GENERATION HEALTHCARE REIT

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ASX Announcement

16 February 2015

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Generation Healthcare REIT (ASX Code: GHC)

Generation Healthcare REIT reports a 78% increase in its 2015 half year underlying net operating income and upgrades earnings and distribution guidance

APN Funds Management Limited, the responsible entity of Generation Healthcare REIT ('GHC' or the 'Fund') is pleased to announce the Fund's financial result for the half year ended 31 December 2014.

Key highlights:

- Statutory profit of $7.9 million, up 149% from $3.2 million in the prior corresponding period (pcp);
- Underlying[1] net operating income (UNOI) of $8.4 million, up 78% from $4.7 million in the pcp;
- Underlying[1] net operating income per unit of 4.81 cents, up 4% from 4.63 cents in the pcp;
- Distributions per unit of 4.20 cents for the half year, up 5% on the 4.00 cents in the pcp;
- Entered into a Memorandum of Understanding with St John of God Health Care for Casey Stages 2 and 3 in August 2014;
- Announced the commitment of Healthscope Limited to Frankston Private;
- Negotiated reduced debt pricing, extended the term of the Fund's debt and diversified the maturity risk;
- Achieved a total return[2] for the 6 months of 18.7%, materially outperforming the S&P/ASX 300 A-REIT Accumulation Index return by 6.0%; and
- The Fund received industry recognition during 2014 from the Australian Property Institute, Property Investment Research and BDO International.

[1] UNOI excludes: property revaluations, movements in derivatives and Manger's performance fees
[2] Capital appreciation of GHC units during the year, assuming reinvestment of distributions paid

Commenting on the first half result, GHC's Chief Executive Officer, Miles Wentworth said "The half year financial result is a very satisfying one having seen the benefits of the Spring Hill and Epworth Freemasons transactions come through accompanied by consistent rental growth from the broader portfolio. Expenses have been reduced with lower bank margins and lower floating rates. This combination has resulted in a 78% increase in the Fund's underlying net operating income. The Frankston Private transaction with Healthscope and signing of a Memorandum of Understanding with St John of God Health Care for Casey Stage 2 further advances the organic growth that resides within the portfolio. The Fund continues to outperform the market and is well positioned for future value adding growth."

Financial results

Underlying net operating income was up 78% to $8.4 million for the 2015 financial half year primarily due to a combination of:

- like-for-like property rental growth of 2.7%;
- rental contribution from the acquisition of 55 Little Edward Street, Spring Hill and the additional investment in Epworth Freemasons Hospital, both for a full 6 month period;
- Increased interest income on the secured debt investment associated with Waratah Private Hospital; and
- Lower finance costs due to having negotiated lower line and margin fees and repayment of debt from part of the proceeds of the two equity raisings during FY14.

Statutory profit of $7.9 million was 149% higher than the corresponding prior half year's profit of $3.2 million, principally as a result of a 78% increase in underlying net operating income, an increase in the net gain on the change in value of investment properties, and a decrease in the performance fee to the Manager, partially offset by a net loss on the change in fair value of derivatives (compared to a gain in the pcp).

Net tangible asset (NTA) backing per unit was $1.08 as at 31 December 2014, an increase of 1% ($0.01) from $1.07 as at 30 June 2014. The increase is principally attributable to an increase in the property values of the underlying portfolio, partially offset by a net loss on the change in fair value of derivatives and the Manager's performance fee.

Net debt to total assets was 33%, up two percentage points from 31% at 30 June 2014, principally as a result of borrowings to fund the construction at Casey. The longer term target range for net debt to total assets is 40-45%.

Operational performance

Net property income for the 2015 financial half year increased by 29% to $11.9 million compared with $9.2 million in the pcp. Factors contributing to this increase were:

- a 6 month rental contribution following the purchase of the 55 Little Edward Street, Spring Hill medical office building in late June 2014;
- a full 6 months of increased contract rent at Epworth Freemasons Hospital from the additional $12.5 million investment made early June 2014;
- two month's increased rent associated with rent upside from the Secure Parking lease renewal at 55 Little Edward Street, Spring Hill; and
- a combination of fixed and CPI increases on the remaining tenancies within the portfolio.

Property update

The property portfolio increased by $16.5 million (5.5%) to $319 million at 31 December 2014 primarily as a result of the completion of the Casey Specialist Centre in Berwick, Victoria, representing the first stage of a three stage project. As a consequence, the carrying value of this property has increased by $11.1 million through a combination of $6.9 million of construction expenditure and a $4.2 million (26%) valuation uplift. The carrying value of the stage 2 and 3 component of the Casey site, increased by $3.1 million, reflecting early works undertaken with respect to the proposed Casey Private Hospital.

Of the remaining properties in the portfolio, the book value increased by a net $2.2 million. This includes a reduction in the value of the Australian Red Cross Blood Service (ARCBS) of $1.0 million and $0.7 million in the value of the Pacific Private Clinic as a result of medium term FY17 lease expiries. Management continue to work proactively on these expiries.

Key portfolio metrics for the period include:

- Like-for-like rental growth of 2.7%;
- Continued high occupancy of 98.6%;
- A weighted average lease term to expiry (WALTE) of 11.6 years;
- A retention rate of 87.6% (by income) of the 9 leases that expired during the period, delivering a 9.6% average increase in rents; and
- A 0.2% increase in the Fund's property values (on a like-for-like basis) reflecting a weighted average capitalisation rate of 8.20%.

Announcements and Transactions

On 2 July 2014, the Fund announced its 50% owned Joint Venture entity, Divine Logistics Trust, had entered into a series of contracts with Healthscope Limited (Healthscope) in relation to Frankston Private. These contracts and various interdependent business sale agreements resulted in Healthscope acquiring the businesses of two existing Frankston Private tenants (approximately 49% of the existing rent roll of the property) being Frankston Private Day Surgery and Peninsula Oncology Centre, extending the term of those leases by 18 years and signing an

Agreement for Lease for a major expansion of the existing facility based on a return to the Fund of 8.50% on the total project cost and a 20 year head lease. In addition, the joint venture acquired a further adjacent property that Healthscope will lease for medical consulting for a 10 year term.

On 20 August 2014, the Fund announced that it had entered into a non-binding Memorandum of Understanding with St John of God Health Care in relation to stages 2 and 3 at the Fund's site at 55 Kangan Drive, Casey, Victoria. The parties are progressing design development for the project which encompasses a scale private hospital comprising 190 beds, six operating theatres, six birthing suites, a cardiac/vascular catheter laboratory, two endoscopy theatres, medical consulting suites and associated car parks. The total project cost is currently estimated at approximately $120 million with the base building (shell) and car park to be jointly owned by both parties and the building fit out to be owned by St John of God Health Care. The Fund's investment in the second stage will be circa $50 million. In the medium to longer term, the master plan includes a Stage 3 for further capacity expansion to include additional operating theatres, beds and consulting space.

In addition, Epworth Foundation continues to advance the $59 million upgrade works at Epworth Freemasons Clarendon Street, to which the fund had previously contributed $12.5 million as joint venture landlord.

Outlook

An upgrade to the earnings and distribution guidance for FY15 is as follows:

- A 4.3% upgrade to the forecast underlying net operating income per unit, to 9.60 cents (previously 9.20 cents),
- A 4.3% upgrade to the forecast second half distribution per unit, to 4.38 cents (previously 4.20 cents), to take the full year forecast to 8.58 cents (an increase of 7.3% on FY14's 8.00 cents)

"The Fund continues to be well positioned to provide investors with a secure and growing income stream with the management team progressing a number of initiatives for continued growth in income and value." Mr Wentworth said.

Yours sincerely

John Freemantle
Company Secretary

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About Generation Healthcare REIT

Generation Healthcare REIT (ASX code: GHC), is Australia's only ASX listed real estate investment entity that invests exclusively in healthcare property.

The portfolio of 13 properties includes hospitals, medical centres, laboratories and other purpose-built healthcare facilities. The Fund partners with high quality healthcare tenants with well-diversified income streams. The Fund has total assets under management of $341 million with investments located in Victoria, New South Wales and Queensland.

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About APN Funds Management Limited

APN Funds Management Limited (APNFM) is the Responsible Entity of Generation Healthcare REIT. The Board of APNFM consists of four directors, three of which, including the Chairman are Independent Directors. APNFM is a wholly owned subsidiary of APN Property Group Limited (APN) (ASX code: APD), a specialist real estate investment manager.

Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutions, superannuation funds, high net worth and individual investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.