Estia Health Limited

ABN 37 160 986 201

Consolidated Interim Financial Report

For the Half Year Ended 31 December 2015

Contents to interim financial report

CORPORATE INFORMATION

ABN 37 160 986 201

Directors
Patrick Grier (Non-executive Chairman)
Andrew Harrison (Non-executive Director)
Norah Barlow (Non-executive Director)
Peter Arvanitis (Non-executive Director)
Marcus Darville (Non-executive Director) Appointed 15 July 2015
Paul Gregersen (Managing Director)

Company Secretary
Suzy Watson

Registered office
357 Camberwell Road
Camberwell VIC 3124

Principal place of business
357 Camberwell Road
Camberwell VIC 3124

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

Bankers
Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Auditors
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your directors submit their report for the six month period ended 31 December 2015.

Directors

The names and details of Estia Health Limited and its controlled entities' ("Estia") (the "Group") directors in office during the financial period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Patrick Grier (Non-executive Director and Chairman)

Andrew Harrison (Non-executive Director, Audit and Risk Committee Chair)

Norah Barlow (Non-executive Director, Nomination and Remuneration Committee Chair)

Peter Arvanitis (Non-executive Director)

Marcus Darville (Non-executive Director) Appointed 15 July 2015

Paul Gregersen (Managing Director)

Dividends

Estia paid a final cash dividend for the year ended 30 June 2015 of 13.6 cents per share totalling $24,600,439 on 26 October 2015. Under the Dividend Reinvestment Plan, 333,260 shares were issued. Dividends paid, net of Management Equity Plan shares, totalled $22,173,908.

The Directors propose an interim cash dividend for the six months ended 31 December 2015 of 12.8 cents per share (2014: nil) totalling $23,196,012 (2014: nil) to be paid on 20 April 2016. Proposed dividends on ordinary shares are not recognised as a liability at 31 December 2015.

Principal activities

The principal activities of the Estia Health Group during the six month period ended 31 December 2015 included the operating and developing of owned and leased residential aged care facilities throughout Australia.

Review and results of operations

Estia recorded a profit for the six month period ended 31 December 2015 of $16,885,866, which is an increase of $49,681,536 from the loss in the comparative period of $32,795,670. During the six month period, Estia increased the number of aged care facilities from 42 at 31 December 2014 to 58 at 31 December 2015. As a result, the number of operating places increased from 4,010 to 4,639 in the respective periods.

Revenues increased by $72,181,819 (58%) to $196,196,054 over the comparative period. The increase in operating places contributed $57,646,672 in revenue, and the increase in average funding per day from government subsidies, government supplements and resident fees contributed $14,535,147.

Profit for the period of $16,885,866 increased by $49,681,536 over the loss for the period of $32,795,670 in 31 December 2014. Acquisition related costs of $25,371,371 included in the loss for the period in December 2014 reduced to $5,388,995 in December 2015, contributing to the improvement in the profit for the period. Finance costs decreased by $29,492,051 to $1,473,957 as a result of the repayment of bank and shareholder loans from the proceeds of the initial public offering in December 2014.

Pro forma* profit for the period to 31 December 2015 of $23,038,205 increased by $3,149,558 (15.6%) over the comparative period mainly due to the growth in the number of aged care facilities.

As a result, pro forma* revenue increased from $137,456,334 to $196,196,054 (42.7%) from both an increase in operating places and revenue per bed day from government and resident funding.

DIRECTORS' REPORT

Review and results of operations (continued)

The reconciliation of statutory profit for the period ended 31 December 2015 to pro forma profit for the period is as follows:

	$ million
Statutory profit for the period	16.9
Stamp duty and transaction related acquisition costs	6.9
Income tax expense differential	(1.0)
Other (e.g. one off) costs	0.2
Pro forma* profit for the period	23.0

*Pro forma results have not been reviewed and represents Estia's results as reflected in the reconciliation above. This unreviewed non-IFRS information is relevant to the users understanding of Estia's performance and is consistent with the basis set out in the Prospectus lodged 3 December 2014.

Estia continued towards its goal of 10,000 beds by 2020 by adding 692 operating places in the six months ended 31 December 2015.

Significant changes in the state of affairs

There were no significant changes in the state of affairs during the six month period ended 31 December 2015.

Significant events after the balance date

On 8 February 2016, Estia acquired Kennedy Health Care Group ("Kennedy") comprising of 8 facilities and 959 operating places. Purchase price consideration included $50,000,000 in ordinary shares (equivalent to 6,631,300 shares issued at a 10-day Volume Weighted Average Price of $7.54 from 7 December 2015), which will remain under escrow for 12 months, cash proceeds from existing debt facilities and deferred consideration payable in equal instalments on 1 July and 30 September 2016. The fair value of the shares issued was $43,832,893 based on the quoted share price of $6.61 per share on 8 February 2016.

On 1 February 2016, Estia completed the acquisition of a 48 bed facility in Glen Waverley, Victoria, announced in August 2015.

In February 2016, Estia entered into an agreement to purchase two facilities (130 beds) in regional Victoria, to be completed in March 2016.

Total committed gross consideration for these acquisitions is $41,200,000.

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

Likely developments and expected results

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

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

DIRECTORS’ REPORT

Environmental regulation and performance

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

Indemnification and insurance of directors and officers

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

(a) The liability does not arise out of conduct involving a lack of good faith; and

(b) The liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

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

(a) A wilful breach of duty; or

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

The total amount of insurance contract premiums paid was $251,936.

Indemnification of auditors

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

Rounding

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

Signed in accordance with a resolution of the directors on 17 February 2016.

Patrick Grier
Chairman

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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

As lead auditor for the review of Estia Health Limited for the half-year ended 31 December 2015, 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 contravention 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

RCPiltz

Rodney Piltz
Partner

17 February 2016

Interim consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2015

	Note	December 2015 $	December 2014 $
Revenues		**196,196,054**	**124,014,235**
Other income		336,069	693,406
Expenses			
Administrative expenses		12,969,534	30,049,989
Depreciation and amortisation expenses		5,714,356	3,890,355
Employee benefits expenses		119,753,310	74,972,124
Finance costs		1,473,957	30,966,008
Health consultants expenses		4,355,391	1,716,020
Occupancy expenses		7,243,047	4,979,930
Resident expenses		15,765,898	9,015,049
Repairs and maintenance expenses		3,571,968	1,688,929
Share issue costs		-	2,561,142
Profit/(Loss) before income tax		**25,684,662**	**(35,131,905)**
Income tax (expense)/benefit	4	**(8,798,796)**	**2,336,235**
Profit/(Loss) for the period		**16,885,866**	**(32,795,670)**
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 profit/(loss) for the period, net of tax		**16,885,866**	**(32,795,670)**
Earnings per share			
Basic, profit/(loss) for the period attributable to ordinary equity holders of the Parent		**0.09**	**(0.40)**
Diluted, profit/(loss) for the period attributable to ordinary equity holders of the Parent		**0.09**	**(0.40)**

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

Interim consolidated statement of financial position

As at 31 December 2015

	Notes	December 2015 $	June 2015 $
Current assets			
Cash and cash equivalents	5	45,761,325	46,197,055
Trade and other receivables		14,449,730	10,876,003
Prepayments and other assets		6,733,069	2,959,944
Assets classified as held for sale	3	4,217,000	-
Total current assets		**71,161,124**	**60,033,002**
Non-current assets			
Property, plant and equipment	6	517,400,119	416,783,299
Goodwill	7	632,901,568	565,594,286
Other intangible assets	7	124,744,221	104,346,839
Total non-current assets		**1,275,045,908**	**1,086,724,424**
Total assets		**1,346,207,032**	**1,146,757,426**
Current liabilities			
Trade and other payables		19,113,449	19,611,624
Loans and borrowings	8	-	54,250,000
Refundable accommodation deposits		551,177,834	471,085,901
Income tax payable		6,489,883	5,478,771
Provisions		26,502,968	21,186,482
Income received in advance		24,031,025	-
Total current liabilities		**627,315,159**	**571,612,778**
Non-current liabilities			
Deferred tax liabilities		11,111,603	9,245,851
Loans and borrowings	8	146,500,000	-
Provisions		2,343,466	1,984,861
Other liabilities		195,820	-
Total non-current liabilities		**160,150,889**	**11,230,712**
Total liabilities		**787,466,048**	**582,843,490**
Net assets		**558,740,984**	**563,913,936**
Equity			
Issued capital	9	603,202,605	600,784,556
Share-based payments reserve		244,663	121,091
Accumulated losses		(44,706,284)	(36,991,711)
Total equity		**558,740,984**	**563,913,936**

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 2015

	Note	Issued capital $	Share-based payments reserve $	Accumulated losses $	Total equity $
As at 1 July 2014		**68,250,000**	**-**	**(14,468,435)**	**53,781,565**
Loss for the period		-	-	(32,795,670)	(32,795,670)
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**(32,795,670)**	**(32,795,670)**
Transactions with owners in their capacity as owners:					
Issue of share capital		745,563,124	-	-	745,563,124
Buy back of shares		(190,628,596)	-	-	(190,628,596)
Share issue costs (net of tax)		(22,193,360)	-	-	(22,193,360)
As at 31 December 2014		**600,991,168**	**-**	**(47,264,105)**	**553,727,063**
As at 1 July 2015		**600,784,556**	**121,091**	**(36,991,711)**	**563,913,936**
Profit for the period		-	-	16,885,866	16,885,866
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**16,885,866**	**16,885,866**
Transactions with owners in their capacity as owners:					
Issue of share capital	9	2,297,916	-	-	2,297,916
Share issue costs (net of tax)	9	(8,483)	-	-	(8,483)
Movement in management equity plan	9	128,616	-	-	128,616
Dividends	9	-	-	(24,600,439)	(24,600,439)
Share-based payments		-	123,572	-	123,572
As at 31 December 2015		**603,202,605**	**244,663**	**(44,706,284)**	**558,740,984**

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

Interim consolidated statement of cash flows

For the six months ended 31 December 2015

	Note	December 2015 $	December 2014 $
Cash flows from operating activities			
Receipts from residents		48,174,899	34,853,479
Receipts from government		166,748,835	86,321,016
Payments to suppliers and employees		(159,484,542)	(83,923,792)
Refundable accommodation deposits received		96,523,205	62,833,100
Refundable accommodation deposits refunded		(62,731,502)	(32,175,528)
Interest received		388,555	467,670
Finance costs paid		(1,575,110)	(31,433,677)
Income tax paid		(5,400,000)	-
Net cash flows from operating activities		**82,644,340**	**36,942,268**
Cash flows from investing activities			
Payments for business combinations, net of cash acquired	3	(128,337,722)	(373,008,525)
Deposits for acquisitions completing after reporting date		(984,991)	(200,000)
Payments for acquisition transaction costs		(5,388,995)	(22,391,114)
Purchase of intangible assets	7	(2,896,980)	(991,956)
Proceeds from sale of property, plant and equipment		49,336	19,314
Purchase of property, plant and equipment	6	(15,588,327)	(12,920,638)
Net cash flows used in investing activities		**(153,147,679)**	**(409,492,919)**
Cash flows from financing activities			
Proceeds from issue of share capital		-	745,563,124
Payments for buy back of share capital		-	(190,378,596)
Payments for share issue costs	9	(8,483)	-
Payments of initial public offering transaction fees		-	(34,025,663)
Proceeds from bank borrowings		92,250,000	287,692,990
Repayment of bank borrowings		-	(350,360,628)
Proceeds from shareholder loans		-	6,790,000
Repayments of shareholder loans		-	(59,631,884)
Dividends paid	9	(22,173,908)	-
Net cash flows from financing activities		**70,067,609**	**405,649,343**
Net increase in cash and cash equivalents		**(435,730)**	**33,098,692**
Cash and cash equivalents at the beginning of the period		**46,197,055**	**3,571,341**
Cash and cash equivalents at the end of the period	5	**45,761,325**	**36,670,033**

The accompanying notes form part of these interim consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

1. Corporate information

The interim condensed consolidated financial statements of Estia Health Limited and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 17 February 2016.

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

The interim consolidated financial report is a general purpose financial report which has been prepared by a for-profit entity, 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 interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2015.

The financial report has also been prepared on a historical cost basis.

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

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by $556,154,035 as at 31 December 2015 (30 June 2015: $511,579,776). This mainly arises because of the requirement to classify refundable accommodation deposits of $551,177,834 (30 June 2015: $471,085,901) as current liabilities.

(b) Changes in accounting policy

The accounting policies adopted in preparation of the interim financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2015. Since 1 July 2015, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Summary of significant accounting policies (continued)

(c) Fair value measurement

Fair values of financial instruments measured at amortised cost..

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

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

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

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

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

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

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

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

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

3. Business combinations

Acquisitions in the six months ended 31 December 2015

During the six months ended 31 December 2015, the Group successfully acquired:

- The following businesses for net proceeds paid of $74,760,424, excluding transaction costs:

1 September 2015	1 December 2015	Other
Estia Bendigo, VIC	Estia Aldgate, SA	Estia Keysborough, VIC - 1 July 2015
Estia Keilor Downs, VIC	Estia Toorak Gardens, SA	Estia Bannockburn, VIC - 1 October 2015
	Estia Hope Valley, SA	

- The following companies:

  Jaid Residential Services Pty Ltd – 1 September 2015. Operating as Estia Epping, VIC;

  Spirytus Pty Ltd (formerly known as Nobel Life Pty Ltd) – 2 November 2015. Operating as Estia Gold Coast, QLD; and

  TGM Care Pty Ltd – 1 December 2015. Operating as Estia Tea Gardens, NSW.

Estia Investments Pty Ltd acquired 100% of the shares in the above companies for net proceeds of $53,897,812, excluding transaction costs. These companies and businesses operate as aged care providers that fit into Estia's growth strategy towards operating 10,000 places by 2020. The approved aged care provider status of Jaid Residential Services Pty Ltd has been transferred to Estia Investments Pty Ltd from 1 December 2015, with the remainder planned to take place prior to 30 June 2016.

All facilities were acquired outright except for Estia Epping, VIC which is subject to a lease.

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

3. Business combinations (continued)

The fair values of the identifiable assets and liabilities of acquisitions made in the six months ended 31 December 2015 at the date of acquisition were:

	Business acquisitions	Company acquisitions	Total
Assets			
Land and buildings	51,185,000	30,825,422	82,010,422
Plant and equipment	1,477,130	1,037,530	2,514,660
Bed licenses	11,760,000	6,240,000	18,000,000
Cash and cash equivalents	-	(1,052)	(1,052)
Other assets	133,084	260,891	393,975
Deferred tax assets	1,007,171	729,473	1,736,644
	65,562,385	39,092,264	104,654,649
Liabilities			
Refundable accommodation deposits	36,249,629	11,623,811	47,873,440
Employee entitlements	3,357,237	689,296	4,046,533
Other liabilities	18,627	107,666	126,293
Deferred tax liability	1,019,615	-	1,019,615
	40,645,108	12,420,773	53,065,881
Total fair value of net assets acquired	**24,917,277**	**26,671,491**	**51,588,768**
Goodwill on acquisition	**49,843,146**	**27,226,321**	**77,069,467**
Purchase consideration transferred	**74,760,423**	**53,897,812**	**128,658,235**
Cash flow on acquisition			
Deferred consideration	-	125,000	125,000
Cash paid during the period	74,560,423	53,772,812	128,333,235
Deposit paid in the prior period	200,000	-	200,000
Total purchase consideration	**74,760,423**	**53,897,812**	**128,658,235**
Cash acquired			1,052
Deposit paid in the prior period			(200,000)
Deferred consideration			(125,000)
Post-settlement adjustments relating to prior period acquisitions			3,435
Purchase consideration paid during year, net of cash acquired			**128,337,722**

The fair values of identifiable assets and liabilities at the date of acquisition for all the acquisitions made in the six months ended 31 December 2015 are provisional. As part of a company acquisition during the period, a number of buildings were acquired which have been classified as assets held for sale at their fair value of $4,217,000.

The interim consolidated statement of profit or loss and other comprehensive income includes revenue of $12,849,443 and net profit before tax of $2,448,827 for the period ended 31 December 2015 resulting from the acquired companies and businesses. These exclude one-off acquisition related costs equating to $5,248,718.

If the acquisitions had taken place at the beginning of the period, revenue of $27,631,362 and net profit before tax of $4,330,248 would have been included. These exclude one-off acquisition related costs equating to $5,248,718.

Acquisition related costs incurred in total relating to all acquisitions to 31 December 2015 have been expensed and included in administrative expenses in the interim consolidated statement of profit or loss and other comprehensive income.

3. Business combinations (continued)

Information on prior year acquisitions

The fair values of the identifiable assets and liabilities of acquisitions made during the year ended 30 June 2015 recognised at the date of acquisition were based on a provisional assessment of their fair value while the Group sought independent valuations for the land and buildings owned and post-settlement adjustments. The following adjustments to fair values have been made in the current period for prior year acquisitions:

	Provisional fair value	Adjustments	Final fair value
Assets			
Land and buildings	53,295,000	(345,000)	52,950,000
Plant and equipment	2,956,526	(1,281,936)	1,674,590
Bed licenses	11,808,000	-	11,808,000
Other assets	127,735	(63,057)	64,678
Deferred tax assets	868,796	-	868,796
	69,056,057	(1,689,993)	67,366,064
Liabilities			
Refundable accommodation deposits	42,105,052	-	42,105,052
Employee entitlements	2,895,988	-	2,895,988
Other liabilities	613,582	-	613,582
Deferred tax liability	2,822,617	792,933	3,615,550
	48,437,239	792,933	49,230,172
Total fair value of net assets acquired	**20,618,818**	**(2,482,926)**	**18,135,892**
Goodwill on acquisition	**49,205,094**	**2,486,361**	**51,691,455**
Purchase consideration transferred	**69,823,912**	**3,435**	**69,827,347**
Cash flow on acquisition			
Deferred consideration	799,056	-	799,056
Cash paid during the period	69,024,856	3,435	69,028,291
Total consideration paid	**69,823,912**	**3,435**	**69,827,347**
Deferred consideration			(799,056)
Purchase consideration paid for these acquisitions, net of cash acquired			**69,028,291**

All fair values for prior year acquisitions are now final as illustrated above, except for the Hutchinson Group Entities acquired on 6 May 2015 for which fair values are still provisional as at 31 December 2015.

The deferred consideration of $799,056 was paid subsequent to 31 December 2015 on achievement of specific criteria set out in the purchase and sale agreement regarding the subsequent growth in the accommodation bonds.

The acquisition costs for the six months ended 31 December 2015 relating to the prior period acquisitions amount to $140,277. These are included in administrative expenses in the interim consolidated statement of profit or loss and other comprehensive income.

4. Income tax

The major components of income tax expense/(benefit) for the six months ended 31 December 2015 and 31 December 2014 are:

Consolidated statement of profit or loss and other comprehensive income

	December 2015 $	December 2014 $
Current income tax:		
Current income tax expense/(benefit)	6,411,112	(2,087,104)
Deferred income tax:		
Relating to origination and reversal of temporary differences	2,387,684	(249,131)
Income tax expense/(benefit) reported in the consolidated statement of profit or loss and other comprehensive income	**8,798,796**	**(2,336,235)**

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

	December 2015 $	December 2014 $
Accounting profit/(loss) before income tax	25,684,662	(35,131,905)
At the Australian statutory income tax rate of 30% (2014: 30%)	7,705,399	(10,539,572)
Capital expenditure allowable for income tax purposes	(571,216)	-
Expenditure not allowable for income tax purposes		
- Acquisition related costs for current period business combinations	1,616,698	8,203,337
- Other expenditure	47,915	-
Income tax expense/(benefit)	**8,798,796**	**(2,336,235)**

5. Cash and cash equivalents

	December 2015 $	June 2015 $
Cash balance comprises:		
Cash at banks	45,704,382	46,100,346
Cash on hand	56,943	96,709
	45,761,325	**46,197,055**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

6. Property, plant and equipment

Reconciliation of property, plant and equipment

	Note	Land $	Buildings $	Property improvements $	Furniture, fixtures & equipment $	Motor vehicles $	Construction in progress $	Total $
Cost								
Balance at 1 July 2014		19,758,000	52,555,350	329,103	4,491,210	34,524	-	**77,168,187**
Acquisitions through business combinations		72,007,900	238,810,806	-	16,457,268	611,057	-	**327,887,031**
Additions		1,838,270	5,278,000	1,637,053	5,334,969	34,432	5,563,494	**19,686,218**
Disposals		-	-		(2,273)	(21,274)	-	**(23,547)**
Balance at 30 June 2015		**93,604,170**	**296,644,156**	**1,966,156**	**26,281,174**	**658,739**	**5,563,494**	**424,717,889**
Adjustments relating to prior period acquisitions		(67,000)	11,447,294	-	(1,429,354)	-	-	**9,950,940**
Acquisitions through business combinations during the period	3	18,450,000	63,560,422	-	2,498,715	15,945	-	**84,525,082**
Additions		5,953,356	-	1,224,334	4,050,001	1,550	4,359,086	**15,588,327**
Transfers		-	(4,217,000)	8,885,873	-	-	(8,885,873)	**(4,217,000)**
Disposals		-	-	-	-	(55,879)	-	**(55,879)**
Balance at 31 December 2015		**117,940,526**	**367,434,872**	**12,076,363**	**31,400,536**	**620,355**	**1,036,707**	**530,509,359**
Accumulated depreciation								
Balance at 1 July 2014		-	542,606	9,921	557,419	5,947	-	**1,115,893**
Depreciation expense		-	3,907,996	61,546	2,713,290	138,149	-	**6,820,981**
Disposals		-	-	-	-	(2,284)	-	**(2,284)**
Balance at 30 June 2015		**-**	**4,450,602**	**71,467**	**3,270,709**	**141,812**	**-**	**7,934,590**
Depreciation expense		-	2,788,398	60,849	2,257,039	84,472	-	**5,190,758**
Disposals		-	-	-	-	(16,108)	-	**(16,108)**
Balance at 31 December 2015		**-**	**7,239,000**	**132,316**	**5,527,748**	**210,176**	**-**	**13,109,240**
Net book value								
As at 30 June 2015		93,604,170	292,193,554	1,894,689	23,010,465	516,927	5,563,494	416,783,299
As at 31 December 2015		**117,940,526**	**360,195,872**	**11,944,047**	**25,872,788**	**410,179**	**1,036,707**	**517,400,119**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

7. Intangible assets

	Goodwill $	Bed licences $	Software costs $	Total $
Cost				
Balance at 1 July 2014	150,327,571	27,648,000	713,707	178,689,278
Additions	-	-	2,366,288	2,366,288
Acquisitions through business combinations	415,266,715	74,146,000	-	489,412,715
Balance at 30 June 2015	**565,594,286**	**101,794,000**	**3,079,995**	**670,468,281**
Additions	-	-	2,896,980	2,896,980
Adjustments relating to prior period acquisitions	(9,762,185)	24,000	-	(9,738,185)
Acquisitions through business combinations during the period	77,069,467	18,000,000	-	95,069,467
Balance at 31 December 2015	**632,901,568**	**119,818,000**	**5,976,975**	**758,696,543**
Accumulated amortisation				
Balance at 1 July 2014	-	-	4,911	4,911
Amortisation expense	-	-	522,245	522,245
Balance at 30 June 2015	**-**	**-**	**527,156**	**527,156**
Amortisation expense	-	-	523,598	523,598
Impairment	-	-	-	-
Balance at 31 December 2015	**-**	**-**	**1,050,754**	**1,050,754**
Net book value				
As at 30 June 2015	**565,594,286**	**101,794,000**	**2,552,839**	**669,941,125**
As at 31 December 2015	**632,901,568**	**119,818,000**	**4,926,221**	**757,645,789**

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

(b) Impairment of intangible assets
Intangible assets with an indefinite useful life form part of one Cash Generating Unit for impairment testing purposes, which is consistent with the operating segment identified in Note 14.

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

7. Intangible assets (continued)

(b) Impairment of intangible assets (continued)

A post-tax discount rate of 10.5% (June 2015: 10.5%) was applied in the value in use model, which was determined based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Market-specific risk is incorporated by applying individual beta factors which are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount of the future tax flows in order to reflect a pre-tax discount rate of 12.88% (June 2015: 11.81%). The recoverable amount was determined to be higher than the carrying amount and therefore the directors determined that the intangible assets with an indefinite useful life were not impaired.

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

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

8. Loans and borrowings

	December 2015 $	June 2015 $
Current loans and borrowings		
Bank loans, secured	-	54,250,000
Total current loans and borrowings	**-**	**54,250,000**
Non-current loans and borrowings		
Bank loans, secured	146,500,000	-
Total non-current loans and borrowings	**146,500,000**	**-**
Total loans and borrowings	**146,500,000**	**54,250,000**

Terms and conditions of loans

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

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

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

8. Loans and borrowings (continued)

On 8 February 2016, Estia entered into an amended syndicated facility agreement to activate the $150,000,000 accordion facility (Facility C) to fund acquisitions and capital developments. Facility C bears interest at BBSY plus a margin between 1.15% and 1.55% per annum.

9. Issued capital and reserves

	Note	December 2015 $	June 2015 $
Issued and fully paid			
Ordinary shares		603,202,605	600,784,556
		603,202,605	**600,784,556**

(a) Movements in ordinary shares on issue

	December 2015		June 2015	
	Number of shares	$	Number of shares	$
Beginning of the financial period	180,885,580	600,784,556	68,250,000	68,250,000
Share issue (ii)	333,260	2,297,916	144,817,184	745,563,124
Buy back of shares	-	-	(33,413,669)	(190,628,596)
Transaction costs for issued share capital	-	(8,483)	-	(22,399,972)
Movement in management equity plan	-	128,616	1,232,065	-
End of the financial period	**181,218,840**	**603,202,605**	**180,885,580**	**600,784,556**

(i) Dividends paid and proposed

Estia paid a final cash dividend for the year ended 30 June 2015 of 13.6 cents per share totalling $24,600,439 on 26 October 2015. Under the Dividend Reinvestment Plan, 333,260 shares were issued. Dividends paid, net of Management Equity Plan shares, totalled $22,173,908.

The Directors propose an interim cash dividend for the six months ended 31 December 2015 of 12.8 cents per share (2014: nil) totalling $23,196,012 (2014: nil) to be paid on 20 April 2016. Proposed dividends on ordinary shares are not recognised as a liability at 31 December 2015.

(ii) Dividend Reinvestment Plan

The dividend paid on 26 October 2015 includes an amount attributable to the Dividend Reinvestment Plan of $2,297,916 with 333,260 ordinary shares being issued under the plan rules.

10. Share-based payments

At 31 December 2015, the Group had the following share-based payments arrangement:

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

On 1 July 2015, the Chief Financial Officer was granted 19,802 LTIP performance rights, with a value of $119,406.

11. Related party disclosures

There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

12. Commitments and contingencies

<u>Operating lease commitments – Group as lessee</u>
During the six month period, the Group had commercial property leases for the Corporate Office, two interstate administration offices and five aged care facilities. The two interstate administration offices were vacated during the year and the remaining lease payments were settled.

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

Future estimated minimum rentals payable under non-cancellable operating leases as at 31 December 2015 are as follows:

	December 2015 $	June 2015 $
Within one year	4,112,144	3,775,779
After one year but not more than five years	7,539,597	8,590,371
More than five years	3,411,043	4,385,126
	15,062,784	**16,751,276**

<u>Commitments</u>
Commitments for business combinations entered into after reporting date are disclosed in Note 13 of these financial statements.

13. Subsequent events

On 8 February 2016, Estia acquired Kennedy Health Care Group ("Kennedy") comprising of 8 facilities and 959 operating places. Purchase price consideration included $50,000,000 in ordinary shares (equivalent to 6,631,300 shares issued at a 10-day Volume Weighted Average Price of $7.54 from 7 December 2015), which will remain under escrow for 12 months, cash proceeds from existing debt facilities and deferred consideration payable in equal instalments on 1 July and 30 September 2016. The fair value of the shares issued was $43,832,893 based on the quoted share price of $6.61 per share on 8 February 2016.

On 1 February 2016, Estia completed the acquisition of a 48 bed facility in Glen Waverley, Victoria, announced in August 2015.

In February 2016, Estia entered into an agreement to purchase two facilities (130 beds) in regional Victoria, to be completed in March 2016.

Total committed gross consideration for these acquisitions is $41,200,000.

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

14. Segment reporting

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

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001,* including:

   i. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the period ended on that date; and
   ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001.*

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

On behalf of the Board

Patrick Grier
Chairman

17 February 2016

Building a better working world

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Independent auditor's review report

To the members of Estia Health Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Estia Health Ltd, which comprises the condensed statement of financial position as at 31 December 2015, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed 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 of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its 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 Estia Health Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of 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.

Independence

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

AUDITOR'S REPORT

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Estia Health Ltd is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year duration ended on that date; and

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

Ernst & Young

Ernst & Young

Rodney Piltz
Partner
Melbourne
17 February 2016