <p>Revenue was considered a key audit matter given the effect of strict legislation, adjustment in rates by government from time to time, and the volume of transactions with residents and government.</p> <p>The Group’s revenue recognition and disaggregation policies have been disclosed in Note B1 to the consolidated financial report.</p>	<p>We evaluated the effectiveness of key controls in relation to the capture and measurement of revenue transactions across all material revenue streams. In particular, we undertook the following procedures:</p> <ul style="list-style-type: none"> ▶ Assessed whether Aged Care Funding Instrument (“ACFI”) assessments were prepared by an authorised person, and associated revenues were calculated based on resident care assessments; ▶ Compared the government revenue recognised to payments received; ▶ Tested whether resident revenue agreed to agreements, legislated billing rates, and payments received; ▶ Tested whether the application of the Daily Care Fee incorporated rate increases; ▶ Assessed whether resident additional service fees changes were approved and whether billing rates were consistent with the approved fees; ▶ Evaluated the operating effectiveness of Information Technology (“IT”) general and application controls relating to key revenue systems. <p>We performed the following other audit procedures in relation to revenue:</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; ▶ Tested cash entries that settled trade receivables and inspected documents evidencing services acceptance; ▶ Recalculated the revenue recognised in relation to the Basic Daily Fee by taking into account occupied bed days during the period; and

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Why significant	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> Assessed the appropriateness of the financial statement disclosures in relation to the Group's revenue recognition and disaggregation policies.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 annual report other than the financial report and our auditor's report thereon. We obtained the directors' report that is to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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



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

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ 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 87 to 100 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2022, 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
23 August 2022

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 7 September 2022.

(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	61	225,779,781	87.58
10,001 to 100,000	763	18,543,650	7.19
5,001 to 10,000	881	6,693,900	2.60
1,001 to 5,000	2,241	6,031,316	2.34
1 to 1,000	1,683	753,824	0.29
Total	5,629	257,802,471	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	6	2,379,407	87.41
10,001 to 100,000	7	342,857	12.59
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	13	2,722,264	100.00

(c) Less than marketable parcels of ordinary shares

There are 515 shareholders with unmarketable parcels totalling 41,609 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. Citicorp Nominees Pty Limited	49,805,003	19.32
2. HSBC Custody Nominees (Australia) Limited	35,108,126	13.62
3. J P Morgan Nominees Australia Pty Limited	34,214,878	13.27
4. National Nominees Limited	22,371,352	8.68
5. Network Investment Holdings Pty Ltd	17,245,858	6.69
6. Argo Investments Limited	14,309,250	5.55
7. BNP Paribas Noms Pty Ltd <DRP>	11,307,867	4.39
8. Network Investment Holdings Pty Ltd	10,000,000	3.88
9. 3rd Wave Investors Pty Ltd	4,250,000	1.65
10. Emalyn Holdings Pty Limited <John Kennedy A/C>	4,102,766	1.59

(d) 20 Largest shareholders (Continued)

NAME	NO. OF FULLY PAID ORDINARY SHARES	% OF ISSUED CAPITAL
11. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	4,001,613	1.55
12. Mr Mark Edward Kennedy <Mark Edward Kennedy A/C>	1,910,678	0.74
13. Mrs Julia Michelle Manken & Mr Mike Darren Manken & Miss Jessica Kelly Manken <Manken Family Super A/C>	1,525,000	0.59
14. Skip Enterprises Pty Ltd <Farquhar A/C>	1,442,768	0.56
15. Mark Edward Kennedy <Mark Edward Kennedy Family A/C>	1,277,438	0.50
16. Kennbros Pty Limited	1,156,834	0.45
17. Alphagen Capital Pty Ltd	1,000,000	0.39
18. Custodial Services Limited <Beneficiaries Holding A/C>	822,329	0.32
19. Netwealth Investments Limited <Super Services A/C>	704,823	0.27
20. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	560,192	0.22
Total for top 20 shareholders	217,116,775	84.22
Balance of register	40,685,696	15.78
Total quoted equity securities	257,802,471	100.00%

(e) Unquoted equity securities

The Company had the following unquoted performance rights on issue as at 7 September 2022:

13 holders of performance rights issued as part of an employee incentive scheme	2,722,264	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 7 September 2022:

NAME	NO. OF ORDINARY FULLY PAID SHARES	% OF ISSUED CAPITAL
Seven Group Holdings Limited, Network Investment Holdings Pty Ltd & SGHs other subsidiaries	26,156,399	10.01%
Perpetual Limited and Subsidiaries	18,788,331	7.19%
Citigroup Global Markets Australia Pty Ltd	18,232,894	6.97%
Wilson Asset Management Group	14,769,364	5.65%
Copia Investment Partners Ltd	13,700,000	5.24%
Argo Investments Limited	13,309,250	5.09%

(g) Restricted securities

The Company has no restricted securities on issue as at 7 September 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 currently an on-market buy-back in progress 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 Eddystone Road, 2207	02 8318 1100
Blakehurst	392 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 5557 0200
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	147-151 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
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

Estia Health

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