

Letter from the Chairman of the People, Culture and Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Japara Healthcare Limited audited Remuneration Report for the year ended 30 June 2020.

FY2020 performance

Japara delivered EBITDA¹ of \$32.9 million for the financial year compared with \$49.6m last year, in a challenging operating environment. A loss after tax of \$292.1 million was recorded compared with last year's \$16.4 million profit after tax result. Revenue and other income increased by 6.9% on FY2019, mainly through contributions from new places delivered from development projects completed this year and last year. However, revenue from existing mature homes was lower as occupancy levels continued to decline, consistent with sector experience. Increased revenue was more than offset by increased operating costs, in particular staffing costs where wage rate increases through enterprise agreements still continue to exceed the indexation increases received in Federal Government care funding. Other operating cost increases included resident costs, medical supplies, utility expenses, staff redundancy payments and costs of participating in the Royal Commission into Aged Care Quality and Safety. A non-cash impairment charge of \$291.9 million against the carrying value of the Company's non-current assets has been incurred this year, primarily due to the uncertain outlook created by the COVID-19 pandemic (**COVID-19**) and the Royal Commission.

Japara currently operates a portfolio of 51 residential aged care homes located throughout Australia, having opened two new homes during FY2020, one in Robina, Queensland and the other in Mount Waverley, Victoria. Two existing homes located in Mirboo North, Victoria and Brighton-Le-Sands, New South Wales were extended during the year while another two homes were significantly refurbished. There are three homes under construction, including the extension of an existing home, which are expected to be completed in FY2021. A pipeline of other development projects are in pre-construction phases, to proceed to construction when it is deemed prudent to do so in light of the uncertain economic outlook created by COVID-19 and having regard to our objective of managing liquidity risk.

Net bank debt was \$190.7 million at 30 June 2020, of which \$36.2 million is considered core net debt and \$154.5 million is development debt. Available liquidity on that date was circa \$154.3 million including undrawn bank loan facilities. Opportunities to realise value through the strategic management of the Company's asset portfolio were undertaken in FY2020. Although \$69.8m of bank debt was drawn down during the year to fund Japara's development program, a total of \$41.3 million of bank debt was repaid in FY2020 from net refundable accommodation deposits received from residents and asset sale proceeds. Given the business and economic uncertainties created by COVID-19, close monitoring of the Company's financial position and forecast cash flows continues.

FY2020 management changes

On 20 March 2020, Japara's long-standing CEO and Managing Director (**CEO**), Andrew Sudholz, stepped down from the role to be present with a family member dealing with a serious health issue. Leadership of the Company transitioned smoothly with Chris Price, the former Chief Financial Officer (**CFO**), appointed to the CEO position and Chief Investment Officer, Anthony Rice, taking on the CFO role.

In addition, during FY2020 the role of Chief Operations Officer was established and Lindon Le Griffon, an external candidate, was appointed to the role on 17 February 2020. Mr Le Griffon is a key management personnel member and appears in the Remuneration Report.

Arrangements were put in place with the outgoing CEO to ensure a smooth transition and all entitlements were in accordance with contractual arrangements.

FY2020 remuneration changes

As reported last year, a number of changes were made to the executive remuneration framework for FY2020 including:

- a reduction in CEO fixed remuneration; and
- re-adoption of a traditional performance based plan with separate short-term and long-term incentive components.

The remuneration of the incoming CEO and CFO were carefully considered in the context of industry sector peers and the size, strategic and operational complexity of Japara's business.

These and other changes made for the recent management changes are reflected in the Remuneration Report.

1. Earnings before interest, tax, depreciation, amortisation and impairment of non-current assets.

FY2020 remuneration outcomes

No executive incentives vested for FY2020 as performance gateways were not met. Accordingly, all short-term and long-term incentives granted for FY2020 have been forfeited.

There were no historical incentive grants eligible for vesting at 30 June 2020.

Non-executive directors' fees remained unchanged.

FY2021 remuneration settings

The Board has reviewed the executive remuneration framework adopted in FY2020 and concluded that it continues to be fit for purpose for FY2021.

The framework is designed to incorporate alignment with the position of shareholders and balance a focus on both short and long term performance with the need to both retain, motivate and reward executives appropriately for their contributions, taking into account the complexity, effort and outcomes required by the business in context of the sectoral and other external factors including COVID-19.

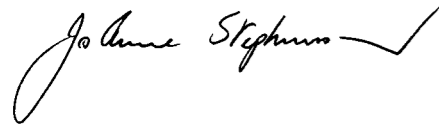
While the key principles of Japara's Remuneration Framework for KMPs remain unchanged, the Board has considered the appropriate balance between financial and non-financial measures in the practical application of the principles. A clinical quality and compliance gateway applies to the award of entitlements to STI and the Board has reviewed the composition of measures for the senior executive accountable for clinical quality and compliance in Japara to ensure they are focussed on quality outcomes and the wellbeing of residents across the Company's portfolio of homes.

Other relevant changes to remuneration settings for FY2021, having regard to the current environment, are:

- No increase in fixed remuneration for senior executives and other management;
- No change in the incentive opportunities (as a percentage of fixed remuneration) for executives;
- A reduction of 20% in non-executive directors' fees effective from 1 July 2020;
- A reduction in the number of the non-executive directors; and
- No change in the total fee pool from which non-executive directors are remunerated.

The majority of the Group's other employees are nurses and other staff engaged at our homes who are mostly covered under separately negotiated State based Enterprise Agreements and Awards. These Enterprise Agreements and Awards typically contain fixed annual increases.

The Board looks forward to your continuing support of our remuneration policies and practices and recommends this Remuneration Report to you.



JoAnne Stephenson
 Chairman – People, Culture and Remuneration Committee
 26 August 2020

Remuneration Report – Audited

16. Remuneration Report – Audited

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16.1 Key management personnel

This remuneration report sets out the remuneration arrangements of key management personnel (**KMP**) in accordance with the Corporations Act 2001 and Australian Accounting Standards for the year ended 30 June 2020 (**FY2020**).

For the purposes of this report, KMP is defined as those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly.

The breadth of KMP was expanded during FY2020 following the addition of a new Chief Operations Officer role as part of an internal management reorganisation to strengthen the Group's operations and to help meet current and emerging sector and stakeholder needs.

The following non-executive directors of the Company and Group executives were classified as KMP for the entire FY2020 period (unless otherwise stated):

Non-executive directors

Linda Bardo Nicholls AO	Chairman
Richard England	Chairman of the Audit, Risk and Compliance Committee
JoAnne Stephenson	Chairman of the People, Culture and Remuneration Committee (formerly the Remuneration and Nomination Committee)
Leanne Rowe AM	Chairman of the Zero Harm Committee
David Blight	

Executives

Andrew Sudholz	Former CEO & Managing Director (CEO) (to 20 March 2020)
Chris Price	CEO (from 20 March 2020) and former Chief Financial Officer (CFO) (to 20 March 2020)
Anthony Rice	CFO and Chief investment Officer (CFO & CIO) (from 20 March 2020)
Lindon Le Griffon	Chief Operations Officer (COO) (from 17 February 2020)

16.2 Executive remuneration principles

16.2.1 Remuneration policy

KMP remuneration is determined in accordance with a documented remuneration policy which has been approved by the board of directors (**Board**). The policy provides a framework governing the Group remuneration arrangements and is underpinned by the principles of fair and responsible compensation.

16.2.2 Executive remuneration arrangements

The remuneration structure for executives is designed to attract and retain high calibre, exceptionally skilled and experienced candidates, reward them fairly and competitively for their roles and the achievement of performance targets. In addition, it seeks to strike a balance between clinical quality and resident well-being, improved performance outcomes, regulatory compliance and shareholder, consumer and community expectations.

Remuneration Report – Audited continued

16.2 Executive remuneration principles continued

16.2.2 Executive remuneration arrangements continued

The remuneration structure specifically takes into account:

- the scope and responsibilities of the executive’s role;
- the capability and experience of the executive;
- remuneration of a comparator group comprising ASX 300 companies with similar characteristics to the Group, including industry sector, scale and business complexity;
- shareholder, consumer and community expectations;
- the executive’s ability to influence Group performance including clinical quality and resident well-being, operational performance and profitability and earnings growth; and
- compliance with required clinical, regulatory and other governance standards.

16.3 FY2020 executive remuneration outcomes

16.3.1 Company performance

Executive remuneration arrangements are designed to incentivise senior management to deliver improved earnings and shareholder return outcomes and ensure our clinical quality practices across the portfolio deliver positive outcomes for the well-being of our residents. The Board considers a range of financial and non-financial performance metrics when setting and assessing executive remuneration incentives, which take into consideration such outcomes.

The following table summarises earnings and shareholder return metrics for the Group over the last five years:

Financial measure	FY2020	FY2019	FY2018	FY2017	FY2016
EBITDA (\$'000)	32,875	49,553	50,653	60,160	56,102
NPAT (\$'000)	(292,087)	16,433	23,327	29,712	30,375
EPS (cents)	(109.47)	6.16	8.78	11.22	11.54
Dividends per share (cents)	2.00	6.15	7.75	11.25	11.50
Year end share price (\$)	0.49	1.13	1.81	2.10	2.55

The Group’s financial performance since 1 July 2015, measured in terms of earnings and shareholder returns, has been declining. This performance has been significantly impacted by external factors including COVID-19 and others specific to the residential aged care sector including declining occupancy, changing regulations, cost inflation relative to available funding and costs associated with responding to the Royal Commission into Aged Care Quality and Safety.

The following table summarises the Group’s compliance with aged care regulations over the last five years:

Non-financial measure	FY2020	FY2019	FY2018	FY2017	FY2016
Sanctioned – inadequate service	1	0	0	0	0
Non-compliant – significant improvement required	2	0	0	0	0

The Group’s compliance record was strong up to FY2020. The aged care standards were revised from 1 July 2019 resulting in an increase in compliance notices being issued as the sector embraced the changes, including to the regulator’s assessment approach. The Group was issued with three compliance notices in FY2020 which included its Wyong home being sanctioned. Despite the Group’s best efforts to deliver a high standard to the Wyong residents, the home is being closed, with the regulator’s support, due to its age, inherent physical limitations and continued operational challenges. All residents are being re-homed including at other Japara homes.

16.3.2 Performance assessment – FY2020

No performance based ‘incentive’ remuneration was awarded for FY2020 following the Board’s determination that the accreditation gateway had not been met by executives due to the sanction received by the Wyong home.

Accordingly, no short-term incentive (STI) was received, with the long-term incentive (LTI) component, granted as performance rights, being forfeited.

The performance based remuneration arrangements that were in place for executives for FY2020 are set out below:

Remuneration amounts

	Maximum potential STI \$'000	STI awarded \$'000	Maximum potential LTI ¹ \$'000	LTI awarded \$'000
Andrew Sudholz (former CEO)	400	-	800	-
Chris Price (CEO and former CFO)	299	-	552	-
Anthony Rice (CFO & CIO) ²	n/a	n/a	n/a	n/a
Lindon Le Griffon (COO) ²	n/a	n/a	n/a	n/a

1. Performance rights equivalent to these values were granted to KMP in FY2020.

2. No performance based remuneration was granted to these executives while a KMP.

Performance criteria

The award of performance based remuneration is subject to the achievement of set performance criteria comprised of common gateways and hurdles as determined, assessed and recommended by the People, Culture and Remuneration Committee and approved by the Board.

Financial hurdles reflecting returns and the effectiveness of capital management, together with non-financial hurdles that are aligned to key business objectives and which, in turn, lead to improved resident, business and shareholder outcomes, are used to assess performance.

Financial hurdles for STI purposes are measured in terms of target returns while non-financial hurdles are measured in terms of target rates of growth, clinical quality and operational improvement and key projects delivered. Financial hurdles for LTI purposes are measured in terms of earnings per share growth and total shareholder returns. All measures are approved by the Board and chosen for being contemporary for the Group, objective and easily measured.

EBITDA growth was previously a performance incentive gateway. This was changed in FY2020 for alignment with changes made to the overall executive remuneration framework.

The following performance criteria applied to FY2020:

Gateways

- The Group maintaining ongoing accreditation at all residential aged care homes (not achieved);
- No material breach of other regulatory or compliance guidelines across the Group’s business (achieved); and
- Meet the Board approved budget for an STI pool to form (not achieved).

Notwithstanding that no incentives were awarded for FY2020, an outline of the key STI performance metrics and what the outcome would have otherwise been are set out below:

STI hurdles

Andrew Sudholz (former CEO)

Target area	Performance requirement	Weighting	Outcome
Finance	• Deliver a return on invested capital exceeding targeted rate <i>Rationale: Stretch incentive to increase shareholder returns</i>	30%	Not achieved
	• Achieve a minimum targeted earnings improvement from real estate portfolio management <i>Rationale: Incentive to deliver non-operational earnings improvement to increase shareholder returns</i>	30%	Achieved
Growth	• Achieve a minimum targeted increase in occupied beds <i>Rationale: Incentive to grow revenue through improved occupancy to increase shareholder returns</i>	30%	Not achieved
Safety	• Achieve an annual average lost time injury frequency rate below an agreed target <i>Rationale: Incentive to deliver improvement in lost time injuries for the betterment of the workforce and to increase shareholder returns over the longer term</i>	10%	Achieved
		100%	

Remuneration Report – Audited continued

16.3 FY2020 executive remuneration outcomes continued

16.3.2 Performance assessment – FY2020 continued

Chris Price (CEO and former CFO)

Target area	Performance requirement	Weighting	Outcome
Finance	<ul style="list-style-type: none"> Deliver a return on invested capital exceeding targeted rate <i>Rationale: Stretch incentive to increase shareholder returns</i>	30%	Not achieved
Growth	<ul style="list-style-type: none"> Achieve a minimum targeted increase in occupied beds <i>Rationale: Incentive to grow revenue through improved occupancy to increase shareholder returns</i>	30%	Not achieved
Organisation	<ul style="list-style-type: none"> Implement priority ICT systems and initiatives across the Group <i>Rationale: Incentive to deploy key ICT systems and initiatives across the business for efficiency, to support service delivery and growth, mitigate risk and increase shareholder returns</i>	30%	Achieved
Safety	<ul style="list-style-type: none"> Achieve an annual average lost time injury frequency rate below an agreed target <i>Rationale: Incentive to deliver improvement in lost time injuries for betterment of the workforce and to increase shareholder returns over the longer term</i>	10%	Achieved
			100%

No STI was granted to the CFO & CIO or the COO for FY2020 as KMP.

LTI hurdles

Details of the hurdles applying to equity granted to executives in FY2020 for LTI purposes are set out in section 16.5.4 of this report.

16.3.3 Actual executive remuneration outcomes

Below is a summary of KMP remuneration outcomes for FY2020 and comparison with FY2019:

Executives	Total fixed remuneration paid ¹ \$'000	Remuneration received as equity ¹ \$'000	Total performance based remuneration awarded ¹ \$'000	Total remuneration received ¹ \$'000	Percentage of maximum potential performance based remuneration awarded %
Andrew Sudholz (former CEO)²					
FY2020	562	141	-	703	0
FY2019	1,032	-	-	1,032	0
Chris Price (CEO and former CFO)³					
FY2020	580	114	-	694	0
FY2019	555	-	-	555	0
Anthony Rice (CFO & CIO)⁴					
FY2020	157	n/a	n/a	157	n/a
FY2019	n/a	n/a	n/a	n/a	n/a
Lindon Le Griffon (COO)⁵					
FY2020	136	n/a	n/a	136	n/a
FY2019	n/a	n/a	n/a	n/a	n/a

1. Remuneration granted and/or received while a KMP.

2. KMP from 1 July 2019 to 20 March 2020.

3. Appointed CEO on 20 March 2020.

4. KMP from 20 March to 30 June 2020.

5. KMP from 17 February to 30 June 2020.

16.3.4 Five year historical executive remuneration outcomes

Following is a table of historical performance incentive outcomes for executives over the last five years:

	FY2020 ¹		FY2019	FY2018	FY2017		FY2016	
	Short-term incentive	Long-term incentive	Incentive ²	Incentive ²	Short-term incentive	Long-term incentive	Short-term incentive	Long-term incentive
Former CEO								
Awarded	0%	0%	0%	0%	0%	0%	95%	0%
Forfeited	100%	100%	100%	100%	100%	100%	\$457,000 ³	5%
CEO and former CFO								
Awarded	0%	0%	0%	0%	0%	0%	90%	0%
Forfeited	100%	100%	100%	100%	100%	100%	\$225,000 ³	10%

1. The CFO & CIO and COO have been excluded from this table as no incentives have been granted to them as KMP.

2. Single incentive arrangement. Separate short-term and long-term incentive arrangements existed during other periods.

3. Amount received.

16.4 FY2021 executive remuneration framework settings

The Board has reviewed the executive remuneration framework adopted in FY2020 and concluded that it continues to be fit for purpose for FY2021 having considered various factors including COVID-19.

While the key principles of the Company's remuneration framework for executives remain unchanged, the Board has considered the appropriate balance between financial and non-financial measures in the practical application of the principles. A clinical quality and compliance gateway applies to the award of entitlements to STI and the Board has reviewed the composition of measures for the senior executive accountable for clinical quality and compliance to ensure they are focussed on quality outcomes and the wellbeing of residents across the Company's portfolio of homes.

Other relevant changes to remuneration settings for FY2021, having regard to the current environment, are:

- no increase in fixed remuneration for senior executives and other management;
- no change in the incentive opportunities (as a percentage of fixed remuneration) for executives;
- a reduction of 20% in non-executive directors' fees effective from 1 July 2020;
- a reduction in the number of the non-executive directors; and
- no change in the total fee pool from which non-executive directors are remunerated.

16.5 FY2020 executive remuneration framework

Following external stakeholder feedback and consultation, and in recognition of the difficult operating environment, the Board made a number of substantial executive remuneration framework changes for FY2020.

The framework is designed to incorporate alignment with the position of shareholders and balance a focus on both short and long term performance with the need to both retain, motivate and reward executives appropriately for their contributions, taking into account the complexity, effort and outcomes required by the business in context of the sectoral and other external factors.

Key changes to the FY2020 executive remuneration framework included:

- a reduction in CEO fixed remuneration and linked performance based remuneration;
- the re-adoption of a traditional performance based plan with separate short-term and long-term incentive components;
- a reduction in the maximum performance based opportunity levels from 200% to 150% of fixed remuneration;
- a greater equity based element for awarded incentives; and
- an extension of the LTI performance period to four years and the introduction of earnings per share and a total shareholder return measures.

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16.5 FY2020 executive remuneration framework continued

In FY2020, executive remuneration comprised:

- Fixed remuneration:
 - Including base remuneration and employee benefits (on a total cost basis including any related Fringe Benefits Tax (FBT) charges), leave entitlements and employer contributions to superannuation.
- Performance based ‘at risk’ remuneration:
 - Separate STI and LTI components with a mixture of cash and equity issued under the Company’s equity incentive plan, to reward executives for exceeding targets set by the Board.
- One-off equity grants.

Executives are expected to own equity in the Company equivalent to at least one year’s base salary. This can be acquired over a five year period and it is intended that equity incentives be the main conduit for this purpose.

Executives are employed under continuous service agreements which outline remuneration, employment and termination arrangements. Termination notice periods are set out below:

Executive	Termination notice period
CEO ¹	12 months
CFO & CIO	6 months
COO	3 months

1. Including the former CEO.

The Group may also terminate an executive’s employment by payment in lieu of notice or without notice and payment in lieu for serious misconduct. On termination, executives are entitled to receive their statutory leave entitlements, together with any superannuation benefits.

16.5.1 FY2020 fixed remuneration

On 26 August 2019, the former CEO, Andrew Sudholz, voluntarily reduced his on-going fixed remuneration from \$1,015,000 to \$800,000 per annum in recognition of the difficult operating environment and the Group’s weaker financial and share price performance. This reduction was accompanied by a one-off grant of equity equivalent to the pro-rata amount of the reduction for the balance of FY2020, being \$182,000.

The fixed remuneration for the former CFO, Chris Price, was increased by 2.5% to \$538,000 for FY2020. Mr Price replaced Mr Sudholz as CEO on 20 March 2020, on fixed remuneration of \$720,000 per annum. The CFO & CIO, Anthony Rice, and the COO, Lindon Le Griffon were also considered executives for a part of FY2020 following their respective appointments during the year.

The total fixed remuneration paid to each executive while a KMP for FY2020 and in the prior year is set out below:

Executives	Cash salary ¹ \$’000	Superannuation \$’000	Fixed remuneration \$’000	Other ² \$’000	Total fixed remuneration paid \$’000
Andrew Sudholz (former CEO)³					
FY2020	535	19	554	8	562
FY2019	990	25	1,015	17	1,032
Chris Price (CEO and former CFO)⁴					
FY2020	543	25	568	12	580
FY2019	501	37	538	17	555
Anthony Rice (CFO & CIO)⁵					
FY2020	138	16	154	3	157
FY2019	n/a	n/a	n/a	n/a	n/a
Lindon Le Griffon (COO)⁶					
FY2020	120	12	132	4	136
FY2019	n/a	n/a	n/a	n/a	n/a

1. Cash salary includes salary and leave entitlements paid during the year.

2. Other includes parking and other work related employee benefits.

3. KMP from 1 July 2019 to 20 March 2020.

4. Appointed CEO on 20 March 2020.

5. KMP from 20 March to 30 June 2020.

6. KMP from 17 February to 30 June 2020.

16.5.2 FY2020 performance based remuneration

New short and long-term performance based incentive arrangements applied for FY2020.

Participating executives were eligible to receive up to 50% of their fixed remuneration (pre employee benefits) in STIs to be delivered 50% in cash at the end of the performance year and 50% in equity, deferred for one year. Performance was assessed against a group of financial and non-financial KPIs relevant to each executive.

Participating executives were also eligible to receive up to 100% of their fixed remuneration (pre employee benefits) in LTIs to be delivered as equity. Accordingly, performance rights were granted to executives which could vest as shares in the Company subject to the award of LTIs based on the achievement of both earnings per share growth and total shareholder returns hurdles, to be measured over a four year performance period to 30 June 2023. Details of the performance rights granted are shown in the table in section 16.8.3 of this report.

Common gateway measures are used to determine if executives can qualify to be awarded any performance based remuneration. Executives were required to meet ongoing aged care accreditation, and regulatory and compliance guidelines as the gateways for FY2020. As the Board determined that the accreditation gateway had not been met, no performance based remuneration was awarded and granted performance rights were forfeited.

Further details of performance based remuneration for FY2020 are described in the executive remuneration framework tables in section 16.5.4 of this report.

16.5.3 FY2020 one-off equity grants

The following one-off equity grants were made to executives during FY2020 under the Company’s equity incentive plan (EIP):

- the former CEO received restricted shares with a face value of \$182,000, equivalent to the pro-rata amount of the voluntary reduction in his total fixed remuneration for FY2020. This equity was acquired on-market and vested on 30 June 2020; and
- the CEO, in his role as the former CFO, received performance rights with a face value of \$135,000 as a retention incentive. This equity vests on 30 September 2020 subject to satisfactory performance and continued employment with the Company.

16.5.4 Further detail on FY2020 executive remuneration framework

Fixed remuneration

Amount	• Mid to upper quartile of a comparator group.
Delivery	• 100% cash payment comprising base salary and statutory superannuation contributions. • Parking and other work related employee benefits are also provided (calculated on a total cost basis including FBT).
Considerations	• Capability and experience. • Role scope and responsibilities. • Comparator group benchmarking.
Objectives	• Attract and retain high calibre executives with exceptional skills and experience.

16.5 FY2020 executive remuneration framework continued

16.5.4 Further detail on FY2020 executive remuneration framework continued

Short-term incentive

Amount	<ul style="list-style-type: none"> Maximum potential STI of 50% of fixed remuneration (pre employee benefits).
Delivery	<ul style="list-style-type: none"> 50% cash and 50% equity in the Company via the EIP. Cash component payable at the end of the performance year and subject to continued employment at date of payment (at the Board's discretion). Equity component delivered as restricted shares. Number of shares granted determined using VWAP of the Company's shares over the last 10 trading days of June 2020. Restricted shares are subject to a 12 month vesting period from the date of grant. Vesting subject to continued employment unless otherwise determined by the Board (e.g. where employment ceased due to personal circumstances as a 'good leaver'). Where there is a change of control event for the Company, the Board may accelerate vesting of restricted shares. If such an event occurs before the Board has acted, all restricted shares will immediately vest. STI is subject to forfeiture and clawback under the following circumstances: <ul style="list-style-type: none"> material misstatement or omission in the Group's financial statements; fraud, dishonesty or gross misconduct; breach of obligations; an act bringing disrepute to the Group; conviction or judgement connected with the Group's affairs; or requirement or entitlement by law or Company policy to reclaim remuneration.
Considerations	<ul style="list-style-type: none"> Common gateways requiring achievement of ongoing aged care accreditation, regulatory and compliance guidelines and STI pool to form to qualify for any STI to be awarded. Individual financial and non-financial performance hurdles reflecting the executives' position to influence outcomes and the achievement of desired Group outcomes. Measured over a one year performance period (1 July 2019 to 30 June 2020) applying a balanced scorecard approach. Award of STI is subject to final Board discretion which may include adjustments for extraordinary, unusual or other factors including where shareholder and other stakeholder expectations have not been met. Structured to be at least cost neutral to the Group requiring STI to be self-funding (i.e. Board approved budget must be met before an STI pool can form).
Objectives	<ul style="list-style-type: none"> Incentivises achievement of prioritised and targeted short-term outcomes in key areas including organisation, safety, growth and finance. Encourages performance above and beyond "come-to-work" requirements subject to first achieving minimum 'gateway' standards. Equity component aligns executives with shareholders' interests and assists with retention through vesting arrangements.

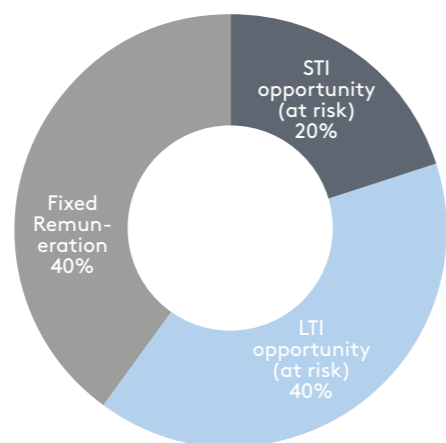
Long-term incentive

Amount	<ul style="list-style-type: none"> Maximum potential LTI of 100% of fixed remuneration (pre employee benefits). 																				
Delivery	<ul style="list-style-type: none"> 100% equity in the Company (or cash at the Board's discretion) via the EIP. Equity is delivered upfront as performance rights granted under the EIP at nil consideration and can be converted to the same number of shares in the Company for nil consideration. Number of performance rights granted determined using VWAP of the Company's shares over the last 10 trading days of June 2019. Performance rights will lapse for termination of employment by cause or resignation unless otherwise determined by the Board (e.g. where employment ceased due to personal circumstances as a 'good leaver'). Where there is a change of control event for the Company, the Board may accelerate vesting of performance rights. If such an event occurs before the Board has acted, a pro rata portion of the performance rights will vest, with the remainder to vest at the Board's discretion. LTI is subject to forfeiture and clawback under the following circumstances: <ul style="list-style-type: none"> material misstatement or omission in the Group's financial statements; fraud, dishonesty or gross misconduct; breach of obligations; an act bringing disrepute to the Group; conviction or judgement connected with the Group's affairs; or requirement or entitlement by law or Company policy to reclaim remuneration. 																				
Considerations	<ul style="list-style-type: none"> Common gateways requiring achievement of ongoing aged care accreditation, and regulatory and compliance guidelines to qualify for any LTI to vest. Common performance hurdles requiring minimum compound annual growth in Group earnings per share (EPS) and/or total shareholder returns (TSR). Measured over a four year performance period (1 July 2019 to 30 June 2023). A maximum of 60% of the performance rights may vest upon satisfaction of the EPS hurdle and 40% for satisfaction of the TSR hurdle. Extent of award/vesting of LTI subject to level of growth achieved under each performance hurdle as follows: <table border="1" data-bbox="1855 1228 2686 1543"> <thead> <tr> <th colspan="2">EPS</th> </tr> <tr> <th>Compound annual growth in EPS</th> <th>% of LTI eligible to vest (pre-weighting)</th> </tr> </thead> <tbody> <tr> <td>Below 2%</td> <td>Nil</td> </tr> <tr> <td>2% to 4%</td> <td>40% then increasing on a straight line basis</td> </tr> <tr> <td>4% and above</td> <td>100%</td> </tr> </tbody> </table> <table border="1" data-bbox="1855 1396 2686 1543"> <thead> <tr> <th colspan="2">TSR</th> </tr> <tr> <th>Annual growth in absolute TSR</th> <th>% of LTI eligible to vest (pre-weighting)</th> </tr> </thead> <tbody> <tr> <td>Below 5%</td> <td>Nil</td> </tr> <tr> <td>5% to 8%</td> <td>40% then increasing on a straight line basis</td> </tr> <tr> <td>8% and above</td> <td>100%</td> </tr> </tbody> </table> Calculation and achievement of LTI hurdles are at the Board's discretion having regard to any matters considered relevant. Structured to be earnings per share and returns positive for shareholders. 	EPS		Compound annual growth in EPS	% of LTI eligible to vest (pre-weighting)	Below 2%	Nil	2% to 4%	40% then increasing on a straight line basis	4% and above	100%	TSR		Annual growth in absolute TSR	% of LTI eligible to vest (pre-weighting)	Below 5%	Nil	5% to 8%	40% then increasing on a straight line basis	8% and above	100%
EPS																					
Compound annual growth in EPS	% of LTI eligible to vest (pre-weighting)																				
Below 2%	Nil																				
2% to 4%	40% then increasing on a straight line basis																				
4% and above	100%																				
TSR																					
Annual growth in absolute TSR	% of LTI eligible to vest (pre-weighting)																				
Below 5%	Nil																				
5% to 8%	40% then increasing on a straight line basis																				
8% and above	100%																				
Objectives	<ul style="list-style-type: none"> Incentivises achievement of growth in earnings, dividends and share price. Assist executives to own equity in the Company for alignment with shareholders' interests. Assist executive retention through long-term vesting arrangements. 																				

16.5 FY2020 executive remuneration framework continued

16.5.5 FY2020 remuneration mix

Below is the maximum potential remuneration mix for executives in FY2020 (excluding one-off equity grants) showing the fixed and performance based ‘at risk’ components:



Note: The LTI opportunity depicted above was determined using the face value of granted performance rights at the beginning of FY2020. However, the fair value of the performance rights is used for statutory reporting purposes, based on a Monte-Carlo simulation. No value is shown for the LTI opportunity in the Executive Remuneration Table in section 16.8.1 of this report as the LTI was forfeited during FY2020.

16.6 Remuneration governance

16.6.1 Board & People, Culture and Remuneration Committee

The Board determines KMP remuneration with assistance from the People, Culture and Remuneration Committee (**Remuneration Committee**). The Remuneration Committee comprises non-executive directors of the Company who are independent of management and act in accordance with a Board approved charter. The Remuneration Committee seeks to strike an appropriate balance between the Group’s various stakeholders in performing its role, as well as mitigating risk wherever possible.

The Remuneration Committee annually reviews and recommends to the Board:

- arrangements for executives including fixed and performance based ‘at risk’ remuneration, performance criteria and associated payments and awards; and
- arrangements for non-executive directors including remuneration, travel and other reimbursements.

In making its recommendations to the Board, the Remuneration Committee has particular regard for non-financial metrics including clinical quality, regulatory compliance and ethical standards. The Remuneration Committee monitors any staff and Group compliance breaches, including with assistance from the other Board committees.

Award of performance based remuneration is subject to the Board’s final discretion. The Board may seek to exercise such discretion during circumstances where shareholder and other stakeholder expectations have not been met.

16.6.2 Remuneration recommendations

The Remuneration Committee considers comparator and other remuneration information from independent external providers as required. Such information is used for informed decision making purposes and is not a substitute for detailed consideration and debate of remuneration matters by the Remuneration Committee.

No remuneration recommendations were provided to the Group by external providers for FY2020.

16.7 Non-executive director remuneration

16.7.1 Non-executive director remuneration principles

Non-executive directors are remunerated for their services to the Group. The maximum aggregate amount of remuneration (**the pool**) payable to non-executive directors is approved by the Company’s shareholders. Non-executive director remuneration comprises only fixed remuneration (including statutory superannuation contributions), with the maximum aggregate amount payable capped at \$1,000,000 as determined by the Company’s shareholders on 4 April 2014.

The Board annually determines the fees each non-executive director is entitled to receive from the pool having regard to remuneration benchmarking as well as the Group’s historical earnings, shareholder outcomes and other stakeholder expectations when determining non-executive director remuneration levels. Such factors are balanced against the need to remain competitive on remuneration to attract and retain suitably skilled and experienced directors. The same comparator group used for executive remuneration benchmarking purposes is used for benchmarking non-executive director fees.

The Board Chairman and the chairman of each standing committee of the Board typically receive fees commensurate with the additional duties and responsibilities of these roles. Non-executive directors do not participate in performance based remuneration and have no retirement benefit schemes other than receiving statutory superannuation contributions.

Non-executive directors are entitled to be reimbursed for reasonable travel and other expenses incurred in discharging their duties including attending Board, committee and general meetings.

The Board has adopted a policy requiring non-executive directors to hold shares in the Company equivalent to at least one year’s director’s fees which can be acquired over a five year period following appointment. This policy seeks to further align the interests of non-executive directors with shareholders more generally. The Company operates a voluntary share purchase plan to assist non-executive directors in building their shareholdings in the Company.

16.7.2 FY2020 non-executive director remuneration

Total non-executive director fees for FY2020 were \$730,000 (FY2019 \$625,000) as follows:

- \$250,000 to the non-executive chairman (FY2019 \$250,000);
- \$105,000 to each other non-executive director (FY2019 \$105,000); and
- an additional \$20,000 to the chairman of each standing committee of the Board (FY2019 \$20,000).

Total fees were higher in FY2020 due to the appointment of Leanne Rowe AM as an additional non-executive director.

The Board resolved to reduce non-executive director fees by 20% effective 1 July 2020. There is no change required or proposed to the fee pool for FY2021.

	Board fees earned \$'000	Committee chairman fees earned \$'000	Total fees earned \$'000
Non-executive directors			
Linda Bardo Nicholls AO (Chairman)			
FY2020	250	-	250
FY2019	250	-	250
Richard England			
FY2020	105	20	125
FY2019	105	20	125
JoAnne Stephenson			
FY2020	105	20	125
FY2019	105	20	125
Leanne Rowe AM (appointed 1 July 2019)			
FY2020	105	20	125
David Blight			
FY2020	105	-	105
FY2019	105	20	125

Remuneration Report – Audited continued

16.7 Non-executive director remuneration continued

16.7.3 Statutory disclosure of non-executive director remuneration outcomes

Non-executive director remuneration included within employee benefits expense in the Statement of Profit or Loss and Other Comprehensive Income for FY2020 follows:

	Short-term benefits		Post-employment benefits	Total fees \$'000
	Fees paid \$'000	Non-monetary benefits paid \$'000	Superannuation benefits paid \$'000	
Non-executive directors				
Linda Bardo Nicholls AO (Chairman)				
FY2020	239	-	11	250
FY2019	228	-	22	250
Richard England				
FY2020	114	-	11	125
FY2019	114	-	11	125
JoAnne Stephenson				
FY2020	114	-	11	125
FY2019	114	-	11	125
Leanne Rowe AM (appointed 1 July 2019)				
FY2020	114	-	11	125
David Blight				
FY2020	100	-	5	105
FY2019	114	-	11	125
Total				
FY2020	681	-	49	730
FY2019	570	-	55	625

16.8 Other statutory disclosures

16.8.1 Total executive remuneration

The remuneration of executives calculated in accordance with applicable accounting standards for FY2020 follows:

Executives	Short-term benefits		Post-employment benefits	Performance based ('at risk') ¹			Total fixed and performance based remuneration \$'000		
	Salary paid \$'000	Non-monetary benefits paid \$'000	Super-annuation benefits paid \$'000	Annual leave entitlements accrued \$'000	Long-service leave entitlements accrued \$'000	Total fixed remuneration \$'000		Payable in cash \$'000	Share-based payments accrued ² \$'000
Andrew Sudholz (former CEO)									
FY2020 ³	517	8	19	41	(86)	499	-	141	640
FY2019	981	17	25	70	(69)	1,024	-	-	1,024
Chris Price (CEO and former CFO)									
FY2020	529	12	25	39	11	616	-	114	730
FY2019	488	17	37	37	11	590	-	-	590
Anthony Rice (CFO & CIO)									
FY2020 ⁴	147	3	16	11	-	177	-	-	177

Executive Remuneration Table continued

Executives	Short-term benefits	Post-employment benefits	Performance based ('at risk') ¹			Total fixed remuneration \$'000	Payable in cash \$'000	Share-based payments accrued ² \$'000	Total fixed and performance based remuneration \$'000
	Salary paid \$'000	Non-monetary benefits paid \$'000	Super-annuation benefits paid \$'000	Annual leave entitlements accrued \$'000	Long-service leave entitlements accrued \$'000				
Lindon Le Griffon (COO)									
FY2020 ⁵	128	4	12	10	-	154	-	-	154
Total									
FY2020	1,321	27	72	101	(75)	1,446	-	255	1,701
FY2019	1,469	34	62	107	(58)	1,614	-	-	1,614

1. Granted while a KMP.
2. Calculated using the discounted cash flow method in accordance with AASB 2 Share-based payments (see Note D3 to the Company's 2020 Financial Statements).
3. KMP from 1 July 2019 to 20 March 2020.
4. KMP from 20 March to 30 June 2020.
5. KMP from 17 February to 30 June 2020.

Details of the remuneration of executives, prepared in accordance with statutory obligations and accounting standards, are set out in the preceding table (**Executive Remuneration Table**).

The key difference between executive remuneration amounts presented in section 16.3.3 of this report and the Executive Remuneration Table is that the former shows actual entitlements received during a year and the latter requires that the movement in leave provisions to be recognised in the financial statements as part of the executives' employee benefit expense. A reconciliation between the two tables is set out below:

Executives	Total fixed and performance based remuneration received by executives ¹ \$'000	Movement in leave provisions \$'000	Reconciliation to statutory total fixed and performance based remuneration for executives
			Total fixed and performance based remuneration statutory \$'000
Andrew Sudholz (former CEO)			
FY2020	703	(63)	640
FY2019	1,032	(8)	1,024
Chris Price (CEO and former CFO)			
FY2020	694	36	730
FY2019	555	35	590
Anthony Rice (CFO & CIO)			
FY2020	157	20	177
Lindon Le Griffon (COO)			
FY2020	136	18	154

1. Reflects fixed remuneration paid, remuneration received as equity and performance based remuneration awarded.

Remuneration Report – Audited continued

16.8 Other statutory disclosures continued

16.8.2 KMP shareholdings in the Company

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each KMP, including their related parties, follows:

	Held at 1 July 2019 No. of shares	Acquired during FY2020 No. of shares	Sold during FY2020 No. of shares	Held at 30 June 2020 No. of shares	Nominally held at 30 June 2020 No. of shares
Executives					
Andrew Sudholz (former CEO) ¹	15,762,978	-	-	n/a	n/a
Chris Price (CEO and former CFO)	-	-	-	-	-
Anthony Rice (CFO & CIO) ²	n/a	-	-	-	-
Lindon Le Griffon (COO) ³	n/a	-	-	-	-
Non-executive directors					
Linda Bardo Nicholls AO	201,601	42,421	-	244,022	149,873
Richard England	61,032	18,268	-	79,300	-
JoAnne Stephenson	37,262	22,833	-	60,095	12,000
Leanne Rowe AM	-	114,000	-	114,000	114,000
David Blight	90,000	-	-	90,000	90,000

1. KMP during FY2020 from 1 July 2019 to 20 March 2020.

2. KMP during FY2020 from 20 March to 30 June 2020.

3. KMP during FY2020 from 17 February to 30 June 2020.

16.8.3 Analysis of movements in equity instruments held by KMP

The movement during the year in equity instruments held directly, indirectly or beneficially by each KMP, including their related parties, follows:

	Grant date	Vesting date	Held at 1 July 2019 No. of securities ¹	Granted No. of securities ¹	Exercised No. of securities ¹	Forfeited No. of securities ²	Held at 30 June 2020 No. of securities ¹	Vested during FY2020 No. of securities ¹	Vested and exercisable at 30 June 2020 No. of securities ¹
Restricted shares³									
Andrew Sudholz (former CEO) ⁴	25/09/19	30/06/20	-	178,083	-	-	n/a	n/a	n/a
Rights⁵									
Andrew Sudholz (former CEO) ⁴	15/09/19	30/06/23	-	655,738	-	(655,738)	n/a	-	-
Chris Price (CEO and former CFO)	14/10/19	30/09/20	-	131,894	-	-	131,894	-	-
	15/09/19	30/06/23	-	452,113	-	(452,113)	-	-	-
Anthony Rice (CFO & CIO) ⁶	14/10/19	30/09/20	-	98,040	-	-	98,040	-	-
	15/09/19	30/06/23	-	409,836	-	(409,836)	-	-	-
Lindon Le Griffon (COO) ⁷			-	-	-	-	-	-	-

1. Granted, exercised or held while a KMP.

2. Rights granted in FY2020 as long-term incentive were forfeited due to a performance gateway not being met.

3. Restricted shares are ordinary shares of the Company that are subject to restrictions including on vesting and dealing. They are granted under the Company's EIP.

4. KMP during FY2020 from 1 July 2019 to 20 March 2020.

5. All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis. They are performance rights granted under the Company's EIP.

6. KMP during FY2020 from 20 March to 30 June 2020. Rights were granted prior to being a KMP while in the CIO role.

7. KMP during FY2020 from 17 February to 30 June 2020.

Non-executive directors, including their related parties, are not entitled to receive equity instruments from the Company.