Estia Health Limited

ABN 37 160 986 201

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

Estia Health Limited

ABN 37 160 986 201

Contents to financial report

CORPORATE INFORMATION

ABN 37 160 986 201

Directors

Patrick Grier (Non-executive Chairman)	
Andrew Harrison (Non-executive Director)	
Norah Barlow (Non-executive Director)	
Peter Arvanitis (Non-executive Director)	
Marcus Darville (Non-executive Director)	Appointed 15 July 2015
Dr. Gary Weiss (Non-executive Director)	Appointed 8 February 2016
Paul Foster (Non-executive Director)	Appointed 24 February 2016
Jonathon Pearce (Alternate Non-executive Director)	Appointed 10 March 2016
Paul Gregersen (Managing Director)	

Company Secretary
Suzy Watson

Registered office
357 Camberwell Road
Camberwell VIC 3124

Principal place of business
357 Camberwell Road
Camberwell VIC 3124

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

Bankers
Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Auditors
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2016.

Directors

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

Patrick Grier (Chairman)

Patrick was appointed to the board in November 2014 as Chairman and independent non-executive director.

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

Patrick has also been a director of Ramsay Health Care Limited since 25 June 1997 and Prime Media Group Limited between 6 June 2008 and 20 November 2014.

Andrew Harrison (Audit and Risk Committee Chair)

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

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

Andrew also serves as a director of Bapcor Limited (appointed 31 March 2014) IVE Group Limited (appointed on 25 November 2015), Wisetech Global Limited (appointed on 31 July 2015) and Xenith IP Group Limited (appointed on 1 October 2015).

Norah Barlow (Nomination and Remuneration Committee Chair) ONZM

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

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

Norah has also served as a director of Ingenia Communities Group since 31 March 2014 and Evolve Education Group since 13 November 2014. Norah has been a director of Methven Limited since 1 January 2015 and has also served as a director of Summerset Group Holdings Limited between 26 March 2009 and 29 April 2016.

Norah also holds advisory positions on the National Advisory Council for the Employment of Women, Allied Health, Science & Technical Workforces Taskforce Governance Group, and in 2015 was appointed to this role of chair of the Governance Group for the National Science Challenge: Ageing Well.

Peter Arvanitis

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

Marcus Darville

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

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

Dr. Gary Weiss

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

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

Gary also serves a director of Ariadne Australia Limited, since November 1989 and of the Victor Chang Cardiac Research Institute, since July 2009. Gary has served as a director of Ridley Corporation Limited since June 2010 and appointed as Chairman in July 2015 and was a director of Clearview Wealth Limited between 22 October 2012 and 17 May 2016.

Paul Foster

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

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

Paul has was the head of AMP Capital's Infrastructure investment business in Australia and New Zealand until May 2015, which spanned across various industries including aged care.

Paul was a director of the Opal Aged Care Group between 2010 and 2015 and was Chairman of the group in 2011.

DIRECTORS' REPORT

Jonathon Pearce (Alternate)

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

Jonathon holds a Bachelor of Commerce and is a Chartered Accountant.

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

Paul Gregersen (Managing Director)

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

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

Company Secretary

Suzy Watson

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

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

Dividends

On 26 August 2016, the Directors resolved to pay a final fully franked dividend of 12.8 cents per share ($24,087,542) bringing dividends per share for the financial year ended 30 June 2016 to 25.6 cents per share. The record date for the final dividend will be 4 October 2016, with payment being made on 7 November 2016. Shares will trade excluding entitlement to the dividend on 3 October 2016.

Dividends paid during the year were as follows:

Dividend	Date paid	Fully franked dividend per share	Total Dividend
Final dividend for the year ended 30 June 2015	26 October 2015	13.6 cents	$24,600,439
Interim dividend for the year ended 30 June 2016	20 April 2016	12.8 cents	$24,044,818

Principal activities

The principal activities of the Estia Health Group during the year ended 30 June 2016 included the operating and developing of owned and leased residential aged care facilities throughout Australia.

Operating and financial review

Estia has continued on its growth strategy through optimisation of the financial performance of existing facilities, acquisitions and brownfield developments, resulting in an increase in revenue and net profit after tax.

During the 2016 financial year, Estia acquired 13 single site facilities and on 8 February 2016, acquired the Kennedy Healthcare Group, adding 1,781 operational places in total. In addition, 55 places became operational through brownfield developments.

A summary of financial results for the year ended 30 June 2016 is below:

	2016 ($000)	2015 ($000)	% increase
Statutory			
Revenue	442.8	284.7	55.5
EBITDA	66.6	30.9	115.5
Net Profit After Tax	27.6	(22.5)	222.7
Earnings Per Share	15.1 cents	(16.3) cents	192.6
Underlying[2]			
Revenue	446.5	297.5[1]	50.1
EBITDA	92.7	70.7	31.1
Net Profit After Tax	51.8	44.6	16.1
Earnings Per Share	28.3 cents	24.5 cents	15.5

[1] Revenue determined consistent with the assumptions set out in the Prospectus lodged 3 December 2014

[2] unaudited

DIRECTORS' REPORT

For the year ended 30 June 2016 the Group's statutory profit after income tax was $27,640,000 (30 June 2015 statutory loss after income tax 2015 was $22,523,000).

The underlying profit after tax of the Group is $51,800,000 (2015: $44,600,000) for the financial year ended 30 June 2016. This underlying financial information is provided to assist readers to better understand the financial performance of the underlying business and is summarised in the table below.

	2016 ($000)	2015 ($000)
Statutory Net Profit (Loss) After Tax	27.6	(22.5)
Acquisition stamp duty, transaction and integration related costs	24.2	31.0
Other (one off costs, including redundancy costs)	1.9	2.4
July 2014 Padman and Cook trading results	-	3.1
Dementia supplement	-	(0.1)
Incremental public company costs	-	(0.4)
Offer costs expensed	-	3.1
Change in financing structure, interest expense	-	32.9
Income tax expense differential	(1.9)	(5.0)
Underlying Net Profit After Tax	**51.8**	**44.6**

Review of financial position

Estia's principal sources of funds were cash flow from operations and refundable accommodation deposits (RADs). In January 2016, Estia extended its financing with its syndicated bank debt facilities, with the addition of a $150,000,000 facility to fund capital investments. As a result, the Group has total facilities of $330,000,000, including a $50,000,000 working capital facility, which expires in December 2018.

Cash flow

Net cash flows from operating activities for the year ended 30 June 2016 of $61,100,000 (net of payment for acquisition transaction costs) increased by $38,300,000 as a result of the full year contribution of acquisitions made in the current and prior year as well and optimisation of the financial performance of existing and acquired facilities.

RAD and lump sum accommodation bond net inflows of $76,400,000 during the year were $7,700,000 down from $84,100,000 in the prior year. The prior year net inflows included positive cash flows from two greenfield developments (Lockleys and Epping) which was ramping up in terms of occupancy. In the current year, the Bexley greenfield facility opened by the Kennedy Healthcare Group in December 2015 has generated positive net RAD receipts from the date of acquisition.

Acquisitions

During the year, Estia continued to invest in land and business acquisition opportunities as follows:

- Investment in land acquisitions of $55,400,000 for expansion at St Ives, Twin Waters, Toorak Gardens and Daw Park;
- Investment in single site facilities of $144,473,000, adding 822 operational places in:
    - Victoria – Keysborough, Epping, Bendigo, Keilor Downs, Bannockburn, Benalla, Iron Bark, Glen Waverley;
    - South Australia - Aldgate, Toorak Gardens, Hope Valley;
    - New South Wales - Tea Gardens; and
    - Queensland – Gold Coast; and
- Investment in Kennedy Healthcare Group (959 operational places) of $209,618,000 on 8 February 2016 (includes land for expansion opportunities of $26,400,000).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of our company during the financial year ended 30 June 2016.

Significant events after the balance date

On 1 July 2016, Estia drew down $36,500,000 from its debt facility to partially fund the deferred acquisition payment of the Kennedy Group. Estia has subsequently repaid $10,000,000 of the debt on 10 August 2016.

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

Likely developments and expected results

The Group's growth strategy centres on increasing the size of its aged care portfolio which meets Estia's investment criteria through the developments of greenfield and brownfield projects and the acquisition of additional aged care facilities.

DIRECTORS' REPORT

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

Environmental regulation and performance

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

Indemnification and insurance of directors and officers

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

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

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

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

(a) A wilful breach of duty; or

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

The total amount of insurance contract premiums paid was $251,936.

Indemnification of auditors

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

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.

Committee membership

As at the date of this report, the Group had a Nomination and Remuneration Committee comprising of Norah Barlow (Chairperson), Patrick Grier, Peter Arvanitis and Paul Foster, and an Audit and Risk Committee comprising of Andrew Harrison (Chairperson), Norah Barlow, Patrick Grier and Gary Weiss.

DIRECTORS’ REPORT

Directors' meetings

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

	Directors’ meetings		Nomination and remuneration committee		Audit and risk committee	
No. of meetings held:	16		6		3	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Paul Gregersen	16	16	-	-	-	-
Patrick Grier	16	16	6	6	3	2
Andrew Harrison	16	13	-	-	3	3
Norah Barlow	16	15	6	6	3	2
Peter Arvanitis	16	15	6	5	-	-
Marcus Darville	16	10	-	-	-	-
Gary Weiss	9	7	-	-	1	-
Paul Foster	8	8	2	2	-	-
Jonathon Pearce	7	3	-	-	-	-

Estia Health

Remuneration report – audited

Dear Security Holders,

The Board of Estia is pleased to present the 2016 Remuneration Report.

FY16 performance

Estia's operational places increased by 46% during the year through brownfield developments, the acquisition of 13 single site facilities and the acquisition of the Kennedy Healthcare Group, which added 8 facilities and 959 operational places.

30 June 2015	→	12 August 2015	→	30 June 2016
4,010 operational places	*431 places acquired*	4,441 operational places	*1,350 places acquired and 55 places developed*	5,842 operational places

Other key achievements during FY16 included:

- Statutory NPAT of $27,640,000, a growth of 222.72% from FY15
- Increase in profit margin per bed through unlocking synergies and adjusting pricing model
- Excellent development of greenfield and brownfield pipelines

Whilst the Group achieved the above, the Board determined no short-term incentive (STI) vested as the stretch NPAT target for FY16 was not achieved.

Looking forward

The Board has re-aligned the remuneration mix of key management personnel (KMP) to reflect the company's focus on achieving long term objectives and has made a number of changes to the year ending 30 June 2017 (FY17) remuneration framework.

To ensure focus on long term quality care, a **gateway** will be added to the STI plan (STIP) for FY17 which requires ongoing compliance and accreditation targets to be met in order for any of the STIP to be eligible to vest. We are pleased with the high standards we presently set, and seek to ensure that the focus remains in this important area. The gateway reaffirms the criticality of compliance and accreditation to the business.

In addition, STIP will now be measured on three outcomes. Profitability clearly remains a key driver but family and employee satisfaction measures have been added to ensure that management focus on the very important people in our business. The Board sees these factors as key areas of importance to embed a quality culture which exceeds compliance requirements and delivers long term outcomes.

The other key change for FY17 is to extend the Long Term Incentive Plan (LTIP) participation to the Managing Director and other members of the senior leadership team. There will be two measures used to assess performance in the LTIP: an Earnings Per Share (EPS) measure and a Total Shareholder Return (TSR) measure. For 2017 the TSR will be assessed against the ASX200, excluding mining and energy companies.

We believe that these changes result in a greater focus on the long-term element in the remuneration package and the long-term focus on maintaining a culture that focuses on quality care.

The remuneration packages of key executives for FY17 is outlined below:

Remuneration Mix[1]	FAR	Target STIP Opportunity	LTI Opportunity (face value)
Managing Director	$700,000	50% of FAR	100% of FAR
Chief Financial Officer	$438,000	30% of FAR	80% of FAR
Chief Strategy Officer	$480,000	30% of FAR	80% of FAR

[1] *As at 1 July 2016*

DIRECTORS' REPORT

Remuneration report – audited (continued)

On behalf of the Board, I am pleased to present to you the year ended 30 June 2016 (FY16) Remuneration Report for Estia.

Yours sincerely

Norah Barlow

Chair of the Nomination and Remuneration Committee

DIRECTORS' REPORT

Remuneration report – audited (continued)

This report for the year ended 30 June 2016 (FY16) 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. Executive remuneration
4. Executive remuneration outcomes (including link to performance)
5. Executive contracts
6. Non-executive director fee arrangements
7. Additional disclosures relating to performance rights and shares
8. Other transactions and balances with KMP and their related parties

1. Introduction

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

The table below outlines the KMP of the Group during FY16. Unless otherwise indicated, the individuals were KMP for the entire financial year. There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

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

(i) Non-executive directors (NEDs)		
Patrick Grier	Non-Executive Chairman	Appointed 17 November 2014
Andrew Harrison	Non-Executive Director	Appointed 17 November 2014
Norah Barlow	Non-Executive Director	Appointed 17 November 2014
Peter Arvanitis	Non-Executive Director	Appointed 29 October 2012
Marcus Darville	Non-Executive Director	Resigned 17 November 2014 Re-appointed 15 July 2015
Gary Weiss	Non-Executive Director	Appointed 8 February 2016
Paul Foster	Non-Executive Director	Appointed 24 February 2016
Jonathon Pearce	Non-Executive Director Alternate Non-Executive Director	Resigned 17 November 2014 Re-appointed 10 March 2016
(ii) Executives		
Paul Gregersen	Managing Director	Appointed 17 November 2014
Joe Genova	Chief Financial Officer	Appointed 27 October 2014
Steven Boggiano *	Chief Strategy Officer	Promoted 1 July 2016

* Steven Boggiano was appointed Director of Strategy on 13 July 2015 and was then appointed as Chief Strategy Officer on 1 July 2016. He was not considered to be a KMP at any time during the year but is considered to be a KMP from 1 July 2016.

DIRECTORS' REPORT

Remuneration report – audited (continued)

2. Remuneration governance

2.1 Role of the 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 conductive 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): Norah Barlow (Committee Chair), Patrick Grier and Paul Foster, as well as Peter Arvanitis who is a non-independent NED. Further information on the Committee's role, responsibilities and membership, which is reviewed annually by the Board, can be viewed at ***http://www.estiahealth.com.au/investor-centre/corporate-governance***.

The Committee met 6 times in FY16. The Managing Director (MD) attends certain Committee meetings by invitation, where management input is required. The MD 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 2016, the Chairman of the Remuneration Committee engaged KPMG to provide the following to assist the Board in its decision making:

- benchmarking data in respect of KMP remuneration;
- information regarding market practice in relation to the STIP and LTI plans;
- advice on the tax and accounting implications of the remuneration framework; and
- assistance with preparation of remuneration report.

The advice provided by KPMG does not constitute a 'remuneration recommendation' as defined in section 9B of the *Corporations Act 2001*.

The engagement with KPMG was based on an agreed set of protocols governing the manner in which the engagement would be carried out. These protocols ensure that the remuneration advice received from KPMG is free from undue influence from management.

3. Executive remuneration

3.1 Remuneration principles and strategy

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

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

The Board is regularly reviewing the remuneration framework against the evolving business strategy and in the context of the commercial environment to ensure that it remains relevant. The following illustrates how the Group's remuneration strategy aligns with its strategic direction:

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

Business strategy	***To be the leader in providing high quality residential aged care facilities in Australia***	
Remuneration Strategy	**Align the interests of executives with achievement of business strategic objectives**	**Attract, motivate and retain high performing individuals from the widest possible pool of talent**
	Short and long-term incentives are based on performance measures designed to drive employee and family satisfaction, embed a quality culture to exceed in compliance requirements and drive sustainable value creation for shareholders.	Competitive remuneration packages with longer-term incentives that attract high calibre employees from a diverse pool of talent and encourage retention and multi-year performance focus.

Remuneration Framework	**Fixed remuneration**	**Variable 'at risk' remuneration**	
The Board has regard for comparator remuneration levels, consideration of executives' actual performance and shareholder returns.	**Fixed Annual Remuneration (FAR)** Set with reference to role, market and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private. Group and individual performance are considered during the annual remuneration review.	**Short-Term Incentive Plan (STIP)** Aligned to the achievement of Estia's business objectives measured over the short to medium term. In FY16, STIP focused on financial objectives measured by Net Profit After Tax (NPAT) focusing executives on delivering direct financial benefits to shareholders in the first full year following Listing. In FY17, the STIP will include financial and non-financial objectives measured by NPAT, Employee Net Advocacy Score and Family Net Advocacy Score. A gateway hurdle will also be added which requires ongoing compliance and accreditation targets to be met in order for any of the STIP to be eligible to vest.	**Long-Term Incentives (LTI)** Aligned to the achievement of increased shareholder wealth over the long-term. The LTIP is dependent on total shareholder return (TSR) performance relative to peer groups and is awarded in performance rights. To challenge management to increase profitability by growing earnings, an additional hurdle, Earnings Per Share (EPS) will be included for 30% of the LTIP in FY17. A legacy Management Equity Plan (MEP) was put in place prior to Initial Public Offering but no grants have been, or will be, made following Listing.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.2 Approach to setting remuneration

In FY16, the executive remuneration framework comprised a mix of fixed annual remuneration, and short and long-term performance-linked incentive plans. The Group aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive.

Total remuneration levels are reviewed annually by the Committee and the Board through a process that ensures that KMP's fixed remuneration remains competitive with the market and reflects their skills, experience, accountability and general performance. In undertaking the review, the Committee benchmarks the remuneration of the current KMP against a group of companies which operate within the same industry as Estia and with which Estia competes for key executive talent. The comparator group comprises entities within 50% and 200% of Estia's market capitalisation.

3.3 Detail of remuneration structure

Total target remuneration

The FY16 and FY17 target remuneration mix for each KMP is presented in the following table. The fixed and "at risk" variable remuneration is displayed as a percentage of total target annual remuneration.

The table below reflects the Committee's decision to significantly increase the portion of total target annual remuneration delivered as a long term incentive to promote maximum focus on long term outcomes and to increase alignment with shareholders.

		FIXED	VARIABLE	
		FAR	STIP	LTI ^
Managing Director	FY16	67%	33%	0%
	FY17	40%	20%	40%
Chief Financial Officer	FY16	64%	18%	18%
	FY17	48%	14%	38%
Chief Strategy Officer#	FY17	48%	14%	38%

^ LTI refers to grants made under the LTIP during the year (and does not include unvested awards granted during prior periods), and is calculated using face value methodology.

Effective 1 July 2016.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.3 Detail of remuneration structure (continued)

Fixed Annual Remuneration (FAR)

FAR includes base salary, non-cash benefits such as travelling allowances (including any fringe benefits tax), as well as leave entitlements and superannuation contributions. Each KMP's FAR is reviewed annually by the Committee. In addition, the Committee may from time to time engage external consultants to provide analysis and advice to ensure the KMP's compensation is competitive in comparison to comparator groups. This provides flexibility to recognise capability, contribution, value to the organisation and performance of individuals, while maintaining remuneration at a competitive level necessary to retain and motivate KMP.

Short-Term Incentive Plan

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

Participation	Senior executives who are employed for the full financial year and continue to be employed at the normal time for the payment of the STIP.
STIP value	In FY16, the MD had a maximum STIP opportunity of 50% of FAR and other senior executives had a maximum STIP opportunity of 30% of FAR. This is set annually.
Performance conditions – FY16 STIP	Estia chose to use a single financial performance measure in FY16. The FY16 financial measure is the Group's underlying NPAT. NPAT was selected by the Board as the sole measure for the STIP as it was seen to be the key focus area for FY16 (at an executive level). The Board has adjusted target NPAT for acquisitions completed during FY16. The Group did not achieve the target underlying NPAT adjusted for acquisitions and therefore, STIP vesting did not occur.
Delivery of STIP	Performance against the measures is tested annually after the end of the financial year. All payments under the STIP are determined and approved by the Committee and the Board. Once STIP payments have been approved, they are delivered in cash. For the MD, 25% of any payment is deferred for a period of 12 months. In FY16, no STIP vested.
Cessation of employment	For "Bad Leavers" (defined by the Group as resignation or termination for cause), any STIP is forfeited, unless otherwise determined by the Board. For any other reason, the Board has discretion to award STIP on a pro-rata basis taking into account time and the current level of performance against performance hurdles.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

Long-Term Incentive Plan

LTIP grants are made to senior executives to assist in the reward, motivation and retention of personnel over the long-term. The LTIP is also designed to recognise the abilities, efforts and contributions of participants to Estia's performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in the Estia Group. During the review of the LTIP in FY16, the Board and MD agreed to defer granting an LTIP for the MD until FY17.

LTIP grants will be extended to all members of KMP in FY17.

<table>
<tr><td>Participation</td><td>The Chief Financial Officer was the only member of KMP to receive an LTIP grant in FY16.

In FY17, it is intended that the LTIP will extend to the senior executive team and other key talent who have an impact on the Group's performance against long-term performance measures. The LTIP will represent a large component of each senior executive's variable remuneration.</td></tr>
<tr><td>Delivery of LTIP</td><td>LTIP grants are delivered in the form of performance rights. On exercise, performance rights entitle the holders to ordinary shares.</td></tr>
<tr><td>Allocation methodology</td><td>The quantity of instruments granted under the LTIP is determined using face value allocation methodology (i.e. LTIP opportunity divided by share price).</td></tr>
<tr><td>Performance conditions – FY16 grants</td><td>The FY16 LTIP uses relative Total Shareholder Return (TSR) as the performance measure.

Tranche 1 compares the Group's TSR performance to that of constituents of the ASX200 Index and Tranche 2 compares the Group's TSR performance to constituents of the ASX200 Healthcare Index.

The vesting schedule is as follows:
<table>
<tr><th>Relative TSR performance outcome</th><th>Percentage of grant which vests</th></tr>
<tr><td>Below the 50th percentile</td><td>Nil</td></tr>
<tr><td>At the 50th percentile</td><td>50%</td></tr>
<tr><td>Between the 50th and 75th percentile</td><td>Straight-line vesting between 50-100%</td></tr>
<tr><td>At or above the 75th percentile</td><td>100%</td></tr>
</table>
The first possible vesting date is following the financial year ended 30 June 2018.</td></tr>
</table>

Remuneration report – audited (continued)

3. Executive remuneration (continued)

<table>
<tr><td>Performance conditions – FY17 grants</td><td>
The performance conditions for FY17 grants will be as follows:

70% of award will be subject to a relative TSR performance measure, with the below vesting schedule.

<table>
<tr><th>Company's TSR over performance period, relative to companies in the ASX 200 Index, excluding mining and energy companies</th><th>Percentage of performance rights that vest</th></tr>
<tr><td>Less than median of comparator group</td><td>Nil</td></tr>
<tr><td>At median of comparator group</td><td>50%</td></tr>
<tr><td>Between median and 75th percentile of comparator group</td><td>Straight line pro rata vesting between 50% and 100%</td></tr>
<tr><td>Greater than 75th percentile of comparator group</td><td>100%</td></tr>
</table>
30% of award subject to EPS performance measure, with the below vesting schedule.

<table>
<tr><th>Company's compound annual growth of EPS from FY16 base year</th><th>Percentage of performance rights that vest</th></tr>
<tr><td>Below threshold rate</td><td>Nil</td></tr>
<tr><td>At threshold rate</td><td>25%</td></tr>
<tr><td>Between threshold and stretch rate</td><td>Straight line pro rata vesting between 25% and 100%</td></tr>
<tr><td>At or in excess of stretch rate</td><td>100%</td></tr>
</table>
When assessing performance against targets, EPS will be adjusted to account for acquisitions made during the performance period.

Further details on the FY17 LTIP will be provided in the FY17 remuneration report.
</td></tr>
<tr><td>Performance period</td><td>The FY16 grant had a performance period commencing on 1 July 2015 and ending on 30 June 2018. The FY17 grant will have a performance period commencing on 1 July 2016 and ending on 30 June 2019.</td></tr>
<tr><td>Lapse of performance rights</td><td>Any performance rights that remain unvested at the end of the performance period will lapse immediately.</td></tr>
<tr><td>Total shares issued</td><td>The number of shares allocated on the vesting of all outstanding rights may not exceed 5% of the total number of shares on issue at the time of the offer.</td></tr>
<tr><td>Cessation of employment</td><td>For "bad leavers" (defined by the Group as resignation or termination for cause), all of the performance rights held by that employee upon cessation will automatically lapse.

Cessation of employment for any other reason, a portion of the performance rights held by that employee upon cessation will lapse according to a formula which takes into account the length of time the participant has held the performance right and the performance period for the performance right, unless otherwise determined by the Board.</td></tr>
<tr><td>Change of control</td><td>The Board may exercise its discretion to allow all or some unvested rights to vest if a change of control event occurs, having regard for the performance of the Group during the vesting period up to the date of a change of control event.</td></tr>
</table>

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

Clawback policy

The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.

Legacy Plan - Management Equity Plan

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

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

The MD was offered a 10 year limited recourse loan with a face value of $5 million under the MEP on 5 December 2014. The MEP loan was offered to subscribe for 869,565 MEP shares at the offer price of $5.75 and is interest free and repayable by 5 December 2024. These shares are held under an escrow agreement until 5 December 2017.

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

Details of the MEP shares and MEP loans have been outlined at section 7 of this Report.

4. Executive remuneration outcomes (including link to performance)

4.1 Group performance and its link to STIP

In FY16, the financial performance measures driving STIP payment outcomes are the actual, forecast and stretch underlying NPAT of the Group. Whilst FY16 has been a successful year for Estia with the achievement of key milestones, as highlighted in the Chairman's address at the commencement of this report, the FY16 target underlying NPAT adjusted for acquisitions was not achieved.

As a result no STIP vested during the year.

Underlying NPAT is defined as NPAT adjusted for acquisition related costs and notional income on net refundable accommodation bonds received at the average maximum permissible interest rate (MPIR) set by government each quarter. Underlying NPAT target is also adjusted for each acquisition based on its forecast contribution to NPAT.00

4.2 Group performance and its link to LTIP

The performance measures that drive LTIP vesting are the Group's TSR performance relative to the companies within the ASX200 Index and ASX200 Healthcare Index peer groups for the period from 8 December 2014 to 30 June 2017.

The Group will provide details of the LTIP hurdle achievement at the end of the performance period.

Remuneration report – audited (continued)

4. Executive remuneration outcomes (including link to performance) (continued)

4.3 Executive remuneration for the year from 1 July 2015 to 30 June 2016

		Short-term benefits				Post-employment benefits	Long-term benefits	Fixed annual remuneration	"At risk"		Total fixed and "at risk" remuneration	Termination payments	Performance related remuneration
		Salary and fees	Offer bonus	Non-monetary benefits	Annual leave entitlements	Superannuation benefits	Long service leave entitlements		Short-term incentive (STIP)	Share-based payments – LTIP ^			
		$	$	$	$	$	$	$	$	$	$	$	%
Executive director													
Paul Gregersen*	2016	642,994	-	-	74,358	35,718	-	753,070	-	123,523	876,593	-	14%
	2015	869,282	228,311	-	59,137	52,763	-	1,209,493	-	69,861	1,279,354	-	5%
Senior executives													
Joe Genova**	2016	397,591	-	-	44,727	37,594	-	479,912	-	71,744	551,656	-	13%
	2015	251,272	45,662	-	34,719	23,687	-	355,340	-	17,804	373,144	-	5%
Former executives													
Nick Yannopoulos#	2016	-	-	-	-	-	-	-	-	-	-	-	-
	2015	344,511	-	-	34,719	31,383	-	410,613	-	4,384	414,997	-	1%
Stuart Whipp##	2016	-	-	-	-	-	-	-	-	-	-	-	-
	2015	246,324	50,000	-	27,954	36,455	-	360,733	21,699	-	382,432	250,000	6%
Total executives	**2016**	**1,040,585**	**-**	**-**	**119,085**	**73,312**	**-**	**1,232,982**	**-**	**195,267**	**1,428,249**	**-**	
	2015	**1,711,389**	**323,973**	**-**	**156,529**	**144,288**	**-**	**2,336,179**	**21,699**	**92,049**	**2,449,927**	**250,000**	

^ In accordance with AASB2 *Share-Based Payments*, the values provided have been calculated using accepted option valuation methodologies and includes share-based payments under the LTIP and MEP (see sections 3.3 and 7.5 of this report for further details).

* Paul Gregersen was appointed as Chief Executive Officer on 1 August 2014 and was then appointed as Managing Director on 17 November 2014. He is considered to be a KMP since 1 August 2014. Included within his salary and fees for FY15 is a one-off sign-on bonus of $397,957.

** Joe Genova was appointed CFO on 17 October 2014 and was also seconded from KPMG between 18 August 2014 and 23 October 2014 on a temporary basis.

Nick Yannopoulos resigned 30 June 2015.

Stuart Whipped resigned on 26 September 2014.

DIRECTORS’ REPORT

Remuneration report – audited (continued)

5. Executive contracts

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

Name	Agreement commence	Agreement expire	Notice of termination by Group	Employee notice
Paul Gregersen	1 August 2014	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months
Joe Genova	27 October 2014	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months

6. Non-executive director fee arrangements

6.1 Determination of fees and maximum aggregate fee pool

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

The maximum aggregate fee pool and the fee structure are reviewed annually against fees paid to NEDs of comparable companies (typically ASX200 listed companies with market capitalisation of 50% to 200% of the Group, as well as similar sized industry comparators). The Board considers advice from external advisors when undertaking a periodic review process.

The Group’s constitution and the ASX listing rules specify the NED maximum aggregate fee pool shall be determined from time to time by a general meeting. The NED fee pool at Estia is currently $900,000 (including superannuation contributions as required by law).

6.2 Fee Structure FY16

NEDs received fixed fees only consisting of base fees. The Chair of the Board attends all Committee meetings but does not receive any additional Committee fees. NEDs may be reimbursed for expenses reasonably incurred in attending to the Group’s affairs. NEDs do not receive retirement benefits, nor do they participate in any incentive programs. The table below summarises the annual NED fees, inclusive of superannuation:

Position	Board fees
Chairman	$250,000
Directors	$100,000

DIRECTORS' REPORT

Remuneration report – audited (continued)

6. Non-executive director fee arrangements (continued)

6.3 Total NED remuneration

The table below outlines NED remuneration for FY16 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees $	Superannuation $	Total fees $
Non-Executive Directors				
Patrick Grier	2016	228,310	21,690	**250,000**
	2015	127,327	5,422	**132,749**
Andrew Harrison	2016	91,324	8,676	**100,000**
	2015	53,828	4,505	**58,333**
Norah Barlow	2016	100,000	-	**100,000**
	2015	58,333	-	**58,333**
Peter Arvanitis^	2016	91,324	8,676	**100,000**
	2015	-	-	**-**
Marcus Darville*	2016	95,902	-	**95,902**
	2015	15,374	-	**15,374**
Gary Weiss	2016	35,681	3,390	**39,071**
	2015	-	-	**-**
Paul Foster	2016	31,689	3,011	**34,699**
	2015	-	-	**-**
Jonathon Pearce*	2016	-	-	**-**
	2015	15,374	-	**15,374**
Former				
Chris Hadley*	2016	-	-	**-**
	2015	11,171	-	**11,171**
Clark Perkins**	2016	-	-	**-**
	2015	-	-	**-**
Total	2016	674,230	45,443	**719,672**
	2015	281,407	9,927	**291,334**

^ Peter Arvanitis held the position of Chief Executive Officer until 31 August 2014 and has been a NED since. While his NED remuneration for FY15 was honorary, Peter Arvanitis received a salary of $117,413 and superannuation benefits of $9,392 for the period 1 July 2014 to 31 August 2014 during his time as CEO. He did not participate in any STIP, MEP or LTIP plans during the year.

* Marcus Darville and Jonathon Pearce resigned on 17 November 2014. Chris Hadley resigned on 10 October 2014. The Board fees included in the table represent amounts payable to Quadrant Private Equity Pty Ltd in respect of the individuals' services on the Board of Estia for the relevant period. Marcus Darville was re-appointed as NED on 15 July 2015. Jonathon Pearce was re-appointed on 10 March 2016 as an Alternate NED for Marcus Darville. Jonathon did not receive any NED remuneration during the relevant period.

** Clark Perkins was appointed on 30 July 2014 and resigned on 17 November 2014. He did not receive any NED remuneration during the relevant period.

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Additional disclosures relating to performance rights and shares

7.1 Performance rights granted, vested and lapsed during the year

The table below discloses the number of performance rights granted, vested or lapsed during the year. Performance rights do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry date. The only performance rights that were granted to KMP during FY16, were the 19,802 performance rights granted to Joe Genova on 1 July 2015 under the FY16 LTIP (see section 3.3 of this report for further details of this plan). No options were granted to members of KMP during FY16.

	Number of rights granted during the year	Grant date	Fair value per right at grant date	Vesting date	Exercise price per option	Expiry date	Number of rights vested during the year	Number of rights lapsed during the year
Senior executives								
Joe Genova	19,802	1 July 2015	$6.03	30 June 2018	Nil	30 June 2018	-	-

No KMP performance rights or options vested or lapsed during FY16.

7.2 Performance rights holdings of KMP and related parties

KMP, or their related parties directly, indirectly or beneficially held a number of performance rights in the Estia Group as detailed in the table below. The accounting considerations of the MEP are discussed in section 7.5 of this report.

						Vested at 30 June 2016		
	Number of rights at 1 July 2015	Granted as remuneration	Rights exercised	Net change other	Number of rights at 30 June 2016	Total	Exercisable	Not exercisable
Executive director								
Paul Gregersen	869,565	-	-	-	869,565	-	-	-
Senior executives								
Joe Genova	17,739	19,802	-	-	37,541	-	-	-
Total	887,304	19,802	-	-	907,106	-	-	-

Remuneration report – audited (continued)

7. Additional disclosures relating to performance rights and shares (continued)

7.3 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 %
Senior executives				
Joe Genova	119,406	-	-	14%
Total	119,406	-	-	14%

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

[b] Determined at the time of exercise.

[c] Determined at the time of lapse.

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Additional disclosures relating to performance rights and shares (continued)

7.4 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. The below represents shareholdings that are considered 'issued' or 'exercised' for accounting purposes which may be different to shareholdings that are 'legally issued' as a result of MEP shares held by Paul Gregersen. For accounting considerations of the MEP please refer to section 7.5 of this report.

	Number of shares at 1 July 2015	Granted as remuneration	Exercise of rights	Net change other	Number of shares at 30 June 2016	Held nominally
Non-executive directors						
Patrick Grier	302,099	-	-	30,928	333,027	333,027
Andrew Harrison	20,000	-	-	-	20,000	20,000
Norah Barlow	86,207	-	-	1,984	88,191	88,191
Peter Arvanitis	17,333,646	-	-	411,910	17,745,556	17,745,556
Marcus Darville*	N/A	-	-	-	-	-
Gary Weiss**	N/A	-	-	5,000	5,000	5,000
Paul Foster***	N/A	-	-	-	-	-
Jonathon Pearce^	N/A	-	-	-	-	-
Executive director						
Paul Gregersen	869,565	-	-	-	869,565	-
Senior executives						
Joe Genova	8,695	-	-	375	9,070	-
Total	18,620,212	-	-	450,197	19,070,409	18,191,774

* Re-appointed as Non-Executive Director on 15 July 2015 and was not a KMP at 30 June 2015.

** Appointed as Non-Executive Director on 8 February 2016 and was not a KMP at 30 June 2015.

*** Appointed as Non-Executive Director on 24 February 2016 and was not a KMP at 30 June 2015.

^ Re-appointed as an Alternate Non-Executive Director on 10 March 2016 and was not a KMP at 30 June 2015.

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

The shares held by Paul Gregersen, Patrick Grier, Andrew Harrison and Norah Barlow are under an escrow agreement until 5 December 2017. 13,875,200 shares held by Peter Arvanitis were also under an escrow agreement until 22 February 2016. All shares under escrow can only be traded under certain customary exceptions during the escrow period.

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Additional disclosures relating to performance rights and shares (continued)

7.5 Accounting considerations of MEP loans

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

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

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

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

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

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

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 Estia Health Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Rodney Piltz
Partner
28 August 2016

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Revenues	6	**442,821**	**284,798**
Other income	6	3,689	18
Expenses			
Administrative expenses	7	37,583	39,213
Depreciation and amortisation expenses	8	12,831	7,343
Employee benefits expenses	9	274,004	171,875
Health consultants expenses		9,361	4,768
Occupancy expenses	11	16,219	10,584
Resident expenses		34,893	19,433
Repairs and maintenance expenses		7,832	5,374
Share issue costs		-	2,741
Operating profit for the year		**53,787**	**23,485**
Net finance costs	10	7,166	31,999
Profit/(Loss) before income tax		**46,621**	**(8,514)**
Income tax expense	12	**18,981**	**14,009**
Profit/(Loss) for the year		**27,640**	**(22,523)**
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/(loss) for the year, net of tax		**27,640**	**(22,523)**
Earnings per share		**cents**	**cents**
Basic, profit/(loss) for the year attributable to ordinary equity holders of the Parent		**15.1**	**(16.3)**
Diluted, profit/(loss) for the year attributable to ordinary equity holders of the Parent		**15.1**	**(16.3)**

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2016

	Notes	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	13	29,810	46,197
Trade and other receivables	14	16,005	10,876
Prepayments and other assets	15	5,698	2,960
Total current assets		**51,513**	**60,033**
Non-current assets			
Property, plant and equipment	17	711,416	416,783
Investment properties	16	1,500	-
Goodwill	18	715,315	565,594
Other intangible assets	18	218,841	104,347
Total non-current assets		**1,647,072**	**1,086,724**
Total assets		**1,698,585**	**1,146,757**
Current liabilities			
Trade and other payables	19	30,554	18,812
Loans and borrowings	20	-	54,250
Income received in advance		41	-
Other financial liabilities	21	653,336	471,086
Deferred consideration on acquisition	4	84,500	799
Income tax payable		16,338	5,479
Provisions	22	35,534	21,186
Total current liabilities		**820,303**	**571,612**
Non-current liabilities			
Deferred tax liabilities	12	29,635	9,246
Loans and borrowings	20	253,500	-
Provisions	22	3,297	1,985
Other payables	19	169	-
Total non-current liabilities		**286,601**	**11,231**
Total liabilities		**1,106,904**	**582,843**
Net assets		**591,681**	**563,914**
Equity			
Issued capital	23	649,163	600,785
Share-based payments reserve		515	121
Accumulated losses		(57,997)	(36,992)
Total equity		**591,681**	**563,914**

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2016

	Note	Issued capital $'000	Share-based payments reserve $'000	Accumulated losses $'000	Total equity $'000
As at 1 July 2014		**68,250**	**-**	**(14,469)**	**53,781**
Loss for the year		-	-	(22,523)	(22,523)
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**(22,523)**	**(22,523)**
Transactions with owners in their capacity as owners:					
Issue of share capital	23	745,564	-	-	745,564
Buy back of shares	23	(190,629)	-	-	(190,629)
Share issue costs (net of tax)	23	(22,400)	-	-	(22,400)
Share-based payments	24	-	121	-	121
As at 30 June 2015		**600,785**	**121**	**(36,992)**	**563,914**
Profit for the year		-	-	27,640	27,640
Other comprehensive income		-	-	-	-
Total comprehensive profit		**-**	**-**	**27,640**	**27,640**
Transactions with owners in their capacity as owners:					
Issue of share capital	23	47,989	-	-	47,989
Share issue costs (net of tax)	23	(61)	-	-	(61)
Repayment of management equity plan	23	450	-	-	450
Dividends	23	-	-	(48,645)	(48,645)
Share-based payments	24	-	394	-	394
As at 30 June 2016		**649,163**	**515**	**(57,997)**	**591,681**

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from residents		114,812	69,931
Receipts from government		322,447	200,459
Payments to suppliers and employees		(359,400)	(217,911)
RAD, accommodation bond and ILU entry contribution received		220,799	160,215
RAD, accommodation bond and ILU entry contribution refunded		(144,435)	(76,076)
Interest received		816	964
Finance costs paid		(6,896)	(33,234)
Income tax paid		(6,622)	-
Net cash flows from operating activities	13	**141,521**	**104,348**
Cash flows from investing activities			
Payments for business combinations, net of cash acquired	4	(220,564)	(467,852)
Deposits for acquisitions completing after reporting date	15	-	(325)
Deposits for property, plant and equipment	15	(84)	-
Payments for acquisition transaction costs		(16,629)	(30,739)
Payments for intangible assets	18	(2,112)	(2,366)
Proceeds from sale of property, plant and equipment		335	40
Proceeds from sale of assets held for sale		4,176	-
Purchase of property, plant and equipment	17	(65,180)	(19,686)
Net cash flows used in investing activities		**(300,058)**	**(520,928)**
Cash flows from financing activities			
Proceeds from issue of share capital	23	-	745,563
Payments for buy back of share capital	23	-	(190,629)
Payments of initial public offering transaction fees		-	(34,971)
Payments for share issue costs	23	(61)	-
Proceeds from repayment of MEP loans	23	450	-
Proceeds from bank borrowings		215,750	341,943
Repayment of bank borrowings		(16,500)	(350,361)
Repayment of commercial bills	4	(13,000)	-
Payments to/from related parties		-	503
Proceeds from shareholder loans		-	6,790
Repayments of shareholder loans		-	(59,632)
Dividends paid	23	(44,489)	-
Net cash flows from financing activities		**142,150**	**459,206**
Net (decrease)/increase in cash and cash equivalents		**(16,387)**	**42,626**
Cash and cash equivalents at the beginning of the year		**46,197**	**3,571**
Cash and cash equivalents at the end of the year	13	**29,810**	**46,197**

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1. Corporate Information

The consolidated financial statements of Estia Health Limited and its subsidiaries (collectively, the "Group") for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 28 August 2016.

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by $768,790,000 as at 30 June 2016 (2015: $511,579,000). This mainly arises because of the requirement to classify refundable accommodation deposits and independent living unit (ILU) entry contributions of $653,336,000 (2015: $471,086,000) as current liabilities (refer note 21 for further details) and deferred consideration on acquisition of $84,500,000.

(b) Statement of compliance

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

(c) New accounting standards and interpretations

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

New and amended standards and interpretations

The Group has adopted the following new or amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015:

- Amendments to Australian Accounting Standards – *Conceptual Framework, Materiality and Financial Instruments*.

The accounting policies adopted are consistent with those of the previous financial reporting period.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2016, are outlined in the following table:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

<table>
<tr><th>REFERENCE</th><th>TITLE</th><th>IMPACT ON GROUP FINANCIAL REPORT</th><th>APPLICATION DATE OF STANDARD</th><th>APPLICATION DATE FOR GROUP</th></tr>
<tr><td>AASB 9 / IFRS 9</td><td>Financial Instruments</td><td>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are described below.

a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)

- The remaining change is presented in profit or loss

d. AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

e. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</td><td>1 January 2018</td><td>1 July 2018</td></tr>
</table>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
Amendments to AASB 116 and AASB 138	Clarification of Acceptable Methods of Depreciation and Amortisation	AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 July 2016
AASB 15 / IFRS 15	Revenue from Contracts with Customers	AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.	1 July 2018	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
		AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients to transition to AASB 15. The Group is in the process of evaluating the impact from the application of AASB 15 however it is not expected to have a material impact on the recognition of revenue once adopted.		
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	*AASB 5 Non-current Assets Held for Sale and Discontinued Operations* Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. *AASB 7 Financial Instruments: Disclosures:* Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134. *AASB 119 Employee Benefits:* Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. *AASB 134 Interim Financial Reporting:* Disclosure of information 'elsewhere in the interim financial report' -amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.	1 January 2016	1 July 2016
Amendments to AASB 101	Amendments to Australian Accounting Standards – Disclosure Initiative	The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to	1 January 2016	1 July 2016

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
		apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.		
AASB 8, AASB 133 & AASB 1057	Amendments to Australian Accounting Standards – Scope and Application Paragraphs	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	1 January 2016
AASB 16	Leases	The key features of AASB 16 are as follows: **Lessee accounting** • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. AASB 16 supersedes: (a) AASB 117 Leases (b) Interpretation 4 Determining whether an Arrangement contains a Lease (c) SIC-15 Operating Leases—Incentives (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease The Group is in the process of evaluating the impact from the application of AASB 16. It is expected that this will result in the recognition of leasehold properties on balance sheet once adopted.	1 January 2019	1 July 2019

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
		The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.		
AASB 112	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value	1 January 2017	1 July 2017
Amendments to AASB 107	Amendments to Australian Accounting Standards – Disclosure Initiative	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017
AASB 1057	Application of Australian Accounting Standards	This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.	1 January 2016	1 July 2016
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	This standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled	1 January 2018	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

(e) Business combinations and goodwill

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

(e) Business combinations and goodwill (continued)

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

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

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

(f) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

(g) Revenue recognition

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

Rendering of services

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

2. Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

Interest income

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

(h) Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(h) Taxes (continued)

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

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

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

Tax consolidation legislation

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 12.

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

Goods and services tax (GST)

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

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

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as part of operating cash flows.

(i) Cash and cash equivalents

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

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

2. Summary of significant accounting policies (continued)

(j) Trade and other receivables

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

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

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

(k) Property, plant and equipment

Construction in progress, plant and equipment and land and buildings are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

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

- Buildings and property improvements 60 years;
- Furniture, fixtures and equipment 4 - 15 years; and
- Motor vehicles 4 years.

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(l) Leases

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

Group as a lessee

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

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

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued)

(m) Borrowing costs

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

(n) Intangible assets

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

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

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

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

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

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

Bed licences

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

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

Goodwill

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired.

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

2. Summary of significant accounting policies (continued)

(o) Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit and loss.

Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

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

2. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Derecognition

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

2. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. AASB 139.55(a) Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

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

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 21.

Derecognition

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

Offsetting of financial instruments

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

(p) Impairment of non-financial assets

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

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

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

2. Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets (continued)

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

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

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

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired.

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

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

(q) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

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

Wages, salaries, and sick leave

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

2. Summary of significant accounting policies (continued)

(q) Provisions (continued)

Long service leave and annual leave

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

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

Contingent liabilities recognised in a business combination

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

(r) Share-based payments

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

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. For more information refer to Note 25.

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

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

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

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

2. Summary of significant accounting policies (continued)

(s) Investment properties

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

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

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

(t) Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. Summary of significant accounting policies (continued)

(u) Operating cash flow

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

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Use of judgements, estimates and assumptions

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

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2016 are included in the following notes:

- Note 4 – Business Combinations: fair value measured on a provisional basis;
- Note 12 – Income Taxes recognition of deferred tax assets: availability of future taxable profit;
- Note 16 – Investment Properties: fair value based on key assumptions underlying the assessment of fair value;
- Note 18 – Intangible assets impairment test: key assumptions underlying recoverable amounts; and
- Note 24 – Share-based payments: measurement of equity-settled transactions.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions in relation to these factors could affect the reported fair value of financial instruments. See Note 329 for further disclosures.

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

4. Business combinations

Acquisitions in the year ended 30 June 2016

During the year ended 30 June 2016, the Group successfully acquired:

- The following businesses for net proceeds paid of $90,704,000, excluding transaction costs:

1 September 2015	1 December 2015	1 March 2016
Estia Bendigo, VIC	Estia Aldgate, SA	Estia Benalla, VIC
Estia Keilor Downs, VIC	Estia Toorak Gardens, SA	Estia Iron Bark, VIC
	Estia Hope Valley, SA	

  Other

  Estia Keysborough, VIC – 1 July 2015

  Estia Bannockburn, VIC – 1 October 2015

  Estia Glen Waverley, VIC – 1 February 2016

- The following companies:

  Jaid Residential Services Pty Ltd – 1 September 2015. Operating as Estia Epping, VIC;

  Spirytus Pty Ltd (formerly known as Nobel Life Pty Ltd) – 2 November 2015. Operating as Estia Gold Coast, QLD;

  East Coast Senior Care Pty Ltd (approved provider) and TGM Care Pty Ltd and – 1 December 2015. Operating as Estia Tea Gardens, NSW; and

  Kennedy Group – 8 February 2016.

Estia Investments Pty Ltd acquired 100% of the shares in the above companies for net consideration of $263,387,000, excluding transaction costs. These companies and businesses operate as aged care providers that fit into Estia's growth strategy. The approved aged care provider status of Jaid Residential Services Pty Ltd has been transferred to Estia Investments Pty Ltd from 1 December 2015. The approved aged care provider status of Spirytus Pty Ltd has been transferred to Estia Investments Pty Ltd from 18 January 2016. The approved aged care provider status of East Coast Senior Care Pty Ltd has been transferred to Estia Investments Pty Ltd from 1 March 2016.

The property, plant and equipment for all facilities were acquired outright except for Estia Epping, VIC and Estia Glen Waverley, which are subject to operating leases.

The goodwill recognised on these acquisitions is primarily attributed to the expected synergies and other benefits from combining the assets and activities with those of the Group. The goodwill is not deductible for income tax purposes.

4. Business combinations (continued)

The fair values of the identifiable assets and liabilities at the date of acquisition were:

	Business acquisitions ($'000)	Kennedy Group ($'000)	Other Company acquisitions ($'000)	Total ($'000)
Assets				
Land and buildings	60,495	140,554	26,750	227,799
Plant and equipment	1,971	887	1,015	3,873
Assets held for sale	-	-	3,570	3,570
Investment properties	1,500	-	-	1,500
Bed licenses	34,000	52,000	18,022	104,022
Cash and cash equivalents	-	4,999	(1)	4,998
Trade and other receivables	197	499	341	1,037
Deferred tax assets	1,480	2,895	205	4,580
	99,643	201,834	49,902	351,379
Liabilities				
Refundable accommodation deposits	55,474	41,577	11,624	108,675
Employee entitlements	4,934	9,650	685	15,269
Trade and other payables	28	2,332	278	2,639
Commercial bills	-	13,000	-	13,000
Deferred tax liability	10,569	-	651	11,220
	71,005	66,559	13,238	150,801
Total fair value of net assets acquired	**28,638**	**135,275**	**36,664**	**200,577**
Goodwill on acquisition	**62,066**	**74,343**	**19,905**	**156,314**
Gain on bargain purchase	**-**	**-**	**(2,800)**	**(2,800)**
Purchase consideration transferred	**90,704**	**209,618**	**53,769**	**354,091**
Cash flow on acquisition				
Deferred consideration	-	84,500	-	84,500
Cash paid during the period	90,504	81,285	53,769	225,558
Issue of share capital	-	43,833	-	43,833
Deposit paid in the prior period	200	-	-	200
Total purchase consideration	**90,704**	**209,618**	**53,769**	**354,091**
Cash acquired				(4,998)
Deposit paid in the prior period				(200)
Deferred consideration				(84,500)
Issue of share capital				(43,833)
Post-settlement adjustments relating to prior period acquisitions				4
Purchase consideration paid during year, net of cash acquired				**220,564**

The fair values of identifiable assets and liabilities at the date of acquisition for all the acquisitions made in the year ended 30 June 2016 are provisional.

As part of a company acquisition during the period, a number of residential apartments were acquired which have been classified as assets held for sale at their fair value lest costs to sell of $3,569,550. As at 30 June 2016, the Group had disposed of all apartments.

4. Business combinations (continued)

Estia acquired $13,000,000 of commercial bills as part of the acquisition of the Kennedy Group, which Estia repaid in full on acquisition date, being 8 February 2016.

On 1 July 2016, the deferred consideration for the Kennedy Group acquisition amounting to $41,000,000 was repaid, with the remaining $41,000,000 due on 30 September 2016. As part of the Kennedy Group acquisition, there is also a deferred payment equivalent to the profit for the period from 1 July 2015 to 7 February 2016 up to a maximum of $5,000,000. A liability of $2,500,000 has been recognised as deferred consideration on acquisition as at 30 June 2016 representing management's best estimate of the liability.

The gain from bargain purchase of $2,800,000 relates to Estia Epping VIC and represents the sum of differences between the fair value of assets and liabilities acquired and the purchase consideration and has been recognised as other income in the consolidated statement of profit or loss and other comprehensive income. The acquisition of Estia Epping VIC was made from a distressed vendor which had unsuccessfully attempted to divest their investments 18 months earlier. The vendor decided to exit from all of its investments in the aged care industry resulting in the discount on acquisition.

The consolidated statement of profit or loss and other comprehensive income includes the following revenue and net profit before tax for the year ended 30 June 2016 resulting from all acquisitions made during the year. These exclude one-off acquisition and integration related costs equating to $22,720,471.

	Business acquisitions ($'000)	Kennedy Group ($'000)	Other Company acquisitions ($'000)	Total ($'000)
Revenue	35,873	32,597	10,342	**78,812**
Net profit before tax	7,281	7,583	4,077	**18,941**

If the acquisitions had taken place at the beginning of the year, the following revenue and net profit before tax would have been included. These exclude one-off acquisition and integration related costs equating to $22,720,471.

	Business acquisitions ($'000)	Kennedy Group ($'000)	Other Company acquisitions ($'000)	Total ($'000)
Revenue	56,236	82,850	14,680	**153,766**
Net profit before tax	10,763	19,273	5,081	**35,117**

Acquisition related costs incurred in total relating to all acquisitions to 30 June 2016 have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

4. Business combinations (continued)

Information on prior year acquisitions

The fair values of the identifiable assets and liabilities of acquisitions made during the year ended 30 June 2015 recognised at the date of acquisition were based on a provisional assessment of their fair value while the Group sought independent valuations for the land and buildings owned and post-settlement adjustments. The following adjustments to fair values have been made in the current period for prior year acquisitions:

	Provisional fair value ($'000)	Adjustments ($'000)	Final fair value ($'000)
Assets			
Land and buildings	84,470	11,380	95,850
Plant and equipment	4,020	(1,480)	2,540
Bed licenses	20,184	9,124	29,308
Cash and cash equivalents	2,873	-	2,873
Other assets	1,718	(62)	1,656
Deferred tax assets	3,082	(1,995)	1,087
	116,347	16,967	133,314
Liabilities			
Refundable accommodation deposits	68,659	(49)	68,610
Employee entitlements	3,625	-	3,625
Other liabilities	3,873	165	4,038
Deferred tax liability	2,823	10,256	13,079
	78,980	10,372	89,352
Total fair value of net assets acquired	**37,367**	**6,595**	**43,962**
Goodwill on acquisition	**85,563**	**(6,591)**	**78,972**
Purchase consideration transferred	**122,930**	**4**	**122,934**
Cash flow on acquisition			
Deferred consideration	799	(799)	-
Cash paid during the period	122,131	803	122,934
Total consideration paid	**122,930**	**4**	**122,934**
Cash acquired			(2,873)
Purchase consideration paid for these acquisitions, net of cash acquired			**120,061**

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

The deferred consideration of $799,056 was paid during the year on achievement of specific criteria set out in the purchase and sale agreement regarding the subsequent growth in the accommodation bonds.

The acquisition and integration related costs for the year ended 30 June 2016 relating to the prior period acquisitions amount to $1,509,991. These are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

5. Information relating to subsidiaries

The consolidated financial statements of the Group include:

Name	Country of Incorporation	% Equity Interest 2016	2015
Estia Finance Pty Ltd [2]	Australia	100%	100%
Estia Investments Pty Ltd [3, 5]	Australia	100%	100%
Estia Mezzco Pty Ltd [1]	Australia	100%	100%
Estia Midco Pty Ltd [1]	Australia	100%	100%
Darvelan Pty Ltd [4, 7]	Australia	-	100%
Poinseter Pty Ltd [4, 7]	Australia	-	100%
Koorabri Pty Ltd [4, 7]	Australia	-	100%
Spirytus Pty Ltd [4, 5]	Australia	100%	-
Jaid Residential Services Pty Ltd [4, 5]	Australia	100%	-
TGM Care Pty Ltd ATF the TGM Care Unit Trust [1, 5]	Australia	100%	-
East Coast Senior Care Pty Ltd [4, 5]	Australia	100%	-
William Kennedy Holdings Pty Ltd [1, 5]	Australia	100%	-
Wollongong Nursing Home Pty Ltd [3, 5]	Australia	100%	-
Kenna Investments Pty Ltd [3, 5]	Australia	100%	-
Ranesta Holdings Pty Ltd [5]	Australia	100%	-
Hayville Pty Ltd [5]	Australia	100%	-
Eddystone Nursing Home Pty Ltd [6]	Australia	100%	-
Merrylands Nursing Home Pty Ltd [5]	Australia	100%	-
Kennedy Health Care Group Pty Ltd [5]	Australia	100%	-
Camden Village Pty Ltd [5]	Australia	100%	-
Camden Nursing Home Pty Ltd [6]	Australia	100%	-
Camden House Pty Ltd [5]	Australia	100%	-
Kilbride Village Pty Ltd [5]	Australia	100%	-
Bankstown Aged Care Facility Pty Ltd [6]	Australia	100%	-

Principal activities

1. Holding company
2. Holder of financing facilities
3. Current accredited provider of aged care facilities
4. Acquired accredited provider of aged care facilities – transferred to Estia Investments Pty Ltd
5. Holder of assets
6. Dormant entity
7. De-registered on 24 January 2016

6. Revenues and other income

	2016 $'000	2015 $'000
Revenues		
Government funding	327,547	202,573
Resident funding	115,274	82,225
Total revenues	**442,821**	**284,798**
Other income		
Gain on bargain purchase	2,800	-
Net gain on disposals of assets held for sale	606	-
Net gain on disposals of property, plant and equipment	283	18
Total other income	**3,689**	**18**

7. Administrative expenses

	2016 $'000	2015 $'000
Acquisition and integration related costs	24,230	30,739
Advertising and marketing expenses	644	513
Telephone and communication expenses	1,855	1,112
Travelling expenses	3,408	1,592
Printing and stationery expenses	2,320	782
Professional services expenses	1,838	1,255
Movement in doubtful debts	(153)	443
Other administrative expenses	3,441	2,777
Total administrative expenses	**37,583**	**39,213**

8. Depreciation and amortisation expenses

	Note	2016 $'000	2015 $'000
Depreciation expense	17	12,067	6,821
Amortisation expense	18	764	522
Total depreciation and amortisation expenses		**12,831**	**7,343**

9. Employee benefits expenses

	2016 $'000	2015 $'000
Wages and salaries costs	248,622	157,721
Superannuation costs	21,874	13,324
Share-based payment expense	394	121
Redundancy costs	382	-
Other employment expenses	2,732	709
Total employee benefits expenses	**274,004**	**171,875**

10. Net finance costs

	2016 $'000	2015 $'000
Interest income from cash at banks	816	964
Total finance income	**816**	**964**
Interest expense on bank loans	5,602	10,929
Interest expense on shareholder loans	-	6,602
Net loss from revaluation of interest rate swap	-	656
Interest expense on bonds	2,236	1,030
Interest expense on finance leases	1	-
Interest expense on ILUs	12	-
Borrowing costs	131	13,746
Total finance costs	**7,982**	**32,963**
Net finance costs	**7,166**	**31,999**

11. Occupancy expenses

	2016 $'000	2015 $'000
Rents and outgoings	13,579	9,010
Other occupancy expenses	2,640	1,574
Total occupancy expenses	**16,219**	**10,584**

12. Income tax

The major components of income tax expense for the years ended 30 June 2016 and 2015 are:

Consolidated statement of profit or loss and other comprehensive income

	2016 $'000	2015 $'000
Current income tax:		
Current income tax expense	18,305	5,479
Adjustments in respect of income tax of previous year	134	-
Deferred income tax:		
Relating to origination and reversal of temporary differences	751	8,091
Adjustments in respect of income tax of previous year	(210)	439
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**18,981**	**14,009**

Reconciliation of income tax expense and the accounting loss:

	2016 $'000	2015 $'000
Accounting profit/(loss) before income tax	46,621	(8,514)
At the Australian statutory income tax rate of 30% (2015: 30%)	13,986	(2,554)
Adjustments in respect of income tax of previous year	(210)	439
Non-taxable income	(840)	-
Expenditure not allowable for income tax purposes		
- Acquisition related costs for current year business combinations	5,911	9,230
- Acquisition related costs for previous year business combinations	134	6,894
Income tax expense	**18,981**	**14,009**

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FOR THE YEAR ENDED 30 JUNE 2016

12. Income Tax (continued)

Deferred taxes relate to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Accelerated depreciation	(49,225)	(27,620)	5	(7,017)
IPO transaction fees	6,152	8,522	(2,051)	(1,308)
Other	564	-	-	(12)
Tax losses	-	1,995	-	(270)
Derivatives	-	-	-	(383)
Share-based payments	154	36	118	36
Provisions and accruals	12,720	7,821	1,176	863
Deferred tax expense			**(751)**	**(8,091)**
Deferred tax assets/(liabilities), net	**(29,635)**	**(9,246)**		

	2016	2015
Reflected in the statement of financial position as follows:		
Deferred tax assets	20,190	18,974
Deferred tax liabilities	(49,825)	(28,220)
Deferred tax assets/(liabilities), net	**(29,635)**	**(9,246)**

Reconciliation of deferred tax liabilities, net:

	2016 $'000	2015 $'000
As of 1 July	(9,246)	2,981
Tax income/(expense) during the year recognised in profit or loss	(751)	(8,091)
Adjustments in respect of income tax of previous year	(748)	(439)
Deferred taxes recognised in equity	-	9,831
Net deferred taxes acquired in business combinations	(18,890)	(13,528)
As at 30 June	**(29,635)**	**(9,246)**

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

The Group has tax losses which arose in Australia of $11,648,436 that were transferred to Estia Health as part of the acquisition of the Hutchinson component entities during the year. These are subject to an available fraction which determines the annual rate at which the losses may be recouped. A deferred tax benefit has not been recognised in these financial statements in relation to these losses.

12. Income Tax (continued)

Tax consolidation

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

Estia Health Limited and its subsidiaries formed an income tax consolidated group with effect from 19 June 2013. Jaid Residential Services Pty Ltd, Spirytus Pty Ltd, TGM Care Pty Ltd and the Kennedy Group joined the income tax consolidated group with effect from 1 September 2015, 2 November 2015, 1 December 2015 and 8 February 2016, respectively. Estia Health Limited is the head entity of the income tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

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

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the income tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied The Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the income tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below. In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the income tax consolidated group.

Nature of the tax funding agreement

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

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

13. Cash and cash equivalents

(a) Reconciliation of cash

	2016 $'000	2015 $'000
Cash balance comprises:		
Cash at banks	29,738	46,100
Cash on hand	72	97
	29,810	**46,197**

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

At 30 June 2016, the Group had available $76,500,000 (2015: $95,750,000) of undrawn committed borrowing facilities. Refer to Note 20 for further details.

	2016 $'000	2015 $'000
(b) Cash flow reconciliation		
Reconciliation of net profit/(loss) after income tax to net cash flows from operations:		
Profit/(loss) after income tax	27,640	(22,523)
Adjustments to reconcile loss after income tax to net cash flows:		
Depreciation of property, plant and equipment	12,067	6,821
Amortisation of intangibles	764	522
Gain on bargain purchase	(2,800)	-
Net gain on disposal of property, plant and equipment	(283)	(18)
Net gain on sale of assets held for sale	(606)	-
Bond retention revenue	(2,751)	(4,921)
Movement in doubtful debts provision	163	443
Share-based payments	394	121
Stepped lease costs	134	144
Acquisition related transaction costs	24,230	30,739
Share issue costs	-	2,741
Fair value loss of derivative financial instrument	-	(1,302)
Income received in advance	41	-
Changes in assets and liabilities		
Increase in trade and other receivables	(3,369)	(9,948)
(Increase)/Decrease in prepayments and other assets	(3,453)	1,561
(Increase)/Decrease in deferred tax assets	(17,604)	2,982
Increase in deferred tax liabilities	19,103	5,549
Increase in current tax payable	10,860	5,479
Increase/(Decrease) in trade and other payables	345	(491)
Increase in provisions	257	2,310
Increase in other financial liabilities	76,389	84,139
	141,521	**104,348**

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14. Trade and other receivables

	2016 $'000	2015 $'000
Trade receivables	13,416	6,710
Other receivables	2,589	4,166
	16,005	**10,876**

a) Allowance for impairment loss

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at 30 June 2016, trade receivables of an initial value of $1,209,907 (2015: $1,017,429) were impaired and fully provided for. The movements in the allowance for impairment loss was as follows:

	2016 $'000	2015 $'000
At 1 July	1,017	178
Charge for the year	679	443
Increase through business combinations	356	396
Utilised	-	-
Unused amounts reversed	(842)	-
At 30 June	**1,210**	**1,017**

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

	Total ($'000)	Neither past due nor impaired ($'000)	Past due but not impaired <30 days ($'000)	Past due but not impaired 30-60 days ($'000)	Past due but not impaired 61-90 days ($'000)	Past due but not impaired > 90 days ($'000)	Past due and impaired ($'000)
2016	14,626	9,436	1,455	772	452	1,301	1,210
2015	7,727	3,478	1,208	626	618	780	1,017

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

b) Terms and conditions and allowances for impairment loss

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

(ii) Sundry debtors and other receivables are non-interest bearing.

15. Prepayments and other assets

	2016 $'000	2015 $'000
Deposits	1,551	1,220
Prepayments	2,963	1,267
Other assets	1,184	473
	5,698	**2,960**

Deposits as at 30 June 2016 include payments of $84,000 relating to the acquisition of land, with a settling date after the reporting date. In the prior year, there was a deposit of $325,000 made on settlement contracts for the acquisition of aged care facilities.

16. Investment properties

(a) Reconciliation of carrying amount	2016 $'000	2015 $'000
Balance at beginning of period	-	-
Additions through business combinations	1,500	-
Transfer from property, plant and equipment	-	-
Fair value adjustments	-	-
Total investment properties	**1,500**	**-**

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

17. Property, plant and equipment

Reconciliation of property, plant and equipment

	Note	Land $'000	Buildings $'000	Property improvements $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost								
Balance at 1 July 2014		19,758	52,555	329	4,491	35	-	**77,168**
Acquisitions through business combinations		72,008	238,811	-	16,457	611	-	**327,887**
Additions		1,838	5,278	1,637	5,336	34	5,563	**19,686**
Disposals		-	-	-	(2)	(21)	-	**(23)**
Balance at 30 June 2015		93,604	296,644	1,966	26,282	659	5,563	**424,718**
Adjustments relating to prior period acquisitions		(515)	11,895	-	(1,480)	-	-	**9,900**
Acquisitions through business combinations during the period	4	82,233	138,182	-	3,619	254	7,384	**231,672**
Additions		29,071	-	3,477	10,121	124	22,387	**65,180**
Transfers		-	-	23,059	410	-	(23,469)	**-**
Disposals		-	-	-	-	(80)	-	**(80)**
Balance at 30 June 2016		**204,393**	**446,721**	**28,502**	**38,952**	**957**	**11,865**	**731,390**
Accumulated depreciation								
Balance at 1 July 2014		-	542	9	559	6	-	**1,116**
Depreciation expense		-	3,908	62	2,713	138	-	**6,821**
Disposals		-	-	-	-	(2)	-	**(2)**
Balance at 30 June 2015		-	4,450	71	3,272	142	-	**7,935**
Depreciation expense	8	-	6,353	218	5,280	216	-	**12,067**
Disposals		-	-	-	-	(28)	-	**(28)**
Balance at 30 June 2016		**-**	**10,803**	**289**	**8,552**	**330**	**-**	**19,974**
Net book value								
As at 30 June 2015		93,604	292,194	1,895	23,010	517	5,563	**416,783**
As at 30 June 2016		**204,393**	**435,918**	**28,213**	**30,400**	**627**	**11,865**	**711,416**

18. Intangible assets

	Goodwill $'000	Bed licences $'000	Software costs $'000	Total $'000
Cost				
Balance at 1 July 2014	150,327	27,648	714	178,689
Additions	-	-	2,366	2,366
Acquisitions through business combinations	415,267	74,146	-	489,413
Balance at 30 June 2015	**565,594**	**101,794**	**3,080**	**670,468**
Additions	-	-	2,112	2,112
Adjustments relating to prior period acquisitions	(6,591)	9,124	-	2,533
Acquisitions through business combinations during the period	156,312	104,022	-	260,334
Balance at 30 June 2016	**715,315**	**214,940**	**5,192**	**935,447**
Accumulated amortisation				
Balance at 1 July 2014	-	-	(5)	(5)
Amortisation expense	-	-	(522)	(522)
Balance at 30 June 2015	**-**	**-**	**(527)**	**(527)**
Amortisation expense	-	-	(764)	(764)
Impairment	-	-	-	-
Balance at 30 June 2016	**-**	**-**	**(1,291)**	**(1,291)**
Net book value				
As at 30 June 2015	**565,594**	**101,794**	**2,553**	**669,941**
As at 30 June 2016	**715,315**	**214,940**	**3,901**	**934,156**

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

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

Goodwill and bed licenses acquired through business combinations were tested for impairment at the reporting date. The recoverable amount of the cash generating unit was assessed by reference to the cash generating unit's value in use based on financial forecasts approved by the Board covering a three year period (2017 to 2019), a further period of 2 years based on a growth rate and a terminal value. The cash flow projections for financial years 2017 to 2019 reflect the expected increases in EBITDA from greenfield and brownfield developments whereas the cash flow projections for financial years 2020 and 2021 assume a growth rate of 2.6%. A terminal value growth rate of 2.1% has been applied.

18. Intangible assets (continued)

A post-tax discount rate of 10.5% (2015: 10.5%) was applied in the value in use model, which was determined based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Market-specific risk is incorporated by applying individual beta factors which are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount of the future tax flows in order to reflect a pre-tax discount rate of 12.16%. The recoverable amount was determined to be higher than the carrying amount and therefore the directors determined that the intangible assets with an indefinite useful life were not impaired.

No amortisation has been provided as the Group believes the useful lives of these assets are indefinite.

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.

19. Trade and other payables

	2016 $'000	2015 $'000
Current trade and other payables		
Trade creditors	3,233	2,971
Payroll liabilities	10,117	6,510
Sundry creditors and accruals	17,204	9,331
Total current trade and other payables	**30,554**	**18,812**
Non-current other payables		
Sundry creditors and accruals	169	-
Total non-current other payables	**169**	**-**
Total trade and other payables	**30,723**	**18,812**

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20. Loans and borrowings

	2016 $'000	2015 $'000
Current loans and borrowings		
Bank loans, secured	-	54,250
Total current loans and borrowings	**-**	**54,250**
Non-current loans and borrowings		
Bank loans, secured	253,500	-
Total non-current loans and borrowings	**253,500**	**-**
Total loans and borrowings	**253,500**	**54,250**

Terms and conditions of loans

On 13 July 2015, Estia entered into an agreement to refinance the Facility with two lenders, Westpac Banking Corporation (Westpac) and Commonwealth Bank of Australia. The Facility amounts to $150,000,000 and was extended to 10 December 2018 and includes the addition of a new $150,000,000 accordion facility to be used for acquisitions and capital investment and an increase to the working capital facility of $30,000,000. In addition, the rate for the unused line fee was reduced from 0.45% to 0.40%. There were no significant changes to other terms and conditions.

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

The Facility attracts a commitment fee on the undrawn portion of the facility and when drawn, will include a variable interest rate based on the bank bill swap bid rate ("BBSY") plus a margin between 1.0% and 1.4%. The Facility is secured by real property mortgages over all freehold property, security over material leases, cross guarantees and indemnities from the Group and first ranking fixed and floating charges over the assets and undertakings of the Group.

On 8 February 2016, Estia entered into an amended syndicated agreement to activate the $150,000,000 accordion facility to fund acquisitions and capital developments. This facility bears interest at BBSY plus a margin between 1.15% and 1.55% per annum.

The total debt facility available to Estia is $330,000,000.

21. Other financial liabilities

	2016 $'000	2015 $'000
Refundable accommodation deposits – amounts received	652,659	471,086
Independent living unit (ILU) entry contributions	677	-
	653,336	471,086

(a) Terms and conditions relating to refundable accommodation deposits (RADs)
RADs are paid by residents upon their admission to facilities and are settled after a resident vacates the premises in accordance with the *Aged Care Act 1997.* Providers must pay a base interest rate on all refunds on RADs within legislated time frames and must pay a penalty on refunds made outside legislated time frames. RAD balances held prior to 1 July 2014 are reduced by annual retention fees charged in accordance with the *Aged Care Act 1997.*

RAD refunds are guaranteed by the Government under the prudential standards legislation. Providers are required to have sufficient liquidity to ensure that they can refund bond balances as they fall due in the following twelve months. Providers are also required to implement and maintain a liquidity management strategy. This is updated on a quarterly basis.

While refundable accommodation deposits are classified as a current liability given the possible timeframe for repayment of an individual RAD, it is unlikely that the RAD liability will be significantly reduced over the next twelve months. However, as the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, it is classified as a current liability in accordance with the accounting standard AASB 101 *Presentation of Financial Statements.*

The RAD liability is spread across a large portion of the Group's resident population and therefore the repayment of individual balances that make up the current balance will be dependent upon the actual tenure of individual residents. Tenure can be more than ten years but averages approximately 2.5 years.

Usually, but not always, when an existing refundable accommodation deposit is repaid it is replaced by a new RAD paid by the new incoming resident. Since the introduction of RADs (previously known as accommodation bonds) in 1997 the trend within the Group and the aged care industry has been that the cash received in relation to the new RAD has been greater than the cash paid out in relation to the previous deposit.

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

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

22. Provisions

	2016 $'000	2015 $'000
Current		
Employee benefits	34,894	20,720
Stepped lease provision	565	466
Make good provision	75	-
Total current provisions	**35,534**	**21,186**
Non-current		
Employee benefits	3,297	1,985
Total non-current provisions	**3,297**	**1,985**
Total provisions	**38,831**	**23,171**

Movements in each class of provision, except employee benefits, are set out below:

	Stepped Lease Provision $'000	Make Good Provision $'000
Balance at 1 July 2014	322	-
Acquisitions through business combinations	-	-
Expense during the year	144	-
Balance at 30 June 2015	**466**	**-**
Acquisitions through business combinations	-	75
Expense during the year	99	-
Balance at 30 June 2016	**565**	**75**

23. Issued capital and reserves

	Note	2016 $'000	2015 $'000
Issued and fully paid			
Ordinary shares		649,163	600,785
		649,163	**600,785**

(a) Movements in ordinary shares on issue

	2016		2015	
	Number of shares	$'000	Number of shares	$'000
Beginning of the financial year	180,885,580	600,785	68,250,000	68,250
Share issue	6,631,300	43,833	144,817,184	745,564
Share issue - DRP	667,040	4,156		
Buy back of shares	-	-	(33,413,669)	(190,629)
Transaction costs for issued share capital	-	(61)	-	(22,400)
Movement in management equity plan	-	450	1,232,065	-
End of the financial year	**188,183,920**	**649,163**	**180,885,580**	**600,785**

During the year, 6,631,300 shares with a fair value of $43,832,893 were issued in consideration for the Kennedy Group acquisition based on the Estia share price of $6.61 on acquisition date being 8 February 2016.

(b) Share-based payments reserve

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

(c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2016 is $4,182,316 (2015: $595,821). This includes franking credits transferred from the Kennedy Group which was acquired during the year.

(d) Dividends paid and proposed

The final dividend for the year ended 30 June 2015 of $24,600,439 (13.6 cents per share) was paid on 26 October 2015.

The interim dividend for the year ended 30 June 2016 of $24,044,818 (12.8 cents per share) was paid on 20 April 2016.

The Directors propose a final cash dividend for the year ended 30 June 2016 of 12.8 cents per share totalling $24,087,542. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 30 June 2016.

(e) Dividend reinvestment plan

The dividend paid on 26 October 2015 includes an amount attributable to the Dividend Reinvestment Plan of $2,297,916 with 333,260 ordinary shares being issued under the plan rules. The dividend paid on 20 April 2016 includes an amount attributable to the Dividend Reinvestment Plan of $1,858,012 with 333,780 ordinary shares being issued under the plan rules. The last date for the receipt of an election notice to participate in the DRP is the record date of the respective dividend.

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24. Share-based payments

At 30 June 2016, the Group had the following share-based payments arrangements:

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

On 1 July 2015, the Chief Financial Officer was granted 19,802 LTIP performance rights, with a value of $119,406.

(ii) Management Equity Plan

The MEP is a legacy plan which was approved by the Board and implemented prior to listing and other than for existing holders, it is no longer offered. All MEP offers were made prior to listing and no new MEP offers were made in FY16 or will be made going forward.

Under the plan, the 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 2016:

	Number of MEP shares	Total amount subscribed ($'000)	% of MEP Shares funded through MEP loans	Interest rate on MEP loan
Paul Gregersen	869,565	5,000	100%	-
Other employees	112,500	204	100%	5.95%
	982,065	**5,204**		

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

Recognition and measurement of fair value

(i) Long-Term Incentive Plan

As the exercise price is zero upon vesting, the fair value of the performance rights issued under the LTIP is deemed to be equal to the market price of the underlying shares on the date of grant. The contractual term of the share options is three years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

24. Share-based payments (continued)

(ii) Management Equity Plan

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

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

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

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

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

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

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

24. Share-based payments (continued)

Movements during the year

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

	2016		2015	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	1,254,955	4.35	-	-
Granted during the year	19,802	-	1,367,543	4.06
Forfeited during the year	-	-	(12,588)	-
Exercised during the year	(250,000)	1.00	(100,000)	1.00
Expired during the year	-	-	-	-
Outstanding at 30 June	**1,024,757**	**5.08**	**1,254,955**	**4.35**
Exercisable at 30 June	**982,065**	**5.30**	**1,232,065**	**4.43**

The weighted average remaining contractual life for the share options outstanding as at 30 June 2016 was approximately 8.12 years.

The range of exercise prices for MEPs outstanding at the end of the year was $1.16 to $5.75.

The weighted average fair value of performance rights granted during the year was $6.03.

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

	2016 $'000	2015 $'000
Long-term incentive plan	81	23
Management equity plan	313	98
Share-based payments expense recognised in profit or loss	**394**	**121**

25. Earnings per share

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

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

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

	2016 $'000	2015 $'000
Profit/(Loss) attributable to ordinary equity holders of the Parent for basic earnings	27,640	(22,523)
Effect of dilution	-	-
Profit/(Loss) attributable to ordinary equity holders of the Parent for dilutive earnings	**27,640**	**(22,523)**

	2016	2015
Weighted average number of ordinary shares for basic EPS	182,614,590	138,234,542
Effect of dilution	373,199	217,854
Weighted average number of ordinary shares for the effect of dilution	**182,987,789**	**138,452,396**

26. Related party disclosures

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

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

	2016 $'000	2015 $'000
Short-term employee benefits	1,041	2,035
Post-employment benefits	73	144
Short-term incentive payments	-	22
Share-based payments	195	92
Termination payments	-	250
Total compensation of key management personnel	**1,309**	**2,543**

27. Commitments and contingencies

Operating lease commitments – Group as lessee

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

The remaining non-cancellable leases have remaining terms of between 1 and 19 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions and to extend the lease for at least a further term.

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

	2016 $'000	2015 $'000
Within one year	4,175	3,776
After one year but not more than five years	11,945	8,590
More than five years	10,454	4,385
	26,574	**16,751**

Finance lease and hire purchase commitments

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

	2016		2015	
	Minimum payments $'000	Present value of payments $'000	Minimum payments $'000	Present value of payments $'000
Within one year	110	110	-	-
After one year but not more than five years	284	284	-	-
More than five years	-	-	-	-
	394	**394**	**-**	**-**

Capital commitments

The Group has entered into construction contracts for the development of two new facilities at Twin Waters (QLD) and Kogarah (NSW) at an estimated cost of $23,000,000 and $15,000,000 respectively. The facilities will add a total of 186 operating places and are expected to be completed by mid to late 2017.

28. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise of interest-bearing loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 30 June 2016 and 30 June 2015.

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 and derivatives are all constant and on the basis of the hedge designations in place at 30 June 2016 and 30 June 2015.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives; and
- 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 2016 and 30 June 2015.

Interest rate risk

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

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

	Weighted average effective interest rates		Fixed or Floating
	2016	2015	
	%	%	
Cash and liquid assets	1.5	1.8	Floating
Bank loans	3.5	3.2	Floating

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

The details of debt are disclosed in Note 20 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

28. Financial risk management objectives and policies (continued)

Interest rate sensitivity

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

	Effect on profit before tax Higher/(lower)		Effect on equity Higher/(lower)	
	2016	2015	2016	2015
+ 0.25% (25 basis points)	(391,000)	(17,740)	(391,000)	(12,418)
- 0.25% (25 basis points)	391,000	17,740	391,000	12,418

Foreign currency risk

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

Credit risk

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

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

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

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

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

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

28. Financial risk management objectives and policies (continued)

Liquidity risk

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

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

	On demand $'000	Less than 12 months $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Year ended 30 June 2016					
Trade and other payables	-	30,554	169	-	30,723
Loans and borrowings	-	1,254	253,500	-	254,754
Deferred consideration	-	84,500	-	-	84,500
Other financial liabilities	653,336	-	-	-	653,336
	653,336	**116,308**	**253,669**	**-**	**1,023,313**
Year ended 30 June 2015					
Trade and other payables	-	18,812	-	-	18,812
Deferred consideration	-	799	-	-	799
Loans and borrowings	-	54,709	-	-	54,709
Other financial liabilities	471,086	-	-	-	471,086
	471,086	**74,320**	**-**	**-**	**545,406**

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 30 June 2016.

29. Fair value measurement

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

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

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

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

			Fair value measurement using		
	Date of Valuation	Total $'000	Quoted Prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Investment properties	30 June 2016	1,500	-	1,500	-
Loans and borrowings	30 June 2016	253,500	-	253,500	-
Other financial liabilities	30 June 2016	653,336	-	653,336	-
		908,336	**-**	**908,336**	**-**

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

The fair value of investment properties of $1,500,000 (2015: $Nil) has been categorised as a Level 2 based on the inputs to the valuation technique used.

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

There were no transfers between levels during the financial year.

30. Remuneration of auditors

	2016 $'000	2015 $'000
Audit of the financial report	528	364
Tax compliance services	204	50
Due diligence services	333	1,137
	1,065	**1,551**

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

31. Subsequent events

On 1 July 2016, the Group drew down $36,500,000 of bank debt to partially fund the acquisition payment of the Kennedy Group, totalling $41,000,000 and subsequently repaid $10,000,000 on 10 August 2016.

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.

On 26 August 2016, the Directors resolved to pay a final fully franked dividend of 12.8 cents per share ($24,087,542) payable on 7 November 2016.

32. Segment reporting

For management reporting purposes, the Group has identified one reportable segment. Estia operates predominantly in one business and geographical segment being the provision of residential aged care services in Australia. Group performance is evaluated by executive management based on operating profit or loss and is measured consistently with the information provided in these consolidated financial statements.

33. Parent entity information

	2016 $'000	2015 $'000
Information relating to Estia Health Limited		
Current assets	508,723	450,243
Non-current assets	180,675	189,940
Total assets	**689,398**	**640,183**
Current liabilities	6,490	7,000
Non-current liabilities	-	-
Total liabilities	**6,490**	**-**
Net assets	**682,908**	**633,183**
Issued capital	649,163	600,785
Reserves	515	121
Retained earnings	33,230	32,277
Total shareholders' equity	**682,908**	**633,183**
Profit of the parent entity	**49,597**	**34,772**
Total comprehensive income of the parent entity	**49,597**	**34,772**

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

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

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

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

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 2016 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 2016 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 2b; and

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

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 2016.

On behalf of the Board

Patrick Grier
Chairman

28 August 2016

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working world

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Independent auditor's report to the members of Estia Health Limited

Report on the financial report

We have audited the accompanying financial report of Estia Health Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which follows the directors' report.

Opinion

In our opinion:

a. the financial report of Estia Health Limited is 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 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 8 to 25 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Rodney Piltz
Partner
Melbourne
28 August 2016