

Estia 
Health

ANNUAL REPORT
CORPORATE GOVERNANCE

15/16



CORPORATE GOVERNANCE

This Corporate Governance Statement (**Statement**) outlines the corporate governance practices currently in place for Estia Health Limited (**Company** or **Estia**) and also addresses the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**). The Board believes the Company accords with the majority of the ASX Recommendations with any exceptions outlined in the Statement.

The corporate governance policies and practices described in this document are those that have been in place for the 2015-16 financial year, or as at the date of this report where indicated. The Board continues to review the governance framework and practices of the Company to ensure they meet the interests of shareholders and other stakeholders.

All references to the Group's website are to: www.estiahealth.com.au

THIS CORPORATE GOVERNANCE STATEMENT WAS APPROVED BY A RESOLUTION OF THE BOARD ON 21 OCTOBER 2016 AND IS CORRECT AT 21 OCTOBER 2016.



PRINCIPLE 1

LAY SOLID FOUNDATIONS FOR MANAGEMENT & OVERSIGHT

ROLE OF THE BOARD

The Board is committed to effectively representing and promoting the Company, and thereby adding long-term value to all shareholders. The Board is accountable to shareholders for the management of the Company's business and affairs and as such is responsible for the overall strategy, governance and performance of the Company. To clarify the roles and responsibilities of Directors and management and to assist the Board in discharging its responsibilities, the Company has established a governance framework, which sets out the functions reserved to the Board and provides for the delegation of functions to Board committees and to senior management. The Board operates under a formal Board Charter, which can be found on the Company's website at www.estiahealth.com.au/investor-centre/corporate-governance.

APPOINTMENTS TO THE BOARD

The process of selection and appointment of new Directors to the Board is that when a vacancy arises, the Nomination and Remuneration Committee identifies candidates with appropriate skills, knowledge, experience, independence and expertise. Candidates with the skills, knowledge, experience, independence and expertise that best complement the Board's effectiveness will be recommended to the Board. When the Board considers that a suitable candidate has been found, that person

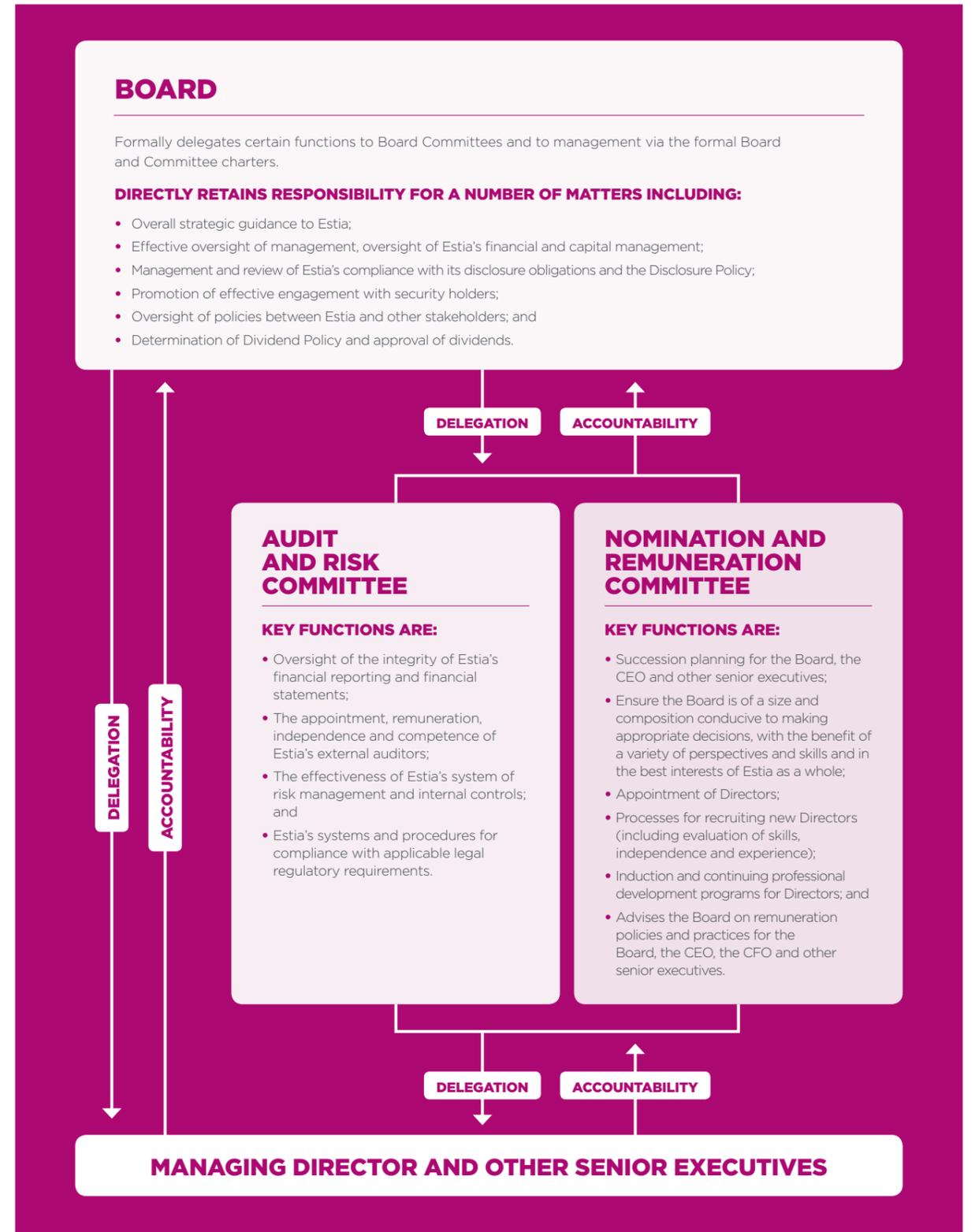
may be appointed by the Board to fill a casual vacancy in accordance with Estia's Constitution, but must stand for election by shareholders at the next Annual General Meeting (AGM).

The Board ensures that background checks are undertaken on any potential new Director prior to appointment to the Board and provides to shareholders all material information in its possession concerning the Director standing for election or re-election in the explanatory notes accompanying the notice of meeting. With the exception of the Managing Director (MD), Directors must retire at the third AGM following their election or most recent re-election. At least one Director must stand for election at each AGM. Any Director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM.

Non-executive Directors are appointed pursuant to formal letters of appointment which, among other things, set out the key terms and conditions of the appointment, the Board's expectations in relation to the performance of the Director, procedures for dealing with a Director's potential conflict of interest and the disclosure obligations of the Director, together with the details of the Director's remuneration.

GOVERNANCE FRAMEWORK

The diagram following depicts the operation of the Group's governance framework



BOARD COMMITTEES

The ultimate responsibility for the oversight of the operations of the Company rests with the Board. However, the Board may discharge any of its responsibilities through committees of the Board in accordance with the Constitution and the Corporations Act 2001 (Cth) (**Corporations Act**).

The Board has established the following standing committees, which assist with the execution of its responsibilities:

- Audit and Risk Committee; and
- Nomination and Remuneration Committee.

The composition and effectiveness of the committees are reviewed on an annual basis.

Each of these committees operate in accordance with specific charters approved by the Board which can be found on the Company's website.

The applicable composition requirements and current membership of each of the Board committees are set out below:

Table 1.

BOARD COMMITTEE	COMPOSITION REQUIREMENTS	MEMBERSHIP
Audit and Risk Committee	At least three members, all of whom are non-executive and a majority of whom are independent. The Chairman should be an independent non-executive Director. Its members should between them have the accounting and financial expertise and a sufficient understanding of the industry in which the entity operates, to be able to discharge the Committee's mandate effectively. The Chairman should be an independent—non-executive Director.	Dr Gary Weiss (Chairman), Mr Patrick Grier and Mr Andrew Harrison.
Nomination and Remuneration Committee	At least three members, all of whom are non-executive and a majority of whom are independent Directors. The Chairman should be an independent—non-executive Director.	Mr Paul Foster (Chairman), Mr Patrick Grier and Dr Gary Weiss.

The number of scheduled Board and committee meetings held during the year and the number of meetings attended by each of the Directors is set out in table 2:

Table 2.

	BOARD		REMUNERATION AND NOMINATION COMMITTEE		AUDIT AND RISK COMMITTEE	
	A	B	A	B	A	B
Paul Gregersen	16	16	-	-	-	-
Patrick Grier	16	16	6	6	3	2
Andrew Harrison	16	13	-	-	3	3
Norah Barlow	16	15	6	6	3	2
Peter Arvanitis	16	15	6	5	-	-
Marcus Darville	16	10	-	-	-	-
Dr. Gary Weiss	9	7	-	-	1	-
Paul Foster	8	8	2	2	-	-
Jonathon Pearce	7	3	-	-	-	-

A = Meetings eligible to attend

B = Meetings attended

THE COMPANY SECRETARY

The company secretary acts as secretary of the Board, attending all meetings of the Board and its committees. The company secretary is accountable to the Board through the Chairman on all corporate governance matters and the proper functioning of the Board.

DIVERSITY

Estia is committed to creating and ensuring a diverse work environment and in accordance with Estia's purpose, 'One Family Where Everyone Belongs.' The Board and management believe that Estia's commitment to this Policy contributes to achieving Estia's corporate objectives and embeds the importance and value of diversity within the culture of Estia.

Diversity can broaden the pool for recruitment of high quality employees, enhance employee retention, improve Estia's corporate image and reputation and foster a closer connection with its residents and families. It is important that Estia is able to attract, retain and motivate employees from the widest possible pool of talent.

Estia has a strong commitment to gender diversity and the fundamental principle that gender is not a barrier to participation in our workforce, management, senior executive and on our Board. Our leaders are committed to providing opportunities that allow everyone to reach their full potential.

At Estia, diversity of experience and gender are important criteria taken into account in developing succession plans and appointment processes for the Board and senior executive positions. However, other selection criteria, in particular business acumen and industry exposure, are also fundamentally important. The Nomination and Remuneration Committee reports to the Board regarding succession plans and appointment processes with the aim of achieving the Company's diversity objectives, in particular regarding the number of women in senior executive positions and on the Board.

Estia is committed to an inclusive workplace that embraces and promotes diversity as part of the Company's corporate culture. This involves providing supportive and inclusive diversity-related workplace policies, programs and practices within the business.

A formal Diversity Policy has been adopted by the Board that outlines the Group's commitment to providing an inclusive work environment in which everyone belongs. The Policy is reviewed annually and covers a variety of factors such as gender, work and life balance and disability. The Company has a diverse mix of employees with the appropriate qualifications for roles within the current business.

The Policy does not include measurable objectives for achieving gender diversity at this time due to the Board deeming it not necessary given that Estia already has a significant proportion of females at all levels of the organisation.

However, the Board aims to achieve a target of 30% female Directors by 2018 in accordance with the 30% Club launched by the Australian Institute of Company Directors.

Estia has reported against a set of standardised gender equality indicators provided by the Workplace Gender Equality Agency (**WGEA**). The 2016 WGEA Report can be found at: www.estiahealth.com.au/investor-centre/corporate-governance. Estia has 82.5% female representation across all employees, 12.5% female representation at Board level and 25% female representation at the executive level.

The establishment of gender diversity targets will be considered in the 2016-17 financial year.

Programs or initiatives in place to promote diversity across all aspects in the business are outlined in Table 4 on page 8.

The Company monitors gender diversity across the business via the Nomination and Remuneration Committee.

As at 30 June 2016, the following gender diversity levels were evidenced in the Group:

Table 3.

EMPLOYEE CATEGORY	FEMALE	MALE	TOTAL
Board	1	7	8
Executive	2	6	8
Managers (Corporate Centre and Facility)	102	32	134
Employees	5,808	1,210	7,108
TOTAL	5,913	1,255	7,168

BOARD AND DIRECTOR PERFORMANCE

The Board is committed to enhancing its effectiveness through performance management and review. The Board review process is designed to help enhance performance by providing a mechanism to raise and resolve issues and to provide recommendations to enhance its effectiveness.

The members of the Board, actively led by the Chairman with the input and support of the Managing Director and Company Secretary, evaluate the performance and efficient functioning of the Board, its Committees and its members on an ongoing basis.

Table 4.

MEASURABLE DIVERSITY OBJECTIVE	TIMEFRAME	PROGRESS IN FY2016	RELEVANCE FOR FY2017
Supporting female members of the management teams to participate in the Women & Leadership Accelerated Leadership Performance Program.	Ongoing	Progress to the program contributes to the individual's development plan.	Estia will review opportunities for supporting leadership opportunities for women in FY2017.
Implementation of a new Estia Group Student Partner Program for up to 2500 trainees in Care and Enrolled Nurse roles that is age, race, gender and minority neutral.	Ongoing	11 Vocational Education and Training (VET) partnerships established and implemented 1 June 2016.	Estia will develop and maintain this program in FY2017.
Launch of Estia's inaugural Graduate Nurse Intern Program. This program supports Estia's succession planning to identify and grow future leaders.	Ongoing	27 graduate nurses enrolled in February 2016 onto a 1 year structured training program.	This commitment to attract and retain quality nurses and grow our own future leaders will continue in FY2017.
Implementation and development of online training modules focusing on discrimination, bullying and harassment.	Ongoing	The online training learning module is now mandatory for all staff to complete regardless of role.	Successful completion will be monitored throughout FY2017.
Launch of the Network Ambassador program, a new talent mobility program across every employee group. It provides equality of opportunity for all to support system implementation, work across homes and achieve personal development as Estia grows.	Ongoing	Estia organises small groups of its homes into 11 local networks across VIC, NSW, QLD and SA to drive performance and interconnectedness between its homes. Estia has identified and supported more than 200 employees as Network Ambassadors in diverse areas including nursing, lifestyle and support services.	Estia will continue to grow this program in FY2017 and provide further opportunities for all employees to learn and grow.

During the 2016 financial year, the Board undertook a confidential, structured evaluation with an independent third party to review the role, composition, behaviors and processes of the Board. The review involved each Director providing feedback on a range of Board-related topics, covering the role of the Board, composition of the Board, meeting processes, Board papers and relationships and culture of the Board.

The results of that review were presented to the Board and highlighted a number of highly positive attributes about the Estia Board, including all Directors having a natural interest and affinity for the care of the elderly, unity and solidarity among the members, in depth industry knowledge and a great energy and commitment to build the Estia business.

Non-executive Directors receive Director's fees outlined in their letters of appointment and the level of remuneration is reviewed on an annual basis with reference to external benchmarking.

SENIOR EXECUTIVES

The Board delegates the responsibility for the day-to-day management of the Company to the MD, who is assisted by the senior executives who report to the MD.

The MD consults with the Chairman on any matters which the MD considers are of such a sensitive, extraordinary or strategic nature as to warrant the attention of the Board. The authorisation thresholds for the control of expenditure and capital commitments are established and defined in the Group's Delegated Authority Policy, which are set to optimise the function and decision-making of the executive as the Group continues to grow and expand, whilst maintaining appropriate oversight by the Board.

Subject to these policy limits and the directions of the Audit and Risk Committee, the MD may sub-delegate the day-to-day running of the Company to the senior executive team. The exercise of delegated authority is restricted to specific organisational functions and roles.

The Delegated Authority Policy details the delegated thresholds for various types of commitment and individual positions, as well as the authorisation processes that are required to be followed.

All senior executives are appointed to their positions after a rigorous recruitment process. Each member of the senior executive team, including the Executive Director, have signed formal employment contracts at the time of their

appointment, covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal job description. Each contract sets out the remuneration of the executive, including their entitlements to any rights under incentive plans.

PERFORMANCE OF SENIOR EXECUTIVES

The evaluation for all executives is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved, and the development of management and personnel.

The MD's performance is formally assessed on an annual basis by the Board. All Key Performance Indicators (KPIs) are carefully considered by the Nomination and Remuneration Committee, which evaluates the MD's performance and makes recommendations to the Board.

An annual assessment of the performance of all other senior executives is undertaken by the Board on the basis of recommendations by the MD, who conducts performance reviews in relation to each senior executive.

A performance evaluation for all senior executives, including the MD, was undertaken in the reporting period in accordance with the process disclosed above.

Further information on Directors' and executives' remuneration, including principles used to determine remuneration and KPIs, is set out in the Annual Report under the heading "Remuneration Report".

**PRINCIPLE 2
STRUCTURE THE BOARD TO ADD VALUE**

BOARD SIZE AND COMPOSITION

The Constitution of the Company provides that there will be a minimum of three Directors.

As at 14 October 2016 the Board of Directors comprises four non-executive Directors (all are independent, including the Chairman), and one Executive Director, being the Managing Director and CEO.

The current members of the Board are:

- Norah Barlow (Acting Chief Executive Officer), (Appointed 17 November 2014 (appointed to Board) and 16 September 2016 appointed as Acting CEO.)
- Patrick Grier (Chairman, Non-executive Director), (appointed 17 November 2014)
- Paul Foster (Non-executive Director), (appointed 24 February 2016)

- Dr. Gary Weiss (Non-executive Director), (appointed 8 February 2016)
- Andrew Harrison (Non-executive Director), (appointed 17 November 2014)

The Company is progressing the appointment of additional Directors.

Directors' details are listed in the Annual Report in the Directors' Report, including details of their other listed entity directorships and experience. This information can also be found on the Group's website.

BOARD SKILLS AND DIVERSITY

The Board considers that its Directors and senior management have the combined skills and experience to discharge their respective responsibilities.

The full biographies of all Directors are included in the Directors' Report in the Annual Report.

Estia seeks to have Directors with an appropriate range of skills, knowledge, experience, independence and diversity, and an understanding of and competence to deal with current and emerging issues of the business. Estia has developed a Board Skills Matrix setting out the skills and diversity that the Board has or is looking for in order to identify any gaps in skills that the Board seeks. Estia's succession plans are designed to maintain an appropriate balance of skills, knowledge, experience, independence and diversity on the Board.

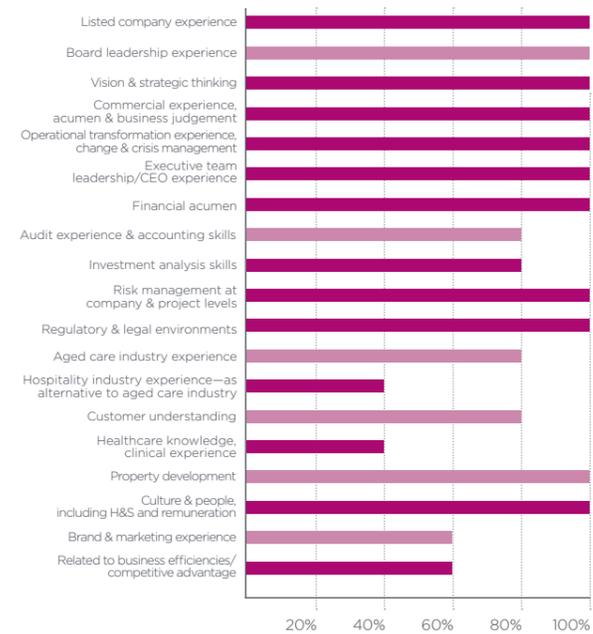
During the year, the Board updated the Skills Matrix in light of the appointment of two new Directors to the Board. In revising the Skills Matrix, the Board identified that, collectively, the Board should have skills and experiences, which include those outlined in Table 5 on page 10.

Table 5.

DESIRED SKILL	DESCRIPTION
Publicly listed Company experience	Knowledge and experience in ASX listing rules, best practice governance structures, policies and processes and Corporations Act requirements.
Board leadership experience	Experience in Board or other committee leadership roles.
Executive team leadership/CEO experience	Experience in CEO or other senior executive leadership roles.
Strategy—vision and strategic thinking	Ability to think strategically and identify and critically assess opportunities and threats and develop effective strategies in the context of changing market conditions.
Commercial experience, acumen and business judgment	A broad range of commercial and business experience in business systems, practices, improvements, risk and compliance, sales, technology and human resources.
Regulatory and legal environments	Ability to identify key risks to the group in a wide range of areas including legal and regulatory compliance and monitor risk and compliance management frameworks and systems.
Culture & people, including h&s and remuneration	Appreciation for the best practices in HR planning and management with familiarity in employment legislation and labour relations, recruitment, compensation, performance reviews and conflict management.
Risk management at Company and project levels	Experience in the forecasting and evaluation of financial and business risks together with the identification of procedures to avoid or minimise their impact.
Audit experience and accounting skills	The ability to analyse financial statements and reporting, critically assess the financial performance of the group, contribute to budget planning and efficient use of capital and resources.
Finance—investment analysis skills	Experience in the process of judging an investment for income, risk, and resale value.
Financial acumen	Experience in all aspects of the negotiation, structuring, risk management and assessment of both acquisitions and divestments.
Aged care industry experience	Experience and broad understanding of the aged care industry including market drivers, risks and trends including policies, competitors, end users, regulatory policy and framework, and effective networks.
Healthcare knowledge and clinical experience	Experience and broad understanding of the health care industry including market drivers, risks and trends including policies, competitors, end users, regulatory policy and framework, and effective networks.
Hospitality industry experience (as an alternative to aged care industry)	Experience and broad understanding of the hospitality industry including market drivers, risks and trends including policies, competitors, end users, regulatory policy and framework, and effective networks.
Property development	Expertise in the analysis of development feasibility and assessment, strategies for optimising value and understanding and mitigating risk from development opportunities.
Brand and marketing experience	Clear understanding of developing and implementing sales and marketing teams and strategies, recruiting, running and incentivising sales teams, and setting sales budgets and targets.
Technology—related to business efficiencies / competitive advantage	Expertise in the area of IT, all aspects of social media and new technology that the Company should be aware of utilising.
Customer understanding	An understanding of customer service and what drives the consumers.
Operational transformation experience, structural change and crisis management	Experience in dealing with organisational change, its impacts and understanding of when change is required.

The chart set out on the right illustrates the extent to which the current Board fulfils each of the identified required skills of the Board. These percentages are extracted directly from the Board Skills Matrix, in which Directors are rated on their level of competence in each identified skill.

% OF CURRENT DIRECTORS WITH DESIRED SKILL



In addition to the skills and experience set out in the chart above, the Board considers that each Director has the following attributes:

- Honesty and integrity;
- The ability to think strategically;
- The time available to devote to Estia's business;
- A willingness to question and challenge; and
- A commitment to the highest standards of governance.

All Directors are expected to maintain the skills required to discharge their obligations to the Company. Estia provides professional development opportunities for Directors to develop the knowledge, industry awareness and skills to perform their role as Directors. Industry experts are regularly invited to present to the Board on both industry changes and the ASX listed environment. Directors attend courses through the Australian Institute of Company Directors and Estia regularly provides industry research papers to the Board.

DIRECTOR APPOINTMENTS

Under the Nomination and Remuneration Committee Charter, the Committee reviews and where appropriate, makes recommendations to the Board on the size and composition of the Board, including assessment of necessary and desirable competencies of Board members. To this end, the Nomination and Remuneration Committee periodically assesses the appropriate mix of competencies, skills, experience and expertise required by the Board and assess the extent to which the required skills and experience are represented on the Board.

The Nomination and Remuneration Committee is also responsible for reviewing and making recommendations to the Board on its membership, including recommendations for the appointment and re-election of Directors and where necessary, proposing candidates for consideration by the Board. The Nomination and Remuneration Committee must have regard to the factors set out in the Nomination and Remuneration Committee Charter, including that the Board should comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds in accordance with the Diversity Policy.

Ultimately, the full Board determines who is invited to fill a casual vacancy after extensive one-on-one and collective interviews with candidates and thorough due diligence and reference checking. In accordance with the Group's Constitution, a Director appointed by the Board holds office until the conclusion of the next AGM when he or she will be eligible for election at that meeting.

The Nomination and Remuneration Committee's current membership is set out earlier in this Statement and the independence of the members is discussed below.

DIRECTOR REMUNERATION AND INDUCTION

Non-executive Director remuneration is reviewed on an annual basis.

A Director induction program has been designed and Directors are expected to participate in this induction and orientation program on appointment.

Directors and executives are provided with training when required.

DIRECTORS' INDEPENDENCE

The Board has considered specific principles in relation to Directors' independence. The Board considers an independent Director to be a non-executive Director who is not a member of the Company's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis, having regard to both quantitative and qualitative principles.

On an annual basis, the Board assesses the independence of all Directors against the criteria outlined in Box 2.3 of the third edition of the ASX Recommendations.

The Board considers that each of Patrick Grier, Andrew Harrison, Paul Foster and Gary Weiss are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of the Director's judgment and are able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

DIRECTORS' INTERESTS

Directors are required to keep the Board advised of any interest that may be in conflict with those of the Company, and restrictions are applied to Directors' rights to participate in discussion and to vote, as circumstances dictate when a conflict has been identified. In particular, where a potential conflict of interest may exist, Directors concerned may be required to leave the Board meeting while the matter is considered in their absence.

The Company has also entered into a deed of disclosure with each Director, which is designed to facilitate the Company's compliance with its obligations under the ASX Listing Rules relating to disclosure of changes in Directors' interests in Estia securities. Directors and their nominated related party shareholdings are also monitored to identify changes that may require disclosure.

Standing items at each Board meeting include:

- Director's Shareholding Register; and
- Director's Standing Notice Register.

CHAIRMAN OF THE BOARD

The role of Chairman of the Board and CEO is not occupied by the same individual. The Board has agreed that the positions of Chairman and CEO must be separate, and that the Chairman should be an independent non-executive Director.

Patrick Grier was appointed Chairman of the Company in November 2014 and is considered an independent non-executive Director as outlined above.

BOARD MEETINGS

The Board typically schedules meetings on a monthly basis, with additional meetings convened as required. Agenda's for each meeting are prepared by the company secretary together with the Chairman and input from the MD and CFO, and are distributed prior to the meeting together with supporting papers.

Standing items include the MD's report and the financial report, as well as reports addressing matters of strategy, governance and compliance. Senior executives are directly involved in Board discussions as required.

INDEPENDENT ADVICE

Following consultation with the Chairman, Directors may seek independent professional advice at Estia's expense. Generally this advice will be available to all Directors if the Chairman considers the advice relevant for them to discharge their responsibilities as Directors.

**PRINCIPLE 3
ACT ETHICALLY AND RESPONSIBLY**

CODE OF CONDUCT AND ETHICAL BEHAVIOUR

The Board recognises the need to observe the highest standards of corporate practice and business conduct. The Board has a formal Code of Conduct to be followed by the Board along with all employees, officers, contractors, consultants and other persons that act on behalf of Estia and associates of Estia. The key aspects of this code are to:

- Provide the highest standards of clinical care to residents;
- Act with honesty, fairness and integrity in all dealings both internally and externally;
- Respect all people, their ideas and cultures and reflect this in words and actions; and
- Maintain a safe working environment to safeguard the health and safety of employees, consultants, contractors, customers, suppliers and other persons who visit Estia's workplaces, or who Estia works with.

The Code sets out Estia's policies on various matters including conflicts of interest, protection and use of Estia's assets and property, anti-bribery and giving or acceptance of gifts (including money), dealings with politicians and government officials, confidentiality, privacy, fair dealings (including in relation to suppliers, competitors and residents), discrimination, bullying, harassment and vilification, health and safety, compliance with laws and regulations, responsibility to shareholders and the financial community, insider trading and whistle-blower protections.

The Code also sets out the consequences for a breach of the code, including the possibility of legal or disciplinary action.

The Company's Code of Conduct may be viewed on the Company's website.

In addition to their obligations under the Corporations Act in relation to inside information, all Directors, employees and consultants have a duty of confidentiality to the Company in relation to confidential information they possess.

EMPLOYEE AND DIRECTOR TRADING IN ESTIA SECURITIES

The Company has a Securities Trading Policy that governs the ability of Directors, executives and employees to trade in the Company's securities. Subject to necessary prior written consents being obtained, the Trading Policy only permits trading in the following period for Directors', officers, key management personnel and their associates;

- 4 weeks beginning on the first trading day after the Company's half yearly results are announced to ASX;

- 4 weeks beginning on the first trading day after the Company's annual results are announced to ASX;
- 4 weeks beginning on the first trading day after the Company's AGM;
- at any time a prospectus, cleansing notice or similar disclosure document has been lodged with ASIC and is open for acceptances; and
- at any other times as the Board of the Company permits.

Directors, officers, key management personnel and their associates may, in exceptional circumstances as defined in the Policy, trade in prohibited periods but only with the prior written consent of the Chairman of the Board, (for trades by directors, the CEO and the Company Secretary), the CEO (for trades by the Chairman) or the Company Secretary (for trades by other officers and designated persons). Notwithstanding the trading periods and approval requirements, a person is prohibited from trading at any time if they possess material, price-sensitive information about the Company that is not generally available to the public.

The Policy also prohibits short-term trading, margin lending, and hedging of the unvested securities of the Company.

The Company's Securities Trading Policy may be viewed on the Company's website.

**PRINCIPLE 4
SAFEGUARD INTEGRITY IN
CORPORATE REPORTING**

The Audit and Risk Committee is responsible for assisting the Board in discharging its responsibilities to safeguard the integrity of the Group's financial reporting and the system of internal control. A key component of the Committee's role is to provide appropriate advice and recommendations to the Board to assist the Board to fulfil its responsibilities in regard to financial reporting, the internal control environment, and audit management where appropriate across the Company.

The Audit and Risk Committee operates pursuant to a Charter (available on the Company website) which takes into account the roles and responsibilities of the Audit and Risk Committee as well as contemporary governance practices. The Charter includes details on the appointment and oversight of the external auditor. The Company will ensure the external auditor is available to shareholders at the AGM to answer any questions they may have about the Group's external audit.

The Audit and Risk Committee's current membership, the independence of the members and details of Audit and Risk Committee meetings and attendance by each Committee member are set out earlier in this Statement and the Directors' Report in the Annual Report.

The qualifications and experience of the members of the Audit and Risk Committee are outlined in the Directors Report in the Annual Report and below:

MR PATRICK GRIER:

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.

DR GARY WEISS:

Dr Weiss has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions.

Dr Weiss is Chairman of Ridley Corporation Ltd, Executive Director of Ariadne Australia Ltd, and a director of several public companies including Premier Investments Limited and The Straits Trading Company Ltd. He was recently appointed to the Board of the Australian Rugby League Commission.

He is also a director of the Victor Chang Cardiac Research Institute. He was Chairman of Clearview Wealth Ltd from 2013 to May 2016, executive director of Guinness Peat Group plc from 1990 to April 2011 and has held directorships of numerous companies, including Coats Group plc (Chairman), Westfield Group, Tower Australia Ltd, Australian Wealth Management Limited, Tyndall Australia Ltd (Deputy Chairman), Joe White Maltings Ltd (Chairman), CIC Ltd, Whitlam Turnbull & Co Ltd and Industrial Equity Ltd. He has authored numerous articles on a variety of legal and commercial topics.

MR ANDREW HARRISON:

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).

In accordance with the Company's legal obligations, and Recommendation 4.2 of the ASX Recommendations Mr Gregersen (the former MD) and Mr Genova (the former Chief Financial Officer) made the following certifications to the Board in relation to the Financial Statements for the financial year ended 30 June 2016 (and it is intended that this certification be provided for financial statements produced by the Company as required in this recommendation):

- the financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001 (Cwlth) so that those records:
 - correctly record and explain the Group's transactions and financial position and performance; and
 - would enable true and fair financial statements to be prepared and audited;
- the financial statements and the notes referred to in paragraph 295(3)(b) of the Corporations Act 2001 (Cwlth), for the financial year comply with the Australian Accounting Standards;
- the financial statements and notes for the financial year give a true and fair view of the financial position and performance of the Group;
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- the statements in the bullet points directly above are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies of the Board;
- the Group's risk management and internal compliance and control systems are operating effectively in all material respects in relation to financial reporting risks; and
- nothing has come to their attention since 30 June 2016 (or end of an other financial period) that would indicate any material change.

**PRINCIPLE 5
MAKE TIMELY AND BALANCED DISCLOSURE**

The Company is committed to complying with its continuous disclosure obligations under the ASX Listing Rules and Corporations Act and to ensuring that its shareholders are kept well-informed of all major developments affecting the Company's state of affairs, in order to promote transparency and investor confidence.

The Group has a Disclosure and Communication Policy and it incorporates the continuous disclosure framework as set out in the ASX Listing Rules Chapter 3, as well as the revised ASX Listing Rules Guidance Note 8. This Policy is available on the Company's website.

The Policy creates a framework for compliance with relevant disclosure obligations and establishes the accountability of the Board for achieving compliance. More specifically, the Policy:

- Sets out Estia's obligations under ASX Listing Rule 3.1 and the Corporations Act;
- Establishes the roles and responsibilities of the Board and the Company Secretary in respect of Estia's continuous disclosure obligations;
- Establishes internal processes for reporting of information considered to be potentially price-sensitive and for consideration of information reported by the Board;
- Establishes processes for the disclosure of price sensitive information, taking into account the clarification provided by ASX Guidance Note 8; and
- Establishes guidelines for briefing of analysts, investor and media groups, responding to market speculation, leaks and rumours and calling trading halts where appropriate to avoid trading occurring in an uninformed market.

**PRINCIPLE 6
RESPECT THE RIGHTS OF SECURITY HOLDERS**

The Board aims to ensure that its shareholders are kept well-informed of all major developments and business events that are likely to materially affect the Company's operations and financial standing, and the market price of its securities. Information is communicated to shareholders through:

- The Group's website in the Investor Centre section;
- Annual and half year financial reports lodged with the ASX and made available to all shareholders;
- Announcement of market-sensitive and other information, including annual and half year results announcements, and analyst presentations released to the ASX; and
- The Chairman and CEO's addresses to, and the results of, the AGM.

The Group's website contains a large amount of information for investors.

The following information for investors is located in the investors centre section:

- Corporate Profile;
- Share Price details;
- Dividend information;

- ASX releases;
- Media releases;
- Annual reports;
- Registry information;
- Contact information;
- Details on the Board of Directors; and
- Corporate Governance information—including Charters and Policies.

The Company's Disclosure and Communication Policy includes a formal procedure for dealing with potentially price-sensitive information. The Policy sets out how the Company meets its disclosure obligations under ASX Listing Rule 3.1. The Group's policy is to lodge with the ASX and place on its website all market-sensitive information, including annual and half year result announcements, and analyst presentations, as soon as practically possible.

The Company produces two sets of financial information each financial year: the half year financial report for the six months ended 31 December and the annual financial report for the year ended 30 June. All are made available to shareholders and other interested parties via the Company website and the ASX.

Shareholders have the right, and are encouraged, to attend the Company AGM, held in October or November each year, and are provided with explanatory notes on the resolutions proposed through the notice of meeting. A copy of the notice of meeting is also posted on the Company website and lodged with the ASX.

Shareholders are encouraged to vote on all resolutions and unless specifically stated otherwise in the notice of meeting, all shareholders are eligible to vote on all resolutions. Shareholders who cannot attend the AGM may lodge a proxy in accordance with the Corporations Act. Proxy forms may be lodged with the share registry by mail, hand delivery, facsimile or electronically.

Transcripts of the Chairman and CEO's reports to shareholders are also released to the ASX upon the commencement of the AGM. These transcripts, together with the results of the AGM are also posted on the Company website and the ASX.

The Company has a Helpful Information page on its website where key dates and an investor factsheet can be found.

All shareholders are provided the option to receive communications from the Company and the share registry electronically (and are encouraged to do so, with election documentation included in regular mail-outs to shareholders).

**PRINCIPLE 7
RECOGNISE AND MANAGE RISK**

The Board is responsible for ensuring that sound risk management strategy and policies are in place. The Board has delegated to the Audit and Risk Committee the responsibility for identifying and overseeing major risks and ensuring that systems are in place to manage them.

In addition, the Audit and Risk Committee:

- Identifies and assesses the Group's material business risks;
- Regularly reviews and updates the Group's risk profile; and
- Oversees the risk management policies and systems.

The Audit and Risk Committee's current membership and the independence of the members are set out earlier in this Corporate Governance Statement. Details of Audit and Risk Committee meetings and attendance by each Committee member are outlined earlier in this Statement and in the Directors' Report Contained in the Annual Report.

This committee has at least one meeting per year to review and assess the Group's risk management framework and to review the identification and management of the key risks of the business and the mitigation of those risks where possible.

The committee considers risk matters on an ongoing basis and undertook a review of its risk management framework during the year ended 30 June 2016.

It is intended that this framework will be subject to another review during FY17, together with the consideration of risk matters on an ongoing basis.

INTERNAL AUDIT

During the 2016 financial year, comprehensive reviews were conducted by Estia's Quality team. The reviews targeted clinical and quality compliance and evaluated the effectiveness of internal control process and procedures. Cora, a quality system, was implemented during the reporting period.

As is the case with the wider health care industry, the Australian residential aged care industry is highly regulated by the Australian Government. Providers must be approved by the Australian Government, hold allocated places issued by the Australian Government and ensure that their facilities are accredited and certified to Australian Government Standards. The Australian Aged Care Quality Agency's legislated accreditation standards set out 44 indicators and the expected/required minimum outcomes for aged care facilities. Estia regularly audits itself to ensure its homes are meeting the 44 accreditation standards. The Executive Director (**ED**) at each home is responsible

for implementing Estia's clinical governance framework. They are supported by regional, State and national functions that assist EDs in maintaining accreditation and compliance.

The Board and the Audit and Risk Committee are reviewing the development of an internal audit function in financial year 2017 through the engagement of independent consultants or through the recruitment of an Internal Audit team. The internal audit function will report to the Audit and Risk Committee on the effectiveness of Estia's risk management systems, internal control and governance and provide recommendations to improve the efficiency and effectiveness of these systems and processes.

ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS

The Estia Board has not undertaken a formal review of Estia's environmental, social and economic risk profile at this time due to only being listed 22 months ago and having other priorities during this time. However, the Board's aim is to make decisions, which reflect Estia's commitment to improving the social, environmental and economic framework in which the Estia Group operates with a view to creating sustainable shareholder returns. The Estia Board will report fully in the 2017 Annual Report and where appropriate in the Corporate Governance Statement on the results of the sustainability review.

Estia recognises the importance of economic and social sustainability and to this end has developed a sustainability statement that ensures sustainability is integrated into the business.

RISKS

The management of the Company and the execution of its growth strategies are subject to a number of risks, which could adversely affect the Company's future development. The following is not an exhaustive list or explanation of all risks and uncertainties associated with the Company (and its subsidiaries), but those considered by management to be the principal material risks which could impact the future financial performance of the Company. (Refer to Table 6 on page 17).

**PRINCIPLE 8
REMUNERATE FAIRLY AND RESPONSIBLY**

The Board has established a Nomination and Remuneration Committee, which in accordance with its Charter (available on the Company's website), is responsible for reviewing and making recommendations to the Board in respect of:

- 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;
- Succession planning for the Board, the MD and other senior executives; and
- 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 Estia as a whole (see Skills Matrix set out earlier in this document).

The Nomination and Remuneration Committee's current membership and the independence of the members are set out earlier in this Corporate Governance Statement. Details of Nomination and Remuneration Committee's meetings and attendance by each Committee member are also outlined earlier in this Statement and in the Directors' Report contained in the Annual Report.

The Group distinguishes the structure of non-executive Directors' remuneration from that of Executive Directors and senior executives.

Estia's policy is to reward executives with a combination of fixed, performance-based and equity-based incentives. In relation to ASX Recommendation 8.3, the Group's Security Trading Policy prohibits employee shareholders (which includes those that have obtained shares via the equity-based remuneration scheme) short-term trading, margin lending, and hedging of unvested Group securities.

Non-executive Directors receive Board fees that are set having regard to the responsibilities and risks of the role and market competitiveness. To preserve independence and impartiality, no element of non-executive Director remuneration is 'at risk' (that is, it is not based on the performance of the Group).

For details of the Group's remuneration structure, please refer to the Remuneration Report contained within the Annual Report.

Table 6.

RISK	EXPLANATION
Changes to regulatory framework	The Australian aged care industry is highly regulated and funded by the Australian Government. As a result, regulatory changes to the funding has a fundamental influence on Estia's business model. Funding from the Australian Government contributed approximately 65% of Estia's revenues in FY2016. 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 Health quarterly and is proactive in addressing issues that would impact the current industry business model. Estia is also a Board member of Aged Care Industry Association.
Refundable accommodation deposits and accommodation bonds	Through the normal course of operations, new residents remit a refundable accommodation deposit (RAD) whilst departed residents or their estates are refunded RADs or accommodation bonds (pre July 2014 residents). Estia, therefore, is exposed to risks associated with the timing of receipt RADs and the repayment of accommodation bonds/RADs. Receipts may be delayed for up to six months as new residents have up to six months to pay a RAD, if it has been chosen as their preferred payment method for accommodation. The timing and volume of refunds paid to former residents or their estates upon receipt of probate may vary and, Estia may be required to repay a large sum of accommodation bonds/RADs at any one time. Estia is also exposed to risks that may adversely affect the future value of Estia's total accommodation bond/RAD liability. Estia has a Liquidity Management Strategy to ensure RADs are paid when due, which includes a \$50,000,000 debt facility available for working capital requirements (including providing Estia with liquidity when redeeming RADs/accommodation bonds.)
Acquisitions	Estia has acquired a number of aged care facilities as part of its growth strategy. Prior to the acquisition of each aged care facility, 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. Furthermore, warranties and/or indemnities are included in each purchase and sale agreement entered into by Estia to limit the exposure from such issues and liabilities not identified or fully quantified through due diligence.
Availability of funding	Estia may require funding or working capital in the future in order to pursue its growth strategy, either through acquisition or organically. 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 debt facilities. If adequate funds are not available, Estia may not be able to achieve its growth targets or respond to competitive pressures.
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 of 94% single rooms, which remains the number one choice for consumers.
Growth strategy	Estia's ability to grow organically is 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 brownfield and greenfield developments. In addition, Estia has entered into a partnership for turnkey greenfield developments in Queensland and South Australia and seeks to identify further partnerships to cover other eastern Australia states.