

Appendix 4E

Estia Health Limited

Results for announcement to the market Preliminary final report for the year ended 30 June 2018¹

	Increase / (Decrease)	30 June 2018 \$'000	30 June 2017 \$'000	Change %
Revenue from ordinary activities		546,934	524,630	
Other income		483	1,037	
Total revenue and other income from ordinary activities	Increase	547,417	525,667	4.1
Profit before interest and tax	(Decrease)	64,444	68,677	(6.2)
Profit from ordinary activities after tax attributable to members	Increase	41,154	40,698	1.1

	30 June 2018 (cents)	30 June 2017 (cents)	Change %
Basic earnings per share	15.8	18.2	(13.2)
Diluted earnings per share	15.7	18.0	(12.8)
Net tangible asset backing per ordinary share	(63.6)	(63.7)	0.2

Net tangible assets deducts goodwill, bed licences and other intangible assets and adds back net deferred tax liabilities.

Dividend information

Dividend	2018 cents	2017 cents	Change %
Interim dividend (2017 interim: N/A)	7.8	-	N/A
Final dividend – fully franked (2017 final: fully franked)	8.0	8.0	-

Final Dividend Dates

Ex-dividend date	6 September 2018
Record date	7 September 2018
Payment date	28 September 2018

The Dividend Reinvestment Plan will not operate in respect to this dividend.

Further Information

Commentary on the results for the period can be found in the attached 30 June 2018 full-year Directors' Report. Additional ASX Appendix 4E (Listing Rule 4.3A) disclosures can be found in the 2018 Financial Report attached. This document should be read in conjunction with the 2018 Financial Report which has been audited by Ernst & Young, with an unqualified audit opinion, and any public announcements made in the period by EHE in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

Changes in controlled entities

The Parent company did not acquire or dispose of any entities during the year.

¹ Previous corresponding period being the year ended 30 June 2017

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Leanne Ralph

Company Secretary

16 August 2018

ESTIA HEALTH LIMITED

ABN 37 160 986 201

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

ESTIA HEALTH LIMITED

ABN 37 160 986 201

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CORPORATE INFORMATION

ABN 37 160 986 201

DIRECTORS

Dr. Gary Weiss (Chairman)

Norah Barlow ONZM (Managing Director and CEO)

Andrew Harrison (Audit Committee Chair)

Paul Foster (Nomination and Remuneration Committee Chair)

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

Helen Kurincic (Risk Management Committee Chair)

Appointed 1 July 2017

Patrick Grier AM

Resigned 14 November 2017

COMPANY SECRETARY

Suzy Watson

Resigned 21 December 2017

Leanne Ralph

Appointed 21 December 2017

REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street
Sydney NSW 2000

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 2018.

DIRECTORS

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

DR. GARY WEISS (CHAIRMAN)

Gary was appointed as an independent non-Executive Director in February 2016. Gary was appointed as Chairman on 31 December 2016.

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

NORAH BARLOW ONZM (MANAGING DIRECTOR)

Norah was appointed to the Board in November 2014 as an independent non-executive director. Norah was appointed Acting CEO from September 2016, and appointed permanently to the roles of Managing Director and CEO in November 2016.

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

ANDREW HARRISON (AUDIT COMMITTEE CHAIR)

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

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

PAUL FOSTER (NOMINATION AND REMUNERATION COMMITTEE CHAIR)

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

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

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

Warwick was appointed to the Board on 4 May 2017.

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

HELEN KURINCIC (RISK MANAGEMENT COMMITTEE CHAIR)

Helen was appointed to the Board on 1 July 2017.

Helen holds the degrees of Graduate Diploma in Women's Studies and an MBA from Victoria University and has also attended Harvard Business School where she completed programs in Best Practice Leadership and Business Innovations in Global Healthcare.

PATRICK GRIER AM

Patrick was appointed to the Board in December 2014 as Chairman (resigned on 31 December 2016) and independent non-executive director. Patrick resigned from the Board on 14 November 2017.

DIRECTORS' REPORT

COMMITTEE MEMBERSHIP

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

Membership	Audit Committee	Nomination and Remuneration Committee	Risk Management Committee	Property and Investment Committee
Chair	Andrew Harrison	Paul Foster	Helen Kurincic	Hon. Warwick L Smith
Member	Gary Weiss	Gary Weiss	Andrew Harrison	Gary Weiss
Member	Hon. Warwick L Smith	Helen Kurincic	Paul Foster	Paul Foster

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		Audit Committee		Nomination and Remuneration Committee		Risk Management Committee		Property and Investment Committee	
No. of meetings held:	12		4		4		3		3	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Dr. Gary Weiss	12	12	4	4	-	-	-	-	3	3
Norah Barlow	12	12	-	-	-	-	-	-	-	-
Andrew Harrison	12	11	4	4	-	-	3	2	-	-
Paul Foster	12	12	-	-	4	4	3	3	3	3
Hon. Warwick L Smith	12	12	4	4	-	-	-	-	3	3
Helen Kurincic	12	12	-	-	3	3	3	3	-	-
Patrick Grier	4	3	-	-	1	1	-	-	-	-

DIRECTORS' HOLDINGS

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

Director	Number of ordinary shares
Dr. Gary Weiss	45,312
Norah Barlow	123,100
Andrew Harrison	25,542
Paul Foster	14,000
Hon. Warwick L Smith	45,000
Helen Kurincic	25,000

COMPANY SECRETARY

SUZY WATSON

Suzy was appointed as Company Secretary and General Counsel in December 2014 and resigned as Company Secretary on 21 December 2017. Suzy remains as the General Counsel for the Group.

LEANNE RALPH

Leanne was appointed as Company Secretary on 21 December 2017.

Leanne is an experienced Company Secretary and is the founder and Director of BoardWorx Australia Pty Ltd who specialise in corporate governance services.

DIRECTORS' REPORT

DIVIDENDS

On 15 August 2018, the Directors resolved to pay a final fully franked dividend of 8.0 cents per share (\$20,848,220) bringing dividends per share for the financial year ended 30 June 2018 to 15.8 cents per share. The record date for the final dividend will be 7 September 2018, with payment being made on 28 September 2018. Shares will trade excluding entitlement to the dividend on 6 September 2018.

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 2017	29 September 2017	8.0 cents	\$20,848,220
Interim dividend for the year ended 30 June 2018	23 March 2018	7.8 cents	\$20,327,014

PRINCIPAL ACTIVITIES

The principal activities of the Estia Health Group during the year ended 30 June 2018 continued to be the operating and developing of owned and leased residential aged care homes throughout Australia.

OPERATING AND FINANCIAL REVIEW

FY18 represented a year of continued growth and consolidation by the Group, that enhances the Group's strategy to:

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

Consistent with the strategy articulated by the Board and management, the Group's activities during the year reflected a shift away from its previous acquisition-led growth to a focus on maximising the attractiveness and value of the existing portfolio, a program of comprehensive significant refurbishment and execution of organic greenfield expansion projects.

Key initiatives and achievements for the year included:

- Investment of \$13.9 million of significant refurbishment capital expenditure across 18 of the Group's existing portfolio of Residential Aged Care homes;
- Opening of new homes totalling 186 new beds at Twin Waters in Queensland and Kogarah in Sydney, New South Wales, an incremental increase in total capacity of 136 beds;
- Commencement of construction of a further three new homes at Southport, Sunshine Cove and Blakehurst delivering 345 new beds;
- Progressing two further development opportunities towards final investment approval; and
- Completion of \$4.4 million of sustainability and environmental improvement projects across 47 homes delivering cost savings and environmental benefits.
- Providing a high level of clinical care to residents with complex needs through continued investment in clinical education and systems. This includes a National Clinical Education Program for Registered Nurses (Australian College of Nursing endorsed), regular specialist clinical training in wound and falls management and the ongoing roll out of electronic care planning across the business.

At the end of the year, the Group had 6,046 operational beds, and equally importantly, had positioned itself to pursue continued future growth opportunities through the delivery of strong operational and financial performance as shown below.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

	2018 \$'000	2017 \$'000	2016 \$'000
Government funding	404,064	388,099	327,547
Resident & other revenue	142,990	136,531	115,274
Total operating revenues	547,054	524,630	442,821
Employee benefits expense	360,216	339,515	274,004
Non wage costs	96,755	98,615	79,758
EBITDA*	90,083	86,500	89,059
Depreciation and amortisation expense	22,163	18,405	12,831
Impairment expense	3,839	455	-
Profit on sale of non-current assets	(363)	(1,037)	(889)
FY16 Gain on bargain purchase	-	-	(2,800)
FY16 Acquisition related costs	-	-	24,230
FY16 Other one-off costs	-	-	1,900
Operating profit for the year	64,444	68,677	53,787
Net finance costs	7,279	9,623	7,166
Profit before income tax	57,165	59,054	46,621
Income tax expense	16,011	18,356	18,981
Profit for the year	41,154	40,698	27,640

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

Subsequent to the end of FY18, the Group announced the execution of a key element of its management succession that Deputy CEO and COO Ian Thorley would succeed Norah Barlow as Managing Director and CEO in November 2018, following a period of transition. This succession was accompanied by the announcement that experienced aged care executive, Sean Bilton, will join the Group in late 2018 to succeed Ian Thorley as the Group's Deputy CEO and COO.

REVIEW OF FINANCIAL POSITION

The Group continues to have a healthy balance sheet at 30 June 2018 with Net Assets of \$761,564,000. The Group has continued to invest in building capacity, adding 136 beds during the financial year through the development of two new homes.

As at 30 June 2018, the Group had total bank facilities of \$330,000,000 with an expiry date of 22 August 2020, of which \$251,200,000 remained unutilised. These facilities provide the Group with significant levels of funding for future developments and acquisitions.

CASH FLOW

The Group produced strong operating cash flows in the year with \$103,040,000 generated from the provision of services to residents, and a further \$62,785,000 from net Refundable Accommodation Deposit ("RAD") inflows. The latter was generated through higher occupancy rates, the replacement of RADs or bonds, as new residents moved in to a home at a higher price than a refunded RAD and the opening of two new homes during the year.

DEVELOPMENTS AND ACQUISITIONS

During the year, the Group opened two new homes, Twin Waters, Queensland and Kogarah, New South Wales in September 2017 and March 2018, respectively, which added a total of 136 net new beds. The Group is also in the process of developing five new homes, which are set to open in FY19 and FY20. These new homes under development will add a total of 585 beds to the portfolio.

There were no new acquisitions undertaken during the year. The Group will continue to assess acquisitions as and when they are available and meet the criteria of the Group.

DIRECTORS' REPORT

KEY BUSINESS RISKS

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

CHANGES TO REGULATORY OR FUNDING FRAMEWORK

- Risk** The Australian residential aged care industry is highly regulated, with more than 70% of the total revenue comprising funding from the Australian Government. Almost all of the Group's revenues were derived from services provided in accordance with, and legislated by, the *Aged Care Act 1997* and subsequent Amending Acts, and approximately 74% was paid to the Group from the Australian Government directly. Capital flows from RADs are also governed by the same legislation.
- Impact** Any regulatory change for the industry may have an adverse impact on the way the Group promotes, manages and operates its homes, and its financial performance. Changes to the regulatory framework could also impact on competition through deregulation, additional accreditation requirements or changes to capital requirements. Regulatory restrictions may also become more burdensome in the future, which may require the Group to dedicate more time and expenditure to ensuring that the Group complies with such regulations
- Mitigant** Ageing demographics point to materially increasing demand for Residential Aged Care places and services in the next decade, notwithstanding an expected increase in funding and take-up of Home Care. The Group monitors demand, services and competitive market dynamics as well as RAD funding levels and preferences and supports the Federal Government's aspiration for the provision of the highest quality residential aged care and value for money to the Government and residents.

ESTIA MAY EXPERIENCE SHORTAGE OF EMPLOYEES AND/OR UPWARD WAGE PRESSURE

- Risk** The Group's business depends on a specialised health and aged care workforce. There is a risk that the Group may not be able to retain or expand a workforce that is appropriately skilled and trained to meet the existing or future demands of residents at its homes and/or a risk that a shortage of employees leads to upward wage pressure. Competition from other health care providers, such as hospitals and other nursing homes, for appropriately skilled staff and a general industry shortage of staff in key areas, such as nurses and other skilled staff may also increase the bargaining power of healthcare professionals and can lead to upward pressure on applicable wages and salaries.
- Impact** Increasing labour costs may adversely affect the Group's business, financial performance and position and future prospects. This may arise as a result of increases in wages which the Group is unable to pass on to residents or is not recognised in full in the Aged Care Funding Instrument ("ACFI") consumer price index adjustments, and/or increase in the use of agency staff, which typically results in higher staffing costs to the Group.
- Mitigant** The Group has a program to develop and deliver training for all staff in relation to specialised skills required for quality aged care provision. Importantly the Group's training is provided to, and focussed on, both clinical and non-clinical staff.
- The Group is also focussed on optimising its existing workforce mix to offer secure long-term opportunities to care employees, with extensive planning around leave and roster management to reduce dependence on casual and agency employees.

RAD BALANCES

- Risk** The Group is exposed to risks associated with the fluctuations of RAD/Bond balances due to a range of factors. If a larger than expected number of bond/RAD paying residents were to leave the Group's aged care homes, the Group might be required to repay a large sum of bonds/RADs, all of which may not be able to be replaced immediately. The Group is also exposed to risks that may adversely affect the future value of the Group's total accommodation bonds/RADs, including specific issues arising in the Group (such as a non-compliance or loss of certification at a home), a general reduction in the price that can be achieved for new RADs, or demand for the Group's aged care services changing over time due to general economic factors.
- Impact** There may be material impact on the Group's cash flows and debt levels if a high number of departing RAD payers are subsequently replaced by non-RAD paying residents, such as residents who elect to make a daily accommodation payment or are concessional residents.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

RAD BALANCES (CONTINUED)

Mitigant The Group regularly monitors and analyses RAD movements across the portfolio, maintains a formal liquidity policy to ensure sufficient cash reserves are on-hand to refund RADs as and when they fall due, supported by a \$330 million debt facility that is available for use to fund future developments and capital expenditure if RAD inflows reduce.

OCCUPANCY LEVELS MAY FALL

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

- Increased competition
- Changing consumer trends
- Declining referrals from hospitals and other sources

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

Mitigant The Group proactively manages its relationships with referrers as well as its standing in the communities in which it operates. Due to the network structure of the homes, the Group is also able to provide prospective residents of homes with a number of options if they are on a waiting list for a home that may be at full capacity. The Group monitors demand, services and competitive market dynamics in relation to each home.

FAILURE TO MEET CLINICAL CARE STANDARDS

Risk As an approved aged care provider, the Group maintains an effective system of clinical governance in place to promote the health, safety and quality of care to residents, and to ensure compliance with the applicable legislation and departmental policies.

The Group may experience a decline in its clinical outcomes in circumstances where incidents are not identified, assessed or reported, employees do not follow policies and procedures or external health consultants do not provide the services in which they were engaged to provide.

Impact Failures to meet clinical care standards may lead to adverse impacts on the Group's reputation in the industry, leading to a reduction in occupancy, or in certain circumstances, may lead to a loss of accreditation as an Approved Provider. As a result, there may be an overall decline to profitability due to decreased occupancy and/or additional costs required to ensure clinical care standards are improved.

Mitigant The Group ensures that its clinical care standards are of the highest quality and any declines in standards are addressed swiftly. The Group employs a Chief Nursing Officer who is responsible for clinical governance strategies and a Quality and Risk Director who is responsible for the clinical education and development of the Group's employees.

ESTIA'S REPUTATION MAY BE DAMAGED

Risk The Group operates in an industry in which its reputation could be adversely impacted should it, or the aged care sector generally, suffer from any adverse publicity. The Group may also suffer reputational damage in the event of medical indemnity claims, litigation or coronial inquests.

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

Mitigant The Group has a robust quality management framework that identifies and profiles risk across the business. This framework is owned at Executive level by the Quality and Risk Director. Trends across the business are also tracked through frequent analysis of the aggregate complaints data.

Incidents that may damage the Group's reputation at a home level are escalated to the Executive as part of the quality and risk policy.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

ESTIA MAY LOSE KEY PERSONNEL

Risk	The Group relies on a high quality executive and leadership teams that are central, state and locally based with significant aged care industry experience.
Impact	<p>The loss of key personnel could undermine the Group's ability to operate its homes and its business to current standards, to effectively comply with regulations and could also jeopardise the Approved Provider status of the Group if they were not replaced promptly with other appropriately skilled and qualified employees.</p> <p>This may result in a reduction in demand for Estia's aged care services from new and existing residents and could adversely impact Estia's financial performance and position and future prospects.</p>
Mitigant	The Group regularly assesses its remuneration and reward structure and other terms and conditions of employment to attract, secure and retain high quality personnel. The Group undertakes succession planning and staff management and development practices to develop and maintain the depth and quality of its leadership team.

INFORMATION TECHNOLOGY (IT) SYSTEM BREACHES OR LOSS

Risk	Sensitive information is stored electronically, and there are risks of systems failure, cyber-attack, data theft or other malicious actions that could cause business interruption or leakage of information.
Impact	These systems failures or breaches could adversely affect the Group's operations, reputation and financial performance.
Mitigant	The Group has implemented a framework of appropriate security and back-up protocols, including training of staff in relation to privacy and data security. The strength and effectiveness of this framework are regularly assessed, tested and improved. The Group also continually reviews and invests in its core IT systems. Reporting and management of IT risk is part of the Board Risk Committee Charter.

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 2018.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to 30 June 2018, the Group has repaid a total of \$30,000,000 of bank debt.

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 is focused on maximising the value of the Group's existing assets through a range of operational improvements, development-led growth opportunities, and significant refurbishment opportunities that exist within the business. The Group will carefully consider future smaller bolt-on acquisition opportunities within existing geographic networks, should they arise, which meet the Group's investment criteria.

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

DIRECTORS' REPORT

PERFORMANCE RIGHTS

UNISSUED SHARES

As at the date of this report, there were 907,684 unissued ordinary shares under performance rights (2017: 524,238).

SHARES ISSUED AS A RESULT OF THE VESTING OF PERFORMANCE RIGHTS

No performance rights vested during the year ended 30 June 2018 (2017: nil). During the year ended 30 June 2018, 476,980 rights were granted (2017: 515,819) and 93,534 rights were forfeited (2017: 903,838).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

In accordance with its Constitution the Company has paid a premium for a contract insuring all directors, secretaries, executive officers, officers and senior managers of the Company against liabilities incurred by those persons in that capacity, on terms and conditions commonly available in the insurance market.

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

The contract does not provide cover for the independent auditors.

INDEMNIFICATION OF AUDITORS

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

NON-AUDIT SERVICES

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

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

	\$
Tax compliance services	170,000
Assurance related services	23,000
	<u>193,000</u>

DIRECTORS' REPORT

ROUNDING

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

This report is made on 16 August 2018 in accordance with a resolution of Directors.



Dr. Gary Weiss
Chairman

DIRECTORS' REPORT

Remuneration report – audited

Dear shareholders,

The Estia Board is pleased to present the Remuneration Report for the year ended 30 June 2018 (FY18).

Strategic and Operational Developments

FY18 represented a year of continued growth and consolidation at Estia Health Limited (the Group). Consistent with the strategy articulated by the Board and management, the Group's activities during the year reflected a shift away from its previous acquisition led growth, to a focus on maximising the attractiveness and value of the existing portfolio, for the benefit of residents and shareholders, through operational excellence, a program of comprehensive significant refurbishment and execution of organic greenfield expansion projects. Key initiatives and achievements for the year included:

1. Investment of \$13.9 million of significant refurbishment capital expenditure across 18 of the Group's existing portfolio of Residential Aged Care homes, substantially enhancing the quality of accommodation and resident experience at those homes, at attractive returns to shareholders;
2. Improving the availability of high quality Residential Aged Care in the community through the opening of new homes at Twin Waters in Queensland in September 2017 and Kogarah in Sydney, New South Wales in March 2018;
3. Commencement of construction of a further three new homes in the Group's key target South East Queensland and Sydney regions at Southport, Sunshine Cove and Blakehurst; and
4. Providing a high level of clinical care to residents with complex needs through continued investment in clinical education and systems. This includes a National Clinical Education Program for Registered Nurses (Australian College of Nursing endorsed), regular specialist clinical training in wound and falls management and the ongoing roll out of electronic care planning across the business.

Importantly, the Group positioned itself to pursue continued future growth opportunities through the delivery of strong operational and financial performance, the maintenance of a robust balance sheet and execution of its management succession plan with the announcement, subsequent to the end of FY18, that Deputy CEO and COO Ian Thorley would succeed Norah Barlow as the Group's Managing Director and CEO in November 2018 following a period of transition. This succession was accompanied by the announcement that experienced aged care executive, Sean Bilton, will join the Group in late 2018 to succeed Ian Thorley as the Group's Deputy CEO and COO.

The Board's diversity, experience and capabilities were bolstered in FY18 with healthcare leader Helen Kurincic joining the Group as a Non-Executive Director ("NED") on 1 July 2017. The Group expects to further enhance and diversify the skillset of the Board during FY19.

Changes to FY18 Remuneration

The Group initiated a number of key changes to its remuneration framework in FY18, designed to enhance alignment of interest with the Group's shareholders, including:

1. Extension of a 12-month deferral of 25% of any Short-Term Incentive Plan (STI) payments (deferral into Estia Shares) from the Managing Director to other members of the Group's Executive Key Management Personnel (KMP);
2. Implementation of a broad-based STI scorecard against which KMP performance is assessed for the purpose of STI eligibility. In addition to broadening the range of financial metrics against which performance is assessed, the STI scorecard incorporates key non-financial metrics such as workplace safety as well as role-specific metrics. A quality "gateway", requiring that ongoing compliance and accreditation targets be met for KMPs to be eligible for STI awards, irrespective of STI scorecard performance, remains in place;
3. The introduction of Board Sub-committee fees within the constraints of an unchanged overall NED fee cap.

DIRECTORS' REPORT

Remuneration report – audited (continued)

FY18 Remuneration Outcomes

FY18 STI vesting outcomes for Executive KMP ranged between 22-35% of their STI opportunity.

While FY18 EBITDA and NPAT were both up from FY17, results were below target, and accordingly nil vesting occurred in relation to these measures.

The partial vesting of the FY18 STI reflects achievement of the resident quality gateway hurdle, exceeding the Lost Time Injury Frequency Rate (LTIFR) target and partial achievement of various role specific measures including exceeding target revenue per operating bed.

No vesting occurred under previous year's Long-Term Incentive Plan grants in FY18.

Looking Forward – Changes to FY19 Remuneration

The Board undertook a comprehensive review of the Group's remuneration framework and mechanisms during FY18, in the context of an emerging trend amongst a number of ASX-listed companies towards Single Incentive Plan arrangements. The conclusion from this review was that the current remuneration framework, which provides separate STI and LTI mechanisms, remains the most appropriate incentive structure at this time to create shareholder alignment, employee motivation and the balance between short and long term performance focus.

This conclusion continues to be balanced with the Group's requirement to attract, motivate and retain the best available management talent within the aged care industry and ongoing reviews of the Group's remuneration mechanisms will be undertaken by the Board to ensure that they remain effective and aligned with shareholder experience.

Within the Group's STI and LTI incentive framework, the following changes for FY19 have been made:

1. The STI scorecard comprises financial and non-financial performance metrics that have been agreed with the Board that are common across each KMP for 60% of the scorecard evaluation, with the remaining 40% comprised of role-specific measures;
2. 70% of LTI vesting entitlement has previously been measured against a Total Shareholder Return (TSR) comparator comprised of the performance of the ASX200 excluding mining and energy companies. Whilst 70% of the LTI vesting entitlement will continue to be measured against a TSR comparator for FY19, to make the comparator measure more directly relevant to the Group's performance against ASX-listed industry peers:
 - half of the TSR comparator will be comprised of the performance of the ASX200 excluding mining and energy companies; and
 - half of the TSR comparator will be comprised of the market capitalisation weighted average performance of a peer group of ASX-listed companies operating in the provision of aged care services.

On behalf of the Board, I am pleased to present to you the FY18 Remuneration Report for the Group and we look forward to welcoming you at the 2018 AGM.

Yours sincerely



Paul Foster

Chair of the Nomination and Remuneration Committee

DIRECTORS' REPORT

Remuneration report – audited (continued)

This report for the year ended 30 June 2018 (FY18) outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001(Cth), as amended* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

This report is presented under the following sections:

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

1. Introduction

This report details the remuneration arrangements for 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 FY18. There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

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

Non-executive directors (NEDs)		
Gary Weiss	Non-Executive Chairman	Full year
Andrew Harrison	Non-Executive Director	Full year
Paul Foster	Non-Executive Director	Full year
Hon. Warwick L Smith AM	Non-Executive Director	Full year
Helen Kurincic	Non-Executive Director	Appointed 1 July 2017
Patrick Grier	Non-Executive Director	Retired 14 November 2017

DIRECTORS' REPORT

Remuneration report – audited (continued)

Executive Director		
Norah Barlow ¹	Managing Director and Chief Executive Officer (MD and CEO)	Full year

Senior Executives		
Ian Thorley ²	Deputy Chief Executive Officer and Chief Operating Officer (Deputy CEO and COO)	Full year
Steve Lemlin	Chief Financial Officer (CFO)	Full year
Steve Boggiano ³	Chief Strategy Officer (CSO)	Until 13 July 2017

2. Remuneration governance

2.1 Nomination and Remuneration Committee

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

The Committee comprises three independent Non-Executive Directors (NEDs): Paul Foster (Committee Chair), Gary Weiss and Helen Kurincic. 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 four times in FY18. The MD and CEO attends certain Committee meetings by invitation, where management input is required. The MD and CEO is not present during any discussions related to their own remuneration arrangements.

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 2018, the Nomination and Remuneration Committee engaged KPMG to provide benchmarking data, provide advice on trends in executive remuneration, and assist with various other related executive remuneration matters.

As part of this engagement, KPMG provided advice to the Committee which contained remuneration recommendations as defined by the *Corporations Act 2001*. KPMG was paid \$30,000 (excluding GST) in relation to these recommendations.

KPMG provided a formal declaration confirming that its recommendations were made free from undue influence by the members of the key management personnel to whom the recommendations relate to and, in view of this declaration and the protocols and processes governing the engagement of KPMG and receipt of its recommendations, the Board is satisfied that each of the recommendations were free of undue influence by such persons.

¹ Norah Barlow held the position as Non-Executive Director from December 2014 to September 2016. Norah was appointed as Acting CEO on 16 September 2016 and then appointed permanently as Managing Director and Chief Executive Officer in November 2016 with a commencement date of 17 January 2017. Norah Barlow will be stepping down as MD and CEO in November 2018.

² Ian Thorley will be succeeding Norah Barlow as MD and CEO in November 2018, and Sean Bilton will step into the role of Deputy CEO and COO.

³ The Group did not replace the role of Chief Strategy Officer following the departure of Steve Boggiano.

DIRECTORS' REPORT

Remuneration report – audited (continued)

KPMG was paid \$155,345 (excluding GST) for other services relating to advisory and tax matters during the 2018 financial year.

3. Group performance

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

	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Revenue - \$'000	\$547,054	\$524,630	\$442,821	\$284,798
Net profit after tax - \$'000	\$41,154	\$40,698	\$27,640	(\$22,523)
EBITDA - \$'000	\$90,083	\$86,500	\$89,059	\$30,900
Share price at start of the year	\$3.05	\$4.37	\$5.70	\$5.75*
Share price at the end of the year	\$3.29	\$3.05	\$4.36	\$5.68
Dividends paid per share – cents	15.8	8.0	25.6	13.6
Basic earnings per share – cents	15.8	18.2	15.1	(16.3)
Diluted earnings per share – cents	15.7	18.0	15.1	(16.3)

*share price at
date of listing

4. Remuneration principles and strategy

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

The Group 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 the Group's commitment to this policy contributes to achieving the Group's corporate objectives and embeds the importance and value of diversity within the culture of the Group. Diversity can broaden the pool for recruitment of high quality employees, enhance employee retention, improve the Group's corporate image and reputation and foster a closer connection with and better understanding of customers.

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

5. Executive remuneration

5.1 Remuneration Framework and link to strategy

In FY18, 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 and delivering outcomes that are aligned to the experience of the Group's shareholders.

Component	Approach	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	FAR is set with reference to role, market and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private. Group and individual performance are considered during the annual remuneration review.	Competitive remuneration packages that attract and retain high calibre employees from a diverse pool of talent.

DIRECTORS' REPORT

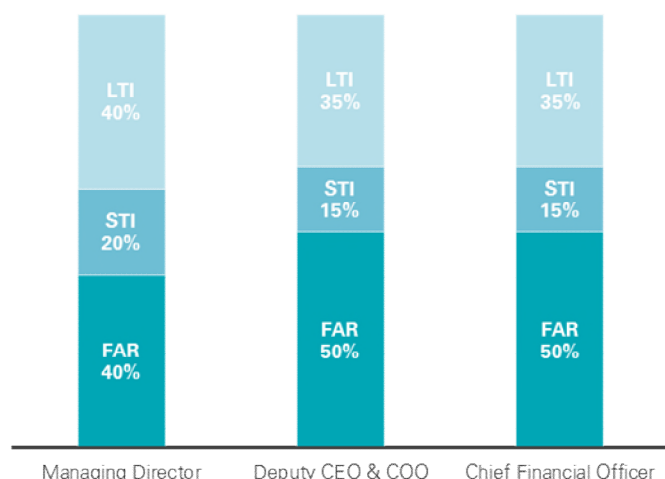
Remuneration report – audited (continued)

Component	Approach	Link to business and remuneration strategy
Short-Term Incentive Plan (STI)	<p>In FY18, the STI was measured against EBITDA, NPAT and Lost Time Injury Frequency Rate (LTIFR) targets, as well as other role specific measures over a 12-month period. A resident quality gateway hurdle was also used which required ongoing compliance and accreditation targets to be met in order for any of the STI to be eligible to vest.</p> <p>For executive KMP's the STI award is delivered in a mix of cash and equity. 75% of the award is delivered in cash, with the remaining 25% delivered in performance rights, which require participants to remain employed for an additional 12 months for the performance rights to vest.</p>	<p>Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term.</p> <p>The STI scorecard highlights the Group's focus on achieving key financial and operational targets, while also continuing to deliver quality care.</p> <p>Deferral of 25% of any STI award into equity increases alignment with shareholder interests.</p>
Long-Term Incentive Plan (LTI)	<p>The LTI is delivered in the form of performance rights subject to the following performance conditions, measured over a three-year period:</p> <ul style="list-style-type: none"> • Total shareholder return (TSR) performance relative to the ASX200 excluding mining and energy companies (70%); and • Earnings Per Share (EPS) (30%). 	<p>The LTI is designed to drive sustainable value creation for shareholders; encourage retention and encourage a multi-year performance focus. Relative TSR focuses executives on generating returns for shareholders, while EPS challenges management to increase profitability by growing earnings over a long-term horizon.</p> <p>The LTI is delivered in equity which aligns the interests of executive with achievement of increased shareholder wealth over the long-term.</p>
Total remuneration	<p>The overall remuneration framework is designed to support and drive the achievement of the Group's business strategy:</p> <ul style="list-style-type: none"> • be the leader in providing high quality residential aged care homes in Australia • providing our residents with the highest standards of aged care services in an innovative, supportive and caring environment • deliver profitable growth through our robust development pipeline, significant refurbishment opportunities and through maximising the performance of our core assets. 	

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.2 FY18 Remuneration Opportunity Mix⁴



5.3 Fixed Annual Remuneration

FAR includes base salary, non-cash benefits such as travelling allowances (including any fringe benefits tax), as well as leave entitlements and superannuation contributions.

Remuneration levels are reviewed annually by the Committee and the Board.

As part of the review, the Committee engages KPMG to benchmark the remuneration of the current KMP against relevant roles from a comparator group of ASX-listed companies⁵.

While having regard for the results of the benchmarking, the Committee considers the skills and experience of each individual, as well as the complexity and accountabilities associated with the role, in setting FAR.

5.4 Short-Term Incentive Plan

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

Participation	Norah Barlow, Ian Thorley and Steve Lemlin all participated in the FY18 STI plan.
STI value	In FY18, the MD had a maximum STI opportunity of 50% of FAR and other executive KMP had a maximum STI opportunity of 30% of FAR.
Performance conditions	The FY18 performance measures were EBITDA, NPAT and Lost Time Injury Frequency Rate (LTIFR) targets, as well as other role specific measures. The STI is subject to a resident quality gateway hurdle which requires ongoing compliance and accreditation targets to be met in order for any of the STI to be eligible to vest.
Delivery of STI	<p>Performance against the measures is tested annually after the end of the financial year. All payments under the STI plan are determined and approved by the Committee and the Board.</p> <p>Once STI payments have been approved, they are delivered in cash and equity. For the MD and senior executives 25% of any payment is deferred for a period of 12 months in the form of performance rights. The quantity of instruments granted in performance rights is determined using face value allocation methodology, using the VWAP for the 10 trading</p>

⁴ Steve Boggiano did not participate in the FY18 STI or LTI.

⁵ The comparator group is comprised of ASX-listed companies within the Health Care, Real Estate and Consumer Discretionary sectors, with a market capitalization of 50% - 200% of the Group's.

DIRECTORS' REPORT

Remuneration report – audited (continued)

Cessation of employment	days immediately following the release of results (i.e. deferred STI amount divided by share price).
	For "Bad Leavers" (defined by the Group as resignation or termination for cause), any unpaid or deferred STI is forfeited, unless otherwise determined by the Board. For any other reason, the Board has discretion to award STI on a pro-rata basis taking into account time and the current level of performance against performance hurdles.
Clawback policy	The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.
Changes in FY19	The FY19 STI scorecard will be comprising financial and non-financial measures, including 60% that are consistent across each member of KMP and 40% specific for each role. The resident quality gateway hurdle will continue to apply in FY19.

5.4.1 STI remuneration outcomes

In FY18, the Group met the resident quality gateway hurdle, which allowed an STI payment to be made, subject to the achievement of STI scorecard measures.

An overview of Executive KMP performance under the FY18 STI scorecard is detailed in the table below.

Performance measure	Weighting	Outcome
EBITDA	25%	EBITDA result of \$90,083 was below target – nil vesting.
NPAT	25%	NPAT result of \$41,154 was below target – nil vesting.
LTIFR ⁶	10%	LTIFR in FY18 was 43.93% lower than in FY17. This comfortably exceeded the target of a 25% reduction on FY17 performance – full vesting
Role specific measures	40%	A variety of role specific measures were used for different members of the Executive KMP, including revenue per operating bed day, delivery of the Group's technology strategy, and the achievement of systems integration targets. Revenue per operating bed day was the most material of these measures and vested at 55% as a result of the target being exceeded marginally. Overall, vesting under roles specific measures ranged from 29%-51% for the Executive KMP.

The table below sets out each Executive KMP's STI awarded and foregone in FY18. 25% of the STI awarded is delivered in performance rights, subject to 12 months deferral.

Senior Executive	STI opportunity (\$)	STI awarded (\$)	STI awarded (%)	STI foregone (%)
Norah Barlow	350,000	75,600	22%	78%
Ian Thorley	135,000	47,631	35%	65%
Steve Lemlin	129,758	39,171	30%	70%

⁶ Ian Thorley has a 20% weighting for the LTIFR component, and a 30% weighting under role specific measures.

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.5 Long-Term Incentive Plan

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

Participation	LTI performance rights were offered to all members of executive KMP in FY18. This will occur again in FY19, with the MD's FY19 LTI grant subject to approval at the FY18 AGM.																				
Delivery of LTI	LTIs are delivered in the form of performance rights. On exercise, performance rights entitle the holders to ordinary shares.																				
LTI value	In FY18, the MD had a LTI opportunity of 100% of FAR, other executive KMP had a LTI opportunity of 70% of FAR.																				
Allocation methodology	The quantity of instruments granted under the LTI is determined using face value allocation methodology, using the VWAP for the 10 trading days immediately following the release of results (i.e. LTI opportunity divided by share price).																				
Performance conditions	<p>The performance conditions for FY18 performance rights are as follows: 70% of award will be subject to a relative TSR performance measure, with the below vesting schedule.</p> <table> <tr> <th>Group'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> <p>30% of award subject to EPS performance measure, with the below vesting schedule.</p> <table> <tr> <th>Group's compound annual growth of EPS from FY17 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> <p>When assessing performance against targets, EPS will be adjusted to account for acquisitions made during the performance period. The absolute EPS threshold and stretch targets will be explicitly disclosed retrospectively to the extent that any LTI performance rights vest as a result of the achievement of the EPS performance measure, subsequent to the conclusion of the relevant performance period.</p>	Group's TSR over performance period, relative to companies in the ASX 200 Index, excluding mining and energy companies	Percentage of performance rights that vest	Less than median of comparator group	Nil	At median of comparator group	50%	Between median and 75th percentile of comparator group	Straight line pro rata vesting between 50% and 100%	Greater than 75th percentile of comparator group	100%	Group's compound annual growth of EPS from FY17 base year	Percentage of performance rights that vest	Below threshold rate	Nil	At threshold rate	25%	Between threshold and stretch rate	Straight line pro rata vesting between 25% and 100%	At or in excess of stretch rate	100%
Group's TSR over performance period, relative to companies in the ASX 200 Index, excluding mining and energy companies	Percentage of performance rights that vest																				
Less than median of comparator group	Nil																				
At median of comparator group	50%																				
Between median and 75th percentile of comparator group	Straight line pro rata vesting between 50% and 100%																				
Greater than 75th percentile of comparator group	100%																				
Group's compound annual growth of EPS from FY17 base year	Percentage of performance rights that vest																				
Below threshold rate	Nil																				
At threshold rate	25%																				
Between threshold and stretch rate	Straight line pro rata vesting between 25% and 100%																				
At or in excess of stretch rate	100%																				

DIRECTORS' REPORT

Remuneration report – audited (continued)

Performance period	The performance rights granted in FY18 have a performance period of three years.
Lapse of performance rights	Any performance rights that remain unvested at the end of the performance period will lapse immediately.
Total shares issued	The number of shares allocated on the vesting of all outstanding rights may not exceed 5% of the total number of shares on issue at the time of the offer.
Cessation of employment	<p>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.</p> <p>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.</p>
Change of control	The Board may exercise its discretion to allow all or some unvested rights to vest if a change of control event occurs, having regard for the performance of the Group during the vesting period up to the date of a change of control event.
Clawback policy	The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.
Changes in FY19	<p>In FY19, the TSR component which comprises 70% of the award will be assessed against the following ASX-listed peer groups:</p> <ul style="list-style-type: none"> • half against the ASX200 excluding mining and energy companies; and • half against the market capitalisation weighted average performance of a peer group of ASX-listed companies operating in the provision of aged care services.

5.5.1 LTI Vesting Outcomes

No portion of the FY16 LTI vested due to TSR performance being below the threshold level required for vesting to commence.

DIRECTORS' REPORT

Remuneration report – audited (continued)

6. Executive remuneration outcomes

6.1 Executive remuneration for the year from 1 July 2017 to 30 June 2018

		Short-term benefits			Post-employment benefits	Long-term benefits	Fixed annual remuneration	Share based payments		Total fixed and “at risk” remuneration	Termination payments	Performance related remuneration
		Salary and fees	STI bonus	Non-monetary benefits	Superannuation benefits	Long service leave entitlements		Deferred STI ⁷	LTI			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Executive director												
Norah Barlow	2018	679,951	56,700	-	20,049	-	700,000	18,900	259,389	1,034,989	-	32%
	2017	556,499	-	-	48,117	-	604,616	-	117,086	721,702	-	16%
Senior executive												
Ian Thorley	2018	429,951	35,723	-	20,049	-	450,000	11,908	99,644	597,275	-	25%
	2017	276,923	-	-	23,244	-	300,167	-	40,264	340,431	-	12%
Steve Lemlin	2018	412,476	29,378	-	20,049	-	432,525	9,793	70,531	542,227	-	20%
	2017	164,077	-	-	15,587	-	179,664	-	12,674	192,338	-	7%
Former executives												
Steve Boggiano	2018	15,656	-	-	1,487	-	17,143	-	(37,197)	(20,054)	155,111	N/A
	2017	455,998	-	-	42,645	-	498,643	-	56,807	555,450	-	10%
Paul Gregersen	2018	-	-	-	-	-	-	-	-	-	-	-
	2017	554,572	-	-	26,407	-	580,979	-	-	580,979	205,552	N/A
Joe Genova	2018	-	-	-	-	-	-	-	-	-	-	-
	2017	76,923	-	-	7,308	-	84,231	-	12,172	96,403	-	N/A
Total	2018	1,538,034	121,801	-	61,634	-	1,599,668	40,601	392,367	2,154,437	155,111	
	2017	2,084,992	-	-	163,308	-	2,248,300	-	239,003	2,487,303	205,552	

⁷ The deferred STI is equity settled. The fair value of the deferred share component is amortised over the vesting period, being twelve months after the reporting period.

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Executive employment contracts

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

Name	FAR	Agreement commence	Agreement expire	Notice of termination by Group	Employee notice
Norah Barlow	\$700,000	17 January 2017	3 years fixed term	6 months (or payment in lieu of notice)	6 months
Ian Thorley	\$450,000	24 October 2016	3 years fixed term	3 months (or payment in lieu of notice)	3 months
Steve Lemlin	\$432,525	1 February 2017	No expiry, continuous agreement	3 months	3 months

As announced on 23 July 2018, Norah Barlow will be stepping down as Chief Executive Officer and Managing Director in November 2018 and will be succeeded by Ian Thorley. Sean Bilton will join the business as Deputy CEO and COO.

A summary of the material terms of Ian Thorley's employment agreement following his appointment as Chief Executive Officer and Managing Director, can be viewed at:

<https://events.miraql.com/DownloadFile.axd?file=/Report/ComNews/20180723/02001293.pdf>

8. Non-executive director fee arrangements

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

8.1 Fee Pool

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

8.2 Director's 2018 Fee Structure

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

	Description	Fees
Board	Chair	\$250,000
	Director	\$100,000
Audit Committee	Chair	\$15,000
	Member	\$10,000
Nominations & Remuneration Committee	Chair	\$15,000
	Member	\$10,000
Risk Management Committee	Chair	\$15,000
	Member	\$10,000
Property & Investment Committee	Chair	\$15,000
	Member	\$10,000

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.

8.3 Changes for FY19

No changes to NED base or committee fees will be made in FY19.

DIRECTORS' REPORT

Remuneration report – audited (continued)

8.4 Non-Executive director remuneration

The table below outlines NED remuneration for FY18 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees \$	Superannuation \$	Total fees \$
Non-Executive Director				
Gary Weiss	2018	250,992	20,049	271,041
	2017	159,254	15,130	174,384
Andrew Harrison	2018	114,155	10,845	125,000
	2017	91,324	8,676	100,000
Paul Foster	2018	123,288	11,712	135,000
	2017	91,324	8,676	100,000
Warwick Smith	2018	114,155	10,845	125,000
	2017	14,512	1,378	15,890
Helen Kurincic	2018	114,155	10,845	125,000
	2017	-	-	-
Former Non-Executive Director				
Patrick Grier ⁸	2018	41,133	3,908	45,041
	2017	160,380	15,236	175,616
Norah Barlow ⁹	2018	-	-	-
	2017	21,370	-	21,370
Peter Arvanitis ¹⁰	2018	-	-	-
	2017	16,986	1,474	18,460
Marcus Darville ¹¹	2018	-	-	-
	2017	25,205	-	25,205
Jonathon Pearce ¹²	2018	-	-	-
	2017	-	-	-
Total	2018	757,878	68,204	826,082
	2017	580,355	50,570	630,925

⁸ Patrick Grier retired from his position as a NED on 14 November 2017.

⁹ Norah Barlow stepped down from her position as a NED on 16 September 2016 and was appointed as acting Chief Executive Officer.

¹⁰ Peter Arvanitis resigned on 31 August 2016.

¹¹ Marcus Darville resigned on 30 September 2016.

¹² Jonathon Pearce was an Alternate NED for Marcus Darville. Jonathon did not receive any NED remuneration during the relevant period. Jonathon resigned on 30 September 2016.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9. Additional disclosures relating to performance rights and shares

9.1 Performance rights granted, vested and lapsed during the year

The table below discloses the number of performance rights granted, vested or lapsed during the year. Performance rights do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date. No options were granted to members of KMP during FY18.

	Number of rights granted during the year	Grant date ¹³	Fair value per right at grant date	Vesting date	Exercise price per right	Expiry date	Number of rights vested during the year	Number of rights lapsed during the year
Executive director								
Norah Barlow ¹⁴	183,047	21/12/17	1.77	31/10/19	Nil	31/10/19	-	-
	78,448	21/12/17	1.66	30/06/19	Nil	30/06/19	-	-
	155,917	21/12/17	1.58	30/06/20	Nil	30/06/20	-	-
	66,821	21/12/17	1.61	30/06/20	Nil	30/06/20	-	-
Senior Executive								
Ian Thorley	70,223	16/08/17	1.16	30/06/20	Nil	30/06/20	-	-
	30,095	16/08/17	1.37	30/06/20	Nil	30/06/20	-	-
Steve Lemlin	67,496	16/08/17	1.16	30/06/20	Nil	30/06/20	-	-
	28,927	16/08/17	1.37	30/06/20	Nil	30/06/20	-	-
Former Executive								
Steve Boggiano	-	N/A	N/A	N/A	N/A	N/A	-	85,115
Total	680,974						-	85,115

¹³ Valuations of performance rights which are subject to total shareholder return performance hurdle vary due to the fact that the performance periods commenced at different dates for each participant listed, i.e. the performance periods for Ian Thorley and Steve Lemlin commenced on 16/08/17, while Norah Barlow's performance period commenced on 21/12/17 following the shareholder approval at the Group's FY17 AGM on 14 November 2017.

¹⁴ Shareholders approved the grant of 484,233 performance rights to Norah Barlow in respect of the FY17 and FY18 LTI, at the Group's FY17 AGM held on 14 November 2017.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9.2 Performance rights holdings of KMP and related parties

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

						Vested at 30 June 2018	
	Number of rights at 1 July 2017	Granted as remuneration	Rights exercised	Net change other	Number of rights at 30 June 2018	Exercisable	Not exercisable
Executive director							
Norah Barlow	-	484,233	-	-	484,233	-	-
Senior Executive							
Ian Thorley	81,430	100,318	-	-	181,748	-	-
Steve Lemlin	45,221	96,423	-	-	141,644	-	-
Former Executive							
Steve Boggiano	127,673	-	-	(85,115)	42,558	-	-
Total	254,324	680,974	-	(85,115)	850,183	-	-

DIRECTORS' REPORT

Remuneration report – audited (continued)

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

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

	Value of rights granted during the year ^a	Value of rights exercised during the year ^b	Value of rights lapsed during the year ^c	Remuneration consisting of rights for the year
	\$	\$	\$	%
Executive director				
Norah Barlow ¹⁵	809,399	-	-	32%
Senior executive				
Ian Thorley	122,466	-	-	25%
Steve Lemlin	117,712	-	-	20%
Former executive				
Steve Boggiano	-	-	113,614	N/A
Total	1,049,577	-	113,614	

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

^b Determined at the time of exercise.

^c Determined at the time of lapse.

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

¹⁵ Shareholders approved the grant of 484,233 performance rights to Norah Barlow in respect of the FY17 and FY18 LTI, at the Group's FY17 AGM held on 14 November 2017.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9.4 Shareholdings of KMP and related parties

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

	Number of shares at 1 July 2017	Granted as remuneration	Exercise of rights	Net change other	Number of shares at 30 June 2018 ¹⁶	Held nominally
Non-Executive Director						
Gary Weiss	45,312	-	-	-	45,312	45,312
Andrew Harrison	25,542	-	-	-	25,542	25,542
Paul Foster	8,000	-	-	6,000	14,000	14,000
Warwick Smith	45,000	-	-	-	45,000	45,000
Helen Kurincic	-	-	-	25,000	25,000	25,000
Patrick Grier	353,787	-	-	-	353,787	353,787
Senior executive						
Norah Barlow ¹⁷	123,100	-	-	-	123,100	123,100
Ian Thorley	28,518	-	-	-	28,518	28,518
Steve Lemlin	8,000	-	-	-	8,000	8,000
Former executives						
Steve Boggiano	140,000	-	-	-	140,000	140,000
Total	777,259	-	-	31,000	808,259	808,259

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

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

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

¹⁶ The number of shares held for KMP who have resigned during the year are as at the date of their respective resignations.

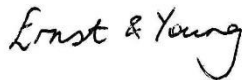
¹⁷ Shareholders approved the grant of 484,233 performance rights to Norah Barlow in respect of the FY17 and FY18 LTI, at the Group's FY17 AGM held on 14 November 2017.

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 2018, 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
16 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
Revenues	B1	546,934	524,630
Other income	B1	483	1,037
Expenses			
Administrative expenses	B2	16,064	16,990
Depreciation and amortisation expense	B3	22,163	18,405
Impairment expense	B3	3,839	455
Employee benefits expense	B4	360,216	339,515
Occupancy expenses	B5	29,598	28,527
Resident expenses		51,093	53,098
Operating profit for the year		64,444	68,677
Net finance costs	B6	7,279	9,623
Profit before income tax		57,165	59,054
Income tax expense	B7	16,011	18,356
Profit for the year		41,154	40,698
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Total comprehensive income for the year, net of tax		41,154	40,698
		cents	cents
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the Parent	B8	15.8	18.2
Diluted, profit for the year attributable to ordinary equity holders of the Parent	B8	15.7	18.0

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	C3	11,198	19,215
Trade and other receivables	C4	9,485	10,359
Income tax receivable	B7	913	-
Prepayments and other assets		6,884	5,353
Assets held for sale	C5	902	2,561
Total current assets		29,382	37,488
Non-current assets			
Property, plant and equipment	C1	757,110	723,549
Investment properties	C6	1,620	1,500
Goodwill	C2	817,074	817,074
Other intangible assets	C2	218,714	218,916
Total non-current assets		1,794,518	1,761,039
Total assets		1,823,900	1,798,527
Current liabilities			
Trade and other payables	C7	40,699	28,855
Loans and borrowings	D3	-	264
Income received in advance		25	24
Refundable accommodation deposits and bonds	D4	791,508	730,222
Other financial liabilities	C9	1,371	1,293
Income tax payable	B7	-	4,227
Provisions	C8	41,793	38,955
Total current liabilities		875,396	803,840
Non-current liabilities			
Deferred tax liabilities	B7	107,610	108,765
Loans and borrowings	D3	75,000	121,250
Provisions	C8	4,269	3,441
Other payables	C7	61	115
Total non-current liabilities		186,940	233,571
Total liabilities		1,062,336	1,037,411
Net assets		761,564	761,116
Equity			
Issued capital	D1	801,836	801,830
Share-based payments reserve		1,136	673
Accumulated losses		(41,408)	(41,387)
Total equity		761,564	761,116

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Issued capital \$'000	Share-based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
As at 1 July 2016		649,163	515	(57,997)	591,681
Profit for the year		-	-	40,698	40,698
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	40,698	40,698
Transactions with owners in their capacity as owners:					
Issue of share capital	D1	156,659	-	-	156,659
Share issue costs (net of tax)	D1	(6,766)	-	-	(6,766)
Repayment of management equity plan	D1	2,774	-	-	2,774
Dividends	D1	-	-	(24,088)	(24,088)
Share-based payments	D2	-	158	-	158
As at 30 June 2017		801,830	673	(41,387)	761,116
Profit for the year		-	-	41,154	41,154
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	41,154	41,154
Transactions with owners in their capacity as owners:					
Issue of share capital	D1	-	-	-	-
Share issue costs (net of tax)	D1	-	-	-	-
Repayment of management equity plan	D1	6	-	-	6
Dividends	D1	-	-	(41,175)	(41,175)
Share-based payments	D2	-	463	-	463
As at 30 June 2018		801,836	1,136	(41,408)	761,564

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from residents		141,732	134,574
Receipts from government		403,746	394,681
Payments to suppliers and employees		(442,438)	(431,173)
Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions		103,040	98,082
Interest received		186	483
Finance costs paid		(6,940)	(10,837)
Income taxes paid		(22,307)	(28,595)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions		73,979	59,133
RAD, accommodation bond and ILU entry contribution received		269,566	266,396
RAD, accommodation bond and ILU entry contribution refunded		(206,781)	(186,284)
Net cash flows from operating activities	B9	136,764	139,245
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		-	(86,364)
Payments for acquisition transaction costs		-	(6,628)
Payments for intangible assets	C2	(942)	(1,191)
Proceeds from sale of property, plant and equipment		-	46
Proceeds from sale of assets held for sale	C5	4,167	2,542
Purchase of property, plant and equipment	C1	(60,323)	(54,837)
Net cash flows used in investing activities		(57,098)	(146,432)
Cash flows from financing activities			
Proceeds from issue of share capital	D1	-	151,821
Payments for share issue costs	D1	-	(6,766)
Proceeds from repayment of MEP loans	D1	6	2,774
Proceeds from borrowings		65,000	112,557
Repayment of borrowings		(111,514)	(244,543)
Dividends paid	D1	(41,175)	(19,251)
Net cash flows used in financing activities		(87,683)	(3,408)
Net decrease in cash and cash equivalents		(8,017)	(10,595)
Cash and cash equivalents at the beginning of the year		19,215	29,810
Cash and cash equivalents at the end of the year	C3	11,198	19,215

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION A: ABOUT THIS REPORT

A1

CORPORATE INFORMATION

The consolidated financial statements of Estia Health Limited and its subsidiaries (collectively, the “Group”) for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 16 August 2018.

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

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

A2

BASIS OF PREPARATION

The 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.

A3

STATEMENT OF COMPLIANCE

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

A4

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2018 (refer to section E6 for the group structure). Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

A5

CURRENT/NON-CURRENT CLASSIFICATION

Assets are disclosed as current when they are expected to be converted to cash or receivable within 12 months of 30 June 2018. Liabilities are disclosed as current when they are due within 12 months of 30 June 2018 or when there is no unconditional right to defer settlement for at least 12 months after 30 June 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION A: ABOUT THIS REPORT (CONTINUED)

A6

GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by \$846,014,000 as at 30 June 2018 (2017: \$766,352,000). This mainly arises because of the requirement to classify Refundable Accommodation Deposits ("RAD") and Independent Living Unit (ILU) entry contributions of \$792,879,000 (2017: \$731,515,000) as current liabilities.

RADs and Bonds are classified as a current liability as the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting date. The total RAD and Bond liability represents the sum of separate payments from a large number of individual residents in different locations with differing circumstances, and often a departing RAD- and Bond-paying resident is replaced shortly afterwards with a new RAD-paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 - 2.5 years (refer Notes D4 and C9 for further details).

A7

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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.

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 2018 are included in the following notes:

Significant accounting judgements, estimates and assumptions

- Note B7 Income Taxes recognition of deferred tax assets: availability of future taxable profit
- Note C2 Intangible assets impairment test: key assumptions underlying recoverable amounts
- Note C6 Investment Properties: fair value based on key assumptions underlying the assessment of fair value
- Note D2 Share-based payments: measurement of equity-settled transactions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE

B1

REVENUE AND OTHER INCOME

	2018 \$'000	2017 \$'000
Revenues		
Government funding	404,064	388,099
Resident funding	142,870	136,531
Total revenues	546,934	524,630
Other income		
Net gain on disposals of assets held for sale	363	1,036
Increase in fair value of investment property	120	-
Net gain on disposals of property, plant and equipment	-	1
Total other income	483	1,037

SIGNIFICANT ACCOUNTING POLICY

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.

B2

ADMINISTRATIVE EXPENSES

	2018 \$'000	2017 \$'000
Advertising and marketing expenses	672	496
Telephone and communication expenses	1,797	2,432
Travelling expenses	1,605	2,422
Printing and stationery expenses	2,625	2,383
Professional services expenses	3,065	2,870
Movement in doubtful debts	74	225
Other administrative expenses	6,226	6,162
Total administrative expenses	16,064	16,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B3

DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES

	Notes	2018 \$'000	2017 \$'000
Depreciation expense	C1	21,019	17,289
Amortisation expense	C2	1,144	1,116
Impairment expense	C1	3,839	455
Total depreciation, amortisation and impairment expenses		26,002	18,860

B4

EMPLOYEE BENEFITS EXPENSES

	2018 \$'000	2017 \$'000
Salaries and wages expense	303,027	285,617
Superannuation expense	27,837	26,921
Other employee expenses	29,352	26,977
Total employee benefits expenses	360,216	339,515

B5

OCCUPANCY EXPENSES

	2018 \$'000	2017 \$'000
Rent expense	5,703	5,662
Repairs and maintenance expense	8,509	8,954
Other occupancy expenses	15,386	13,911
Total occupancy expenses	29,598	28,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B6

NET FINANCE COSTS

	2018 \$'000	2017 \$'000
Interest income from cash at banks	186	483
Total finance income	186	483
Interest expense on bank loans	2,298	7,046
Interest capitalised ¹	(338)	(479)
Interest expense on accommodation bonds for departed residents	3,257	2,675
Other finance costs	2,248	864
Total finance costs	7,465	10,106
Net finance costs	7,279	9,623

¹ Interest directly attributable to the construction of homes has been capitalised to construction in progress at a weighted average rate of 2.99% (2017: 3.20%). Assets have been funded through general borrowings and the capitalisation rate represents the average cost of interest on such borrowings.

SIGNIFICANT ACCOUNTING POLICY

Interest income

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX

	2018 \$'000	2017 \$'000
<i>Current income tax</i>		
Current income tax expense	17,314	16,415
Adjustments in respect of income tax of previous year	(788)	895
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(190)	968
Adjustments in respect of income tax of previous year	(325)	78
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	16,011	18,356

Reconciliation of income tax expense and the accounting profit:

	2018 \$'000	2017 \$'000
Accounting profit before income tax	57,165	59,054
At the Australian statutory income tax rate of 30% (2017: 30%)	17,150	17,716
Adjustments in respect of income tax of previous year	(1,113)	973
Non-taxable income	(143)	-
Utilisation of unrecognised tax losses	-	(407)
Estimated future taxable gains on assets held for sale	-	428
Recognition of tax on bed licences	89	-
Expenditure not allowable for income tax purposes		
- Acquisition related costs for current year business combinations	-	(383)
- Other expenditure	28	29
Income tax expense	16,011	18,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX (CONTINUED)

	Consolidated statement of profit or loss and other comprehensive income		Consolidated statement of financial position	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Accelerated depreciation	1,223	314	(60,851)	(62,027)
IPO transaction fees	(2,059)	(2,034)	2,075	4,118
Other	(496)	(711)	(641)	(711)
Assets held for sale	(119)	(291)	17	(291)
Bed licences	(89)	-	(64,571)	(64,482)
Share-based payments	139	48	341	202
Provisions and accruals	1,627	1,706	16,056	14,426
Investment properties	(36)	-	(36)	-
Deferred tax expense	190	(968)		
Deferred tax assets/(liabilities), net			(107,610)	(108,765)
Reflected in the statement of financial position as follows				
Deferred tax assets			18,665	19,303
Deferred tax liabilities			(126,275)	(128,068)
Deferred tax assets/(liabilities), net			(107,610)	(108,765)

Reconciliation of deferred tax liabilities, net:

	\$'000
Balance at 1 July 2016	(94,117)
Tax expense during the year recognised in profit or loss	(968)
Adjustments in respect of income tax of previous year	(905)
Net deferred taxes arising from business combinations	(12,775)
Balance at 30 June 2017	(108,765)
Tax income during the year recognised in profit or loss	190
Adjustments in respect of income tax of previous year	965
As at 30 June 2018	(107,610)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the 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 and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Tax consolidation legislation

Estia Health Limited and its wholly-owned 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B7

INCOME TAX (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

B8

EARNINGS PER SHARE

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

	2018 \$'000	2017 \$'000
Profit attributable to ordinary equity holders of the Parent for basic earnings	41,561	40,698
Effect of dilution	-	-
Profit attributable to ordinary equity holders of the Parent for dilutive earnings	41,561	40,698

	2018	2017
Weighted average number of ordinary shares for basic EPS	260,580,283	223,894,931
Effect of dilution	791,893	1,825,760
Weighted average number of ordinary shares for the effect of dilution	261,372,176	225,720,691

	2018 cents	2017 cents
Basic earnings per share	15.8	18.2
Diluted earnings per share	15.7	18.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION B: OUR PERFORMANCE (CONTINUED)

B9

CASH FLOW RECONCILIATION

	2018 \$'000	2017 \$'000
(a) Reconciliation of net profit after income tax to net cash flows from operations		
Profit for the year	41,154	40,698
Adjustments to reconcile profit after income tax to net cash flows:		
Depreciation of property, plant and equipment	21,019	17,289
Amortisation of intangibles	1,144	1,116
Impairment of property, plant and equipment	3,839	455
Net gain on disposal of property, plant and equipment	-	(1)
Net gain on sale of assets held for sale	(363)	(1,036)
Bond retention revenue	(1,499)	(2,549)
Movement in doubtful debts provision	74	225
Share-based payments	463	158
Stepped lease costs	134	149
Net gain on fair value of investment properties	(120)	-
Changes in assets and liabilities		
Decrease in trade and other receivables	809	5,422
Increase in prepayments and other assets	(1,541)	(361)
Decrease in deferred tax assets	638	1,059
(Decrease)/Increase in deferred tax liabilities	(1,793)	814
Decrease in current tax payable	(5,141)	(12,111)
Increase in trade and other payables	11,631	4,965
Increase in provisions	3,531	2,841
Increase in refundable accommodation deposits and bonds	62,785	80,112
Net cash flows from operating activities	136,764	139,245

SIGNIFICANT ACCOUNTING POLICY

Operating cash flow

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

	2017 \$'000	Net cash flows \$'000	2018 \$'000
(b) Reconciliation of liabilities arising from financing activities			
Current loans and borrowings	264	(264)	-
Non-current loans and borrowings	121,250	(46,250)	75,000
Total liabilities from financing activities	121,514	(46,514)	75,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES

C1

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 2016		204,393	446,721	28,502	38,952	957	11,865	731,390
Adjustments relating to prior period acquisitions		(13,605)	-	-	-	-	(7,265)	(20,870)
Additions		6,464	-	3,660	9,816	-	34,897	54,837
Transfers		-	-	4,037	462	-	(4,499)	-
Transfers to assets held for sale		(3,811)	(234)	-	-	-	-	(4,045)
Disposals		-	-	-	-	(57)	-	(57)
Balance at 30 June 2017		193,441	446,487	36,199	49,230	900	34,998	761,255
Additions		2,187	-	2,259	11,212	45	44,620	60,323
Transfers		-	38,247	11,091	8,588	-	(57,926)	-
Transfers to assets held for sale		(2,415)	-	-	-	-	-	(2,415)
Disposals		-	-	-	-	-	-	-
Asset derecognition		-	(3,000)	(195)	(720)	-	(397)	(4,312)
Balance at 30 June 2018		193,213	481,734	49,354	68,310	945	21,295	814,851
Accumulated depreciation								
Balance at 1 July 2016		-	10,803	289	8,552	330	-	19,974
Depreciation expense	B3	-	8,453	730	7,870	236	-	17,289
Impairment expense	B3	455	-	-	-	-	-	455
Disposals		-	-	-	-	(12)	-	(12)
Balance at 30 June 2017		455	19,256	1,019	16,422	554	-	37,706
Depreciation expense	B3	-	9,756	1,164	9,865	234	-	21,019
Impairment expense	B3	58	2,820	185	379	-	397	3,839
Disposals		(513)	(3,000)	(194)	(719)	-	(397)	(4,823)
Balance at 30 June 2018		-	28,832	2,174	25,947	788	-	57,741
Net book value								
As at 30 June 2017		192,986	427,231	35,180	32,808	346	34,998	723,549
As at 30 June 2018		193,213	452,902	47,180	42,363	157	21,295	757,110

An impairment expense of \$3,839,000 was recognised in the year, of which \$3,378,000 relates to the demolition of the Southport home in December 2017 and the closure of the Blakehurst home in March 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C1

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

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

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

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

Buildings and property improvements	50 years
Furniture, fittings and equipment	4 - 15 years
Motor vehicles	4 years

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2

INTANGIBLE ASSETS

		Goodwill \$'000	Bed licences \$'000	Software costs \$'000	Total \$'000
Cost	Note				
Balance at 1 July 2016		779,797	214,940	5,192	999,929
Additions		-	-	1,191	1,191
Adjustments relating to prior period acquisitions		37,277	-	-	37,277
Balance at 30 June 2017		817,074	214,940	6,383	1,038,397
Additions		-	296	646	942
Balance at 30 June 2018		817,074	215,236	7,029	1,039,339
Accumulated amortisation					
Balance at 1 July 2016		-	-	1,291	1,291
Amortisation expense		-	-	1,116	1,116
Impairment		-	-	-	-
Balance at 30 June 2017		-	-	2,407	2,407
Amortisation expense	B3	-	-	1,144	1,144
Impairment	B3	-	-	-	-
Balance at 30 June 2018		-	-	3,551	3,551
Net book value					
As at 30 June 2017		817,074	214,940	3,976	1,035,990
As at 30 June 2018		817,074	215,236	3,478	1,035,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2

INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

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

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

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

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

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

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

Bed licences

Bed licences for the Group's aged care homes are initially carried at historical cost or if acquired in a business combination, at fair value at the date of acquisition in accordance with AASB 3 Business Combinations. Following initial recognition, the licenses are not amortised but are measured at cost less any accumulated impairment losses. Bed licences are tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Testing is performed in line with the procedures noted below in Goodwill.

Bed 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2

INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Goodwill and bed licenses acquired through business combinations were tested for impairment at the reporting date. The recoverable amount of the CGU was assessed by reference to the CGU's value in use based on financial forecasts approved by the Board covering a three year period (2019 to 2021), a further period of 2 years based on a growth rate and a terminal value.

A post-tax discount rate 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). 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. The recoverable amount was determined to be higher than the carrying amount and therefore the directors determined that the intangible assets with an indefinite useful life were not impaired.

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

	2018 %	2017 %
Post-tax discount rate	9.5	9.5
Pre-tax discount rate	11.8	11.8
Growth rate	2.6	2.6
Terminal growth rate	2.1	2.1

C3

CASH AND CASH EQUIVALENTS

	2018 \$'000	2017 \$'000
Cash at bank	11,123	19,141
Cash on hand	75	74
Total cash and cash equivalents	11,198	19,215

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

At 30 June 2018, the Group had available \$251,200,000 (2017: \$205,250,000) of undrawn committed borrowing facilities, excluding the security deposit guarantees disclosed in Note E2. Refer to Note D3 for further details.

SIGNIFICANT ACCOUNTING POLICY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4

TRADE AND OTHER RECEIVABLES

	2018 \$'000	2017 \$'000
Trade receivables	7,030	7,431
Other receivables	2,455	2,928
Total trade and other receivables	9,485	10,359

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 2018, trade receivables of an initial value of \$1,509,000 (2017: \$1,435,000) were impaired and fully provided for. The movements in the allowance for impairment loss was as follows:

	2018 \$'000	2017 \$'000
At 1 July	1,435	1,210
Charge for the year	1,376	540
Utilised	(927)	-
Unused amounts reversed	(375)	(315)
At 30 June	1,509	1,435

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				Past due and impaired (\$'000)
			<30 days (\$'000)	30-60 days (\$'000)	61-90 days (\$'000)	> 90 days (\$'000)	
2018	8,539	3,281	1,159	674	508	1,408	1,509
2017	8,866	2,833	1,229	669	607	2,093	1,435

See Note D5 on credit risk which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

Terms and conditions and allowances for impairment loss

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

SIGNIFICANT ACCOUNTING POLICY

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C5

ASSETS HELD FOR SALE

	2018 \$'000	2017 \$'000
Assets held for sale	902	2,561
Total assets held for sale	902	2,561

During the year, the Group identified a number of properties that were surplus to requirements. Five properties were sold during the year for a total of \$4,167,100, which resulted in a gain of \$362,733 and has been included in other income (see Note B1). The remaining property is expected to be sold within 12 months of reporting date.

As part of the reclassification, an impairment expense of \$57,821 was recognised during the year for write-downs of certain assets to the lower of their carrying amount and their fair value less costs to sell.

SIGNIFICANT ACCOUNTING POLICY

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

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

C6

INVESTMENT PROPERTIES

	2018 \$'000	2017 \$'000
Balance at beginning of period	1,500	1,500
Transfer from property, plant and equipment	-	-
Fair value adjustments	120	-
Total investment properties	1,620	1,500

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

SIGNIFICANT ACCOUNTING POLICY

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6

INVESTMENT PROPERTIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The fair value of investment properties of \$1,620,000.00 (2017: \$1,500,000.00) has been categorised as Level 2 based on the inputs to the valuation technique used (see Note D6).

C7

TRADE AND OTHER PAYABLES

	2018 \$'000	2017 \$'000
Current trade and other payables		
Trade creditors	14,734	9,760
Payroll liabilities	13,290	11,174
Sundry creditors and accruals	12,675	7,921
Total current trade and other payables	40,699	28,855
Non-current other payables		
Sundry creditors and accruals	61	115
Total non-current other payables	61	115
Total trade and other payables	40,760	28,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8 PROVISIONS

	2018 \$'000	2017 \$'000
Current provisions		
Employee benefits	40,944	38,165
Stepped lease provision	849	715
Make good provision	-	75
Total current provisions	41,793	38,955
Non-current provisions		
Employee benefits	4,269	3,441
Total non-current provisions	4,269	3,441
Total provisions	46,062	42,396

SIGNIFICANT ACCOUNTING POLICY

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 leave entitlements and other non-monetary benefits acquired through business combinations are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave and annual leave

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8

PROVISIONS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

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.

C9

OTHER FINANCIAL LIABILITIES

	2018 \$'000	2017 \$'000
Independent living unit (ILU) entry contributions	1,371	1,293
Total other financial liabilities	1,371	1,293

Terms and conditions relating to independent living units (ILUs)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION D: CAPITAL, FINANCING, RADS AND RISK

D1

SHARE CAPITAL AND RESERVES

	2018 \$'000	2017 \$'000
<i>Issued and fully paid</i>		
Ordinary shares	801,836	801,830
Total share capital	801,836	801,830

(a) Movements in ordinary shares on issue

	2018		2017	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	260,602,749	801,830	188,183,920	649,163
Share issue – Other	-	-	5,494,506	15,000
Share issue – Institutional Rights Issue	-	-	33,284,751	69,898
Share issue – Retail Rights Issue	-	-	31,868,345	66,924
Share issue – DRP	-	-	1,771,227	4,837
Transaction costs for issued share capital	-	-	-	(6,766)
Movement in management equity plan	-	6	-	2,774
End of the financial year	260,602,749	801,836	260,602,749	801,830

(b) Share-based payments reserve

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

(c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2018 is \$25,855,432 (2017: \$21,194,715).

(d) Dividends paid and proposed

The final dividend for the year ended 30 June 2017 of \$20,848,220 (8.0 cents per share) was paid on 29 September 2017. The interim dividend for the year ended 30 June 2018 of \$20,327,014 (7.8 cents per share) (2017: \$nil) was paid on 23 March 2018.

The Directors propose a fully franked final cash dividend for the year ended 30 June 2018 of 8.0 cents per share totalling \$20,848,220. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 30 June 2018.

(e) Dividend reinvestment plan

The Dividend Reinvestment Plan was not applicable for the final dividend paid on 29 September 2017 or the interim dividend paid on 23 March 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D2

SHARE-BASED PAYMENTS

At 30 June 2018, the Group had the following share-based payments arrangements:

(a) Long-Term Incentive Plan (LTIP)

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

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

(b) Management Equity Plan (MEP)

The MEP is a legacy plan which was approved by the Board and implemented prior to listing and other than for existing holders, it is no longer offered. All MEP offers were made prior to listing and no new MEP offers were made in FY18 or will be made going forward.

Under the plan, the former Managing Director and a number of senior employees of the Group were invited to subscribe for shares on the terms specified in the MEP rules. Most MEP participants were also offered a 10 year limited recourse loan to subscribe for MEP shares.

The following table details the MEP loans outstanding at 30 June 2018:

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

All MEP shares listed above were released from escrow on 11 December 2017.

(c) Movements during the year

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

	2018		2017	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	574,238	0.17	1,024,757	5.08
Granted during the year	476,980	-	515,819	-
Forfeited during the year	-	-	(869,565)	5.75
Exercised during the year	-	-	(62,500)	1.66
Expired during the year	(93,534)	-	(34,273)	-
Outstanding at 30 June	957,684	0.10	574,238	0.17
Exercisable at 30 June	50,000	2.00	50,000	2.00

The weighted average remaining contractual life for the MEP shares and performance rights outstanding as at 30 June 2018 was approximately 1.86 years.

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

The weighted average fair value of performance rights granted during the year was \$1.39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D2

SHARE-BASED PAYMENTS (CONTINUED)

(d) 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:

	2018 \$'000	2017 \$'000
Long-term incentive plan	451	239
Management equity plan	12	(81)
Share-based payments expense recognised in profit or loss	463	158

SIGNIFICANT ACCOUNTING POLICY

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D2

SHARE-BASED PAYMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

LTIP-Recognition and measurement of fair value

As the exercise price is zero upon vesting, the fair value of the performance rights issued under the LTIP are determined by the fair value at grant date by utilising methodologies allowable under AASB 2 *Share-Based Payments*, including the use of a Monte Carlo simulation and the Binomial Model. The contractual term of the performance rights is three years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

MEP-Recognition and measurement of fair value

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D3

LOANS AND BORROWINGS

	2018 \$'000	2017 \$'000
Current loans and borrowings		
Other borrowings, unsecured	-	264
Total current loans and borrowings	-	264
Non-current loans and borrowings		
Bank loans, secured	75,000	121,250
Total non-current loans and borrowings	75,000	121,250
Total loans and borrowings	75,000	121,514

Terms and conditions of loans

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

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

The total debt facility available to Estia at 30 June 2018 was \$330,000,000. During the year, the Group renewed this debt facility with its existing lenders Westpac and CBA in full with a maturity date of 22 August 2020.

SIGNIFICANT ACCOUNTING POLICY

Borrowings are recognised initially at fair value net of directly attributable transaction costs.

Subsequently, interest-bearing loans and borrowings are measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION D: CAPITAL, FINANCING, RADs AND RISK (CONTINUED)

D4

REFUNDABLE ACCOMMODATION DEPOSITS AND BONDS

	2018 \$'000	2017 \$'000
Current residents	697,227	654,193
Departed residents	94,281	76,029
Total refundable accommodation deposits and bonds - amounts received	791,508	730,222

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

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

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

To ensure that funds are readily available when required, the minimum level of funds chosen by the Group are to be held in cash (placed on deposit but readily available) or met by lines of credit from a bank or financial institution.

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

The sensitivity analyses in the following sections relate to the position as at 30 June 2018 and 30 June 2017.

The sensitivity analyses have been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt are all constant at 30 June 2018 and 30 June 2017.

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

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2018 and 30 June 2017.

Interest rate risk

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

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

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

	Weighted average effective interest rates		Fixed or Floating
	2018 %	2017 %	
Cash and liquid assets	1.4	1.3	Floating
Bank loans	3.1	2.9	Floating
Refundable accommodation deposits – departed residents	3.8	3.8	Floating

The details of debt are disclosed in Note D3 to the financial statements.

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)	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
+ 0.25% (25 basis points)	(112)	(312)	(112)	(312)
- 0.25% (25 basis points)	112	312	112	312

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D5

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	On demand	Less than 12 months	1 to 5 years	More than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2018					
Trade and other payables	1,195	39,341	61	-	40,597
Loans and borrowings	-	163	75,000	-	75,163
Refundable accommodation deposits and bonds	791,508	-	-	-	791,508
Other financial liabilities	1,371	-	-	-	1,371
	794,074	39,504	75,061	-	908,639
Year ended 30 June 2017					
Trade and other payables	879	27,547	115	-	28,541
Loans and borrowings	-	693	121,250	-	121,943
Refundable accommodation deposits and bonds	730,222	-	-	-	730,222
Other financial liabilities	1,293	-	-	-	1,293
	732,394	28,240	121,365	-	881,999

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 considers adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. 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 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D6

FAIR VALUE MEASUREMENT

The Group uses various methods in estimating the fair value of its financial assets and liabilities which are categorised within the fair value hierarchy. The hierarchy comprises:

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

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

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

	Date of Valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$'000	\$'000	\$'000	\$'000
Investment properties	30 June 2018	1,620	-	1,620	-
Loans and borrowings	30 June 2018	75,000	-	75,000	-
Refundable accommodation deposits and bonds	30 June 2018	791,508	-	791,508	-
Other financial liabilities	30 June 2018	1,371	-	1,371	-
		869,499	-	869,499	-

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

D6

FAIR VALUE MEASUREMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Construction in progress, plant and equipment and land and buildings are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. The Group measures other non-financial assets including investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed above.

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION

E1

RELATED PARTY DISCLOSURES

Note E6 provides the information about the Group's structure including the details of the subsidiaries and the holding company. Note D2 provides the information about the loans to related parties. There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

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

	2018 \$'000	2017 \$'000
Short-term employee benefits	1,538	2,085
Post-employment benefits	62	163
Short-term incentive payments	122	-
Share-based payments	392	239
Termination payments	155	206
Total compensation of key management personnel	2,269	2,693

E2

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 office and seven aged care homes.

The remaining non-cancellable leases have remaining terms of between 1 and 18 years.

Future estimated minimum rentals payable under non-cancellable operating leases, excluding future optional periods, as at 30 June are as follows:

	2018 \$'000	2017 \$'000
Within one year	5,368	4,723
After one year but not more than five years	14,986	14,742
More than five years	7,111	8,001
Total operating lease commitments	27,465	27,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E2

COMMITMENTS AND CONTINGENCIES (CONTINUED)

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:

	2018		2017	
	Minimum payments \$'000	Present value of payments \$'000	Minimum payments \$'000	Present value of payments \$'000
Within one year	56	56	149	149
After one year but not more than five years	61	61	115	115
More than five years	-	-	-	-
Total finance lease commitments	117	117	264	264

SIGNIFICANT ACCOUNTING POLICY

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.

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.

Capital commitments

During the year, the Group entered into contracts relating to the development of aged care homes. As at 30 June 2018, the remaining capital commitments amounted to \$54,300,000 (2017: \$9,500,000).

Security deposit guarantees

The Group has entered into a number of security deposit guarantees with its bankers in relation to the Group's rental agreements for leased properties, totalling \$3,800,000 (2017: \$3,500,000). These are secured against the borrowing facilities disclosed in Note D3. As at the date of signing this report, the Directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E3

AUDITOR REMUNERATION

	2018 \$'000	2017 \$'000
Audit of the financial report	560	555
Tax compliance services	170	176
Other assurance services	10	-
Other services	13	286
Total auditor remuneration	753	1,017

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

E4

SUBSEQUENT EVENTS

Subsequent to 30 June 2018, the Group has repaid a total of \$30,000,000 of bank debt.

On 15 August 2018, the Directors resolved to pay a final fully franked dividend of 8.0 cents per share (\$20,848,220) payable on 28 September 2018.

Subsequent to 30 June 2018, the Group announced the execution of a key element of its management succession that Deputy CEO and COO Ian Thorley would succeed Norah Barlow as Managing Director and CEO in November 2018, following a period of transition. This succession was accompanied by the announcement that experienced aged care executive, Sean Bilton, will join the Group in late 2018 to succeed Ian Thorley as the Group's Deputy CEO and COO.

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

E5

SEGMENT REPORTING

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E6

INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

Name	Country of Incorporation	% Equity Interest	
		2018	2017
Estia Finance Pty Ltd ²	Australia	100%	100%
Estia Investments Pty Ltd ^{3, 5}	Australia	100%	100%
Estia Mezzco Pty Ltd ¹	Australia	100%	100%
Estia Midco Pty Ltd ¹	Australia	100%	100%
Spirytus Pty Ltd ^{4, 5}	Australia	100%	100%
Jaid Residential Services Pty Ltd ^{4, 5}	Australia	100%	100%
TGM Care Pty Ltd ATF the TGM Care Unit Trust ^{1, 5}	Australia	100%	100%
East Coast Senior Care Pty Ltd ^{4, 5}	Australia	100%	100%
William Kennedy Holdings Pty Ltd ^{1, 5}	Australia	100%	100%
Wollongong Nursing Home Pty Ltd ^{4, 5}	Australia	100%	100%
Kenna Investments Pty Ltd ^{4, 5}	Australia	100%	100%
Ranesta Holdings Pty Ltd ⁵	Australia	100%	100%
Hayville Pty Ltd ⁵	Australia	100%	100%
Eddystone Nursing Home Pty Ltd ⁶	Australia	100%	100%
Merrylands Nursing Home Pty Ltd ⁵	Australia	100%	100%
Kennedy Health Care Group Pty Ltd ⁵	Australia	100%	100%
Camden Village Pty Ltd ⁵	Australia	100%	100%
Camden Nursing Home Pty Ltd ⁶	Australia	100%	100%
Camden House Pty Ltd ⁵	Australia	100%	100%
Kilbride Village Pty Ltd ⁵	Australia	100%	100%
Bankstown Aged Care Facility Pty Ltd ⁶	Australia	100%	100%

Principal activities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E7

PARENT ENTITY INFORMATION

	2018 \$'000	2017 \$'000
<i>Information relating to Estia Health Limited</i>		
Current assets	675,197	677,766
Non-current assets	174,802	176,706
Total assets	849,999	854,472
Current liabilities	-	4,227
Non-current liabilities	22,841	18,697
Total liabilities	22,841	22,924
Net assets	827,158	831,548
Issued capital	801,836	801,830
Reserves	1,136	673
Retained earnings	24,186	29,045
Total shareholders' equity	827,158	831,548
Profit of the parent company	36,316	34,812
Total comprehensive income of the parent entity	36,316	34,812

The information presented above relating to the Parent is prepared using the same accounting policies that apply to the Group, except for the recognition and measurement of investments in subsidiaries.

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

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

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

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

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

The Closed Group includes all entities listed in Note E6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E8

TREATMENT OF GST

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

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

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

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

E9

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

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 2017:

- AASB 2016-1: Amendments to AASB 112 - Recognition of Deferred Tax Assets for Unrealised Losses;
- AASB 2016-2: Amendments to AASB 107 - Disclosure Initiative; and
- AASB 2017-2: Amendments to Australian Accounting Standards - Further Annual Improvements 2012-2014 Cycle.

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 2018, are outlined in the following table:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E9

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 9, and relevant amending standards	Financial Instruments	<p>AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. The standard addresses the classification and measurement of financial assets and liabilities, including amendments to the requirements for hedge accounting.</p> <p>The Group expects that the main impact of the introduction of the new standard will derive from the incurred credit loss model in AASB 139 being replaced with an expected credit loss model in AASB 9.</p> <p>Whilst the impact of the application of AASB 9 is currently being assessed, the expectation is under the transitional provisions that any initial adjustment required to the provision for doubtful debts will be adjusted to retained earnings.</p> <p>The Group has not early adopted the standard.</p>	1 January 2018	1 July 2018
AASB 15, and relevant amending standards	Revenue from Contracts with Customers	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied).</p> <p>The Group provides a range of services to residents related to their care, accommodation and provision of additional services on a daily basis. Based on an assessment of the key contractual arrangements, the Group has evaluated that the impact from the application of AASB 15, is not expected to have a material impact on the recognition of revenue once adopted, other than arrangements referred to below in relation to Leases.</p> <p>The Group has not early adopted the standard.</p>	1 January 2018	1 July 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E9

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	<p>This standard amends to AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on accounting for:</p> <ul style="list-style-type: none"> • 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 <p>The Group does not have cash-settled share-based payments and therefore do not expect any material impact.</p> <p>The Group has not early adopted the standard.</p>	1 January 2018	1 July 2018
AASB 2017-1	Amendments to Australian Accounting Standards - Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	<p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> • AASB 140 Investment Property - change in use. <p>The application of the new standard clarifies when a change in use occurs and is not expected to have a material impact on the Group.</p> <p>The Group has not early adopted the standard.</p>	1 January 2018	1 July 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E9

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 2018-1	Annual Improvements to IFRS Standards 2015-2017 Cycle	<p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> • AASB 3 Business Combinations • AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity • AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation. <p>The Group is in the process of evaluating the impact of the new standard with no material impact expected.</p> <p>The Group does not plan to early adopt the standard.</p>	1 January 2019	1 July 2019
AASB Interpretation 23, and relevant standards	Uncertainty over Income Tax Treatments	<p>The interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances <p>The Group is in the process of evaluating the impact of the new standard with no material impact expected.</p> <p>The Group does not plan to early adopt the standard.</p>	1 January 2019	1 July 2019
AASB 16	Leases	<p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. AASB 16 addresses the classification, recognition, measurement and disclosure requirements for both lessees and lessors.</p>	1 January 2019	1 July 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION E: OTHER INFORMATION (CONTINUED)

E9

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 16 (continued)	Leases (continued)	<p>The Group is currently in the process of evaluating the full impact from the application of AASB 16 in relation to the following:</p> <ul style="list-style-type: none"> a) leasehold properties under which it is a lessee; and b) arrangements that provide a resident with rights to occupy a room. <p>As a lessee, the Group currently has seven aged care homes and two offices that are subject to operating leases. It is expected that adopting AASB16 will result in the recognition of these leasehold properties on the balance sheet with adjustments to the recognition of rent expense and depreciation and interest. The impact is being assessed.</p> <p>For arrangements that provide a resident with the rights to occupy a room, the Group has performed a detailed assessment of the contractual arrangements and has provisionally determined that adopting AASB16 will result in the conclusion that the arrangements will generally be defined as a lease for accounting purposes. Where residents have opted to pay a Daily Accommodation Fee, adopting AASB16 is not expected to result in a material change in the accounting treatment. However, for residents that have chosen to pay a Refundable Accommodation Deposit ("RAD") or Bond, the application of AASB 16 would regard there being a reduction in, or no, cash charge for accommodation. The accounting treatment for the non-cash consideration component of this arrangement is expected to change on the adoption of AASB 16 and is expected to result in the recognition of an increase in revenue for accommodation and an increase in interest expense on the outstanding RAD liability, with no net impact on the result for the period.</p> <p>As an illustration of the potential impact, had AASB 16 been applied to the current year, approximately \$37-40 million would have been recorded as an increase in revenue, with a corresponding charge to net finance costs. Overall, there would be a net nil impact to profit for the year.</p> <p>The Group does not plan to early adopt the standard.</p>	1 January 2019	1 July 2019

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 2018 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 2018 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note A3; and
 - (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
 - (d) there are reasonable grounds to believe that the Company and the controlled entities identified in Note E6 of the financial statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

On behalf of the Board



Dr. Gary Weiss
Chairman

16 August 2018

Independent Auditor's Report to the Members of Estia Health Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Estia Health Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

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

Carrying value of goodwill and intangible assets

Why significant

At 30 June 2018 the Group's goodwill, bed licences and other intangible assets balance was \$1,036 million which represents 57% of total assets.

The Group reviews the carrying amount of these non-current assets annually, or more frequently, if impairment indicators are present. Before estimating the recoverable amount of the assets, the Group first identifies cash generating units ('CGU') and then allocates the goodwill and intangible assets to the identified CGUs.

The Group has used a discounted cash flow model to estimate the recoverable amount of the assets. The impairment test was significant to our audit because the process to estimate recoverable amount is complex and requires significant judgment.

The Group has disclosed in note C2 to the consolidated financial report the assessment method, including the main underlying assumptions, the results of the assessment as well as the impact of applying sensitivities.

How our audit addressed the key audit matter

We assessed the appropriateness of the identification of CGUs and the allocation of assets to the CGUs.

Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow valuation. In doing so, we:

- Tested the mathematical accuracy of the discounted cash flow model;
- Assessed key assumptions such as Board approved forecast cash flows, including working capital levels and cash flows related to refundable accommodation deposits;
- Assessed the Group's current year actual results in comparison to prior year forecasts to assess forecast accuracy;
- Assessed the Group's assumptions for terminal growth rates in the discounted cash flow model in comparison to economic and industry forecasts;
- Assessed estimates of capital expenditure;
- Assessed the discount rates through comparing the weighted average cost of capital for the Group with comparable businesses; and
- Considered earnings multiples of comparable businesses as a valuation cross check to the Group's determination of recoverable amount.

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

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

Construction in Progress

Why significant

Costs incurred during the year that were capitalised to Construction in Progress amounted to \$44.6 million. This represents costs of development projects and significant refurbishments of existing aged care facilities.

The specific criteria to be met for capitalisation of development costs in accordance with Australian Accounting Standards involves judgment, including the feasibility of the project, intention and ability to complete the construction, ability to use or sell the assets, generation of future economic benefits and the ability to measure the costs reliably.

In addition, determining whether there is any indication of impairment of the carrying value of assets requires judgment and the use of assumptions which are affected by future market conditions or economic developments.

This was considered a key audit matter given the quantum of the balance and judgment required about capitalisation criteria and indicators of impairment.

The Group has disclosed in Note C1 to the consolidated financial report the capitalisation policy.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Agreed a sample of additions to supporting evidence and assessed whether the amounts capitalised were appropriate.
- Evaluated key assumptions used and estimates made for amounts capitalised, including the feasibility of the project, the stage of the projects in the development phase and the measurement and completeness of costs included.
- Ensured that assets were transferred to appropriate asset categories when ready for use on a timely basis and that appropriate depreciation or amortisation rates were applied.

We considered whether there were any indicators of impairment present after examining the business case documentation of development projects, enquiries of executives responsible for management of the projects and considering the cost of development to forecasts.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

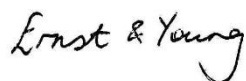
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 30 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Rodney Piltz
Partner
Melbourne
16 August 2018