Estia Health

Estia Health Limited

ABN 37 160 986 201

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Estia Health Limited

ABN 37 160 986 201

Contents to interim financial report

CORPORATE INFORMATION

ABN 37 160 986 201

Directors

Dr. Gary Weiss (Non-executive Director and Chairman)	
Andrew Harrison (Non-executive Director)	
Paul Foster (Non-executive Director)	
Patrick Grier (Non-executive Director)	
Peter Arvanitis (Non-executive Director)	Resigned 31 August 2016
Marcus Darville (Non-executive Director)	Resigned 30 September 2016
Jonathon Pearce (Alternate Non-executive Director)	Resigned 30 September 2016
Norah Barlow (Managing Director)	
Paul Gregersen (Managing Director)	Resigned 16 September 2016

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 months ended 31 December 2016.

Directors

The names and details of the Group's 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.

Dr. Gary Weiss (Chairman – appointed 1 January 2017)

Andrew Harrison (Audit and Risk Committee Chair)

Paul Foster (Nomination and Remuneration Committee Chair)

Patrick Grier (former Chairman – retired 31 December 2016)

Peter Arvanitis – Resigned 31 August 2016

Marcus Darville – Resigned 30 September 2016

Jonathon Pearce – Resigned 30 September 2016

Norah Barlow (Managing Director – appointed as interim 16 September 2016, appointed as permanent 17 January 2017) ONZM

Paul Gregersen (Managing Director) – Resigned 16 September 2016

Dividends

On 9 December 2016, the Directors resolved that there will be no interim dividend paid.

Dividends paid during the six months were as follows:

Dividend	Date paid	Fully franked dividend per share	Total Dividend
Final dividend for the year ended 30 June 2016	7 November 2016	12.8 cents	$24,087,542

Under the Dividend Reinvestment Plan, 1,771,227 shares were issued. Dividends paid, net of Management Equity Plan shares and the Dividend Reinvestment Plan, total $19,242,016.

Principal activities

The principal activities of the Estia Health Group during the six month period ended 31 December 2016 included the operating and developing of owned and leased residential aged care facilities throughout Australia.

Operating and financial review

Estia has continued to grow through the optimisation of the financial performance of existing facilities, recently acquired facilities and brownfield developments, resulting in an increase in revenue and net profit after tax.

A summary of financial results for the six months ended 31 December 2016 is below:

	2016 ($million)	2015 ($million)	% increase
Revenue	262.5	195.8	34.1
EBITDA*	43.0	32.5	32.3
Net Profit After Tax	19.8	16.9	17.0
Earnings Per Share	10.3 cents	9.4 cents	9.8

** EBITDA is categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information, issued in December 2011. EBITDA is calculated as operating profit for the period less depreciation and amortisation expenses and has been adjusted from the reported information to assist readers to better understand the financial performance of the underlying business in each financial period. This non-IFRS financial information, while not subject to review, has been extracted from the financial report, which has been subject to a review by our external auditors.*

Significant changes in the state of affairs

There were no significant changes in the state of affairs of our company during the six month period ended 31 December 2016.

Significant events after the balance date

Subsequent to 31 December 2016, the Group has repaid a total of $101,000,000 of bank debt.

On 19 January 2017, the Group successfully completed the retail rights offer and issued 31,868,345 new shares totalling a gross amount of $66,923,525.

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 improving the performance of its aged care portfolio.

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 period, the Group has paid premiums in respect of a contract insuring all the directors of Estia Health Limited 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 $140,389.

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 period.

Rounding

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

Signed in accordance with a resolution of the directors on 23 February 2017.

Dr. Gary Weiss

Chairperson

Sydney

Norah Barlow

Managing Director and CEO

Sydney

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 2016, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Rodney Piltz
Partner
23 February 2017

Interim consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2016

	Notes	December 2016 $'000	December 2015 $'000
Revenues		**262,485**	**195,807**
Other income		628	336
Expenses			
Administrative expenses		9,050	12,970
Depreciation and amortisation expenses		8,471	5,714
Employee benefits expenses		168,476	119,753
Health consultants expenses		4,845	4,355
Occupancy expenses		9,655	7,243
Resident expenses		22,989	15,766
Repairs and maintenance expenses		5,136	3,572
Operating profit for the period		**34,491**	**26,770**
Net finance costs		5,854	1,085
Profit before income tax		**28,637**	**25,685**
Income tax expense	4	8,879	8,799
Profit for the period		**19,758**	**16,886**
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 income for the period, net of tax		**19,758**	**16,886**
Earnings per share		**cents**	**cents**
Basic, profit for the period attributable to ordinary equity holders of the Parent		**10.31**	**9.39**
Diluted, profit for the period attributable to ordinary equity holders of the Parent		**10.26**	**9.37**

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

Interim consolidated statement of financial position

As at 31 December 2016

	Notes	December 2016 $'000	June 2016 $'000
Current assets			
Cash and cash equivalents	5	86,239	29,810
Trade and other receivables		9,833	16,005
Prepayments and other assets		6,605	5,698
Total current assets		**102,677**	**51,513**
Non-current assets			
Property, plant and equipment	6	706,548	711,416
Investment properties		1,500	1,500
Goodwill	7	752,532	715,315
Other intangible assets	7	219,151	218,841
Total non-current assets		**1,679,731**	**1,647,072**
Total assets		**1,782,408**	**1,698,585**
Current liabilities			
Trade and other payables		32,495	30,554
Loans and borrowings	8	881	-
Income received in advance	9	29,606	41
Other financial liabilities		691,713	653,336
Deferred consideration on acquisition	3	-	84,500
Income tax payable		4,900	16,338
Provisions		37,262	35,534
Total current liabilities		**796,857**	**820,303**
Non-current liabilities			
Deferred tax liabilities		42,354	29,635
Loans and borrowings	8	266,500	253,500
Provisions		3,219	3,297
Other payables		142	169
Total non-current liabilities		**312,215**	**286,601**
Total liabilities		**1,109,072**	**1,106,904**
Net assets		**673,336**	**591,681**
Equity			
Issued capital	10	735,267	649,163
Share-based payments reserve		396	515
Accumulated losses		(62,327)	(57,997)
Total equity		**673,336**	**591,681**

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 2016

	Note	Issued capital $'000	Share-based payments reserve $'000	Accumulated losses $'000	Total equity $'000
As at 1 July 2015		**600,785**	**121**	**(36,992)**	**563,914**
Profit for the period		-	-	16,886	16,886
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**16,886**	**16,886**
Transactions with owners in their capacity as owners:					
Issue of share capital		2,298	-	-	2,298
Share issue costs (net of tax)		(8)	-	-	(8)
Movement in management equity plan		128	-	-	128
Dividends		-	-	(24,600)	(24,600)
Share-based payments		-	124	-	124
As at 31 December 2015		**603,203**	**245**	**(44,706)**	**558,742**
As at 1 July 2016		**649,163**	**515**	**(57,997)**	**591,681**
Profit for the period		-	-	19,758	19,758
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**19,758**	**19,758**
Transactions with owners in their capacity as owners:					
Issue of share capital	10	89,735	-	-	89,735
Share issue costs (net of tax)	10	(3,699)	-	-	(3,699)
Movement in management equity plan	10	68	-	-	68
Dividends	10	-	-	(24,088)	(24,088)
Share-based payments		-	(119)	-	(119)
As at 31 December 2016		**735,267**	**396**	**(62,327)**	**673,336**

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

Interim consolidated statement of cash flows

For the six months ended 31 December 2016

	Note	December 2016 $'000	December 2015 $'000
Cash flows from operating activities			
Receipts from residents		66,748	48,175
Receipts from government		231,732	166,749
Payments to suppliers and employees		(212,348)	(159,485)
RAD, accommodation bond and ILU entry contribution received		133,394	96,523
RAD, accommodation bond and ILU entry contribution refunded		(94,662)	(62,732)
Interest received		319	389
Finance costs paid		(6,096)	(1,575)
Income tax paid		(20,374)	(5,400)
Net cash flows from operating activities		**98,713**	**82,644**
Cash flows from investing activities			
Payments for business combinations, net of cash acquired	3	(86,364)	(128,338)
Deposits for acquisitions completing after reporting date		-	(985)
Payments for acquisition transaction costs		(6,764)	(5,389)
Payments for intangible assets	7	(822)	(2,897)
Proceeds from sale of property, plant and equipment		46	49
Purchase of property, plant and equipment	6	(24,006)	(15,588)
Net cash flows used in investing activities		**(117,910)**	**(153,148)**
Cash flows from financing activities			
Proceeds from issue of share capital	10	84,898	-
Payments for share issue costs		(3,090)	(8)
Proceeds from repayment of MEP loans		60	-
Proceeds from bank borrowings		76,500	92,250
Repayment of bank borrowings		(63,500)	-
Dividends paid		(19,242)	(22,174)
Net cash flows from financing activities		**75,626**	**70,068**
Net increase/(decrease) in cash and cash equivalents		**56,429**	**(436)**
Cash and cash equivalents at the beginning of the period		**29,810**	**46,197**
Cash and cash equivalents at the end of the period	5	**86,239**	**45,761**

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

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2016

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 2016 were authorised for issue in accordance with a resolution of the directors on 23 February 2017.

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

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

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 2016.

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

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

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 $694,180,000 as at 31 December 2016 (30 June 2016: $768,790,000). This mainly arises because of the requirement to classify refundable accommodation deposits and independent living unit (ILU) entry contributions of $691,713,000 (30 June 2016: $653,336,000) as current liabilities and deferred consideration on acquisition of $nil (30 June 2016: $84,500,000).

(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 2016. Since 1 July 2016, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(c) Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date.

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.

2. Summary of significant accounting policies (continued)

(c) Fair value measurement (continued)

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

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

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

For assets and liabilities that are recognised at fair value 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.

The fair value of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the borrowing rate for a similar borrowing as at the end of the reporting period.

The fair value of investment properties of $1,500,000 (30 June 2016: $1,500,000) has been categorised as a Level 2 based on the inputs to the valuation technique used.

Due to the frequency of residents entering and departing from a unit the fair value of each deposit under a loan licence agreement is based upon the most recent loan received for a similar unit.

There were no transfers between levels during the financial period.

			Fair value measurement using		
	Date of Valuation	Total	Quoted Prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		$'000	$'000	$'000	$'000
Investment properties	31 December 2016	1,500	-	1,500	-
Loans and borrowings	31 December 2016	267,381	-	267,381	-
Other financial liabilities	31 December 2016	691,713	-	691,713	-
		960,594	**-**	**960,594**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2016

3. Business combinations

There were no acquisitions during the six months ended 31 December 2016.

Information on prior year acquisitions

The fair values of the identifiable assets and liabilities of acquisitions made during the year ended 30 June 2016 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 ($'000)			
	Kennedy Group	Other	Adjustments ($'000)	Adjusted fair value ($'000)
Assets				
Land and buildings	140,554	87,245	(20,870)	206,929
Plant and equipment	887	2,986	-	3,873
Assets held for sale	-	3,570	-	3,570
Investment properties	-	1,500	-	1,500
Bed licenses	52,000	52,022	-	104,022
Cash and cash equivalents	4,999	(1)	-	4,998
Other assets	499	537	(247)	789
Deferred tax assets	2,895	1,685	172	4,752
	201,834	149,544	(20,945)	330,433
Liabilities				
Other financial liabilities	41,577	67,098	644	109,319
Employee entitlements	9,650	5,619	575	15,844
Trade and other payables	2,332	303	241	2,876
Commercial bills	13,000	-	-	13,000
Deferred tax liability	-	11,220	12,948	24,168
	66,559	84,240	14,408	165,207
Total fair value of net assets acquired	**135,275**	**65,304**	**(35,353)**	**165,226**
Goodwill on acquisition	**74,343**	**81,969**	**37,217**	**193,529**
Gain on bargain purchase	**-**	**(2,800)**	**-**	**(2,800)**
Purchase consideration transferred	**209,618**	**144,473**	**1,864**	**355,955**
Cash flow on acquisition				
Deferred consideration	84,500	-	(84,500)	-
Cash paid during the period	81,285	144,273	86,364	311,922
Issue of share capital	43,833	-	-	43,833
Deposit paid in the prior period	-	200	-	200
Total consideration paid	**209,618**	**144,473**	**1,864**	**355,955**

Cash acquired	(4,998)
Deposit paid in the prior period	(200)
Issue of share capital	(43,833)
Purchase consideration paid for these acquisitions, net of cash acquired	**306,924**

3. Business combinations (continued)

All fair values for prior year acquisitions are now final as illustrated in the previous table, except for Estia Glen Waverley acquired on 1 February 2016, the Kennedy Group acquired on 8 February 2016 and Estia Benalla and Estia Victoria Heights (previously known as "Estia Iron Bark") both on 1 March 2016, for which fair values are still provisional as at 31 December 2016.

The adjustment to the fair value of land and buildings acquired in the previous period of $20,870,000 reflects the valuations obtained from an independent external valuation specialist. The fair value adjustment to the cost base of the land and buildings has a deferred tax implication for which recognition of a deferred tax liability of $12,948,000 has been made during the period.

An additional $1,500,000 was paid in relation to the Kennedy Group acquisition as part of deferred consideration. The remaining $364,246 cash paid during the period relates to post settlement adjustments for other acquisition made during the previous 12 month period.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2016

4. Income tax

The major components of income tax expense for the six months ended 31 December 2016 and 2015 are:

Interim consolidated statement of profit or loss and other comprehensive income

	December 2016 $'000	December 2015 $'000
Current income tax:		
Current income tax expense	9,041	6,411
Adjustments in respect of income tax of previous year	721	-
Deferred income tax:		
Relating to origination and reversal of temporary differences	(1,005)	2,388
Adjustments in respect of income tax of previous year	122	-
Income tax expense reported in the interim consolidated statement of profit or loss and other comprehensive income	**8,879**	**8,799**

Reconciliation of income tax expense and the accounting profit:

	December 2016 $'000	December 2015 $'000
Accounting profit before income tax	28,637	25,685
At the Australian statutory income tax rate of 30% (2015: 30%)	8,591	7,705
Capital expenditure allowable for income tax purposes	-	(571)
Adjustments in respect of income tax of previous year	843	-
Utilisation of previously unrecognised tax losses	(230)	-
Expenditure not allowable for income tax purposes		
- Acquisition related costs for current year business combinations	-	1,617
- Acquisition related costs for previous year business combinations	(350)	-
- Other expenditure	25	48
Income tax expense	**8,879**	**8,799**

5. Cash and cash equivalents

	December 2016 $'000	June 2016 $'000
Cash balance comprises:		
Cash at bank	86,145	29,738
Cash on hand	94	72
	86,239	**29,810**

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

6. Property, plant and equipment

Reconciliation of property, plant and equipment

	Notes	Land $'000	Buildings $'000	Property improvements $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost								
Balance at 1 July 2015		93,604	296,644	1,966	26,282	659	5,563	**424,718**
Adjustments relating to prior period acquisitions		(515)	11,895	-	(1,480)	-	-	**9,900**
Acquisitions through business combinations		82,233	138,182	-	3,619	254	7,384	**231,672**
Additions		29,071	-	3,477	10,121	124	22,387	**65,180**
Transfers		-	-	23,059	410	-	(23,469)	**-**
Disposals		-	-	-	-	(80)	-	**(80)**
Balance at 30 June 2016		204,393	446,721	28,502	38,952	957	11,865	**731,390**
Adjustments relating to prior period acquisitions	3	(13,606)	-	-	-	-	(7,264)	**(20,870)**
Additions		29	-	2,078	3,469	-	18,430	**24,006**
Transfers		-	-	2,900	233	-	(3,133)	**-**
Disposals		-	-	-	-	(57)	-	**(57)**
Balance at 31 December 2016		**190,816**	**446,721**	**33,480**	**42,654**	**900**	**19,898**	**734,469**
Accumulated depreciation								
Balance at 1 July 2015		-	4,450	71	3,272	142	-	**7,935**
Depreciation expense		-	6,353	218	5,280	216	-	**12,067**
Disposals		-	-	-	-	(28)	-	**(28)**
Balance at 30 June 2016		-	10,803	289	8,552	330	-	**19,974**
Depreciation expense		-	3,858	297	3,683	121	-	**7,959**
Disposals		-	-	-	-	(12)	-	**(12)**
Balance at 31 December 2016		**-**	**14,661**	**586**	**12,235**	**439**	**-**	**27,921**
Net book value								
As at 30 June 2016		204,393	435,918	28,213	30,400	627	11,865	**711,416**
As at 31 December 2016		**190,816**	**432,060**	**32,894**	**30,419**	**461**	**19,898**	**706,548**

7. Intangible assets

	Goodwill $'000	Bed licences $'000	Software costs $'000	Total $'000
Cost				
Balance at 1 July 2015	565,594	101,794	3,080	670,468
Additions	-	-	2,112	2,112
Adjustments relating to prior period acquisitions	(6,591)	9,124	-	2,533
Acquisitions through business combinations	156,312	104,022	-	260,334
Balance at 30 June 2016	**715,315**	**214,940**	**5,192**	**935,447**
Additions	-	-	822	822
Adjustments relating to prior period acquisitions	37,217	-	-	37,217
Balance at 31 December 2016	**752,532**	**214,940**	**6,014**	**973,486**
Accumulated amortisation				
Balance at 1 July 2015	-	-	(527)	(527)
Amortisation expense	-	-	(764)	(764)
Balance at 30 June 2016	**-**	**-**	**(1,291)**	**(1,291)**
Amortisation expense	-	-	(512)	(512)
Impairment	-	-	-	-
Balance at 31 December 2016	**-**	**-**	**(1,803)**	**(1,803)**
Net book value				
As at 30 June 2016	**715,315**	**214,940**	**3,901**	**934,156**
As at 31 December 2016	**752,532**	**214,940**	**4,211**	**971,683**

(a) Bed Licences

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

(b) Impairment of intangible assets

Intangible assets with an indefinite useful life form part of one CGU for impairment testing purposes, which is consistent with the operating segment identified in Note 15.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2016, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill and bed licenses. As a result, management performed an impairment test at 31 December 2016 for the CGU.

The Group used the CGU's value-in-use to determine the recoverable amount and compared against the carrying amount. 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 three year period (2017 to 2019), with a further period of 2 years based on a growth rate of 2.6% and a terminal value growth rate of 2.1%.

7. Intangible assets (continued)

A post-tax discount rate of 10.5% (June 2016: 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 13.00%. 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.

As a result of this analysis, management did not identify an impairment for the CGU to which goodwill and bed licenses totalling $967,472,000 is allocated.

8. Loans and borrowings

	December 2016 $'000	June 2016 $'000
Current loans and borrowings		
Other borrowings, unsecured	881	-
Total current loans and borrowings	**881**	**-**
Non-current loans and borrowings		
Bank loans, secured	266,500	253,500
Total non-current loans and borrowings	**266,500**	**253,500**
Total loans and borrowings	**267,381**	**253,500**

Terms and conditions of loans
On 13 July 2015, Estia entered into an agreement to refinance the Facility with two lenders, Westpac Banking Corporation (Westpac) and Commonwealth Bank of Australia. The Facility 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 and an increase to the working capital facility of $30,000,000. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2016

8. Loans and borrowings (continued)

On 8 February 2016, Estia entered into an amended syndicated agreement to activate the $150,000,000 accordion facility to fund acquisitions and capital developments. This facility bears interest at BBSY plus a margin between 1.15% and 1.55% per annum. The total debt facility available to Estia is $330,000,000.

9. Income received in advance

	December 2016 $'000	June 2016 $'000
Income received in advance	29,606	41
	29,606	**41**

Income received in advance relates to funding received from the Government for the following month due to the holiday period.

10. Issued capital and reserves

	December 2016 $'000	June 2016 $'000
Issued and fully paid		
Ordinary shares	735,267	649,163
	735,267	**649,163**

(a) Movements in ordinary shares on issue

	December 2016		June 2016	
	Number of shares	$'000	Number of shares	$'000
Beginning of the period	188,183,920	649,163	180,885,580	600,785
Share issue	38,779,257	84,898	6,631,300	43,833
Share issue - DRP	1,771,227	4,837	667,040	4,156
Transaction costs for issued share capital	-	(3,699)	-	(61)
Movement in management equity plan	-	68	-	450
End of the financial year	**228,734,404**	**735,267**	**188,183,920**	**649,163**

During the period, 5,494,506 shares with a fair value of $15,000,000 were issued, based on the average Estia share price ($2.73) on a 10 trading day period from 7 October 2016 to 20 October 2016. Additionally, 33,284,751 shares were issued on 21 December with a fair value of $69,897,977, based on a discounted share price of $2.10, equalling a 21.6% discount on Estia's closing share price on 9 December 2016. The issue was based on a 1-for-3 offer to existing institutional shareholders and was fully underwritten by Macquarie Capital (Australia) Limited.

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 11 for further details of these plans.

10. Issued capital and reserves (continued)

(c) Dividends paid and proposed

The final dividend for the year ended 30 June 2016 of $24,087,542 (12.8 cents per share) was paid on 7 November 2016.

The Directors have proposed no interim dividend for the six months ended 31 December 2016 (December 2015: 12.8 cents, $24,044,818).

(d) Dividend reinvestment plan

The dividend paid on 7 November 2016 includes an amount attributable to the Dividend Reinvestment Plan of $4,837,160 with 1,771,227 ordinary shares being issued under the plan rules. The last date for the receipt of an election notice to participate in the DRP is the record date of the respective dividend.

11. Share-based payments

At 31 December 2016, the Group had the following share-based payments arrangements:

(i) Long-Term Incentive Plan

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

(ii) Management Equity Plan

The MEP is a legacy plan which was approved by the Board and implemented prior to listing and other than for existing holders, it is no longer offered. All MEP offers were made prior to listing and no new MEP offers were made in FY17 or will be made going forward.

During the financial period, 869,565 MEP shares granted to Paul Gregersen were forfeited after his employment was terminated on 16 September 2016.

12. Related party disclosures

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

13. Commitments and contingencies

There have been no material changes to the Group's commitments and contingencies during the period from those disclosed at 30 June 2016.

14. Subsequent events

Subsequent to 31 December 2016, the Group has repaid a total of $101,000,000 of bank debt.

On 19 January 2017, the Group successfully completed the retail rights offer and issued 31,868,345 new shares totalling a gross amount of $66,923,525.

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.

15. Segment reporting

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

DIRECTORS' DECLARATION

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

1. in the opinion of the directors:

   (a) the financial statements and notes of the consolidated entity for the six months ended 31 December 2016 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 2016 and of its performance for the year ended on that date; and

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

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

On behalf of the Board

Dr. Gary Weiss
Chairman

23 February 2017

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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 2016, 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 2016 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 2016 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

Rodney Piltz
Partner
Melbourne
23 February 2017