Responsible Entity
APN Funds Management Limited
ABN 60 080 674 479 AFSL No 237500

Level 30, 101 Collins Street
Melbourne Victoria 3000 Australia

T +61 (0) 3 8656 1059
F +61 (0) 3 8656 1010

W generationreit.com.au
E investor@generationreit.com.au

ASX Announcement

24 August 2015

The Manager
Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Generation Healthcare REIT (ASX Code: GHC)

Generation Healthcare REIT reports a 66% increase in its FY15 underlying net operating income

Generation Healthcare REIT ('GHC' or the 'Fund') is pleased to announce its financial result for the year ended 30 June 2015.

Key highlights

- Statutory profit up 164% to $31.3 million representing 17.46 cents per unit (cpu);
- Underlying[1] net operating income of $17.2 million, representing 9.57 cpu, up 4.3% from 9.18 cpu in the pcp;
- Distributions per unit of 8.58 cents for the year, up 7.25% on the 8.00 cents in the pcp;
- Strong portfolio and leasing outcomes:
  - Like-for-like rental growth of 3.3%;
  - Weighted average lease term increased from 11.3 years to 12.7[2] years;
  - Continued strong occupancy at 97.8%;
  - Notable leasing success on key short term expiries and recently completed development projects. Includes portfolio's largest FY16 and FY17 expiries via early renewal at Harvester and new lease at ARCBS.
- Significant progress on organic growth pipeline:
  - Completed and opened Casey Specialist Centre on time and on budget;
  - Commercial terms and legal documentation with St John of God Health Care ('SJGHC') for the $120 million Casey Stage 2 project is nearing completion;
  - Frankston Private expansion project for construction documentation near complete, with Council issuing a Notice of Decision to Issue a Permit subsequent to year end and construction tender pending;

[1] UNOI excludes: property revaluations, movements in derivatives and Manger's performance fees
[2] Pro-forma as includes acquisition of RSL Care aged care assets

  - Heads of Agreement for an enlarged project at Clarendon Street with Epworth Foundation signed post balance date.
- Property revaluation uplift of $22.2 million delivering a 14% increase in the Net Tangible Assets to $1.22;
- Acquired a $45.8 million[3] portfolio of three high quality residential aged care properties from RSL Care Limited ('RSL Care') and entered into a collaboration agreement to source and participate in further property opportunities;
- Raised $52 million in new equity at $1.50 per unit to fully equity fund the acquisition of the RSL Care portfolio and position the balance sheet to secure additional debt finance to fund the organic growth pipeline;
- Achieved a total return[4] of 32.5%, materially outperforming the S&P/ASX 300 A-REIT Accumulation Index return by 12.3%.

Commenting on the result, GHC's Chief Executive Officer, Miles Wentworth said "The 2015 financial year has been very busy for the team, having delivered a strong financial result, acquired a high quality portfolio of residential aged care facilities and advanced three material organic growth opportunities. The underlying portfolio performance provided solid rental growth with high tenant retention. In addition, a number of significant leases were concluded for FY16 and FY17 expiries, on development projects and as part of asset enhancement initiatives. The Fund has continued to outperform the market having delivered a total return for the 2015 financial year of 32.5%."

Financial results

Underlying net operating income was up 66% to $17.2 million for the 2015 financial year due to a combination of:

- Like-for-like property rental growth of 3.3%;
- Full year contribution from the 55 Little Edward Street, Spring Hill acquisition in June 2014;
- Full year contribution from the further investment in Epworth Freemasons Clarendon Street in June 2014;
- Completion of the Casey Specialist Centre in February 2015; and
- Lower finance costs from re-negotiated line / margin fees and lower hedged and floating interest rates.

Net property income for the 2015 financial year increased by 31% to $24.3 million compared with $18.6 million in the prior corresponding period.

Statutory profit of $31.3 million was 164% higher than the prior year's profit of $11.9 million, principally due to a 66% increase in underlying net operating income and a material net gain on the change in value of investment properties, partially offset by a net loss on the change in fair value of derivatives.

Net tangible asset (NTA) backing per unit was $1.22 as at 30 June 2015, an increase of 14% ($0.15) from $1.07 at 30 June 2014. The increase is largely attributable to an increase in the property values of the underlying portfolio and equity raised during

[3] Settled 25 June 2015 but remains subject to an interim structure prior to subdivision of the land
[4] Capital appreciation of GHC units during the year, assuming reinvestment of distributions paid

the period at a price premium to NTA, partially offset by the issue of performance fee units to the Manager.

Net debt to total assets was 26.6%, down 4.7 percentage points from 31.3% at 30 June 2014, following the strategy to finance property acquisitions with equity to create the balance sheet capacity to deliver pre- committed organic growth projects.

Property update

The size of the property portfolio increased by $83 million (27%) to $385 million at 30 June 2015 primarily the result of the RSL Care residential aged care portfolio acquisition, the completion of the Casey Specialist Centre and property revaluations.

Key portfolio metrics for the period include:

- Like-for-like rental growth of 3.3%;
- Continued high occupancy of 97.8%;
- A weighted average lease term to expiry (WALTE) of 12.7 years;
- A retention rate of 81.5% (by income) of the 14 leases that expired during the period, delivering a 6.7% average increase in rents;
- Significant leasing during the year with new leases and renewals totalling $2.2 million, including:
    - Completion of the Casey Specialist Centre development in February 2015 and the receipt of rental income from new tenants;
    - A new 7 year lease to Secure Parking at Spring Hill on materially improved terms;
    - New leases at Leading Healthcare Bendigo to Injury Treatment and Australian Homecare Services;
- A 5.4% increase in the Fund's property values (relative to carrying values immediately prior to 30 June 2015); and
- A weighted average capitalisation rate of 7.82% (including the RSL Care portfolio).

Announcements, Transactions and Capital Management

A summary and update to the key announcements and transactions during the year is set out as follows:

- In 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. This resulted in Healthscope acquiring the day surgery and day oncology businesses being two existing tenants (circa 49% of the rent roll of the property), extending the term of those leases by 18 years and signing an Agreement for Lease for a major expansion of the existing facility.

  The forecast total project cost is now $45 million, of which GHC's share will be approximately $29 million.

Council has issued a Notice of Decision to Issue a Permit for the project, the construction tender is pending and debt funding for the project is proceeding to documentation with building works expected to commence before the end of this calendar year. The Fund will earn an 8.50% return on cost.

Supplementing the longer term expansion potential of the Frankston Private facility, in November 2014 the Joint Venture acquired an adjacent property that Healthscope has leased for medical consulting for a 10 year term.

- The Casey Specialist Centre, Stage 1 of the Fund's three stage development site at 55 Kangan Drive, Casey, was completed in February 2015 at a cost of $17.0 million, on time and on budget. At 30 June 2015, the property was 84% leased and independently valued at $23.1 million.

- Commercial terms and legal documentation nearing completion with St John of God Health Care for Casey Stage 2 for the co-ownership of a major new private hospital following the announced non-binding Memorandum of Understanding in August 2014.

  The total project cost is estimated at $120 million with the Fund's investment of circa $45 million comprising the base building (shell - 50/50) and car park (90/10 in favour of GHC), with the building fit out to be funded and owned by St John of God Health Care. Required planning permits have been received, the construction tender is pending and debt tenders have been shortlisted. Construction is expected to commence before the end of this calendar year.

- In April 2015, the fund announced the acquisition of a portfolio of three high quality residential aged care properties from RSL Care Limited ('RSL Care') for a combined amount of $45.8 million. Co-located with RSL Care owned retirement villages, each property will be leased to RSL Care on an initial 20-year term with a purchase yield to the Fund of 7.65%. RSL Care and GHC have also signed a collaboration agreement to source and secure further residential aged care opportunities.

  The acquisition of the RSL Care portfolio was fully funded via a $52.0 million equity raising at $1.50 per new unit, comprising a $5.0 million placement to a member of the Taverners Group[5] and a $47.0 million fully underwritten non-renounceable accelerated entitlement offer. By fully equity funding this acquisition, GHC has created the balance sheet capacity to deliver its committed development projects via debt funding.

- In February 2015 the Melbourne City Council issued a permit for the subdivision of Epworth Freemasons Private Hospital and Medical Centre at Victoria Parade, subject to customary conditions including works to enable the subdivision. These works are currently underway and following their completion and the registration of the plan of subdivision, the Fund will complete its 2006 land contract to acquire the freehold title for this site for $10.7 million (plus costs). This is expected to occur later this calendar year.

[5] Entitlement as contracted as part of the acquisition of Spring Hill in June 2014

- In October 2014 the Fund announced enhanced terms for its $77.8 million NAB head trust debt facility. Reduced line and margin fees were secured in conjunction with extending maturity terms for 50% of the facility. The Fund's second NAB debt facility of $8.5 million was also renegotiated at reduced fees with extended maturity of four years. The Fund's third debt facility of $41.2 million with the Bank of Melbourne was renegotiated in April 2015 with reduced fees and its maturity extended for a further 2 years.

- Post balance date the Fund entered into a conditional Heads of Agreement to restructure the previously announced Epworth Freemasons Cancer Centre project to be established at Epworth Freemasons Clarendon Street. The project is now to include a major underground car park and additional hospital services. The estimated total project cost is now $62 million in a 50/50 Joint Venture with Epworth (GHC's share being $31 million verse $25 million previously).

Outlook

The guidance previously provided for FY16 is reaffirmed as follows:

- Forecast underlying net operating income per unit of 9.90 cents
- Forecast distributions per unit of 8.84 cents, a 3% increase on FY15's 8.58 cents

"The Fund continues to be well positioned with a key focus for FY16 being the physical start of the Casey Stage 2 and Frankston Private organic growth projects that will generate strong risk adjusted value for investors. In addition, we will continue to drive value from the existing portfolio and consider new opportunities on the basis that they add value to the Fund" Mr Wentworth said.

Yours sincerely

John Freemantle
Company Secretary

For further information, please contact

Miles Wentworth
Chief Executive Officer
Generation Healthcare REIT
T: +61 3 8656 1000

Investor Relations
T: +61 1800 996 456

GENERATION HEALTHCARE REIT

About Generation Healthcare REIT

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

The Fund owns 16 properties including hospitals, medical centres, laboratories, residential aged care facilities and other purpose-built healthcare facilities. The Fund partners with high quality healthcare tenants with strongly diversified income streams. The Fund has total assets of approximately $407 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.