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 2014 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 Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity, the Parent Company Reconciliation of Movement in Shareholders' Funds and the related Notes 1 to 30 for the Group and 1 to 16 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 47 and 48 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
Valuation of property portfolio The Group owns and manages a portfolio of modern primary healthcare properties that are carried at fair value in the financial statements. The portfolio is valued at £1,026.2 million as at 31 December 2014. The valuation is subject to estimation uncertainty because it is underpinned by a number of judgements and assumptions. The Group uses a professionally qualified external valuer to provide the fair value of 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 made by management for all costs necessary to complete the development. Please see accounting policy at page 58 and Note 11 to the financial statements.	We assessed management's process for reviewing and challenging the work of the external valuer. We also assessed the competence, independence and integrity of the external valuer. We obtained the external valuation reports and met with the external valuer appointed by management to discuss the results of their work on a sample of properties. We assessed the valuation process, performance of the portfolio and significant judgements and assumptions applied in the valuations, including estimated rental values and yields. We challenged the key assumptions, in particular the yield, by benchmarking against comparable portfolios. We tested the integrity of the data provided by management to the external valuer by vouching a sample of the information to the underlying lease agreements. We assessed the forecast costs to complete on development properties by reviewing the commitment per the development agreement and auditing a sample of costs incurred in the year to supporting documentation.

Risk	How the scope of our audit responded to the risk
Accounting for financing transactions PHP has undertaken significant financing transactions in the year, including the modification of existing debt facilities and the issue of an £82.5 million convertible bond. The accounting standards in relation to the initial recognition and subsequent measurement of such transactions are typically complex and require judgement from management. Please see accounting policy at page 60 and Notes 16 and 17 to the financial statements.	We have audited the initial recognition and subsequent measurement of each significant transaction within the financial statements against the relevant accounting standards. We have audited the legal documents which govern the financial transactions and confirmed the flow of funds into the Group. We audited a sample of the costs in relation to each significant transaction and assessed the presentation within the financial statements.
Valuation of derivative financial instruments The Group uses a portfolio of interest rate swaps to hedge the risk associated with the variable rate debt facilities. These are recognised in the financial statements at fair value and give rise to a significant audit risk due to the complexity and judgement required in the valuation and recognition in the financial statements. The portfolio was valued at a liability of £41.0 million at 31 December 2014. The Group uses a professionally qualified external valuer to provide the fair value of the Group's interest rate swap portfolio at six-monthly intervals. The portfolio was valued by assessing future interest rates in order to provide a present value of the cash flows payable on the swap contract. Please see accounting policy at pages 60 and 61 and Note 18 to the financial statements.	With the assistance of a member of the audit team who specialises in financial instrument valuations, we have audited a sample of the interest rate swaps by assessing and recalculating the valuation using our own models with reference to the terms of the underlying derivative contracts. We have independently recalculated hedge effectiveness calculations and reviewed the hedge designation documentation for a sample of the hedged instruments to assess that the appropriate hedge accounting has been reflected in the financial statements.
Revenue recognition in respect of outstanding rent reviews and tenant incentives Within the property portfolio there are a number of leases which require adjusted accounting entries. These include rent free periods, fixed rental increases or where the Group recognises 90% of the expected uplift from rent reviews from the date when a rent review falls due to the date it is settled. Please see accounting policy at page 59 and Note 3 to the financial statements.	In respect of tenant incentives and fixed rental uplifts, we have agreed the terms of the leases within the calculation to a sample of underlying lease agreements and recalculated the associated accounting entries. We have tested a sample of rental income recognised under the 90% policy by assessing the accuracy of the predicted future rent against the settled rent reviews in the period and reviewing the estimated rental values for a sample of leases in the calculation against the value assumed by the external valuer in the valuation process. We have tested a sample of further lease agreements to ensure there are not further tenant incentives or fixed rental uplifts to be recognised.

Last year our report included an additional risk relating to the accounting for property transactions. This is not included in our report this year due to the lower complexity of current year acquisitions and disposals.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 37 and 38.

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 materiality for the Group to be £6.2 million (2013: £6.0 million), which is based on 2% (2013: 2%) of net assets. In addition to net assets, we consider EPRA Earnings to be a critical financial performance measure for the Group and we applied a lower threshold of £0.6 million (2013: £0.4 million) based on 5% (2013: 5%) of that measure for testing of all impacted balances.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £125,000 (2013: £100,000), 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 group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. The Group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally, as the books and records for each entity within the Group are maintained at the offices of the adviser.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

We audit all of the Group's subsidiaries which are subject to audit at statutory materiality level, which in most cases is substantially lower than Group materiality.

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 ten 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

18 February 2015