Estia Health

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ASX Announcement

23 February 2021

Estia Health Appendix 4D and Interim Financial Statements

In accordance with ASX Listing Rule 4.2A, Estia Health Limited (ASX: EHE) provides the attached Appendix 4D and Interim Financial Statements for the half-year ended 31 December 2020.

--- ENDS ---

Approved for release by the Board of Directors of Estia Health Limited

Further inquiries:

Media	**Investors**
Julie Connolly John Connolly & Partners jlc@jcp.com.au Tel +61 2 9232 1033	Steve Lemlin – Chief Financial Officer Steve.lemlin@estiahealth.com.au or Investor@estiahealth.com.au

Estia Health Limited

Results for announcement to the market
For the half-year ended 31 December 2020
(previous corresponding period being the half-year ended 31 December 2019)

Appendix 4D

		% change		$'000
Revenue from ordinary activities	Up	2.0	to	322,500
Other income	Up	2,834.0	to	9,828
Total revenue and other income from ordinary activities	**Up**	**5.0**	**to**	**332,328**
Operating profit before interest and taxation	**Down**	**61.8**	to	**17,785**
(Loss)/ profit from ordinary activities attributable to members	**Down**	**136.9**	**to**	**(5,288)**

	31 December 2020 (cents)	31 December 2019 (cents)	% Change
Basic (loss) or earning per share	(2.02)	5.49	(136.8)
Diluted (loss) or earning per share	(2.02)	5.46	(137.0)
Net tangible asset backing per ordinary share [1]	(79.95)	(71.44)	(11.9)

Dividend information

	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking
Interim dividend - half-year ended 31 December 2020	-	-	-%
Final dividend year ended 30 June 2020	-	-	-%
Interim dividend - half-year ended 31 December 2019	5.4	5.4	30%

No final dividend was declared for the year ended 30 June 2020. Further, the Directors resolved on 23 February 2021 to not declare an interim dividend for the six months ended 31 December 2020.

Further Information

Commentary on the results for the period and additional ASX Appendix 4D (Listing Rule 4.2A.3) disclosures can be found in the attached Interim Financial Report of Estia Health Limited for the period ended 31 December 2020. This document should be read in conjunction with the Annual Report of Estia Health Limited for the year ended 30 June 2020 and any public announcements made in the period by Estia Health Limited in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

[1] Calculated as total equity less intangible assets and deferred tax liabilities, divided by the number of ordinary shares on issue at period end. Total equity includes AASB 16 right of use assets and lease liabilities.

Leanne Ralph
Company Secretary
23 February 2021

Estia Health Limited

ABN 37 160 986 201

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2020

Estia Health Limited
ABN 37 160 986 201

Contents

CORPORATE DIRECTORY

DIRECTORS

Dr. Gary H Weiss AM (Chairman)

Ian Thorley (Managing Director and CEO)

Norah Barlow ONZM

Paul Foster (Nomination and Remuneration Committee Chair)

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

Helen Kurincic (Risk Management Committee Chair)

Karen Penrose (Audit Committee Chair)

COMPANY SECRETARY

Leanne Ralph

REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS

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Sydney NSW 2000

SOLICITORS

Minter Ellison
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Commonwealth Bank of Australia
201 Sussex Street
Sydney NSW 2000

Australia and New Zealand Bank
242 Pitt Street
Sydney NSW 2000

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your directors submit their report for the six months ended 31 December 2020 for Estia Health Limited (the "Company") and its subsidiaries (collectively the "Group" or "Estia").

DIRECTORS

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

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

PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Group during the six month period ended 31 December 2020 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the auspices of the *Aged Care Act 1997* (the "Act").

The Group's strategy remains to:

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

THE MARKET IN WHICH ESTIA OPERATES

The Department of Health in its 2019-2020 Report on the Operations of the Act disclosed 217,145 operational places in the sector at 30 June 2020, an increase of 1.8% from the prior year. Services were provided to 244,363 residents (an increase of 0.8% compared to the prior year) with $13.4 billion of funding provided by the Australian Federal Government.

In order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by an Aged Care Assessment Team ("ACAT") and may then select a residential aged care home of their choice. Only Approved Providers, such as Estia, with approved bed licences in accredited homes are eligible to provide services which qualify for Government funding support.

The ageing of the Australian population and in particular the ageing of the “baby boomers” is expected to see a marked increase in the number of Australians likely to need aged care, including residential aged care in coming years.

The Group’s growth strategy is to expand services to meet demand from this growing demographic trend.

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

The emergence of COVID-19 in 2020 presents a further considerable challenge to the sector, particularly in areas where there are high community infection levels. The pre-existing ailments, co-morbidities and frailty of residents within residential aged care, some of whom are palliative, makes them amongst the most vulnerable to developing serious illness and potentially accelerate death as a result of the COVID-19 virus. Increased measures designed to safeguard the health and well-being of staff and residents and to prevent COVID-19 infections arising in homes will continue to be in place for the foreseeable future. The scale and duration of these conditions remain uncertain and it is likely that the future earnings, cash flow and financial conditions of the Group will be impacted.

DIRECTORS' REPORT

THE GROUP'S PORTFOLIO

As at 31 December 2020, the Group delivered services across 69 homes in Victoria (27 homes), South Australia (17 homes), New South Wales (17 homes), and Queensland (8 homes), of which 62 were freehold sites. These homes had 6,186 operational places, and the Group held a further 512 non-operational and provisional licences pending activation through future developments.

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

REGULATORY ENVIRONMENT, REFORM AND THE AGED CARE ROYAL COMMISSION

The residential aged care sector in which the Group operates is highly regulated within the provisions of the Act and the *Aged Care Quality and Safety Commission Act 2018*. The Commission approves providers and monitors the quality of care and services delivered. The Department of Health issues bed licences on a strictly controlled basis and governs the fees and services which are delivered and funded. As such Government policy settings have a major impact on the financial performance of providers.

Since the publication of the Aged Care Roadmap in 2016 there have been multiple significant reviews and reports commissioned by Government into the operation of the Aged Care sector. Most of the recommendations have not been implemented.

The Royal Commission into Aged Care Quality and Safety (the “Royal Commission”) was called by the Prime Minister in September 2018 amid growing community concern about the quality of care in the sector. The Terms of Reference are broad, focusing on the quality of care and future sustainability of the sector.

During the term of the Royal Commission, the Group along with a significant number of other providers were asked to provide two data sets of information in January 2019 and January 2020 in relation to the quality of care and staff hours worked at all homes. The Group complied by the requested date for each submission and was not asked to appear before the Royal Commission in relation to any matters relating to its operations nor following those submissions.

The Royal Commission handed down an Interim Report during October 2019.The initial recommendations did not have a direct or significant impact on the Group’s strategy or operations.

The Group was invited to make a submission to the Royal Commission in relation to the future funding, financing and sustainability of the sector in 2020. Subsequently, the CEO and Managing Director, Mr Ian Thorley, appeared before the Commission on 21 September 2020 to present the Group’s views on necessary sector reform to create a sustainable and high quality aged care sector where both funding and financing arrangements support the financial viability of efficient providers and enable investment returns sufficient to attract the capital required to meet the increase in expected demand and quality of services.

The Royal Commission completed its hearings and closed for submissions in November 2020 with its final report due in late February 2021. Counsel Assisting published a 475 page summary of evidence submitted and an initial 124 recommendations for the Commissioners to consider.

These recommendations, which are not the views of the Royal Commission, set an outline for future reform which, if included in the Final Report by the Commissioners and subsequently implemented by the Government would require a significant increase in funding, amongst many other changes, in order to deliver services in a sustainable way and at the level expected by the community. Although it is not possible at this stage to determine with any degree of certainty what the impact of the Royal Commission report will be on the sector the Directors believe that the future of residential aged care in Australia will be led by well-governed, quality-focused providers of scale such as Estia, who have the capacity to meet the demands for customer choice, in how we care for our elderly.

DIRECTORS' REPORT

COVID-19

As has been well-documented, the State of Victoria was severely impacted by the “second wave’ of COVID-19 from early July 2020, with major restrictions including a lock down not easing until November 2020. As reported in the Group’s FY20 Annual Report and as further detailed at the Company’s Annual General Meeting held in November 2020, 11 of the Group’s homes in Victoria experienced at least one infection in a resident or staff member, and all of the Group's homes were impacted by the need for visitor restrictions, increased Infection Protection and Control (“IPC”) protocols, increased Personal Protective Equipment (“PPE”) consumption, and higher cleaning and waste disposal cost.

As previously reported, four of the Group’s 27 homes in Victoria experienced a high number of infections in residents and staff. No homes outside of Victoria experienced any infections during the period.

The Group responded rapidly and comprehensively to the outbreak in Victoria working with the relevant Government agencies in managing its response at a home level in accordance with guidelines and its COVID-19 Response Plans. Measures taken have included: restriction of visitors to homes, testing and isolation of new admissions, use of full PPE, increased dedicated IPC personnel, and family/resident liaison staff. In addition, the Group adopted the Victorian industry voluntary code restricting staff to working at one site. The Group provided and continues to provide paid Quarantine Leave for staff who are symptomatic or awaiting test results.

During September and October 2020, the outbreaks were progressively resolved and the last of Estia’s homes with a COVID-19 infection was declared free of COVID-19 on 10 November 2020.

In July 2020 the Group were issued with Notices to Agree (“Notices”) from the Aged Care Quality and Safety Commission ("ACQSC") in relation to the COVID-19 outbreaks at Heidelberg West and Ardeer respectively. These Notices required Estia to agree to undertake specified actions. All matters identified by the ACQSC have been addressed to the satisfaction of ACQSC and no further action is required from Estia.

It is evident that the impacts of COVID-19 on the entire Australian economy and community will continue to be experienced for the foreseeable future and at least until the impacts of herd immunity/vaccinations are evident. The impact on the aged care sector which cares for some of the most vulnerable members of the community will likely continue to be significant. As local infections and “clusters” emerge in local communities it is likely that regular “lock downs”, restrictions to visitor access and increased PPE usage will continue to be part of the normal operating mode of residential aged care homes. Across all its homes, the Group continues to work closely with each State’s Public Health Unit, the Commonwealth Department of Health and the ACQSC to manage and monitor residents’ and staff health, safety and well-being.

As a result, the Group now holds elevated levels of PPE inventory compared to prior periods to guard against future crises or PPE shortages. The Group regularly reviews its COVID-19 Response Plans and established a program of outbreak simulations to enhance the skills and preparedness of managers and staff to respond to a variety of COVID-19 related events or situations. An external audit program of infection control protocols was also established during the period.

The Group is ready to participate in the Commonwealth Government COVID-19 vaccination program when it commences and advocates for the comprehensive participation of staff and residents of residential aged care homes within the program.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

The financial performance of the Group was materially impacted by COVID-19. The pandemic increased costs, reduced occupancy and revenue, and these impacts were partly offset by additional Government funding. A summary result for the period and its comparative is shown below. Greater detail on the impact of COVID-19 is shown later in this Report.

	H1 FY21 6 months $'000	H1 FY20 6 months $'000	H1 FY21 vs H1 FY20
Government revenue - excluding temporary funding	221,001	215,563	2.5%
Government revenue - temporary funding	6,856	-	100.0%
Resident and other revenue	73,068	73,857	(1.1)%
Total operating revenues [3]	**300,925**	**289,420**	**4.0%**
Other income - Government grants	(1,597)	-	100.0%
Employee benefits expenses [3]	215,624	198,873	8.4%
Non wage expenses [3]	45,897	46,594	(1.5)%
COVID-19 incremental expenses [3]	20,126	-	100.0%
EBITDA - Mature homes [1,2]	**20,875**	**43,953**	**(52.5)%**
Imputed DAP revenue on RAD/bond balances (AASB 16 impact)	(21,575)	(21,945)	(1.7)%
Royal Commission expenses	51	70	(27.1)%
Net loss from homes in ramp up	34	796	(95.7)%
Depreciation and amortisation expenses	20,340	18,709	8.7%
Other income - Asset disposals	(8,231)	(335)	-%
Net finance costs	3,287	4,441	(26.0)%
RAD/bond imputed interest	21,575	21,945	(1.7)%
Operating profit before income tax, class action & impairment expenses	**5,394**	**20,272**	**(73.4)%**
Income tax expense (pre class action & impairment expenses)	1,619	5,914	(72.6)%
Profit for the period (pre class action & impairment expenses)	**3,775**	**14,358**	**(73.7)%**
Class action settlement expenses	11,675	-	
Impairment expenses	796	67	
Income tax (benefit) on class action & impairment expenses	(3,408)	(20)	
(Loss)/ profit for the period	**(5,288)**	**14,311**	**(136.9)%**
Occupancy %	90.6%	93.7%	

[1] *EBITDA - Mature homes is defined as Earnings before Interest, Tax, Depreciation, Amortisation and Imputed DAP revenue on RAD/bond balances following the adoption of AASB 16.*

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

[3] *Page 8 provides a reconciliation of these amounts to the Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 14.*

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

[3] *Reconciliation Tables*

Reconciliation of Total operating revenue to Total revenue	***H1 FY21 6 months $'000***	***H1 FY20 6 months $'000***	***H1 FY21 vs H1 FY20***
Total operating revenue	*300,925*	*289,420*	*4.0%*
Imputed DAP revenue on RAD/ bond balances (AASB 16 impact)	*21,575*	*21,945*	*(1.7)%*
Operating revenue from new homes in ramp up	*-*	*4,717*	*(100.0)%*
Total revenue	***322,500***	***316,082***	***2.0%***

Reconciliation of Employee benefits to reflect expenses associated with COVID-19 and homes in ramp up	***H1 FY21 6 months $'000s***	***H1 FY20 6 months $'000s***	***H1 FY21 vs H1 FY20***
Employee benefit expense	*215,624*	*198,873*	*8.4%*
*COVID-19 incremental expenses **	*9,470*	*-*	*100.0%*
Employee benefit expenses related to new homes in ramp up	*25*	*4,421*	*(99.4)%*
Total employee benefit expenses	***225,119***	***203,294***	***10.7%***

Reconciliation of Non-wage expenses to reflect expenses associated with COVID-19 and homes in ramp up	***H1 FY21 6 months $'000s***	***H1 FY20 6 months $'000s***	***H1 FY21 vs H1 FY20***
Non wage expenses	*45,897*	*46,594*	*(1.5)%*
*COVID-19 incremental expenses **	*10,656*	*-*	*100.0%*
Non wage expenses related to new homes in ramp up	*9*	*1,092*	*(99.2)%*
Total non wage expenses *	***56,562***	***47,686***	***18.6%***

** Presented on a combined basis as COVID-19 incremental expenses.*
*** Non-wage expenses comprise Administrative, Occupancy and Resident expenses.*

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Impact of COVID-19 on Financial Performance

The impact in the period of COVID-19 on the financial performance of the Group was significant and impacted the Group to a far greater extent in Victoria than other States. The following information is provided to assist in demonstrating the impact and performance of the Group's business.

Revenues related to COVID-19

Revenues for the period were primarily impacted by the decline in occupancy experienced in Victoria. In addition, the Group took the decision to cease resident billings at a number of homes during COVID-19 outbreaks in Victoria, and ceased Additional Services billings at all homes in Victoria for 3 months as a result of limitations on the ability to deliver those services during the State-wide lock down. All homes in Victoria returned to full billing from 1 November 2020.

Non-recurring funding received in the period was $6.9 million. This comprised an additional 1.2% in the care subsidy paid during 1 March 2020 to 31 August 2020, of which $0.8 million was recognised in the period, and COVID-19 funding of $6.1 million was received on 7 October 2020, based on a payment of $975 or $1,435 per resident, depending on home location.

Incremental Costs related to COVID-19

The Group has incurred total incremental costs as a result of the COVID-19 pandemic of approximately $20.1 million in the period which are explained in more detail below. The Group may be eligible for Government grant claims which reimburse some of these costs. The grants are referred to later in this report.

Staff Costs

Increased COVID-19 related staff costs in the period of $9.4 million arose from multiple sources, totalling $6.3 million in Victoria and $3.1 million in other States.

Costs in Victoria included:

- Quarantine and Pandemic leave
- Increased agency, wages supplement and "surge" workforce costs
- Costs of Resident Liaison Staff assisting with family communications and engagement
- Additional IPC staff assisting with active training, monitoring and assistance
- Costs associated with additional support staff transferred from Queensland and NSW

Costs outside Victoria included:

- Quarantine leave
- Costs of Resident Liaison Staff assisting with family communications and engagement
- Additional IPC staff assisting with active training, monitoring and assistance

The costs of additional Infection Protection and Control measures and Resident Liaison staff are expected to continue across all States into the second half year.

Non-Staff Costs

Incremental COVID-19 related non-staff costs in the period were $10.7 million, totalling $6.3 million in Victoria and $4.4 million in other States. These costs were primarily in relation to PPE, cleaning and waste disposal with the majority of the costs in Victoria relating to managing the major outbreaks at four homes.

At 31 December 2020 the Group held PPE inventory with a value of $4.1 million.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The impact of the COVID-19 outbreak in Victoria compared to the rest of the Group's homes is shown in the table below:

	H1 FY21 Group 6 months $'000	H1 FY21 Homes in Victoria 6 months $'000	H1 FY21 Other Homes 6 months $'000
Government revenue - excluding temporary funding	221,001	72,110	148,891
Government revenue - temporary funding	6,856	2,392	4,464
Resident and other revenue	73,068	21,954	51,114
Total operating revenue	**300,925**	**96,456**	**204,469**
Other income - Government grants	(1,597)	(1,597)	-
Employee benefits expense			
Recurring	215,624	76,721	138,903
COVID-19 related[1]	9,470	6,299	3,171
Total employee benefits expense	**225,094**	**83,020**	**142,074**
Non wage expenses			
Recurring	45,897	16,731	29,166
COVID-19 related[1]	10,656	6,256	4,400
Total non wage expenses	**56,553**	**22,987**	**33,566**
EBITDA - Mature homes[2] [3]	**20,875**	**(7,954)**	**28,829**

[1] *COVID-19 related costs represent the incremental costs incurred in managing and responding to the COVID-19 pandemic.*

[2] *EBITDA - Mature homes is defined as Earnings before Interest, Tax, Depreciation, Amortisation and imputed DAP revenue on RAD/ bond balances following the adoption of AASB 16.*

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

Class Action Settlement

On 15 February 2021, the Company executed a binding deed of agreement finalising arrangements to settle the shareholder class action ("Class Action"), commenced against it in July 2019 in the Federal Court of Australia, relating to market disclosures made between August 2015 and October 2016. The settlement of the Class Action, which is without admission of any liability, is subject to Federal Court approval.

The Group will make a net contribution of $11.7 million to the agreed total settlement amount of $37.8 million inclusive of interest and costs. The remainder of the settlement is fully insured. The amount of $11.7 million has been recognised as an expense in the period and is expected to be paid by the Group into Trust prior to 31 March 2021.

The Directors determined that the agreement to settle the class action was a commercial decision made in the best interests of the Company and its shareholders.

Asset Sales

During the period, the Group completed the sale of two surplus land sites within NSW at Mona Vale and Wollongong, which resulted in a combined pre-tax profit on sale of $8.2 million.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Other Government Support and Assistance related to COVID-19

Reimbursement of COVID-19 Related Costs

The Group has submitted applications to the Federal Government COVID-19 grant schemes relating to the incurrence of COVID-19 specific costs. These applications total approximately $7.3 million relating to the period.

Of these applications:

- $25,000 was received and recognised as income during the period;
- $2.1 million has been applied for, accepted by Government and is expected to be remitted and recognised in the second half year,
- $5.2 million has been applied for and is still under review by Government.

There are no grants available for lost revenues arising from reduced occupancy as a result of COVID-19 related events. At the date of signing this report, the Group has been advised it is not able to recover revenue losses under the terms of its business interruption insurance policies. Grant schemes remain open for further claims if relevant incremental COVID-19 related costs are incurred in coming months.

PPE supplied

During the height of the pandemic in Victoria, the Group received additional PPE supplies from Government to supplement its own purchases at a time of critical PPE shortage in the country. In accordance with AASB 120 *Government Grants and Disclosure of Government Assistance* this has been shown as a Grant, valued at replacement cost. Refer to Note B1 for further details. The total PPE supplied to the Group by the Government during the period was valued at approximately $2.3 million.

Staff Retention Bonus Payments

Under the Government Aged Care Retention Bonus scheme, the Government provided two payments of $3.0 million each or $6.0 million in total. These amounts were fully disbursed to direct care staff in accordance with the scheme rules and were accounted for as a disbursement having no net effect on revenue or costs. However, the Company did incur state-based payroll tax charges which was not funded by the Government scheme and was reported as an expense in the period. During the period the Government announced the availability of a third tranche that will be provided post balance date. As at the date of this report, the funding has not yet been received.

Nearly 2,000 home-based employees engaged in food services, cleaning, administration support and other non-clinical roles were not eligible for the bonus payment, however the Group elected to make a payment totalling $0.5 million in July on this own account for these employees who have also played a key role in the homes during the pandemic.

DIRECTORS' REPORT

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

The Group's capital and funding position is a product of the efficiency of operating profit to cash conversion, net RAD flows, capital investment and dividend distributions. At 31 December 2020, the Group had net bank debt of $86.0 million and net assets of $604.1 million.

The balance of RADs (including the probate liability) at the end of the period was $836.1 million, compared to $836.3 million at 30 June 2020. During this period RADs for current residents increased from $736.4 million to $751.3 million with probate liability decreasing from $99.9 million to $84.8 million.

The Group remains in compliance with the covenants applying to its $330 million syndicated financing facility, which is due to expire in November 2022.

DEVELOPMENTS, ACQUISITIONS AND DIVESTMENTS

As previously reported, major capital projects have been paused pending a clearer investment outlook. As a result, total capital investment in the period was $28.9 million, the majority of which was invested in the completion of the new home at Blakehurst (NSW), which opened on 22 February 2021, the refurbishment and improvement of existing homes, and key technology and sustainability projects.

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

The Mona Vale site sale completed on 4 November 2020 with the remaining proceeds of $9.9 million received delivering a pre-tax profit of approximately $7.8 million in the period.

Development options for land at Crown Street, Wollongong were re-assessed in the period and the decision was made to offer the site for sale. The sale for $3.8 million was completed on 15 December 2020 generating a pre-tax profit of approximately $0.4 million.

DIVIDENDS

There were no dividends paid in the period and on the basis of the financial results for the period the Directors resolved to not declare an Interim Dividend for the 6 months ended 31 December 2020.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

ROUNDING

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

Signed in accordance with a resolution of directors on 23 February 2021.

Dr. Gary H Weiss AM
Chairman

Sydney

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Building a better working world

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

As lead auditor for the review of the half year financial report of Estia Health Limited for the half year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
23 February 2021

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	December 2020 $'000	December 2019 $'000
Revenues	**B1**	**322,500**	**316,082**
Other income	B1	9,828	335
Expenses			
Administrative expenses		8,842	9,600
Depreciation, amortisation and impairment expense		21,136	18,776
Employee benefits expense		225,119	203,294
Occupancy expenses		12,491	12,296
Resident expenses		35,229	25,790
Class action settlement	B2	11,675	-
Direct costs associated with the Royal Commission		51	70
Operating profit for the period		**17,785**	**46,591**
Net finance costs	B3	24,862	26,386
(Loss) or Profit before income tax		**(7,077)**	**20,205**
Income tax (benefit)/ expense	B4	(1,789)	5,894
(Loss) or Profit for the period		**(5,288)**	**14,311**
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) or income for the period, net of tax		**(5,288)**	**14,311**
		cents	**cents**
Earnings per share			
Basic, (loss) or profit for the period attributable to ordinary equity holders of the Parent		(2.02)	5.49
Diluted, (loss) or profit for the period attributable to ordinary equity holders of the Parent		(2.02)	5.46

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	December 2020 $'000	June 2020 $'000[1]
Cash and cash equivalents	C1	19,008	30,600
Trade and other receivables	B2	31,530	8,129
Prepayments and other assets		13,285	6,444
Income tax receivable		1,873	-
Assets held for sale	C2	2,988	5,441
Total current assets		**68,684**	**50,614**
Property, plant and equipment	C3	846,403	842,524
Right of Use Assets		65,314	67,137
Investment properties	D5	1,000	1,500
Goodwill	C4	681,014	681,014
Other intangible assets	C4	227,370	226,950
Prepayments		400	585
Total non-current assets		**1,821,501**	**1,819,710**
Total assets		**1,890,185**	**1,870,324**
Trade and other payables		40,686	59,528
Lease liabilities		4,170	4,052
Income received in advance	C5	34,536	-
Refundable accommodation deposits and bonds	D3	836,135	836,304
Other financial liabilities		816	1,193
Income tax payable		-	6,504
Provisions	B2	97,183	52,678
Total current liabilities		**1,013,526**	**960,259**
Deferred tax liabilities		95,412	98,404
Lease liabilities		67,042	68,910
Loans and borrowings	D4	104,090	128,848
Provisions		6,055	5,155
Total non-current liabilities		**272,599**	**301,317**
Total liabilities		**1,286,125**	**1,261,576**
Net assets		**604,060**	**608,748**
Issued capital	D1	803,459	803,396
Share-based payments reserve		2,243	1,706
Accumulated losses		(201,642)	(196,354)
Total equity		**604,060**	**608,748**

[1] Issued Capital and Share-based payments reserve have been reclassified for the prior period. Refer to page 16 and to Note D1 on page 30.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	Issued capital $'000	Share-based payments reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2019		**801,843**	**1,794**	**(45,019)**	**758,618**
Profit or (loss) for the period		-	-	14,311	14,311
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**14,311**	**14,311**
Transactions with owners in their capacity as owners:					
Transfers from share-based payment reserve[1]		41	(41)	-	-
Dividends		-	-	(20,328)	(20,328)
Share-based payments		-	15	-	15
Issue of share capital		1,230	-	-	1,230
Balance at 31 December 2019		**803,114**	**1,768**	**(51,036)**	**753,846**
Balance at 1 July 2020		**803,396**	**1,706**	**(196,354)**	**608,748**
Profit or (loss) for the year		-	-	(5,288)	(5,288)
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**(5,288)**	**(5,288)**
Transactions with owners in their capacity as owners:					
Transfers from share-based payment reserve		63	(63)	-	-
Share-based payments		-	600	-	600
Balance at 31 December 2020		**803,459**	**2,243**	**(201,642)**	**604,060**

[1] *The vesting of employee performance rights in July 2019, resulted in the issuance of ordinary shares in the Company. The issuance of these shares was not previously disclosed and the comparative period has now been reclassified.*

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	December 2020 $'000	December 2019 $'000
Cash flows from operating activities			
Receipts from residents		73,563	73,470
Receipts from government		263,407	248,944
Payments to suppliers and employees		(292,782)	(252,421)
Net operating cash flows before interest, income tax, RAD, accommodation bond and ILU contributions		**44,188**	**69,993**
Interest received		524	27
Income taxes paid		(9,581)	(7,970)
Finance costs paid		(4,613)	(3,862)
Interest expense of lease liability		(914)	(1,095)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU contributions		**29,604**	**57,093**
RAD, accommodation bond and ILU entry contribution received		126,102	145,617
RAD, accommodation bond and ILU entry contribution refunded		(124,897)	(123,465)
Net cash inflow from operating activities		**30,809**	**79,245**
Cash flows from investing activities			
Payments for intangible assets	C4	(1,163)	(4,702)
Proceeds from sale of property, plant and equipment		3	57
Proceeds from sale of assets held for sale		13,658	1,736
Purchase of property, plant and equipment	C3	(27,727)	(41,566)
Net cash (outflow) from investing activities		**(15,229)**	**(44,475)**
Cash flows from financing activities			
Proceeds from borrowings		189,500	150,000
Repayment of borrowings		(214,500)	(160,000)
Dividends paid	D1	-	(19,099)
Repayment of lease liabilities		(2,172)	(1,915)
Net cash (outflow) from financing activities		**(27,172)**	**(31,014)**
Net (decrease) increase in cash and cash equivalents		(11,592)	3,756
Cash and cash equivalents at the beginning of the year		30,600	14,631
Cash and cash equivalents at end of period	**C1**	**19,008**	**18,387**

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

SECTION A ABOUT THIS REPORT

A1
CORPORATE INFORMATION

The interim condensed consolidated financial statements ("financial report") of Estia Health Limited and its subsidiaries (collectively, the “Group” or "Estia") for the six months ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 23 February 2021.

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

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

A2
BASIS OF PREPARATION

The financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting* issued by the Australian Accounting Standards Board (AASB). The financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 30 June 2020.

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

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

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

A3
GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The potential impacts of COVID-19 have been taken into consideration in preparing the financial report on a going concern basis. The Group’s current liabilities exceed current assets by $944,842,000 as at 31 December 2020 (30 June 2020: $909,645,000). This mainly arises because of the requirement to classify Refundable Accommodation Deposits and bonds ("RAD") and Independent Living Unit ("ILU") entry contributions of $836,951,000 (30 June 2020: $837,497,000) as current liabilities.

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

The Group has a syndicated financing facility of $330,000,000 of which $220,941,000 remains undrawn as at 31 December 2020. This debt facility can be drawn down to repay RAD and bond refunds should the Group experience significant RAD and bond net outflows.

SECTION A ABOUT THIS REPORT (CONTINUED)

A4
SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the reported amounts and are reviewed on an ongoing basis. In making any judgement, estimate or assumption relating to reported amounts, management have also considered, where appropriate, the impact of COVID-19.

In preparing the financial report, the significant estimates, judgements and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the most recent annual financial statements as at 30 June 2020 except for the application of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* ("AASB 120") which is disclosed in Note B1.

SECTION B OUR PERFORMANCE

B1
REVENUE AND OTHER INCOME

	December 2020 $'000	December 2019 $'000
Revenues		
Government funded residential care subsidies & supplements	227,857	218,908
Resident daily care fees	52,788	53,470
Other resident fees	20,280	21,759
Imputed DAP revenue on RAD and bond balances under AASB 16	21,575	21,945
Total revenues	**322,500**	**316,082**
Other Income		
Net gain on disposals of property, plant and equipment	3	51
Net gain on disposals of assets held for sale	8,228	284
Government grants	1,597	-
Total other income	**9,828**	**335**

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

Total revenue includes the provision of accommodation, that is accounted for in accordance with AASB 16 *Leases* ("AASB 16"). This includes operating lease revenue which is recognised on a straight line basis over the length of stay. In addition, revenue includes imputed revenue in relation to residents who have chosen to pay a RAD or bond. This is a non-cash amount.

Government funded residential care subsidies & supplements, includes a payment in October 2020 of either $975 or $1,435 (depending on the location of the home) for each resident based on June 2020 census data. The payment contributed $6,073,000 in revenue for the period (30 June 2020: $5,800,000).

The Group received personal protective equipment ("PPE") from Government during a time of critical shortages in Australia, which supplemented its own purchases. $1,597,000 relating to PPE supplied by Government was consumed in the period and as such was recognised as grant income and as PPE expense. At balance date, unused Government PPE was included in inventory at a value of $633,000 (30 June 2020: nil), with a corresponding amount included in deferred income

SECTION B OUR PERFORMANCE (CONTINUED)

B1
REVENUE AND OTHER INCOME (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Government grants, including non-monetary grants, are recognised when all conditions attached to the grant will be met and the grant will be received. The grant is recognised at an amount equivalent to what will be received and non-monetary grants are recognised at fair value and as Other income. A monetary grant is recognised net of the expense to which it relates to and in the profit and loss on a systematic approach over the period that the related costs are incurred and for which the grant was intended to compensate. For non-monetary grants, the asset and the grant are released to the profit and loss based on a pattern of consumption of the benefits of the underlying asset.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group have used the replacement cost of PPE items which are comparable to the items it has received from the Government, to determine the value of non-monetary Government grants received during the period.

SECTION B OUR PERFORMANCE (CONTINUED)

B1
REVENUE AND OTHER INCOME (CONTINUED)

Disaggregation of Revenue

The Group has disaggregated revenue based on the source of the funding for the provision of residential aged care.

(a) **Government Funded Residential Care Subsidy**

The Australian Government determines the amount of subsidies and supplements in accordance with the provisions of the *Aged Care Act 1997* (the "Act"). In accordance with the Act, the level of subsidy or supplement is dependent on a range of factors, including a resident's care needs, supported resident ratios in a particular home and whether a home has been newly built or significantly refurbished on or after 20 April 2012. The subsidies or supplements are calculated as a daily rate payable for each day that a resident is in an Estia home.

The Government may require a resident to pay a proportion of that subsidy or supplement dependent on their own financial circumstances. This is referred to as a Means Tested Care Fee ("MTCF"). The MTCF reduces the amount the Government pays directly to the provider as a result. The total MTCF included within the total Government Funded Residential Care Subsidy was $7,525,000 in the period (31 December 2019: $8,356,000).

(b) **Resident Daily Care Fees**

The Group receives Daily Fees in accordance with the Act. These fees are set by the Government and funded directly by the resident as a Basic Daily Fee. The Basic Daily Fee is calculated as a daily rate and is payable by a resident for each day spent in a residential aged care home.

(c) **Other Resident Fees**

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

(d) **Imputed DAP Revenue on RAD and Bond Balances under AASB 16**

For residents who have chosen a RAD or bond arrangement to receive residential aged care services, the Group has determined that following the adoption of AASB 16, these are lease arrangements for accounting purposes with the Group acting as the lessor. The Group has recognised as revenue an imputed non-cash DAP charge for accommodation representing the resident's right to occupy a room under the arrangement. The accounting treatment required a non-cash increase in revenue for accommodation and a non-cash increase in finance cost on the outstanding RAD and bond balance, with no net impact on the result for the period.

Other Income

During the period, the Group completed the sale of two properties for a total of $14,750,000 (31 December 2019: two properties sold for $1,188,000) and recognised a net pre-tax profit on sale of $8,228,000 (31 December 2019: net gain on sale $284,000).

The Group recognises gains and losses from the sale of assets held for sale at the point in time that control transfers to the purchaser, which is when the legal title is transferred between the parties.

Contract Assets and Liabilities

AASB 15 *Revenue from contracts with customers* ("AASB 15") requires presentation of the following items separately in the statement of financial position:
(i) 'contract asset' for the right to consideration in exchange for services that have transferred to a customer;
(ii) 'contract liability' for the obligation to transfer services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer; and
(iii) 'receivable' for the right to consideration that is unconditional (only the passage of time is required before payment of that consideration is due).

SECTION B OUR PERFORMANCE (CONTINUED)

B2
CLASS ACTION SETTLEMENT

	December 2020 $'000	December 2019 $'000
Class action settlement	**11,675**	-
Total class action settlement	**11,675**	**-**

On 15 February 2021 the Group executed a binding deed of agreement finalising arrangements "(Settlement") to settle the shareholder class action ("Class Action") commenced against it in July 2019, which related to market disclosures made between August 2015 and October 2016. The Settlement, which is without admission of any liability, is subject to approval by the Federal Court.

The agreed total amount of the Settlement is $37,750,000 which includes interest and costs. At balance date, the Group has recognised the Settlement amount as a Provision due to the uncertainty in timing of when the Federal Court approval will be granted. The contribution to the settlement by the Group's insurers is $26,075,000, which has been recognised in Trade and Other Receivables at balance date. The Group will make a contribution of $11,675,000 to the Settlement, which has been recognised as a net expense during the period. A payment into Trust of agreed amounts under the Terms of the Settlement is expected to be made prior to 31 March 2021.

B3
FINANCE INCOME AND COSTS

	December 2020 $'000	December 2019 $'000
Finance income		
Interest income from cash at banks	524	27
Finance income	**524**	**27**
Finance costs		
Imputed interest cost on RAD and bond balances	(21,575)	(21,945)
Interest expense on leases under AASB 16	(914)	(1,095)
Interest expense on accommodation bonds for departed residents	(1,063)	(1,351)
Other finance costs	(723)	(1,310)
Interest expense on bank loans	(1,111)	(712)
Finance costs expensed	**(25,386)**	**(26,413)**
Net finance costs	**(24,862)**	**(26,386)**

SECTION B OUR PERFORMANCE (CONTINUED)

B4
INCOME TAX EXPENSE

The major components of income tax expense for the six months ended 31 December 2020 and 31 December 2019 are:

Interim consolidated statement of profit or (loss) and other comprehensive income

	December 2020 $'000	December 2019 $'000
Current income tax		
Current income tax expense	1,637	9,389
Adjustments in respect of income tax of previous year	(1)	227
Deferred income tax		
Relating to origination and reversal of temporary differences	(3,425)	(3,407)
Adjustments in respect of income tax of previous year	-	(315)
Income tax (benefit) or expense reported in the interim consolidated statement of profit or (loss) and other comprehensive income	**(1,789)**	**5,894**

Reconciliation of income tax expense and accounting profit or (loss):

	December 2020 $'000	December 2019 $'000
Accounting (loss) or profit before income tax	(7,077)	20,205
At the Australian statutory income tax rate of 30% (2019: 30%)	(2,123)	6,062
Adjustments in respect of income tax of previous year	(1)	(87)
Utilisation of previously unrecognised tax losses	(18)	(103)
Expenditure not allowable for income tax purposes		
- Other expenditure	353	22
Income tax (benefit) or expense	**(1,789)**	**5,894**

SECTION C ASSETS & LIABILITIES

C1
CASH AND CASH EQUIVALENTS

	December 2020 $'000	June 2020 $'000
Cash at bank	18,896	30,522
Cash on hand	112	78
Total cash and cash equivalents	**19,008**	**30,600**

C2
ASSETS HELD FOR SALE

	December 2020 $'000	June 2020 $'000
Assets held for sale	2,988	5,441
Total cash and cash equivalents	**2,988**	**5,441**

On 4 November 2020, the Group completed the previously announced sale of a property in Mona Vale, NSW and recorded a pre-tax profit on sale of $7.8 million in the period.

Development options for a site at Crown Street, Wollongong, NSW were re-assessed in the period and the decision was made to dispose the site. A contract for sale for $3.8 million was executed in October 2020 and this was settled on 15 December 2020 for a pre-tax profit of $0.4 million in the period.

A process was commenced during the period to dispose of land in excess of operational requirements, held at Grovedale, VIC. A contract for sale was executed in December 2020 and is due to settle on 30 April 2021. The contracted sale amount was in excess of the carrying amount of the land at balance date.

The Group has a property in Wombarra, NSW for which a process for disposal commenced in June 2020 and continued during the current period.

SECTION C ASSETS & LIABILITIES (CONTINUED)

C3
PROPERTY, PLANT AND EQUIPMENT

	Land $'000	Buildings $'000	Property improvements $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost							
Balance at 1 July 2019	192,840	504,816	64,823	92,045	989	47,593	903,106
Additions	3,148	-	2,783	9,884	65	51,981	67,861
Transfers	3,960	26,653	15,129	19,143	-	(64,885)	-
Disposals	(885)	(445)	(46)	(2,112)	(155)	-	(3,643)
Transfer to assets held for sale	(5,250)	-	-	(48)	-	(108)	(5,406)
Balance at 30 June 2020	**193,813**	**531,024**	**82,689**	**118,912**	**899**	**34,581**	**961,918**
Additions	-	-	849	3,766	-	20,689	25,304
Transfer from investment properties	-	500	-	-	-	-	500
Transfers	-	-	1,473	1,416	-	(2,889)	-
Disposals	-	(4)	(5)	(1,021)	(28)	25	(1,033)
Transfer to assets held for sale	(3,745)	-	(2)	-	-	-	(3,747)
Balance at 31 December 2020	**190,068**	**531,520**	**85,004**	**123,073**	**871**	**52,406**	**982,942**
Accumulated depreciation							
Balance at 1 July 2019	-	39,930	4,213	35,420	847	-	80,410
Depreciation expense	-	11,498	4,148	17,431	72	-	33,149
Impairment expense	-	4,844	858	589	-	2,213	8,504
Disposals	-	(445)	(30)	(2,046)	(149)	-	(2,670)
Balance at 30 June 2020	**-**	**55,826**	**9,189**	**51,395**	**770**	**2,213**	**119,393**
Depreciation expense	-	5,541	2,309	9,481	21	-	17,352
Impairment expense	821	-	-	-	-	(25)	796
Disposals	-	(5)	(5)	(989)	(28)	25	(1,002)
Balance at 31 December 2020	**821**	**61,362**	**11,493**	**59,887**	**763**	**2,213**	**136,539**
Net book value							
As at 30 June 2020	193,813	475,198	73,500	67,516	129	32,368	842,524
As at 31 December 2020	**189,247**	**470,158**	**73,511**	**63,186**	**108**	**50,193**	**846,403**

The land and buildings predominately relate to aged care facilities. The provision of aged care includes operating leases in accordance with AASB 16.

SECTION C ASSETS & LIABILITIES (CONTINUED)

C3
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Where an item of land, building, plant or equipment has a specific indicator of impairment present, the Group assesses the residual value, useful life and methods of depreciation on a standalone basis and adjusted prospectively, if appropriate. During the period, an impairment indicator existed for land owned by the Group, upon which there was no aged care facility situated. The Group determined that the fair value of the land, obtained from an external independent valuer, less cost of disposal for the land, was less than its carrying value. The Group recognised an impairment expense of $821,000 for the period.

SECTION C ASSETS & LIABILITIES (CONTINUED)

C4
INTANGIBLE ASSETS

	Goodwill $'000	Bed licences $'000	Software costs $'000	Total $'000
Cost				
Balance at 1 July 2019	817,074	217,931	9,095	1,044,100
Additions	-	3,350	2,529	5,879
Disposals	-	-	(94)	(94)
Balance as at 30 June 2020	**817,074**	**221,281**	**11,530**	**1,049,885**
Additions	-	-	1,163	1,163
Balance as at 31 December 2020	**817,074**	**221,281**	**12,693**	**1,051,048**
Accumulated Amortisation				
Balance at 1 July 2019	-	-	4,451	4,451
Amortisation expense	-	-	1,445	1,445
Impairment	136,059	-	59	136,118
Disposals	-	-	(94)	(94)
Balance at 30 June 2020	**136,059**	**-**	**5,861**	**141,920**
Amortisation expense	-	-	742	742
Balance as at 31 December 2020	**136,059**	**-**	**6,603**	**142,662**
Net book value				
As at 30 June 2020	681,014	221,281	5,669	907,964
As at 31 December 2020	**681,014**	**221,281**	**6,090**	**908,384**

(a) **Impairment of intangible assets**

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually as at 30 June or when indicators of impairment exist. The test is based on value in use calculations and conducted at the cash generating unit ("CGU") level. The CGU is consistent with the operating segment identified in Note E3.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2020, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill and bed licences. As a result, management performed an impairment test at 31 December 2020 for the CGU.

The methodology and model used in assessing the recoverable amount of the CGU is consistent with the approach set out in the Group's consolidated annual financial statements for the year ended 30 June 2020.

The impairment test performed at 30 June 2020, assessed the carrying value of the CGU to be lower than its recoverable amount resulting in the recognition of an impairment charge in the year ended 30 June 2020.

SECTION C ASSETS & LIABILITIES (CONTINUED)

C4
INTANGIBLE ASSETS (CONTINUED)

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

The impairment testing performed as at 31 December 2020 was based on similar assumptions and judgements to those used at 30 June 2020, adjusted for any changes the Directors have considered to be reasonably possible, including the impact of COVID-19 on the future cash flows of the CGU.

The discount and growth rates used at 31 December 2020 in assessing the recoverable amount are as follows:

	December 2020 %	**June 2020 %**
Post-tax discount rate	9.26%	9.26%
Pre-tax discount rate	12.50%	12.50%
Long term growth rate	2.30%	2.30%

(b) **Sensitivities to change in assumptions**

The following sensitivity changes to the CGU value in use assumptions will result in the recoverable amount of the CGU being equivalent to its carrying value:

• A reduction in forecasted EBITDA of $5.0 million across all future years, including the terminal year.

• An increase of 51 basis points to the discount rate.

• A decrease of 65 basis points in the long term growth rate.

C5
INCOME RECEIVED IN ADVANCE

	December 2020 $'000	**June 2020 $'000**
Income received in advance	34,536	-
Total income received in advance	**34,536**	**-**

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

As at 31 December 2020, $34,536,000 (31 December 2019: $34,305,000) of income received in advance related to Government funding received in December relating to services to be provided in January 2021. Refer to Note B1 for the Group's revenue recognition policy.

SECTION D CAPITAL, FINANCING, RADS & RISK

D1
ISSUED CAPITAL AND RESERVES

	December 2020 $'000	June 2020 $'000
Issued and fully paid		
Ordinary shares	803,459	803,396
Total share capital	**803,459**	**803,396**

(a) **Movements in ordinary shares on issue**

	December 2020		June 2020	
	Number of shares	**$'000**	**Number of shares**	**$'000**
Beginning of the period	261,271,914	803,396	260,602,749	801,843
Movement in management equity plan	-	-	-	6
Dividend reinvestment plan	-	-	655,472	1,507
Vesting of employee performance rights	23,055	63	13,693	41
End of financial period	**261,294,969**	**803,459**	**261,271,914**	**803,396**

The Group grants performance rights to some employees, including key management personnel, as part of their remuneration. Upon vesting, the rights are equity settled by the issuance of ordinary shares in the Group. Refer to Note D2 for further details of these plans. In July 2020, performance rights vested resulting in the issuance of 23,055 ordinary shares in the Group.

Reclassification of prior period balance

13,683 performance rights vested in July 2019 and were not recorded and disclosed in the twelve month period ended 30 June 2020. The comparative period has now been reclassified to reflect the vesting of the performance rights and the issuance of 13,693 ordinary shares in the Group.

(b) **Share-based payments reserve**

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

(c) **Franking credits**

The franking credit balance of Estia Health Limited as at 31 December 2020 is $27,843,239 (30 June 2020: $19,087,406).

(d) **Dividends paid and proposed**

There was no final dividend paid for the year ended 30 June 2020.

On 23 February 2021 the Directors resolved not to declare an interim dividend for the six month period ended 31 December 2020.

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

D2
SHARE-BASED PAYMENTS

At 31 December 2020, the Group had the following share-based payments arrangements:

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

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

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

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

The Group granted a total of 1,629,361 rights during the period.

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

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

50% of the STIP is measured on a combined basis against EBITDA (on a post AASB 16 basis) and NPAT, as well as other role specific measures for the remaining 50%. Other role specific measures include Lost Time Injury Frequency Rate reduction targets, organisational culture measures, delivery of efficiencies through management of external financing, and developments in connection with clinical governance and risk management processes.

The number of performance rights granted and deferred under the STIP during the year ended 31 December 2020 relating to the incentive payments earned in the year ended 30 June 2020 was nil (2020: 23,055).

(c) Retention Plan ("RP")

Under the RP, awards in the form of performance rights, are made to key managers and executives to encourage retention of their employment with the Group. The executive must remain employed with the Group from the date the award is granted to the vesting date of the performance right. Upon successful vesting of the performance rights, the executive is issued ordinary shares in the Group, equivalent to the number of performance rights originally granted.

The number of performance rights granted during the period ended 31 December 2020 was 639,390 (2020: 146,673).

(d) Management Equity Plan ("MEP")

The MEP is a legacy plan which was approved by the Board and implemented prior to listing and other than for existing holders, it is no longer offered.

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

D3
REFUNDABLE ACCOMMODATON DEPOSITS AND BONDS

	December 2020 $'000	June 2020 $'000*
Current residents	751,342	736,402
Departed residents	84,793	99,902
Total refundable accommodation deposits and bonds - amounts received	**836,135**	**836,304**

** The comparative period has been restated to correct an error in the previously reported analysis of the total balance between current and departed residents at 30 June 2020.*

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

The RADs and bonds are paid by residents upon their admission to homes and are refunded after a resident departs a home in accordance with the *Aged Care Act 1997*. Providers must pay a base interest rate on all refunds of RADs and bonds within legislated time frames and must pay a higher rate on refunds that are not made within legislated time frames.

RAD and bond refunds are guaranteed by the Government under the Accommodation Payment Guarantee Scheme, in the event that a provider is unable to refund the amounts. Providers are required to maintain sufficient liquidity to ensure that they can refund all amounts as they fall due. As required under legislation, the Group maintains a Liquidity Management Policy, which is monitored on regular basis and a full review is undertaken on an annual basis as a minimum, with the intention of ensuring it has sufficient liquidity, in the form of cash or undrawn lines of credit, to meet its RAD and bond refund and other financial obligations.

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

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

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

D4
LOANS AND BORROWINGS

	December 2020 $'000	June 2020 $'000
Bank loans, secured*	104,090	128,848
Total loans and borrowings	**104,090**	**128,848**

** Directly attributable transaction costs are deducted from the initial carrying value of the bank loan and are amortised over the term of the Facility. The amount deducted from carrying value in the period was $910,000 (30 June 2020: $1,152,000).*

Terms and conditions of loans

The Group has a syndicated financing facility ("Facility") with a number of major Australian banks. The Facility may be used for general corporate purposes including funding acquisitions, capital expenditure, working capital requirements and providing sufficient liquidity to redeem RADs and bonds.

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

The total debt facility available to Estia at 31 December 2020 was $330,000,000. In addition, the facility has an accordian feature which allows for the facility to be increased by an additional $170,000,000, subject to lender participation and the satisfaction of specified terms and conditions of the accordian feature being satisfied. The Facility will mature in November 2022.

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

D5
FAIR VALUE MEASUREMENT

The Group uses various methods in estimating the fair value of its financial assets and liabilities which are categorised within the fair value hierarchy. The Group uses fair value for Investment Properties, which are valued using Level 3 inputs. The Group's Investment Properties represent Independent Living Units ("ILU") which are occupied by residents who have contributed a non-interest bearing loan to occupy the ILU. The resident vacates the property based on the applicable State-based Retirement Village Acts.

During the period, residents vacated two properties. The Group elected to use these properties for the provision of residential aged care services and transferred the properties into its control at an amount equivalent to its fair value of $500,000

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

			Fair value measurement using		
	Date of Valuation	Total	Level 1	Level 2	Level 3
		$'000	$'000	$'000	$'000
Investment Properties	31 December 2020	1,000	-	-	1,000
Investment Properties	30 June 2020	1,500			1,500

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

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

There was no transfer between levels during the period.

SECTION E OTHER INFORMATION

E1
COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2020, the remaining capital commitments amounted to $6,637,000 (31 December 2019: $34,700,000).

Bank guarantees

The Group has entered into a number of bank guarantees with its bankers in relation to the Group's rental agreements for leased properties, totalling $4,059,000 (31 December 2019: $4,000,000). These are secured under the terms of the Facility as disclosed in Note D4. As at the date of signing this report, the Directors are not aware of any situations that have arisen that would require bank guarantees to be presented or redeemed.

Contingent asset - Government grants

As at the end of the period, the Group had submitted two applications, totalling $7,300,000 (31 December 2019: nil), to the Federal Government for the reimbursement of eligible COVID-19 related costs incurred by the Group during the period. The applications were in response to two COVID-19 grant programs announced by the Government. The applications are subject to an assessment process by Government which will confirm if all or part of the submitted amount will be accepted and reimbursed.

As at balance date, the Group has not recognised any amount relating to its applications for the reimbursement of eligible COVID-19 costs. The Group considers it probable the applications will be accepted by the Government.

E2
SUBSEQUENT EVENTS

On 12 January 2021, the Group received confirmation of acceptance for one Government grant program for $2,062,000. As at the date of signing this report, the assessment process for the second application had still not been completed.

On 15 February 2021, the Group executed a binding deed of agreement finalising arrangements to settle the Class Action commenced against it in July 2019, in the Federal Court of Australia. Refer to Note B2 for further details.

On 22 February 2021 the Group opened a new 105 bed home in Blakehurst, NSW.

On 23 February 2021 the Directors resolved not to declare an interim dividend for the six month period ended 31 December 2020.

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

SECTION E OTHER INFORMATION (CONTINUED)

E3
SEGMENT REPORTING

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

E4
CHANGES IN ACCOUNTING POLICY

The accounting policies adopted in preparation of the consolidated interim financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2020, except for the adoption of amendments to standards effective as of 1 July 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 2018-6 Amendments to Australian Accounting Standards: Definition of a Business

Effective for the Group from 1 July 2020.

Clarifies the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment specifically addresses:

- The new business definition is narrower;
- There is a new optional asset concentration test; and
- New considerations have been incorporated to help identify when an acquired process is substantive.

The adoption of this standard did not have any significant impact on the disclosures or the amounts recognised in the Group's financial report.

AASB 2018-7 Amendments to Australian Accounting Standards: Definition of Material

Effective for the Group from 1 July 2020.

Clarifies the definition of 'material' and its application across AASB Standards and other pronouncements. The principal amendments are to AASB 101 *Presentation of Financial Statements*.

The adoption of this standard did not have any significant impact on the disclosures or the amounts recognised in the Group's financial report.

The Conceptual Framework for Financial Reporting

Effective for the Group from 1 July 2020.

The revised Conceptual Framework for Financial Reporting is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The changes in the Framework may affect the application of AASB in situations where no standard applies to a particular transaction or event.

The adoption of this standard did not have any significant impact on the disclosures or the amounts recognised in the Group's financial report.

SECTION E OTHER INFORMATION (CONTINUED)

E4
CHANGES IN ACCOUNTING POLICY (CONTINUED)

AASB 2019-3 Amendments to Australian Accounting Standards: Interest Rate Benchmark Reform

Effective for the Group from 1 July 2020.

There amendments were issued in response to the effects of Interbank Offered Rates reform on financial reporting and provides hedge accounting to continue during a period of uncertainty before the replacement of an existing interest rate benchmark with an alternative benchmark.

The adoption of this standard did not have any significant impact on the disclosures or the amounts recognised in the Group's financial report.

AASB 2019-5 Amendments to AASs - Disclosure of the Effect of New IFRS Standards not yet Issued in Australia

Effective for the Group from 1 July 2020.

It may be possible for an entity that asserts to be complying with Australian Accounting Standards, may not be able to assert it is complying with IFRS Standards if its reporting date falls between the issuance date of a new IFRS Standard and a later release date of an Australian Accounting Standard. This Standard allows the entity to disclose the possible impact of an initial application of a forthcoming IFRS Standard not yet adopted by the Australian Accounting Standards Board.

The adoption of this standard did not have any significant impact on the disclosures or the amounts recognised in the Group's financial report.

DIRECTORS' DECLARATION

1. in the opinion of the directors:

   (a) the financial statements and notes of the consolidated entity for the financial year ended 31 December 2020 are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial period ended on that date; and

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

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

On behalf of the Board

Chairman

23 February 2021

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Estia Health Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and

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

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Building a better working world

Independence

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

Ernst & Young

Ernst & Young

Paul Gower
Partner
Melbourne
23 February 2021