Estia Health Limited

Results for announcement to the market
For the half-year ended 31 December 2019
(previous corresponding period being the half-year ended 31 December 2018)

Appendix 4D

		% change		$'000
Revenue from ordinary activities	Up	9.1	to	316,082
Other (losses)/gains	Up	435.0	to	335
Total revenue and other income from ordinary activities	**Up**	**9.2**	**to**	**316,417**
Profit before interest and taxation	**Up**	**42.5**	**to**	**46,591**
Profit from ordinary activities after tax attributable to members	**Down**	**32.1**	**to**	**14,311**

	31 December 2019 (cents)	31 December 2018 (cents)	% Change
Basic earnings per share	5.49	8.09	(32.1)
Diluted earnings per share	5.46	8.06	(32.2)
Net tangible asset backing per ordinary share [1]	(71.44)	(65.54)	(9.0)

Dividend information

	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking
Interim dividend - half-year ended 31 December 2019	5.4	5.4	30%
Final dividend year ended 30 June 2019	7.8	7.8	30%
Interim dividend - half-year ended 31 December 2018	8.0	8.0	30%

Further Information

Commentary on the results for the period and additional ASX Appendix 4D (Listing Rule 4.2A.3) disclosures can be found in the Interim Financial Report of Estia Health Limited for the period ended 31 December 2019 attached. This document should be read in conjunction with the Annual Report of Estia Health Limited for the year ended 30 June 2019 and any public announcements made in the period by EHE in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

[1] Calculated as total equity less intangible assets and deferred tax liabilities, divided by the number of ordinary shares on issue at period end. Includes the right of use assets and lease liabilities as disclosed in Note C3 which accompanies the Interim Financial Report of Estia Health Limited for the period ended 31 December 2019.

Leanne Ralph
Company Secretary
25 February 2020

Estia Health Limited

ABN 37 160 986 201

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2019

Estia Health Limited
ABN 37 160 986 201

Contents

CORPORATE DIRECTORY

DIRECTORS

Dr. Gary H Weiss AM (Chairman)

Ian Thorley (Managing Director and CEO)

Norah Barlow ONZM

Paul Foster (Nomination and Remuneration Committee Chair)

Hon. Warwick L Smith AO (Property and Investment Committee Chair)

Helen Kurincic (Risk Management Committee Chair)

Karen Penrose (Audit Committee Chair)

COMPANY SECRETARY

Leanne Ralph

REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street
Sydney NSW 2000

SOLICITORS

Minter Ellison
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your directors submit their report for the six months ended 31 December 2019.

DIRECTORS

The following persons held office as directors of Estia Health Limited during the financial period and until the date of this report. Directors were in office for the entire period unless otherwise stated.

Dr. Gary H Weiss AM
Ian Thorley
Norah Barlow ONZM
Paul Foster
Hon. Warwick L Smith AO
Helen Kurincic
Karen Penrose

PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Group during the six month period ended 31 December 2019 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the auspices of the Aged Care Act.

The Group's strategy remains to:

- Be a market leader in owning and developing high quality residential aged care homes in Australia;
- Provide residents in our homes with the highest standards of aged care services in an innovative, supportive and caring environment; and
- Deliver earnings growth through a robust development pipeline, enhancement of current homes, and acquisitions.

THE MARKET IN WHICH ESTIA OPERATES

In order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by a Government Aged Care Assessment Team ("ACAT") and may then choose a residential aged care home of their choice. Only Approved Providers, like Estia, with approved bed licences in accredited homes are eligible to provide services which qualify for Government funding support. The ageing of the Australian population and in particular the ageing of the "baby boomers" will see a marked increase in the number of Australians likely to need aged care services, including residential aged care in coming years.

The Group's growth strategy is to expand services to meet the needs of the growing demographic trend.

THE GROUP'S PORTFOLIO

The Group delivers services across 69 homes in New South Wales, Queensland, South Australia and Victoria, 62 of which are freehold sites. At 31 December 2019, these homes had 6,180 operational beds.

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

DIRECTORS' REPORT

REGULATORY ENVIRONMENT, REFORM AND THE AGED CARE ROYAL COMMISSION

The residential aged care sector in which the Group operates is highly regulated within the provisions of the Aged Care Act. The Government approves providers, monitors the quality of care and services delivered, issues bed licences on a strictly controlled basis, and governs the fees and services which are delivered and funded. As such Government policy settings have a major impact on the financial performance of providers.

The Group prepared for the introduction of the new Aged Care Quality Standards on 1 July 2019 with increased investment in quality management and resident care systems including employee education, technology development, customer engagement and service.

The Royal Commission into Aged Care was called by the Prime Minister in September 2018 amid growing community concern about the quality of care in the sector. The Terms of Reference are broad, focussing on the quality of care, but also future sustainability of the sector.

The Royal Commission handed down an Interim Report in October 2019 and is expected to make its final report in November 2020. The Interim Report made three specific recommendations as follows:

- To provide more Home Care Packages to reduce the waiting list for higher level care at home;
- To respond to the significant over-reliance on chemical restraint in aged care; and
- To stop the flow of younger people with a disability going into aged care and speed up the process of getting out those young people who are already in aged care.

None of these initial recommendations has a direct and significant impact on the Group's strategy nor operations. To date the Group has not been asked to appear before the Commission. In January 2020, along with a number of other providers the Group was asked to provide information in relation to staff hours worked at all homes in the last five years. This request was complied with by the requested date.

Since the publication of the Aged Care Roadmap in 2016 there have been multiple significant reviews and reports commissioned by Government into the operation of the sector, although most of the recommendations have not been implemented. The Group has contributed to a number of these reviews, and continues to advocate with industry bodies and Government for the development of a financially sustainable consumer-focussed sector, where funding and financing arrangements are such as to enable the provision of high quality care and to encourage the level of investment required to meet existing and future demand for services.

OPERATING AND FINANCIAL REVIEW

During the period, increases in Government regulated revenue rates were below the sector-wide increases in staff and non-staff costs and this also impacted the Group. The Temporary Funding Increase provided by the Government to Residential Aged Care Providers from March 2019 ceased with effect from 30 June 2019. This funding contributed $10.3 million in FY2019.

Declining sector occupancy rates were also seen although the impact on the Group was mitigated by the performance of the Group's occupancy management initiatives. The Group's average occupancy during the period was 93.7%, in excess of the sector average in the period.

The Aged Care Funding Authority' (ACFA) has also reported in its submission to the Aged Care Royal Commission, that there has been a significant overall decline in the financial performance of the sector in recent years as a result of increases in Government funding rates not being at a sufficient rate to cover the increase in operating costs, principally staff costs.

As a result of the above factors, Group profit before tax decreased by 30.3% compared to the corresponding prior period as shown below. This fall in profit reflects the margin compression being seen across the sector and the Group's commitment to ensuring that quality of care and service to residents is not compromised.

The Group adopted AASB 16 - Leases on 1 July 2019 (without restating comparative periods). The Group has various leases where it is the lessee and the accounting treatment of these leases was impacted following this adoption. In addition, for residents who have chosen a RAD or Bond arrangement, the Group has determined that under the definitions within AASB 16, it is a lessor under these arrangements and has as a result recognised a non-cash accommodation charge representing the resident's right to occupy a room at one of the Group's aged care facilities. The non-cash accommodation charge has been recognised as revenue with a corresponding increase in finance costs, with no net impact to the result for the period. A detailed explanation of the impact of AASB 16 is included in Note E4.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Summary of Financial Performance

	H1 FY20 6 months $'000	H2 FY19 [1] 6 months $'000	H1 FY19 [1] 6 months $'000	H1 FY20 vs H1 FY19 6 months
Government revenue	215,563	212,791	215,118	0.2%
Resident and other revenue	73,857	73,062	74,532	(0.9)%
Total operating revenue [2]	**289,420**	**285,853**	**289,650**	**(0.1)%**
Employee benefits expenses	198,873	193,951	191,720	3.7%
Non wage costs	46,594	49,315	48,193	(3.3)%
Rental expenditure (pre AASB 16)	3,010	2,862	2,887	4.3%
EBITDA mature homes (pre AASB 16) [3] [4]	**40,943**	**39,725**	**46,850**	**(12.6)%**
Rental expenditure (AASB 16 adjustment)	(3,010)	-	-	-%
EBITDA mature homes (post AASB 16 - rental adjustment)	**43,953**	**39,725**	**46,850**	**(6.2)%**
RAD/ Bond Revenue (AASB 16 impact)	(21,945)	-	-	-%
Temporary funding increase	-	(10,336)	-	-%
Royal Commission expenses	70	807	914	(92.3)%
Net loss in period from homes in ramp up	796	685	-	-%
Home closure expenses	-	538	-	-%
EBITDA	**65,032**	**48,031**	**45,936**	**41.6%**
Depreciation and amortisation expense	18,709	15,581	13,138	42.4%
Impairment expense	67	465	-	-%
Other (gains)/ losses	(335)	(136)	100	(435.0)%
Operating profit for the period	**46,591**	**32,121**	**32,698**	**42.5%**
Net finance costs	26,386	3,261	3,729	607.6%
Profit before tax	**20,205**	**28,860**	**28,969**	**(30.3)%**
Income tax expense	5,894	8,650	7,889	(25.3)%
Profit after tax	**14,311**	**20,210**	**21,080**	**(32.1)%**
Total Occupied Bed days - Mature Homes	**1,024,460**	**1,019,486**	**1,045,088**	**(2.0)%**

[1] *Comparative periods not restated for AASB 16.*

[2]

	H1 FY20 6 months $'000
Reconciliation of Total Operating Revenue to Total Revenue	
Total operating revenue	**289,420**
Imputed revenue on RAD and bond balances under AASB 16	**21,945**
Operating revenue from new homes	**4,717**
Total revenue	**316,082**

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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

[4] Mature homes 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.

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

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 31 December 2019, the Group had net bank debt of $96.6 million, representing a gearing ratio of 1.2X EBITDA (pre AASB 16), and net assets of $753.8 million.

Conversion of operating profit to cash remained strong with a high conversion of operating profit to cash in the period.

Overall RAD balances increased to $826.5m over the course of the period, with Net RAD inflows of $22.2 million, of which $11.9 million came from new homes which opened in the preceding 12 months.

On 16 August 2019 the Group elected to extend its existing $330.0 million syndicated debt facility with the addition of one new domestic bank to the existing syndicate of two domestic banks. The new facility expires in November 2022.

DEVELOPMENTS AND ACQUISITIONS

Total capital investment in the year was $46.3 million, invested in the continued development of new homes, refurbishment and improvement of existing homes. In November the Group announced plans for three new projects:

- Extension of our home in Burton, South Australia to include 24 beds;
- Construction of a new 118 bed home in Maitland, New South Wales; and
- Development of a 116 bed home at the newly acquired site in Mount Barker in South Australia.

The Group has a development pipeline to meet the needs of ageing Australians and planned projects will deliver approximately 650 new beds over the next three to four years.

The 110 bed home which the Group opened at Southport (Queensland) in May 2019 performed very strongly during the period reaching 86% occupancy by 31 December 2019 and 100% by February 2020. In the period the Group opened one new 126 bed home at Maroochydore (Queensland) in August 2019 which also performed strongly reaching 42% occupancy by 31 December 2019 and 56% by February 2020. Both homes deliver high quality of care in outstanding environments and are delivering financial performance ahead of expectations. Net losses associated with the opening and ramp up of these two new homes were limited to $0.8 million in the period.

8 homes with 810 beds completed a significant refurbishment program during the period, improving the quality of amenity provided to residents, and bringing the total number of homes qualifying for the higher accommodation supplements to 42, with a further 8 homes currently underway and due to completed by June 2020.

In May 2019 the Estia home in Mona Vale (NSW) was closed as it did not meet the emerging community expectations for residential aged care homes. After detailed review it was decided that the best use of the site was to sell the property. The Group has entered into a binding unconditional contract to sell this site for $10.95 million, with settlement due in the second half of FY20. This will yield a profit before tax of approximately $7.8 million, which will be additional to existing earnings guidance and will be recognised in the second half of FY20.

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

DIRECTORS' REPORT

DIVIDENDS

On 25 February 2020, the Directors resolved that there will be a fully franked interim cash dividend for the six month period ended 31 December 2019 of 5.4 cents per ordinary share totalling $14,098,838. The record date for the interim dividend will be 2 March 2020, with payment being made on 27 March 2020. Shares will trade excluding entitlement to the dividend on 28 February 2020. This dividend represents a payout ratio of approximately 100% of profit after tax for the period.

Dividends paid during the six months were as follows:

Dividend	Date Paid	Fully franked dividend per share	Total dividend
Final dividend for the year ended 30 June 2019	2 October 2019	7.8 cents	$20,328,082

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

The Group intends to continue with its stated strategy of growing the business through the provision of high quality aged care services and growing market share by:

- Improving the operational and financial performance of the Group’s existing assets through a range of operational initiatives;
- Improving the home portfolio through refurbishment and capital recycling programs;
- Opening new homes and acquisition of homes.

In the absence of any other increase in government funding rates in the immediate future, combined with lower occupancy levels across the industry, the Group does not expect a significant improvement in financial performance in the remainder of the financial year.

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

Estia has continued to develop its comprehensive FY20-23 Sustainability Strategy during the period with the intention of ensuring the Company has a positive social impact in the communities in which it operates. Specific initiatives during the period included:

- A second tranche of 26 energy efficiency and sustainability projects are nearing completion with 63 homes having projects complete.
- An Environmental and Social Risk baseline was completed which, combined with the materiality assessment to develop the FY20-23 Sustainability Strategy will result in the adoption of renewable energy targets.
- Formal climate change resilience assessment of the Group’s asset portfolio is in progress.

DIRECTORS' REPORT

ROUNDING

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

Signed in accordance with a resolution of directors on 25 February 2020.

Dr. Gary H Weiss AM
Chairman

Sydney

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Building a better working world

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

As lead auditor for the review of Estia Health Limited for the half-year ended 31 December 2019, 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 review; and

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

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

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
25 February 2020

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Notes	December 2019 $'000	December 2018 $'000[1]
Revenues	**B1**	**316,082**	**289,650**
Other (losses)/gains	B1	335	(100)
Expenses			
Administrative expenses		9,600	9,467
Depreciation, amortisation and impairment expense		18,776	13,138
Employee benefits expense		203,294	191,720
Occupancy expenses		12,296	15,780
Resident expenses		25,790	25,833
Direct costs associated with the Royal Commission		70	914
Operating profit for the period		**46,591**	**32,698**
Net finance costs	B2	26,386	3,729
Profit before income tax		**20,205**	**28,969**
Income tax expense	B3	5,894	7,889
Profit for the period		**14,311**	**21,080**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Total comprehensive income for the period, net of tax		**14,311**	**21,080**
		cents	**cents**
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the Parent		5.49	8.09
Diluted, profit for the period attributable to ordinary equity holders of the Parent		5.46	8.06

[1]*Comparative period not restated for AASB 16.*

The accompanying notes form part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	December 2019 $'000	June 2019 $'000[1]
Cash and cash equivalents	C1	18,387	14,631
Trade and other receivables		9,766	9,046
Income tax receivable		-	607
Prepayments and other assets		12,392	6,195
Assets held for sale		2,929	-
Total current assets		**43,474**	**30,479**
Property, plant and equipment	C2	838,146	822,696
Right of Use Assets	C3	68,850	-
Investment properties		1,620	1,620
Goodwill	C4	817,074	817,074
Other intangible assets	C4	226,546	222,575
Prepayments		307	345
Total non-current assets		**1,952,543**	**1,864,310**
Total assets		**1,996,017**	**1,894,789**
Trade and other payables		34,971	44,046
Lease liabilities	C3	4,034	-
Income received in advance	C5	34,305	-
Refundable accommodation deposits and bonds		826,539	805,033
Other financial liabilities		1,267	1,304
Income tax payable		603	-
Provisions		48,648	45,616
Total current liabilities		**950,367**	**895,999**
Deferred tax liabilities		103,252	107,775
Lease liabilities	C3	70,356	-
Loans and borrowings	D3	115,000	125,000
Provisions		3,196	4,496
Other payables		-	12
Total non-current liabilities		**291,804**	**237,283**
Total liabilities		**1,242,171**	**1,133,282**
Net assets		**753,846**	**761,507**
Issued capital	D1	803,073	801,843
Share-based payments reserve		1,809	1,794
Accumulated losses		(51,036)	(42,130)
Total equity		**753,846**	**761,507**

[1] *Comparative period not restated for AASB 16. Prepayments has been reclassified between Current and Non Current Assets.*

The accompanying notes form part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Notes	Issued capital $'000	Share-based payments reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2018		**801,836**	**1,136**	**(41,408)**	**761,564**
Adjustment on adoption of AASB 9 (net of tax)		-	-	(316)	(316)
Profit for the period		-	-	21,080	21,080
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**21,080**	**21,080**
Transactions with owners in their capacity as owners:					
Repayment of management equity plan		4	-	-	4
Dividends		-	-	(20,848)	(20,848)
Share-based payments		-	311	-	311
Balance at 31 December 2018		**801,840**	**1,447**	**(41,492)**	**761,795**
Balance at 1 July 2019		**801,843**	**1,794**	**(42,130)**	**761,507**
Adjustment on adoption of AASB 16 (net of tax)	E4	-	-	(2,889)	(2,889)
Adjusted total equity at the beginning of the financial period		**801,843**	**1,794**	**(45,019)**	**758,618**
Profit for the period		-	-	14,311	14,311
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**14,311**	**14,311**
Transactions with owners in their capacity as owners:					
Dividends		-	-	(20,328)	(20,328)
Share-based payments		-	15	-	15
Issue of share capital		1,230	-	-	1,230
Balance at 31 December 2019		**803,073**	**1,809**	**(51,036)**	**753,846**

The accompanying notes form part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Notes	December 2019 $'000	December 2018 $'000[1]
Cash flows from operating activities			
Receipts from residents		73,470	75,410
Receipts from government		248,944	249,262
Payments to suppliers and employees		(252,421)	(244,032)
Net operating cash flows before interest, income tax, RAD, accommodation bond and ILU contributions		**69,993**	**80,640**
Interest received		27	53
Income taxes paid		(7,970)	(9,151)
Finance costs paid		(3,862)	(3,908)
Interest expense on leases under AASB 16		(1,095)	-
Net cash flows from operating activities excluding RAD, accommodation bond and ILU contributions		**57,093**	**67,634**
RAD, accommodation bond and ILU entry contribution received		145,617	132,287
RAD, accommodation bond and ILU entry contribution refunded		(123,465)	(133,516)
Net cash inflow from operating activities		**79,245**	**66,405**
Cash flows from investing activities			
Payments for intangible assets	C4	(4,702)	(3,921)
Proceeds from sale of property, plant and equipment		57	-
Proceeds from sale of assets held for sale		1,736	811
Purchase of property, plant and equipment	C2	(41,566)	(43,416)
Net cash (outflow) from investing activities		**(44,475)**	**(46,526)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	D1	-	4
Proceeds from borrowings		150,000	105,000
Repayment of borrowings		(160,000)	(100,000)
Dividends paid	D1	(19,099)	(20,848)
Repayment of lease liabilities	C3	(1,915)	-
Net cash (outflow) from financing activities		**(31,014)**	**(15,844)**
Net increase in cash and cash equivalents		3,756	4,035
Cash and cash equivalents at the beginning of the year		14,631	11,198
Cash and cash equivalents at end of period	**C1**	**18,387**	**15,233**

[1]*Comparative period not restated for AASB 16.*

The accompanying notes form part of these interim consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

SECTION A: ABOUT THIS REPORT

A1
CORPORATE INFORMATION

The interim condensed consolidated financial statements of Estia Health Limited and its subsidiaries (collectively, the “Group”) for the six months ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 25 February 2020.

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

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

A2
BASIS OF PREPARATION

The interim condensed consolidated financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting* issued by the Australian Accounting Standards Board (AASB). The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 30 June 2019.

The financial report has been prepared on a historical cost basis, except for investment properties, which have been measured at fair value.

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

Refer to Note C3 and E4 for information relating to the Group's accounting policies.

A3
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 $906,893,000 as at 31 December 2019 (30 June 2019 $865,520,000). This mainly arises because of the requirement to classify Refundable Accommodation Deposits (RAD) and Independent Living Unit (ILU) entry contributions of $827,806,000 (30 June 2019 $806,337,000) as current liabilities.

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

The Group has a debt facility of $330,000,000 of which $211,000,000 remains undrawn as at 31 December 2019. This debt facility can be drawn down to re-pay RAD and Bond refunds should the Group experience significant RAD and Bond net outflows. This debt would then be classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

SECTION A: ABOUT THIS REPORT (CONTINUED)

A4
SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts and are reviewed on an ongoing basis.

In preparing the interim condensed consolidated financial statements, the significant estimates, judgements and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the most recent annual financial statements as at 30 June 2019, except as stated below:

Significant accounting judgements, estimates and assumptions

Note B1	Revenue and other income
Note C3	Right of use assets and lease liabilities

SECTION B: OUR PERFORMANCE

B1
REVENUE AND OTHER INCOME

	December 2019 $'000	December 2018 $'000
Revenues		
Government funded residential care subsidies & supplements	218,908	215,118
Resident daily care fees	53,470	52,370
Other resident fees	21,759	22,162
Imputed revenue on RAD and Bond balances under AASB 16	21,945	-
Total revenues	**316,082**	**289,650**
Other (Losses)/Gains		
Net gain on disposals of property, plant and equipment	51	-
Net (loss)/gain on disposals of assets held for sale	284	(100)
Total other (losses)/gains	**335**	**(100)**

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

Total revenue includes the provision of accommodation, that is accounted for in accordance with AASB 16 - Leases. Operating lease revenue is recognised on a straight line basis over the length of the stay.

Following the adoption of AASB 16 on 1 July 2019, total revenue includes an imputed non cash charge for accommodation in respect of residents who have chosen to pay a RAD or Bond. Refer to E4 paragraph (b) for full details on the adoption and transition to AASB 16.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group has determined the use of the Maximum Permissible Interest Rate (MPIR) as the interest rate to be used in the calculation of the imputed non cash accommodation charge. The MPIR is the interest rate calculated in accordance with Section 6 of the Fees and Payments Principles 2014 (No. 2) and made under section 96-1 of the Aged Care Act 1997.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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 Subsidy**

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

The Government may require a resident to pay a proportion of that subsidy dependent on their own financial circumstances, referred to as a Means Tested Care Fee (MTCF). The MTCF reduces the amount the Government pays directly to the provider as a result. The total MTCF included within the total Government Funded Residential Care Subsidy was $8,356,000 in the period (31 December 2018: $8,055,000).

(b) **Resident Daily Care Fees**

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

(c) **Other Resident Fees**

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

Contract Assets and Liabilities

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).

The Group presents these separately in the statement of financial position.

Other Losses/Gains

During the period, the Group sold two properties for a total of $1,188,000 (31 December 2018: one property sold for $811,000) and recognised a net gain on sale of $284,000 (31 December 2018: net loss on sale $100,000).

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.

Impairment Losses on Receivables

The Group recognised a reversal of $63,000 of previously provided impairment losses on receivables arising from contracts with residents, included under Administration Expenses in the statement of profit or loss for the six months ended 31 December 2019 (31 December 2018: expense of $546,000).

SECTION B: OUR PERFORMANCE (CONTINUED)

B2
FINANCE INCOME AND COSTS

	Notes	December 2019 $'000	December 2018 $'000
Finance income			
Interest income from cash at banks		27	53
Finance income		**27**	**53**
Finance costs			
Imputed Interest Cost on RAD and Bond Balances	E4	(21,945)	-
Interest expense on leases under AASB 16	E4	(1,095)	-
Interest expense on accommodation bonds for departed residents		(1,351)	(1,683)
Other finance costs		(1,310)	(1,288)
Interest expense on bank loans		(712)	(811)
Finance costs expensed		**(26,413)**	**(3,782)**
Net finance costs		**(26,386)**	**(3,729)**

SECTION B: OUR PERFORMANCE (CONTINUED)

B3
INCOME TAX EXPENSE

The major components of income tax expense for the six months ended 31 December 2019 and 31 December 2018 are:

Interim consolidated statement of profit or loss and other comprehensive income

	December 2019 $'000	**December 2018 $'000**
Current income tax		
Current income tax expense	9,389	8,737
Adjustments in respect of income tax of previous year	227	(678)
Deferred income tax		
Relating to origination and reversal of temporary differences	(3,407)	(216)
Adjustments in respect of income tax of previous year	(315)	46
Income tax expense reported in the interim consolidated statement of profit or loss and other comprehensive income	**5,894**	**7,889**

Reconciliation of income tax expense and the accounting profit:

	December 2019 $'000	**December 2018 $'000**
Accounting profit before income tax	20,205	28,969
At the Australian statutory income tax rate of 30% (2018: 30%)	6,062	8,691
Adjustments in respect of income tax of previous year	(87)	(632)
Utilisation of previously unrecognised tax losses	(103)	(96)
Expenditure not allowable for income tax purposes		
- Other expenditure	22	(74)
Income tax expense	**5,894**	**7,889**

SECTION C: ASSETS & LIABILITIES

C1
CASH AND CASH EQUIVALENTS

	December 2019 $'000	June 2019 $'000
Cash at bank	18,310	14,555
Cash on hand	77	76
Total cash and cash equivalents	**18,387**	**14,631**

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2
PROPERTY, PLANT AND EQUIPMENT

	Land $'000	Buildings $'000	Property improvements $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost							
Opening net book amount	193,213	481,734	49,354	68,310	945	21,295	814,851
Additions	99	-	2,521	13,140	87	78,624	94,471
Transfers	-	23,868	14,215	13,574	-	(51,657)	-
Disposals	(435)	(786)	(1,267)	(2,979)	(43)	(669)	(6,179)
Transfers to assets held for sale	(37)	-	-	-	-	-	(37)
Balance at 30 June 2019	**192,840**	**504,816**	**64,823**	**92,045**	**989**	**47,593**	**903,106**
Additions	3,143	-	1,469	4,626	63	25,727	35,028
Transfers	3,960	26,387	9,984	11,592	-	(51,923)	-
Disposals	(862)	(1)	(23)	(1,122)	(154)	(9)	(2,171)
Transfers to assets held for sale	(2,822)	-	-	-	-	(107)	(2,929)
Balance at 31 December 2019	**196,259**	**531,202**	**76,253**	**107,141**	**898**	**21,281**	**933,034**
Accumulated depreciation							
Balance at 1 July 2018	-	28,832	2,174	25,947	788	-	57,741
Depreciation expense	-	11,884	3,306	12,439	102	-	27,730
Impairment expense	-	-	-	-	-	465	465
Disposals	-	(787)	(1,267)	(2,965)	(43)	(465)	(5,526)
Balance at 30 June 2019	**-**	**39,929**	**4,213**	**35,421**	**847**	**-**	**80,410**
Depreciation expense	-	5,493	1,943	8,224	46	-	15,706
Impairment expense	-	-	-	-	-	8	8
Disposals	-	(1)	(8)	(1,070)	(149)	(8)	(1,236)
Balance at 31 December 2019	**-**	**45,421**	**6,148**	**42,575**	**744**	**-**	**94,888**
Net book value							
As at 30 June 2019	192,840	464,887	60,610	56,624	142	47,593	822,696
As at 31 December 2019	**196,259**	**485,781**	**70,105**	**64,566**	**154**	**21,281**	**838,146**

The land and buildings predominately relate to aged care facilities. The provision of aged care includes operating leases as described in Note E4. Where an item of property, plant or equipment has a specific indicator of impairment present, the Group assesses the residual value, useful life and methods of depreciation on a standalone basis and adjusted prospectively, if appropriate.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3
RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group has lease agreements for various aged care facilities, office space and minor office equipment with varying lease terms. Following the adoption of AASB 16 on 1 July 2019, the carrying amounts of the Group's right of use assets and lease liabilities and the movement during the period are presented below. Refer to E4 paragraph (a) for full details on the adoption and transition to AASB 16.

	Property Leases $'000	Other Equipment $'000	Total $'000	Lease Liabilities $'000
As at 1 July 2019	**70,827**	**295**	**71,122**	**76,305**
Depreciation Expense	**(2,198)**	**(74)**	**(2,272)**	**-**
Interest expense	**-**	**-**	**-**	**1,095**
Lease Payments	**-**	**-**	**-**	**(3,010)**
As at 31 December 2019	**68,629**	**221**	**68,850**	**74,390**

Right of use assets of property leases predominately relates to aged care facilities. The provision of aged care includes operating leases as described in Note E4.

The following table is provided to assist with the understanding of the impact of the adoption of AASB 16 on the profit and loss for the period:

	$'000
Depreciation expense of right-of-use assets, now recognised	**2,272**
Interest expense on lease liabilities, now recognised	**1,095**
Operating lease rentals, under AASB 117	**(3,010)**
Net impact on the Profit and Loss	**357**

SIGNIFICANT ACCOUNTING POLICY

In accordance with AASB 16, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3
RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Right-of-use-assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short term leases and leases of low value assets

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying AASB 16, the Group has made the following judgements.

In determining the lease term used to ascertain total future lease payments, the Group considers all facts and circumstances that create an economic benefit to excercise an extension option. Renewal options are only considered to be part of the lease term if the lease is reasonably certain to be extended. The Group has included renewal periods as part of the lease term for all leases as it is reasonably certain these will be extended. This assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and is also within the control of the Group.

Where the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to calculate the present value of future lease payments. The IBR is the interest rate that the lessee would have to pay to borrow over a similar term of each lease. The Group estimates the IBR using market interest rates and adjusts these rates to include the effect of the lessee's own stand alone credit rating.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
INTANGIBLE ASSETS

	Goodwill $'000	Bed licences $'000	Software costs $'000	Total $'000
Cost				
Balance at 1 July 2018	817,074	215,236	7,029	1,039,339
Additions	-	2,695	2,066	4,761
Balance as at 30 June 2019	**817,074**	**217,931**	**9,095**	**1,044,100**
Additions	-	3,350	1,411	4,761
Disposals	-	-	(59)	(59)
Balance as at 31 December 2019	**817,074**	**221,281**	**10,447**	**1,048,802**
Accumulated amortisation				
Balance at 1 July 2018	-	-	3,551	3,551
Amortisation expense	-	-	900	900
Balance at 30 June 2019	**-**	**-**	**4,451**	**4,451**
Amortisation expense	-	-	731	731
Impairment	-	-	59	59
Disposals	-	-	(59)	(59)
Balance at 31 December 2019	**-**	**-**	**5,182**	**5,182**
Net book value				
As at 30 June 2019	817,074	217,931	4,644	1,039,649
As at 31 December 2019	**817,074**	**221,281**	**5,265**	**1,043,620**

(a) **Impairment of intangible assets**

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, at the cash-generating unit (CGU) level. The CGU is consistent with the operating segment identified in Note E3.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2019, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill and bed licences. As a result, management performed an impairment test at 31 December 2019 for the CGU.

The methodology and model used in assessing the recoverable amount of the CGU is consistent with the approach set out in the Group's financial statements for the year ended 30 June 2019.

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

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
INTANGIBLE ASSETS (CONTINUED)

(a) **Impairment of intangible assets (continued)**

The discount and growth rates used at 31 December 2019 in assessing the recoverable amount are as follows:

	December 2019 %	June 2019 %
Post-tax discount rate	9.0	9.5
Terminal growth rate	2.1	2.1

C5
INCOME RECEIVED IN ADVANCE

	December 2019 $'000	June 2019 $'000
Income received in advance	34,305	-
Total income received in advance	**34,305**	**-**

AASB 15 allows an entity to use alternative descriptions and therefore the Group has used the description 'Income received in advance' to refer to contract liabilities.

As at 31 December 2019, $34,305,000 (31 December 2018: $33,779,000) of income received in advance related to Government funding received in December relating to services to be provided in January 2020. Refer to Note B1 for the Group's revenue recognition policy.

SECTION D: CAPITAL, FINANCING, RADS & RISK

D1
ISSUED CAPITAL AND RESERVES

	December 2019 $'000	June 2019 $'000
Issued and fully paid		
Ordinary shares	803,073	801,843
Total share capital	**803,073**	**801,843**

(a) Movements in ordinary shares on issue

	December 2019		June 2019	
	Number of shares	$'000	Number of shares	$'000
Beginning of the period	260,602,749	801,843	260,602,749	801,836
Movement in management equity plan	-	-	-	7
Dividend reinvestment plan	486,849	1,230	-	-
End of financial period	**261,089,598**	**803,073**	**260,602,749**	**801,843**

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note D2 for further details of these plans.

(c) Franking credits

The franking credit balance of Estia Health Limited as at 31 December 2019 is $22,495,628 (30 June 2019: $23,917,303).

(d) Dividends paid and proposed

The final dividend for the year ended 30 June 2019 of $20,848,220 (7.8 cents per share) was paid on 2 October 2019.

On 25 February 2020, the Directors declared a fully franked interim cash dividend for the six month period ended 31 December 2019 of 5.4 cents per ordinary share totalling $14,098,838 representing approximately 100% of net profit after tax for the period.

(e) Dividend reinvestment plan (DRP)

The DRP was applicable for the final dividend paid on 2 October 2019 and will apply in full for the interim dividend declared on 25 February 2020.

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

D2
SHARE-BASED PAYMENTS

At 31 December 2019, the Group had the following share-based payments arrangements:

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

Under the LTIP, awards are made to executives who have significant impact on the Group's performance. LTIP awards are delivered in the form of performance rights entitling the holder to shares which vest following a period of three years subject to meeting performance measures.

For rights granted prior to 1 July 2019, the Group uses Total shareholder return (TSR) performance relative to the ASX200 excluding mining and energy companies (70%) and Earnings Per Share (EPS) (30%) as performance measures for the LTIP.

For rights granted post 1 July 2019, the TSR component is divided into two components, half against the ASX200 excluding mining and energy companies and half against the market capitalisation weighted average performance of a peer group of ASX-listed companies operating in the provision of aged care services. The TSR component remains at 70% with EPS remaining at 30% of the performance measures of the LTIP.

The Group granted a total of 824,290 rights during the period to executives and other key talent.

(b) **Short-Term Incentive Plan ("STIP")**

Under the STIP, awards are made to executives who have significant impact on the Group's performance. STIP awards are delivered in a mix of cash and equity. 75% of the award is delivered in cash, with the remaining 25% delivered in performance rights, which require participants to remain employed for an additional 12 months for the performance rights to vest.

The STIP is measured against Earnings Before Interest, Tax and Depreciation and Amortisation, Net Profit After Tax and Lost Time Injury Frequency Rate targets, as well as other role specific measures over a 12-month period. A resident quality gateway hurdle is also used, which requires ongoing compliance and accreditation targets to be met in order for any of the STIP to be eligible to vest.

The number of performance rights granted and deferred under the STIP during the year ended 31 December 2019 relating to the incentive payments earned in the year ended 30 June 2019 was 23,055 (2019: 13,693).

(c) **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.

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

D3
LOANS AND BORROWINGS

	December 2019 $'000	June 2019 $'000
Bank loans, secured	115,000	125,000
Total loans and borrowings	**115,000**	**125,000**

Terms and conditions of loans

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

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

The total debt facility available to the Group at 31 December 2019 was $330,000,000. The maturity date of the facility is 22 November 2022.

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

D4
FAIR VALUE MEASUREMENT

The Group uses various methods in estimating the fair value of its financial assets and liabilities which are categorised within the fair value hierarchy. The Group only uses fair value for Investment Properties, which are valued using Level 3 inputs.

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

			Fair value measurement using		
	Date of Valuation	Total	Level 1	Level 2	Level 3
		$'000	$'000	$'000	$'000
Investment Properties	31 December 2019	1,620	-	-	1,620
		1,620	-	-	1,620

Fair Values of Investment Properties are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

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

There were no transfers between levels during the financial year.

SECTION E: OTHER INFORMATION

E1
COMMITMENTS AND CONTINGENCIES

As at 31 December 2019, the remaining capital commitments amounted to $34,700,000 (30 June 2019: $41,700,000).

There have been no other material changes to the Group's commitments during the period from those disclosed at 30 June 2019.

On 16 July 2019 Phi Finney McDonald commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Group. The statement of claim includes allegations of contraventions of the Corporations Act 2001 (Cth) in relation to continuous disclosure obligations and misleading or deceptive conduct. The proceedings have, to date, mostly involved procedural issues including the discovery process. The Group will continue to vigorously defend the proceedings. It is too early in the process to assess these claims to provide a reliable assessment of the quantum of any damages that may become payable if its defence is unsuccessful in whole or in part.

E2
SUBSEQUENT EVENTS

On 25 February 2020, the Directors resolved to pay an interim fully franked dividend of 5.4 cents per share ($14,098,838) payable on 27 March 2020.

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

E3
SEGMENT REPORTING

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

E4
CHANGES IN ACCOUNTING POLICY

The accounting policies adopted in preparation of the consolidated interim financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and amended standards adopted

AASB 16 Leases

The Group has adopted AASB 16 Leases with an application date of 1 July 2019. AASB 16 replaces AASB 117 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The adoption requires the Group to disclose leases as a lessor and as a lessee.

SECTION E: OTHER INFORMATION (CONTINUED)

E4
CHANGES IN ACCOUNTING POLICY (CONTINUED)

(a) Group as a Lessee

AASB 16 requires lessees to account for all leases as a single on balance sheet model, similar to accounting for finance leases under AASB 117. This results in the Group recognising a right of use (ROU) asset and a corresponding lease liability for all leases with a term greater than 12 months, excluding assets of low value when acquired new. The operating lease expense is replaced by depreciation on the ROU assets and interest expense on the amortising lease liability.

The Group has also adopted the modified retrospective approach when transitioning to AASB 16. Under this approach, the Group has not restated comparatives and has recognised the cumulative effect of AASB 16 as an adjustment to the opening balance of retained earnings.

The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead the Group applied the AASB 16 only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 at the date of initial application.

The adoption of AASB 16 has had the following increase or (decrease) affect on the Group’s balance sheet as at 1 July 2019:

	$'000
Assets	
Right-of-use assets	**71,122**
Deferred tax assets	**22,891**
Total	**94,013**

	$'000
Liabilities	
Interest bearing lease liabilities	**(76,305)**
Deferred tax liabilities	**(21,654)**
Reversal of Stepped Rental Provision	**1,057**
Total	**(96,902)**

	$'000
Total adjustment on equity:	
Retained earnings	**2,889**
Total	**2,889**

(i) Lease liabilities

The Group has various leases for aged care homes, office space and minor office equipment. These leases were previously classified as operating leases under AASB 117. Upon adoption of AASB 16, the Group has now recognised lease liabilities measured at the present value of the future remaining lease payments and discounted using an incremental borrowing rate for each lease as at 1 July 2019.

SECTION E: OTHER INFORMATION (CONTINUED)

E4
CHANGES IN ACCOUNTING POLICY (CONTINUED)

Lease liabilities recognised on 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	$'000
Lease commitments reported as at 30 June 2019	**24,482**
Add: Payments in optional extension period not recognised as at 30 June 2019	**77,563**
Less: Impact of discounting under AASB 16	**(25,740)**
Lease liabilities as at 1 July 2019	**76,305**

The weighted average incremental borrowing rate as at 1 July 2019 was 2.9%.

(ii) Right of use assets

The right-of-use assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application based on remaining lease term. The ROU asset is then depreciated on a straight-line basis over the lease term determined in (i) above.

For (i) and (ii), as permitted by AASB 16, the following practical expedients have been applied by the Group:

- Reliance on previous assessments of whether leases are onerous as an alternative to performing an impairment review;
- Treating leases with a lease term of less than 12 months as at 1 July 2019 as short term leases;
- Application of hindsight in determining the lease term where the lease agreement contains an option to extend or terminate the lease; and
- Exclusion of the initial direct costs from the measurement of the right of use asset at the date of initial application.

(iii) Deferred Tax Asset and Liability

The Group recognises deferred tax on initial recognition by considering the right of use asset and the lease liability separately. The resultant deferred tax asset and deferred tax liability are offset where a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iv) Stepped Rental Provision

The Group has four property leases which are subject to an annual fixed rental increase. The rental expense was being recognised on a straight line basis each month over the term of the lease. As at 30 June 2019, the amount of the accumulated expense was greater than the actual cost of the lease payments and the Group had recognised a corresponding liability for future lease payments.

Following the adoption of AASB 16, future lease increases are now included in the measurement of the lease liability. The stepped rental provision is reversed against retained earnings as a transition adjustment.

SECTION E: OTHER INFORMATION (CONTINUED)

E4
CHANGES IN ACCOUNTING POLICY (CONTINUED)

(b) Group as a Lessor

The Group classifies leases as an operating or finance lease based on whether substantially all the risks and rewards are transferred to the lessee. For sub-leases, the classification is performed by reference to the head lease ROU asset rather than the underlying asset. Leases with residents are classified as operating leases.

For residents who have chosen a RAD or Bond arrangement, the Group has determined that the adoption of AASB 16 will define these arrangements to be a lease for accounting purposes with the Group acting as the lessor. Where residents have opted to pay a Daily Accommodation Payment, the Group has determined that the adoption of AASB 16 will not have a material change to the existing accounting treatment.

Under a RAD or Bond arrangement the Group has recognised an imputed non-cash charge for accommodation representing the resident's right to occupy a room under the arrangement. The accounting treatment required a non-cash increase in revenue for accommodation and a non-cash increase in finance cost on the outstanding RAD liability, with no net impact on the result for the period.

AASB 2018-1: Amendments to Australian Accounting Standards - Annual Improvements to IFRS Standards 2015-2017 Cycle

The amendments clarify certain requirements in:

- AASB 3 Business Combinations
- AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity
- AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

The adoption of this amending Standard did not have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

AASB Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by tax authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

The adoption of this interpretation did not have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

DIRECTORS' DECLARATION

1. in the opinion of the directors:

   (a) the financial statements and notes of the consolidated entity for the financial year ended 31 December 2019 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 31 December 2019 and of its performance for the financial period ended on that date; and

      (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;

   (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Dr. Gary H Weiss AM
Chairman

25 February 2020

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Independent Auditor's Review Report to the Members of Estia Health Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Estia Health Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Building a better
working world

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
Melbourne
25 February 2020