



Primary Health Properties PLC

A dedicated healthcare REIT

Annual Report for the year ended 31 December 2013



Primary Health Properties



Primary Health Properties PLC (“PHP”) is a UK Real Estate Investment Trust (“REIT”) and the leading investor in modern primary healthcare premises.

The objective of the Group is to generate increased rental income and capital growth through investment in primary health property in the UK leased principally to GPs, NHS organisations and other associated healthcare users.

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- 17th consecutive year of dividend growth with 19.0p per share paid in the year (2012: 18.5p)
- Total annualised rent roll including commitments has risen by 48% to £57.6 million (2012: £38.9 million)
- Total portfolio including commitments has increased by 49% to £958.7 million (2012: £645.4 million)

for more information visit

www.phpgroup.co.uk

The Lyng Centre, West Bromwich

The Lyng Centre is located in the centre of West Bromwich and formed part of the Prime Public Partnerships Limited ("PPP") portfolio acquired by PHP in December 2013. The property was built in 2005 and comprises a total of 5,630 square metres of lettable space. It is a purpose built integrated care centre with 90% of the space let to 4 GP practices and NHS Property Services for 25 year lease terms.

size:	5,630 sq m
built:	2005
cost:	£18.6 million
patient numbers:	20,722
tenants:	4 GP practices, NHS Property Services, Sandwell Council

Financial Highlights

Year ended 31 December	2013	2012
Rental and related income	£42.0m	£33.2m
Operating profit ¹	£32.8m	£27.6m
Profit for the year	£20.2m	£1.1m
Adjusted profit ²	£9.5m	£7.4m
Adjusted EPS	10.6p	10.2p
Loan to value ratio	61.6%	60.9%
EPRA net asset value per share ³	300.0p	305.0p

(1) Operating profit before result on property portfolio. (2) See note 9. (3) See note 28, basic net assets per share of 274p (2012: 236p).

Chairman's Statement



Graeme Elliot, Chairman

In my final report to shareholders as Chairman of PHP, I am delighted to be commenting on such an acquisitive and successful year as 2013 was for the Group.

The attractiveness of the Group's property portfolio and long term, transparent income stream was a key factor as we raised fresh equity finance and diversified and lengthened the Group's lending sources, accessing low interest rates that prevailed throughout the year. With this resource secured we demonstrated our ability to invest successfully increasing rental income and earnings to make progress toward meeting a key Board objective of restoring dividend cover.

Performance

Rental income received in the year grew 27% to £42.0 million (31 December 2012: £33.2 million) as the impact of prior acquisitions was realised, rent commenced upon the delivery of new stock and rent review increases were achieved. The rate of rental growth for the year at 2.2% was lower than that of 2.4% achieved in 2012, but the return of growth to the UK economy and the increased proportion of our portfolio with RPI linked or fixed reviews (21% compared to 17%), should counteract lower open market reviews being achieved.

Operating profit grew to £32.8 million (2012: £27.6 million) and advisory fees for the year fell to an average rate of 0.71% of gross assets (2012: 0.75%). Net debt costs increased to £26.0 million (2012: £20.2 million) reflecting the higher average debt outstanding through the year as the property portfolio grew and also a full year

impact of the higher borrowing margins imposed on the Group in April 2012.

Property portfolio

Over £300 million of assets were added to the Group's portfolio in 2013. At the balance sheet date, investment properties stood at £941.6 million (31 December 2012: £622.4 million). The portfolio comprised of 259 primary care centres which included seven properties under construction at the year-end that are all due to complete in 2014. The total cost to complete these developments is £17.1 million taking the value of the portfolio when complete to £958.7 million (31 December 2012: £645.4 million).

The portfolio saw a valuation uplift of 3.5%, an equivalent yield of 5.92% (31 December 2012: 6.05%). The valuation and tightening of yield in 2013 reflects the prime nature of the assets, underpinned by a weighted average lease term remaining ("WAULT") of 16 years (31 December 2012: 16 years) and strong Government covenant.

We have a good pipeline of further acquisition opportunities which is enhanced by the pipeline agreement entered into with Prime plc in December, a highly regarded developer in our sector, with regard to future primary care developments they may undertake. We also expect the new fiscal year to see an increased number of approvals of new primary care developments as the demand for modern premises continues and operations normalise following the changes to NHS management in England in 2013.

A number of opportunities have been identified to add value to our properties through physical extensions and lease extensions and renewals that will generate additional rental income and provide capital growth.

Prime Public Partnerships ("PPP")

The acquisition of the PPP portfolio was the largest transaction completed in 2013.

54 completed assets were acquired for an aggregate of £233 million in December 2013. PHP assumed existing debt of £178 million and issued 12.86 million ordinary shares to the vendors, materially adding to PHP's property portfolio and capital base. This material addition to PHP's portfolio enhances the Group's WAULT and average lot size and increases the proportion of total rent roll that is subject to increases linked to RPI.

Share capital

In June 2013, we raised £65.8 million of equity, net of costs, issuing 21.7 million shares at 315 pence each. A total of 12.86 million shares were issued at an agreed value of 320 pence to the vendors as consideration for the PPP portfolio. An initial 12.58 million were issued on completion and a final 0.28 million were issued in January 2014 as the completion accounts were finalised.

Funding

In March 2013 we completed the refinance of the debt that we assumed with our acquisition of the Apollo portfolio in December 2012. This saw a new £70 million four year facility arranged with Barclays Bank PLC. In November, the Group issued a 12 year £70 million secured variable rate bond that is traded on the Main Market of the London Stock Exchange. An initial sum of £60 million was funded with the final £10 million to be received in June 2014, when a tranche of forward funded assets are scheduled to be complete.

Net debt outstanding as at 31 December 2013 totalled £580 million (31 December 2012: £381 million) including the £178 million acquired with the PPP portfolio. Headroom on debt facilities was £75 million. Adding cash balances of £9.3 million and allocating headroom to fund the cost to complete development commitments of £17.1 million reduces net headroom to £67.2 million. Group loan to value was 61.6% (31 December 2012: 60.9%).

Additional headroom has been added in February 2014 with the signing of an amendment to the Club facility, reinstating £25 million of resource that was repaid and cancelled upon the issue of the secured bonds. Discussions are ongoing with other debt providers that provide evidence that lending margins are softening.

I can also announce that we have now completed the first stage of the refinance of the debt assumed with PPP. With effect from 1 January 2014, the average interest rate charged on this debt has been reduced by 80 basis points, saving the Group an estimated £1.4m per annum.

Dividends

PHP paid a total of 19.0 pence per share in dividends to shareholders in the year, the 17th successive year of dividend growth. The strength of the Group's income and the positive outlook for growth underpinned the increase for 2013. The Board has now approved the payment of a second interim dividend of 9.75p per share in respect of 2013. This will be payable on 25 April 2014 to shareholders on the register on 14 March 2014 with an ex-dividend date of 12 March 2014. Dividend cover improved marginally to 57% (2012: 56%) and is set to improve further in 2014 as the activity of 2013 impacts earnings together with reduced fee rates for advisory services and debt costs for the PPP loans.

Changes to advisory services

The Board has taken action to restructure the costs of advisory services provided to the Group. From 30 April 2014 advisory services will be provided solely by Nexus, the existing joint adviser, as they take on responsibility for delivering the administrative and company secretarial services. In accordance with the terms of their contract, the cost of compensating J O Hambro Capital Management Limited for its early termination is £2.5 million. This is payable on 30 April 2014 but has been expensed in 2013. New fixed compensation rates for these services have been agreed with Nexus, effective

from April 2014, no longer linked to the value of gross assets. The saving is estimated to be in excess of £800,000 per annum, representing a short payback period. The saving will be more pronounced as the Group's portfolio continues to grow.

In February 2014, we announced changes to the basis on which property advisory fees are paid to Nexus. New, lower incremental fee rates were introduced for gross assets above £1 billion, between £1 billion and £1.25 billion and then above £1.25 billion. These changes are designed to reflect the fact that growth in gross assets should not lead to a proportionate increase in management costs as economies of scale are able to be secured.

Auditors

Following best governance practice, the Company tendered its audit services during the first half of 2013. After detailed deliberation following a thorough tender process, the Directors appointed Deloitte LLP as auditors to the Group and look forward to working with Deloitte through their term of office.

Board changes

As announced on 19 December 2013, I will not be seeking re-election as Chairman. Alun Jones, who is the Chairman of the Audit Committee, will assume the role of Chairman from the end of the 2014 Annual General Meeting. The Board has appointed Steven Owen as a non-executive director with effect from 1 January 2014 and he will chair the Audit Committee when Alun becomes Chairman.

Change to the NHS in England

2013 saw the implementation of major changes in the structure of the NHS in England. Clinical Commissioning Groups ("CCGs") replaced Primary Care Trusts ("PCTs") and responsibility for rent reimbursement to GPs moved to the newly formed NHS England. PCT lease liabilities were taken over by NHS Property Services ("NHSPS"), a company wholly owned by the

Secretary of State for Health. Although these changes have delayed the approval of new projects, our rent collection performance has remained strong. The changing demographic backdrop is placing increasing demands on the primary care sector as technological advances provide the opportunity for more services to be delivered from within the community. This reinforces the importance of primary care in delivering health services through General Practitioners with the need for modern purpose built accommodation remaining strong.

We continue to develop relationships with the management of both NHS England and NHSPS to ensure that the Group remains in the strongest position to fund future development of primary care centres in the UK.

Outlook

During 2013, we have taken a number of significant steps in accordance with our strategic objectives and towards achieving the Group's short term priority of returning to a fully covered dividend, all whilst maintaining a progressive dividend policy. The reduction in fee rates for advisory services will enhance earnings as will the recent refinance of the PPP portfolio debt. Our advisory team will secure value add opportunities within the portfolio and continue to secure rental growth from reviews in the portfolio.

We have entered into a number of key strategic pipeline agreements that will deliver future opportunities to secure additional modern primary care properties. PHP is in a good position to deliver its business strategy of generating high quality income and asset improvement in the medium term as the demand for new, modern bespoke premises continues.

I would like to thank my colleagues for their hard work and support and I am confident that 2014 will be a further successful year.

Graeme Elliot, Chairman

19 February 2014

Strategic Report



Harry Hyman, Managing Director

Strategic objectives

The overall objective of the Group is to create progressive returns to shareholders through a combination of earnings growth and capital appreciation. To achieve this, PHP invests in primary health care properties across the United Kingdom let on long term leases, backed by a secure underlying covenant where rents are funded directly or indirectly by the UK government.

PHP's strategy is to:

- (1) acquire modern, purpose built primary care premises that provide secure long term income streams with the potential for rental growth;
- (2) manage its portfolio through ongoing discussion and cooperation with its tenants and the NHS in order to increase its rental potential, maintain the longevity of underlying income streams and secure capital growth;
- (3) fund its investment through a prudent mix of shareholder equity and debt in order to generate a leveraged return to its investors within an established range of risk parameters;
- (4) secure a diversified range of debt funding sources and maturities;
- (5) maintain a progressive dividend policy where dividends are covered by adjusted profits; and
- (6) deliver returns to shareholders through a combination of dividend and share price growth.

Business model and strategy

PHP's business model is to invest solely in the freehold or long leasehold of modern purpose-built primary healthcare facilities leased to general practitioners, NHS organisations and other associated healthcare users, including on-site pharmacies. Usually having original lease terms of 21 years or more, at effectively upward only rentals, the large majority of income is received either directly from the NHS or funded by the NHS by way of reimbursing property costs to GP tenants.

The Group engages in development activity in partnership with a number of specialist developers in the sector, committing to fund and acquire new assets as they are constructed, but contracting to do so only once the major areas of risk such as agreements to let to GP occupiers have been entered into.

The Group also invests in completed, let properties acquired from a range of investors, provided the underlying occupational leases and other property fundamentals meet its investment criteria.

Each potential investment is evaluated for its income and asset value growth potential. In particular PHP seeks possibilities for extending the term of the underlying leases and scope to add to the income and value from providing additional space and facilities in the future.

The Group finances its portfolio with a mix of equity and debt, the proportions of which are kept under regular review to optimise risk adjusted returns to shareholders over the long term. Debt facilities are varied, accessing both traditional bank lenders and debt capital markets in the form of unsecured retail bonds and secured corporate bonds. Facilities are closely monitored to target a spread of providers and range of maturities to ensure continuity and availability that

match the longevity of income streams.

Following the successful refinance of the Group's core banking facilities in 2012, key strategic objectives for 2013 were:

- increasing earnings in order to rebuild dividend cover, aiming to return to full cover at the earliest opportunity; and
- widening the sources of debt funding accessed by the Group, with the aim of extending the average maturity of facilities to better match the average duration of the Group's occupational leases.

The Board aimed to achieve these objectives whilst maintaining the core fundamentals of the property portfolio and the longer term objectives of the Group, being:

- to secure long term income;
- maintain and enhance the WAULT within the portfolio;
- increase the average lot size of its property assets;
- lower its total expense ratio ("TER"); and
- reduce its average cost of borrowing.

The Primary Care Property sector

The sector in which PHP chooses to invest has a number of key characteristics that differentiate it from other property sectors and underpin its attractiveness and growth potential.

Primary care is the foundation of the healthcare services provided by the National Health Service ("NHS") in the UK. The GP continues to be the first point of access to the NHS for UK residents other than acute emergency care. Across the UK there are an estimated 10,000 GP premises, housing nearly 35,000 GPs. A large part of this primary care estate is comprised of ageing, converted residential premises where considerable investment is needed in order to provide efficient, hygienic, modern premises. The NHS requires buildings that

Our key measurements of success

	2013	2012	2011	2010	2009
Total Investment Property ¹	£958.7m	£645.4m	£539.7m	£503.6m	£371.0
Average lot size	£3.7m	£3.5m	£3.4m	£3.1m	£3.2m
Total property return (ungeared)	8.23%	6.99%	8.25%	10.21%	2.93%
Rent roll	£57.6m	£38.9m	£31.4m	£28.0m	£21.3m
Dividend per share	19.0p	18.5p	18.0p	17.5p	17.0p
Dividend cover	57%	56%	82%	84%	128%
Net asset value (EPRA)	£330.9m	£231.9m	£217.6m	£195.6m	£172.0m
Net asset value per share (EPRA)	300p	305p	319p	311p	280p

(1) Includes value of ongoing developments as completed.

are capable of coping with the increasing demands placed upon primary care and also of housing new and improved equipment that has resulted from technological advances and a widening array of services that are being provided locally in their communities by GPs and their practices.

It is a long standing feature of the sector that GPs receive reimbursement for costs associated with their premises from the NHS. Where their premises take the form of properties leased from PHP or others, the reimbursement is for the rent paid to the landlord and for the costs of maintaining and insuring the property. These principles are set out in legislation in the constitution of the NHS and currently governed by the National Health Service (General Medical Services – Premises Costs)

Directions 2013, which came into force on 1 April 2013 (the “Directions”).

The political drive to move health care services into the local community, where they can be delivered more cost effectively and provide greater choice to the patient, requires modern, purpose built properties from which these services can be provided. There is still a long way to go in modernising the primary care estate and that development will require the investment capital that private sector investors such as PHP can provide. PHP has an 18 year track record of investing in the primary care sector, working with specialist developers, GP groups and the NHS to develop high quality premises and adapt both the physical volume and configuration of space to meet the changing needs of the sector.

Summary

The Business Review on pages 6 to 25 brings together an overview of our business model and strategy. We look at how we performed in the year and progress made in the business and the Group’s financial position, and we assess the key risks and performance indicators.

These pages illustrate the progress made in recent years. Our strategic priorities have not changed and we will continue to aim to source attractive acquisitions through portfolio purchases and individual property transactions in order to enhance returns to shareholders and increase dividend cover.

The Chairman’s Statement should be read together with the Strategic Report of which it is deemed to be a part.



Cloughmore Medical Centre, Cardiff

PHP acquired this property as an on-site development when it purchased the Apollo portfolio in December 2012, continuing to fund the development of this purpose built medical centre through to practical completion in August 2013. The property accommodates a GP practice and large independent pharmacy, located approximately 1.5 miles East of Cardiff city centre. The accommodation extends to 1,042 square metres arranged over two floors with 19 car parking spaces. It is fully let with approximately 19.5 years unexpired on the leases.

size:	1,042 sq m
built:	2013
cost:	£2.8 million
patient numbers:	7,282
tenants:	GP practice, Pharmacy

Strategic Report

Business Review

£958.7m

portfolio valuation
including all
commitments

49%
increase
on 2012

year ended 31 December 2013

Property portfolio

The Group's property portfolio as at 31 December 2013 comprised of a total of 259 assets, 252 of which are completed, let investments and 7 that were on site under construction. (31 December 2012: total 183, 176 completed, 6 under construction, one deferred completion).

Portfolio valuation and performance

	2013 £m	2012 £m
Investment properties	929.9	606.7
Properties in the course of development	11.7	15.7
Total properties at 31 December 2013	941.6	622.4
Finance leases	-	3.1
Total owned and leased	941.6	625.5
Cost to complete development commitments	17.1	19.9
Total owned, leased and committed	958.7	645.4

Lambert Smith Hampton ("LSH"), Chartered Surveyors and Valuers, independently valued the portfolio as at the balance sheet date at market value as defined by the Royal Institution of Chartered Surveyors ("RICS"). The valuation, undertaken on the basis that all committed development properties and the deferred contract had completed, totalled £958.7 million. This generated a net surplus on revaluation of £2.3 million for the year.

The wider UK economic recovery has had a positive impact on the property sector as a whole. Confidence is returning to most commercial sectors resulting in "all-property" investment yields tightening in the second half of 2013. The long term, secure nature of primary care properties has traditionally resulted in a more stable valuation environment with much less volatility in valuation yields when compared to traditional commercial property sectors.

The general improvement in property sentiment combined with continued demand and increased competition for primary care assets, as investors are attracted by the secure, long term nature of the underlying income, has led to some minor yield tightening through 2013. The portfolio valuation as at 31 December 2013 reflected an average net initial yield of 5.65% (31 December 2012: 5.72%) with a true equivalent yield of 5.92% (31 December 2012: 6.05%).

The Group's property portfolio showed a total return of +8.2% in 2013, +5.6% per annum over the three years to the balance sheet date and +8.1% per annum over the five year period to 31 December 2013. This compares to the IPD All Property Index that showed +10.9%, +6.9% and +7.8% respectively.

IPD compile a specialist Healthcare Property Index which provides for a more direct benchmark of PHP's performance against its specific sector of focus. The index will be published on 28 February 2014 and an update will be given on PHP's relative performance in our next public statement.

Were the Group's assets to be valued using a discounted cash flow ("DCF") basis, the portfolio would show a value of £1,015.0 million as compared to £958.7 million using a traditional yield based approach. This would represent an additional 51 pence per share in net asset value terms. This DCF valuation has been prepared by the Joint Advisers on a basis consistent with previous years, discounting the rental cash flows at 7% per annum.



Rumney Medical Centre, Cardiff

The Rumney Primary Care Centre is a state of the art, purpose built health centre, accommodating a substantial GP practice, NHS space and an independent pharmacy. Rumney is a diverse residential area approximately 3 miles North East of Cardiff city centre. PHP acquired the property as part of the corporate acquisition of Apollo Medical Partners Limited in December 2012 and continued to fund the development until practical completion in October 2013. The property extends to 2,212 square metres with 60 car parking spaces with approximately 20 years unexpired on the leases.

size:	2,212 sq m
built:	2013
cost:	£6.9 million
patient numbers:	15,339
tenants:	GP practice, Cardiff and Vale Trust, Pharmacy

Strategic Report

Business Review (continued)

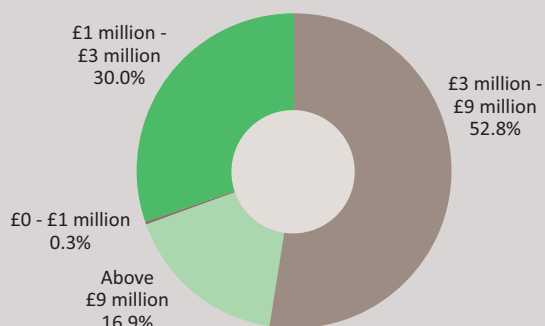
Property portfolio details

	London	South West	South East	East Anglia	East Midlands	West Midlands	North West	Yorkshire & Humberside	North	Scotland	Wales
Number of properties	10	10	62	7	19	26	28	19	22	28	21
Number of tenancies	14	16	123	11	39	62	56	39	41	52	72
Floor area (m ²)	28,212	11,157	58,491	5,897	22,377	36,041	39,056	26,144	22,999	42,303	30,280
Number of patients	86,877	89,762	651,676	82,713	211,709	298,718	288,898	196,399	217,452	262,647	232,035
Rent roll (£'m)	2.3	1.8	11.6	1.0	3.9	6.5	7.5	4.7	3.9	7.4	5.6
Capital value (£'m)	40.5	30.0	190.7	16.6	65.1	104.9	127.3	77.8	62.3	125.9	91.9
Number of pharmacies	2	4	34	2	15	20	20	15	12	7	14

The portfolio statistics and values above represent only completed assets as at the balance sheet date. PHP has also committed to fund seven properties that were under construction as at 31 December 2013. The total cost of these assets is £24.7 million and all are scheduled to complete in 2014 and will generate a total of £1.5 million of rent when completed.

Analysis of portfolio by capital value of building

Average lot size within the portfolio grew to £3.7 million (2012: £3.5 million)

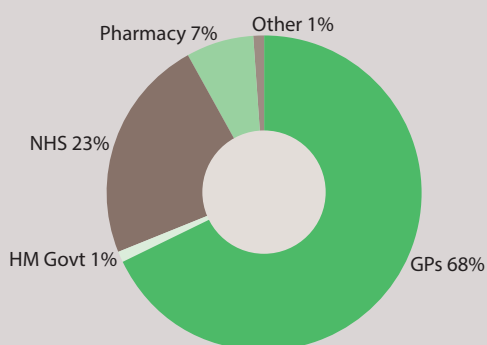


Capital Value	Number of Properties ¹	Value (£'m) ²	%age 2013	%age 2012
£0 - £1 million	4	3.2	0.3%	0.5%
£1 million - £3 million	136	288.5	30.1%	29.7%
£3 million - £9 million	108	508.5	53.0%	58.6%
Above £9 million	11	158.5	16.6%	11.2%
Total	259	958.7	100.0%	100.0%
Average lot size 2013		3.7		

(1) Including purchase commitments. (2) Including values of land plots

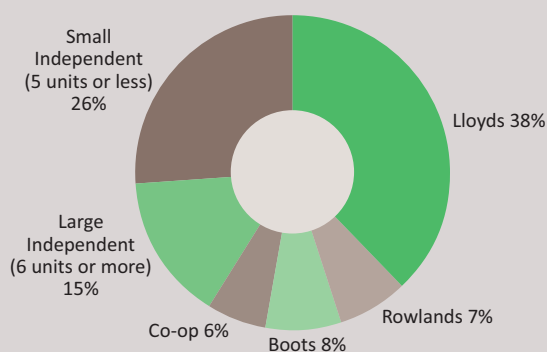
Covenant analysis by annual rent

92% of the Group's rent roll is paid directly or indirectly by the Government.

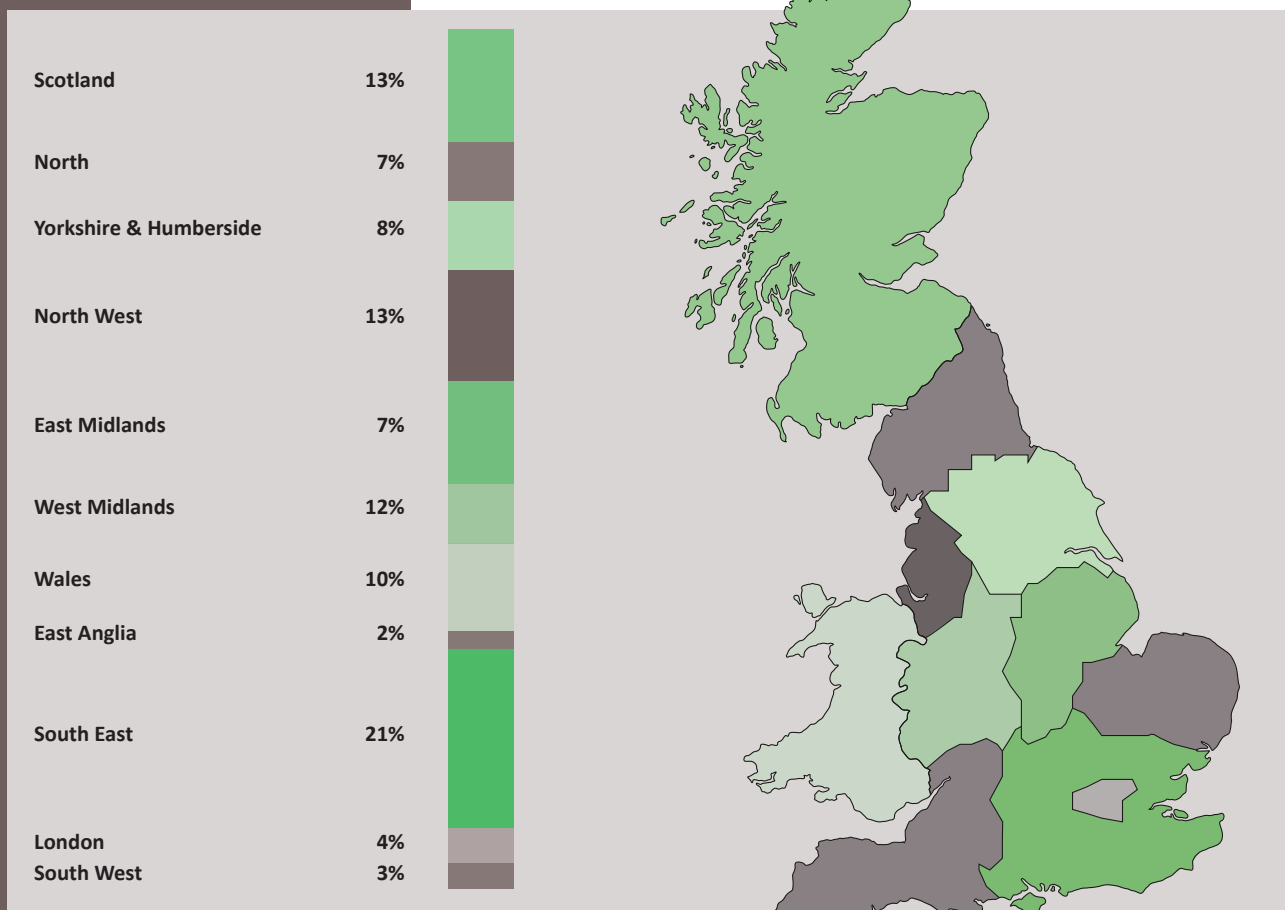


Analysis of pharmacy rental income

Pharmacy rents represent 7% of total income.

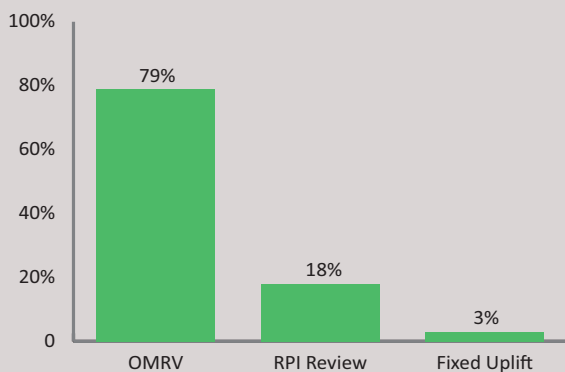


Analysis of rental income by geographic region



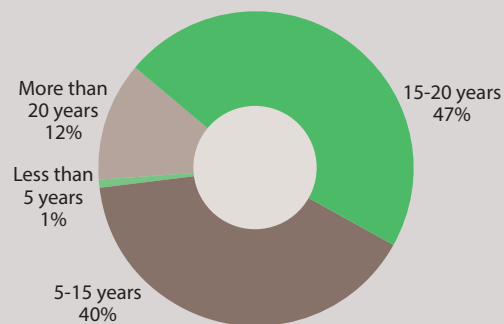
Rent review analysis

Acquisitions in 2013 have increased the proportion of rent roll with fixed uplifts or reviews linked to RPI.



Analysis of annualised rent by unexpired lease term

59% of occupational leases have a remaining life of 15 years or longer. The weighted unexpired average lease term ("WAULT") (including commitments) is 16 years (2012: 16 years).



Strategic Report

Business Review (continued)

Acquisitions

During 2013 the Group acquired or committed to develop and acquire a total of 77 properties in transactions representing a gross acquisition value of more than £300 million.

The table below provides an analysis of the assets acquired in 2013:

	London	South West	South East	East Anglia	East Midlands	West Midlands	North West	Yorkshire & Humberside	North	Scotland	Wales
Number of properties	4	4	8	2	1	8	13	5	14	15	3
Floor area (m ²)	3,677	3,660	8,803	1,551	952	12,956	19,388	4,495	13,968	23,345	3,099
Rent roll (£'m)	1.0	0.6	1.9	0.3	0.2	2.7	4.2	0.8	2.4	4.2	0.4
WAULT	20.2	18.1	13.4	19.8	21.0	15.1	20.6	16.8	13.3	17.1	18.0
Percentage of rent funded by UK Government	100%	100%	92%	93%	83%	92%	92%	84%	93%	98%	92%
Acquisition cost (£'m)	16.8	10.4	29.7	4.4	3.0	43.3	70.2	13.0	39.6	68.5	7.1

On 1 July 2013, PHP acquired the entire share capital of Primary Health Care Centres Limited ("PHCC") for cash. The PHCC portfolio comprised of 11 fully occupied, standing let investment properties. The assets were acquired for a total cost of £29 million, with a contracted rent roll of £1.7 million and a WAULT of 19.3 years. PHCC was acquired at its net asset value with PHP assuming net debt facilities totalling £16.3 million. This acquisition was accounted for as an asset purchase.

On 3 December 2013, PHP completed the acquisition of Prime Public Partnerships (Holdings) Limited ("PPP"). The acquisition of the entire share capital of PPP was undertaken at net asset value of £42.6 million being met wholly by the issue of a total of 12.86 million PHP ordinary shares to the vendors (see note 22). These shares, subject to limited exemptions, will be locked up for a period of 18 months from the completion date. This acquisition was also accounted for as an asset purchase.

The PPP portfolio comprised 54 fully let primary care assets with an acquisition value of £233 million. The portfolio had a contracted rent roll of £14.4 million with a WAULT of 17 years. A total of £178.4 million of fixed rate debt was acquired with the transaction, secured by the PPP assets. A provision of £13.7 million was allowed by the vendor for the estimated cost of repaying the debt early, reducing net asset value in arriving at the purchase consideration. In addition to the acquisition of PPP, a five year development pipeline agreement was entered into with Prime plc, a sister company owned by the vendors of PPP. Prime plc is a successful, long term developer of primary care assets and the agreement will provide a valuable source of future investment opportunities for PHP.

A further 12 assets were acquired in the period for a total of £41 million with a contracted rent roll of £2.6 million.

Properties acquired



Carnoustie



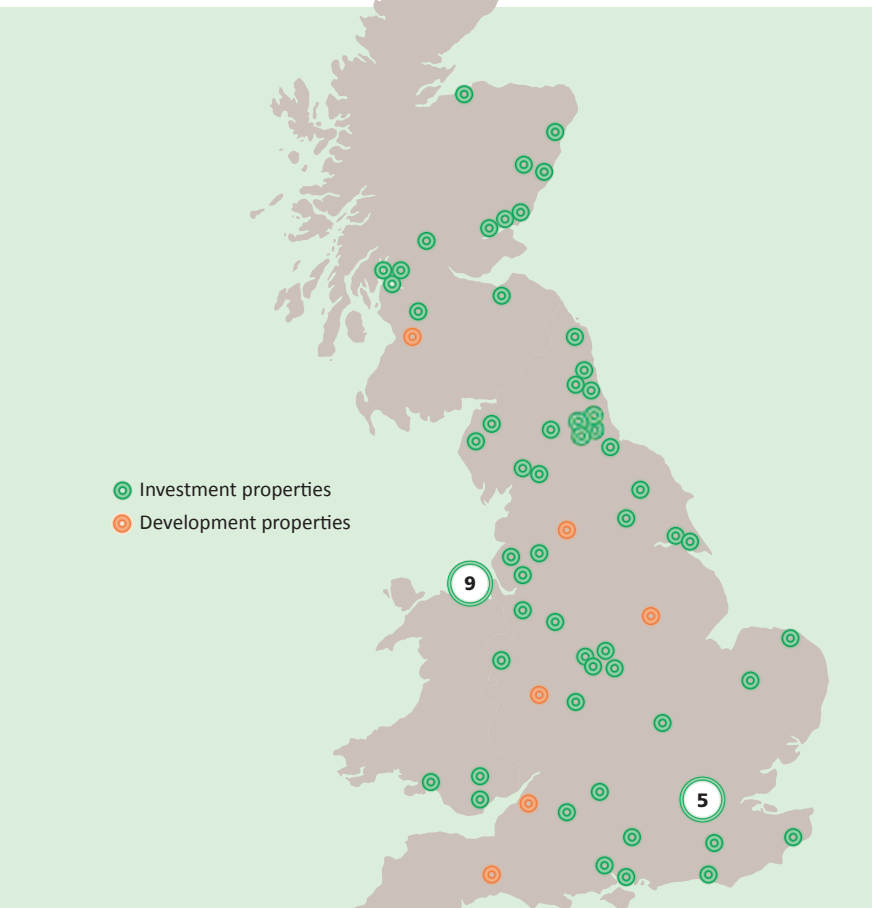
Birkenhead



Ponteland

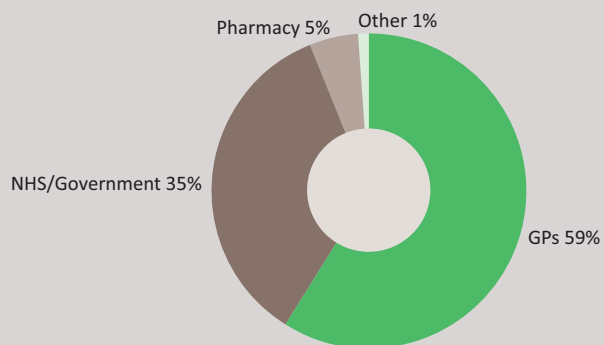


New Tredegar



Acquisitions during the year

Covenant analysis by annual rent: 94% of the rent roll for is paid directly or indirectly by the Government.



Strategic Report

Business Review (continued)

Portfolio management

A key strategic focus of the Group is the active management of its owned portfolio. This takes a number of forms that seek to increase rental income and capture enhanced capital value:

- capital expenditure that ranges from small extensions to more major construction projects, increasing contracted rental income and extending existing lease terms;
- managing existing leases through re-gearing or refurbishment and maintenance programmes in exchange for increased rents and extended lease terms.

In 2013, three projects were completed with a total cost of £0.4 million adding an average of 17 years to the lease terms of these properties.

A further three projects were contracted during 2013, committing £4.1 million of capital expenditure. An average of 21 years will be added to the existing lease durations at these assets while securing additional rent of £0.32 million per annum on completion.

The largest of these projects is the development of PHP's centre in Aylesbury. The existing medical centre comprises 725 square metres that is fully let to the occupying GPs for a remaining term of 10 years. Working with the practice to crystallise a transaction that benefits all parties, PHP has acquired an adjoining land plot and will develop a further 743 square metres of clinical space. The entire enlarged building will, upon completion planned for October 2014, be let on a new 24 year lease. The transaction secures an additional £0.15 million of income for PHP which is a yield on cost of 6.5%, but as importantly extends the term of the lease at this property by over 14 years.

A total of £3.0 million was committed and unpaid as at 31 December 2013 with regard to asset management projects.

The contracted rent roll from the portfolio as at 31 December 2013 totalled £57.6 million, an increase of more than 48% over that as at 31 December 2012 of £38.9 million. A large proportion of this increase results from the acquisitions detailed above, but growth achieved from rent reviews also contributed a satisfactory level in what are still difficult economic conditions. A total of 79 reviews were completed in the year, adding £0.57 million to contracted rent roll, an average annual rate of growth of 2.2%, down from 2.4% in 2012.

Extension to The Poplar Grove Practice, Aylesbury



Operations

	2013 £m	2012 £m
Rental and related income	42.0	33.2
Property related and administrative expenses	(6.5)	(5.6)
Operating profit before result on property portfolio and financing	35.5	27.6
Net financing costs	(26.0)	(20.2)
Adjusted profit	9.5	7.4
Profit on sale of asset held as a finance lease	0.6	-
Early loan repayment fee	(0.9)	(1.6)
Fair value gain/(loss) on interest rate swaps	11.4	(2.9)
Net result on property portfolio	2.3	(1.8)
Non-recurring expenses	(2.7)	-
Profit before tax	20.2	1.1

Acquisitions, development and project deliveries and rent reviews have driven a 27.0% increase in gross rental income received during 2013 to £42.0 million (2012: £33.2 million). As detailed above, the addition of the PPP portfolio, completed in December 2013, will significantly increase rents receivable in 2014 before any further property transactions in the current period.

Expenses are largely represented by advisory fees paid to the Joint Advisers. In 2013, the fees for all advisory services were calculated on the basis of the gross asset value of the Group. With the fee rate applied reducing as gross assets increase, the average fee rate paid to the Joint Advisors for 2013 fell to 0.71% (2012: 0.75%). The impact of the reducing advisory fee can also be seen in overall operating costs which represented 0.88% of average gross assets in 2013, a reduction from 0.93% in 2012.

At present, Nexus Tradeco Limited ("Nexus") provides property advisory and management services to the PHP group with J O Hambro Capital Management Limited ("JOHCM") providing administrative and accounting services, as well as acting as the Company Secretary.

On 26 September 2013, PHP announced the termination of the JOHCM contract with effect from 30 April 2014, when Nexus will assume responsibility for the administrative services JOHCM currently provide. The change also removes the link to gross assets for the cost of administrative services. Nexus will instead receive an agreed fixed annual fee in relation to these services which may be increased or decreased by up to 5% per annum, subject to movements in the Retail Price Index (or such other appropriate independent index agreed by Nexus and the Company).

JOHCM will continue to provide its services for the period up to 30 April 2014, being remunerated in accordance with its service agreement. JOHCM will then receive a contractual termination payment of £2.5 million in lieu of the remainder of its two year notice period. As required by accounting standards, the termination fee has been charged to the income statement in 2013.

In making these changes, the Board has broken the link between gross assets and administrative costs and will secure estimated annualised savings (based on gross assets at 31 December 2013) in excess of £0.8 million per annum. The real underlying saving will be greater than this as gross assets continue to grow.

Strategic Report

Business Review (continued)

99.7%

occupancy

within the completed
property portfolio

92% of rent
roll effectively funded
by the Government

as at 31 December 2013

On 28 January 2014, the Company announced changes to the fee rate structure for the property advisory services provided by Nexus, introducing a reduced fee rate of 32.5 basis points for gross assets between £1 billion and £1.25 billion and 30 basis points for gross assets above £1.25 billion.

Gross Assets	Fee
First £250 million	0.500%
Between £250 million and £500 million	0.475%
Between £500 million and £750 million	0.400%
Between £750 million and £1 billion	0.375%
Between £1 billion and £1.25 billion	0.325%
Above £1.25 billion	0.300%

The Group's overall debt costs rose in 2013 as the property portfolio grew, including the Apollo assets acquired in December 2012 and as a full year's impact of the increased cost of borrowing was felt following the significant debt refinance in 2012. Net interest costs rose by 28% in 2013 to £26.0 million (2012: £20.2 million). Significant work has been undertaken in 2013 to provide additional and replacement debt facilities as the portfolio increases, but secured at rates that take advantage of the continued low interest rates that were seen through most of 2013.

Operating profit increased by 19% to £32.8 million (2012: £27.6 million) and adjusted profit increased to £9.5 million (2012: £7.4 million).

Dividends

2013 was the 17th consecutive year of dividend growth for PHP shareholders with a total of 19.0 pence per share being paid in the year (2012: 18.5 pence). No portion of this dividend represents a Property Income Distribution ("PID").

A major strategic objective of the Board is to restore the Company to full dividend cover at the earliest opportunity whilst maintaining a progressive dividend policy. Adjusted profit increased in 2013 to £9.5 million (2012: £7.4 million) with dividend cover increasing from 56% to 57%. This small improvement in dividend cover demonstrates that despite a sizeable equity raise in 2013 and a small increase in the rate of dividends paid, property transactions in the period and the successful refinancing of associated debt have enhanced earnings to establish improved dividend cover.

The acquisitions completed in 2013 and revised advisory fee structures together with the completion of the first stage of the refinance of the debt assumed with the PPP acquisition on 13 February 2014, but effective from 1 January 2014, will have a major impact on dividend cover into 2014.



Taw Hill Medical Centre, Swindon

Taw Hill Medical Centre is a GP practice located 4.4 miles north-east of Swindon. PHP acquired the property as part of the corporate acquisition of Prime Public Partnerships Limited (PPP). The property extends to 1,066 square metres with 74 car parking spaces. It was purpose built in 2003 and is fully let with approximately 13 years unexpired on the lease.

size:	1,066 sq m
built:	2003
cost:	£2.9 million
patient numbers:	11,024
tenants:	GP practice



Strategic Report

Business Review (continued)

Total shareholder return

An important performance indicator monitored by the Board is total return to shareholders. This is measured as a combination of the dividend paid in a calendar year and the movement in share price in the same period. Total return to PHP shareholders in 2013 was 7.6% as compared to the total return of the FTSE All Share Index of 20.8%.

The table below compares PHP's total return performance with that of general real estate equities and the FTSE over the longer term.

	One year %	Three years %	Five years %
Primary Health Properties	7.6	8.3	14.0
FTSE All-Share Real Estate Index	19.6	14.1	14.4
FTSE All-Share Index	20.8	10.3	19.0

Source: Investment Property Databank ("IPD")

Capital resources and debt finance

Matching the considerable success in acquiring earnings enhancing property assets in the year, significant activity has been undertaken with regard to the funding base of the Group.

Share issues

A total of 21.7 million new shares were issued in June at 315 pence each, realising proceeds of £65.8 million, net of issue costs. This saw the conclusion of a multi structure offer that allowed existing shareholders to participate in the issue and also saw a number of new institutional shareholders join the register, widening and strengthening the Company's share-holder base. The issue price reflected a small discount of 6.3% to the share price immediately before announcing the issue, but was 3.3% ahead of the European Public Real Estate Association net asset value per share ("EPRA NAV") as at 31 December 2012 of 305 pence.

At a General Meeting on 2 December 2013, the acquisition of PPP was approved with the entire consideration being settled by the issue of PHP shares to the vendors. The final consideration for PPP was a total of £42.6 million, representing the agreed net asset value of PPP with 12,577,771 shares being issued upon completion on 3 December (see note 22) and a further 282,768 shares issued on 28 January 2014 (see note 16) following agreement of the completion accounts of PPP as well as a further 235,475 shares being issued, following a Deed of Variation being entered into regarding the St Catherine's property on the same date. All shares were issued to the vendor at an agreed value of 320 pence per share, a premium of 6.2% over EPRA NAV per share as at 30 June 2013 and a discount of just 1.2% on the share price at close on 14 November 2013, the day immediately before the announcement of the transaction.

On 28 January 2014, a revision to an occupational lease agreement at a property within the PPP portfolio was completed. This crystallised an additional amount of consideration in the sum of £0.75 million which was settled by the issue of 235,475 shares PHP shares (see note 16).

Debt facilities

In March 2013, the Group completed the refinance of the debt that was assumed with the acquisition of the Apollo portfolio in December 2012. A new £70 million, four year revolving debt facility was entered into with Barclays Bank PLC, establishing a new lending relationship for the Group with a major lender to the property sector. 50% of the sums drawn under this facility were locked into historically low interest rates for the duration of the facility through an interest rate swap that generated an all-in cost of funding at below 3.5%.

In November 2013, a wholly owned subsidiary of PHP issued a twelve year secured, corporate bond to a single institutional bond investor. The issue was for a total of £70 million with a maturity of 30 December 2025. An initial tranche of the proceeds, totalling £60 million was received on issue and the remaining £10 million will be received on 30 June 2014 as a number of development commitments complete. The underlying bonds incur interest on the paid up amount at an annualised rate of 220 basis points above six month LIBOR, payable semi-annually. This transaction demonstrates PHP's ability to access a wide range of debt capital markets, underlining the attraction of the long term, high covenant quality income characteristics of the property portfolio.

The proceeds of the bond were used to refinance the expensive debt assumed with the PHCC acquisition in July, utilising the allowance agreed with the vendors of PHCC for the cost of terminating the incumbent Aviva debt. A further tranche of the proceeds repaid a facility advanced by Clydesdale Bank that was due to expire in mid 2014 with the balance being used to pay down elements of the Group's Club facility with RBS and Santander where the borrowing cost would otherwise have increased in 2014 and 2015.

Since the year end, the Group completed the reinstatement of an amount of £25 million to the Club facility that will be advanced on the same terms as the existing Club debt.

The PPP acquisition saw the Group assume debt facilities totalling £178.4 million secured upon the PPP assets. The debt is provided by Aviva in their traditional, longer term amortising form. A provision of £13.7 million was agreed with the vendors as a reduction to the net asset value of PPP to allow for the estimated costs of repaying the debt taken on. The average term of these facilities was 17 years at acquisition and the debt carried a weighted average coupon of 5.9%. Detailed discussions have been ongoing with Aviva since completion of the PPP acquisition to agree terms for the refinance and re-setting of the revised terms of Aviva loans partly with Aviva and partly with other lenders to the Group.

On 13 February 2014, the Group completed the first stage of the restructuring and refinance of the Aviva loans assumed with the acquisition of PPP. Stage 1 saw the payment of £13.7 million as allowed by the vendor in the acquisition pricing, to re-set the interest rates to current levels for the existing loans. Effective from 1 January 2014, the rates have been reduced by an average of 80 basis points. A capital repayment of £15 million was also made as part of Stage 2 that will see the re-tranching of the debt and a further reduction in applicable rates.

The principal value of debt drawn as at 31 December 2013 totalled £589.0 million. The Group held cash balances of £9.3 million resulting in Group net debt of £579.7 million. The Group's loan to value ratio ("LTV") was 61.6% (31 December 2012: 60.9%) and interest cover for the year was 1.55 times (2012: 1.57 times) with a Group covenant minimum requirement of 1.3 times.

Debt facilities available to the Group at 31 December 2013, including the secured and retail bonds, totalled £677.6 million. Deducting net debt and allowing for funding the cost to complete development commitments of £17.1 million as at the balance sheet date results in net headroom of £67.2 million.

Strategic Report

Business Review (continued)

Secured bond issue

£70m

Maturity
30 Dec 2025

issued at a margin of

220 basis points

above sixth month
LIBOR

year ended 31 December 2013

Summary of financing

Provider	Maturity	Facility maximum £m	Drawn at 31 Dec 2013 £m	Headroom 31 Dec 2013 £m
RBS (overdraft)	Mar 2015	5.0	-	5.0
Royal Bank of Scotland/ Santander	Mar 2016	140.0	100.5	39.5
Barclays	Mar 2017	70.0	49.5	20.5
Aviva	Nov 2018	75.0	75.0	-
Aviva	Dec 2022	25.0	25.0	-
Aviva	Jan 2032	26.1	26.1	-
Aviva	Dec 2030*	177.9**	177.9	-
Retail Bond	July 2019	75.0	75.0	-
Secured Bond	Dec 2025	70.0	60.0	10.0
Total		664.0	589.0	75.0
Average maturity	8.8 years			
Cash on deposit			(9.3)	9.3
Group net debt			579.7	
Costs to complete				
Forward funded developments				(14.1)
Asset management projects				(3.0)
Net headroom				67.2

* This is a weighted average maturity

** Figure represents the nominal value of debt as at 31 December 2013. Debt within the balance sheet is fair valued as at acquisition to include an estimate of the cost to refinance the facility.

Interest rate hedging

On inception of the Barclays bank facility, the Group entered into a four year interest rate swap for a nominal value of debt of £28.0 million, for a four year term expiring in March 2017 at a fixed rate of 0.9%.

There have been no other changes to the Group's hedging portfolio. The table below analyses the debt facilities available to the Group in accordance with their interest rate bases.

	Facilities		Drawn	
	£'m	%	£'m	%
Fixed rate debt	379.0	57.1	379.0	64.3
Debt hedged by interest rate swaps	206.0	31.0	206.0	35.0
Floating rate debt	79.0	11.9	4.0	0.7
	664.0	100.0	589.0	100.0

The incremental rate of debt from secured facilities is 3 month LIBOR plus an average margin of 235 basis points.

Key assets



1. St Catherine's Health Centre, Birkenhead



2. Lyng Centre, West Bromwich



5. Port Talbot Resource Centre



8. Fort William Health Centre



3. Victoria Health Centre, Wallasey



6. Rotherham Community Health Centre



9. Links Health Centre, Montrose



4. Nairn Health Centre, Nairn



7. Prospect House, Kettering



10. Connah's Quay Resource Centre

Property	Town/City	Floor area m ²	Total contracted annual rent	Principal occupiers	WAULT	Patient numbers	Construction date
1 St Catherine's Health Centre	Birkenhead	4,614	1,106,532	2 GP Practices, NHS Trust, Pharmacy	29	15,352	2012
2 Lyng Centre	West Bromwich	5,630	1,157,699	4 GP Practices, NHSPS, Council	16	20,722	2005
3 Victoria Central Health Centre	Wallasey	4,904	1,045,506	3 GP Practices, NHSPS, Pharmacy	20	14,600	2008
4 Nairn Health Centre	Nairn	4,977	967,523	2 GP Practices, Council	22	14,475	2009
5 Port Talbot Resource Centre	Port Talbot	3,934	969,647	4 GP practices, Local Health Board, Council, Pharmacy	16	28,289	2009
6 Rotherham Community Health Centre	Rotherham	4,636	867,318	NHSPS	15	1,475*	2008
7 Prospect House	Kettering	3,667	639,707	GP Practice, Pharmacy	18	27,975	2008
8 Fort William Health Centre	Fort William	3,468	684,969	3 GP Practices, Scottish Ministers, Pharmacy	13	14,110	2007
9 Links Health Centre	Montrose	4,001	672,422	3 GP Practices, NHS Trust	11	17,152	2003
10 Connah's Quay Resource Centre	Connah's Quay	3,595	677,190	3 GP Practices, Local Health Board, Council, Pharmacy	16	14,383	2010

* walk in centre

Strategic Report

Business Review (continued)

Shareholder value
Net Assets of
£302.4m
an increase of
£123.3m
69% over 2012

as at 31 December 2013

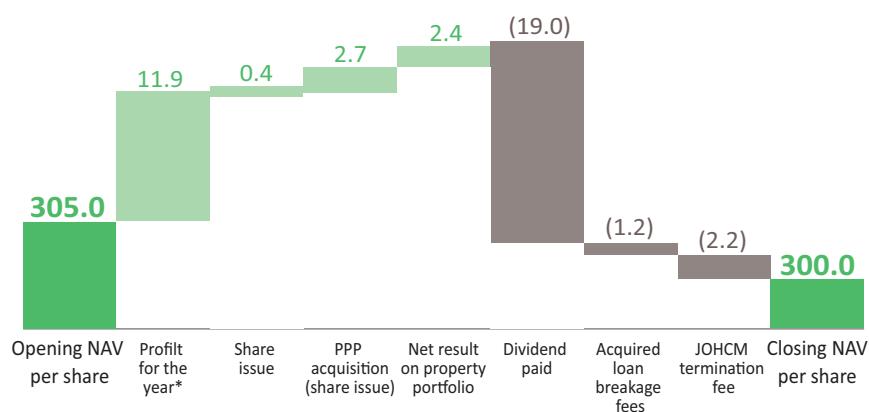
Swap rates for the periods covered by the Group's hedging portfolio increased toward the end of 2013 reflecting improved economic data both in the UK and wider global economies. This has resulted in a decrease in the net fair value liability of the Groups derivative portfolio to £28.6 million as at 31 December 2013, down from £52.8 million as at 31 December 2012. £11.4 million of this is recognised in the Statement of Comprehensive Income, but there is no cash flow impact of any element of the fair value adjustment in 2013.

Net asset value

Balance Sheet net asset value has increased through 2013, assisted by the share issues undertaken in the year and also the reduction in the derivative portfolio fair value adjustment.

EPRA net assets have also increased in absolute terms driven primarily by the share issue undertaken in June 2013 and the shares issued with the acquisition of PPP.

EPRA net assets per share have fallen across 2013 by 1.6% to 300.0 pence per share (31 December 2012: 305.0 pence per share).



* Excluding result on property portfolio, early repayment charges and non-recurring charges

Environmental and social issues

Due to the nature of the external management arrangements, PHP's direct greenhouse gas emissions are negligible. PHP places high importance on the impact of such gases and is still working with its tenants to develop ways in which to monitor and reduce emissions.

Environmental matters are considered as part of the assessment of the suitability of purchasing new medical centres to expand the portfolio, whether through forward purchase development agreements or open market purchases. PHP undertakes an assessment of environmental risk as an important element of its due diligence process, obtaining an environmental desktop study and energy performance certificates ("EPC"). 75% of the newly completed assets delivered in 2013 held an EPC with a rating of C or better.

PHP has engaged an Environmental Consultant, Collier & Mudge, to help in this process. PHP's ability to influence the energy efficiency of buildings is limited where completed properties are acquired and let on FRI terms. Where possible and as a norm for newly built premises, environmental issues are included in the leases entered into by the medical practitioners. More generally, new buildings acquired are usually specified to meet the NHS's exacting standards with regard to environmental considerations.

Victoria Central, Wallasey

PHP acquired Victoria Central located in Wallasey, Merseyside in December 2013 as part of the Prime Public Partnerships Limited (PPP) corporate acquisition. The building was constructed in 2009 and extends to a total of 4,904 square metres. It is fully let to 3 GP practices and NHS Property Services with a pharmacy.

size: 4,904 sq m

built: 2009

cost: £17.9 million

patient numbers: c. 14,600

tenants: 3 GP practices, NHS Property Services and Pharmacy

PHP is committed to the principles of continuous improvement in managing environmental issues, including the proper management and monitoring of waste, the reduction of pollution and emissions, and compliance with environmental legislation and codes of practice.

PHP provides purpose built healthcare properties for use by GPs, NHS organisations, pharmacies and healthcare users, thus indirectly benefiting the communities in which they are based.

PHP is a founder member of the Social Stock Exchange (“SSE”) The SSE gives investors access to publicly listed businesses with strong social and environmental purpose.

The Group has no employees and Directors do not have service contracts. No disclosure has therefore been included in relation to policies on employees and human rights as required by Section 414C of the Companies Act.

Relationships

Other than shareholders, PHP’s performance and value are influenced by other stakeholders, principally its lessees (the GPs, NHS organisations and healthcare users), the property developers, the District Valuers, lenders and bondholders and the Joint Advisers. PHP’s approach to these relationships is based on the principle of mutual understanding of aims and objectives and the highest standards of ethics and business practice.

Outlook

PHP’s business grew substantially during 2013. The acquisition of PPP in December increased the portfolio by some 33%, securing a portfolio of high quality, purpose built primary care centres that enhanced the overall composition of the Group’s real estate portfolio. The positive contribution of these assets will be seen in 2014 and

will be further enhanced by the refinancing achieved in early 2014 of the debt assumed with the portfolio, as was planned at acquisition. The refinance provides a very large step toward regaining full dividend cover, which remains the prime short term objective of the Board, whilst retaining a progressive dividend policy. The transaction secures a five year pipeline arrangement for new developments with Prime plc, one of the leading developers of primary care assets, and also provides PHP with the opportunity to generate additional income and capital value afforded by the asset management possibilities within this portfolio.

Actions taken by the Board in the last six months have also paved the way for ongoing operating costs to be further contained. Annual savings will be realised on the administrative services procured by the Company and as the portfolio continues to grow, as a proportion of gross assets, the incremental cost of property advisory and management services will also reduce.

Primary Care and the GP remain the gatekeepers to the NHS. The consensus is that more health care services should be moved into the primary care setting and in order to do this further modern, purpose built premises will be required. The demand and competition for the good quality, long term, secure income streams that characterise the Group’s portfolio are strengthening, but the Board see the Company as being well placed to lead the provision of private capital and skilled management to secure future investment opportunities.

The Board continues to prioritise the return to full dividend cover as its main short term objective and will take further steps toward this with its prudent acquisition policies, securing assets that make an immediate contribution to profitability but also demonstrate the potential for future growth in 2014 and beyond.

Strategic Report

Principal Risks and Uncertainties

In common with most businesses, the Group is affected by a number of risks and uncertainties, not all of which are wholly within its control. Note 21 provides further detail and quantitative information on the financial risks faced by the Group. The Group aims to operate in a low risk environment, focusing on a single sector of the real estate market. The Board has reviewed and agreed policies for managing each of the risks and uncertainties which are summarised below. The Board sees items 1, 2 and 5 as its principal risks at the present time:

Funding and available finance

Risk	1. Exposure to interest rate movements
Impact	Movement in underlying interest rates could adversely affect the Group's profits and cash flows.
Mitigation	<ul style="list-style-type: none">• The Group retains a proportion of its debt on a long term, fixed rate basis. It also mitigates its exposure to interest rate movements on floating rate facilities through the use of a series of interest rate swaps and other derivative instruments.
Risk	2. Limited debt market capacity restricts ability to continue to fund operations
Impact	Without confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.
Mitigation	<ul style="list-style-type: none">• PHP funds its operations through a mixture of income from its operations, equity and debt finance. PHP regularly monitors its cash flow and debt funding requirements in order to ensure that it can meet its liabilities and looks to retain a spread of providers and maturities so that its refinance risk is less concentrated.• PHP secured £140 million of new debt facilities in 2013. This included a £70 million, twelve year secured bond accessing the corporate debt market for the first time. PHP widened its spread of maturities and lenders with facilities secured and assumed in 2013.• Activity since the year end has added further capacity, increased the variety of funders and maintained the broad spread of maturities.
Risk	3. Lack of capital resources to support the Group's activities
Impact	Without sufficient capital, PHP may become unable to progress investment opportunities as they arise or to counteract the impact of potential falling property values on the Group's balance sheet and finance commitments should property values fall in the future.
Mitigation	<ul style="list-style-type: none">• Liquidity and gearing are kept under review by the Joint Advisers and the Board. Forward funding commitments are only entered into if supported by committed, available funds.• Historically, the Company has been able to access the equity markets to raise additional capital when required. The Company undertook a share placing during 2013, raising an amount of £65.8 million net of costs.• PHP issued a £70 million twelve year, secured corporate bond in 2013 at a margin of 220 basis points over six month LIBOR.

Risk	4. Banking facilities include various covenant requirements
Impact	Should the Group be unable to meet these covenants it could result in possible default or penalties being levied.
Mitigation	<ul style="list-style-type: none"> • PHP monitors its covenant compliance on an ongoing basis to ensure compliance or early warning of any issues that may arise. The Group maintains its borrowings at levels below its maximum covenant requirements and retains the flexibility of substituting security or refinancing loans should it need to. Covenants are set on a facility by facility basis and by reference to the pool of assets used to secure facilities (where appropriate).

Property market risks

Risk	5. PHP invests in a niche asset sector affected by Government decisions
Impact	A change of Government policy or a downturn in demand for primary care premises may adversely affect the Group's portfolio and performance.
Mitigation	<ul style="list-style-type: none"> • The Group monitors Government policy with regard to Primary Care so as to be able to anticipate any changes. The use of GPs within the NHS and the long term, established use of third party owned premises has not changed for some time and is not an area changed by the Health & Social Care Act. The Group has received written confirmation of the continued funding of its tenants by the NHS. • The long term nature of the Group's occupational leases provides security of income and protection should a policy change need to be catered for.

Risk	6. Property valuations may fall
Impact	Property valuations may fall to such a level that leads PHP to breach its borrowing covenants.
Mitigation	<ul style="list-style-type: none"> • Whilst the specialist nature of the Group's assets can itself be a risk (see below), the inherent characteristics have historically demonstrated low volatility in terms of valuation movements. • The Group manages its activities so as to always operate within its banking covenant limits and constantly monitors the margins (i.e. fall to breach) that would have to be experienced in order to cause any default. • The portfolio is effectively 100% let, on long lease terms with more than 90% of rent being funded by the NHS. Rental growth is achieved on review, all of which helps in maintaining asset values.

Risk	7. Lack of available properties or the inability to invest on acceptable terms
Impact	The Group may be unable to secure additional investment properties so as to enable PHP to continue to grow.
Mitigation	<ul style="list-style-type: none"> • The Group maintains close relationships with a number of developers of, and other investors in, primary health care properties so as to afford the best possible opportunity to secure future acquisitions. • The Group is not exclusively reliant on acquisitions to grow as it secures leases with effectively upwards only rent review mechanisms and is able to generate income and value from the management and development of its existing portfolio. • Pipeline agreements have been entered into with recognised developers in the sector (Apollo Capital Projects Developments Limited and Prime plc).

Strategic Report

Principal Risks and Uncertainties (continued)

Taxation risks

Risk	8. Failure to comply with REIT legislation
Impact	A breach of REIT requirements may lead to the Group losing its REIT status and the taxation benefits that affords.
Mitigation	<ul style="list-style-type: none">• Management monitor the activities and performance of the Group to ensure that all requirements of the REIT legislation are met at all times. New transactions are structured when undertaken so as to continue to meet these statutory requirements.
Risk	9. A change in Government legislation
Impact	Should the UK-REIT regime cease to apply the Group may become chargeable to taxation with a significant impact on performance and strategy.
Mitigation	<ul style="list-style-type: none">• The Group monitors communication from HMRC with regard to the ongoing maintenance of the REIT regime. The Group participates in a number of industry bodies and groups that engage in continuous dialogue with HMRC over proposed changes to legislation and their impact on PHP.• The changes to the REIT regime introduced in 2012 are designed to encourage further REITs and confirm the continuance of the regime for the foreseeable future.

Operational risks

Risk	10. Continuance of Adviser contracts
Impact	PHP has no employees and depends on services supplied by third parties for the efficient operation and management of the Group. Following the concentration of the provision of advisory services with Nexus from 30 April 2014, the termination of the Advisory Agreement with Nexus could adversely affect the Group's ability to effectively manage its operations.
Mitigation	<ul style="list-style-type: none">• The Advisory Agreement with Nexus includes provisions requiring Nexus to serve all or any part of its notice period should the Company decide to terminate providing protection for an efficient handover.• The Advisory Agreement with the Nexus includes remuneration linked to the performance of the Group in order to incentivise long term levels of performance.• The Management Engagement Committee regularly reviews the performance of the Joint Advisers.
Risk	11. Breach of Health and Safety and Environmental requirements
Impact	A breach of such requirements could have reputational, criminal or financial implications on the Group which could be significant.
Mitigation	<ul style="list-style-type: none">• The Board views the assessment of Health and Safety and environmental risk as an important element of its due diligence process when acquiring properties and employs specialist advisers to undertake risk assessments.• Properties are modern and specifically designed for purpose including best practice with regards to environmental requirements thereby mitigating risks.• Owned properties are inspected regularly in rotation and well maintained.

Strategic Report

Key Performance Indicators (“KPIs”)

The Board monitors KPIs as set out below to review the Group’s performance in meeting its Strategic Objectives as set out on page 4.

Objective:
To grow property assets under management

Strategic Objective: 1

Metric	Acquisitions achieved
	Positive movement in asset values
	Future commitments made
Performance	77 additional assets acquired or committed to in the year
	Portfolio revaluation uplift of £2.3 million for the year
	Balance of commitments outstanding as at the year end of £17.1 million

Objectives:
To maximise portfolio rent roll and maintain security of income

Strategic Objectives: 1 and 2

Metric	Continue to grow annualised rent roll
	Maintain core NHS tenant covenant
	Maintain weighted average remaining lease term
Performance	Contracted committed rent roll grew from an annualised £38.9 million to £57.6 million
	Over 90% of income effectively funded by the NHS
	Weighted average lease length (including commitments) of 16 years (2012: 16 years)
	Three asset management projects contracted in 2013 will add an average of 21 years to the unexpired lease term for those properties

Objective:
To manage our balance sheet effectively

Strategic Objectives: 3 and 4

Metric	Maintain longevity of debt facilities
	Maintain appropriate balance between debt and equity within covenanted levels
Performance	£140 million of debt facilities secured in 2013, including the secured bond
	LTV at 61.6%, well within current and future covenant limits
	Equity issue in the year raised net proceeds of £65.8 million
	Average maturity of debt facilities extended to 8.8 years (2012: 6.6 years)

Objective:
To deliver sustainable long-term shareholder value and returns

Strategic Objective: 5

Metric	Sustained growth in Adjusted EPS
	Sustained dividend growth
	Growth in EPRA NAV per share
Performance	Adjusted EPS increased from 10.2p to 10.6p
	17th successive year of dividend growth, 3% to 19.0 per share
	EPRA NAV per share 300 pence (31 December 2012: 305 pence)

Objective:
To maximise the returns from the investment portfolio

Strategic Objective: 6

Metric	Out-performance versus IPD benchmark
	Continued rental growth
Performance	One, three and five year portfolio performance underperformed the IPD all property benchmark, but PHP continued outperformance of the IPD Healthcare Real Estate Index
	Rental growth of 2.2% p.a. on reviews completed in the year

Harry Hyman, Managing Director
19 February 2014

Five Year Summary of Group Financial Performance

	2009	2010	IFRS 2011	2012	2013
Net assets (£m)	151.9	164.7	168.1	179.1	302.4
Net asset value per share (p)					
• basic and diluted	247	262	246	236	274
EPRA net asset value per share (p)					
• basic and diluted	280	312	319	305	300
Closing portfolio including development loans and finance leases (£m) ¹	344.9	472.4	528.7	625.5	941.5
Annualised rent roll (£m) ¹	21.3	28.0	31.4	36.8	56.2
Profit before taxation (£m)	10.8	25.7	12.7	1.1	20.2
Adjusted profit Earnings per share (p)					
• basic	26.6	41.3	19.0	1.6	23.2
• adjusted	18.4	14.7	14.5	10.2	10.6
Total dividend per share (p)	17.0	17.5	18.0	18.5	19.0
Market price per share at 31 December (p)	289.0	335.0	318.5	340.0	353.0
Total return (%)					
• PHP Ordinary Share	11.0	22.8	0.5	15.4	7.6
• FTSE All Share	30.1	14.5	3.5	12.3	20.8
• FTSE All Share Real Estate Investment Trust	12.9	6.9	8.8	30.6	19.6

(1) Completed assets only.

Joint Advisers

NEXUS



Nexus Tradeco Limited (“Nexus”)

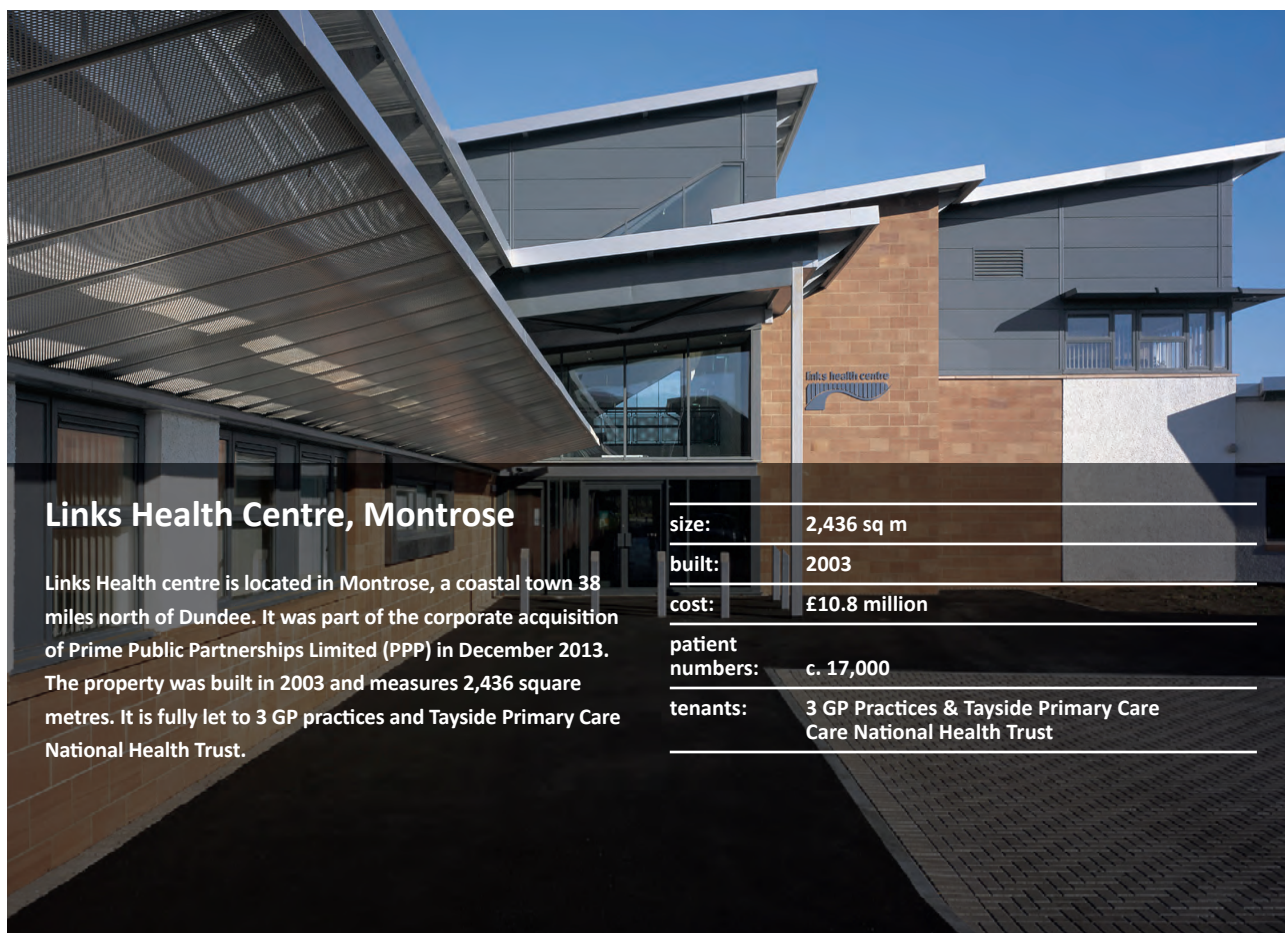
Nexus identifies suitable properties, negotiates the terms of purchase of those properties and provides property management services on behalf of the Group. It also provides the services of the Managing Director. On 5 December 2011, Nexus Group Holdings Limited, the previous holding company of Nexus Property Management Limited, carried out a statutory demerger following which the participation in the Advisory Agreement was novated to Nexus Tradeco Limited, which is now the Joint Adviser. The personnel responsible for managing PHP are unchanged. The Group is engaged in the provision of independent advice and financial services to organisations operating in the public and private sectors, with particular emphasis on health, education and property.

J O Hambro Capital Management Limited (“JOHCM”)

JOHCM (a wholly owned subsidiary of J O Hambro Capital Management Holdings Limited (“Holdings”)), in turn a wholly owned subsidiary of BT Investment Management Limited, incorporated in Australia and listed on the Australian Securities exchange, provides administrative and accounting services to the Group and is Company Secretary. Mr James Hambro is chairman of Holdings. JOHCM provides investment management services to open ended investment companies, segregated mandates and other public funds and is authorised and regulated by the Financial Conduct Authority in the conduct of its investment business.

Changes to Advisory Services

On 26 September 2013, the Board announced that it has agreed revised arrangements in respect of the provision of administrative and accounting services. Under the revised agreement Nexus will assume responsibility for providing the services previously supplied by JOHCM, with effect from 30 April 2014.



Links Health Centre, Montrose

Links Health centre is located in Montrose, a coastal town 38 miles north of Dundee. It was part of the corporate acquisition of Prime Public Partnerships Limited (PPP) in December 2013. The property was built in 2003 and measures 2,436 square metres. It is fully let to 3 GP practices and Tayside Primary Care National Health Trust.

size:	2,436 sq m
built:	2003
cost:	£10.8 million
patient numbers:	c. 17,000
tenants:	3 GP Practices & Tayside Primary Care National Health Trust

The Board



Our diverse and experienced Board is an essential component of the success of Primary Health Properties PLC

Graeme Elliot, Chairman

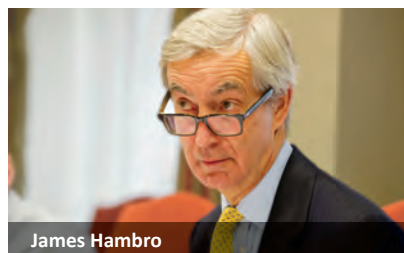
Graeme Elliot ^{1 4}

Non-Executive Chairman. Appointed February 1996. Mr Elliot was formerly executive vice chairman of Slough Estates PLC, prior to which he held senior positions at Rio Tinto PLC.



James Hambro ^{4 5}

Non-Executive Director. Appointed February 1996. Mr Hambro is Chairman of James Hambro & Partners LLP and Chairman of J O Hambro Capital Management Holdings Limited, parent company of J O Hambro Capital Management Limited, the Joint Adviser and Company Secretary of Primary Health Properties PLC. He is also Non-Executive Chairman of Hansteen Holdings PLC.



Alun Jones ^{1 2 3}

Non-Executive Director and Senior Independent Director. Appointed 1 May 2007. Chairman of the Audit Committee and a member of the Remuneration, Management Engagement and Nomination Committees. A Chartered Accountant, Mr Jones retired from PricewaterhouseCoopers LLP in 2006, having been a previous member of PwC's UK and Global Supervisory Boards. He was a member of the Financial Reporting Review Panel from 2006 to 2011.

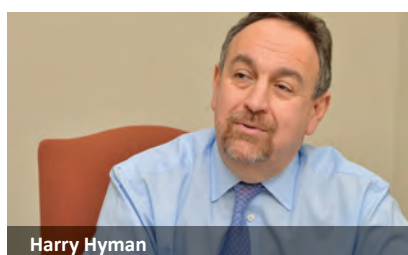


Harry Hyman ^{4 5}

Managing Director. Appointed February 1996. A Chartered Accountant and Managing Director of Nexus Tradeco. Nexus has three operating divisions, property fund management, publishing and corporate finance. The group specialises in health, education and property. He is also Non-Executive Chairman of Summit Germany Limited and a director of the Quoted Companies Alliance. PHP has been a member of the Quoted Companies Alliance since 2002.



L-R: James Hambro, Mark Creedy, Alun Jones



Harry Hyman

William Hemmings

Non-Executive Director. Appointed 18 June 2012. Mr Hemmings is Head of Closed End Funds at Aberdeen Asset Managers Limited, a Director of a number of subsidiary companies of Aberdeen Asset Management PLC and an alternate director of the Irish listed Select International Funds PLC. Mr Hemmings is also a director of the Association of Investment Companies.



William Hemmings

Mark Creedy ^{1 2 3}

Non-Executive Director. Appointed 1 November 2008. Chairman of the Management Engagement Committee and a member of the Audit, Remuneration and Nomination Committees. Mr Creedy is

currently Director of Fund Management at UNITE Group plc overseeing the fund management of the UNITE UK Student Accommodation Fund and UNITE's other joint ventures. He was Managing Director of the property fund management subsidiary of Legal & General Investment Management from 2002 to 2007 and was previously Managing Director of Chartwell Land plc, a wholly owned subsidiary of Kingfisher plc. He was also a non-executive director of B&Q.



Mark Creedy

Steven Owen ^{1 2 3}

Non-Executive Director. Appointed 1 January 2014. A chartered accountant, Steven is currently CEO and Partner of Wye Valley Partners LLP, and was Deputy CEO and Finance Director at Brixton plc until 2009.



Steven Owen

Dr Ian Rutter OBE ^{1 2 3}

Non-Executive Director. Appointed 22 September 2005. Chairman of the Remuneration and Nomination Committees and a member of the Audit and Management Engagement Committees. He has worked as a GP since 1980 in Shipley, Yorkshire. He is currently the Senior European Faculty Head of IHI, the Institute of Healthcare Improvement, based in Boston, USA. He is a former CEO of North Bradford and Airedale PCTs. He has worked at the Department of Health as Clinical Lead in the Policy and Strategy Unit and as Deputy National Director of Primary Care.



Dr Ian Rutter OBE

- (1) Member of the Audit Committee
- (2) Independent
- (3) Member of the Management Engagement, Nomination and Remuneration Committees
- (4) Member of the Standing Committee
- (5) Joint Manager representative

Directors' Report

Dividends paid in 2013 total
19.0p per Ordinary share

9.75p interim dividend declared
to be paid on 25 April 2014

year ended 31 December 2013

The Directors present their Annual Report to Shareholders for the year ended 31 December 2013. Further information on the Group's business which is required by section 417 of the Companies Act 2006, can be found in the following sections of the annual report, which are incorporated by reference into this report:

- Chairman's Statement on pages 2 to 3; and
- Strategic Report on pages 4 to 25.

Principal activity

The principal activity of the Group (of which Primary Health Properties PLC is the parent company) continues to be the generation of rental income and capital growth through investment in primary health care property throughout the United Kingdom.

The Group became a Real Estate Investment Trust ('UK REIT') on 1 January 2007. It is the opinion of the Directors that the Group has conducted its affairs so as to be able to continue as a UK REIT.

Financial

The results for the year are shown in the Group Statement of Comprehensive Income on page 50.

Interim ordinary dividends totalling 19.0p per Ordinary share were paid during the year (year ended 31 December 2012: 18.5p).

The Board proposes to pay an interim ordinary dividend of 9.75p per Ordinary share on 25 April 2014. Further information on dividends can be found in the Shareholder Information section on page 80.

Directors

Biographical information for the current Directors can be found on pages 28 and 29.

Graeme Elliot will retire after the conclusion of the Annual General Meeting ("AGM") and will therefore not be seeking re-election.

Pursuant to the termination of the management agreement with JOHCM, James Hambro's appointment is due to cease on 30 April 2014. In view of his valued contribution and wide experience, the Board has asked Mr Hambro, subject to shareholder approval, to continue as a director. He is willing to do so and will therefore stand for re-election at the AGM. Steven Owen was appointed by the Board with effect from 1 January 2014 and will also stand for election at the AGM. All other directors, who served throughout the year, will retire and, being eligible, offer themselves for re-election.

The Company's Articles of Association require that Directors should submit themselves for election at the first Annual General Meeting following their appointment and thereafter for re-election at least every three years. However, the Company has adopted the requirements of the UK Corporate Governance Code in relation to the annual re-election of Directors.

Information on the performance evaluation of the Board is shown in the Corporate Governance report on page 41. Details of Directors' interests in the share capital and equity of the Company, and Directors' Remuneration are contained in the Directors' Remuneration Report on pages 42 to 45.

Powers of the Directors

The Directors have been authorised to allot and issue Ordinary shares and to make market purchases of the Company's Ordinary shares. These powers are pursuant to the passing of resolutions at the Company's Annual General Meeting. Details of the resolutions regarding the allotment, issue and purchase of the Company's shares are set out in the explanatory notes to the Notice of Annual General Meeting which can be found in the separate document posted to shareholders with this Annual Report.

Substantial interests

As at 19 February 2014, the Company had been notified or was otherwise aware of the following shareholders who were directly or indirectly interested in 3% or more of the voting rights in the Company's issued share capital:

	Voting rights	%
Investec Wealth & Investment	6,472,098	5.83
Unicorn Asset Management	5,151,026	4.64
Brooks Macdonald Asset Management	4,996,020	4.50
Blackrock	4,909,592	4.42
Troy Asset Management	4,720,000	4.25
CCLA Investment Management	4,265,000	3.84
Charles Stanley	4,218,014	3.80
R Laing	4,177,498	3.76
Nexus Group Holdings Limited	4,000,000	3.60

The Ordinary Shares held by Nexus Group Holdings Limited (“Nexus Group”) are subject to a debenture and fixed charge over all of Nexus Group assets. As at the date of this report, Nexus Group has confirmed that it is not in default of any of its banking commitments and that it has no current intention to sell any of its holding. Nexus Group is connected to Harry Hyman.

Share capital

The Company has one class of share in issue, being Ordinary Shares of 50 pence each. At the date of this report, the Company had 110,992,473 Ordinary Shares of 50 pence each in issue, each carrying the right to one vote. Details of changes in share capital are set out in note 22 of the financial statements.

Corporate governance

A report on corporate governance and compliance with the provisions of the UK Corporate Governance Code, which forms part of this Directors’ Report, is contained on pages 35 to 41.

Report on greenhouse gas emissions

The Group is externally managed and as such has no employees or premises. Any emissions therefore are negligible. Further information on the Group’s social and environmental impact can be found in the Strategic Report on page 21.

Articles of Association

The Company’s Articles of Association (adopted by special resolution on 6 October 2009) may only be amended by special resolution at a General Meeting of the shareholders.

Significant agreements

The Company is required to disclose details of any agreements that it considers to be essential to the business. The Board do not consider the banking facility agreements with the Group’s lenders to fall into this category as if any one of these arrangements ended, the Group would seek alternative funding and the loss or disruption caused should only be temporary.

The Advisory Agreement with the Joint Advisers (further details of which can be found in the Related Party Transactions section below) is considered essential to the business as the Group has no employees. The agreement is reviewed at least annually by the Management Engagement Committee.

During the financial year and as at the date of this report, none of the Directors other than those referred to below was materially interested in any significant agreements relating to the Group’s business or in any proposed transactions.

Related party transactions

Mr Hyman is a director of Nexus Tradeco Limited (“Nexus”) and Nexus Group. Mr Hambro is chairman of J O Hambro Capital Management Holdings Limited, the parent company of JOHCM. Nexus and JOHCM are Joint Advisers to the Group and Messrs Hyman and Hambro are therefore deemed to have an interest in the Advisory Agreement referred to above and are thus related parties.

Advisory Agreement

Pursuant to an advisory agreement dated 14 March 1996 (as amended from time to time and last amended and restated on 28 February 2011) (“the Agreement”) between the Company and the Joint Advisers (Nexus and JOHCM), the Company appointed:

- Nexus to provide property advisory and management services and the services of the Managing Director of the Company; and
- JOHCM to provide administrative and accounting services and to act as the appointed Company Secretary.

Each Joint Adviser has the continuing right to appoint and remove one person as a Director of the Company and to receive the Director’s fee (currently £30,000 per annum).

(i) Advisory fees

The current base fee payable to the Joint Advisers is calculated as a percentage of the gross asset value of the Group as follows:

Gross Assets	Total Fee
First £50 million	1.00%
Between £50 million and £500 million	0.75%
Between £500 million and £750 million	0.525%
Between £750 million and £1 billion	0.4375%

The Advisory Agreement contains a provision giving the Company the ability to pay Nexus and JOHCM a payment in lieu of notice in the event that the Company terminates the agreement. Such payment will be calculated by reference to the unexpired notice period and the gross asset value at the time of the termination and cannot be greater than the fees that they are contractually entitled to receive. The Agreement is terminable by not less than two years’ written notice.

Additional payments that may be made to Nexus for non-standard real estate related services are capped at 10% of the total annual fees payable to Nexus.

The Agreement contains no provisions to amend, alter or terminate the Agreement upon a change of control of the Group following a takeover bid.

Directors' Report continued

(ii) Performance Incentive Fee ("PIF")

Nexus and JOHCM are entitled to a PIF equal to 15% of any performance in excess of an 8% per annum increase in the Group's "Total Return" (as derived from the audited accounts for the immediately preceding financial period prior to the date of payment) provided that if the Total Return is less than 8% in any one year, the deficit must be made up in subsequent years before any subsequent PIF is paid. No performance fee was payable in 2013 or 2012 and there is a deficit of some £53.2 million (2012: £66.7 million) to be made up in the net asset value before any further PIF becomes payable under the terms of the Agreement.

Using the relevant audited accounts, the Total Return for the purpose of PIF is determined by calculating the change in the net asset value per ordinary share, on a fully diluted basis, after any adjustment for any increase or reduction in the issued share capital and adding back gross dividends paid per ordinary share.

(iii) Changes to advisory services

On 25 September 2013, the Company gave notice to JOHCM to terminate the provision of the existing company secretarial services and on the same date the advisory agreement was amended and restated so that Nexus will assume responsibility for providing services previously supplied by JOHCM, with effect from 30 April 2014 on the same terms save that:

- the Company will pay Nexus a fixed annual fee of £748,621 in relation to the company secretarial services for a period of two years from 1 May 2014 (the "Effective Date") and an annual fee of £935,776 after that date;
- the company secretarial fee may be increased or decreased by up to 5 percent subject to movements in RPI; and
- the finance and company secretarial services shall continue for a period of two years from the Effective Date and thereafter the notice period to terminate such services shall be 12 months given by Nexus or the Company.

(iv) Summary of the changes to the advisory agreement

On 24 January 2014, the Board announced a revision to the structure for advisory fees paid to Nexus for the management of its property portfolio with effect from 30 April 2014.

The current fee arrangement for property advisory services (the "Property Services Fee"), based on gross asset value, is as follows:

Gross Assets	Total Fee
First £50 million	0.5500%
Between £50 million and £350 million	0.4125%
Between £350 million and £450 million	0.4875%
Between £450 million and £500 million	0.5625%
Between £500 million and £750 million	0.4500%
Above £750 million	0.3750%

The revised terms of the advisory agreement will establish incremental Property Services Fees payable to Nexus as gross assets increase firstly above £1 billion and then further when above £1.25 billion. The amended property advisory fee structure will continue to be calculated with reference to the gross asset value of the Company and is detailed below:

Gross Assets	Total Fee
First £250 million	0.5000%
Between £250 million and £500 million	0.4750%
Between £500 million and £750 million	0.4000%
Between £750 million and £1 billion	0.3750%
Between £1 billion and £1.25 billion	0.3250%
Above £1.25 billion	0.3000%

Employees

The Group has no employees, no employee share scheme and there are no agreements between the Company and its Directors providing for compensation for loss of office or employment (whether through resignation, proposed redundancy or otherwise) that may occur because of a takeover bid.

Creditor payment policy

For all trade creditors, the Group's policy is to agree the terms of payment at the start of business with the service provider, ensure that parties are aware of the terms of payment and pay in accordance with contractual and legal obligations. Payment in respect of 10 days' average purchases from trade creditors of the Group was outstanding at the year end.

Donations

The Group does not make any political or charitable donations.

Share Service

The Shareholder Information section on pages 82 to 83 provides details of the share services available.

Financial instruments

The Group's financial risk management objectives and policies are discussed in notes 20 and 21.

Post balance sheet events

Details of events occurring since the year end are given in note 32 on page 73.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 25. The financial result of the Group, its position, its cash flows, liquidity position and borrowing facilities are described on pages 50 to 53 and note 18 on page 66. In addition, notes 18, 19, 20 and 21 to the financial statements include the Group's financial risk objectives, capital position, details of financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group's property portfolio is 99.7% let to tenants with strong covenants and the property acquisition pipeline is currently strong. During 2013, the Group refinanced the debt assumed with the Apollo portfolio, arranging a new £70 million, four year revolving debt facility with Barclays Bank PLC as well as raising a net £65.8 million through an equity issue. In November 2013 the Group issued a secured £70 million twelve year, corporate bond.

Headroom on debt facilities was £75 million. Adding cash balances of £9.3 million and allocating headroom to fund the cost to complete development commitments reduces net headroom to £67.2 million. Headroom of £65 million is available on banking facilities (note 18) with an additional £10 million to be received from the bond issued in November 2013 (note 19). Since the year end the Group has also received credit approval confirmation that an amount of £25 million has been re-instated to the club facility. The Group's current loan to value ratio is 61.6%, with all banking covenants being met during the year and subsequent to the year end.

The Directors believe that the Group is well placed to manage its business risks successfully. Having reviewed the Group's current position and cash flow projections, actual and prospective loan facilities and covenant cover, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors' Statement as to disclosure of information to Auditor

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 82. Having made enquiries of fellow Directors and of the Company's Auditor, each of the Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's Auditor in connection with preparing the report) of which the Company's Auditor is unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditor is aware of that information.

Annual General Meeting

The Annual General Meeting will be held on 10 April 2014 at 10.30am. The Notice convening the Annual General Meeting and explanatory notes for the resolutions sought are set out in the separate document enclosed.

The Directors consider that all of the resolutions proposed are in the best interests of the Company and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own shareholdings.

Auditor

Following a competitive tender process the Board appointed Deloitte LLP as Group auditor with effect from 17 June 2013.

A resolution to reappoint Deloitte LLP as the Group's auditor and to authorise the Board to determine their remuneration will be put to Shareholders at the forthcoming Annual General Meeting.

By order of the Board

J O Hambro Capital Management Limited, Company Secretary
19 February 2014

Primary Health Properties PLC
Registered office: Ground Floor, Ryder Court,
14 Ryder Street, London SW1Y 6QB

Registered in England and Wales No: 3033634

Directors' Responsibility Statements

Statement of Directors' Responsibilities in Respect of the Group and Company Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and the Group and

to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statements under the Disclosure and Transparency Rules

Each of the current Directors confirms that, to the best of their knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Management report incorporated into the Managing Director's Review on pages 4 to 21 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces.

In addition, having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Directors are satisfied that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board

Graeme Elliot
Chairman
19 February 2014

Corporate Governance

The Group's policy is to achieve best practice in its standards of business integrity in all of its activities. This includes a commitment to follow the highest standards of corporate governance throughout the Group where possible.

The Financial Reporting Council ("FRC") published a new edition of the UK Corporate Governance Code in September 2012 which applies to reporting periods beginning on or after 1 October 2012 ("the Code"). This report describes how the Group has complied with the applicable provisions of the Code. The Board considers that it has complied with the provisions of the New Code throughout the year and certain Directors have served on the Board for more than three terms of three years. However, all Directors have been subject to rigorous review, performance evaluation and annual election.

Board Composition

The Board comprises the Chairman, Managing Director and six non-executive Directors, four of whom are considered by the Board to be independent under the New Code. Details of the Chairman, the Directors and their individual roles are shown on pages 28 and 29. Their biographical details demonstrate a range of corporate, financial, property, investment and NHS experience relevant to the Group's business and demonstrate sufficient calibre to bring independent judgement on issues of strategy and performance of the Group.

The roles of the Chairman and the Managing Director are distinct and have been agreed by the Board. The Chairman chairs the Board and general meetings of the Company, sets the agenda of such meetings and promotes the highest standards of integrity, probity and corporate governance throughout the Group, particularly at Board level. He ensures that the Board receives accurate, timely and clear information, communicates effectively with Shareholders, facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors. He also ensures that any new Directors participate in a full, formal and tailored induction programme and that the performance of the Board, its committees and individual Directors is evaluated at least once a year. There is a clear structure for, and the effective running of, Board committees. The Managing Director is accountable for the management of the Group with the Joint Advisers as set out in the Advisory Agreement. Alun Jones is currently the Senior Independent Director. He is available to Shareholders if they have any concerns that cannot be resolved through the normal channels. His role is to support the Chairman and act as his sounding board when required and if necessary, to act as an intermediary for the other Directors.

As part of its annual self-assessment, the Board critically evaluates the independence of individual Directors and has concluded that all of the Directors continue to act independently in both character and judgement, taking account of the interest of all Shareholders. Alun Jones, Ian Rutter, Mark Creedy and Steven Owen meet the independence criteria set out in the Code, whilst Graeme Elliot and James Hambro have been on the Board longer than nine years and, as such, do not meet these criteria. The Board considers that William Hemmings meets the criteria of independence in spirit however, having acted as an alternate director since March 2000, he is not considered independent under the Code.

Board Diversity

The Board believes that it must include the right blend of individuals whose skills and experience have been derived from a variety of backgrounds. Directors must demonstrate independence of mind, integrity and willingness to challenge constructively. Appointments are made first and foremost on the basis of merit using objective criteria and taking into account the recognised benefits of all types of diversity. The board will continue to ensure that this is taken into account when considering any new appointments.

Board Changes

On 19 December 2013, the Company announced that the current non-executive Chairman, Graeme Elliot, will retire from the Board at the end of the Annual General Meeting in April 2014. Alun Jones, the current senior independent non-executive director and Chairman of the Audit Committee, will become Chairman from that date.

The Board also announced the appointment of Steven Owen as an independent non-executive director with effect from 1 January 2014. It is intended that Steven will become chairman of the audit committee following the 2014 AGM. The Board are currently considering the position of Senior Independent Director following the appointment of Alun Jones as Chairman and expect to make an announcement in the near future.

Operation of the Board

The Board is responsible for leading and steering the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. It also sets the Group's strategic aims, ensuring that the necessary resources are available for the Group to meet its objectives, reviews the performance of the advisers through its Management Engagement Committee and sets the Group's values and standards, ensuring that its obligations to its Shareholders and other stakeholders are satisfied.

The Board has a schedule of matters formally reserved to it for its decision such as strategic, major financial and key operational issues.

Corporate Governance continued

Matters not requiring debate or necessary for the implementation of urgent decisions, on matters previously discussed at Board Meetings, are delegated to a Standing Committee.

The Board has delegated certain activities to the Joint Advisers as described in the Advisory Agreement section of the Directors' Report on page 31.

The Advisory Agreement also provides for the appointment of JOHCM as Company Secretary, meaning that it is responsible for ensuring that Board procedures are followed, that applicable rules and regulations are complied with and for advising the Board (through the Chairman) on governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The training needs of each Director are regularly reviewed by the Chairman. Directors are able to receive training or additional information on any specific subject pertinent to their role as a Director that they request or require. During the year, the Board has reviewed and discussed the Financial Reporting Council Revisions to the UK Corporate Governance Code and associated Guidance on Audit Committees. All Directors have access to independent professional advice at the Company's expense, if deemed necessary and subject to clearance by the Chairman.

The Group maintains appropriate insurance cover in respect of legal action against the Company's Directors.

In addition to the Board meetings held during the year, the Board is regularly in touch for consultation by electronic means and met for an off-site strategy meeting and for the AGM. There were also 11 Committee meetings held during the year. Directors were sometimes unable to attend meetings due to unavoidable business interests, but full Board packs are distributed to all Board members for all meetings and separate discussions were held with, or comments were sought by, the Chairman on all matters of relevance.

There are opportunities throughout the year for the Chairman and Independent Directors to discuss matters without the other Directors being present.

Meetings and Attendance

Director	Board Meetings (Total in year 8)	Audit Committee (Total in year 3)
Graeme Elliot	8	3
Mark Creedy	8	3
James Hambro	7	n/a
William Hemmings	8	n/a
Harry Hyman	8	n/a
Alun Jones	8	3
Dr Ian Rutter	8	3

Board Committees

The following Committees have been established by the Board and have been granted specific delegated authority to consider certain aspects of the Group's affairs:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Management Engagement Committee

The Chairmen of the Committees report back to the Board as and when appropriate. Reports from each committee chairman are included on pages 37 to 41.

Terms of reference for each committee are available on the Group's website at www.phpgroup.co.uk/governance.

Audit Committee Report



Alun Jones

Chairman of the Audit Committee

The Audit Committee is chaired by Alun Jones. He is supported by Graeme Elliot and three independent non-executive directors, Dr Ian Rutter, Mark Creedy and Steven Owen. Steven Owen joined the Committee in January 2014. Apart from this change all members served throughout the year. It is the intention that Steven Owen will chair the Committee following the conclusion of the AGM in April 2014, whereby Alun Jones will step down to assume the chairmanship of the group.

Alun Jones and Steven Owen are chartered accountants and, as can be seen from their biographies on pages 28 and 29, both possess the recent and relevant commercial knowledge and experience to satisfy the provisions of the Code. There are no employees of the Joint Managers on the committee. The committee may invite the Managing Director, representatives of the Joint Advisers and non-independent directors to attend the meetings as appropriate.

Responsibilities

The main roles and responsibilities of the Audit Committee include:

- monitoring the integrity of the Group's financial statements and reviewing significant financial reporting issues and judgments contained therein;
- reviewing the Group's systems of financial control and risk management;
- making recommendations to the Board on the appointment and dismissal of the external auditor and approving their remuneration and terms of engagement;
- monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements; and
- annually considering the need for an internal audit function.

There are arrangements in place whereby employees of the Joint Advisers may, in confidence, raise concerns about possible improprieties in matters of financial reporting amongst other

things. The Committee ensures that the Joint Advisers have in place arrangements for the proportionate and independent investigation of such matters.

Report on the committee's activities during the year

During the year, the committee discharged its responsibilities under its terms of reference, by:

- reviewing the Group's draft annual financial statements and 2013 half year results statement prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- reviewing the Group's budgets and forecasts and subsequently monitoring the quarterly management accounts and reports against budget;
- reviewing the continuing appropriateness of the Group's accounting policies;
- reviewing the auditors' plan for the audit of the Group's 2013 financial statements, receiving and reviewing confirmations of auditor independence and approving the terms of engagement and proposed fees for the 2013;
- considering the qualifications, expertise, resources and independence of the auditors through reviews of their reports and performance;
- arranging a tender for the Group audit (see below);
- recommending the re-appointment of the auditor for 2014;
- the committee chairman meeting with the auditors and with staff of the Joint Advisers in February, early August and December to review the audit plans and progress, accounting processes and to discuss emerging points and early drafts of the financial reports; and
- the committee receiving presentations from the joint managers on the subject of risk, its identification, management and control, accounting and control and property portfolio management.

The audit committee has reviewed the contents of this year's annual report and accounts and advised the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Audit tender

The UK Corporate Governance Code has introduced new recommendations that audits should be put out for tender every ten years. In recognition of this, in April 2013, a number of audit firms were invited to tender for the audit of the Group.

Corporate Governance continued

The firms participating in the tender process were required to submit their proposals against the following criteria:

- Organisation and capability – including the firms’ industry experience, scope of service, technical expertise and support culture and independent assurance;
- Audit approach and delivery – including knowledge of the business, strategy, planning and risk management processes, quality of accounting judgments and responsibility for these, timely resolution of audit issues, communication and reporting and transition experience;
- Audit quality – including quality assurance, audit effectiveness, integrity, independence, objectivity, process improvement and added value;
- Resourcing and engagement team – including quality of proposed engagement team, skills and personal qualities of audit partners and leadership, team structure, resourcing model and succession, responsiveness; and
- Fees and terms.

Each firm was invited to submit a written proposal and from these a shortlist of three firms was identified and requested to make a presentation and question and answer session to members of the audit committee and representatives from the joint advisers. All presentations were of the highest quality, but after due deliberation and taking into account the relevant sector experience, the committee recommended to the Board that Deloitte LLP be appointed as auditors to the Group. Deloitte LLP was thus appointed with effect from 17 June 2013. The appointment was made to fill a “casual vacancy” in accordance with the Companies Act 2006. Ernst & Young LLP provided the company with a “Statement of Circumstances” confirming that it resigned as auditor of the company with effect from 17 June 2013 following its unsuccessful tender and for no other reason. Accordingly, a resolution will be put to shareholders at the 2014 Annual General Meeting recommending the appointment of Deloitte LLP as auditors to the Group.

The Company has a policy governing the conduct of non-audit work by the auditors. Under that policy, the auditors are prohibited from performing services where the auditors may be required to audit their own work, participate in activities that would normally be undertaken by management, are remunerated through a ‘success fee’ structure where the success of a project is dependent upon the accounting treatment, or act in an advocacy role for the Company. Other than the above, there is not an automatic ban in place on the auditors undertaking non-audit work. However, each possible appointment is reviewed on a case by case basis. Activities that may be perceived to be in conflict with the role of the external auditor

must be submitted to the Committee for approval prior to engagement, regardless of the fee involved. The Committee pays particular attention to matters it considers to be important due to their impact on the Group’s results and where a high level of complexity, judgement or evaluation is involved. Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 4 to the financial statements on page 59.

Effectiveness of external auditor

The effectiveness of the audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received from Deloitte LLP a detailed audit plan, identifying their assessment of these key risks. For 2013, the primary risks identified were in relation to the valuation of the property portfolio, accounting for acquisitions, accounting for investment properties under construction, financing and valuation of financial instruments and going concern. The Board and the Joint Advisers take responsibility for exercising judgement when necessary in preparing the Annual Report and Financial Statements. They prepare and review papers provided to the Auditors setting out their judgements and approaches taken to specific items. The work undertaken by the auditors in this area to test management’s assumptions and estimates is challenged by the audit committee who assess the effectiveness of the audit process through the reporting received from Deloitte LLP at both half-year and year end. In addition, the audit committee seeks feedback from the joint advisers on the effectiveness of the audit process. The Committee is satisfied with the effectiveness of the Auditors.

Significant accounting matters

The Committee considers all financial information published in the Annual and Interim Financial Statements and considers accounting policies adopted by the Group, presentation and disclosure of financial information and, in particular, the key judgements made in preparing the Financial Statements.

Valuation of the property portfolio

The Group has property assets of £941.6 million as detailed on the Group Balance Sheet. As explained in note 11 to the financial statements, properties are independently valued by Lambert Smith Hampton in accordance with IAS40: Investment Property. The audit committee reviewed and discussed with management the judgements and assumptions made in respect of the property valuation, reviewed the valuer’s report and the auditor’s comments thereon, and concluded that the valuation remains appropriate.

Accounting for acquisitions

In July, PHP acquired the entire issued share capital of Primary Health Care Centres (“PHCC”) for a cash consideration of

£10.5 million. In December, the Company announced the acquisition of the entire share capital of Primary Public Partnerships (Holdings) Limited (“PPP”) for £41.2 million. The key issue for both deals was the consideration against the criteria of IFRS3: Business combinations. In assessing this, the committee made enquiries of management and received guidance from the auditors. The committee was satisfied that treating both the transactions as asset, rather than business acquisitions, was appropriate.

Financing and valuation of financial instruments

The Group undertook a number of financing transactions during the year. In January 2013, a £27 million facility with AIB was repaid upon its maturity. The underlying interest rate swaps remain in place and no breakage costs were incurred. In March, the debt which was assumed with the acquisition of the Apollo portfolio in December 2012 was refinanced with a new £70 million facility with Barclays Bank PLC. In June, the Group raised £65.8 million net of issue costs following an equity issue. In November, the Group issued a 12 year £70 million variable rate bond. The proceeds of the bond were used to refinance a facility with Clydesdale Bank plc that was due to expire in early 2014, Aviva loans acquired with the PHCC acquisition, and a tranche of the Group's Club facility with Royal Bank of Scotland Plc and Santander Banking Group. These transactions served to diversify the Group's funding sources leading to reduced overall risk. The key accounting issues arising from these transactions concerned the treatment of breakage costs. The Group recognised break costs of £0.95 million in respect of the early repayment of the Aviva and Clydesdale debt. The committee considered the potential impact of the early settlement of these transactions and the resulting accounting impact. This was achieved by holding discussions with management and the auditors and reviewing reports received from both parties. The committee was satisfied that the accounting guidelines had been followed appropriately.

The Group hedges its exposure to interest rate risks swaps using financial instruments. The Group accounts for these instruments in accordance with IAS39 and makes the additional required disclosures under IFRS 7 ‘Financial Instruments: Disclosures’. This is a complex area of accounting and accordingly Deloitte LLP provides detailed reporting to the committee.

The valuation of the financial instruments is undertaken by J C Rathbone (“JCRA”), an independent specialist in this area. The committee has considered and complied with the requirements of IFRS13, concerning the measurement of credit risk in the valuation of financial instruments. This was reflected in the half year results. The committee received detailed verbal and written reporting from JCRA and Deloitte LLP and accordingly is satisfied that the accounting guidelines have been applied appropriately.

Revenue recognition

Following objective assessments, the Group adopts a policy of recognising 90% of the expected uplift from rent reviews from the date a rent review falls due until the date it is settled, when any additional balance due is recognised. The Committee reviewed the judgments made in respect of this policy, reviewed past experience of settlements and challenged management as to its continued appropriateness. The committee received confirmation from management that the policy remained appropriate. The committee also received detailed reporting from Deloitte LLP, the newly appointed auditors, on this matter and is satisfied that the policy remains appropriate.

Internal control

The Audit Committee is responsible for the Group's system of internal control, which has been in operation throughout the year and to the date of this Report, and for reviewing its effectiveness. It believes that the key risks facing the business have been identified and it has implemented an ongoing system to identify, evaluate and manage these risks that is based upon, and relevant to, the Group's business as a UK REIT.

Following the Financial Reporting Council's publication of “Internal Control: Revised Guidance for the Directors on the Combined Code”, and the FRC's Guidance on Audit Committees published in September 2012, the Committee believes key features of the system of internal control include a comprehensive system of budgeting, financial reporting and business planning, formal documentation procedures and the close involvement of the Managing Director and the Joint Advisers in all aspects of the day-to-day operations. The scope and quality of the Joint Advisers' systems of internal controls are monitored and reviewed and regular monitoring reports are provided to the Board. Any incidences of significant control failings or weaknesses that have been identified and the extent to which they have impacted on the Group are reported to the Board and the Board ensure that the Joint Advisers take the necessary actions to remedy those failings or weaknesses immediately.

Nevertheless, the Committee believes that, although robust, the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives. Therefore the system can provide only reasonable and not absolute assurance against material misstatement or loss.

In preparing the periodic financial reports of the Group, the Committee is reliant on the policies and procedures followed by the Joint Advisers to ensure that the records accurately reflect transactions so as to facilitate the production of consolidated financial statements in accordance with International Financial Reporting

Corporate Governance continued

Standards ("IFRS") and other applicable reporting standards. In addition, the integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by the Audit Committee and the Board. At the time of reviewing the half yearly and annual financial reports, the Audit Committee also receives comfort letters from each of the Joint Advisers to assist the Board in making the disclosures.

Internal audit

The Audit Committee considers annually the requirement for an internal audit function. The focused nature of the Group's business, its size and simple structure together with the regular review of the processes and performance of the Joint Advisers has led the Committee to recommend to the Board that, at the present time, there is no current requirement for an internal audit function.

Remuneration Committee



Dr Ian Rutter

Chairman of the Remuneration and Nomination Committee

The Remuneration Committee normally meets once per year and comprises three Independent Directors being Dr Ian Rutter (Chairman), Alun Jones and Mark Creedy. Its role is to seek and retain the appropriate calibre of people on the Board and recommend fee levels to the Board consistent with prevailing market conditions, peer group companies and Directors' roles and responsibilities. The Company has no employees and therefore pay and employment considerations are not taken into account in determining Directors' fees, nor does it determine executive pay. The Committee met twice during the year to review Directors' remuneration with all members in attendance.

Nomination Committee

Composition and responsibilities

The Nomination Committee is chaired by Ian Rutter and its other members are Alun Jones, Mark Creedy and Steven Owen, all of whom are Independent and non-executive. Steven Owen joined the Committee in January 2014. The Committee is charged with the responsibility of nominating any new Directors to the Board and considering succession planning. It reviews from time to time the composition of the Board, having regard to its balance and structure.

Board diversity

The Terms of reference of the Nomination Committee state that potential candidates should be considered on merit and against objective criteria and with due regard for the benefits of diversity on the board, including gender.

The Directors consider the background and experience brought to the Board by each individual to contribute to its diversity. In any recruitment, the Board prefers to select the best qualified candidate to provide the Board with the expertise required to implement its long-term strategy, rather than to fulfil any fixed quota. Subject to that overriding principle, the Directors believe that the Board's perspective and approach can be greatly enhanced through gender, age and cultural diversity. In recommending new appointments to the Board the Nomination Committee considers the existing balance of skills, knowledge and experience and the time candidates have available to commit to the role.

Report on the Committee's activities during the year

During the year, the committee discharged its responsibilities, under its terms of reference, by:

- reviewing the proposals for rotation and re-election of Directors at the Annual General Meeting;
- considering and making recommendations to the Board for the appointment of Chairman and a new Director;
- reviewing the succession plan for the Board;
- discussing the results of the performance and evaluation exercise; and
- reviewing its Terms of Reference.

Non-executive Directors are appointed for an initial three year term and are subject to annual re-election by Shareholders and to three months' notice from the Company or the Director. Each Director, on appointment, is provided with a letter setting out the terms of appointment, the fees to be paid and the time commitment expected.

Having received notice from Mr Elliot that he intended to step down from the Board with effect from the 2014 AGM, the committee considered the appointment of Chairman, having due regard to the main principles of the UK Corporate Governance Code and the Terms of Reference of the committee. The committee considered the options available, including the possible appointment of an external candidate and after due consideration, having reviewed the most recent performance evaluation and noting the results of a benchmarking exercise, concluded it would be in the best interests of the Company to recommend the appointment of Mr Jones as Chairman to the Board. In respect of the appointment of Steven Owen, the Committee appointed an

external search consultant, FA Associates, which has no other connection with the Group, and provided a full specification of the skill set required from a new appointee. In due course, a shortlist agreed with external consultants was compiled. The committee's recommendation, Steven Owen, was interviewed by the whole committee and other members of the Board prior to his appointment. Steven's biographical details are shown on page 29. He is a chartered accountant and has considerable experience in the commercial property arena. The Committee concluded that Steven possesses the necessary skills and attributes to chair the Audit Committee. It is the intention that he assumes this position with effect from the conclusion of the AGM.

Management Engagement Committee



Mark Creedy

Chairman of the Management Engagement Committee

The Management Engagement Committee comprises Mark Creedy (Chairman), Dr Ian Rutter, Alun Jones and Steven Owen. Steven Owen joined the Committee in January 2014. The Committee meets at least annually to review the terms of the Joint Advisory Agreement ("the Agreement") and the performance of the Joint Advisers. The other non-executive Directors may attend the meetings if invited to do so by the Chairman.

During the year, the Management Engagement Committee met or consulted several times and reviewed the terms of the Agreement, negotiated with the Joint Advisers and approved revised arrangements in respect of the provision of administrative and accounting services. Under the revised agreement, Nexus will assume responsibility for providing these services with effect from 30 April 2014. The principal reason for changing the terms of the advisory agreement was a desire to move away from paying a gross asset value-linked administration and Company Secretarial fee. Under the revised terms, the Company will pay Nexus a fixed annual fee in relation to these services which may be increased or decreased by up to 5% subject to movements in the Retail Price Index (or such other appropriate independent index agreed by Nexus and the Company). Further details of this and the remuneration paid to the Joint Advisers are shown on page 59.

Board performance and evaluation

The Chairman is responsible for ensuring the annual evaluation of the Board's performance and that of its Committees and individual Directors. During the year, this was done by the circulation of a questionnaire based on the process and questions outlined in the Code concerning Board and Committee performance and meetings. The Chairman discussed with the Board broad themes and outcomes for 2013 and highlighted strengths and any areas of weakness. The outcome of the evaluation process was that the Board and its Committees were judged to be operating effectively. The other Directors, led by the Senior Independent Director, evaluated the performance of the Chairman.

Communication with Shareholders

The Group communicates regularly with institutional shareholders, analysts and the financial press throughout the year. Annual and interim reports are presented to formal meetings of analysts and interim management statements are widely distributed to these and other parties who may have an interest in the Group's performance. These documents, statements and analyst presentations are also made available on the Company's website. The Managing Director reports at each Board meeting on investor relations and to provide feedback from meetings with major shareholders and analysts and the Board receives copies of all research published on the Group. The Board meets periodically on a formal and informal basis with the Company's brokers and professional advisers in order to better understand the views of major shareholders about the Company.

Investors are encouraged to attend the Annual General Meeting at which they have an opportunity to ask questions. The Annual General Meeting is normally attended by all directors and the chairmen of each of the Board committees are available to answer questions.

The Company ensures that any price-sensitive information is released to all shareholders at the same time in accordance with regulatory requirements. All major presentations are available to all shareholders through the Company's website. Shareholders may choose to receive the annual and interim reports either in paper form or electronically. These reports, along with a wide range of shareholder information, are also available on the Company's website. Additional information for shareholders can be found on pages 80 and 81.

By order of the Board

J O Hambro Capital Management Limited

Company Secretary

19 February 2014

Directors' Remuneration Report

Statement from Chairman of the Remuneration Committee

We have presented the remuneration report for the year to 31 December 2013 in accordance with the new regulations governing the disclosure and approval of directors' remuneration. The report has been divided into two parts:

- Directors' Remuneration Policy, which will be subject to a binding resolution at the forthcoming AGM and every three years thereafter; and
- Annual Report on Remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory resolution at the forthcoming AGM.

In preparing the report the Committee has taken into account guidance on directors' remuneration reporting from the GC100 and Investors Group.

The Remuneration Committee's role is to seek and retain the appropriate calibre of people on the Board and recommend fee levels to the Board consistent with prevailing market conditions, peer group companies and Directors' roles and responsibilities.

The Committee met twice during the year and at its December meeting proposed an increase in Directors' Remuneration. This was subsequently approved by the Board and therefore, with effect from 1 January 2014, Directors fees were increased to £30,000 per annum for each Director, £40,000 per annum for the Chairman and an additional £6,000 per annum for the Chairman of the Audit Committee. Total Director's remuneration is currently subject to an overall Articles limit of £500,000.

In determining these fees, the Committee considered the following factors:

- As described in more detail in the Chairman's Statement and Strategic Report, PHP has had a very busy and successful year. Total shareholder returns were 7.6% including dividends paid of 19.0p per share. The Group diversified and lengthened its lending sources, reduced management costs as a proportion of gross assets, raised equity finance and grew the portfolio by almost £300 million.
- The enlarged size and increased complexity of the business has resulted in greater demands being required of the Directors. In order to meet these demands, the Board has agreed to increase the number of formal prearranged Board Meeting from four to six per year with effect from 1 January 2014.

These are in addition to committee meetings of the Board, attendance at an offsite strategy meeting, ad hoc meetings and the AGM. There were 11 committee meetings held in 2013.

- Following the decision of the Chairman to retire at the next AGM, the Committee sought to appoint a new independent non-executive director. During this process, the Committee received advice on Directors' remuneration from FPL Associates, an external search consultant which has no other connection with the Group.
- In addition to external advice, the Committee also received an analysis of directors' fees paid at other companies having a similar profile to that of the Company.

Having considered this information, the Committee believe that the proposed level of remuneration for 2014 is sufficiently competitive, in order to be able to attract, retain and motivate directors of the highest calibre.

Directors' Remuneration Policy

The Company's policy is to pay each Director a fixed fee per annum commensurate with the level of commitment required and prevailing rates informed by external consultants and comparable organisations. Additional responsibility, such as that of the Chairman, is rewarded by a fixed additional sum and expenses incurred in connection with the Company's business are reimbursed.

A resolution to approve this Remuneration Policy will be proposed at the AGM of the Company to be held on 10 April 2014. If the resolution is passed, the Remuneration Policy provisions will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or the Remuneration Policy is varied, in which case, shareholder approval for the new Remuneration Policy will be sought.

The Company has no employees and therefore pay and employment considerations are not taken into account in determining Directors' fees, nor does it determine executive pay. No component of any Director's remuneration is subject to performance factors. The Committee determines appropriate levels of remuneration for all Directors' fees, subject to the overall limit as set out in the Articles of Association of £500,000.

The table of Directors' Remuneration Components at the top of page 43 shows non-executive director remuneration for the year ending 31 December 2014 and those paid for the year ended 31 December 2013.

Table of Directors' Remuneration Components

Component	Director	2014	2013	Purpose of reward	Operation
Annual Fee	All Directors	£30,000	£27,500	For commitment as Directors of a public company	Determined by the Committee ¹
Additional Fee	Chairman of the Board	£10,000	£8,500	For additional responsibility and time commitment	Determined by the Committee ¹
Additional Fee	Chairman of the Audit Committee	£6,000	£5,500	For additional responsibility and time commitment	Determined by the Committee ¹
Expenses	All Directors	n/a	n/a	Reimbursement of expenses paid by them in order to perform their duties	In accordance with Group expense policy

Notes:

1. The Committee seeks to attract and retain high calibre Directors by offering a market competitive fee level. The level of the fee is reviewed periodically by the Remuneration Committee, with reference to market levels at other companies having similar profiles to that of the Company, and consultation with third party advisors. A recommendation is then made to the Board.
2. The Company has no employees. Accordingly, there are no differences in policy on the remuneration of Directors and the remuneration of employees.
3. No Director is entitled to receive any remuneration which is performance related. As a result there are no performance conditions in relation to any elements of the Directors' remuneration in existence to set out in this policy.
4. There have been no changes to the Company's remuneration policy for Directors since the publication of the last Annual Report of the Group.

Recruitment Polices:

1. The remuneration package for any new Chairman or non-executive Director will be the same as the prevailing rates determined on the bases set out above. The fee and entitlement to reclaim reasonable expenses is set out in the Directors' Letter of Appointment.
2. The Company will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay fees to search and selection consultants in connection with the appointment of any non-executive Director.
3. The maximum aggregate fee currently payable to all Directors is £500,000.

Service Contracts

No director has a service contract. The contracts for the services of James Hambro and Harry Hyman are with JOHCM and Nexus respectively, pursuant to the Joint Advisory Agreement. There are letters of appointment in place for the other Directors including the Chairman. These provide, subject to the appointment and any re-appointment being in accordance with the terms of the Articles of Association and to retirement by rotation, Directors are appointed for an initial term of three years and that such appointment can be terminated upon either party giving not less than three months' prior written notice, with no compensation for loss of office. These letters of appointment are available for inspection at the Registered Office and at the AGM.

All Directors are subject to re-appointment by Shareholders at the first Annual General Meeting held after their appointment and annual re-election thereafter in accordance with Code Provision B.7.1.

Loss of Office - Directors do not have any entitlement to payment upon loss of office over and above the pro-rated fees due to them and any outstanding expenses.

Scenarios – as the Directors' fees are fixed at annual rates, there are no other scenarios where remuneration will vary. It is accordingly not considered appropriate to provide different remuneration scenarios for each Director.

Statement of consideration of conditions elsewhere in the Company – as the Company has no employees, the process of consulting with employees on the setting of the Remuneration Policy is not relevant.

Other Items

None of the Directors has any entitlement to pensions or pension related benefits, medical or life insurance schemes, share options, long-term incentive plans, or performance related payments. No Director is entitled to any other monetary payment or any assets of the Company except in their capacity as shareholders of the Company.

Directors and Officers liability insurance cover is maintained by the Company, at its expense, on behalf of the Directors.

Directors' Remuneration Report continued

Annual report on remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, and relevant sections of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2014 AGM. The information on pages 44 to 45 has been audited where required under the regulations and indicated as audited information where applicable.

The Remuneration Committee determines appropriate levels of remuneration for all Directors' fees as set out in the Articles of Association. The Committee makes recommendations to the Board as a whole and no Director is involved in any decision regarding his own remuneration. Directors' fees were last reviewed on 1 January 2013. The set fee for each Director is currently £27,500 per annum and £36,000 per annum for the Chairman. The Audit Committee Chairman receives an additional £5,500 per annum. The Committee has agreed that, with effect from 1 January 2014, these fees will increase to £30,000 per annum for each Director, £40,000 per annum for the Chairman and an additional £6,000 per annum for the Chairman of the Audit Committee. In reaching these figures, the Committee is reflecting the growth in the portfolio and the increasing amount of time spent on the Company's business, and has compared the fees with those paid by the Company's peers.

The Directors who served during the year received the following fees:

Single total figure of remuneration (audited information)

	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Graeme Elliot (Chairman)	£36,000	£32,500
Harry Hyman (Managing Director)	£27,500	£25,000
Alun Jones (SID and Chairman of Audit Committee)	£33,000	£30,000
James Hambro	£27,500	£25,000
Martin Gilbert	-	£11,575
William Hemmings	£27,500	£13,425
Dr Ian Rutter (Chairman of Remuneration and Nomination Committees)	£27,500	£25,000
Mark Creedy (Chairman of Management Engagement Committee)	£27,500	£25,000
Total	£206,500	£187,500

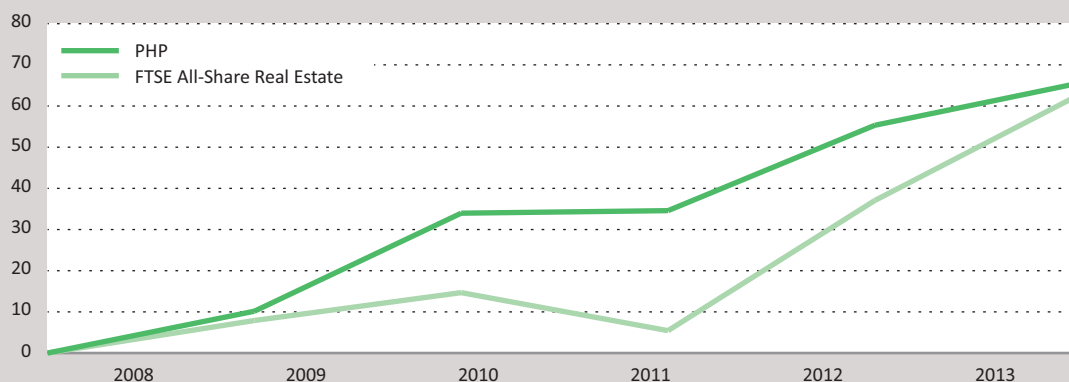
Harry Hyman is a Director of Nexus, James Hambro is a Director of J O Hambro Capital Management Holdings Limited, the holding company for JOHCM. Nexus and JOHCM are the joint advisers of the Company.

James Hambro's and Harry Hyman's entitlements (to Directors' fees which are the same as other Directors) is contained in the Joint

Company's performance

The following graph compares, over a five year period, the total Shareholder return (as required by Company Law) of the Company's Ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE All-Share Real Estate Investment Trust Index. This Index has been chosen by the Board as the most appropriate in the circumstances. Total Shareholder return is the measure of returns provided by a company to Shareholders reflecting share price movements and assuming reinvestment of dividends.

For the year ended 31 December 2013, the highest and lowest mid-market price of the Company's Ordinary shares was 365p and 312p respectively.



Advisory Agreement. The fees in respect of the services of Harry Hyman are paid to Nexus. The Joint Advisory Agreement provides for the first £100,000 of the adviser fee to be payable to Nexus each year in respect of the services of the Managing Director. The fees in respect of Mr Hambro's services are paid to JOHCM. The fee in respect of Mr Hemmings' services as a Director is paid to Aberdeen Asset Management PLC. The Company has not complied with Code provision D.1.2 and has not disclosed the amount of fees received by the Managing Director in respect of his other non-executive Director appointments. Since he is committed to working a certain number of days a month for this Company, this amount is not deemed relevant and the Remuneration Committee is satisfied that the Company received the appropriate time commitment from the Managing Director. Further details of the Joint Advisory Agreement are given in the Related Parties section of the Directors' Report on page 39 and details of the amounts paid to each of the Joint Advisers in note 4 to the financial statements on page 59.

Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. Directors may be reimbursed for travel and accommodation expenses in connection with Board Meetings and in line with the Group's expense policy.

Relative importance of spend on pay

The following table shows the total remuneration paid to Directors and total management fees paid compared to the dividends paid to shareholders:

	2013	2012	Difference
Directors' fees ¹	£206,500	£187,500	£19,000
Management fee	£4,847,000	£4,166,000	£681,000
Dividends	£16,518,350	£13,216,000	£3,302,350

(1) As the Company has no employees the total spend on remuneration comprises just the Directors' fees.

Note: the items listed in the table above are as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ss.20 with the exception of the management fee which has been included because the Directors believe it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are as shown in Notes 4 and 10 to the financial statements.

The interests of the Directors in the share capital of the Company (all of which are beneficial unless otherwise stated) and any interests of a person connected with a Director (within the meaning of the Disclosure and Transparency Rules) are shown below:

	31 December 2013	31 December 2012
Mark Creedy	12,000	12,000
Mark Creedy (non-beneficial)	635	635
Graeme Elliot	16,500	15,000
James Hambro	48,857	44,416
James Hambro (non-beneficial)	503,327	501,464
William Hemmings	5,266	4,241
Harry Hyman	72,640	66,084
Harry Hyman (non-beneficial)	4,023,357	4,011,086
Alun Jones	22,500	19,177
Steven Owen	-	-
Dr Ian Rutter	9,144	8,699

Save as disclosed below, no changes occurred between 31 December 2013 and the date of this Report.

Mr Hyman and Mr Hemmings are participants in the Company's monthly investment account that is administered by Equiniti on the Company's behalf. As a consequence of this participation, at the date of this Report Mr Hemmings' beneficial interest had increased to 5,349 shares and Mr Hyman's to 72,745 shares.

Statement of shareholder voting

At the 2013 AGM, shareholder voting on the remuneration report was as follows:

	No of shares	% of votes cast
Votes cast in favour	24,046,821	99.76
Votes cast against	56,727	0.24
Total votes cast	24,103,548	100.00
Abstentions	20,634	0.09

Approval

The Directors' remuneration report, including both the Directors' Remuneration Policy and the Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Dr Ian Rutter

Chairman of the Remuneration Committee

19 February 2014

Independent Auditor's Report

to the members of Primary Health Properties PLC

Opinion on financial statements of Primary Health Properties plc
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity the Parent Company Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 32 for the Group and 1 to 15 for the Parent Company. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as

adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Directors Report on pages 30 to 33 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
<p>Valuation of Property Portfolio</p> <p>The Group owns and manages a portfolio of modern primary healthcare properties. The valuation of the portfolio is underpinned by a number of judgments and assumptions.</p> <p>The Group uses professionally qualified external valuers to fair value the Group's portfolio at six-monthly intervals. The portfolio was valued by the investment method of valuation with development properties valued by the same methodology with a deduction for all costs necessary to complete the development.</p>	<p>We assessed management's process for reviewing and challenging the work of the external valuer.</p> <p>We met with the third party valuers, Lambert Smith Hampton ("LSH"), appointed by management for the valuation of the property portfolio and we assessed the reasonableness of the significant judgments and assumptions applied in their valuations, including outstanding rent reviews and yields.</p> <p>We assessed the competence, independence and integrity of the external valuer.</p> <p>We benchmarked and challenged the key assumptions to external industry data and comparable portfolios, in particular the yield.</p> <p>We verified the integrity of a sample of information provided to valuers by management relating to rental income, occupancy and life of the lease.</p>

Risk	How the scope of our audit responded to the risk
<p>Accounting for portfolio acquisitions</p> <p>The acquisitions of PHCC and PPP during the year require consideration as to whether they should be accounted for as a business combination or asset acquisition under IFRS 3. The appropriate treatment has been determined to be an asset acquisition for both PHCC and PPP. These acquisitions also require a detailed fair value exercise to ascertain appropriate fair values to assign to the assets and liabilities on recognition within the Group.</p>	<p>We have inspected the sale and purchase agreements which govern these transactions and have confirmed the consideration paid to cash outflows on bank statements and share issues to Companies House returns.</p> <p>We assessed the portfolio acquisitions against the criteria of IFRS 3: Business combinations to ensure that the correct accounting treatment was adopted. We checked that the allocation of fair value between the assets and liabilities acquired was appropriate and ensured that the information used by management in determining the fair values was accurate and relevant.</p>
<p>Accounting for financing transactions</p> <p>PHP has undertaken significant financing and capital transactions in the year, including share and bond issues.</p>	<p>We have audited the legal documents which govern the financial transactions and confirmed the flow of funds into the Group. We have ensured that the accounting guidelines have been followed appropriately and that the liabilities are reflected appropriately at fair value in the financial statements with the costs of setting up borrowings correctly accounted.</p>
<p>Valuation of derivative financial instruments</p> <p>Financial instruments give rise to a significant audit risk due to their complexity both in terms of valuation and disclosure.</p>	<p>We have revalued a sample of the financial instruments using our own models via reference to the derivative contracts provided by counterparties and have compared the valuations produced to the director's valuations, including the impact of the credit valuation adjustments.</p> <p>We have recalculated hedge effectiveness calculations and reviewed the hedge designation documentation for a sample of the hedged instruments to check that the appropriate hedge accounting has been reflected in the financial statements.</p>
<p>Revenue recognition in respect of outstanding rent reviews and tenant incentives</p> <p>The Group adopts a policy of recognising 90% of the expected uplift from rent reviews from the date when a rent review falls due to the date it is settled. This can be a significant amount due to the length of time rent reviews can take.</p> <p>Within the property portfolio there are a number of lease terms which require unusual accounting entries. These include rent free periods, payments to extend break clauses and leases with fixed rental increases.</p>	<p>Our procedures to test the rent review accounting have included checking that rental income recognised under the 90% policy has been appropriately calculated, assessing the accuracy of the predicted future rent and investigating settled rent reviews.</p> <p>In respect of the tenant incentives and fixed rental uplifts we have recalculated the proposed accounting entries and agreed the terms to signed lease agreements. We have investigated a sample of further lease agreements to ensure there are not further tenant incentives or fixed rental uplifts to be recognised.</p>

The Audit Committee's consideration of these risks is set out on page 37.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent Auditor's Report continued

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined planning materiality for the Group to be £6.0 million, which is 2% of net assets. We have used a lower materiality of £0.4 million for our testing of transactions which affect adjusted earnings on the grounds that that these would be qualitatively material and this is a critical financial performance measure of the group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit scope was based on our assessment of the risks identified above which were determined as a result of obtaining an understanding of the Group and its operating environment, including internal control. We carried out a full audit of the Group and each of its underlying subsidiaries which contribute to the Group numbers included within these accounts.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Claire Faulkner

(Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

19 February 2014

Group Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Rental income		41,895	32,806
Finance lease income		87	345
Rental and related income	3	41,982	33,151
Direct property expenses		(398)	(402)
Administrative expenses	4	(6,080)	(5,124)
Non-recurring expenses: Termination Fee	4d	(2,485)	-
Non-recurring expenses: Costs associated with PPP acquisition		(217)	-
Operating profit before result on property portfolio		32,802	27,625
Profit on termination of finance lease	5	638	-
Net result on property portfolio	11	2,313	(1,768)
Profit before financing costs		35,753	25,857
Finance income	6	434	518
Finance costs	7a	(26,450)	(20,760)
Early loan repayment fees	7b	(950)	(1,564)
Fair value gain/(loss) on derivative interest rate swaps and amortisation of Cash flow hedging reserve	7c	11,432	(2,922)
Profit on ordinary activities before taxation		20,219	1,129
Taxation charge	8	1	1
Profit for the year ¹		20,220	1,130
Items that may be reclassified subsequently to profit and loss:			
Fair value movement on interest rate swaps treated as cash flow hedges	26	12,840	(285)
Other comprehensive income/(loss) for the year net of tax ¹		12,840	(285)
Total comprehensive income for the year net of tax ¹		33,060	845
Earnings per share ²	9	22.7p	1.6p
EPRA earnings per share ²	9	6.6p	8.0p
Adjusted earnings per share ^{2,3}	9	10.6p	10.2p

The above relates wholly to continuing operations.

(1) Wholly attributable to equity shareholders of Primary Health Properties PLC.

(2) There is no difference between basic and fully diluted EPS.

(3) Adjusted for large one-off items and movements in fair value of properties and derivatives (see note 9).

Group Balance Sheet

as at 31 December 2013

	Notes	2013 £000	2012 £000
Non current assets			
Investment properties	11	941,548	622,447
Net investment in finance leases	13	-	3,100
Derivative interest rate swaps	20	472	-
		942,020	625,547
Current assets			
Trade and other receivables	14	4,764	2,916
Net investment in finance leases	13	-	21
Cash and cash equivalents	15	9,288	25,096
		14,052	28,033
Total assets		956,072	653,580
Current liabilities			
Derivative interest rate swaps	20	(7,566)	(7,523)
Corporation tax payable		(23)	-
Deferred rental income		(11,934)	(7,811)
Trade and other payables	16	(16,269)	(10,687)
Provision for liabilities and charges	17	-	(1,564)
Borrowings: Term loans and overdraft	18	(1,857)	(79,934)
		(37,649)	(107,519)
Non-current liabilities			
Borrowings: Term loans and overdraft	18	(462,171)	(247,905)
Borrowings: Bonds	19	(132,408)	(73,755)
Derivative interest rate swaps	20	(21,459)	(45,311)
		(616,038)	(366,971)
Total liabilities		(653,687)	(474,490)
Net assets		302,385	179,090
Equity			
Share capital	22	55,237	38,017
Share premium account	23	55,611	58,606
Capital reserve	24	1,618	1,618
Special reserve	25	135,483	59,473
Cashflow hedging reserve	26	(14,337)	(27,177)
Retained earnings	27	68,773	48,553
Total equity ¹		302,385	179,090
Net asset value per share - basic	28	274p	236p
EPRA net asset value per share ²	28	300p	305p

(1) Wholly attributable to equity shareholders of Primary Health Properties PLC.

(2) See definition in note 28.

These financial statements were approved by the Board of Directors on 19 February 2014 and signed on its behalf by:

Graeme Elliot
Chairman

Group Cash Flow Statement

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Operating activities			
Profit on ordinary activities before tax		20,219	1,129
Less: Finance income	6	(434)	(518)
Plus: Finance costs	7	26,450	20,760
Plus: Provision for early loan repayment fee		950	1,564
Plus: Amortisation of cash flow hedge reserve		571	1,345
(Less/plus): Fair value (gain)/loss on derivatives	7	(12,003)	1,577
Operating profit before financing costs		35,753	25,857
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Net result on property portfolio	11	(2,313)	1,768
Profit on termination of finance lease	5	(638)	-
Fixed rent uplift adjustment		(905)	-
Increase/(decrease) in trade and other receivables ¹		4,402	(133)
Increase in trade and other payables ¹		383	7,940
Cash generated from operations		36,682	35,432
Taxation paid ²	8	(89)	-
Net cash flow from operating activities		36,593	35,432
Investing activities			
Payments to acquire investment properties		(44,560)	(42,221)
Proceeds from disposal of finance lease	5	3,768	-
Payments to acquire Apollo Medical Partners Limited		-	(3,298)
Payments to acquire PHCC (net of cash acquired)		(9,738)	-
Payments to acquire PPP (cash acquired)		1,954	-
Payments to acquire Gracemount Medical Centre Limited (net of cash acquired)		(6,155)	-
Interest received on developments		188	237
Bank interest received		48	199
Net cash flow used in investing activities		(54,495)	(45,083)
Financing activities			
Proceeds from issue of shares (net of expenses)		65,772	18,399
Cost of share issue - PPP		(540)	-
Term bank loan drawdowns		120,718	75,685
Term bank loan repayments		(195,740)	(100,101)
Proceeds of bond issue (net of issue costs)		58,680	73,671
Swap interest paid		(7,661)	(6,736)
Non utilisation fee		(1,023)	(714)
Loan arrangement fees		(1,274)	(2,655)
Interest paid		(18,328)	(10,670)
Breakage fee on Aviva debt	7	(2,380)	-
Equity dividends paid net of scrip dividend	10	(16,130)	(12,209)
Net cash flow from financing activities		2,094	34,670
(Decrease)/increase in cash and cash equivalents for the year		(15,808)	25,019
Cash and cash equivalents at start of year		25,096	77
Cash and cash equivalents at end of year	15	9,288	25,096

(1) Asset movements include movements relating to acquisitions

(2) Taxation was paid in the period in order to settle the outstanding liabilities in the acquired companies. All amounts payable were included in the consideration calculation.

Group Statement of Changes in Equity

for the year ended 31 December 2013

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve ¹ £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
1 January 2013	38,017	58,606	1,618	59,473	(27,177)	48,553	179,090
Profit for the year	-	-	-	-	-	20,220	20,220
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps	-	-	-	-	12,269	-	12,269
Amortisation of cash flow hedging reserve	-	-	-	-	571	-	571
Total comprehensive income	-	-	-	-	12,840	20,220	33,060
Proceeds from capital raisings	10,873	-	-	57,627	-	-	68,500
Expenses of capital raisings	-	-	-	(2,728)	-	-	(2,728)
Share issue as part of consideration for PPP	6,289	-	-	35,344	-	-	41,633
Share issue expenses	-	-	-	(1,040)	-	-	(1,040)
Reserves transfer ²	-	(3,325)	-	3,325	-	-	-
Dividends paid:							
Second interim dividend for the year ended 31 December 2012 (9.5p)	-	-	-	(7,006)	-	-	(7,006)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	32	185	-	(217)	-	-	-
First interim dividend for the year ended 31 December 2013 (9.5p)	-	-	-	(9,124)	-	-	(9,124)
Scrip dividend in lieu of first interim cash dividend (net of expenses)	26	145	-	(171)	-	-	-
31 December 2013	55,237	55,611	1,618	135,483	(14,337)	68,773	302,385
1 January 2012	34,136	54,430	1,618	57,405	(26,892)	47,423	168,120
Profit for the year	-	-	-	-	-	1,130	1,130
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps	-	-	-	-	(1,630)	-	(1,630)
Amortisation of cash flow hedging reserve	-	-	-	-	1,345	-	1,345
Total comprehensive income	-	-	-	-	(285)	1,130	845
Proceeds from capital raisings	3,115	-	-	15,885	-	-	19,000
Expenses of capital raisings	-	-	-	(601)	-	-	(601)
Share issue as part of consideration for Apollo	616	3,325	-	-	-	-	3,941
Share issue expenses	-	(6)	-	-	-	-	(6)
Dividends paid:							
Second interim dividend for the year ended 31 December 2011 (9.25p)	-	-	-	(5,969)	-	-	(5,969)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	54	292	-	(346)	-	-	-
First interim dividend for the year ended 31 December 2012 (9.25p)	-	-	-	(6,240)	-	-	(6,240)
Scrip dividend in lieu of first interim cash dividend (net of expenses)	96	565	-	(661)	-	-	-
31 December 2012	38,017	58,606	1,618	59,473	(27,177)	48,553	179,090

(1) The Special Reserve is a distributable reserve

(2) £3.3 million has been transferred from Share Premium to the Special Reserve with regards to the Apollo transaction under the merger relief provision of the Companies Act 2006.

Notes to the Financial Statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2013 were approved by the Board of Directors on 19 February 2014 and the Balance Sheets were signed on the Board's behalf by the Chairman, G A Elliot. Primary Health Properties PLC is a public limited company incorporated and domiciled in England & Wales. The Company's Ordinary shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Conduct Authority, and traded on the London Stock Exchange.

2. Accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared on the historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value.

The Group's financial statements are presented in Sterling rounded to the nearest thousand.

Statement of compliance

The Group prepares consolidated financial statements under International Financial Reporting Standards ("IFRS") as adopted by the European Union and applied in accordance with the Companies Act 2006 and Article 4 of the IAS Regulations.

Going concern

The financial statements are prepared on a going concern basis as explained in the Directors' Report on page 33.

2.2 Summary of significant accounting policies

Basis of consolidation

The Group's financial statements consolidate the financial statements of Primary Health Properties PLC and its wholly owned subsidiary undertakings. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtained control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of the subsidiary undertakings are prepared for the accounting reference period ending 31 December each year using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated on consolidation.

The Parent Company financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will continue to be prepared under UK GAAP for the current year. The use of IFRS at Group level does not affect the distributable reserves available to the Group.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in property in the United Kingdom leased principally to GPs, NHS Organisations and other associated health care users.

Investment properties and investment properties under construction

The Group's investment properties are held for long-term investment. Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties and investment properties under construction are stated at fair value based on market data and a professional valuation made as of each reporting date. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect future benefits from this future expenditure.

Gains or losses arising from changes in the fair value of investment properties and investment properties under construction are included in the Group Statement of Comprehensive Income in the year in which they arise.

Investment properties are recognised for accounting purposes upon completion of contract, unless a specific completion date is noted in the contract, in which case the property will be recognised on the date specified. Investment properties cease to be recognised when they have been disposed of. Any gains and losses arising are recognised in the Group Statement of Comprehensive Income in the year of disposal.

Development loans

The Group has entered into development loan agreements with third party developers in respect of certain properties under development. These loans are repayable at the option of the developer at any time. The Group has entered into contracts to purchase the properties under development when they are completed in accordance with the terms of the contracts. The loans are repayable by the developers in the event that the building work is not completed in accordance with the purchase contracts. Interest is charged under the terms detailed in the respective development agreements and taken to the Group Statement of Comprehensive Income in the year in which it accrues.

Property acquisitions and business combinations

Where a property is acquired through the acquisition of corporate interests, the Board considers the substance of the assets and activities of the acquired entities in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in note 2.3(b).

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values on the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, corporate acquisitions are accounted for as business combinations.

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's, fair value less

costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Group Statement of Comprehensive Income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Group Statement of Comprehensive Income.

Income

Revenue is recognised to the extent that performance has been provided and it is probable that economic benefits will flow to the Group which can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term. A rent adjustment is recognised from the rent review date in relation to unsettled rent reviews, which are accrued at 90% of the estimated rental income. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight-line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis.

Interest income

Revenue is recognised as interest accrues, using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short term deposits, including any bank overdrafts, with an original maturity of three months or less.

Trade and other payables

Trade payables are recognised and carried at their invoiced value inclusive of any VAT that may be applicable.

Bank loans and borrowings

All loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method.

Borrowing costs

Borrowing costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs the Group incurs in connection with the borrowing of funds.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow or resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Conversion to UK-REIT

The Group's conversion to UK-REIT status was effective from 1 January 2007. Conversion to a UK-REIT results in, subject to continuing relevant UK-REIT criteria being met, the Group's property profits, both income and gains, being exempt from UK taxation from 1 January 2007. Acquired companies were converted to a UK-REIT status; there were no charges payable following the abolition of the REIT conversion charge.

Taxation

Taxation on the profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Group Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Financial instruments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as fair value through profit and loss. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS39. Financial assets at fair value through profit and loss are carried in the Balance Sheet at fair value with gains or losses recognised in the Group Statement of Comprehensive Income.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities

Notes to the Financial Statements (continued)

designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedging relationships as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the Group Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group Statement of Comprehensive Income when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a Group of similar financial assets) is de-recognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income.

Fair value measurements

The Group measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is the price that would be received to sell 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 Group must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or 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 using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Level 3 Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Derivative financial instruments (derivatives) and hedge accounting

The Group uses interest rate swaps to help manage its interest rate risk.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions meet the strict criteria for being described as "effective" in offsetting changes in cash flows of hedged items.

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently remeasured at fair value. The fair values of the Group's interest rate swaps are calculated by J.C. Rathbone Associates Limited, an independent specialist which provides treasury management services to the Group.

For swaps that have been cancelled which previously qualified for hedge accounting, the remaining value within the cash flow hedging reserve at the date of cancellation is recycled to the Statement of Comprehensive Income on a straight line basis from the date of cancellation to the original swap expiry date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument.

- where a derivative is designated as a hedge of the variability of a highly probable forecast transaction, such as an interest payment, the element of the gain or loss on the derivative that is an “effective” hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the Group Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Group Statement of Comprehensive Income i.e. when interest income or expense is recognised;
- the gain or loss on derivatives that do not meet the strict criteria for being “effective” and so do not qualify for hedge accounting and the non-qualifying element of derivatives that do qualify for hedge accounting, are recognised in the Group Statement of Comprehensive Income immediately. The treatment does not alter the fact that the derivatives are economic hedges of the underlying transaction.

Dividends payable to Shareholders

Dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements as they are appropriations of income. Furthermore, any final dividends would not be recognised until they have been approved by Shareholders at an Annual General Meeting.

Leases – Group as a lessor

The vast majority of the Group’s properties are leased out under operating leases and are included within investment properties. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. Finance income is recognised in the Group Statement of Comprehensive Income so as to achieve a constant rate of return on the remaining net investment in the lease. Interest income on finance leases is restricted to the amount of interest actually received.

2.3 Significant accounting estimates and judgements

The preparation of the Group financial statements requires management to make a number of estimates and judgements that affect the reported amounts of assets and liabilities and may differ from future actual results. The estimates and judgements that are considered most critical and that have a significant inherent risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

a) Estimates

Fair value of investment properties

Investment property includes (i) completed investment property, and (ii) investment property under construction. Completed investment property comprises real estate held by the Group or leased by the Group under a finance lease in order to earn rentals or for capital appreciation, or both.

The market value of a property is deemed, by the independent property valuers appointed by the Group, to be the estimated amount for which a property should exchange, on the date of valuation, in an arm’s length transaction. Properties have been valued on an individual basis, assuming that they will be sold individually over time. Allowances are made to reflect the purchaser’s costs of professional fees and stamp duty.

In accordance with RICS Appraisal and Valuation Standards, factors taken into account are current market conditions; annual rentals; state of repair, ground stability, contamination issues and fire, health and safety legislations.

In determining the fair value of investment properties under construction the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. Where assets under construction are pre-let and construction risk remains with the respective developer or contractor, these facts are taken into account in estimating fair values.

Fair value of derivatives

In accordance with IAS39, the Group values its derivative financial instruments at fair value. Fair value is estimated by J.C. Rathbone Associates Limited on behalf of the Group, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid price of the yield curve prevailing on 31 December 2013. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

Rent reviews

The Group’s occupational leases include periodic rent review provisions. All reviews are effectively upwards only and either reviewed to Open Market Rent, linked to RPI or subject to a fixed uplift at the review date. The Group accrues for the potential uplift in rent from the date of the review. Estimated rents are established by the Joint Advisers using their own data from previous reviews supported by estimates from third party advisers. The Group then accrues 90% of the estimated rental increase. Any additional rent receivable is booked on receipt when the rent review is agreed.

Notes to the Financial Statements (continued)

b) Judgements

Leases

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of the vast majority of the properties, which are leased out on operating leases. The Group has entered into a small number of finance lease arrangements where it has determined that it has transferred substantially all the risks and rewards incidental to ownership to the occupier.

Hedge effectiveness

The Group has a number of interest rate swaps that mature after the Group's bank facilities, to which they relate, are due to expire. In accordance with IAS39, in order to apply hedge accounting in relation to these interest rate swaps, the Group has determined that it is highly probable that these bank facilities will be re-negotiated on or before expiry and that variable interest rate debt finance will be in place until the expiry date of the swaps.

Property acquisitions during the year

The Directors have reviewed the acquisitions during the year on an individual basis in accordance with the requirements of IFRS3(R). They consider that they all meet the criteria of asset acquisitions rather than business combinations and have accounted for them as such. Although corporate entities were acquired, they were special purpose vehicles for holding properties rather than separate business entities. This judgement was made due to the absence of business processes inherent in the entities acquired.

2.4 Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for this Group as of 1 January 2013. The nature and the impact of each of the new standards and amendments are described below.

Other amendments to certain standards apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group.

- IFRS 13 Fair Value Measurement – IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group has considered the specific requirements relating to highest and best use, valuation premise, and principal (or most advantageous) market. The methods, assumptions, processes and procedures for determining fair value were revisited and adjusted where applicable. The resulting calculations under IFRS 13 affected the principles that the Group uses to assess the fair value, but the assessment of the fair value under IFRS 13 affected the principles that the Group uses to assess the fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed.

IFRS 13 mainly impacts the disclosures of the Group. It requires specific disclosures about the fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures.

The disclosure requirements of IFRS 13 apply prospectively and need not be provided for comparative periods before initial application. Consequently, comparatives of these disclosures have not been provided.

- IAS 1 Presentation of Other Items of Other Comprehensive Income – Amendments to IAS 1: The amendments to IAS 1 became effective 1 July 2012 and were first applied to the Group on 1 January 2013. The amendments introduce a grouping of items presented in Other Comprehensive Income (OCI). Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

2.5 Standards issued but not yet effective

Standards issued but not yet effective as of the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- IFRS 9 Financial Instruments: Will impact both the management and disclosures of Financial Instruments.
- IFRS 12 will impact the disclosure of interests the Group has in other entities.
- IFRS 10 Consolidated Financial Statements
- IAS 27 Separate Financial Statements
- IAS 28 (revised) Investments in Associate and Joint Ventures

The Directors do not expect the adoption of the Standards listed above to have a significant impact on the financial statements of the Group in future periods, other than IFRS 9 which will impact both the measurement and disclosure of financial instruments. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these new amended standards until a detailed review has been completed.

3. Rental and related income

Turnover comprises rental income and finance lease income receivable on property investments in the UK, which is exclusive of VAT. Turnover is derived from one reportable operating segment. Details of the lease income are given below.

Group as a lessor

a) The future minimum lease payments under non-cancellable operating leases receivable by the Group are as follows:

	Less than one year £000s	1-5 years £000s	More than 5 years £000s	Total £000s
2013	56,188	224,122	587,088	807,398
2012	38,208	152,536	421,031	611,775

The future minimum lease payments include amounts due in future years from investment properties under development at the year end.

b) There were no contingent rents recognised as income in the year.

The rental income earned on operating leases is recognised on a straight line basis over the lease term.

The Group leases medical centres to GPs, NHS organisations and other healthcare users, typically on long term occupational leases which provide for regular reviews of rent on an effectively upwards only basis.

4. Group operating profit is stated after charging

	2013 £000	2012 £000
Administrative expenses: recurring		
Advisory fees (note 4a)	4,847	4,166
Directors' fees (note 4c)	219	188
Property advisory fees and other services payable to Nexus	40	50
Other professional fees	315	139
Taxation Fees payable to corporate tax advisers		
Fees payable for compliance work	110	30
Fees payable for advisory work	88	52
Other expenses	186	284
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	100	120
Fees payable to the Company's auditor and their associates for other services to the audit of the Company's subsidiaries	92	95
Total audit fees	192	215
Audit-related assurance services	40	-
Other assurance services	8	-
Corporate finance services	35	-
Total non-audit fees	83	-
Total	6,080	5,124

a) Advisory fees

The advisory fee calculated and payable for the period to 31 December was as follows:

	2013 £000	2012 £000
Nexus	3,114	2,497
JOHCM	1,733	1,669
	4,847	4,166

Further details on the Advisory Agreement can be found in the Directors' Report on page 31.

As at 31 December 2013, £162,000 of advisory fees payable to JOHCM were outstanding (2012: £143,000) and £352,000 was payable to Nexus (2012: £242,000).

Further fees payable to Nexus in accordance with the Advisory Agreement of £65,000 (2012: £55,000) in respect of capital projects were capitalised in the year.

b) Performance Incentive Fee ("PIF")

Information about the Performance Incentive Fee ("PIF") is provided in the Directors' Report on page 32.

c) Remuneration of Directors

Information about the remuneration of individual directors is provided in the Directors' Remuneration Report on page 44.

d) Termination Fee: Non recurring

Fee payment on termination of the Joint Advisory Agreement:

	2013 £000	2012 £000
JOHCM	2,485	-

Following the announcement on 26 September 2013 by the Board of PHP to terminate the Joint Advisory Agreement, a contractual termination fee of £2.485m will be payable to JOHCM upon termination of their services on 30 April 2014. Accordingly, an appropriate provision has been recognised in the Group Statement of Comprehensive Income.

5. Profit on termination of finance lease

	2013 £000	2012 £000
Profit on termination of finance lease	638	-

On 27 March 2013, the Group recognised a profit on disposal of a property held under a finance lease. Disposal proceeds of £3.77m were received and the carrying value of the asset at the date of disposal was £3.13m. A small amount of disposal costs was incurred.

Notes to the Financial Statements (continued)

6. Finance income

	2013 £000	2012 £000
Interest income on financial assets		
Bank interest	41	206
Development loan interest	388	257
Other interest	5	55
	434	518

7. Finance costs

	2013 £000	2012 £000
Interest expense and similar charges on financial liabilities		
a) Interest paid		
Swap interest paid	7,699	6,860
Bank loan interest paid	12,021	10,296
Bond interest paid	4,314	1,789
Bank facility non-utilisation fees	976	733
Bank charges and loan commitment fees	1,440	1,082
	26,450	20,760
b) Early loan repayment fees		
Fee on breakage of Apollo debt	824	1,564
Fee on breakage of PHCC debt	126	-
	950	1,564

Following the Apollo transaction in December 2012, the debt assumed as part of the transaction was fully repaid in March 2013. An additional charge to the Group Statement of Comprehensive Income was made of £0.7 million in addition to an amount of £1.6 million provided for at December 2012. A contribution of £2.6 million was made by the vendors and factored into the acquisition price.

Following the PHCC transaction in July 2013, the debt assumed as part of the transaction was fully repaid in October 2013. An additional charge to the Group Statement of Comprehensive Income was made of £0.3 million.

c) Derivatives

Net fair value (gain)/loss on interest rate swaps	(12,003)	1,577
Amortisation of cash flow hedging reserve	571	1,345
	(11,432)	2,922

The fair value gain of £12.0 million (2012 loss: £1.6million) on derivatives recognised in the Group Statement of Comprehensive Income for the year has arisen from the interest rate swaps for which hedge accounting does not apply.

Details of the fair value loss on hedges which meet the effectiveness criteria for hedge accounting under IAS 39 are set out in note 26.

	2013 £000	2012 £000
Net finance costs		
Finance income (note 6)	(434)	(518)
Finance costs (as per above)	26,450	20,760
	26,016	20,242

8. Taxation

a) Tax credit in the Group Statement of Comprehensive Income

The tax credit is made up as follows:

	2013 £000	2012 £000
Current tax		
UK corporation tax (note 8b)	(1)	(1)

The tax credit relates to the release of tax provisions from prior years and variances in the amount of corporation tax paid in acquired companies against the agreed provision at acquisition.

A reduction in the UK corporation tax rate from 24% to 23% was effective from 1 April 2013. In addition, the Government announced its intention to further reduce the UK corporation tax rates from 23% to 21% from 1 April 2014 and 21% to 20% from 1 April 2015. Accordingly, these rates have been applied in the measurement of the Group's tax liability at 31 December 2013.

b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2012: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £000	2012 £000
Profit on ordinary activities before taxation	20,219	1,129
Theoretical tax at UK corporation tax rate of 23.3% (2012: 24.5%)	4,711	277
REIT exempt income	(3,280)	(1,857)
Transfer pricing adjustments	1,870	797
Non taxable items	(3,302)	819
Finance lease adjustment	1	1
Losses carried forward	-	(37)
Movement in tax provision relating to prior years	(1)	(1)
Current tax credit (note 8a)	(1)	(1)

9. Earnings per share

The calculation of basic and diluted earnings per share is based on the following:

	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number) ¹	Per Share (pence)
2013			
Basic earnings per share	20,220	89,121,611	22.7p
Adjustments to remove:			
Net result on property portfolio (Note 11)	(2,313)		
Fair value gain on derivatives ²	(11,432)		
Profit on termination of finance lease	(637)		
EPRA basic and diluted earnings per share	5,837	89,121,611	6.6p
Early loan repayment fee charges	950		
Non-recurring expenses:			
Costs associated with corporate purchase ³	217		
JOHCM Termination Fee	2,485		
UK corporation tax credit	(1)		
Adjusted basic and diluted earnings per share	9,487	89,121,611	10.6p
2012			
Basic earnings per share	1,130	72,675,900	1.6p
Adjustments to remove:			
Net result on property portfolio (Note 11)	1,768		
Fair value loss on derivatives ²	2,922		
EPRA basic and diluted earnings per share	5,820	72,675,900	8.0p
Provision for early repayment fees	1,564		
UK corporation tax credit	(1)		
Adjusted basic and diluted earnings per share	7,383	72,675,900	10.2p

(1) Weighted average number of Ordinary Shares in issue during the year.

(2) In view of the continuing volatility in the fair value adjustment of derivatives in respect of the period end valuation of derivatives that flows through the Group Statement of Comprehensive Income, the Directors believe that it is appropriate to remove the gain or loss in the calculation of adjusted earnings.

(3) Costs related to the PPP acquisition that were expensed as incurred in accordance with Accounting Standards.

10. Dividends

Amounts recognised as distributions to equity holders in the year:

	2013 £000	2012 £000
Second interim dividend for the year ended 31 December 2012 (9.50p) paid 22 April 2013 (2012: 9.25p)	7,006	5,969
Scrip dividend in lieu of second interim cash dividend	217	346
First interim dividend for the year ended 31 December 2013 (9.50p) paid 1 November 2013 (2012: 9.25p)	9,124	6,240
Scrip dividend in lieu of first interim cash dividend	171	661
Total dividends	16,518	13,216
Per share	19.0p	18.5p

Notes to the Financial Statements (continued)

11. Investment properties, investment properties under construction

Properties have been independently valued at fair value by Lambert Smith Hampton ("LSH"), Chartered Surveyors and Valuers, as at the balance sheet date in accordance with IAS 40: Investment Property. LSH confirm that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards ("Red Book"). The Valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location and category of investment property and have had full regard to market evidence when determining the values.

The properties are 99.7% let. The valuations reflected a 5.65% initial yield (2012: 5.72%) and a 5.92% (2012: 6.05%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the valuer.

In addition to the market value exercise performed by LSH, the Joint Advisers monitor the value of the Group's investment portfolio based on DCF analysis. Full details can be found in the Strategic Report on page 6.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the valuers have used the special assumptions that, as at the valuation date, the developments have been completed satisfactorily, the agreements of leases have been completed and the rents and other tenants lease obligations have commenced. A fair value increase of £478,000 (2012: decrease of £764,000) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on property portfolio in the year of £2.31 million (2012: loss of £1.77 million).

In line with Accounting Policies (page 54), the Group has treated the acquisitions during the year as asset purchases rather than business combinations as they were judged to be acquisitions of properties rather than businesses.

	Investment properties freehold £000	Investment properties long leasehold £000	Investment properties under construction £000	Total £000
As at 1st January 2013	513,345	93,371	15,731	622,447
Property Additions	19,927	9,750	18,447	48,124
Acquisition of PHCC ²	23,711	5,171	-	28,882
Acquisition of PPP ²	199,188	38,168	-	237,356
Impact of lease incentive adjustment	1,262	228	-	1,490
Transfer from properties in the course of development	14,702	8,275	(22,977)	-
Revaluations for the year	(1,101)	3,872	478	3,249
As at 31 December 2013	771,034	158,835	11,679	941,548
As at 1 January 2012	433,245	87,966	4,375	525,586
Property additions	30,111	1,021	10,234	41,366
Properties acquired during the year following				
Acquisition of Apollo Medical Partners Limited	41,966	4,247	11,550	57,763
Disposal ¹	-	-	(500)	(500)
Transfer from properties in the course of development	9,164	-	(9,164)	-
Revaluations for the year	(1,141)	137	(764)	(1,768)
As at 31 December 2012	513,345	93,371	15,731	622,447
Reconciliation of net result on property portfolio				
Additional consideration on property transactions	(17)	(919)	-	(936)
Revaluations for the year	(1,101)	3,872	478	3,249
Year ending 31 December 2013	(1,118)	2,953	478	2,313

(1) Disposal of long leasehold interest as part of acquisition of newly developed property at Pelton, County Durham.

(2) Figures include a fair value adjustment made on acquisition as well as acquisition related costs.

Additional consideration on property transactions relate to payments made following the letting of various areas of expansion space on certain properties acquired as part of the Apollo portfolio. Each letting has created additional rental income for the Group leading to an additional capital payment being made to the vendors.

Bank borrowings and bonds are secured on investment properties for the value of £929.14 million.

Fair value hierarchy

The following table provides the fair value measurement hierarchy for Investment property and investment property under construction as at 31 December 2013:

	Date of valuation £000	Total £000	Quoted prices in active markets (Level 1) £000	Significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Investment properties (Note 11)	31-Dec-13	941,548	-	-	941,548

The following table provides the fair value measurement hierarchy for Investment property and investment property under construction as at 31 December 2012:

	Date of valuation £000	Total £000	Quoted prices in active markets (Level 1) £000	Significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Investment properties (Note 11)	31-Dec-12	622,446	-	-	622,446

There have been no transfers between Level 1 and Level 2 during the year, nor have there been any transfers between Level 2 and Level 3 during the year.

Valuation techniques used to derive Level 3 fair values

The information in this note presents the following for each class of investment property:

- The fair value measurements at the end of the reporting period
- The level of the fair value hierarchy (e.g. Level 2 or Level 3) within which the fair value measurements are categorised in their entirety
- A description of the valuation techniques applied
- A summary of the inputs used in the fair value measurement
- For Level 3 fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement

The valuations have been prepared on the basis of Market Value (MV) which is defined in the RICS Valuation Standards, as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

Valuation techniques: market comparable method

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions.

Unobservable input: estimated rental value (ERV)

The rent at which space could be let in the market conditions prevailing at the date of valuation. (Range: £30,000-£1,157,725 per annum).

Unobservable input: rental growth

The estimated average increase in rent based on both market estimations and contractual situations.

Unobservable input: equivalent yield

The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review date, but with no further rental growth. (Range: 4.74%-6.58%)

Unobservable input: physical condition of the property

The properties are physically inspected on a three year rotating basis.

Notes to the Financial Statements (continued)

Special assumptions

With regards to properties in the course of development and in various stages of construction the following assumptions have been applied:

- That all works to construct the proposed developments have been completed fully and to an acceptable standard in accordance with plans and specifications;
- The leases to the various occupiers have been completed in accordance with the agreed lease terms you have provided to us; and
- The rent and other tenant and landlord obligations under the leases commence at the valuation date.

Sensitivity of measurement of significant unobservable inputs

- A decrease in the estimated annual rent will decrease the fair value.
- A decrease in the equivalent yield will increase the fair value.
- An increase in the remaining lease term will increase fair value.

12. Investments

Those subsidiaries listed below are considered to be the only principal subsidiaries of the Company:

Subsidiary
Primary Health Investment Properties Limited (PHIP) ¹
Primary Health Investment Properties (No. 2) Limited ¹
Primary Health Investment Properties (No. 3) Limited ¹
Primary Health Investment Properties (No. 4) Limited ¹
PHIP (5) Limited ²
Patientfirst Partnerships Limited ²
Patientfirst (Hinckley) Limited ²
Patientfirst (Burnley) Limited ²
Health Investments Limited ¹
Motorstep Limited ²
PHP Investments No1 Limited ²
PHP Investments No2 Limited ²
PHP Investments (2011) Limited ¹
PHP Bond Finance PLC ¹
PHP Healthcare Investments Limited ²
PHP (Stourbridge) Limited ²
PHP Clinics Limited ²
PHP St. Johns Limited ²
PHIP (Project Finance) Limited ²
PHP Empire Holdings Limited ¹
PHP AssetCo (2011) Limited ²
PHP Glen Spean Limited ²
Gracemount Medical Centre Limited ^{2,3,4}
PHP Primary Properties Limited ^{2,5}

With the exception of PHP Bond Finance PLC and Primary Health Investment Properties (No. 4) Limited, the principal activity of all of the above is property investment. PHP Bond Finance PLC and Primary Health Investment Properties (No. 4) Limited both act as intermediary financing companies within the Group. 100% of all voting rights and shares held directly or indirectly by the Company.

(1) Subsidiary directly held by the Company.

(2) Subsidiary indirectly held by the Company.

(3) Subsidiary acquired during the year.

(4) Subsidiary company registered in Scotland.

(5) Subsidiary acquired during the year (name changed from Prime Public Partnerships Limited post acquisition).

13. Net investment in finance leases

	2013 £000	2012 £000
Amounts due in more than five years	-	3,086
Amounts due between one and five years	-	14
	-	3,100
Amounts due in less than one year	-	21
	-	3,121

The asset held under a finance lease was disposed of on 27 March 2013 (see note 5)

	2013 £000	2012 £000
Gross investment in finance leases	-	8,781
Less: unearned financial revenues	-	(5,660)
Present value of future minimum lease payment receivables	-	3,121

14. Trade and other receivables

	2013 £000	2012 £000
Trade receivables	2,626	689
Prepayments and accrued income	1,370	1,275
Other debtors	768	775
VAT	-	177
	4,764	2,916

As at 31 December, the analysis of trade receivables, some of which were past due but not impaired, is set out below:

	2013 £000	2012 £000
Neither past due nor impaired:		
<30 days	1,998	425
Past due but not impaired:		
30-60 days	55	69
60-90 days	187	-
90-120 days	62	15
>120 days	324	180
	2,626	689

15. Cash and cash equivalents

	2013 £000	2012 £000
Cash held at bank	8,788	19,086
Restricted cash	500	6,010
	9,288	25,096

Restricted cash as at 31 December 2013 represents a deposit held by the Trustee of the Secured Bond issued by the Group. The deposit is held as temporary collateral awaiting the completion of a property asset that will be charged as security to the Trustee and the cash deposit released.

In the prior year, there were three separate cash deposits held with Aviva totalling £6.0m at the year end. The deposits were restricted and released upon a certified valuation certificate being issued against the three Apollo development properties. When the Apollo Aviva loan facilities were repaid on 25 March 2013, the cash deposits were set off against the loan facilities and formed part of the repayment.

Bank interest is earned at floating rates depending upon the bank deposit rate. Short term deposits may be made for varying periods of between one day and six months, dependent on available cash and forthcoming cash requirements of the Group. These deposits earn interest at various short term deposit rates.

16. Trade and other payables

	2013 £000	2012 £000
Trade payables	906	951
Bank and bond loan interest accrual	3,313	3,313
Other payables	7,671	5,545
VAT	2,302	-
Accruals	2,077	878
	16,269	10,687

An additional 283,720 shares were issued on 31 January 2014 upon agreement of the final completion accounts, and a further 235,475 shares were also issued on that date upon a Deed of Variation being entered into regarding the St Catherine's property. Provision has been made for these sums at the market price for a PHP share as at 31 December 2013 of 353 pence per share giving a total provision of £1.8 million.

On 26 September 2013 the Company announced the termination of the Joint Advisors Agreement with JOHCM. The contractual termination fee of £2.485 million will be payable to JOHCM upon termination of their services on 30 April 2014. Accordingly, an appropriate liability has been recognised in the Group Balance Sheet within other payables.

17. Provisions for liabilities and charges

	2013 £000	2012 £000
As at 1 January	-	-
Provision for early loan repayment fee	-	1,564
As at 31 December	-	1,564

As part of the acquisition of Apollo Medical Partners Limited and its subsidiary, Apollo Capital Projects Limited ("ACPL"), on 13 December 2012, PHP assumed fixed rate bank finance provided by Aviva with a total principal amount of £49.8 million. The Group has determined the fair value of the debt as at the date of acquisition to be £52.3 million, which has been recognised in the Group Balance Sheet.

On 19 December 2012, ACPL issued a repayment notice to Aviva giving the required three months' notice of its intention to repay the ACPL loans in full on expiry of the notice period.

As at 31 December 2012, PHP had recognised a provision based on the difference between the carrying value of the debt and the estimated sum required to settle the debt and meet the estimated early repayment charges that will crystallise on the repayment date. The Group's best estimate of the provision, based on applicable referenced gilt yields as at this date was £1.56 million, which had been recognised in the Group Statement of Comprehensive Income. In practice, the amount payable was £2.29 million, as a result of subsequent movement in reference gilt yields.

Notes to the Financial Statements (continued)

18. Borrowings: Term loans and overdrafts

The table indicates amounts drawn and undrawn from each individual facility:

	Facility		Amounts drawn		Undrawn	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Current						
Overdraft facility ¹	5,000	5,000	-	-	5,000	5,000
Fixed term loan ^{4 10}	1,857	629	1,857	629	-	-
Term to January 2013 ³	-	27,000	-	27,000	-	-
Fixed Rate term loan ⁸	-	52,305	-	52,305	-	-
	6,857	84,934	1,857	79,934	5,000	5,000
Non Current						
Term to March 2016 ²	140,000	175,000	100,500	125,000	39,500	50,000
Fixed Rate term loan ⁴	25,511	26,082	25,511	26,082	-	-
Fixed Rate term loan to December 2022 ⁵	25,000	25,000	25,000	25,000	-	-
Term to July 2014 ⁶	-	50,000	-	-	-	50,000
Term to November 2018 ⁷	75,000	75,000	75,000	75,000	-	-
Term to March 2017 ⁹	70,000	-	49,470	-	20,530	-
Fixed rate term 22 - 30 year ¹⁰	190,257*	-	190,257*	-	-	-
	525,768	351,082	465,738	251,082	60,030	100,000
	532,625	436,016	467,595	331,016	65,030	105,000

Providers:

- | | |
|---|--|
| (1) The Royal Bank of Scotland plc | (5) Aviva GPFC facility |
| (2) The Royal Bank of Scotland plc ("RBS") and Abbey National Treasury Services plc (branded Santander from January 2010) ("The Club Facility") | (6) Clydesdale Bank facility |
| (3) Allied Irish Banks, p.l.c | (7) Aviva facility |
| (4) Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032 | (8) Aviva facility (acquired as part of the Glen Spean acquisition in December 2012) repayable in tranches to 2037 - refinanced by Barclays loan |
| | (9) Barclays facility |
| | (10) Aviva facility (acquired with PPP) |

* The nominal value of this debt equals £177.9 million but includes an adjustment of £13.6 million to reflect the fair value of the debt on acquisition of PPP.

At 31 December 2013, total facilities of £677.6 million (2012: £511.0 million) including the £75 million Unsecured Retail Bond, £70 million Secured Bond and £5 million revolving overdraft facility were available. Of these facilities, as at 31 December 2013, £602.6 million was drawn (2012: £406.0 million) and secured by an unlimited guarantee from each respective subsidiary and a first fixed charge over the ownership of the assigned properties. The Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 20.

On 31 January 2013, the AIB £27 million loan facility was repaid without any requirement to redeem the pre-existing interest rate swaps and incur any related breakage fees.

On 25 March 2013, PHP successfully completed the refinancing of the Aviva facility assumed on acquisition of Apollo, with a new £50 million, four year, interest only, revolving loan facility provided by Barclays Bank Plc. On 29 April 2013 the Group subsequently increased the facility by £20 million to take total available borrowings under this facility to £70 million.

Total early repayment fees of £4.9 million were paid to Aviva, as compared to a provision of £4.2 million that was made in the 2012 full year accounts. The movement was due to fall in underlying gilt yields mirrored in a reduction in swap rates. PHP had received a contribution of £2.6 million toward this cost from the vendor upon the acquisition of Apollo.

On 18 October 2013, the Clydesdale Facility, which was due to expire in July 2014, was terminated early. The outstanding loan balance of £10 million was repaid in full on the same date.

On 2 December 2013, as a part of the PPP acquisition, PHP assumed £178.4 million in long term, fixed rate debt facilities with

Aviva Public Private Finance Limited. As part of the fair value exercise performed at acquisition, the Group attributed the fair value of these loans to be £192.1 million, which has been recognised in the Group Balance Sheet. The loans have terms ranging from 22 years to 30 years from inception of the loan and they have current contracted interest rates of 5.33 per cent to 6.09 per cent. Facility covenants include minimum levels of debt service cover by rental income (DSCR), with a range of 91.7 per cent to 104 per cent. See also note 32.

Since the term loan facilities have been in existence, the Group has suffered costs in association with the arrangement of the facilities including legal advice and loan arrangement fees. These costs are amortised over the remaining life of the related facility.

Any amounts unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	2013 £000	2012 £000
Term loans drawn: due within one year	1,857	79,934
Term loans drawn: due in greater than one year	465,738	251,082
Less: Unamortised borrowing costs	(3,567)	(3,177)
Total terms loan: due in greater than one year	462,171	247,905
Term loans in total per Group Balance Sheet	464,028	327,839

The Group has been in compliance with all of the financial covenants of the above facilities as applicable through the year. Further details are shown in note 21e.

19. Borrowings: Bonds

	2013	2012
Retail Bond July 2019	75,000	75,000
Bond November 2025	60,000	-
Issue Costs	(2,592)	(1,245)
	132,408	73,755

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a Retail Bond following the issue of a £75 million, unsecured, seven year bond, to retail investors with an annual interest rate of 5.375% paid semi-annually in arrears. The bond issue costs will be amortised on a straight line basis over seven years.

On 18 December 2013, PHP successfully listed the floating rate guaranteed secured bonds issued on 4 November 2013 (the "Bonds") on the London Stock Exchange. The Bonds have a nominal value of £70 million and mature on or about 30 December 2025. The remaining £10 million will be received on 30 June 2014 following the completion of four development assets acting as security. The Bonds will incur interest on the paid up amount at an annualised rate of 220 basis points above six month LIBOR, payable semi-annually in arrears.

20. Derivatives and other financial instruments

The Group uses interest rate swaps to mitigate exposure to interest-rate risk. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date.

	2013 £000	2012 £000
Fair value of interest rate swaps treated as cash flow hedges under IAS39 ("effective swaps")		
Current liabilities	(3,772)	(3,778)
Non-current liabilities	(10,499)	(23,637)
	(14,271)	(27,415)
Fair value of interest rate swaps not qualifying as cash flow hedges ("ineffective swaps")		
Non-current assets	472	-
Current liabilities	(3,794)	(3,745)
Non-current liabilities	(10,960)	(21,674)
	(14,282)	(25,419)
Total fair value of interest rate swaps	(28,553)	(52,834)
Total non-current assets	472	-
Total current liabilities	(7,566)	(7,523)
Total non-current liabilities	(21,459)	(45,311)

It is Group policy to maintain the proportion of floating rate interest exposure at between 20%-40% of total interest rate cost. Changes in the fair value of the contracts that do not meet the strict IAS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IAS 39 criteria and are designated as 'effective' cash flow hedges, the

change in fair value of the contract is recognised in the Statement of Changes in Equity through the cash flow hedging reserve. The result recognised in the Group Statement of Comprehensive Income on 'ineffective' cash flow hedges in 2013 was a £12.8 million profit (2012: £0.3 million loss).

Floating to fixed interest rate swaps with a contract value of £178.0 million (2012: £181.3 million) were in effect at the year-end. Details of all floating to fixed rate interest rate swaps contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2013			
£70.0 million	October 2013	January 2014	4.805
£50.0 million	August 2007	August 2021	4.835
£38.0 million	August 2007	August 2021	4.740
£10.0 million	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£178.0 million			

2012			
£50.0 million	August 2007	August 2021 ¹	4.835
£38.0 million	August 2007	August 2021 ¹	4.740
£73.3 million	July 2012	April 2013	4.805
£10.0 million	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£181.3 million			

Contracts not yet in effect			
£80.0 million	July 2015	July 2016	4.805
£10.0 million	June 2016	June 2026	4.510
£10.0 million	July 2016	July 2026	4.400
£10.0 million	July 2016	July 2026	4.475
£10.0 million	July 2016	July 2026	4.455
£20.0 million	July 2016	July 2026	4.479
£20.0 million	July 2017	July 2027	4.760

(1) On 27 February 2012 PHP signed an agreement to cancel the callability option held by the counter party on the £50.0 million and the £38.0 million swaps in place. The callability option has been cancelled for four years until 11 February 2016 at which time it will be reinstated.

Details of the two interest rate caps held by the Group are as follows:

Contract value	Start date	Maturity date	Premium paid ¹	Floating rate cap per % annum ²
£10.0 million	Oct 2011	Oct 2014	£31,000	3.00%
£10.0 million	Jan 2012	Jul 2014	£26,000	3.00%

(1) One-off fixed amount paid by PHP Group

(2) Payable by Clydesdale Bank PLC

Notes to the Financial Statements (continued)

21. Financial risk management

In pursuing its investment objectives, the Group is exposed to a variety of risks that could impact net assets or distributable profits.

The Group's principal financial liabilities, other than interest rates swaps, are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Strategic Review on pages 4 to 25. This note provides further detail on financial risk management and includes quantitative information on specific financial risks.

Financial risk factors

a) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating rates as the Group, generally, does not hold significant cash balances, with short term borrowings being used when required. To manage its interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon principal amount. Note 20 provides details of interest swap contracts in effect at the year end.

The sensitivity analysis below shows the impact on profit before tax and equity of reasonably possible movements in interest rates with all other variables held constant. It should be noted that the impact of movement in the interest rate variable is not necessarily linear.

The fair value is arrived at with reference to the difference between the contracted rate of a swap and the market rate for the remaining duration at the time the valuation is performed. As market rates increase and this difference reduces, the associated fair value also decreases.

		Effect on fair value of financial instruments £000	Effect on profit before taxation £000	Effect on equity £000
2013				
London InterBank Offered Rate	Increase of 50 basis points	8,615	2,916	11,531
London InterBank Offered Rate	Decrease of 50 basis points	(8,615)	(2,916)	(11,531)
2012				
London InterBank Offered Rate	Increase of 50 basis points	9,720	3,206	12,926
London InterBank Offered Rate	Decrease of 50 basis points	(9,720)	(3,206)	(12,926)

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under financial instruments or customer contract, leading to a financial loss. The Group is exposed to credit risk from its principal financial assets being cash and cash equivalents, trade and other receivables.

Trade receivables

Trade receivables, primarily tenant rentals, are presented in the balance sheet net of allowances for doubtful receivables and are monitored on a case-by-case basis. Impairment allowance is recorded where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable concerned. Credit risk is primarily managed by requiring tenants to pay rentals in advance. An analysis of trade receivables past due is shown in note 14. No trade receivables were impaired at the year end.

Bank and financial institutions

One of the principal credit risks of the Group arises from financial derivative instruments and deposits with banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and interest rate swaps is limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

c) Liquidity risk

The liquidity risk is that the Group will encounter difficulty in meeting obligations associated with its financial liabilities as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to maintain a mixture of available cash and committed bank facilities that are designed to ensure that the Group has sufficient available funds for its operations and to fund its committed capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by the joint managers.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments including interest.

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	> 5 years £000	Total £000
2013						
Interest-bearing loans and borrowings	-	7,209	21,627	268,525	534,200	831,561
Interest rate swaps (net)	-	2,042	6,127	46,013	66,581	120,763
Trade and other payables	119	7,890	4,080	1,182	511	13,782
	119	17,141	31,834	315,720	601,292	966,106
2012						
Interest-bearing loans and borrowings	-	80,667	10,534	173,116	217,633	481,950
Interest rate swaps (net)	-	1,925	5,771	25,170	48,962	81,828
Trade and other payables	88	6,196	2,292	1,619	492	10,687
	88	88,788	18,597	199,905	267,087	574,465

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given in the Borrowings section of the Business Review on page 18 and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2012: nil).

d) Market risk

Market risk is the risk that fair values of financial instruments will fluctuate because of changes in market prices. The Board of Directors has identified two elements of market risk that principally affect the Group - interest rate risk and other price risk.

Interest rate risk is outlined above. The Joint Advisers assess the exposure to other price risks when making each investment decision and monitor the overall level of market risk on the investment portfolio on an ongoing basis through a discounted cash flow analysis. Details of this analysis can be found on page 13 of the Strategic Report.

Fair values

Set out below is a comparison by class of the carrying amount and fair values of the Group's financial instruments that are carried in the financial statements.

	Book value 2013 £000	Fair value 2013 £000	Book value 2012 £000	Fair value 2012 £000
Financial assets				
Finance leases - due within one year	-	-	21	287
Finance leases - due in more than one year	-	-	3,100	4,516
Trade and other receivables	2,626	2,626	689	689
Cash and short-term deposits	9,288	9,288	25,096	25,096
Financial liabilities				
Interest-bearing loans and borrowings	596,436	602,595	(401,594)	(406,016)
Effective interest rate swaps (net)	(14,271)	(14,271)	(27,415)	(27,415)
Ineffective interest rate swaps	(14,282)	(14,282)	(25,419)	(25,419)
Trade and other payables	(13,784)	(13,784)	(10,687)	(10,687)

The fair value of the financial assets and liabilities is included as an estimate of the amount at which the instruments could be exchanged in a current transaction between willing parties, other than a forced sale. The following methods and assumptions were used to estimate fair values:

- The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements due to the short-term nature of these instruments.
- The fair value of floating rate borrowings and finance leases is estimated by discounting future cash flows using rates currently available for instruments with similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs.
- The fair values of the derivative interest rate swap contracts are estimated by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument.

Notes to the Financial Statements (continued)

21. Financial risk management (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
 Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
 Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
2013 derivative interest rate swaps	-	472	-	472
2012 derivative interest rate swaps	-	-	-	-
Liabilities				
2013 derivative interest rate swaps	-	(29,025)	-	(29,025)
2012 derivative interest rate swaps	-	(52,834)	-	(52,834)

e) Capital risk management

The primary objectives of the Group's capital management is to ensure that it remains a going concern, operates within its quantitative banking covenants and meets the criteria so as to continue to qualify for UK-REIT status.

The capital structure of the Group consists of shareholders' equity and net borrowings. The type and maturity of the Group's borrowings are analysed further in note 18 and the Group's equity is analysed into its various components in the Statement of Changes in Equity. The Board, with the assistance of the Joint Advisers, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for Shareholders.

Under its banking facilities, the Group is subject to the following capital and covenant requirements:

- Rental income must exceed borrowing costs by the ratio 1.3: 1.
- UK-REIT compliance tests. These include loan to property and gearing tests. The Group must satisfy these tests in order to continue trading as a UK-REIT. This is also an internal requirement imposed by the Articles of Association.

Facility level covenants also operate with regard to specific pods of property assets provided to lenders to secure individual load facilities. These range as follows:

Interest cover: 1:1 to 1.5:1

Loan to value: 60% to 100%

During the period the Group has complied with all of the requirements set out above.

	2013 £000	2012 £000
Fair value of completed investment properties	929,869	606,716
Fair value of development properties	11,679	15,731
Net investment in finance leases	-	3,121
	941,548	625,568
Carrying value of interest-bearing loans and borrowings	596,436	401,594
Unamortised borrowing costs	6,159	4,422
Less PPP fair value adjustment (see note 18)	(13,589)	
Less cash held	(9,288)	(25,096)
Nominal amount of interest-bearing loans and borrowings	579,718	380,920
Group loan to value ratio	61.6%	60.9%

22. Called up share capital

	2013 Number	2013 £000	2012 Number	2012 £000
Issued and fully paid at 50p each	110,474,230	55,237	76,034,208	38,017
At beginning of year	76,034,208	38,017	68,272,229	34,136
Scrip issues in lieu of second interim cash dividends	64,036	32	107,332	54
Scrip issues in lieu of first interim cash dividends	52,183	26	193,743	96
Proceeds from capital raisings	21,746,032	10,873	6,229,509	3,115
Shares issued as consideration for PPP (December 2013)	12,577,771	6,289	-	-
Shares issued as consideration for Apollo Medical Partners (December 2012)	-	-	1,231,395	616
At end of year	110,474,230	55,237	76,034,208	38,017

On 3 December 2013, the Company issued 12,577,771 new Ordinary Shares of 50 pence each at an agreed price of 320 pence per share as part of the consideration for the acquisition of Prime Public Partnerships Holdings Limited and its subsidiary Prime Public Partnerships Limited ("PPP"). The market price of a PHP share on the issue date was 331 pence. A further 283,720 Ordinary Shares of 50 pence each were issued on 31 January 2014 on agreement of the completion accounts of PPP. The market price of a PHP share on 31 January 2013 was 357 pence.

On 13 June 2013, the Company completed a share placing at a price of 315 pence per share. 21,746,032 shares were issued generating net cash proceeds of £65.8 million.

On 20 December 2012, the Company issued 1,231,395 new Ordinary Shares of 50 pence each at an agreed price of 320 pence per share as part of the consideration for the acquisition of Apollo Medical Properties Ltd and its subsidiary Apollo Capital Projects Limited.

On 24 May 2012, the Company completed a small share placing at a price of 305 pence per share. 6,229,509 shares were issued generating net cash proceeds of £18.4 million.

23. Share premium

	2013 £000	2012 £000
Balance at beginning of year	58,606	54,430
Reserves transfer	(3,325)	-
Share issue expenses	-	(6)
Shares issued as consideration for Apollo Medical Partners Limited	-	3,325
Scrip issues in lieu of interim cash dividends	330	857
Balance at end of year	55,611	58,606

During the year, an amount of £3.3 million has been transferred from Share Premium to the Special Reserve in regards to the Apollo transaction. This is in accordance with the merger relief provision of the Companies Act 2006 (see note 25). Company law restricts the applicability of the Share Premium account and in respect of the Company it may only be applied in paying unissued shares of the Company in respect of capitalisation issues and in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company.

24. Capital reserve

The capital reserve is held to finance any proposed repurchases of Ordinary Shares, following approval of the High Court in 1998.

	2013 £000	2012 £000
Balance at end of year	1,618	1,618

Notes to the Financial Statements (continued)

25. Special reserve

The special reserve arose on the Firm Placing and Placing and Open Offer on 7 October 2009, the Firm Placing on 12 April 2011 and 23 May 2012 and the Firm Placing, Placing, Open Offer and Offer for Subscription on 12 June 2013. It represents the share premium on the issue of the shares net of expenses.

	2013 £000	2012 £000
Balance at start of year	59,473	57,405
Placing: 13 June 2013 (2012: 23 May 2012)	57,627	15,885
Associated costs	(2,728)	(601)
Second interim dividend for the year ended 31 December 2012 (2012: 31 December 2011)	(7,006)	(5,969)
Scrip issue in lieu of second interim cash dividend	(217)	(346)
First interim dividend for the year ended 31 December 2013 (2012: 31 December 2012)	(9,124)	(6,240)
Scrip issue in lieu of interim cash dividends	(171)	(661)
Shares issued in consideration for PPP (note 22)	35,344	-
Share issue expenses	(1,040)	-
Reserves transfer	3,325	-
Balance at end of year	135,483	59,473

As the special reserve is a distributable reserve (in certain instances), the dividends declared in the year have been distributed from this reserve.

The issue of shares on 13 June 2013 (2012: 24 May 2012), referred to in note 22, was effected by way of a cash box mechanism. A cash box raising is a mechanism for structuring a capital raising whereby the cash proceeds from investors are invested in a subsidiary company of the parent instead of the parent itself. Use of a cash box mechanism has enabled the share premium arising from the issue of shares to be deemed to be a distributable reserve and has therefore been shown as a special reserve in these financial statements. Any issue costs are also deducted from the special reserve.

In the year, £35.3 million has been included within the Special Reserve which comprises the premium on the share placing for the acquisition of PPP through the operation of the merger relief provisions of the Companies Act 2006.

Also during the year, £3.3 million has been transferred from Share Premium to the Special Reserve in regards to the Apollo transaction under the same merger relief provisions (see note 23).

26. Cash flow hedging reserve

Information on the Group's hedging policy and interest rate swaps is provided in note 20.

The transfer to Group Statement of Comprehensive Income and the fair value movement on cash flow hedges which meet the effectiveness criteria under IAS 39, taken to equity can be analysed as follows:

	2013 £000	2012 £000
Balance at beginning of year	(27,177)	(26,892)
Fair value movement on cash flow hedges	8,457	(5,090)
Amortisation of cash flow hedge reserve	571	1,345
Reclassification adjustment for interest included in the Statement of Comprehensive Income ¹	3,812	3,460
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	12,840	(285)
Balance at end of year	(14,337)	(27,177)

(1) Included with finance costs in Group Statement of Comprehensive Income

The net movement on cash flow hedges is made up of the movement in the valuation of the effective swaps - gain £13,144,000 (2012: loss £1,776,000), less net accrued interest of £9,000 (2012: plus accrued interest of £146,000), add amortisation of cash flow hedge reserve £571,000 (2012: £1,345,000), less an amount posted to the Statement of Comprehensive Income reflecting the credit value adjustment of effective swaps £866,000 (2012: £nil).

27. Retained earnings

	2013 £000	2012 £000
Balance at beginning of year	48,553	47,423
Retained profit for the year	20,220	1,130
Balance at end of year	68,773	48,553

28. Net asset value per share

Net asset values have been calculated as follows:

	2013 £000	2012 £000
Net assets per Group Balance Sheet	302,385	179,090
Derivative interest rate swaps (net liability)	28,553	52,834
EPRA NAV	330,938	231,924
	No. of shares	No. of shares
Ordinary Shares: Issued share capital	110,474,230	76,034,208
Basic net asset value per Share	274p	236p
EPRA NAV per Share	300p	305p

EPRA NAV is calculated as Balance Sheet net assets including the valuation result on trading properties but excluding fair value adjustments for debt and related derivatives.

29. Capital commitments

As at 31 December 2013, the Group has entered into separate development agreements with third parties for the purchase of primary health developments; these agreements are conditional on the completion of certain building development work at a consideration of £17.1 million plus VAT (2012: £16.3 million plus VAT).

In 2012, the Group had entered into an agreement to purchase an investment property at a future date at a consideration of £3.6 million plus VAT. This purchase was completed on 1 February 2013.

30. Related party transactions

The terms and conditions of the Joint Advisers' Agreement are described in the Directors' Report on page 28 and the Directors' Remuneration Report on page 35. Details of the amounts paid in relation to related party transactions are provided in note 4 on page 59.

31. Contingent liabilities

The terms and conditions agreed on acquiring Apollo Medical Partners Limited ("Apollo") may oblige the Group to pay a number of potential additional elements of consideration conditional upon events that may be achieved by the vendor in an agreed period after the acquisition.

A number of the properties acquired with Apollo include small areas of vacant space to which no value was ascribed on acquisition. PHP has agreed a three year period within which the vendor is engaged to let this space and should they be successful, additional consideration may become payable, with the sums due being valued based on the underlying terms of each letting achieved, type of the tenant and the area of space let. The Group estimates the maximum potential payment for these events at £0.58 million as at 31 December 2013, but there is no certainty that such lettings will be achieved within the agreed time frame. The new lettings will add value to the investment portfolio.

32. Subsequent events

On 16 January 2014, PHP announced that it had contracted to fund the development of and acquire a new, modern, purpose built medical centre to be constructed in Wrexham. The total consideration will be £2.25 million.

On 28 January 2014, PHP announced that it had issued 518,243 new Ordinary Shares of 50 pence each in relation to the acquisition of PPP. The issued shares have been issued to the vendors of PPP in accordance with the terms of the Acquisition Agreement.

Since the year end, the Group has received credit approved confirmation from RBS that an amount of £25 million has been re-instated to the Club Facility. This will be advanced on the same terms as the existing Club Facility.

Company Balance Sheet

as at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Investment in subsidiaries	5	246,975	150,276
		246,975	150,276
Current assets			
Debtors	6	3,561	3,620
Cash at bank	7	12	68
		3,573	3,688
Debtors due in more than one year			
Intercompany debtors		99,051	80,335
Total assets		349,599	234,299
Creditors: amounts falling due within one year			
Other creditors and accruals	8	(4,341)	(1,871)
Current liabilities		(4,341)	(1,871)
Net current assets		(768)	1,817
Creditors: amounts falling due after more than one year			
Intercompany creditors		(23,875)	(10)
Borrowing: Bond	9	(73,941)	(73,755)
Net assets		247,442	158,663
Capital and reserves			
Share capital	10	55,237	38,017
Share premium	11	55,611	58,606
Capital reserve		1,618	1,618
Special reserve	12	135,483	59,473
Retained earnings		(507)	949
Equity Shareholders' funds		247,442	158,663
Net asset value per share			
• basic	13	224p	209p

These financial statements were approved by the Board of Directors on 19 February 2014 and signed on its behalf by:

Graeme Elliot
Chairman

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2013

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve ² £000	Retained earnings £000	Total £000
1 January 2013	38,017	58,606	1,618	59,473	949	158,663
Loss for the year	-	-	-	-	(1,456)	(1,456)
Proceeds from capital raisings	10,873	-	-	57,627	-	68,500
Expenses of capital raisings	-	-	-	(2,728)	-	(2,728)
Share issue as part of consideration for PPP	6,289	-	-	35,344	-	41,633
Less: Share issue expenses	-	-	-	(1,040)	-	(1,040)
Reserves transfer ³	-	(3,325)	-	3,325	-	-
Dividends paid:						
Second interim dividend for the year ended						
31 December 2012 paid 9.50p 22 April 2013 (2012: 9.25p)	-	-	-	(7,006)	-	(7,006)
Scrip dividends in lieu of interim cash dividends	32	185	-	(217)	-	-
First interim dividend for the year ended						
31 December 2013 paid 9.50p 1 November 2013 (2012: 9.25p)	-	-	-	(9,124)	-	(9,124)
Scrip dividend in lieu of final cash dividend	26	145	-	(171)	-	-
31 December 2013	55,237	55,611	1,618	135,483	(507)	247,442
1 January 2012	34,136	54,430	1,618	57,405	23	147,612
Profit for the year	-	-	-	-	926	926
Proceeds from capital raisings	3,115	-	-	15,885	-	19,000
Expenses of capital raisings	-	-	-	(601)	-	(601)
Share issue as part of consideration for Apollo	616	3,325	-	-	-	3,941
Less: Share issue expenses	-	(6)	-	-	-	(6)
Dividends paid:						
Second interim dividend for the year ended						
31 December 2011 paid 9.25p 2 April 2012 (2011: 9.00p)	-	-	-	(5,969)	-	(5,969)
Scrip dividends in lieu of interim cash dividends	54	292	-	(346)	-	-
First interim dividend for the year ended						
31 December 2012 paid 9.25p 26 October 2012 (2011: 9.00p)	-	-	-	(6,240)	-	(6,240)
Scrip dividend in lieu of final cash dividend	96	565	-	(661)	-	-
31 December 2012	38,017	58,606	1,618	59,473	949	158,663

(1) Attributable to the equity holders of Primary Health Properties PLC.

(2) The Special reserve is a distributable reserve.

(3) £3.3 million has been transferred from Share Premium to the Special Reserve in regards to the Apollo transaction under the merger relief provision of the Companies Act 2006.

Notes to the Company Financial Statements

1. Accounting policies

Basis of preparation/statement of compliance

These financial statements have been presented as required by the Companies Act 2006 and have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and policies in the United Kingdom ("UK GAAP").

The Company has taken advantage of the Companies Act 2006 exemption from presenting a Company Profit and Loss Account together with related profit and loss notes. The Company has also taken advantage of the exemption from preparing a cash flow statement, under the terms of FRS 1 (Revised 1996) 'Cash Flow Statements'.

The loss attributable to the Parent Company for the financial year amounted to £1.5 million (2012: profit of £0.9 million).

Convention

The financial statements are presented in Sterling rounded to the nearest thousand.

Conversion to UK-REIT

The Group, of which the Company is parent, converted to a UK-REIT effective 1 January 2007 and consequently, the Company's profit is exempt from tax under UK-REIT regulations.

Income

Revenue is recognised in the financial statements as follows.

Interest income

Revenue is recognised as interest accrues using the effective interest method: that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Dividend income is recognised in the period in which it received Board approval and hence, when the Company's right to receive payment is established.

Investment in subsidiaries

The carrying value of investments in subsidiaries is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

2. Segmental reporting

The Company operates under one business segment and one geographical segment being the holding Company of subsidiaries that invest in primary health care property within the United Kingdom.

3. Taxation

	2013 £000	2012 £000
UK Corporation tax	-	-

4. Dividends

Amounts recognised as distributions to equity holders in the year:

	2013 £000	2012 £000
Second interim dividend for the year ended 31 December 2013 (9.50p) paid 22 April 2013 (2012: 9.25p)	7,006	5,969
Scrip dividend in lieu of second interim cash dividend	217	346
First interim dividend for the year ended 31 December 2013 (9.50p) paid 1 November 2013 (2012: 9.25p)	9,124	6,240
Scrip dividend in lieu of first interim cash dividend	171	661
Total dividends	16,518	13,216
Per share	19.0p	18.5p

5. Investments

Investment in subsidiaries

	Shares £000	Loans £000	Total £000
At 1 January 2013	80,231	70,045	150,276
Acquisition of PPP Limited	43,403	-	43,403
Acquisition of PHCC Limited	10,246	-	10,246
Incorporation of PHP Bond Finance plc as a subsidiary	13	-	13
Increase in loans to subsidiaries during the year	-	43,037	43,037
At 31 December 2013	133,893	113,082	246,975
At 1 January 2012 (restated)*	76,220	30,318	106,538
Transfer from other group company	4,695	-	4,695
Impairment of investment	(684)	-	(684)
Increase in loans to subsidiaries during the year	-	39,727	39,727
At 31 December 2012	80,231	70,045	150,276

* The opening balance has been restated in order to accurately reflect the split of investments between shares and loans. This had no effect on the total opening investment balance.

The principal subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and ordinary shares held
Primary Health Investment Properties Limited (PHIP) ¹	Property investment	100%
Primary Health Investment Properties (No. 2) Limited ¹	Property investment	100%
Primary Health Investment Properties (No. 3) Limited ¹	Property investment	100%
Primary Health Investment Properties (No. 4) Limited ¹	Property investment	100%
PHIP (5) Limited ²	Property investment	100%
Patientfirst Partnerships Limited ²	Property investment	100%
Patientfirst (Hinckley) Limited ²	Property investment	100%
Patientfirst (Burnley) Limited ²	Property investment	100%
Health Investments Limited ¹	Property investment	100%
Motorstep Limited ²	Property investment	100%
PHP Investments No1 Limited ²	Property investment	100%
PHP Investments No2 Limited ²	Property investment	100%
PHP Investments (2011) Limited ¹	Property investment	100%
PHP Bond Finance PLC ¹	Property investment	100%
PHP Healthcare Investments Limited ²	Property investment	100%
PHP (Stourbridge) Limited ²	Property investment	100%
PHP Clinics Limited ²	Property investment	100%
PHP St. Johns Limited ²	Property investment	100%
PHIP (Project Finance) Limited ²	Property investment	100%
PHP Empire Holdings Limited ¹	Property investment	100%
PHP AssetCo (2011) Limited ²	Property investment	100%
PHP Glen Spean Limited ²	Property investment	100%
Gracemount Medical Centre Limited ^{2,3,4}	Property investment	100%
PHP Primary Properties Limited ^{2,5}	Property investment	100%

With the exception of PHP Bond Finance PLC and Primary Health Investment Properties (No. 4) Limited, the principal activity of all of the above is property investment. PHP Bond Finance PLC and Primary Health Investment Properties (No. 4) Limited both act as intermediary financing companies within the Group. 100% of all voting rights and shares held directly or indirectly by the Company.

The principal activity of all of the above is Property Investment and the Company has a 100% proportion of voting rights and shares held.

There are 18 further subsidiaries, all of which are incorporated in the UK. A list of these can be found on the latest Annual Return filed by the Company on 12 April 2013.

(1) Subsidiary directly held by the Company. (2) Subsidiary indirectly held by the Company. (3) Subsidiary acquired during the year (4) Subsidiary company registered in Scotland. (5) Subsidiary acquired during the year (name changed from Prime Public Partnerships Limited post acquisition).

Notes to the Company Financial Statements (continued)

6. Debtors

	2013 £000	2012 £000
VAT	-	74
Other debtors and prepayments	21	6
6% Preference dividend due from subsidiary	3,540	3,540
	3,561	3,620

7. Cash at bank

	2013 £000	2012 £000
Cash held at bank	12	68

8. Creditors: amounts falling due within one year

	2013 £000	2012 £000
Other creditors and accruals	4,341	1,871

9. Borrowing: Bond

	2013	2012
Retail Bond July 2019	75,000	75,000
Unamortised issue costs	(1,059)	(1,245)
	73,941	73,755

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a Retail Bond following the issue of a £75 million, unsecured, seven year bond, to retail investors with an interest rate of 5.375% paid semi-annually in arrears. The bond issue costs will be amortised on a straight line basis over seven years.

10. Called up share capital

	2013 Number	2013 £000	2012 Number	2012 £000
Issued and fully paid at 50p each	110,474,230	55,237	76,034,208	38,017
At beginning of year	76,034,208	38,017	68,272,229	34,136
Scrip issue in lieu of second interim cash dividends	64,036	32	107,332	54
Scrip issue in lieu of first interim cash dividend	52,183	26	193,743	96
Proceeds from capital raisings	21,746,032	10,873	6,229,509	3,115
Shares issued in consideration of PPP Ltd - Dec 2013	12,577,771	6,289	-	-
Shares issued in consideration of Apollo Medical Partners Ltd - Dec 2012	-	-	1,231,395	616
At end of year	110,474,230	55,237	76,034,208	38,017

On 3 December 2013, the Company issued 12,577,771 new Ordinary Shares of 50 pence each at an agreed price of 320 pence per share as part of the consideration for the acquisition of Prime Public Partnerships Holdings Limited and its subsidiary Prime Public Partnerships Limited ("PPP"). The market price of a PHP share on the issue date was 331 pence. A further 283,720 Ordinary Shares of 50 pence each were issued on 31 January 2014 on agreement of the completion accounts of PPP. The market price of a PHP share on 31 January 2013 was 357 pence.

On 13 June 2013, the Company completed a share placing at a price of 315 pence per share. 21,746,032 shares were issued generating net cash proceeds of £65.8 million.

On 20 December 2012, the Company issued 1,231,395 new Ordinary Shares of 50 pence each at an agreed price of 320 pence per share as part of the consideration for the acquisition of Apollo Medical Properties Ltd and its subsidiary Apollo Capital Projects Limited.

On 24 May 2012, the Company completed a small share placing at a price of 305 pence per share. 6,229,509 shares were issued generating net cash proceeds of £18.4 million.

Notes to the Company Financial Statements (continued)

11. Share premium

	2013 £000	2012 £000
Balance at beginning of year	58,606	54,430
Reserves transfer	(3,325)	-
Issue expenses	-	(6)
Shares issued in consideration for Apollo Medical Partners Limited	-	3,325
Scrip issue in lieu of interim cash dividends	330	857
Balance at end of year	55,611	58,606

During the year an amount of £3.3 million has been transferred from Share Premium to the Special Reserve in regards to the Apollo transaction. This is in accordance with the merger relief provision of the Companies Act 2006 (see note 25).

Company law restricts the applicability of the Share Premium account and in respect of the Company it may only be applied in paying unissued shares of the Company in respect of capitalisation issues and in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company.

12. Special reserve

The special reserve arose on the Firm Placing and Placing and Open Offer on 7 October 2009, the Firm Placings on 12 April 2011 and 23 May 2012 and the Firm Placing, Placing, Open Offer and Offer for Subscription on 12 June 2013. It represents the share premium on the issue of the shares net of expenses.

	2013 £000	2012 £000
Balance at start of year	59,473	57,405
Placing: 13 June 2013 (2012: 23 May 2012)	57,627	15,885
Associated costs	(2,728)	(601)
Second interim dividend for the year ended 31 December 2012 (2012: 31 December 2011)	(7,006)	(5,969)
Scrip issue in lieu of second interim cash dividend	(217)	(346)
First interim dividend for the year ended 31 December 2013	(9,124)	(6,240)
Scrip issue in lieu of interim cash dividends	(171)	(661)
Shares issued in consideration for PPP	35,344	-
Share issue expenses	(1,040)	-
Reserves transfer	3,325	-
Balance at end of year	135,483	59,473

As the special reserve is a distributable reserve, the dividends declared in the year have been distributed from this reserve.

The issue of shares on 13 June 2013 (2012: 24 May 2012), referred to in note 22, was effected by way of a cash box mechanism. A cash box raising is a mechanism for structuring a capital raising whereby the cash proceeds from investors are invested in a subsidiary company of the parent instead of the parent itself. Use of a cash box mechanism has enabled the share premium arising from the issue of shares to be deemed to be a distributable reserve and therefore has been shown as a special reserve in these financial statements. Any issue costs are also deducted from the special reserve.

In the year, £35.3 million has been included within the Special Reserve which comprises the premium on the share placing for the acquisition of PPP through the operation of the merger relief provisions of the Companies Act 2006.

Also during the year, £3.3 million has been transferred from Share Premium to the Special Reserve in regards to the Apollo transaction under the same merger relief provisions (see note 11).

13. Net asset value per ordinary share

	2013 pence	2012 pence
Basic and diluted	224	209

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £247.0 million (2012: £158.7 million) and on 110,474,230 (2012: 76,034,208 shares), being the number of shares in issue at the year end.

14. Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling 17.1 million (2012: £16.3 million).

15. Related party transactions

Details of related party transactions are provided in the Directors' Report on page 31, Directors' Remuneration Report on page 43 and notes 44 to the Group Financial Statements on page 73. There are no employees other than the Directors, listed on page 84.

The Company has taken advantage of the exemption available in FRS8 "Related Party Disclosures" not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

Shareholder Information

Financial calendar 2014

Announcement of 2013 Annual Results	20 February
2013 Annual Report posted	5 March
Second interim cash dividend (2013) payment	25 April
Interim Management Statement for the quarter ended 31 March 2014	10 April
Annual General Meeting	10 April
Half year end	30 June
Announcement of Half Year Results	August
Expected first interim cash dividend (2014) payment	October
Interim Management Statement for the quarter ended 30 September 2014	November
Financial year end	31 December

Dividends

	2013 2nd Interim	2013 1st Interim	2012 2nd Interim	2012 1st Interim
Rate per share	9.75p	9.50p	9.50p	9.25p
Ex-dividend date	12.03.14	18.09.13	6.03.13	26.09.12
Record date	14.03.14	20.09.13	8.03.13	28.09.12
Payment date	25.04.14	01.11.13	22.04.13	26.10.12

Investment Account

As described in the Directors' Report, the Company has made arrangements for an Investment Account to be made available to allow investors to purchase the Company's Ordinary Shares. The Investment Account Service is provided by Equiniti Financial Services Limited and is designed to allow lump sum and regular savings to facilitate the purchase of the Company's shares. The URL link accessing the detail and forms for the this Service can be accessed from the Company website or alternatively at:

www.shareview.co.uk/dealing.

For details of the service please contact:

Equiniti, PO Box 4605, Aspect House, Spencer Road, Lancing,
West Sussex, BN99 6DA
Shareholder helpline: 0845 300 0430

Equiniti Financial Services Limited is authorised and regulated by the Financial Conduct Authority.

As with all stock market investments, the price of shares can go down as well as up and on sale investors may not get back the full amount they invested.

Share price

The Company's mid market share price is quoted daily in the Financial Times appearing under "Real Estate" and is quoted on the Company's website.

Payment of dividends

If you would like your dividend/interest paid directly into your bank or building society account you should write to Equiniti Registrars including details of your nominated account. Although this will enable your dividend/interest to be paid directly into your account, your tax voucher will be sent to your registered address.

Scrip Dividend Scheme

The optional Scrip Dividend Scheme enables Shareholders to receive new Ordinary Shares in PHP instead of cash dividends without incurring dealing costs, stamp duty or stamp duty reserve tax by electing to take a scrip dividend instead of a cash dividend. A circular describing the scrip dividend offer will be posted to Shareholders at the appropriate time.

Taxation status

The REIT Regulations in force require that a REIT is obliged to pay distributions equal to 90% of its exempt rental income (as

calculated for tax purposes). Distributions from the Company may comprise PIDs, ordinary cash dividends or a combination of the two. No PIDs have been paid by the Group since 1 January 2007. A PID will be taxed as property letting income for Shareholders who pay tax, but this is separate from any other property letting business they may carry on. PIDs are paid out under deduction of tax at the basic rate (currently 20% withholding tax). The Regulations provide that tax is not deducted if the PID is paid to certain classes of Shareholders, in particular UK Companies, charities, local authorities and UK Pension schemes.

In order to pay a PID without withholding tax, the Company has to be satisfied that the shareholder concerned is entitled to that treatment. For that purpose the Company requires Shareholders to submit a valid form. Shareholders who wish to apply for a Tax Exemption Form should contact the registrars on 0871 384 2030* or apply in writing to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

* Calls to this number are charged at 8p per minute plus network extras. Lines are open 8.30am to 5.30pm Monday to Friday.

Her Majesty's Revenue and Customs ("HMRC") has produced guidance on Real Estate Investment Trusts paying PIDs to non residents and this can be found at the following web address: <http://www.hmrc.gov.uk/cnr/dt-guide-note-9.htm>.

The above is a general guide only and Shareholders who have any doubt about their tax position should consult their own appropriate independent professional adviser.

General information about the Company

General information about the Company can be found on the PHP web site at www.phpgroup.co.uk. Alternatively you may contact Harry Hyman, Phil Holland or Tim Walker-Arnott on 020 7451 7050.

Registered No. 3033634

Share dealing

Investors wishing to purchase more Ordinary Shares or dispose of all or part of their holding may do so through a stockbroker. Many banks also offer this service.

The Company's registrars are Equiniti. In the event of any queries regarding your holding of shares, please contact the registrars on 0871 384 2030*.

Changes of name or address must be notified to the registrars in writing.

Equiniti Shareview dealing services

A quick and easy share dealing service is available to either sell or buy more PHP shares. An online and telephone dealing facility is available providing Shareholders with an easy to access and simple to use service.

The table below provides you with details of the associated charges.

There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal online or by telephone all you need is your shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest dividend statement. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service, or to buy and sell shares, please contact:

Equiniti customer services 0845 300 0430
(8.00am – 6.00pm Monday to Friday)
www.shareview.co.uk/dealing

Equiniti Shareview dealing services associated charges

	Trade value	Percentage of trade value	Minimum charge
Telephone	£0-£50,000	1.50%	£45
	£50,001+	1.50%	on first £50,000
		0.20%	on remainder
Internet		1.50%	£40

Corporate Profile and Advisers

Directors

Graeme Elliot (Chairman)
Mark Creedy
James Hambro
William Hemmings
Harry Hyman (Managing Director)
Alun Jones (Chairman of Audit Committee
and Senior Independent Director)
Steven Owen (appointed 1 January 2014)
Dr Ian Rutter OBE

Company Secretary and Registered Office

J O Hambro Capital Management Limited
Ground Floor, Ryder Court
14 Ryder Street, London SW1Y 6QB
Tel: 020 7747 5678
Fax: 020 7747 5612

With effect from 30 April 2014 the
Company Secretary and Registered Office
will be:

Nexus Tradeco Limited
5th Floor, Greener House
66-68 Haymarket, London SW1Y 4RF
Tel 020 7451 7050

Joint Advisers

Nexus Tradeco Limited
5th Floor, Greener House
66-68 Haymarket, London SW1Y 4RF
Tel: 020 7451 7050

J O Hambro Capital Management Limited
Ground Floor, Ryder Court
14 Ryder Street, London SW1Y 6QB
Tel: 020 7747 5678

Registrars

Equiniti
Aspect House, Spencer Road, Lancing
West Sussex BN99 6DA
General enquiries: 0871 384 2030*
Telephone dealing: 0845 300 0430
Online dealing:
www.shareview.co.uk/dealing

Stockbrokers

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square, London EC4M 7LT

Peel Hunt Limited
Moor House, 120 London Wall
London, EC2Y 5ET

Solicitors

Nabarro LLP
Lacon House, 84 Theobald's Road
London WC1X 8RW

Tods Murray LLP
Edinburgh Quay, 133 Fountainbridge
Edinburgh EH3 9AG

Auditors

Deloitte LLP
2 New Street Square,
London EC4A 3BZ

Bankers

Aviva Commercial Finance Limited
Surrey Street, Norwich NR1 3NJ

Barclays Bank PLC,
1 Churchill Place, London E14 5HP

The Royal Bank of Scotland Plc
280 Bishopsgate, London EC2M 3UR

Santander Corporate Banking
2 Triton Square, Regent's Place
London NW1 3AN

Environmental consultant

Collier & Madge
One Great Cumberland Place
London W1H 7AL

Property valuer

Lambert Smith Hampton Group Limited
Interchange Place, Edmund Street
Birmingham B3 2TA



The paper in this report is a FSC certified product, produced with an FSC mixed sources pulp which is fully recyclable, biodegradable & Chlorine free. It is manufactured within a mill which complies with the international environmental ISO 14001 standard.

It has been printed using environmentally friendly vegetable based inks, formulated on the basis of renewable raw materials, vegetable oils are non-hazardous from renewable sources. Over 90% of solvents and developers are recycled for further use and recycling initiatives are in place for all other waste associated with this production. The printers are FSC and ISO 14001 certified with strict procedures in place to safeguard the environment through all their processes and are working on initiatives to reduce their Carbon Footprint.



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