Estia Health Ltd

(Formerly Estia Health Pty Ltd)

ABN: 37 160 986 201

Interim Condensed Consolidated Financial Report for the period ended 31 December 2014

Estia Health Ltd

ABN: 37 160 986 201

For the period ended 31 December 2014

CONTENTS

Corporate information

ABN 37 160 986 201

Directors

Patrick Grier (Non-executive Director and Chairman)	appointed 17 November 2014
Paul Gregersen (Managing Director)	appointed 17 November 2014
Andrew Harrison (Non-executive Director)	appointed 17 November 2014
Norah Barlow (Non-executive Director)	appointed 17 November 2014
Marcus Darville (Non-executive Director and Chairman)	resigned 17 November 2014
Peter Arvanitis (Non-executive Director)	
Chris Hadley (Non-executive Director)	resigned 10 October 2014
Jonathan Pearce (Non-executive Director)	resigned 17 November 2014
Nick Yannopoulos (Executive Director)	resigned 17 November 2014
Clark Perkins (Non-executive Director)	resigned 17 November 2014

Company Secretary

Suzy Watson – appointed 5 December 2014
Nick Yannopoulos – appointed 26 September 2014; resigned 5 December 2014
Stuart Whipp – resigned 26 September 2014

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

The Directors of Estia Health Ltd (Estia Health) submit the condensed consolidated financial report for the period ended 31 December 2014.

Directors
The names and details of Estia Health and its subsidiaries (collectively, the Group) directors in office during the financial period and until the date of this report are as follows.

Patrick Grier (Non-executive Director and Chairman)	appointed 17 November 2014
Paul Gregersen (Managing Director)	appointed 17 November 2014
Andrew Harrison (Non-executive Director)	appointed 17 November 2014
Norah Barlow (Non-executive Director)	appointed 17 November 2014
Marcus Darville (Non-executive Director and Chairman)	resigned 17 November 2014
Peter Arvanitis (Non-executive Director)	
Chris Hadley (Non-executive Director)	resigned 10 October 2014
Jonathan Pearce (Non-executive Director)	resigned 17 November 2014
Nick Yannopoulos (Executive Director)	resigned 17 November 2014
Clark Perkins (Non-executive Director)	resigned 17 November 2014

Interests in the shares of the Company
As at the date of this report, the interests of the directors in the shares of Estia Health Ltd were:

	No. of ordinary shares
Peter Arvanitis	16,211,826
Pat Grier	302,098
Norah Barlow	86,207
Andrew Harrison	20,000
Paul Gregersen	869,565

Principal activities
The principal activities of the Estia Health Group during the period ended 31 December 2014 included the operating and developing of owned and leased residential aged care facilities throughout Victoria, New South Wales, Queensland and South Australia.

Dividends
There were no dividends paid during the interim period.

Review and results of operations

For the six months ended 31 December 2014, Estia Health Group's net loss was $32,795,670 (2013: net loss $9,469,799).

During the period ended 31 December 2014, the Estia Health Group successfully acquired:

- the Padman and Cook Care Group operations as at 31 July 2014, operating in South Australia, New South Wales and Queensland
- freehold of another Victorian-based facility on 29 September 2014;
- two facilities in Victoria and one in New South Wales on 1 October 2014; and
- two facilities in Victoria and one in South Australia on 1 December 2014.

At 31 December 2014 Estia Health Group was operating 42 accredited facilities with a total number of licensed beds of 3,433.

Strong demand for the Estia Health Group's facilities resulted in average occupancy of 94.1% for the Group as at 31 December 2014.

Directors' report (continued)

The Group uses earnings before interest, income tax expense, depreciation and amortisation (EBITDA) in combination with other financial measures to evaluate the Group's operating performance. The Company believes that EBITDA is a relevant and useful financial measure used by management to measure the Company's operating performance. EBITDA reflects the profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Depreciation and amortisation are calculated in accordance with AASB 116: "Property, Plant and Equipment" and AASB 138: "Intangible Assets", respectively.

Adjusting for acquisition transaction costs incurred in purchasing the Padman and Cook Care Groups and additional facilities, the Estia Health Group achieved an EBITDA for the six months ended 31 December 2014 of $21,534,052. This includes several other non-recurring expenses incurred as part of those acquisitions and restructure of the Group.

In addition to the strong financial result, the Estia Health Group maintained accreditations at all of its facilities and invested in capital works to improve the standard of each facility operated by the Group.
Future strategic initiatives for the Estia Health Group include the following:

- Continued growth through acquisitions, brownfield and greenfield developments and partnering with suitable organisations to provide aged care services;
- Maintaining and enhancing the skills and expertise of Estia Health Group's employees to enhance the services provided to residents; and
- Introducing uniform procedures, software systems and infrastructure across the Estia Health Group to underpin the continued growth of the Group and to enhance the financial performance of the Group.

On 4 November 2014 the Company entered into new banking facilities amounting to $150,000,000. These facilities have a maturity date of December 2017 and interest is calculated at BBSY plus a margin ranging from 1.0% to 1.4%. The new banking facilities will be used to fund acquisitions, capital expenditure and working capital.

Significant changes in the state of affairs
On 5 December 2014 the Company successfully listed on the Australian Stock Exchange. A total of 126,087,759 shares were issued in the float with total gross proceeds of $725,004,614.

On 9 December 2014 the proceeds raised from the listing were used to repay in full the funding provided under existing senior debt and mezzanine facilities, vendor and shareholder loans.

Significant events after the balance date
Since the end of the financial period the Estia Health Group has acquired the aged care business and assets (including the aged care facilities and associated land) of The Geelong Aged Care facility. Under this acquisition, the Estia Health Group assumed the bond liabilities and the employee entitlement liabilities as at the acquisition date which was the 2 February 2015. The net proceeds paid for the acquisition of the facility including the freehold land but excluding transaction costs was $14,409,682.

On 18 February 2015, the Group entered into an agreement to acquire the Bene Domus Operosa aged care facility in South Australia for gross purchase price of $13,500,000.

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 Ltd against legal costs incurred in defending proceedings for conduct other than:

(a) A wilful breach of duty; and
(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 $272,500.

Directors' report (continued)

Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, 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 $1 (where rounding is applicable) and where noted ($) under the option available to the Group under ASIC CO 98/0100. Estia Health Ltd is an entity to which the class order applies.

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

In relation to our review of the financial report of Estia Health Ltd for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Rodney Piltz
Partner
18 February 2015

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Interim condensed consolidated statement of comprehensive income

For the six months ended 31 December 2014

	Notes	December 2014 $	December 2013 $
Revenues		**124,014,235**	19,361,384
Other income		693,406	411,588
Expenses			
Administrative expenses		(4,678,618)	(432,654)
Acquisition transaction costs	3	(25,371,371)	(9,687,656)
Depreciation and amortisation		(3,890,355)	(316,453)
Employee benefits expenses		(74,972,124)	(12,231,570)
Finance costs		(30,966,008)	(3,325,685)
Health consultants expenses		(1,716,020)	(307,825)
Occupancy expenses		(4,979,930)	(1,215,538)
Resident expenses		(9,015,049)	(1,795,668)
Repairs and maintenance		(1,688,929)	(437,814)
Share issue costs		(2,561,142)	-
Loss before tax		**(35,131,905)**	**(9,977,891)**
Income tax benefit	4	**2,336,235**	**508,092**
Loss for the period		**(32,795,670)**	**(9,469,799)**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Total comprehensive loss for the period		**(32,795,670)**	**(9,469,799)**
Earnings per share			
Basic, loss for the year attributable to ordinary equity holders of the Parent		**$0.18**	**$0.14**
Diluted, loss for the year attributable to ordinary equity holders of the Parent		**$0.18**	**$0.14**

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

Interim condensed consolidated statement of financial position

As at 31 December 2014

	Notes	December 2014 $	June 2014 $
Current assets			
Cash and cash equivalents		36,670,033	3,571,341
Trade and other receivables		4,998,341	1,370,946
Prepayments and other assets		3,953,233	2,382,181
Other current financial assets		825,000	503,162
Total current assets		**46,446,607**	**7,827,630**
Non-current assets			
Property, plant and equipment	5	341,549,143	76,052,294
Goodwill	6	488,906,517	150,327,571
Other intangibles	6	87,274,555	28,356,796
Deferred tax assets		7,703,690	2,981,938
Total non-current assets		**925,433,905**	**257,718,599**
Total assets		**971,880,512**	**265,546,229**
Current liabilities			
Trade and other payables		17,371,614	8,939,752
Loans and borrowings	7	-	2,746,442
Derivative financial instrument		-	1,301,608
Provisions		17,257,682	6,438,354
Income received in advance		15,143,491	-
Accommodation bonds		364,728,371	77,625,576
Total current liabilities		**414,501,158**	**97,051,732**
Non-current liabilities			
Loans and borrowings	7	-	112,763,080
Provisions		3,652,291	1,949,852
Total non-current liabilities		**3,652,291**	**114,712,932**
Total liabilities		**418,153,449**	**211,764,664**
Net assets		**553,727,063**	**53,781,595**
Equity			
Issued capital	12	600,991,168	68,250,000
Accumulated losses		(47,264,105)	(14,468,435)
Total equity		**553,727,063**	**53,781,565**

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

Interim condensed consolidated statement of changes in equity

For the six months ended 31 December 2014

	Issued capital $	Accumulated losses $	Total equity $
As at 1 July 2013	**4**	**-**	**4**
Loss for the period	-	(9,469,799)	(9,469,799)
Other comprehensive income	-	-	-
Total comprehensive income	**-**	**(9,469,799)**	**(9,469,799)**
Transactions with owners in their capacity as owners:			
Issue of share capital	67,499,996	-	67,499,996
At 31 December 2013	**67,500,000**	**(9,469,799)**	**58,030,201**
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 loss	**-**	**(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)
At 31 December 2014	**600,991,168**	**(47,264,105)**	**553,727,063**

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

Interim condensed consolidated statement of cash flows

For the six months ended 31 December 2014

	Notes	December 2014 $	December 2013 $
Cash flows from operating activities			
Receipts from residents		34,853,479	3,932,340
Receipts from government		86,321,016	19,714,438
Payments to suppliers and employees		(83,923,792)	(4,705,841)
Accommodation bonds received		62,833,100	5,620,520
Accommodation bonds refunded		(32,175,528)	(4,867,835)
Interest received		467,670	1,509,382
Finance costs		(31,433,677)	(12,269,805)
Net cash flows from operating activities		**36,942,268**	**8,933,199**
Cash flows from investing activities			
Purchase of business combinations	3	(373,208,525)	(155,077,504)
Payments of acquisition transaction costs		(22,391,114)	(9,687,656)
Purchase of intangible assets	6	(991,956)	-
Proceeds from sale of property, plant and equipment		19,314	-
Purchase of property, plant and equipment	5	(12,920,638)	(1,206,776)
Net cash flows used in investing activities		**(409,492,919)**	**(165,971,936)**
Cash flows from financing activities			
Issuance of share capital	12	745,563,124	67,499,996
Buy back of share capital	12	(190,378,596)	-
Initial public offering transaction fees		(34,025,663)	-
Proceeds from bank borrowings		287,692,990	62,350,000
Repayment of bank borrowings		(350,360,628)	-
Payments to and from related parties		-	48,715
Proceeds from shareholder loans		6,790,000	49,120,205
Repayments of shareholder loans		(59,631,884)	-
Net cash flows from in financing activities		**405,649,343**	**179,018,916**
Net increase in cash and cash equivalents		**33,098,692**	**21,980,179**
Cash and cash equivalents at the beginning of the period		**3,571,341**	**4**
Cash and cash equivalents at the end of the period		**36,670,033**	**21,980,183**

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

Notes to the consolidated financial statements

For the six months ended 31 December 2014

1. Corporate Information

The interim condensed consolidated financial statements of Estia Health Ltd and its subsidiaries (collectively, the Group) for the period ended 31 December 2014 were authorised for issue in accordance with a resolution of directors on 18 February 2015.

Estia Health Ltd (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 condensed consolidated financial statements for the period ended 31 December 2014 have been prepared in accordance with AASB 134 *Interim Financial Reporting.*

The interim condensed 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 2014.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial statements.

The financial report has been prepared on a going concern basis which assumes that the Company will be able to meet its obligations as and when they fall due. At 31 December 2014, the Company had a net current asset deficiency of $368,054,551. The net current asset deficiency position is due to accommodation bonds of $364,728,371 being recorded as a current liability.The Directors believe that only a limited amount of accommodation bonds are likely to be required to be paid in the next 12 months and outgoings are generally replaced by new accommodation bond inflows usually of a higher amount within a relatively short timeframe. Although there is a net current asset deficiency, the Directors believe that Estia will generate sufficient operating cash flows and cash resources from existing bank debt facilities to finance its ongoing operations, including meeting future interest payments on its borrowings based on the projected operating cash flows of Estia.

(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 annual financial statements for the year ended 30 June 2014.

Since 1 July 2014, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Management Equity Plan

Estia Finance Pty Ltd granted 10 year, limited recourse loans to certain management (or their affiliates), to subscribe for MEP Shares under the Company's existing Management Equity Plan. The loans may cover either the full subscription price of the MEP Shares or up to a certain percentage of the subscription price, with the MEP Participant funding the balance. Any dividends or other distributions received by MEP Participants as a result of holding MEP Shares must first be applied towards repayment of any MEP Loan (except that amounts may be retained for expected tax liabilities payable in respect of those contributions).

(c) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity- settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant using an appropriate valuation model. The cost is recognised, together with the corresponding increase in other capital reserves in equity, over the period in which the performance conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

2. Summary of significant accounting policies (continued)

The statement of profit and loss expense or credit for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

3. Business combinations

During the period ended 31 December 2014, the Estia Health Group successfully acquired:

- the Padman and Cook Care Group operations as at 31 July 2014, operating in South Australia, New South Wales and Queensland;
- two facilities in Victoria and one in New South Wales on 1 October 2014; and
- two facilities in Victoria and one in South Australia on 1 December 2014.

The acquisition of the Padman Aged Care Group business and assets consisted of the acquisition of 13 aged care facilities with 12 located in South Australia and 1 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease. The acquisition of the Cook Care Aged Care Group business and assets consisted of the acquisition of 9 aged care facilities with 6 located in New South Wales and 3 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease. The net proceeds paid for the acquisition of the Padman Aged Care Group and the Cook Care Aged Care Group excluding transaction costs was approximately $317,273,786.

The Estia Group acquired the aged care business and net assets for net proceeds paid of $56,934,739 for the following facilities on 1 October and 1 December 2014:

1 October 2014	**1 December 2014**
Estia Albury, New South Wales	Estia Wattle Glen, Victoria
Estia Wodonga, Victoria	Estia Prahran, Victoria
Estia Leopold, Victoria	Estia Salisbury, South Australia

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.

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

3. Business combinations (continued)

The provisional fair values of the identifiable assets and liabilities at the date of acquisition were:

	Padman Group	Cook Care Group	Other acquisitions	Total
Assets				
Land and buildings	112,350,000	90,999,000	41,850,000	245,199,000
Plant and equipment	6,065,849	4,949,510	148,407	11,163,766
Bed licenses	25,440,000	21,490,000	11,160,000	58,090,000
Other	211,229	855,166	-	1,066,395
Deferred tax assets	1,350,108	855,438	680,345	2,885,891
	145,417,186	119,149,114	53,838,752	318,405,052
Liabilities				
Accommodation bonds	98,393,090	99,586,084	58,466,050	256,445,224
Employee entitlements	4,581,659	2,851,460	2,153,857	9,586,976
Other	3,856,855	2,894,178	31,394	6,782,427
Deferred tax liability	9,612,950	347,896	-	9,960,846
	116,444,554	105,679,618	60,651,301	284,775,473
Total fair value of net assets acquired	**28,972,632**	**13,469,496**	**(6,812,549)**	**35,629,579**
Goodwill on acquisition	**138,847,433**	**135,984,225**	**63,747,288**	**338,578,946**
Purchase consideration transferred	**167,820,065**	**149,453,721**	**56,934,739**	**373,208,525**

	Cash flow on acquisition
Vendor loan and deferred consideration	(52,500,000)
Cash paid	(320,708,525)
Net Cash Outflow	**(373,208,525)**

On 9 December 2014, the vendor loan and deferred consideration amounting to $54,410,743 was repaid, including accrued interest at a fixed rate of 10%.

The consolidated statement of comprehensive income includes revenue of $73,032,837 and net loss before tax of $5,321,292 (including one-off acquisition related costs equating to $25,371,371) for the period ended 31 December 2014 in respect of these acquisitions. If the acquisitions had taken place at the beginning of the year, revenue of $99,685,714 and net loss before tax of $3,425,694 (including one-off acquisition related costs equating to $25,371,371) would have been included.

Acquisition related costs incurred in total relating to all acquisitions to 31 December 2014 have been expensed and are presented as transaction costs in the Interim condensed consolidated statement of comprehensive income.

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

4. Income Tax

The major components of income tax benefit for the six months ended 31 December 2014 and 2013 are:

Consolidated statement of comprehensive income

	December 2014 $	December 2013 $
Current income tax:		
Current income tax charge / (benefit)	(2,087,104)	(417,768)
Deferred income tax:		
Relating to origination and reversal of temporary differences	(249,131)	(90,324)
Income tax benefit reported in the Consolidated statement of comprehensive income	**(2,336,235)**	**(508,092)**

Reconciliation of income tax expense and the accounting loss:

	December 2014 $	December 2013 $
Accounting loss before income tax	(35,131,905)	(9,977,891)
At the Australian statutory income tax rate of 30% (2013: 30%)	(10,539,572)	(2,993,368)
Expenditure not allowable for income tax purposes	8,203,337	2,485,276
Income tax expense / (benefit)	**(2,336,235)**	**(508,092)**

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

5. Property, plant and equipment

	Note	Land $	Buildings $	Property Improvements $	Furniture, Fixtures & Equipment $	Motor Vehicles $	Work in Progress $	Total $
Cost								
Balance at 1 July 2013		-	-	-	-	-	-	-
Additions		995,000	-	329,103	1,265,397	4,850	-	**2,594,350**
Disposals		-	-	-	(15,921)	(3,229)	-	**(19,150)**
Acquisitions through business combinations		18,763,000	52,555,350	-	3,241,734	32,903	-	**74,592,987**
Balance at 30 June 2014		**19,758,000**	**52,555,350**	**329,103**	**4,491,210**	**34,524**	-	**77,168,187**
Additions		1,837,470	5,278,800	741,872	2,562,208	-	2,459,205	**12,879,555**
Disposals		-	-	-	(2,273)	(17,165)	-	**(19,438)**
Acquisitions through business combinations	3	62,643,000	182,556,000	567,392	10,540,125	56,249	-	**256,362,766**
Balance at 31 December 2014		**84,238,470**	**240,390,150**	**1,638,367**	**17,591,270**	**73,608**	**2,459,205**	**346,391,070**
Accumulated depreciation								
Balance at 1 July 2013		-	-	-	-	-	-	-
Depreciation expense		-	542,606	9,921	557,531	6,312	-	**1,116,370**
Disposals		-	-	-	(112)	(365)	-	**(477)**
Balance at 30 June 2014		-	**542,606**	**9,921**	**557,419**	**5,947**	-	**1,115,893**
Depreciation expense		-	1,603,239	637,446	1,476,271	9,202	-	3,726,158
Disposal		-	-	-	-	(124)	-	(124)
Balance at 31 December 2014		-	**2,145,845**	**647,367**	**2,033,690**	**15,025**	-	**4,841,927**
Net book value								
As at 30 June 2014		19,758,000	52,012,744	319,182	4,033,791	**28,577**	-	**76,052,294**
As at 31 December 2014		**84,238,470**	**238,244,305**	**991,000**	**15,557,580**	**58,583**	**2,459,205**	**341,549,143**

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

6. Intangible assets

	Goodwill $	Bed licences $	Software Costs $	Total $
Cost				
Balance at 1 July 2013	-	-	-	-
Additions	-	-	713,707	713,707
Acquisitions through business combinations	150,327,571	27,648,000	-	177,975,571
Balance at 30 June 2014	**150,327,571**	**27,648,000**	713,707	**178,689,278**
Additions	-	-	991,956	991,956
Acquisitions through business combinations	338,578,946	58,090,000	-	396,668,946
Balance at 31 December 2014	**488,906,517**	**85,738,000**	**1,705,663**	**576,350,180**
Accumulated amortisation				
Balance at 1 July 2013	-	-	-	-
Amortisation expense	-	-	(4,911)	(4,911)
Balance at 30 June 2014	-	-	**(4,911)**	**(4,911)**
Amortisation expense	-	-	(164,197)	(164,197)
Impairment	-	-	-	-
Balance at 31 December 2014	-	-	**(169,108)**	**(169,108)**
Net book value				
As at 30 June 2014	**150,327,571**	**27,648,000**	708,796	**178,684,367**
As at 31 December 2014	**488,906,517**	**85,738,000**	**1,536,555**	**576,181,072**

(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
In accordance with the requirements of AASB 136 *Impairment of Assets,* goodwill and bed licences (as at 30 June 2014) is tested for impairment annually and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill and bed licences with indefinite lives is based on value in use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 30 June 2014.

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

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

7. Loans and borrowings

	December 2014 $	June 2014 $
Current loans and borrowings		
Bank loans, secured	-	2,746,442
Total current loans and borrowings	**-**	**2,746,442**
Non-current loans and borrowings		
Bank loans, secured	-	59,921,196
Shareholder loans, unsecured	-	52,841,884
Total non-current loans and borrowings	**-**	112,763,080
Total loans and borrowings	**-**	**115,509,522**

Terms and conditions of loans

At 30 June 2014, the bank loans were a mix of senior debt and mezzanine facilities with a maturity in October 2018. Interest was calculated by reference to BBSY plus a margin between 1.0% and 4.0%. As part of the acquisition of Padman and Cook Care, the Company provided vendor loans bearing interest at a fixed rate of 15%. Bank, vendor and shareholders loans, including accrued interest, were repaid on 9 December 2014 from the initial public offering proceeds.

The Group entered into a three year bullet revolving cash advance facility (the "Facility") of $150,000,000 available from completion of the initial public offering on 5 December 2014. The Facility may be used for general corporate purposes including funding acquisitions, capital expenditure, working capital requirements and bond liquidity to redeem accommodation bonds or refundable accommodation deposits. At 31 December 2014, the Facility is undrawn.

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 consolidated financial statements (continued)

For the six months ended 31 December 2014

8. Financial instruments

Set out below is an overview of financial instruments, other than cash and short term deposits, held by the Group as at 31 December 2014:

	Loans and receivables	Fair value profit or loss	Total
	$	$	$
Financial assets:			
Trade and other receivables	4,998,341	-	4,998,341
Other current assets	825,000	-	825,000
Total	5,823,341	-	5,823,341
Financial liabilities:			
Trade and other payables	17,371,614	-	17,371,614
Accommodation bonds	364,728,371	-	364,728,371
Total	382,099,985	-	382,099,985

Risk management activities

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest rates.

At 30 June 2014, interest bearing loans of the Group bear an interest rate calculated by reference to BBSY plus a margin between 1.0% and 4.0%. In order to protect against rising interest rates, the Group entered into three separate interest rate swap contracts. One with NAB, one with Westpac and the other with Investec. The 2014 contracts had a fixed interest rate of 3.58%. Cover for the interest rate swap contracts extended through until October 2018 for varying amounts originally determined to equate to a minimum of 75% of the Group's forecast borrowings. Interest rate swaps were repaid in December 2014 as part of the initial public offering and no interest rate swap contracts exist at 31 December 2014.

Fair values

Fair value hierarchy
The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 2 – the fair value is estimated using inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The derivative financial instrument falls within this method of determining fair value.

Due to the short term nature of current trade and other receivables and trade and other payables, their carrying value is assumed to approximate their fair value.

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

9. Segment reporting

For management reporting purposes, the Group has one reportable segment. Executive management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and segment performance. Segment performance is evaluated based on earnings before interest, tax, depreciation and amortisation and is measured consistently with the profit and loss in the consolidated financial statements.

10. Commitments and contingencies

Operating lease commitments — Company as lessee

The Company has entered into commercial property leases for the Corporate Office, two interstate administration offices and five aged care facilities. These non-cancellable leases have remaining terms before considering to exercise options to extend the leases of between 7 months and 9 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to CPI or prevailing market conditions.

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

	December 2014 $	June 2014 $
Within one year	4,165,093	3,263,915
After one year but not more than five years	9,810,645	10,937,692
More than five years	5,292,901	7,580,952
	19,268,639	**21,782,559**

On 2 February 2015 the Company settled a business purchase and land and building purchase agreement with The Geelong Aged Care to acquire 120 beds for cash consideration of $14,409,682.

11. Related party transactions

Transactions with related parties

During the period ended 31 December 2014 there were no sales to or purchases from related parties. For the six months ended 31 December 2013, Lasting Changes Trust made payments on behalf of the Group amounting to $48,715 for operating expenses.

Notes to the consolidated financial statements (continued)

For the six months ended 31 December 2014

11. Related party transactions

Loans to related parties

The following table provides the loan balances with related parties as at 31 December 2014 and 30 June 2014:

	December 2014 $	June 2014 $
Green Hills Trust	10,984	253,383
Pru Mounsey	856	-
Rachael Pulbrook	571	-
Penelope Munn	571	-
Glenn Hancock	331	-
Paul Gregersen	22,006	-
Midsummer House Trust	-	250,000
Lasting Changes Trust	-	(221)
Total loans to related parties	**35,319**	**503,162**

The loan to Midsummer House Trust was interest free and was repaid during the period. The loan to Lasting Changes Trust was interest free and during the period the directors waived the debt being repaid.

The loans to Green Hills Trust and various individuals have been made by Estia Finance Pty Ltd for the purpose of purchasing shares in Estia Health Ltd under a Management Equity Plan (refer Note 12). Interest is charged at the rate of 5.95% pa capitalised 6 monthly. The MEP loans repayable at the earlier of an exit event or on the 10 year anniversaries which range from October 2024 to December 2024.

12. Issued capital

Management Equity Plan

	Number of MEP Shares	Subscription price of MEP Shares ($)	% of MEP Shares funded through MEP Loans
Ruvani De Silva	250,000	250,000	100%
Pru Mounsey	37,500	75,000	100%
Rachael Pulbrook	25,000	50,000	100%
Penelope Munn	25,000	50,000	100%
Glenn Hancock	25,000	29,000	100%
Paul Gregersen	869,565	5,000,000	100%
	1,232,065	**5,454,000**	

When issues relating to this plan are made, limited recourse loans to assist in the purchase of the shares are recognised in an equity reserve. The issues are accounted for as an option and the fair value at grant date is independently determined using an appropriate options pricing model that takes into account the discount to market price at grant date, the expected life/term of the loan and its limited recourse nature, the vesting terms, the expected price volatility, the expected dividend yield and the risk-free interest rate for the term.

Notes to the consolidated financial statements (continued)

12. Issued capital (continued)

	December 2014 $	June 2014 $
Issued and fully paid		
Ordinary shares	600,991,168	68,250,000
Management Equity Plan shares	-	-
	600,991,168	68,250,000

(a) Movements in ordinary shares on issue	December 2014 Number of shares	December 2014 $	June 2014 Number of shares	June 2014 $
Beginning of the financial period	68,250,000	68,250,000	-	-
Share issue	145,179,684	745,563,124	68,250,000	68,250,000
Buy back of shares	(33,413,669)	(190,628,596)	-	-
Decrease due to transaction costs for issued share capital	-	(22,193,360)		
Movement in Management Equity Plan	1,232,065	-	-	-
End of the financial period	**180,885,580**	**600,991,168**	**68,250,000**	**68,250,000**

The Group bought back $190,628,596 (38.3%) of the issued share capital from shareholders immediately prior to listing on 5 December 2014 with the proceeds generated from the public offering.

13. Subsequent events

Since the end of the financial period the Estia Health Group has acquired the aged care business and assets (including the aged care facilities and associated land) of The Geelong Aged Care facility. Under this acquisition, the Estia Health Group assumed the bond liabilities and the employee entitlement liabilities as at the acquisition date which was the 2 February 2015. The net proceeds paid for the acquisition of the facility including the freehold but excluding transaction costs was $14,409,682.

On 18 February 2015, the Group entered into an agreement to acquire the Bene Domus Operosa aged care facility in South Australia for gross purchase price of $13,500,000.

Directors' Declaration

In accordance with a resolution of the directors of Estia Health Ltd, 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 2014 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

P. Grier
Director

18 February 2015

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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 2014, 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 2014 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.

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

EY

Building a better working world

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 2014 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

RCPiltz

Rodney Piltz
Partner
Melbourne
18 February 2015

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation