



Annual Report 2014 - 2015



We make time to listen
because we care.



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CHAIRMAN'S MESSAGE



It is a pleasure to present to Estia Health shareholders the company's full-year annual report, our first since debuting on the Australian Securities Exchange on 5 December 2014.

Since the public listing of Estia Health, the company continues to provide consistent, quality levels of care, maintaining a philosophy and way of doing business which will always be at the core of Estia's operations.

LOOKING AHEAD

It is genuinely exciting to be part of a newly formed business that has so much potential in a market that is only going to grow, due to the ageing demographics of Australia's population and the expected demand for quality aged care facilities.

The aged care sector touches the lives of millions of Australians and the Commonwealth Government's commitment to older people who need care is demonstrated through the Living Longer, Living Better aged care reforms. As the strong demand for specialised healthcare services increases, Estia is extremely well positioned. We are unique in the market in that 94% of our beds are much sought after single rooms. We have robust systems and networks of facilities already in place to accelerate integration for new acquisitions and manage significant expected growth.

Already, we are a much larger group than initially outlined in the company's Prospectus. An additional 12 facilities with a total of 1,124 operational places have been acquired since the acquisition of Padman Health Care and Cook Care, taking our total number of operational places to 4,441, as at 12 August 2015.

The company's medium term plan is to grow the business to 10,000 places by 2020 through acquisition and organic growth. We have a dedicated and skilled workforce of more than 4,700 who have the talent, energy and enthusiasm to reach this goal. As Chairman of a

young company in a fast growing and competitive industry, I look forward to reporting back to shareholders on our progress.

FINANCIAL HIGHLIGHTS

We have experienced a successful first 7 months since listing, and we generated \$44.6 million pro forma net profit after tax exceeding our key financial metrics for the financial year ended 30 June 2015.

The Board is pleased to have declared a maiden fully franked dividend of 13.6 cents per share for the financial year ended 30 June 2015, payable on 26 October 2015.

THE BOARD

Your Board is fully committed to the success of Estia Health and to ensuring that business is conducted within the highest standards of corporate governance. We recognise the importance of governance, ethical and social matters, even more so in an industry where the highest quality of resident care goes to the very heart of our existence.

We welcome shareholder questions in writing in advance of our Annual General Meeting on 22 September 2015. I would like to thank all of our people for their daily dedication to providing invaluable care services to the loved ones of so many Australian families.

A handwritten signature in dark ink, appearing to read 'Pat Grier'.

Pat Grier, Chairman

A close-up portrait of a young woman with dark hair tied back, smiling warmly at the camera. She is wearing a teal-colored, vertically striped button-down shirt. The background is a solid, slightly textured teal color. The overall tone of the image is positive and professional.

We do our best to make a
difference every day.





We are one family where
everyone belongs.

CEO'S MESSAGE



Undoubtedly, 2014-15 has been an extremely productive period for Estia Health. The highlight was the public listing of the company in December 2014, when we welcomed a number of new investors as shareholders. Since this time, we have acquired a number of new facilities as we progress confidently towards our ambition of reaching 10,000 beds by 2020.

As of 30 June 2015, we have a total of 48 facilities and 4,010 operational places. 94% of these places are single rooms, the most important factor by some margin when it comes to choosing aged care as evidenced through our independent research. As a result, demand for places grew from 92.4% in August 2014 through to 93.6% occupancy level at year end.

Our rapid growth continues: at the time of print, our footprint had increased to 54 facilities and 4,441 operational places.



We are proud to come together as one Estia family. Our ambition is to become 'the family you choose'.

CEO'S MESSAGE cont.

At **94%**
single rooms,
we meet consumer
needs today and
for the medium
term future given
that single rooms
are the
#1
choice
driver



INCREASING CONSUMER CHOICE

Whilst it has been a busy year for Estia, at the same time our services and operations are being shaped by the Living Longer, Living Better reforms of 1 July 2014. Today the profile of our residents more commonly reflects a specialised healthcare model. Admission at end of life, with shorter stays and increasing utilisation of Refundable Accommodation Deposits and Combination Payment options to assist with the payment of their stay.

Within this changing market place, and growth in new accommodation payment options, we see the impact of these consumer decisions upon our operating surplus, and an increase in cash receipts. As evidenced by the independent research we commissioned this year, our strong operational performance reflects our substantial single room configuration and operational efficiency as we support increased choice and access to accommodation payments and services for our consumers.

OPERATIONAL OVERVIEW

Estia Health was formed on 31 July 2014 through the merger of three residential aged care businesses to create one of the largest private providers of aged care services in Australia. Since then we have expanded our presence in Victoria, South Australia, New South Wales and Queensland, the most populous states, with the acquisition of 12 facilities totalling 1,124 operational places.

The newly acquired facilities have all been successfully integrated into our ten networks with new national IT systems. This incorporates the finance, management information, human resources, time and attendance and clinical care functions in a single, centralised system to deliver efficiency improvements and enhance operational controls.

During the year we commissioned independent market research that identified that room configuration is the most important factor for residents and families in choosing aged care by some margin. Ahead of quality of environment,

payment options and location, nearly three quarters of all people surveyed said the #1 decision making factor is access to a single room. With our proportion of single rooms at 94% we have one of the highest quality portfolios in the industry that provides sustainable earnings for the medium term.

In February 2015, we appointed Mark Brandon as Chief Quality Officer on a fixed term contract. Previously CEO of the Australian Government's Aged Care Standards and Accreditation Agency, Mark is an internationally recognised leader in strategy, quality, accreditation, government relations and organisational transformation. He is busy developing a next generation Quality Management System which will be rolled out across the Estia's group networks in 2016 to ensure we maintain industry-leading quality standards across the group.

The Government's Aged Care Funding Instrument ("ACFI") subsidy for aged care residents was \$173 per operating bed day at the year end, an increase of 10.9% over the previous twelve months. Australian Government subsidies also include primary supplements for specific additional support services such as administration of oxygen or enteral feeding. At the year end, 96.5% of all Estia's residents were receiving high care subsidies.

This funding will continue to underpin Estia's future revenues as we grow and increase our service offering. Commensurate with this growth is our expanded pool of investable capital through new Refundable Accommodation Deposit (RAD) payments.

STRONG GROWTH MOMENTUM

Several of the facilities acquired over the past seven months provided opportunities for enhancing quality standards and occupancy levels. These operational improvements are an important component of our strategy of growing both by organic means and through acquisitions.

In reaching our target of 10,000 operated places we will continue to improve and expand our existing facilities. In markets where this 'brownfield' expansion is not able to meet strong demand for aged care services and where suitable acquisitions are not available, we will look to develop entirely new 'greenfield' facilities. In June, we entered a strategic partnership with Living Choice Australia to develop in excess of 500 additional aged care beds by the end of FY2019. The first two of these developments will be on the Sunshine Coast at Maroochydore and Twin Waters.

This organic growth will be supplemented by further acquisitions which meet our criteria of high standard, single room facilities in attractive locations where we are able to generate value through integration into our networks and systems.

Since the financial year end we have appointed Steven Boggiano as Director of Strategy. Steven is a specialist in mergers and acquisitions with considerable experience and contacts in the Australian health and aged care sector. He will play a vital role in helping us to identify and execute these acquisitions. These may include further standalone facilities or medium to large groups of facilities, as well as strategic alliances with other aged care providers.

LEADERSHIP

As mentioned, we appointed Mark Brandon as Chief Quality Officer in February and Steven Boggiano as Director of Strategy in July. Peter Hamilton, a highly experienced international property and development executive also joined us, appointed to the position of Director of Development in May. These new key appointments will be instrumental in delivering our growth plans and enhancing the quality of the Estia portfolio.

On behalf of the Board, I would like to thank all Estia's people for their hard work and dedication in helping the company to reach such great heights over the past twelve months.

OUTLOOK

The dynamics of the Australian aged care industry are extremely compelling and the strength of our portfolio puts us in a commanding position to capitalise on new opportunities.

We are confident that we have the right people and systems in place to successfully execute our growth plans, improve returns and create value for our shareholders. I look forward to reporting on our further progress in the year ahead.



Paul Gregersen, CEO



We make magical moments
happen, in small and
special ways.

KEY HIGHLIGHTS

Estia Health is one of the largest private providers of residential aged care services in Australia with 48 facilities, 4,010 operating places and more than 4,700 employees across Victoria, South Australia, New South Wales and Queensland. As at 12 August 2015, this number had increased to 54 facilities and 4,441 operating places.

Estia Health aims to provide its residents with the highest standards of aged care in a supportive and caring environment. It is focused on improving and expanding its portfolio to meet the growing demand for residential aged care services in Australia, underpinned by an ageing population and increasing demand for higher care services.

\$297.5m

REVENUE

FY15 forecast \$296.4m
(100.4%)

\$44.6m

NPAT

FY15 forecast \$42.6m
(104.7%)

\$69.7m

EBITDA

FY15 forecast \$70.2m
(99.3%)

\$0.136

DIVIDEND PER SHARE

FY15 forecast \$0.127
(107.1%)

\$61.8m

EBIT

FY15 forecast \$60.6m
(102.0%)

\$0.32

EPS

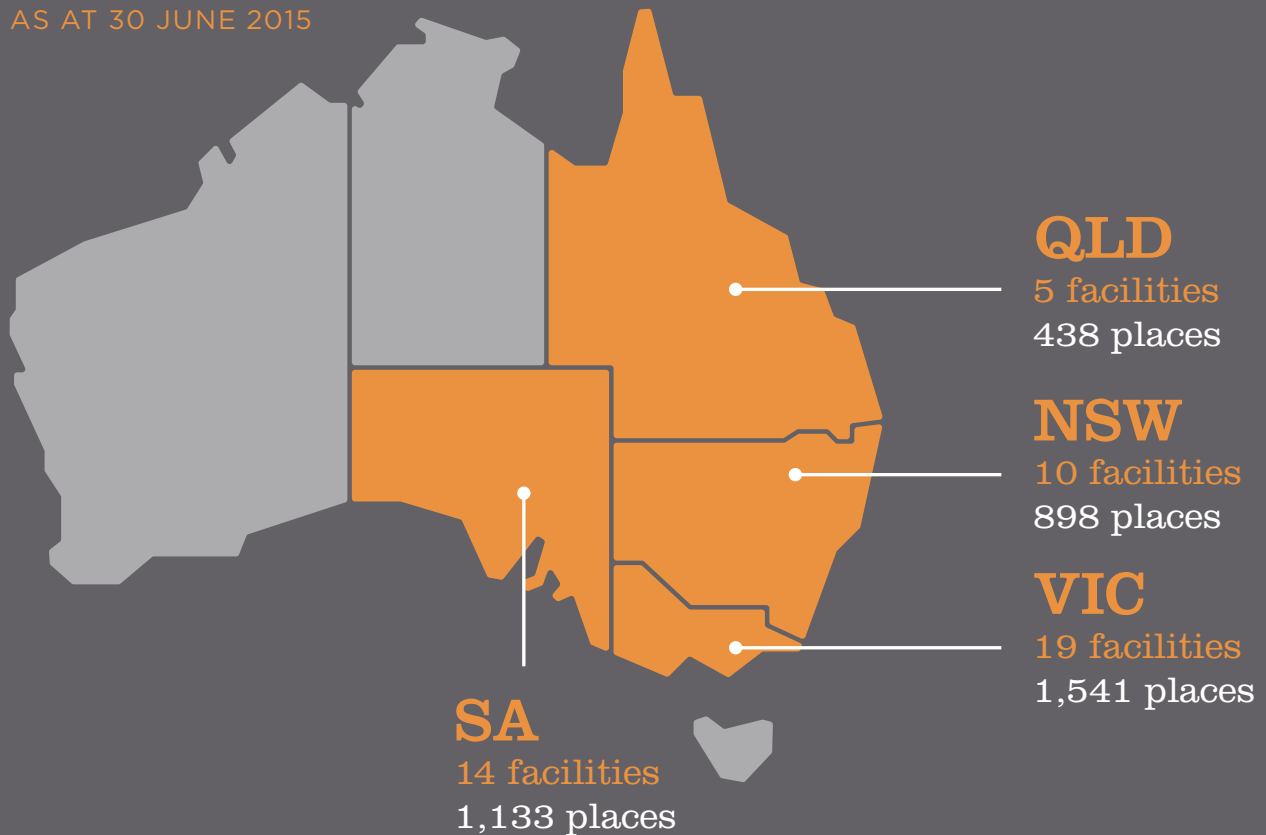
FY15 forecast \$0.31
(103.2%)

FY16

Over 20%
NPAT growth rate

KEY HIGHLIGHTS cont.

AS AT 30 JUNE 2015



No. of
Facilities **48**

No. of Operational
Places **4,010**

GROWTH STRATEGY

Estia Health aims to reach

10,000 places

by **FY2020**

through a combination of
acquisitions and organic growth.

GROWTH STRATEGY cont.

ACQUISITION	SINGLE SITES: 500 – 1,000 places per annum
	GROUP: 1+ medium/large sized group in period
ORGANIC	BROWNFIELD: 300+ places in period
	GREENFIELD: 500 – 1,000 places in period

FY16 Acquisitions

49	KEYSBOROUGH	60 places	July 15
50	BENDIGO	73 places	Sept 15
51	KEILOR	60 places	Sept 15
52	ACQUISITION 1	70 places	Sept 15
53	BANNOCKBURN	120 places	Oct 15
54	ACQUISITION 2	48 places	Oct 15

431 places

TOTAL OF 4,441 OPERATIONAL PLACES

Operating place per Prospectus	3,613
New acquisitions above Prospectus (CY15)	921
Closure of nursing home wing at Mudgeeraba for redevelopment June 2015	(55)
Offline places	(26)
Places under redevelopment at Craigmore	(12)
Forecast operating places October 2015	4,441

OPERATING AND FINANCIAL REVIEW

OVERVIEW OF THE GROUP

Estia Health is one of the largest providers of residential aged care services in Australia with a portfolio of 48 facilities and 4,010 operating places (as at 30 June 2015) from which it provides residents with high quality clinical care services, daily living services, accommodation services and extra services. With facilities across Victoria, South Australia, New South Wales and Queensland, the company is predominantly focused on self-funded residents in metropolitan areas with above average socio-economic backgrounds.

Estia's facilities are supported by a variety of functions (Finance & Commercial, Risk & Quality, Strategy & Development and People & Communications) both at the facility level and through a range of centralised national, state and regional functions. These functions enable each facility to focus on providing better quality care and operating more places efficiently. It also enables Estia to better manage operational risks and its financial performance as well as achieve its growth strategy.

PRINCIPAL ACTIVITIES

Significant changes in the state of affairs

On 5 December 2014 the Company successfully listed on the Australian Securities Exchange.

A total of 126,087,759 shares were issued in the float with total gross proceeds of \$725,004,614.

On 9 December 2014 the proceeds raised from the listing were used to repay in full the funding provided under existing senior debt and mezzanine facilities, vendor and shareholder loans.

SERVICE OFFERING

Estia provides consistent, high levels of clinical care services and offers a wide range of services to its residents. Estia also provides additional amenities to its residents.

The company provides the following services:

- Clinical care services: Estia provides 24-hour nursing care, personal care, wound management, administering pharmaceuticals, physiotherapy and occupational therapy, and arranging on-site visits from external medical practitioners.
- Daily living services: At each of its facilities, Estia provides residents with a range of daily living services such as laundry, meals, recreational activities, emotional support and cleaning.
- Accommodation services: Estia provides its residents with modern, high quality accommodation services.

- Extra services: Estia provides extra services to residents in Dedicated Extra Service places, and additional optional services to residents that do not hold a Dedicated Extra Service place.

FINANCIAL PERFORMANCE

Estia's pro forma net profit after tax of \$44.6 million exceeded pro forma forecast by \$2.0 million or 4.7%.

Estia's statutory loss after tax of \$22.5 million for the year ended 30 June 2015 was \$16.8 million (294.7%) above Prospectus forecast.

A summary pro forma and statutory income statement in line with the Estia's Prospectus lodged 3 December 2014 is reflected in the following tables:

Summary of pro forma income statement (\$ million)	Actual ² 2015	Forecast ¹ 2015
Total revenue	297.5	296.4
EBITDA ³	69.7	70.2
EBIT ⁴	61.8	60.6
NPAT	44.6	42.6
EPS (cents)	32.2	30.8

Summary of statutory income statement (\$ million)	Actual 2015	Forecast ¹ 2015
Total revenue	284.5	283.9
EBITDA ³	30.8	35.6
EBIT ⁴	23.4	26.6
NPAT	(22.5)	(5.7)
EPS (cents)	(16.3)	(4.0)

1 Pro Forma Forecast Financial Information is consistent with the information disclosed in the Prospectus lodged 3 December 2014.

2 Pro Forma Actual has been prepared consistent with the assumptions set out in the Prospectus lodged 3 December 2014.

3 Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") has been prepared consistent with the assumptions set out in the Prospectus lodged 3 December 2014.

4 Earnings before Interest and Tax ("EBIT") has been prepared consistent with the assumptions set out in the Prospectus lodged 3 December 2014.

EARNINGS PER SHARE

The Group's pro forma earnings per share (EPS) in FY15 were 32.2 cents (FY15 forecast: 30.8 cents). EPS in the current period was impacted by the issue of new shares from the entitlement offer equity raising undertaken in 2014.

FINANCIAL PERFORMANCE OVERVIEW

The Group uses earnings before interest, income tax expense, depreciation and amortisation (EBITDA) in combination with other financial measures to evaluate the Group's operating performance. The Company believes that EBITDA is a relevant and useful financial measure used by management to measure the Company's operating performance. EBITDA reflects the profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Depreciation and amortisation are calculated in accordance with AASB 116: "Property, Plant and Equipment" and AASB 138: "Intangible Assets", respectively.

Adjusting for acquisition transaction costs incurred in purchasing the Padman and Cook Care Groups and additional facilities, the Estia Health Group achieved an EBITDA for the year ended 30 June 2015 of \$61,501,183. This includes several other non-recurring expenses incurred as part of those acquisitions and restructure of the Group.

Estia Health's FY2015 Pro Forma NPAT was \$44.6m. Pro Forma EBIT of \$61.8m and Revenue of \$297.5m were led by total occupancy levels increasing to 93.6% in June 2015, and 96.5% of residents receiving higher care subsidies. Occupancy levels for FY2015 were at 93.6%, above 89.3% in FY2014.

Estia also performed strongly on two other key operating metrics with Aged Care Funding Instruments (ACFI) subsidies increasing to \$172.81 per day in June 2015, and \$170.42 for FY2015, and average equivalent new RAD of \$343,683, above FY2015 forecast of \$238,000.

Estia maintained an industry leading figure of 94% single beds across the Company's portfolio of 48 homes with 4,010 operational places.

Post the acquisition of Padman Health Care and Cook Care, during the year, Estia completed 12 acquisitions, adding a total 1,124 operational available places, 550 more places than forecast in the prospectus.

In addition to the strong financial result, the Estia Health Group maintained accreditations at all of its facilities and invested in capital works to improve the standard of each facility operated by the Group.

Future strategic initiatives for the Estia Health Group include the following:

- Continued growth through acquisitions, brownfield and greenfield developments and partnering with suitable organisations to provide aged care services;

- Maintaining and enhancing the skills and expertise of Estia Health Group's employees to enhance the services provided to residents; and
- Introducing uniform procedures, software systems and infrastructure across the Estia Health Group to underpin the continued growth of the Group and to enhance the financial performance of the Group.

GROWTH STRATEGY

Estia aspires to reach 10,000 operating places by the end of FY2020. Estia intends to supplement organic growth with acquisitions, brownfield developments, corporate partnerships and greenfield developments.

Acquisitions

During the year the Estia Health Group successfully acquired the Padman and Cook Care Group operations as at 31 July 2014, operating in South Australia, New South Wales and Queensland. Since the formation of the company on 31 July 2014, Estia acquired the following facilities:

- Freehold of another Victorian-based facility on 29 September 2014;
- Two facilities in Victoria and one in New South Wales on 1 October, 2014;
- Two facilities in Victoria and one in South Australia on 1 December 2014;
- One facility in Victoria on 1 February 2015;
- One facility in South Australia on 1 April 2015;
- Three facilities in New South Wales on 6 May, 2015; and
- One facility in Queensland on 1 June 2015.

Since their acquisition, Estia has been focused on implementing operational improvements to increase occupancy levels, improve resident care needs and enhance operating efficiencies.

Estia aims to grow its operating places by 500-1,000 per annum through single site acquisitions. This may also be supplemented by the acquisition of a medium or large sized group operator.

Brownfield Developments

Estia also aims to expand the number of its facilities to meet growing demand for residential aged care services through brownfield developments. Estia has an active brownfield development program where there is the potential to increase earnings from existing facilities, increase the overall level of RAD funding and provide attractive returns on capital.

OPERATING AND FINANCIAL REVIEW cont.

Estia aims to increase its operating places by more than 300 through brownfield developments by FY2020.

Greenfield Developments

Where brownfield expansion is unable to meet the growing demand for services and acquisitions are not available or do not meet Estia's requirements, Estia may consider the development of new greenfield facilities. Estia has entered into strategic alliances and corporate partnerships with developers of residential aged care facilities to grow the number of places it operates.

On 25 June 2015, Estia entered into a strategic partnership with Living Choice to build 500 residential aged care places by end FY2019, beginning with two facilities on the Sunshine Coast in Maroochydore and Twin Waters.

Estia aims to increase its operating places by 500 – 1,000 through greenfield developments by FY2020.

KEY BUSINESS RISKS

Changes to regulatory framework

The Australian aged care industry is highly regulated and subject to change. The way that the industry is regulated and funded by the Australian Government has a fundamental influence on Estia's business model. Funding from the Australian Government contributed approximately 70% of Estia's revenues in FY2015.

Estia is a member of the Aged Care Guild (the 'Guild') which represents for-profit aged care providers in Australia. The Guild meets with the Department of Social Services three times a year and is proactive in addressing issues that would impact the current industry business model.

Refundable accommodation bonds/RADs

Estia is exposed to risks associated with the repayment of accommodation bonds and RADs. If a larger than expected number of bond/RAD paying residents were to leave Estia's aged care facilities, Estia would be required to repay a large sum of accommodation bonds/RADs. Estia is also exposed to risks that may adversely affect the future value of Estia's total accommodation bonds/RADs.

Estia has a Liquidity Management Strategy to ensure RADs are paid when due, which includes a \$20,000,000 debt facility available for working capital requirements centred on refunding RADs.

Occupancy levels may fall

Estia's occupancy levels may fall below expectations as a result of factors such as increased competition in the residential aged care industry, specific issues arising at any of Estia's facilities which adversely impact its

reputation and/or perceptions of the quality of clinical care provided, any trend towards home and community care, a deterioration in general economic and housing market conditions, or a decline in referrals from hospitals and other referral sources.

Estia aims to be the first choice in residential aged care for consumers. Estia's Client Relations Team proactively builds strong relationships with local referral teams and monitors competitors, working with a dedicated Property Team to drive capital improvements to maintain a strong competitive position. Estia holds a strong portfolio with 94% single rooms, which remains the number one choice for consumers.

Reputational damage

Estia's reputation could be adversely impacted if it, or the aged care sector generally, suffers from any adverse publicity. Any such adverse publicity could result in existing residents transferring away from Estia's facilities to competitor aged care facilities or reduce Estia's ability to attract new residents to its facilities, both of which could adversely impact Estia's financial performance and position and future prospects.

Estia maintains robust systems and stringent quality control across all facilities to minimise risks that may result in adverse publicity. Through the establishment of regional networks, Estia has implemented strong support systems between facilities to address any potential adverse events at any one home.

Acquisitions

Estia has acquired a number of aged care facilities as part of its growth strategy. At the time each aged care facility was acquired, Estia conducted due diligence enquiries. Notwithstanding this due diligence, it is possible that one or more material issues or liabilities may not have been identified, or are of an amount that is greater than expected. Such issues or liabilities could adversely affect Estia's financial performance and position and future prospects.

Estia engages independent financial and legal advisors to assist with due diligence on the acquisition of three or more facilities as well as conducting thorough due diligence on smaller single entity facilities internally. Financial projections in modelling acquisitions are benchmarked against existing Estia facilities.

Growth strategy

Estia's ability to meet its growth targets is dependent on its ability to identify and acquire suitable facilities. In particular, the success of Estia's acquisition strategy will be dependent on a number of factors, including:

- the level of RADs held by Estia to fund such acquisitions;
- the availability of debt and equity funding and the suitability of the terms of such funding;
- the availability of suitable facilities at an acceptable price to Estia; and
- the number and resources of any of Estia's competitors bidding for any target acquisition.

Estia's ability to meet its growth targets is also dependent on its ability to identify existing sites on which to develop or expand new brownfield facilities or acquire attractive sites on which to develop new greenfield facilities. Given Estia's strategy to operate in metropolitan areas of major Australian capital cities, there is no assurance that Estia will be able to develop new brownfields sites or secure new greenfield sites, on favourable economic terms or at all.

Estia has a balanced strategy for growth which includes acquisitions, brownfield and greenfield developments. Estia works with various agents to identify acquisitions. In addition, Estia has entered into a partnership for turnkey greenfield developments in Queensland and seeks to identify further partnerships to cover other eastern Australia states.

Loss of key personnel

Estia relies on a high quality management team with significant aged care industry experience. The loss of key personnel could undermine Estia's ability to operate its facilities and its business to the current standard, and to effectively comply with regulations. This may, in turn, 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.

To attract and maintain key personnel, leaders are incentivised through short term incentives based on financial and non financial metrics.

Shortage of skilled employees

Estia's business depends on a specialised health and aged care workforce. There is a risk that Estia 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 facilities and/or a risk that a shortage of employees leads to upward wage pressure which may adversely affect Estia's business, financial performance and position and future prospects.

A Graduate Nursing Program to recruit and develop highly talented nursing staff will roll out in January 2016. In addition, ongoing training is provided to ensure employees maintain up to date knowledge to care for residents in Estia homes.

Availability of funding

Estia may require funding or working capital in the future in order to pursue its growth strategy. Given the nature of Estia's revenue profile and the potentially capital intensive nature of its business, there is no assurance that any such additional capital or funding will be available on favourable terms or at all and that Estia will be able to comply with the terms of such facilities. If adequate funds are not available, Estia may not be able to achieve its growth targets or respond to competitive pressures.

A new debt facility was agreed in July 2015 resulting in an extension to December 2018 and the addition of an accordion facility of \$150,000,000 for capital investments and acquisitions. In total, Estia's debt facility for funding growth is \$280,000,000.

FINANCIAL POSITION

At 30 June 2015, Estia's net assets were \$563.9 million, up 948.51% from 30 June 2014. The increase in net assets was primarily attributable to the following:

- acquisition of Padman, Cook Care and Hutchinson aged care groups
- acquisition of 9 individual aged care facilities
- equity raised in December 2014 of \$725 million (gross).

A summary balance sheet is presented below.

Summary balance sheet (\$ million)	30 June 2015 Actual	30 June 2014 Pro forma
Current assets	60.0	90.8
Non current assets	1086.7	797.0
Total assets	1146.8	887.8
Current liabilities	571.6	296.2
Non current liabilities	11.2	14.5
Total liabilities	582.8	310.7
Net assets	563.9	577.1

Estia's principal sources of funds are cash flows from operations, refundable accommodation deposits and debt facilities. The cash position and available working capital facility is expected to provide sufficient liquidity to meet Estia's currently anticipated cash requirements.

OPERATING AND FINANCIAL REVIEW cont.

On 4 November 2014 the Company entered into a banking facility amounting to \$150,000,000. These facilities have a maturity date of December 2017 and interest is calculated at BBSY plus a margin ranging from 1.0% to 1.4%. On 4 August 2015, the company refinanced the banking facility with two major lenders and i) extended the term to December 2018, ii) added a \$150,000,000 accordion facility and iii) reduced the unused line fees from a rate of 0.45% to 0.40%. The new banking facilities will be used to fund acquisitions, capital expenditure and working capital.

Debt funding is utilised from time to time to finance acquisition of residential aged care businesses whilst seeking to maintain gearing within prudent levels.

The gearing ratio is calculated as a percentage of Net Debt/Total Equity. Net Debt is the total financial liabilities (including accommodation bonds / RADS) less cash on hand. Total Equity is as presented on the statement of financial position. For more information on capital management, see Note 29 of the financial statements.

RADs provide Estia with capital funding to support growth through capital investment in existing and new facilities as well as through acquisitions. RADs have contributed \$88.5 million to net cash flows, \$55.3 million in excess of forecast. Both an increase in the average accommodation price and an increase in the RAD penetration have contributed to the strong net RAD receipts.

A summary pro forma cash flow as at 30 June 2015 is presented below.

Summary of pro forma cash flow (\$ million)	Actual ² 2015	Forecast ¹ 2015
Net accommodation bonds / Refundable accommodation deposits	88.5	32.7
Other operating cash flows	62.0	66.6
Net cash flow from operations	150.5	99.3
Net cash flow from investing activities	(172.9)	(99.6)
Net cash flow from financing activities	35.9	(18.0)
Net cash flows	13.5	(18.3)

A summary statutory cash flow as at 30 June 2015 is presented below.

Summary of statutory cash flow (\$ million)	Actual 2015	Forecast ³ 2015
Net accommodation bonds / Refundable accommodation deposits	84.1	32.7
Other operating cash flows	20.2	42.1
Net cash flow from operations	104.3	74.8
Net cash flow from investing activities	(520.9)	(419.0)
Net cash flow from financing activities	459.2	386.6
Net cash flows	42.6	42.4

1. Pro Forma Forecast Financial Information is consistent with the information disclosed in the Prospectus lodged 3 December 2014.

2. Pro Forma Actual have been prepared consistent with the basis set out in the Prospectus lodged 3 December 2014.

3. Statutory Forecast Financial Information is consistent with the information disclosed in the Prospectus lodged 3 December 2014.

DIVIDEND REINVESTMENT PLAN (DRP)

On 15 July 2015, Estia introduced a DRP. The DRP was introduced after a period of significant company growth, to allow all shareholders participants to reinvest their dividends into acquiring additional Estia shares without incurring any brokerage or handling costs. To elect to participate in the Company's DRP shareholders can use the online share registry facility or contact the share registry, Link Market Services. Please refer to estiahealth.com.au/investor-centre for the plan booklet and forms.

DIVIDENDS

A final dividend of 13.6 cents per share (2014: nil) or \$24,575,540 (2014: nil) is recommended for payment on ordinary shares. The tax rate at which recommended dividends will be franked is 30%. Estia's Dividend Reinvestment Plan will apply to the dividend.

PERFORMANCE RIGHTS

At the date of this report, there were 22,890 performance rights under the Long Term Incentive Plan that are yet to vest. Refer to the Remuneration Report and Note 25 of the financial statements for further details of any rights outstanding as at 30 June 2015.



SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 13 July 2015, Estia entered into an agreement to refinance its existing debt facility to improve the ability to fund future growth. As part of the refinancing, Estia reduced the number of participants in the syndicated debt facility to include Westpac Banking Corporation and Commonwealth Bank of Australia. The amendments to the existing debt facility include an extension to 10 December 2018, a reduction in the unused line fee from 0.45% to 0.40% and the addition of a revolving \$150,000,000 accordion facility. The refinancing became effective 4 August 2015.

In July 2015:

- Estia acquired a 60 bed facility in Keysborough, Victoria
- a strategic partnership agreement was entered into with developers to build four residential aged facilities which will add 500 places over 18 months to June 2017 with an option to build a further 500 places
- Estia entered into agreements to purchase two residential aged care facilities (133 places) in Victoria to be completed in September 2015 and one residential aged care facility (120 places) in regional Victoria to be completed in October 2015.

In August 2015, Estia entered into agreements to purchase:

- a 70 bed facility in metropolitan Melbourne, to be completed in September 2015
- a 48 bed facility in metropolitan Melbourne, to be completed in October 2015.

Other than those mentioned, 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.

OUTLOOK

Estia expects to generate over 20% NPAT growth against current year pro forma NPAT as the full earnings potential of acquisitions completed during FY15 begin to be realised and growth through further acquisitions in FY16 continues. Coupled with NPAT growth will be continued growth in cash from net RAD receipts and incremental growth on accommodation pricing for new residents. The continued positive cash flows will provide capital to fund FY16 acquisitions and will contribute to the achievement of long term returns greater than 15% on net capital employed.

The Board and Executive team are confident in delivering further growth through both acquisitions and organic development to achieve Estia's vision of 10,000 beds by 2020.

BOARD OF DIRECTORS



PATRICK GRIER, AM

Non-executive Director and Chairman, BSc; AO

Patrick was MD and CEO of Ramsay Health Care Limited for 14 years. Under his leadership, Patrick grew the Ramsay group from 7 hospitals to an ASX listed organisation operating over 100 hospitals in Australia and overseas, with an annual turnover of almost \$3 billion and employing 25,000 people. He remains on the board of Ramsay as a non-executive director. Prior to this role, he was with Hospital Corporation Australia.

Patrick also served as both President and Chairman of the Australian Private Hospitals Association for over 10 years. In 2010, he was awarded the Order of Australia for his leadership and contribution to the Australian health care sector. He was previously the Chairman of the Opal Aged Care group and Chairman of the Australian Healthcare Workforce Institute. Patrick is a member of the Skin Cancer Network Advisory Board.



PAUL GREGERSEN

Managing Director and CEO, BEng (Hons); MBA (Distinction) and graduate of Wharton Business School's Advanced Management Programme

Paul holds extensive experience and knowledge in the health care and financial services sectors. He has delivered outstanding performance in a variety of leadership roles around the globe, with particular expertise in the funding and provision of private health care.

Paul was MD of Bupa Aged Care Services Australia for five years and has over 24 years of general management experience, including roles across the United Kingdom, Singapore, Australia and China. Through his position as the inaugural chair of The Aged Care Guild, Paul advised the Australian Government on the Living Longer, Living Better aged care reforms in Australia. In 2012, the Cabinet of the Australian Government appointed Paul as an independent expert for the Aged Care Financing Authority to assist in the reform of Australia's aged care system.



PETER ARVANITIS

Non-executive Director

Peter is the founder and former CEO of Estia. Peter founded Estia as Lasting Changes in 2005, having identified a need for improving the quality and consistency of residential aged care in Australia, both at the corporate and facility level. Under Peter's leadership, Estia expanded successfully from its first aged care home to 39 facilities. As CEO, Peter led the acquisition of Padman, Cook Care and 17 individual facilities.

Prior to Estia, Peter had successfully founded, operated and disposed of a number of businesses in transport, agriculture, residential and commercial property.



NORAH BARLOW

Non-executive Director, BCA; ACA; ONZM

Norah has an extensive background in business leadership and management, strategy, corporate finance, governance, tax and accounting. Formerly the CEO of Summerset New Zealand, she remains on the board as a non-executive director and is director across a number of organisations.

A member of the National Advisory Council on the Employment of Women and the National Taskforce on Allied Health Workers governance committee, she was President of the Retirement Villages Association (NZ) for seven years and made an Officer of the New Zealand Order of Merit for services to business in 2014.



ANDREW HARRISON

Non-executive Director, BEc; MBA; CA

Andrew is an experienced company director and corporate adviser. He is currently a non-executive director of Burson Group Limited. He has previously held executive and non-executive directorships with public, private and private equity owned companies, including as CFO of Seven Group Holdings, Group Finance Director of Landis + Gyr. and CFO and a director of Alesco.

Andrew was previously a Senior Manager at Ernst & Young (Sydney and London) and Gresham Partners Limited, and an Associate at Chase Manhattan Bank (New York).



MARCUS DARVILLE

Non-executive Director, MA (Hons), MBA

Marcus has over 20 years of private equity experience starting in the UK with NatWest Ventures (now Bridgepoint). He joined AMP in 1994 as Joint Head of Private Equity where he completed several major buyouts including Tasman Building Products.

Marcus joined Quadrant Private Equity in March 2006 and is a member of the Quadrant Investment Committee, a Director of Quadrant investees Super A-Mart/Barbeques Galore, Estia Health and ICON Cancer Care.

EXECUTIVE TEAM



PAUL GREGERSEN

Managing Director and Chief Executive Officer

Paul holds extensive experience and knowledge in the health care and financial services sectors. He has delivered outstanding performance in a variety of leadership roles around the globe, with particular expertise in the funding and provision of private health care.

Formerly MD of Bupa Care Services, Paul has over 24 years of general management experience, including roles across the United Kingdom, Singapore, Australia and China. He has successfully developed and delivered propositions in health funding, primary care, hospitals and aged care to deliver superior performance.



JOE GENOVA

Chief Financial Officer

Previously Director of Finance at Bupa Care Services and Director of Health, Ageing and Human Services sector at KPMG, with over 20 years of experience in management, finance and leadership roles in Australia and Canada.

Joe plays an important role in shaping the strategy and growth of Estia Health, bringing a wealth of residential aged care and financial management experience to the executive team. He has an integral role in development of new systems and processes and oversight of Estia's mergers and acquisition activities of behalf of the Group.



MARK BRANDON

Chief Quality Officer

Mark is an internationally recognised thought leader and expert on strategy, health and aged care quality and accreditation, government relations and organisation transformation. Mark held the CEO position at the Australian government's Aged Care Standards and Accreditation Agency from 2002 to 2013.

Mark was awarded an Order of Australia (OAM) Medal in June 2015, in recognition of his contribution to health and aged standards.

Mark's pivotal role is to guide the group to embed a next generation Quality Management System to deliver excellence in care, and enhance service quality for our residents and families.



STEVEN BOGGIANO

Strategy Director

Steven is a highly experienced executive with an extensive track record in banking, private equity and mergers and acquisitions. Steven was Managing Director and Head of Asia for Healthcare, Consumer, Retail & Real Estate at Barclays Investment Bank, Australia. He played an integral role in the formation of Estia Health including advising the company on the initial acquisition of Estia Health by Quadrant Private Equity and the subsequent acquisition of the Cook Care Group.

As Strategy Director, Steven's role is to apply his considerable mergers and acquisitions experience to help deliver Estia's ambitious expansion and growth agenda.



KATE SELICK

People and Communications Director

Formerly the HR and Corporate Affairs Director at Bupa Care Services from 2007 to 2012, Kate also completed a number of strategic consulting roles during 2013 and 2014 at Opal, Uniting Care Ageing and Pulse Health, prior to joining Estia Health in October 2014.

Kate has 20 years HR experience across a range of government, not for profit and private industries including from start up to global in education, defence, telecoms, retail, health, aged care and disability.

As People and Communications Director, Kate is integral to the growth, connectivity and interrelationships of Estia's talented people, residents, families, volunteers and communities.



PETER HAMILTON

Development Director

Previously, Peter was GM Property and Capital Works at HammondCare for 7 years, where he led all capital works projects, including the refurbishment and upgrade of existing residential aged care facilities and hospitals. He has 35 years' experience in a range of executive management roles in aged care, construction and finance sectors across Australia, the UK and South Africa.

As Development Director, Peter will lead facility redevelopments and best-practice design principles across our homes, and assist in land acquisition and plan next-phase and future redevelopment priorities for the Group.



We challenge ourselves
and inspire others.

CORPORATE GOVERNANCE

The Board is responsible for the overall corporate governance of Estia. The Board monitors the operational and financial position and performance of Estia and oversees its business strategy, including approving the strategic goals of Estia and considering and approving an annual business plan, including a budget.

The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of Estia. In conducting Estia's business with these objectives, the Board seeks to ensure that Estia is properly managed to protect and enhance shareholder interests, and that Estia, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing Estia, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Estia's business and which are designed to promote the responsible management and conduct of Estia.

CORPORATE GOVERNANCE cont.

THE BOARD OF DIRECTORS

The Board of Directors comprises five non-executive Directors (three of whom are independent, including the Chairman), and one executive Director, being the Managing Director and CEO.

The board charter adopted by the Board sets out guidelines and thresholds of materiality for the purpose of determining independence of Directors in accordance with the ASX Recommendations, and has adopted a definition of independence that is based on the ASX Corporate Governance Principles and Recommendations (3rd Edition).

BOARD CHARTER

The Board Charter sets out:

- the roles and responsibilities of the Board including to provide overall strategic guidance for Estia and effective oversight of management, oversight of Estia's financial and capital management, management and review of Estia's compliance with its disclosure obligations and the disclosure and communication policy, promotion of effective engagement with security holders, oversight of policies between Estia and other stakeholders, ethical and responsible decision making along with compliance and risk management;
- the role and responsibilities of the Chairman and company secretary;
- the delegations of authority of the Board to both committees of the Board, the CEO and other management of Estia;
- the membership of the Board, including in relation to the Board's composition and size and the process of selection and re-election of Directors, independence of Directors and conduct of individual Directors;
- Board process, including how the Board meets; and
- the Board's performance evaluation processes, including in respect of its own performance, and the performance of the Board committees, individual Directors and senior executives.

BOARD COMMITTEES

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee and the Nomination and Remuneration Committee.

The role of the Audit and Risk Committee is to assist the Board in carrying out its accounting,

auditing and financial reporting responsibilities including oversight of:

- the integrity of Estia's external financial reporting and financial statements;
- the appointment, remuneration, independence and competence of Estia's external auditors;
- the performance of the internal and external audit function and review of their audits;
- the effectiveness of Estia's system of risk management and internal controls; and
- Estia's systems and procedures for compliance with applicable legal regulatory requirements.

The role of the Nomination and Remuneration Committee is to assist and advise the Board on the following nomination related matters:

- appointment and re-election of directors;
- induction and continuing professional development programs for directors;
- development and implementation of processes for evaluating the performance of the Board, its committees and directors;
- processes for recruiting new directors (including evaluation of skills, independence and experience);
- the appointment and re-election of directors; and
- succession planning for the Board, the Chief Executive Officer and other senior executives, to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Estia as a whole.

The Nomination and Remuneration Committee also assists and advises the Board on remuneration policies and practices for the Board, the CEO, the CFO, other senior executives and other persons whose activities, individually or collectively, affect the financial soundness of Estia. In accordance with the ASX Recommendations, the Audit and Risk Committee and the Nomination and Remuneration Committee each comprise at least three non-executive directors (a majority of whom are independent), and an independent chair who is not the Chairman of the Board. The Audit and Risk Committee comprises Andrew Harrison (Chair), Patrick Grier and Norah Barlow. The Nomination and Remuneration Committee comprises Norah Barlow (Chair), Patrick Grier and Peter Arvanitis. Other committees may be established by the Board as and when required to consider other matters of special importance.

SKILLS

Skills, experience and expertise of the Board is set out below:

- Strategy
- Accounting and financial reporting
- Risk and compliance oversight
- Organisational culture and leadership
- Government relations / political advisory
- Corporate governance
- Aged care management
- Broad health sector experience
- Listed company experience
- Global business operational experience.

DIVERSITY POLICY

The Board has adopted a diversity policy which sets out Estia's commitment to diversity and inclusion in the workplace at all levels. The diversity policy provides a framework to achieve Estia's diversity goals and commitment to creating a diverse work environment where everyone is treated fairly and with respect and where everyone feels responsible for the reputation and performance of Estia.

DISCLOSURE AND COMMUNICATION POLICY

The Board has adopted a written policy, which establishes procedures which are aimed at ensuring that Directors and management are aware of and fulfill their obligations in relation to the timely disclosure of material price-sensitive information. Under the disclosure and communication policy, the Board is responsible for managing Estia's compliance with its continuous disclosure obligations.

SECURITIES TRADING POLICY

The Board has adopted a securities trading policy which sets out the restrictions that apply to dealing with shares including "prohibited periods", during which certain designated persons are generally not permitted to deal with shares along with a procedure under which certain persons are required to submit prior notification and obtain written confirmation prior to dealing in shares outside the prohibited periods.

CODE OF CONDUCT

In addition, many governance elements are contained in the Constitution. Estia's code of conduct sets out the values, commitments, ethical standards and policies of Estia and outlines the standards of conduct expected of Estia's business and people in a range of circumstances. In particular, the code requires awareness of, and compliance with, Estia's other policies

and procedures. Details of Estia's key policies and practices and the charters for the Board and each of its committees are available at estiahealth.com.au

VOTING RIGHTS

Shareholders (whether residents or non-residents of Australia) may vote at a meeting of shareholders in person, directly or by proxy, attorney or representative, depending on whether the shareholder is an individual or a company.

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held. Presently, we have only one class of fully paid ordinary shares and these do not have any voting restrictions. If shares are not fully paid, on a poll the number of votes attaching to the shares is pro-rated accordingly.

SUSTAINABILITY

Sustainability forms part of our everyday activities, and is a major driver of our acquisition and growth strategy to achieve operational efficiency and economic sustainability. Sustainability is achieved through meeting the needs of our residents and by each and every one of our facilities becoming an accepted part of their local communities.

Since the merger of the three residential aged care businesses on 31 July 2014, Estia has focused on the integration of these three operations and subsequent acquisitions.

Meeting both the care and social inclusion needs of our residents is important. Our residents are supported to remain involved in their local communities through varied programs including intergenerational activities, playgroups and school groups, gender specific programs targeted at male residents, and social networking tools including Skype, Facebook and emails.

Both social and economic sustainability will benefit enormously by future practices aimed at environmental sustainability as this will target our environmental footprint as we grow.

Estia is committed to being an active and valued member of its local communities. Part of our integration involves being environmentally sustainable, making as small an environmental footprint as we can, whilst still providing the exceptional levels of care our residents expect. Environmental sustainability can encompass many things, and as we enter our second year, we will focus on understanding those environmental issues that are important to Estia and our relationship with our communities.

CORPORATE GOVERNANCE cont.

Our environmental footprint will include items such as:

- Energy – how much do we consume, where do we get it from, what do we use it for?
- Water – what activities need water and can they be made more efficient?
- Material efficiency – what do we throw away, can these items be reused or recycled?

Environmental sustainability is integrated into:

- Operational practice – the way in which we procure, use, and clean our materials, such as food, office supplies and bed linen.
- New buildings – perhaps the greatest opportunity to ensure our facilities are great champions for the environment.
- Fit out of existing facilities – an opportunity to improve and meet new, recognised standards in building efficiency.

Some examples of our sustainability direction in practice are:

Energy

Improved energy efficiency has a great payback as not only will this reduce the amount of resources required to power our facilities, but lower amounts of energy will cost less to procure, enabling cost savings, and sometimes a social improvement too. A guiding principle in all of our new-build designs is to make as much use of the natural light as possible. This lessens the need for large quantities of artificial light, resulting in significant energy savings for our homes and more comfortable surroundings for our residents. Additionally, Estia has started retrofitting LED lighting to further reduce our energy consumption and improve the light quality of our homes.

Water

Other than drinking, one of the major uses of water in our facilities is for laundry. In order to reduce the impact of this activity, we are currently exploring having an ozone system installed for all our washing machines and use of enzyme-type tablets as detergent, both of which will reduce water and energy. This has led Estia to start reviewing all our major equipment for potential sustainability benefits, for both retro-fitting and as part of new builds, and this work will continue through 2015 and into 2016.

Waste

In addition to the discarding of materials as being a poor use of resources, generating waste impacts

in three further ways where there is the cost of purchasing the item, the cost of disposal, and the potential for environmental harm during disposal. Our new-build design briefs include the need for appropriate use of resources such that waste generation is minimised, and this is rigorously applied during design and construction where recycling of building materials is encouraged and reviewed. This means that as far as possible, Estia only purchases the building materials actually needed in order to complete our facilities. Once occupied, all our facilities maintain a recycling program to ensure any waste generated has a great chance of becoming useful resources once more.

With 2015 being our year of consolidation, we are currently reviewing our operations to ensure our practices are not only efficient, but also sustainable. It is accepted that in a rapidly growing organisation such as Estia, the sustainability baseline will be continually moving, and community expectations will shift. However, by reviewing our business in manageable parts we can improve our sustainability in those areas that will provide the most benefit.

Estia's intention is to continue to be a good neighbour within its local communities and this will lead us to maintain a strong sense of sustainability and support to those communities. Estia believes this will take significant effort and also needs to be properly targeted to ensure the further benefits of sustainability actions can be better integrated into everyday operations. By working with our teams in each of the facilities, who themselves are part of those local communities, we can keep track of community sustainability expectations and also ensure the community is informed of our actions.

OUR EMPLOYEES

Employee Category as at 30 June 2015

Employee Category	Male	Female	Total
Board	3	1	4
Executive	5	8	13
Corporate Centre (E Hub) and Facility Managers	14	58	72
Facility Employees	719	3,735	4,454
Total	741	3,802	4,488

ESTIA HEALTH PURPOSE AND VALUES

Estia Health's purpose is to be one family, where everyone belongs. This reflects Estia's intent to build inclusive and diverse workplaces where everyone is treated equally.

Estia Health's purpose is supported by its values statement called the Estia Code. The Estia Code is our five behaviours that guide our employees in the delivery of care and services for residents, families, local communities and each other.

The Estia Code is:

1. **Always approachable** – we take time to listen because we care.
2. **My daily best** – we do our best to make a difference every day.
3. **Creating happiness** – we make magical moments happen in small and special ways.
4. **Pushing our limits** – we challenge ourselves and inspire others.
5. **See something, say something** – we pay attention and are quick to act.

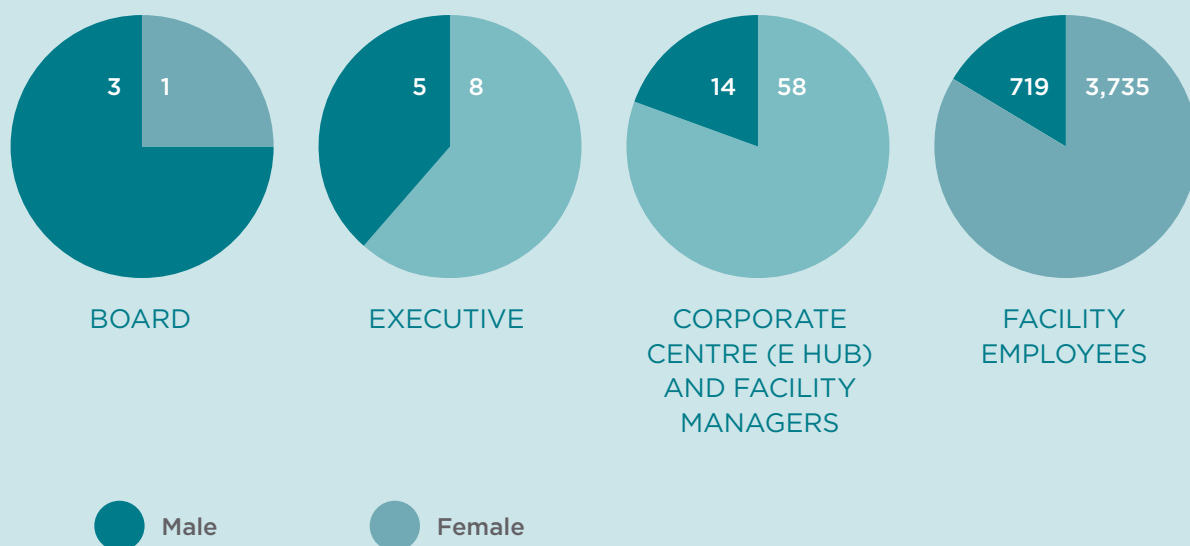
GENDER EQUALITY

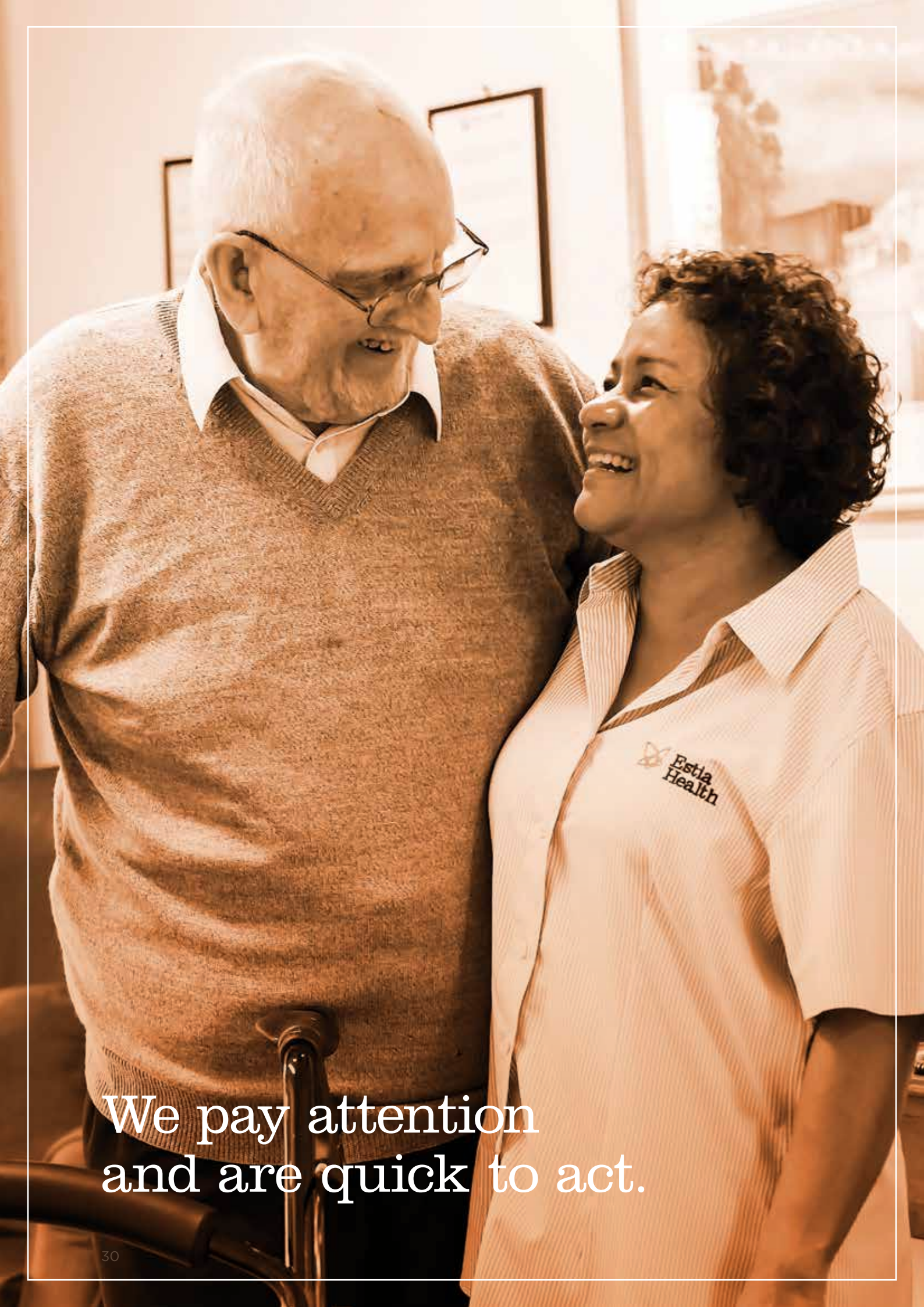
Estia Health has 83.6% female representation across all employees. 25% female representation at Board level and 62% female representation at the Executive level (see Figure 1).

Estia's rostering practices are designed to both meet the needs of residents and assist employees to vary their working patterns in accordance with personal family circumstances, including short and long shifts.

The priority in FY2016 is to complete gender pay analysis at the Board, Executive and Facility Manager levels and complete the review and implementation of a new flexible working arrangements policy.

Figure 1. Gender Equality





We pay attention
and are quick to act.

SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2015

Distribution of shares

Range	No. of shareholders	%	Securities	%
100,001 and Over	66	1.60	155,489,489	85.96
10,001 to 100,000	581	14.08	13,320,522	7.36
5,001 to 10,000	776	18.81	5,723,791	3.16
1,001 to 5,000	2,081	50.44	5,980,485	3.31
1 to 1,000	622	15.08	371,293	0.21
Total	4,126	100.00	180,885,580	100.00

Twenty largest shareholders

Name	Shares held	% of issued shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,197,935	11.17
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,145,387	10.58
NATIONAL NOMINEES LIMITED	14,419,172	7.97
AGED SERVICES VICTORIA PTY LTD	13,876,200	7.67
CITICORP NOMINEES PTY LIMITED	12,037,017	6.65
QUADRANT PRIVATE EQUITY NO. 3, LP	11,388,507	6.30
QUADRANT PRIVATE EQUITY NO. 3D PTY LIMITED	11,076,291	6.12
MCF 4 LIMITED	7,551,488	4.17
QUADRANT PRIVATE EQUITY NO. 3C PTY LIMITED	6,167,200	3.41
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	4,094,971	2.26
BNP PARIBAS NOMS (NZ) LTD	4,068,745	2.25
BNP PARIBAS NOMS PTY LTD	2,961,425	1.64
MR PETER ARVANITIS & MRS ARETI ARVANITIS	2,813,100	1.56
CUSTODIAL SERVICES LIMITED	2,249,386	1.24
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	2,023,367	1.12
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,708,296	0.94
QUADRANT PRIVATE EQUITY NO. 3A PTY LIMITED	1,653,334	0.91
CARPE DIEM ASSET MANAGEMENT PTY LTD	1,173,913	0.65
MR VINCENT MICHAEL O'SULLIVAN	1,151,000	0.64
AVANTEOS INVESTMENTS LIMITED	1,060,294	0.59
Total for top 20 shareholders	140,817,028	77.85

For information on shareholder voting rights, please refer to page 27.

Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2015

ESTIA HEALTH LIMITED ABN 37 160 986 201

FINANCIAL REPORT

Estia Health Limited

ABN 37 160 986 201

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CORPORATE INFORMATION

ABN 37 160 986 201

Directors

Paul Gregersen (Managing Director)	Appointed 17 November 2014
Patrick Grier (Non-executive Chairman)	Appointed 17 November 2014
Andrew Harrison (Non-executive Director)	Appointed 17 November 2014
Norah Barlow (Non-executive Director)	Appointed 17 November 2014
Peter Arvanitis (Non-executive Director)*	
Marcus Darville (Non-executive Director)	Resigned 17 November 2014, re-appointed 15 July 2015
Chris Hadley (Non-executive Director)	Resigned 10 October 2014
Clark Perkins (Non-executive Director)	Appointed 30 July 2014, resigned 17 November 2014
Jonathan Pearce (Non-executive Director)	Resigned 17 November 2014
Nick Yannopoulos (Executive Director)	Resigned 17 November 2014

** Peter Arvanitis was Chief Executive Officer until 31 August 2014*

Company Secretary

Suzy Watson	Appointed 5 December 2014
Nick Yannopoulos	Appointed 26 September 2014, resigned 5 December 2014
Stuart Whipp	Resigned 26 September 2014

Registered office

357 Camberwell Road
Camberwell VIC 3124

Principal place of business

357 Camberwell Road
Camberwell VIC 3124

Solicitors

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

Bankers

Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2015.

Directors

The names and details of the Group's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated. More detail on the current directors can be found on pages 20 and 21 of this Annual Report.

Paul Gregersen (Managing Director)

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

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

Patrick Grier

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

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

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

Andrew Harrison

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.

Norah Barlow

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

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

Norah has also served as a director of Ingenia Communities Group since 31 March 2014, Evolve Education Group since 13 November 2014, and Summerset Group Holdings Limited since 26 March 2009.

Peter Arvanitis

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

Marcus Darville

Marcus was reappointed as a non-independent non-executive director in July 2015 after he resigned in November 2014.

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

Chris Hadley

Chris is the Managing Director of Quadrant Private Equity. He is one of the longest serving executives in the Australian Private Equity industry and was one of the founding council members of AVCAL. Chris has led and managed a number of Quadrant investments and has been a director on many investee boards.

Chris is a Chartered Accountant and is a member of Financial Services International (Australia).

Chris has also been a director of APN Outdoor Group Limited between 1 May 2012 and 17 October 2014, Burson Group Limited between 17 October 2011 and 31 March 2014, Isentia Group Limited between 14 January 2014 and 9 May 2015, and Summerset Group Holdings Limited between 17 April 2009 and 21 October 2013.

Chris resigned from the Board in October 2014.

Clark Perkins

Clark is the CEO of Mercury Capital and has more than 25 years' experience in the investment banking, private equity and financial services industry.

Clark holds a Bachelor of Commerce from the University of Auckland.

Clark resigned from the Board in November 2014.

Jonathan Pearce

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

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

Jonathan resigned from the Board in November 2014.

DIRECTORS' REPORT

Nick Yannopoulos

Nick joined Estia Health Group from a background in sales, property and management roles. Nick played an integral part in improving and developing new systems and processes throughout the Group. He also played a major role in the Group's recent expansion and in particular ensuring that all acquisitions have transitioned smoothly into the Estia Health Group.

Nick resigned from the Board in November 2014 and as Company Secretary in December 2014.

Company Secretary

Suzy Watson

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

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

Dividends

The Directors propose a final cash dividend for the year ended 30 June 2015 of 13.6 cents per share (2014: nil) totalling \$24,575,540 (2014: nil). Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 30 June 2015.

Principal activities

The principal activities of the Estia Health Group during the year ended 30 June 2015 included the operating and developing of owned and leased residential aged care facilities throughout Australia.

Operating and financial review

Information on the operations and financial position for the Group is set out in our Operating and Financial Review (OFR) from page 14 of this financial report.

Significant changes in the state of affairs

On 5 December 2014 the Group successfully listed on the Australian Stock Exchange. A total of 126,087,759 shares were issued in the float with total gross proceeds of \$725,004,614.

On 9 December 2014 the proceeds raised from the listing were used to repay in full the funding provided under existing senior debt and mezzanine facilities, vendor and shareholder loans.

Significant events after the balance date

On 13 July 2015, Estia refinanced its existing debt facility to improve the ability to fund future growth. As part of the refinancing, Estia reduced the number of participants in the syndicated debt facility to include Westpac Banking Corporation and Commonwealth Bank of Australia. The amendments to the existing debt facility include an extension to 10 December 2018, a reduction in the unused line fee from 0.45% to 0.40% and the addition of a revolving \$150,000,000 accordion facility. The new facility was utilised on 4 August 2015 to repay the existing debt facility drawdown of \$54,250,000.

In July 2015:

- Estia acquired a 60 bed facility in Keysborough, Victoria;
- a strategic partnership agreement was entered into with developers to build four residential aged facilities which will add 500 places over 18 months to June 2017 with an option to build a further 500 places; and
- Estia entered into agreements to purchase two residential aged care facilities (133 places) in Victoria to be completed in September 2015 and one residential aged care facility (120 places) in regional Victoria, to be completed in October 2015.

In August 2015, Estia entered into an agreement to purchase a 70 bed facility, to be completed in September 2015 and a 48 bed facility to be completed in October 2015, both in metropolitan Melbourne.

Total committed gross consideration for these acquisitions is \$90,800,000.

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

DIRECTORS' REPORT

Likely developments and expected results

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

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

Environmental regulation and performance

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

Indemnification and insurance of directors and officers

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

- (a) The liability does not arise out of conduct involving a lack of good faith; and
- (b) The liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

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

(a) A wilful breach of duty; or

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

The total amount of insurance contract premiums paid was \$272,500.

Indemnification of auditors

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

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1 (where rounding is applicable) and where noted (\$) under the option available to the Group under ASIC CO 98/0100. Estia Health Ltd is an entity to which the class order applies.

Committee membership

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

DIRECTORS' REPORT

Directors' meetings

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

	Directors' meetings		Nomination and remuneration committee		Audit and risk committee	
No. of meetings held:	10		2		3	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Paul Gregersen	10	10	-	-	-	-
Patrick Grier	10	10	2	2	3	3
Andrew Harrison	10	10	-	-	3	3
Norah Barlow	10	10	2	2	3	3
Peter Arvanitis	10	9	2	2	-	-
Marcus Darville	1	1	-	-	-	-
Chris Hadley	1	-	-	-	-	-
Clark Perkins	1	-	-	-	-	-
Jonathan Pearce	1	1	-	-	-	-
Nick Yannopoulos	1	-	-	-	-	-

DIRECTORS' REPORT

Remuneration report – audited

FY2015 was an exciting year for Estia Health with the successful listing of the company on the Australian Securities Exchange on 5 December 2014.

The Prospectus lodged on 3 December 2014 contained an outline of the remuneration of Key Management Personnel (KMP) who have direct authority and responsibility for planning, directing and controlling the activities of Estia. In FY2015, no changes were made to the remuneration framework, however, the Board proposes to make minor adjustments to the framework in FY2016.

Estia's remuneration policy is aimed at ensuring the remuneration outcomes are linked to the Group's performance and align the interests of management with the interests of shareholders. The principles that underpin the remuneration framework support and drive the achievement of Estia's business strategy and seek to attract, retain and motivate senior management.

Summary of remuneration framework

In FY2015, the executive remuneration framework comprised a mix of fixed annual remuneration, and short and long-term performance-linked incentive plans as follows:

- Fixed remuneration: Base salary and superannuation set with reference to role, market and experience of the employee and set with reference to external benchmarking data. Group and individual performance are considered during the annual remuneration review.
- Variable remuneration:
 - Short-term element awarded in cash based on the achievement of financial objectives with a deferral for KMP; and
 - Long-term element dependent on total shareholder return (TSR) performance relative to peer groups and awarded in the form of performance rights.

Management Equity Plan (MEP) loan plan

The MEP is a legacy plan which was approved by the Board and implemented prior to listing. Details of the MEP are included in section 7 of this Report. The MD acquired shares under the MEP at the time of IPO and did not receive any other long-term incentive in FY2015.

The Board has decided that no new offers will be made under the MEP going forward.

Proposed changes in FY2016

The Board is currently undertaking a review of the remuneration policy and has engaged KPMG, an independent advisor, to ensure that the remuneration of KMP is competitive, linked to achievement of the business strategy, and aligns the interests of management with shareholders. The performance measures in the STI will be reviewed to include key financial and non-financial measures that link directly to the business strategy.

Details of any changes to the remuneration framework will be disclosed in the FY2016 remuneration report.

Conclusion

FY2015 marks the first year that Estia has reported on the remuneration of KMP. The Board are committed to engaging with shareholders and ensuring the remuneration framework is transparent and linked to the business strategy.

On behalf of the Board, we are pleased to present to you the FY2015 Remuneration Report for Estia.

DIRECTORS' REPORT

Remuneration report – audited (continued)

This report for the year ended 30 June 2015 (FY2015) outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001(Cth), as amended* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

This report is presented under the following sections:

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

1. Introduction

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

The table below outlines the KMP of the Group during FY2015. Unless otherwise indicated, the individuals were KMP for the entire financial year.

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

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

(i) Non-executive directors (NEDs)

Patrick Grier	Non-Executive Chairman	Appointed 17 November 2014
Andrew Harrison	Non-Executive Director	Appointed 17 November 2014
Norah Barlow	Non-Executive Director	Appointed 17 November 2014
Peter Arvanitis *	Non-Executive Director	Appointed 29 October 2012
Marcus Darville	Non-Executive Chairman	Resigned 17 November 2014
	Non-Executive Director	Re-appointed 15 July 2015
Chris Hadley	Non-Executive Director	Resigned 10 October 2014
Jonathan Pearce	Non-Executive Director	Resigned 17 November 2014
Clark Perkins	Non-Executive Director	Appointed 30 July 2014, resigned 17 November 2014

* Peter Arvanitis held the position of Chief Executive Officer until 31 August 2014.

DIRECTORS' REPORT

Remuneration report – audited (continued)

1. Introduction (continued)

(ii) Executive directors

Paul Gregersen #	Managing Director	Appointed 17 November 2014
Nick Yannopoulos ^	Executive Director	Ceased position 17 November 2014

(iii) Senior executives

Nick Yannopoulos ^	Strategy and Development Director	Resigned 30 June 2015
Joe Genova^^	Chief Financial Officer	Appointed 27 October 2014
Stuart Whipp	Chief Financial Officer	Resigned 26 September 2014

[^] Nick Yannopoulos resigned from Executive Director on 17 November 2014 and held a senior executive position until his resignation on 30 June 2015. He is considered to be a KMP for the entire financial year ended 30 June 2015.

^{^^} Joe Genova was seconded to the Group from KPMG on a temporary basis to act as a member of the finance team between 18 August 2014 and 23 October 2014. Payments to KPMG for his assistance amounted to \$168,504.

[#] Paul Gregersen was appointed as Chief Executive Officer on 1 August 2014 and was then appointed as Managing Director on 17 November 2014. He is considered to be a KMP since 1 August 2014.

2. Remuneration governance

2.1 Role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee (the Committee) is a committee established to assist and advise the Board on remuneration arrangements for KMP and other matters, to ensure that 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.

Specifically, the Board approves the remuneration arrangements of the Managing Director (MD) and other executives including awards made under the Short-Term Incentive Plan and Long-Term Incentives, following recommendations from the

Committee. The Board also sets the aggregate fee pool for Non-Executive Directors (NED) (which is subject to shareholder approval) and NED fee levels. The Committee approves, having regard to recommendations made by the MD, the level of the Group STI pool.

The Committee met twice in FY2015. The MD attends certain Committee meetings by invitation, where management input is required. The MD is not present during any discussions related to their own remuneration arrangements.

The Committee comprises three independent NEDs: Norah Barlow (Committee Chair), Patrick Grier and Peter Arvanitis. Further information on the Committee's role, responsibilities and membership, which is reviewed annually by the Board, can be seen at www.estiahealth.com.au/investor-centre/charters.

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.

The Committee approved the engagement of Egan Associates to provide remuneration assistance including benchmarking and providing recommendations in relation to the quantum and structure of executive remuneration prior to the initial public offering.

The Committee also approved the engagement of KPMG to provide remuneration assistance including benchmarking the remuneration of the Managing Director, Chief Financial Officer and the Director of Strategy and Development and providing other remuneration assistance as requested.

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

The fees paid to Egan Associates for the remuneration recommendations were \$46,200.

KPMG did not provide any remuneration recommendations in FY2015.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration

3.1 Remuneration principles and strategy

The Board's remuneration strategy supports and drives the achievement of Estia's business strategy. It aims to ensure that remuneration outcomes are linked to the Group's performance and aligned with shareholder outcomes.

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

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

Business strategy	<i>To be the leader in providing high quality residential aged care facilities in Australia</i>		
Remuneration Strategy	Align the interests of executives with achievement of business strategic objectives	Attract, motivate and retain high performing individuals from the widest possible pool of talent	
	Short and long-term incentives are based on performance measures designed to drive sustainable value creation for shareholders.	Competitive remuneration packages with longer-term incentives that attract high calibre employees from a diverse pool of talent and encourage retention and multi-year performance focus.	
Remuneration Framework	Fixed remuneration	Variable 'at risk' remuneration	
The Board has regard for comparator remuneration levels, consideration of executives' actual performance and increasing shareholder returns.	Fixed Annual Remuneration (FAR) Set with reference to role, market and experience of the employee and set with reference to external benchmarking data. Group and individual performance are considered during the annual remuneration review.	Short-Term Incentive Plan (STIP) Aligned to the achievement of Estia's business objectives measured over the short term. Focused on financial objectives measured by EBITDA. Awarded in cash, with a deferral element in some cases.	Long-Term Incentives (LTI) Aligned to the achievement of increased shareholder wealth over the long-term, it consists of: Long-Term Incentive Plan (LTIP) and Management Equity Plan (MEP). LTIP is dependent on total shareholder return (TSR) performance relative to peer groups and is awarded in performance rights. MEP is awarded in shares in Estia at a subscription price.*

* Note: The MEP is a legacy plan which was approved by the Board and implemented prior to listing. All MEP offers were made prior to listing and no new MEP offers were made since or are expected to be made going forward.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.2 Approach to setting remuneration

In FY2015, the executive remuneration framework comprised a mix of fixed annual remuneration, and short and long-term performance-linked incentive plans. The Group aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive.

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

3.3 Detail of remuneration structure

Total target remuneration

The FY2015 target remuneration mix awarded for each KMP is presented in the following table. The fixed and "at risk" variable remuneration is displayed as a percentage of total target annual remuneration.

	FIXED	VARIABLE	
	<i>FAR</i>	<i>STIP</i>	<i>LTI</i> ^
Managing Director	28%	14%	58% *
Other Senior Executives	65-77%	19-23%	0-16%

^ LTI refers to Long-Term Incentives and includes the LTIP and MEP.

* This represents the MEP awarded to the MD in FY2015. No LTIP has been awarded to the MD in the current period but it will be awarded to him in FY2016 subject to the Nomination and Remuneration Committee's approval. The MD participated in the MEP at the time of listing with the relevant details disclosed in the Prospectus. Details of the MD's participation in the MEP are disclosed at sections 3.3, 4 and 7.5 of this Report.

KMP target remuneration for FY2016 is outlined below. The remuneration framework for FY2016 is currently under review by the Nomination and Remuneration Committee and any changes will be disclosed in the FY2016 remuneration report.

Name	FAR ^	STIP ^^	LTIP ^^^
Paul Gregersen*	\$600,000	50%	-
Joe Genova**	\$400,000	30%	-

^ Excluding superannuation.

^^ Shown as a percentage of FAR.

^^^ LTIP includes the Long-Term Incentive Plan only and excludes the MEP legacy plan.

* Paul Gregersen will be granted performance rights under the LTIP in FY2016, subject to approval by the Nomination and Remuneration Committee.

** Joe Genova's FAR was increased from 1 July 2015 to \$400,000 excluding superannuation.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.3 Detail of remuneration structure (continued)

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. Each KMP's FAR is reviewed annually by the Committee. In addition, the Committee may from time to time engage external consultants to provide analysis and advice to ensure the KMP's compensation is competitive in comparison to comparator groups. This provides flexibility to recognise capability, contribution, value to the organisation and performance of individuals, while maintaining remuneration at a competitive level necessary to retain and motivate KMP.

Offer bonus

Upon the successful listing of the Group on the Australian Securities Exchange, a number of KMP received a one-off offer bonus in recognition of their contribution to the success of the Estia Group to date culminating in the successful Initial Public Offering.

Short-Term Incentive Plan

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

Participation	Senior executives who are employed for the full financial year and continue to be employed at the normal time for the payment of the STIP.
STIP value	The MD has a maximum STIP opportunity of 50% of FAR and other senior executives have a maximum STIP opportunity of 30% of FAR. This is set annually.
Assessment of performance	<p>Actual STIP payments awarded to each executive depend on the extent to which specific targets set at the beginning of the financial year are met.</p> <p>The targets may consist of a number of key performance indicators (KPIs) covering financial and non-financial, Group and business unit measures of performance.</p> <p>Estia has chosen to use a single financial performance measure in FY2015. The FY2015 financial measure is a comparison of the Group's actual pro forma EBITDA in FY2015 against the Group's forecasted EBITDA.</p> <p>The use of a single financial hurdle for STIP creates a clear line of sight for senior executives and transparency for shareholders as to the determination of STIP payments.</p> <p>EBITDA was chosen as the financial measure because the Board believes that it effectively aligns rewards for senior executives with the Group's strategic focus on delivering strong earnings throughout the business cycle.</p> <p>A mix of non-financial and financial performance measures will be used in FY2016 and onwards.</p>
Payment of STIP	<p>Performance against the financial and non-financial measures is tested annually after the end of the financial year. All payments under the STIP are determined by the Committee and the Board.</p> <p>STIP payments will be made in cash immediately after the release of the full year financial statements to the ASX. For certain senior executives, including the MD, 25% of any payment will be deferred for a period of 12 months.</p>

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.3 Detail of remuneration structure (continued)

Cessation of employment

For “Bad Leavers” (defined by the Group as resignation or termination for cause), any 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.

Long-Term Incentives

The Group has established two long-term incentive plans:

- i) Management Equity Plan; and
- ii) Long-Term Incentive Plan.

Management Equity Plan

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

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

The MD was offered a 10 year limited recourse loan with a face value of \$5 million under the MEP on 5 December 2014. The MEP loan was offered to subscribe for 869,565 MEP shares at the offer price of \$5.75 and is interest free and repayable by 5 December 2024. The shares are held under an escrow agreement until the first business day following the release of the financial results for the half year ending 31 December 2015.

The former Chief Financial Officer (CFO), Stuart Whipp, was offered a 10 year limited recourse and interest free loan with a face value of \$250,000 under the MEP on 2 April 2014. The MEP loan was offered to partly fund the subscription for 500,000 MEP shares at the offer price of \$1, with the remaining \$250,000 funded directly by the former CFO. On 7 November 2014, 400,000 of these shares were bought back by Estia at \$2 each for a purchase price of \$800,000, with \$250,000 being set off against the outstanding MEP loan amount and the remaining \$550,000 being paid in cash. This buy-back of 400,000 shares consists of 250,000 MEP shares (transaction value of \$500,000) which was originally financed by an MEP loan, and the remaining 150,000 shares (transaction value of \$300,000) that were previously fully funded by the former CFO. The \$250,000 difference between the original MEP loan amount of \$250,000 and the buy-back transaction value of the MEP shares of \$500,000 is disclosed as “termination payments” in the table at section 4.3 of this Report. The remaining 100,000 shares continue to be held nominally by Stuart following his resignation.

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

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.3 Detail of remuneration structure (continued)

Participation	<p>Senior executives, senior management and other key talent (as determined by the Board). In FY2015, the KMP participating in the MEP were the MD and the former Chief Financial Officer.</p> <p>At the time of listing, 7 other employees held shares under the MEP, 5 of which were also granted an MEP loan to subscribe for the MEP shares. These individuals are not KMP.</p>
Nature of MEP	MEP participants are granted the right to subscribe for shares in Estia at a subscription price. MEP participants may, at the discretion of the Board, be offered a 10 year limited recourse loan to subscribe for MEP shares.
Loan terms	The 10 year limited recourse loan to subscribe for MEP shares may cover either the full subscription price of the MEP shares or up to a certain percentage of the subscription price, with the MEP participant funding the balance.
Interest	Under the MEP rules, the MEP loan may attract a fixed interest as agreed with the participant and at the discretion of the Board. Any interest accrues daily and is added to the loan amount every 6 months if not paid.
Repayment of MEP Loans	Any dividends or other distributions received by MEP participants as a result of holding MEP shares in Estia must first be applied towards the repayment of any MEP Loan (except that amounts may be retained for expected tax liabilities payable in respect of those distributions).
Cessation of employment	If an MEP participant ceases to be employed by the Estia Group, Estia has the right to, in accordance with the Corporations Act, effect a buy-back, cancellation or redemption of any portion of the participant's MEP shares. Alternatively, Estia may require the MEP participant to sell all or a portion of their MEP shares to a nominated third party. A buy-back occurred upon the former CFO's cessation of employment in FY2015.
Rights and Restrictions	<p>Subject to the above, the MEP shares rank equally with, and contain the same rights as other shares (including in relation to dividends and voting).</p> <p>Until the later of the discharge of the MEP participant's liabilities and obligations under their MEP Loan agreement, MEP shares may only be transferred in certain limited circumstances. If the performance conditions attached to the MEP loans are satisfied and the outstanding balance is repaid in full, the participant will be free to deal in the MEP shares.</p>

Long Term Incentive Plan

LTIP grants are made to senior executives to assist in the reward, motivation and retention of personnel in the long-term. The plan is also designed to recognise the abilities, efforts and contributions of participants to Estia's performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in the Estia Group. LTIP grants were made to the Director for Strategy and Development and the Chief Financial Officer on 8 December 2014.

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.3 Detail of remuneration structure (continued)

Participation	Senior executives and other key talent who have an impact on the Group's performance against the relevant long-term performance measures. This may include the MD and other members of Estia's senior management. Non-executive directors are not entitled to participate.										
Delivery of LTIP	LTIP grants are delivered in the form of performance rights. On exercise, performance rights entitle the holders to shares.										
Performance conditions	<p>The Group uses relative Total Shareholder Return (TSR) as the performance measure for the LTIP which consists of two tranches. Each tranche comprises 50% of the total number of performance rights granted to the participant.</p> <p>Tranche 1 compares the TSR performance to the ASX200 Index and Tranche 2 compares the TSR performance to the ASX200 Healthcare Index. These peer groups were chosen as they reflect Estia's main market competitors for capital and talent.</p> <p>The Group's performance against the measure is determined according to Estia's ranking against the companies in the TSR peer groups over the performance period and the vesting outcomes are ultimately determined at the end of the performance period.</p> <p>The vesting schedule is as follows:</p> <table> <tr> <th>Relative TSR performance outcome</th><th>Percentage of grant which vests</th></tr> <tr> <td>Below the 50th percentile</td><td>Nil</td></tr> <tr> <td>At the 50th percentile</td><td>50%</td></tr> <tr> <td>Between the 50th and 75th percentile</td><td>Straight-line vesting between 50-100%</td></tr> <tr> <td>At or above the 75th percentile</td><td>100%</td></tr> </table> <p>Relative TSR was selected as the LTIP performance measure as TSR provides an alignment between comparative shareholder return and reward for executives whereas the relative measure minimises the effects of market cycles.</p>	Relative TSR performance outcome	Percentage of grant which vests	Below the 50th percentile	Nil	At the 50th percentile	50%	Between the 50 th and 75 th percentile	Straight-line vesting between 50-100%	At or above the 75 th percentile	100%
Relative TSR performance outcome	Percentage of grant which vests										
Below the 50th percentile	Nil										
At the 50th percentile	50%										
Between the 50 th and 75 th percentile	Straight-line vesting between 50-100%										
At or above the 75 th percentile	100%										
Performance period	Given the date of listing, the FY2015 grant has a performance period commencing on 8 December 2014 and ending on 30 June 2017. Future grants will have a minimum performance period of 3 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.										

DIRECTORS' REPORT

Remuneration report – audited (continued)

3. Executive remuneration (continued)

3.3 Detail of remuneration structure (continued)

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>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	<p>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.</p>

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.

4. Senior executive remuneration outcomes (including link to performance)

4.1 Group performance and its link to STIP

The financial performance measures driving STIP payment outcomes are the actual, forecast and stretch Pro Forma EBITDA of the Group. These are shown in the following table:

	FY2015
Actual Pro Forma EBITDA	\$69.7 million
Forecast Pro Forma EBITDA	\$70.2 million
Stretch Pro Forma EBITDA	\$73.0 million

Performance against FY2015 EBITDA

The table below outlines FY2015 Pro Forma EBITDA performance against targets.

Performance measure	FY2015 performance
Forecast Pro Forma EBITDA	Below target*
Stretch Pro Forma EBITDA	Below target*

** Details and explanations about the EBITDA performance against targets can be found in the Operational and Financial Review in this Annual Report.*

DIRECTORS' REPORT

Remuneration report – audited (continued)

4. Senior executive remuneration outcomes (including link to performance) (continued)

4.1 Group performance and its link to STIP (continued)

The following table outlines the proportion of maximum STIP earned and forfeited in relation to the 2015 financial year:

Name	Proportion of maximum STIP earned in FY2015	Proportion of maximum STIP forfeited in FY2015
Paul Gregersen	-	100%
Nick Yannopoulos	-	100%
Joe Genova	-	100%

4.2 Group performance and its link to LTIP

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

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

4. Senior executive remuneration outcomes (including link to performance) (continued)

4.3 Executive remuneration for the year from 1 July 2014 to 30 June 2015

	Short-term benefits			Post-employment benefits	Long-term benefits	Total fixed remuneration	“At risk”		Total fixed and “at risk”	Termination payments	Performance related remuneration
	Salary and fees	Offer bonus	Non-monetary benefits				Super-annuation benefits	Long service leave entitlements			
				\$	\$	\$			\$	\$	\$
Executive director											
Paul Gregersen*	869,282	228,311	-	52,763	-	1,150,356	-	69,861	1,220,217	-	6%
Senior executives											
Nick Yannopoulos	344,511	-	-	31,383	-	375,894	-	4,384	380,278	-	1%
Joe Genova	251,272	45,662	-	23,687	-	320,621	-	17,804	338,425	-	5%
Former											
Stuart Whipp	246,324	50,000	-	36,455	-	332,779	21,699	-	354,478	250,000	6%
Total executives	1,711,389	323,973	-	144,288	-	2,179,650	21,699	92,049	2,293,398	250,000	

[^] In accordance with AASB2 *Share-Based Payments*, the values provided have been calculated using accepted option valuation methodologies and includes share-based payments under the LTIP and MEP (see sections 3.3 and 7 of this report for further details).

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

5. Executive contracts

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

Name	Agreement commence	Agreement expire	Notice of termination by Group	Employee notice
Paul Gregersen	1 August 2014	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months
Nick Yannopoulos*	29 October 2012	Ended on 30 June 2015 upon resignation	12 months (or payment in lieu of notice)	12 months
Joe Genova	27 October 2014	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months
Stuart Whipp	6 September 2013	Ended on 26 September 2014 upon resignation	3 months (or payment in lieu of notice)	3 months

* Nick Yannopoulos still holds a number of performance rights under the LTIP, as noted in section 7.2 in this report.

6. Non-executive director fee arrangements

6.1 Determination of fees and maximum aggregate fee pool

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

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

The Group's constitution and the ASX listing rules specify the NED maximum aggregate fee pool shall be determined from time to time by a general meeting. The NED fee pool has been fixed by Estia at \$900,000 for FY2015 (including superannuation contributions as required by law).

The Board will not seek any increase for the NED maximum aggregate fee pool at the 22 September 2015 AGM.

6.2 Fee Structure

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

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

The Board has confirmed there will be no increases in Board or Committee fees for FY2016.

DIRECTORS' REPORT

Remuneration report – audited (continued)

6. Non-executive director fee arrangements (continued)

6.3 Total NED remuneration

The table below outlines fees paid to NEDs for FY2015 in accordance with statutory rules and applicable accounting standards.

	Board fees \$	Superannuation \$	Total fees \$
Non-Executive Directors			
Patrick Grier	127,327	5,422	132,749
Andrew Harrison	53,828	4,505	58,333
Norah Barlow	58,333	-	58,333
Peter Arvanitis [^]	-	-	-
Former			
Marcus Darville [*]	15,374	-	15,374
Chris Hadley [*]	11,171	-	11,171
Jonathan Pearce [*]	15,374	-	15,374
Clark Perkins ^{**}	-	-	-
Total	281,407	9,927	291,334

[^] Peter Arvanitis held the position of Chief Executive Officer until 31 August 2014 and has been a NED since. While his NED remuneration for FY2015 was honorary, Peter Arvanitis received a salary of \$117,413 and superannuation benefits of \$9,392 for the period 1 July 2014 to 31 August 2014 during his time as CEO. He did not participate in any STIP, MEP or LTIP plans during the year. He will be entitled to annual board fees of \$100,000 from 1 July 2015 in line with the other NEDs.

^{*} Marcus Darville and Jonathan Pearce resigned on 17 November 2014. Chris Hadley resigned on 10 October 2014. The Board fees included in the table represent amounts paid to Quadrant Private Equity Pty Ltd in respect of the individuals' services on the Board of Estia for the relevant period. Marcus Darville was appointed as NED on 15 July 2015.

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

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Additional disclosures relating to performance rights and shares

7.1 Performance rights granted, vested and lapsed during the year

The table below discloses the number of performance rights granted, vested or lapsed during the year. Performance rights do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry date. The rights granted to Paul Gregersen and Stuart Whipp are under the MEP whereas the rights granted to Nick Yannopoulos and Joe Genova are under the LTIP (see section 3.3 of this report for further details on the plans). The accounting considerations of the MEP are discussed in section 7.5 of this report.

	Number of rights granted during the year	Grant date	Fair value per right at grant date	Vesting date	Exercise price per option	Expiry date	Number of rights vested during the year	Number of rights lapsed during the year
Executive director								
Paul Gregersen	869,565	5 December 2014	\$1.42	5 December 2014	\$5.75	5 December 2024	-	-
Senior executives								
Nick Yannopoulos	17,739	10 December 2014	\$4.60	30 June 2017	Nil	30 June 2017	-	12,588
Joe Genova	17,739	10 December 2014	\$4.60	30 June 2017	Nil	30 June 2017	-	-
Former								
Stuart Whipp*	-	-	-	-	-	-	250,000	-

* Stuart Whipp resigned on 26 September 2014 and was not a KMP as at 30 June 2015. His MEP rights vested as part of the share buy-back transaction that took place during the year. Refer to Section 7.5 for more details.

7.2 Performance rights holdings of KMP and related parties

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

						Vested at 30 June 2015		
	Number of rights at 1 July 2014	Granted as remuneration	Rights exercised	Net change other ^	Number of rights at 30 June 2015	Total	Exercisable	Not exercisable
Executive director								
Paul Gregersen	-	869,565	-	-	869,565	-	-	-
Senior executives								
Nick Yannopoulos	-	17,739	-	12,588	5,151	-	-	-
Joe Genova	-	17,739	-	-	17,739	-	-	-
Former								
Stuart Whipp	250,000	-	250,000	-	N/A	250,000	250,000	-
Total	250,000	905,043	250,000	12,588	892,455	250,000	250,000	-

^ Net change of 12,588 represents the lapse of part of the LTIP performance rights held by Nick Yannopoulos upon cessation of employment. The remaining 5,151 performance rights are still held by Nick Yannopoulos and are subject to the LTIP rules.

DIRECTORS' REPORT

Remuneration report – audited (continued)

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

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

The table below discloses the value of performance rights granted, exercised or lapsed during the year. The accounting considerations of the MEP loan and MEP shares are discussed in section 7.5 of this report.

	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				
Paul Gregersen	1,232,869	-	-	6%
Senior executives				
Nick Yannopoulos	81,599	-	57,905	1%
Joe Genova	81,599	-	-	5%
Former				
Stuart Whipp	-	250,000	-	-
Total	1,396,067	250,000	57,905	

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

^b Determined at the time of exercise.

^c Determined at the time of lapse.

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

The following are the shares issued on exercise of performance rights in the year ended 30 June 2015:

	Number of shares issued	Paid per share	Unpaid per share
		\$	\$
Former			
Stuart Whipp	250,000	1	-
Total	250,000	1	-

DIRECTORS' REPORT

Remuneration report – audited (continued)

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

7.4 Shareholdings of KMP and related parties

KMPs or their related parties directly, indirectly or beneficially held a number of shares in Estia Group as detailed in the table below. The below represents shareholdings that are considered 'issued' or 'exercised' for accounting purposes which may be different to shareholdings that are 'legally issued' as a result of MEP shares held by Paul Gregersen and Stuart Whipp. For accounting considerations of the MEP please refer to section 7.5 of this report.

	Number of shares at 1 July 2014	Granted as remuneration ^	Exercise of rights	MEP shares ^	Sell-down at IPO @	Net change other	Number of shares at 30 June 2015	Held nominally
Non-executive directors								
Patrick Grier	-	-	-	258,620	-	43,478	302,098	302,098
Andrew Harrison	-	-	-	-	-	20,000	20,000	20,000
Norah Barlow	-	-	-	86,207	-	-	86,207	86,207
Peter Arvanitis	21,250,000	-	-	-	(8,623,800)	4,709,446	17,335,646	17,335,646
Executive director								
Paul Gregersen	-	869,565	-	-	-	-	869,565	-
Senior executives								
Nick Yannopoulos	1,250,000	-	-	-	(532,759)	140,000	857,241	140,000
Joe Genova	-	-	-	-	-	8,695	8,695	-
Former								
Marcus Darville*	-	-	-	-	-	-	N/A	-
Chris Hadley**	-	-	-	-	-	-	N/A	-
Jonathan Pearce*	-	-	-	-	-	-	N/A	-
Clark Perkins***	N/A	-	-	-	-	-	N/A	-
Stuart Whipp	250,000	-	250,000	-	-	(400,000)	N/A	-
Total	22,750,000	869,565	250,000	344,827	(9,156,559)	4,521,619	19,479,452	17,883,951

* Resigned on 17 November 2014 and was not a KMP as at 30 June 2015.

** Resigned on 10 October 2014 and was not a KMP as at 30 June 2015.

*** Appointed on 30 July 2014, resigned on 17 November 2014 and was not a KMP as at 30 June 2014 or 30 June 2015.

@ Peter Arvanitis and Nick Yannopoulos sold a portion of their nominal shares for cash from the proceeds of the IPO.

^ The MEP shares granted to Paul Gregersen are in exchange for an MEP loan whereas those granted to Patrick Grier and Norah Barlow are not funded by an MEP loan. Refer to section 7.5 of this Report for more details.

All equity transactions with KMP, other than those arising from the exercise of remuneration performance rights, the Priority Offer, the issuance of MEP shares and Stuart Whipp's share buy-back have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length. Patrick Grier, Andrew Harrison and Joe Genova subscribed for 43,478, 20,000 and 8,695 shares, respectively, under the Priority Offer as part of the IPO.

The shares held by Paul Gregersen, Patrick Grier, Andrew Harrison and Norah Barlow are under an escrow agreement until 5 December 2017. 13,875,200 shares held by Peter Arvanitis and 857,241 shares held by Nick Yannopoulos are under an escrow agreement until the first business day following the release of the financial results for the half year ending 31 December 2015. All shares under escrow can only be traded under certain customary exceptions during the escrow period.

DIRECTORS' REPORT

Remuneration report – audited (continued)

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

7.5 Accounting considerations of MEP loans

In accordance with AASB2 *Share-based payments*, the granting of shares in exchange for a limited recourse loan is effectively the same as granting a share option as it gives the MEP participant the right, but not the obligation, to subscribe to Estia's shares at a fixed price for a specified period of time. Even though Estia records the MEP shares as *issued* for legal purposes, they are not considered to be *issued* for accounting purposes. When issues relating to the MEP plan are made, limited recourse loans to assist in the purchase of the shares are recognised in equity as a debit to share capital. As the MEP holder repays the loan through the application of dividends and/or instalments, those payments are accounted for as partly paid capital. Effectively, the grant of MEP shares and limited recourse loan are set off against each other in equity.

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

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

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

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

8.1 Details and terms and conditions of other transactions with KMP and their related parties

Loans from KMP

(i) Details of loans from KMP and their related parties

	Balance at 1 July 2014	Advances by KMP	Interest charged	Interest not charged	Amounts repaid to KMP	Balance at 30 June 2015	Highest balance during year
	\$	\$	\$	\$	\$	\$	\$
Patrick Grier	-	300,000	11,040	-	311,040	-	311,040
Norah Barlow	-	100,000	2,795	-	102,795	-	102,795
Peter Arvanitis	-	1,250,000	68,724	-	1,318,724	-	1,318,724
Nick Yannopoulos	-	140,000	7,697	-	147,697	-	147,697
Total	-	1,790,000	90,256	-	1,880,256	-	1,880,256

(ii) Terms and conditions

The loans bear interest at 15% and were repaid during the year.

8.2 Amounts recognised at the reporting date in relation to other transactions

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

Signed in accordance with a resolution of the directors on 17 August 2015.



Patrick Grier
Chairman

AUDITOR'S INDEPENDENCE DECLARATION



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

In relation to our audit of the financial report of Estia Health Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rodney Piltz'.

Rodney Piltz
Partner
Melbourne
17 August 2015

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2015

	Note	2015 \$	2014 \$
Revenues	6	284,506,599	66,737,061
Other income		1,273,121	91,334
Expenses			
Administrative expenses	7	39,212,543	13,342,220
Depreciation and amortisation expenses	8	7,343,226	1,121,281
Employee benefits expenses	9	171,874,456	43,263,777
Finance costs	10	31,932,867	12,610,204
Health consultants expenses		4,768,429	1,334,008
Occupancy expenses	11	10,584,405	4,099,475
Resident expenses		20,463,374	5,284,381
Repairs and maintenance expenses		5,373,610	1,583,899
Share issue costs		2,740,777	-
Loss before income tax		(8,513,967)	(15,810,850)
Income tax (expense)/benefit	12	(14,009,309)	1,342,415
Loss for the year		(22,523,276)	(14,468,435)
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 loss for the year, net of tax		(22,523,276)	(14,468,435)
Earnings per share			
Basic, loss for the year attributable to ordinary equity holders of the Parent		(0.16)	(0.28)
Diluted, loss for the year attributable to ordinary equity holders of the Parent		(0.16)	(0.28)

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of financial position

For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
Current assets			
Cash and cash equivalents	13	46,197,055	3,571,341
Trade and other receivables	14	10,876,003	1,370,946
Prepayments and other assets	15	2,959,944	2,382,181
Other current assets	16	-	503,162
Total current assets		60,033,002	7,827,630
Non-current assets			
Property, plant and equipment	17	416,783,299	76,052,294
Goodwill	18	565,594,286	150,327,571
Other intangible assets	18	104,346,839	28,356,796
Deferred tax assets	12	-	2,981,938
Total non-current assets		1,086,724,424	257,718,599
Total assets		1,146,757,426	265,546,229
Current liabilities			
Trade and other payables	19	19,611,624	8,939,752
Loans and borrowings	20	54,250,000	2,746,442
Derivative financial instrument	21	-	1,301,608
Refundable accommodation deposits	22	471,085,901	77,625,576
Income tax payable	12	5,478,771	-
Provisions	23	21,186,482	6,438,354
Total current liabilities		571,612,778	97,051,732
Non-current liabilities			
Deferred tax liabilities	12	9,245,851	-
Loans and borrowings	20	-	112,763,080
Provisions	23	1,984,861	1,949,852
Total non-current liabilities		11,230,712	114,712,932
Total liabilities		582,843,490	211,764,664
Net assets		563,913,936	53,781,565
Equity			
Issued capital	24	600,784,556	68,250,000
Share-based payments reserve	25	121,091	-
Accumulated losses		(36,991,711)	(14,468,435)
Total equity		563,913,936	53,781,565

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2015

	Note	Issued capital \$	Share-based payments reserve \$	Accumulated losses \$	Total equity \$
As at 1 July 2013		4	-	-	4
Loss for the year		-	-	(14,468,435)	(14,468,435)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	(14,468,435)	(14,468,435)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	24	68,249,996	-	-	68,249,996
As at 30 June 2014		68,250,000	-	(14,468,435)	53,781,565
Loss for the year		-	-	(22,523,276)	(22,523,276)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	-	(22,523,276)	(22,523,276)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of share capital	24	745,563,124	-	-	745,563,124
Buy back of shares	24	(190,628,596)	-	-	(190,628,596)
Share issue costs (net of tax)	24	(22,399,972)	-	-	(22,399,972)
Share-based payments	25	-	121,091	-	121,091
As at 30 June 2015		600,784,556	121,091	(36,991,711)	563,913,936

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2015

	Note	2015 \$	2014 \$
Cash flows from operating activities			
Receipts from residents		69,930,724	15,871,676
Receipts from government		200,458,808	49,172,740
Payments to suppliers and employees		(217,910,427)	(45,111,756)
Refundable accommodation deposits received		160,215,387	15,718,876
Refundable accommodation deposits refunded		(76,075,991)	(14,693,615)
Interest received		964,107	236,697
Finance costs paid		(33,234,475)	(11,333,690)
Net cash flows from operating activities	13	104,348,133	9,860,928
Cash flows from investing activities			
Payments for business combinations, net of cash acquired	4	(467,852,268)	(148,368,940)
Deposits for acquisitions completing after reporting date	15	(325,000)	(1,028,434)
Payments for acquisition transaction costs	7	(30,739,057)	(11,448,167)
Purchase of intangible assets	18	(2,366,288)	(713,707)
Proceeds from sale of property, plant and equipment		39,591	17,009
Purchase of property, plant and equipment	17	(19,686,218)	(2,594,350)
Net cash flows used in investing activities		(520,929,240)	(164,136,589)
Cash flows from financing activities			
Proceeds from issue of share capital	24	745,563,124	44,415,825
Payments for buy back of share capital	24	(190,628,596)	-
Payments of initial public offering transaction fees		(34,971,347)	-
Proceeds from bank borrowings		341,942,990	70,850,000
Repayment of bank borrowings		(350,360,628)	(9,458,876)
Payments to/from related parties		503,162	(801,835)
Proceeds from shareholder loans		6,790,000	52,841,884
Repayments of shareholder loans		(59,631,884)	-
Net cash flows from financing activities		459,206,821	157,846,998
Net increase in cash and cash equivalents		42,625,714	3,571,337
Cash and cash equivalents at the beginning of the year		3,571,341	4
Cash and cash equivalents at the end of the year	13	46,197,055	3,571,341

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1. Corporate Information

The consolidated financial statements of Estia Health Ltd and its subsidiaries (collectively, the “Group”) for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the directors on 17 August 2015.

Estia Health Ltd (the “Company” or the “parent”) is a public company incorporated in Australia and is listed on the Australian Securities Exchange.

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

2. Summary of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for land and buildings 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 dollar (\$) unless otherwise stated.

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group’s current liabilities exceed current assets by \$511,579,776 as at 30 June 2015 (2014: \$89,224,102). This mainly arises because of the requirement to classify refundable accommodation deposits of \$471,085,901 (2014: \$77,625,576) as current liabilities (refer note 22 for further details).

(b) Statement of compliance

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

(c) New accounting standards and interpretations

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

New and amended standards and interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2014:

- Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*;
- AASB 1031 *Materiality*; and
- Improvements to AASBs 2011-2013 Cycle.

The application of these new standards and amendments did not materially impact the consolidated financial statements of the Group.

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2015, are outlined in the following table:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 9 / IFRS 9	Financial Instruments	<p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <ol style="list-style-type: none"> Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> - The change attributable to changes in credit risk are presented in other comprehensive income (OCI) - The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. 	1 January 2018	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
Amendments to AASB 116 and AASB 138	Clarification of Acceptable Methods of Depreciation and Amortisation	<p>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 July 2016
AASB 15 / IFRS 15	Revenue from Contracts with Customers	<p>IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>IFRS 15 supersedes:</p> <ul style="list-style-type: none"> (a) IAS 11 Construction Contracts (b) IAS 18 Revenue (c) IFRIC 13 Customer Loyalty Programmes (d) IFRIC 15 Agreements for the Construction of Real Estate (e) IFRIC 18 Transfers of Assets from Customers (f) SIC-31 Revenue—Barter Transactions Involving Advertising Services <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. 	1 July 2018	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	<p>AASB 7 Financial Instruments: Disclosures: Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure-Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.</p> <p>AASB 119 Employee Benefits: Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</p> <p>AASB 134 Interim Financial Reporting: Disclosure of information 'elsewhere in the interim financial report' -amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</p>	1 January 2016	1 July 2016
Amendments to AASB 101	Amendments to Australian Accounting Standards – Disclosure Initiative	<p>The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.</p>	1 January 2016	1 July 2016
AASB 1031	<i>Materiality</i>	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 January 2015	1 July 2015

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2015. Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

gains control until the date the Group ceases to control the subsidiary.

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(e) Business combinations and goodwill (continued)

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

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

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

(f) Current versus non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

(g) Revenue recognition

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

Rendering of services

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

Interest income

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

(h) Taxes

Current income tax

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

Deferred tax

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

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

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

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

available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(h) Taxes (continued)

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

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

Tax consolidation legislation

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

The head entity, Estia Health Ltd 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 Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a

contribution to (or distribution from) wholly-owned tax consolidated entities.

Goods and services tax (GST)

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

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

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

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

(i) Cash and cash equivalents

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(j) Trade and other receivables

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

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

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

(k) Property, plant and equipment

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

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

Following initial recognition at cost, land and buildings are measured at fair value using the revaluation model, less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Independent experts' valuations are obtained every three years. In addition, valuations are performed internally on an annual basis to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing

surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Upon disposal, any amount in the revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

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

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

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

(l) Leases

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(l) Leases (continued)

Group as a lessee

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

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

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

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

(m) Borrowing costs

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

(n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of

acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected as a profit or loss in the period in which the expenditure is incurred.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

Bed licences

Bed licences for the Group's aged care facilities are initially carried at historical cost.

Bed licences acquired through a business combination are valued at fair value at the date of acquisition in accordance with AASB 3 Business Combinations in the consolidated accounts. The bed licences continue to be carried at cost in the accounts of the individual acquired entities within the Group.

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

Goodwill

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

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

(o) Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

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

Loans and receivables

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

Derecognition

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

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

the asset, but has transferred control of the asset.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. AASB

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

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information refer Note 20.

Derecognition

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

Offsetting of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(p) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss. No derivative financial instruments were designated for hedge accounting.

(q) Impairment of non-financial assets

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

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

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

(r) Provisions

General

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

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

Wages, salaries, and sick leave

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

Long service leave and annual leave

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting date. The liability for long service leave and annual leave is recognised

and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

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

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the requirements for revenue recognition.

(s) Share-based payments

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Summary of significant accounting policies (continued)

(s) Share-based payments (continued)

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

(t) Fair value measurement

The Group measures financial instruments such as derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

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.

(u) Operating cash flow

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

3. Significant accounting judgements, estimates and assumptions

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

Use of judgements, estimates and assumptions

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

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2015 are included in the following notes:

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

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions in relation to these factors could affect the reported fair value of financial instruments. See Note 29 for further disclosures.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Business combinations

Acquisitions in 2015

During the year ended 30 June 2015, the Group successfully acquired:

- The Padman and Cook Care Group operations as at 31 July 2014, operating in South Australia, New South Wales and Queensland;
- Three companies from Hutchinson Healthcare Group operating in New South Wales on 6 May 2015; and
- The following businesses:

1 October 2014

Estia Albury, NSW
Estia Wodonga, VIC
Estia Leopold, VIC

1 December 2014

Estia Salisbury, SA
Estia Prahran, VIC
Estia Wattle Glen, VIC

Other

Estia Grovedale, VIC - 1 February 2015
Estia Burton, SA - 1 April 2015
Estia Mount Coolum, QLD - 1 June 2015

The acquisition of the Padman Aged Care Group business and assets consisted of the acquisition of 13 aged care facilities with 12 located in South Australia and 1 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease. The acquisition of the Cook Care Aged Care Group business and assets consisted of the acquisition of 9 aged care facilities with 6 located in New South Wales and 3 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease. The net proceeds paid for the acquisition of the Padman Aged Care Group and the Cook Care Aged Care Group excluding transaction costs was \$167,820,065 and \$149,453,721 respectively.

Estia Investments Pty Ltd also acquired 100% of the shares in Darvelan Pty Ltd, Poinsetter Pty Ltd and Koorabri Pty Ltd from Hutchinson Healthcare Group on 6 May 2015 for net proceeds of \$53,106,466 excluding transaction costs. These companies are aged care providers that fit into Estia's growth strategy towards operating 10,000 places by 2020. The approved aged care provider status of each entity has been transferred to Estia Investments Pty Ltd from 30 June 2015 and therefore the three component entities are in the process of being deregistered.

In addition, the Estia Group acquired the aged care business and net assets for net proceeds paid of \$101,144,028, excluding transaction costs, for the remaining facilities listed above.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Business combinations (continued)

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

	Padman Group	Cook Care Group	Other acquisitions	Total
Assets				
Land and buildings	112,350,000	90,999,000	107,469,706	310,818,706
Plant and equipment	5,167,230	4,842,113	7,058,981	17,068,325
Bed licenses	25,440,000	21,490,000	27,216,000	74,146,000
Cash and cash equivalents	-	-	2,872,956	2,872,956
Other assets	-	896,361	1,716,858	2,613,219
Deferred tax assets	1,379,731	855,438	3,458,465	5,693,633
	<u>144,336,961</u>	<u>119,082,912</u>	<u>149,792,966</u>	<u>413,212,839</u>
Liabilities				
Refundable accommodation deposits	98,393,090	99,586,084	116,262,778	314,241,952
Employee entitlements	4,599,102	2,851,460	4,878,216	12,328,778
Other liabilities	4,254,984	2,894,178	4,013,900	11,163,062
Deferred tax liability	9,612,950	4,648,780	4,959,752	19,221,482
	<u>116,860,126</u>	<u>109,980,502</u>	<u>130,114,646</u>	<u>356,955,274</u>
Total fair value of net assets acquired	27,476,834	9,102,411	19,678,320	56,257,565
Goodwill on acquisition	140,343,231	140,351,310	134,572,174	415,266,715
Purchase consideration transferred	167,820,065	149,453,721	154,250,494	471,524,280
Cash flow on acquisition				
Vendor loan and deferred consideration	25,000,000	27,500,000	799,056	53,299,056
Cash paid	142,820,065	121,953,721	153,451,437	418,225,224
Total consideration paid	167,820,065	149,453,721	154,250,493	471,524,280
Cash acquired				(2,872,956)
Deferred consideration				(799,056)
Purchase consideration paid during year, net of cash acquired				467,852,268

On 9 December 2014, the vendor loan and deferred consideration for Padman and Cook Care Acquisitions amounting to \$52,500,000 was repaid, in addition to accrued interest of \$1,910,743 at a fixed rate of 10%.

All fair values of identifiable assets and liabilities at the date of acquisition are final, except for the following acquisitions for which fair values are still provisional as at 30 June 2015:

- Hutchinson Group Entities
- Estia Mount Coolum
- Estia Burton
- Estia Grovedale
- Estia Salisbury

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Business combinations (continued)

The consolidated statement of profit or loss and other comprehensive income includes the following revenue and net profit before tax for the year ended 30 June 2015. These exclude one-off acquisition related costs equating to \$30,739,057.

	Padman Group	Cook Care Group	Other acquisitions	Total
Revenue	85,200,224	61,349,861	34,379,587	180,929,672
Net profit before tax	24,885,201	17,154,283	6,469,666	48,509,150

If the acquisitions had taken place at the beginning of the year, the following revenue and net profit before tax would have been included. These exclude one-off acquisition related costs equating to \$30,739,057.

	Padman Group	Cook Care Group	Other acquisitions	Total
Revenue	93,387,633	67,245,343	87,740,683	248,573,659
Net profit before tax	27,276,572	18,802,743	17,409,903	63,489,218

Acquisition related costs incurred in total relating to all acquisitions to 30 June 2015 have been expensed and are presented as transaction costs in the consolidated statement of profit or loss and other comprehensive income.

5. Information relating to subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	% Equity Interest 2015	2014
Estia Finance Pty Ltd	Employer of key management personnel and borrower of bank loans	Australia	100%	100%
Estia Investments Pty Ltd	Accredited provider of aged care facilities	Australia	100%	100%
Estia Mezzco Pty Ltd	Borrower of financing facilities	Australia	100%	100%
Estia Midco Pty Ltd	Holding company	Australia	100%	100%
Darvelan Pty Ltd	Accredited provider of aged care facilities	Australia	100%	-
Poinsetter Pty Ltd	Accredited provider of aged care facilities	Australia	100%	-
Koorabri Pty Ltd	Accredited provider of aged care facilities	Australia	100%	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

6. Revenues

	2015 \$	2014 \$
Government funding	202,572,483	50,064,998
Resident funding	67,307,436	13,016,471
Accommodation funding	13,662,573	3,418,895
Finance income	964,107	236,697
Total revenues	284,506,599	66,737,061

7. Administrative expenses

	2015 \$	2014 \$
Acquisition related costs	30,739,057	11,448,167
Advertising and marketing expenses	513,100	73,967
Telephone and communication expenses	1,111,515	189,701
Travelling expenses	1,591,754	75,347
Printing and stationery expenses	782,237	289,710
Professional services expenses	1,255,402	751,527
Doubtful debts	442,837	178,000
Other administrative expenses	2,776,641	335,801
Total administrative expenses	39,212,543	13,342,220

8. Depreciation and amortisation expenses

	Note	2015 \$	2014 \$
Depreciation expense	17	6,820,981	1,116,370
Amortisation expense	18	522,245	4,911
Total depreciation and amortisation expenses		7,343,226	1,121,281

9. Employee benefits expenses

	2015 \$	2014 \$
Wages and salaries costs	157,720,776	36,823,891
Superannuation costs	13,323,806	5,899,478
Share-based payment expense	121,091	-
Other employment expenses	708,783	540,408
Total employee benefits expenses	171,874,456	43,263,777

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Finance costs

	2015 \$	2014 \$
Interest expense on bank loans	10,929,569	4,773,188
Interest expense on shareholder loans	6,601,625	5,341,884
Net loss from revaluation of interest rate swap	655,662	1,276,514
Borrowing costs	13,746,011	1,218,618
Total finance costs	31,932,867	12,610,204

11. Occupancy expenses

	2015 \$	2014 \$
Rents and outgoings	9,010,265	3,944,878
Other occupancy expenses	1,574,140	154,597
Total occupancy expenses	10,584,405	4,099,475

12. Income tax

The major components of income tax expense/(benefit) for the years ended 30 June 2015 and 2014 are:

Consolidated statement of profit or loss and other comprehensive income

	2015 \$	2014 \$
<i>Current income tax:</i>		
Current income tax expense/(benefit)	5,478,771	(2,209,930)
<i>Deferred income tax:</i>		
Relating to origination and reversal of temporary differences	8,091,112	867,515
Adjustments in respect of income tax of previous year	439,426	-
Income tax expense/(benefit) reported in the consolidated statement of profit or loss and other comprehensive income	14,009,309	(1,342,415)

Reconciliation of income tax expense/(benefit) and the accounting loss:

	2015 \$	2014 \$
Accounting loss before income tax	(8,513,967)	(15,810,850)
At the Australian statutory income tax rate of 30% (2014: 30%)	(2,554,190)	(4,743,255)
Adjustments in respect of income tax of previous year	439,426	-
Expenditure not allowable for income tax purposes		
- Acquisition related costs for current year business combinations	9,230,363	3,400,840
- Acquisition related costs for previous year business combinations	6,893,710	-
Income tax expense/(benefit)	14,009,309	(1,342,415)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

12. Income Tax (continued)

Deferred taxes relate to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	2015	2014	2015	2014
	\$	\$	\$	\$
Accelerated depreciation	(27,620,101)	(772,427)	(7,017,394)	1,256
IPO transaction fees	8,522,265	-	(1,308,333)	-
Other	-	(20,479)	(12,107)	(20,479)
Tax losses	1,995,000	504,901	(270,245)	-
Derivatives	-	382,954	(382,954)	382,954
Share-based payments	36,327	-	36,327	-
Provisions and accruals	7,820,658	2,886,989	863,594	503,784
Deferred tax expense			(8,091,112)	867,515
Deferred tax assets/(liabilities), net	(9,245,851)	2,981,938		

Reflected in the statement of financial position as follows:

Deferred tax assets	18,974,250	3,754,365
Deferred tax liabilities	(28,220,101)	(772,427)
Deferred tax assets/(liabilities), net	(9,245,851)	2,981,938

Reconciliation of deferred tax liabilities, net:

	2015	2014
	\$	\$
As of 1 July	2,981,938	-
Tax income/(expense) during the year recognised in profit or loss	(8,091,112)	867,515
Adjustments in respect of income tax of previous year	(439,426)	-
Deferred taxes recognised in equity	9,830,598	-
Net deferred taxes acquired in business combinations	(13,527,849)	2,114,423
As at 30 June	(9,245,851)	2,981,938

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

The Group has tax losses which arose in Australia of \$11,219,216 that were transferred to Estia Health as part of the acquisition of the Hutchinson component entities during the year. These are subject to an available fraction which determines the annual rate at which the losses may be recouped. Tax losses which arose in 2014 of \$1,683,003 were fully utilised during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

12. Income Tax (continued)

Tax consolidation

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

Estia Health Ltd and its subsidiaries formed an income tax consolidated group with effect from 19 June 2013. The Hutchinson entities joined the income tax consolidated group with effect from 6 May 2015. Estia Health Ltd is the head entity of the income tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

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

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

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

Nature of the tax funding agreement

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

13. Cash and cash equivalents

(a) Reconciliation of cash

	2015 \$	2014 \$
Cash balance comprises:		
Cash at banks	46,100,346	3,567,681
Cash on hand	96,709	3,660
	46,197,055	3,571,341

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

At 30 June 2015, the Group had available \$95,750,000 (2014: \$114,150,000) of undrawn committed borrowing facilities. Refer to Note 20 for further details.

	2015 \$	2014 \$
(b) Cash flow reconciliation		
Reconciliation of net loss after income tax to net cash flows from operations:		
Loss after income tax	(22,523,276)	(14,468,435)
Adjustments to reconcile loss after income tax to net cash flows:		
Depreciation of property, plant and equipment	6,820,981	1,116,370
Amortisation of intangibles	522,245	4,911
Net loss on disposal of property, plant and equipment	(18,328)	1,664
Bond retention revenue	(4,921,024)	-
Doubtful debts	442,837	178,000
Share-based payments	121,091	-
Stepped lease costs	143,608	322,003
Acquisition related transaction costs	30,739,057	-
Share issue costs	2,740,777	-
Fair value loss of derivative financial instrument	(1,301,608)	1,276,514
Changes in assets and liabilities		
Increase in trade and other receivables	(9,947,894)	(1,548,946)
Decrease/(Increase) in prepayments and other assets	1,561,400	(2,382,181)
Decrease/(Increase) in deferred tax assets	2,981,938	(2,981,938)
Increase in deferred tax liabilities	5,548,600	-
Increase in current tax payable	5,478,771	-
(Decrease)/Increase in trade and other payables	(491,189)	26,215,105
Increase in provisions	2,310,751	1,102,600
Increase in refundable accommodation deposits	84,139,396	1,025,261
	104,348,133	9,860,928

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

14. Trade and other receivables

	2015 \$	2014 \$
Trade receivables	6,709,567	773,277
Other receivables	4,166,436	597,669
	10,876,003	1,370,946

a) Allowance for impairment loss

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at 30 June 2015, trade receivables of an initial value of \$1,017,429 (2014: \$178,000) were impaired and fully provided for. The movements in the allowance for impairment loss was as follows:

	2015 \$	2014 \$
At 1 July	178,000	-
Charge for the year	442,837	178,000
Increase through business combinations	396,592	-
Utilised	-	-
Unused amounts reversed	-	-
At 30 June	1,017,429	178,000

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

	Total	Neither past due nor impaired	Past due but not impaired				Past due and impaired
			<30 days	30-60 days	61-90 days	> 90 days	
2015	7,726,996	3,477,889	1,207,718	626,676	618,017	1,796,696	1,017,429
2014	951,277	746,299	132,246	72,732	-	-	178,000

See Note 29 on credit risk which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

b) Terms and conditions and allowances for impairment loss

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

15. Prepayments and other assets

	2015 \$	2014 \$
Deposits	1,220,127	2,081,117
Prepayments	1,266,858	301,064
Other assets	472,959	-
	2,959,944	2,382,181

Deposits as at 30 June 2015 include payments of \$325,000 (2014: \$1,028,434) made on settlement contracts for acquisition of aged care facilities.

16. Other current assets

	2015 \$	2014 \$
Loan to Midsummer House Trust	-	253,383
Loan to Green Hills Trust	-	250,000
Loan to Lasting Changes Trust	-	(221)
Total other current assets	-	503,162

The loan to Green Hills Trust was made by Estia Finance Pty Ltd for the purpose of purchasing shares in Estia Health Ltd under a Management Equity Plan (refer to Note 25). Interest is charged at the rate of 5.95% p.a. capitalised every 6 months. The loan is repayable at the earlier of an exit event or on the 10 year anniversary of the loan, being 23 October 2014.

Other current assets consist of loans to related parties. The loan to Midsummer House Trust was interest free and was repaid during the year. The loan to Lasting Changes Trust was interest free and during the year the directors waived the debt being repaid.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

17. Property, plant and equipment

Reconciliation of property, plant and equipment

Cost	Note	Land \$	Buildings \$	Property improvements \$	Furniture, fixtures & equipment \$	Motor vehicles \$	Construction in progress \$	Total \$
Balance at 1 July 2013		-	-	-	-	-	-	-
Acquisitions through business combinations		18,763,000	52,555,350	-	3,241,734	32,903	-	74,592,987
Additions		995,000	-	329,103	1,265,397	4,850	-	2,594,350
Disposals		-	-	-	(15,921)	(3,229)	-	(19,150)
Balance at 30 June 2014		19,758,000	52,555,350	329,103	4,491,210	34,524	-	77,168,187
Acquisitions through business combinations	4	72,007,900	238,810,806	-	16,457,268	611,057	-	327,887,031
Additions		1,838,270	5,278,000	1,637,053	5,334,969	34,432	5,563,494	19,686,218
Disposals		-	-	-	(2,273)	(21,274)	-	(23,547)
Balance at 30 June 2015		93,604,170	296,644,156	1,966,156	26,281,174	658,739	5,563,494	424,717,889
Accumulated depreciation								
Balance at 1 July 2013		-	-	-	-	-	-	-
Depreciation expense		-	542,606	9,921	557,531	6,312	-	1,116,370
Disposals		-	-	-	(112)	(365)	-	(477)
Balance at 30 June 2014		-	542,606	9,921	557,419	5,947	-	1,115,893
Depreciation expense	8	-	3,907,996	61,546	2,713,290	138,149	-	6,820,981
Disposals		-	-	-	-	(2,284)	-	(2,284)
Balance at 30 June 2015		-	4,450,602	71,467	3,270,709	141,812	-	7,934,590
Net book value								
As at 30 June 2014		19,758,000	52,012,744	319,182	3,933,791	28,577	-	76,052,294
As at 30 June 2015		93,604,170	292,193,554	1,894,689	23,010,465	516,927	5,563,494	416,783,299

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

18. Intangible assets

	Goodwill \$	Bed licences \$	Software costs \$	Total \$
Cost				
Balance at 1 July 2013	-	-	-	-
Additions	-	-	713,707	713,707
Acquisitions through business combinations	150,327,571	27,648,000	-	177,975,571
Balance at 30 June 2014	150,327,571	27,648,000	713,707	178,689,278
Additions	-	-	2,366,288	2,366,288
Acquisitions through business combinations	415,266,715	74,146,000	-	489,412,715
Balance at 30 June 2015	565,594,286	101,794,000	3,079,995	670,468,281
Accumulated amortisation				
Balance at 1 July 2013	-	-	(4,911)	(4,911)
Amortisation expense	-	-	-	-
Balance at 30 June 2014	-	-	(4,911)	(4,911)
Amortisation expense	-	-	(522,245)	(522,245)
Impairment	-	-	-	-
Balance at 30 June 2015	-	-	(527,156)	(527,156)
Net book value				
As at 30 June 2014	150,327,571	27,648,000	708,796	178,684,367
As at 30 June 2015	565,594,286	101,794,000	2,552,839	669,941,125

(a) Bed Licences

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

(b) Impairment of intangible assets

Intangible assets with an indefinite useful life form part of one CGU for impairment testing purposes, which is consistent with the operating segment identified in Note 33.

Goodwill and bed licenses acquired through business combinations were tested for impairment at the reporting date. The recoverable amount of the cash generating unit was assessed by reference to the cash generating unit's value in use based on financial forecasts approved by the Board covering a five year period (2016 to 2020) and a terminal value. The cash flow projections assumed a growth rate of 3.0% between financial years 2016 to 2020 on EBITDA remaining stable over the projected period and a terminal value growth rate of 2.1% has been applied.

A post-tax discount rate of 10.5% (2014: 10.5%) was applied in the value in use model, which was determined based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Market-specific risk is incorporated by applying individual beta factors which are evaluated annually based on publicly available market data.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

18. Intangible assets (continued)

Adjustments to the discount rate are made to factor in the specific amount of the future tax flows in order to reflect a pre-tax discount rate of 11.81%. The recoverable amount was determined to be higher than the carrying amount and therefore the directors determined that the intangible assets with an indefinite useful life were not impaired.

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

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

19. Trade and other payables

	2015 \$	2014 \$
Trade creditors	2,970,785	1,370,407
Payroll liabilities	6,510,456	1,387,644
Sundry creditors and accruals	9,331,327	6,134,885
Deferred consideration on acquisition	799,056	-
Deferred income	-	46,816
	19,611,624	8,939,752

20. Loans and borrowings

	2015 \$	2014 \$
Current loans and borrowings		
Bank loans, secured	54,250,000	2,746,442
Total current loans and borrowings	54,250,000	2,746,442
Non-current loans and borrowings		
Bank loans, secured	-	59,921,196
Shareholder loans, unsecured	-	52,841,884
Total non-current loans and borrowings	-	112,763,080
Total loans and borrowings	54,250,000	115,509,522

Terms and conditions of loans

At 30 June 2014, the bank loans were a mix of senior debt and mezzanine facilities with a maturity in October 2018. Interest was calculated by reference to the bank bill swap bid rate ("BBSY") plus a margin between 1.0% and 4.0%. As part of the acquisition of Padman and Cook Care, the Company provided vendor loans bearing interest at a fixed rate of 15%. Bank, vendor and shareholder loans, including accrued interest, were repaid on 9 December 2014 from the initial public offering proceeds.

The Group entered into a three year bullet revolving cash advance facility (the "Facility") of \$150,000,000 available from completion of the initial public offering on 5 December 2014. 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. An amount of \$54,250,000 was withdrawn in May 2015 to fund the acquisition of the Hutchinson entities. As at 30 June 2015, an amount of \$95,750,000 remains undrawn.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

20. Loans and borrowings (continued)

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

On 13 July 2015, Estia entered into an agreement to refinance the Facility with two lenders, Westpac Banking Corporation (Westpac) and Commonwealth Bank of Australia. The Facility was extended to 10 December 2018 and includes the addition of a \$150,000,000 accordion facility to be used for acquisitions and capital investment. In addition, the rate for the unused line fee was reduced from 0.45% to 0.40%. There were no significant changes to other terms and conditions. The new facility was utilised on 4 August 2015 to repay the current debt facility drawdown of \$54,250,000.

21. Derivative financial instrument

	2015 \$	2014 \$
Interest rate swap contracts	-	1,301,608

At 30 June 2014, interest bearing loans of the Group bore an interest rate calculated by reference to BBSY plus a margin between 1.0% and 4.0%. In order to protect against rising interest rates, the Group entered into three separate interest rate swap contracts, one with National Australia Bank, one with Westpac and the other with Investec. These contracts had a fixed interest rate of 3.58%. Cover for the interest rate swap contracts extended through until October 2018 for varying amounts originally determined to equate to a minimum of 75% of the Group's forecast borrowings. All interest rate swaps were repaid in December 2014 as part of the initial public offering and no interest rate swap contracts exist at 30 June 2015.

22. Refundable accommodation deposits

	2015 \$	2014 \$
Refundable accommodation deposits – amounts received	471,085,901	77,625,576

Terms and conditions relating to refundable accommodation deposits (RADs)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

22. Refundable accommodation deposits (continued)

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

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

23. Provisions

	2015 \$	2014 \$
Current		
Employee benefits	20,720,871	6,116,351
Stepped lease provision	465,611	322,003
Total current provisions	21,186,482	6,438,354
Non-current		
Employee benefits	1,984,861	1,949,852
Total non-current provisions	1,984,861	1,949,852
Total provisions	23,171,343	8,388,206

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

	Stepped Lease Provision \$
Balance at 1 July 2013	-
Acquisitions through business combinations	-
Expense during the year	322,003
Balance at 30 June 2014	322,003
Acquisitions through business combinations	-
Expense during the year	143,608
Balance at 30 June 2015	465,611

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

24. Issued capital and reserves

	Note	2015 \$	2014 \$
<i>Issued and fully paid</i>			
Ordinary shares		600,784,556	68,250,000
		600,784,556	68,250,000

(a) Movements in ordinary shares on issue

	2015		2014	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	68,250,000	68,250,000	4	4
Share issue	144,817,184	745,563,124	68,249,996	68,249,996
Buy back of shares	(33,413,669)	(190,628,596)	-	-
Transaction costs for issued share capital	-	(22,399,972)	-	-
Movement in management equity plan	1,232,065	-	-	-
End of the financial year	180,885,580	600,784,556	68,250,000	68,250,000

The Group bought back 38.3% of the issued share capital from each of the shareholders immediately prior to listing on 5 December 2014, amounting to \$190,628,596. The shareholders were paid with the proceeds generated from the initial public offering.

(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 25 for further details of these plans.

(c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2015 is \$595,821 (2014: nil), consisting solely of franking credits transferred from the wholly owned subsidiary Koorabri Pty Ltd which was acquired during the year.

(d) Dividends proposed

The Directors propose a final cash dividend for the year ended 30 June 2015 of 13.6 cents per share (2014: nil) totalling \$24,575,540 (2014: nil). Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 30 June 2015.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

25. Share-based payments

At 30 June 2015, the Group had the following share-based payments arrangements:

(i) Long-Term Incentive Plan

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

LTIP grants were made to the Chief Financial Officer and the former Director for Strategy and Development on 8 December 2014.

(ii) Management Equity Plan

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

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

The following table details the MEP loans outstanding at 30 June 2015:

	Number of MEP shares	Subscription price of MEP shares (\$)	% of MEP Shares funded through MEP loans	Interest rate on MEP loan
Ruvani De Silva	250,000	250,000	100%	5.95%
Pru Mounsey	37,500	75,000	100%	5.95%
Rachael Pulbrook	25,000	50,000	100%	5.95%
Penelope Munn	25,000	50,000	100%	5.95%
Glenn Hancock	25,000	29,000	100%	5.95%
Paul Gregersen	869,565	5,000,000	100%	-
	1,232,065	5,454,000		

Paul Gregersen's MEP shares are held under an escrow agreement until the first business day following the release of the financial results for the half year ending 31 December 2015.

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

Recognition and measurement of fair value

(i) Long-Term Incentive Plan

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

25. Share-based payments (continued)

(ii) Management Equity Plan

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

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

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

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

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

	2015
Share price at grant date	\$1.16 – \$5.75
Exercise price	\$1.80 – \$5.75
Volatility	30%
Risk free rate	3.04% – 3.26%
Expected life of share options	10 years

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

25. Share-based payments (continued)

Movements during the year

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

	2015		2014	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	-	-	-	-
Granted during the year	1,367,543	4.06	-	-
Forfeited during the year	(12,588)	-	-	-
Exercised during the year	(100,000)	1.00	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	1,254,955	4.35	-	-
Exercisable at 30 June	1,232,065	4.43	-	-

The weighted average remaining contractual life for the share options outstanding as at 30 June 2015 was approximately 9.41 years.

The weighted average fair value of options granted during the year was \$1.93.

The range of exercise prices for options outstanding at the end of the year was \$1.00 to \$5.75.

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:

	2015 \$	2014 \$
Long-term incentive plan	22,974	-
Management equity plan	98,117	-
Share-based payments expense recognised in profit or loss	121,091	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

26. Earnings per share

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

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

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

	2015 \$	2014 \$
Loss attributable to ordinary equity holders of the Parent for basic earnings	(22,523,276)	(14,468,435)
Effect of dilution	-	-
Loss attributable to ordinary equity holders of the Parent for dilutive earnings	(22,523,276)	(14,468,435)

	2015	2014
Weighted average number of ordinary shares for basic EPS	138,234,542	51,187,497
Effect of dilution	217,854	-
Weighted average number of ordinary shares for the effect of dilution	138,452,396	51,187,497

27. Related party disclosures

Note 5 provides the information about the Group's structure including the details of the subsidiaries and the holding company. Notes 16 and 25 provide the information about the loans to related parties. There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

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

	2015 \$	2014 \$
Short-term employee benefits	2,035,362	1,070,873
Post-employment benefits	144,288	99,895
Short-term incentive payments	21,699	-
Share-based payments	92,049	-
Termination payments	250,000	-
Total compensation of key management personnel	2,543,398	1,170,768

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

28. Commitments and contingencies

Operating lease commitments – Group as lessee

During the year, the Group had commercial property leases for the Corporate Office, two interstate administration offices and five aged care facilities. The two interstate administration offices were vacated during the year and the remaining lease payments were settled.

The remaining non-cancellable leases have remaining terms of between 1 and 8 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions and to extend the lease for at least a further term.

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

	2015	2014
	\$	\$
Within one year	3,775,779	3,263,915
After one year but not more than five years	8,590,371	11,205,308
More than five years	4,385,126	7,852,878
	16,751,276	22,322,101

Commitments

Commitments for business combinations entered into after reporting date are disclosed in Note 32 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

29. Financial risk management objectives and policies

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

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 30 June 2015 and 30 June 2014.

The sensitivity analyses have been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives are all constant and on the basis of the hedge designations in place at 30 June 2015 and 30 June 2014.

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

- The statement of financial position sensitivity relates to derivatives; and
- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2015 and 30 June 2014.

Interest rate risk

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

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

	Weighted average effective interest rates		Fixed or Floating
	2015 %	2014 %	
Cash and liquid assets	1.8	2.5	Floating
Bank loans	3.2	6.4	Floating
Shareholder loans	-	15.0	Fixed

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

29. Financial risk management objectives and policies (continued)

Interest rate sensitivity

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

	Effect on profit before tax Higher/(lower)		Effect on equity Higher/(lower)	
	2015	2014	2015	2014
+ 0.25% (25 basis points)	(17,740)	(299,745)	(12,418)	(209,821)
- 0.25% (25 basis points)	17,740	299,745	12,418	209,821

Foreign currency risk

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

Credit risk

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

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

Approximately 71% 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

29. Financial risk management objectives and policies (continued)

Liquidity risk

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

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

	On demand \$	Less than 12 months \$	1 to 5 years \$	More than 5 years \$	Total \$
Year ended 30 June 2015					
Trade and other payables	-	19,611,624	-	-	19,611,624
Loans and borrowings	-	54,708,190	-	-	54,708,190
Refundable accommodation deposits	471,085,901	-	-	-	471,085,901
	471,085,901	74,319,814	-	-	545,405,715
Year ended 30 June 2014					
Trade and other payables	-	8,939,752	-	-	8,939,752
Derivative financial instrument	-	1,301,608	-	-	1,301,608
Loans and borrowings	-	4,329,864	64,995,819	52,841,884	122,167,567
Refundable accommodation deposits	77,625,576	-	-	-	77,625,576
	77,625,576	14,571,224	64,995,819	52,841,884	210,034,503

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 30 June 2015.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

30. Fair value measurement

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

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

The loans and borrowings and refundable accommodation deposits fall within the Level 2 method of determining fair value. The derivative financial liability held as at 30 June 2014 is measured at fair value and falls within the Level 2 method of determining fair value.

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

There were no transfers between levels during the financial year.

31. Remuneration of auditors

	2015 \$	2014 \$
Audit of the financial report	364,000	404,400
Tax compliance services	50,000	100,000
Due diligence services	1,137,000	1,308,880
	1,551,000	1,813,280

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

32. Subsequent events

On 13 July 2015, Estia refinanced its existing debt facility to improve the ability to fund future growth. As part of the refinancing, Estia reduced the number of participants in the syndicated debt facility to include Westpac Banking Corporation and Commonwealth Bank of Australia. The amendments to the existing debt facility include an extension to 10 December 2018, a reduction in the unused line fee from 0.45% to 0.40% and the addition of a revolving \$150,000,000 accordion facility. The new facility was utilised on 4 August 2015 to repay the existing debt facility drawdown of \$54,250,000.

In July 2015:

- Estia acquired a 60 bed facility in Keysborough, Victoria;
- a strategic partnership agreement was entered into with developers to build four residential aged facilities which will add 500 places over 18 months to June 2017 with an option to build a further 500 places; and
- Estia entered into agreements to purchase two residential aged care facilities (134 places) in Victoria to be completed in September 2015 and one residential aged care facility (120 places) in regional Victoria, to be completed October 2015.

In August 2015, Estia entered into an agreement to purchase a 70 bed facility, to be completed in September 2015 and a 48 bed facility to be completed in October 2015, both in metropolitan Melbourne.

Total committed gross consideration for these acquisitions is \$90,800,000.

Due to the short period of time between the acquisition date and the date of these financial statements, management has yet to complete the fair value accounting process including identifying and valuing any intangible assets separately from goodwill.

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.

33. Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

34. Parent entity information

	2015 \$	2014 \$
<i>Information relating to Estia Health Ltd</i>		
Current assets	479,281,383	26,960,535
Non-current assets	172,386,000	91,640,953
Total assets	651,667,383	118,601,488
Current liabilities	-	3,922
Non-current liabilities	-	52,841,884
Total liabilities	-	52,845,806
Net assets	651,667,383	65,755,682
Issued capital	600,784,556	68,250,000
Reserves	121,091	-
Retained earnings/(Accumulated losses)	50,761,736	(2,494,318)
Total shareholders' equity	651,667,383	65,755,682
Profit/(Loss) of the parent entity	53,256,054	(2,494,318)
Total comprehensive income/(loss) of the parent entity	53,256,054	(2,494,318)

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Estia Health Ltd, I state that:

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity 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 2015 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) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Patrick Grier
Chairman

17 August 2015

AUDITOR'S REPORT



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

Report on the financial report

We have audited the accompanying financial report of Estia Health Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

AUDITOR'S REPORT



Opinion

In our opinion:

- a. the financial report of Estia Health Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in page 39 - 56 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Rodney Piltz
Partner
Melbourne
17 August 2015

GLOSSARY

Term	Meaning
AAS	Australian Accounting Standards and other authoritative pronouncements issued by the AASB and Urgent Issues Group interpretations
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ACN	Australian Company Number
ACFI	Aged Care Funding Instrument
Aged Care Act	Aged Care Act 1997 (Cth)
Approved Provider	An aged care provider as approved by the Department of Social Services under the Aged Care Act
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Audit and Risk Committee	The Committee described in Section 2.1 of the Directors' Report
Auditor	Ernst & Young
Board	The board of directors of EHL
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital Gains Tax
CGU	Cash Generating Unit
Constitution	The Constitution of EHL
Cook Care	The residential aged care assets of the business that was operated under the Cook Care brand prior to the acquisition by Estia Investments

GLOSSARY

Term	Meaning
Corporations Act	Corporations Act 2001 (Cth)
Director and Management Shareholders	Peter Arvanitis, Norah Barlow, Patrick Grier, Andrew Harrison, Paul Gregersen Joe Genova, Nick Yannopoulos, Ruvani De Silva and other management shareholders (holding Shares directly or through controlled entities)
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EHL	Estia Health Limited (ACN 160 986 20)
EIR	Effective Interest Rate
EPS	Earnings Per Share
Escrowed Shareholders	The Existing Shareholder and Director and Management Shareholders who hold Shares at Completion of the Offer
Estia	The business carried on by Estia Health
Estia Group or Group	EHL and each of its controlled entities
FAR	Fixed Annual Remuneration
GST	Goods and Services Tax
IFRS	International Financial Reporting Standards, as issued by the International Accounting Standards Board
IPO	Initial Public Offering
KMP	Key Management Personnel
Lasting Changes or Lasting Changes Group	The residential aged care business that operated under the Lasting Changes and Estia brands prior to the acquisition by Estia Investments, which consists of four trusts: the Idrousa Family Trust, the Lasting Standards Trust, the Heritage Lakes Trust and the Melton Unit Trust
LTIP	Long-Term Incentive Plan

GLOSSARY

Term	Meaning
Management Equity Plan or MEP	Estia's existing incentive plan known as the Estia Health Management Equity Plan for directors and senior management.
MD	Managing Director
MEP Loan	A limited recourse loan offered by EHL (through Estia Finance) to MEP Participants to subscribe to MEP Shares.
MPIR	Maximum Permissible Interest Rate, as determined by the Australian Government in accordance with Fees and Payments Principles 2014 (No. 2)
Nomination and Remuneration Committee	The Committee described Section 2.1 of the Directors' Report
NED	Non-Executive Director
NPAT	Net Profit After Tax
OCI	Other Comprehensive Income
OFR	Operating and Financial Review
Padman Health Care or Padman	The residential aged care assets of the business that was operated under the Padman Health Care brand prior to the acquisition by Estia Investments
Place	An allocated place under the Aged Care Act, being a place that (when operational and occupied) is capable of attracting the residential care subsidy on a per resident per day basis
Prospectus	Prospectus dated 3 December 2014 (including the electronic form of the Prospectus)
RADs	Refundable Accommodation Deposits
Redeemable Preference Share	A fully paid redeemable preference share in the capital of EHL issued to Mercury
S&P/ASX 200 Index	Standard & Poor's stock market index comprising the 200 largest and most liquid stocks listed on the ASX

GLOSSARY

Term	Meaning
Share Registry	Link Market Services Limited (ACN 083 214 537)
STIP	Short-Term Incentive Plan
TSR	Total Shareholder Return
WACC	Weighted-Average Cost of Capital
WAEP	Weighted-Average Exercise Price

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OUR ESTIA CODE

Always Approachable

We make time to listen because we care.

My Daily Best

We do our best to make a difference, every day.

Creating Happiness

We make magical moments happen, in small and special ways.

See Something, Say Something

We pay attention and are quick to act.

Pushing Our Limits

We challenge ourselves and inspire others.







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