NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Group's financial statements for the year ended 31 December 2014 were approved by the Board of Directors on 18 February 2015 and the Balance Sheets were signed on the Board's behalf by the Chairman, Alun Jones. 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 prepared on the going concern basis and 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.

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 individual 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. Investment properties and those under construction are initially 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 entity 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 units, 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.

Net rental income
Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. Such adjustments are accrued at 90% of the additional rental income that is expected to result from the review. 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. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

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.

Convertible bond
The convertible bond is designated as "at fair value through profit or loss" and so is presented on the Group Balance Sheet at fair value with all gains and losses, including the write-off of issuance costs, recognised in the Group Statement of Comprehensive Income. The interest charge in respect of the coupon rate on the bond has been recognised within the underlying component of net financing costs on an accruals basis. Refer to Note 17 for further details.

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 are effectively converted to UK-REIT status from the date on which they become a member of the Group. There were no charges payable upon the acquisition of companies by the Group 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Group 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 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; or
- 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.

When the exchange or modification of an existing financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the liability's carrying amount and are amortised over the modified liability's remaining term.

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 at three levels 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.

At the inception of the transaction the Group documents 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 of IAS 39 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 re-measured 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.

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.

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 Group Statement of Comprehensive Income on a straight line basis from the date of cancellation to the original swap expiry date.

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 fair 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 and health and safety legislations.

In determining the fair value of investment properties

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 IAS 39, 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 2014. 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 Adviser 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.

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 IFRS 3(R). They consider that they all meet the criteria of asset acquisitions rather than business combinations and have accounted for them as such. 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 2014. The nature and the impact of each of the new standards and amendments are described below.
- IFRS 10, 'Consolidated financial statements' - Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10 and there has been no material impact to the financial statements as a result.

Other new standards and amendments to certain standards apply for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Group. They are as follows:
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- IAS 27 'Separate Financial Statements'
- IAS 28 'Investments in Associates and Joint Ventures'
- Amendments to IAS 32 'Financial Instruments: Presentation'
- IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets'
- Amendments to IAS 39 'Financial instruments: Recognition and measurement'

2.5 Standards issued but not yet effective
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 but are not yet applicable to the Group, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The Group is assessing the full impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to EU adoption. The Group is assessing the impact of IFRS 15.

3. RENTAL AND RELATED INCOME

Revenue comprises rental income and finance lease income receivable on property investments in the UK, which is exclusive of VAT. Revenue 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 £000	1 to 5 years £000	More than 5 years £000	Total £000
2014	58,811	234,577	591,842	885,230
2013	56,188	224,122	587,088	867,398

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

b) 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

	2014 £000	2013 £000
Administrative expenses include:		
Advisory fees (note 4a)	5,345	4,887
Directors' fees (note 4c)	243	219
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	105	100
Fees payable to the Company's auditor and their associates for other services to the audit of the Company's subsidiaries	101	92
Total audit fees	206	192
Non-audit fees		
Audit-related assurance services	41	40
Other assurance services	50	8
Total non-audit fees	91	48

The Group's policy on non-audit fees is discussed in the Audit Committee Report.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a) Advisory fees

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

	2014 £000	2013 £000
Nexus	4,697	3,154
J O Hambro Capital Management ("JOHCM")	648	1,733
	5,345	4,887

Further details on the Advisory Agreement can be found in the Corporate Governance section of the Strategic Report.

As at 31 December 2014, nil advisory fees payable to JOHCM were outstanding (2013: £0.2 million) and £0.4 million was payable to Nexus (2013: £0.4 million). Refer to the Corporate Governance section of the Strategic Review for further information on the termination of the JOHCM services on 30 April 2014.

Further fees paid to Nexus in accordance with the Advisory Agreement of £0.1 million (2013: £0.07 million) 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 Corporate Governance section of the Strategic Review.

c) Remuneration of Directors

Information about the remuneration of individual Directors is provided in the Directors' Remuneration Report in the Annual Report.

d) Termination Fee: non-recurring

	2014 £000	2013 £000
JOHCM	-	2,485

On 26 September 2013 the Board of PHP announced that it served notice to terminate the contract under which JOHCM provided services to the Group (the "Joint Advisory Agreement"). A contractual termination fee of £2.5 million became payable to JOHCM upon completion of their notice period on 30 April 2014. This sum was provided for in the Group Statement of Comprehensive Income for the year ended 31 December 2013 and settled on 13 May 2014.

5. PROFIT ON TERMINATION OF FINANCE LEASE

	2014 £000	2013 £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 £3.8 million were received and the carrying value of the asset at the date of disposal was £3.1 million. A small amount of disposal costs were incurred.

6. FINANCE INCOME

	2014 £000	2013 £000
Interest income on financial assets		
Bank interest	37	41
Development loan interest	937	388
Other interest	3	5
	977	434

7. FINANCE COSTS

	2014 £000	2013 £000
Interest expense and similar charges on financial liabilities		
a) Interest		
Bank loan interest	16,959	12,021
Swap interest	7,609	7,699
Bond interest	8,058	4,314
Bank facility non-utilisation fees	926	976
Bank charges and loan commitment fees	1,700	1,440
	35,252	26,450
b) Early loan repayment fees		
Fee on breakage of Apollo debt	-	824
Fee on breakage of PHCC debt	-	126
Fee on breakage of PPP debt	1,187	-
	1,187	950

Following the Apollo transaction in December 2012, the debt assumed as part of the transaction was fully repaid in March 2013. A charge of £0.8 million was made to the Group Statement of Comprehensive Income in 2013 in 2013 with regard to this repayment.

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 in 2013 was made of £0.1 million.

As part of the acquisition of the companies that held the PPP portfolio in December 2013, the Group assumed £178 million of loan obligations funded by Aviva. The transaction pricing included a provision of £13.7 million that estimated the cost of re-setting those loans to current market rates. An additional charge of £1.2 million was made to the Group Statement of Comprehensive Income with regard to costs associated with the early repayment and restructuring of these loans during the year.

	2014 £000	2013 £000
c) Derivatives		
Net fair value (loss)/gain on interest rate swaps	(2,454)	12,003
Amortisation of cash flow hedging reserve	-	(571)
	(2,454)	11,432

The fair value gain on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A fair value loss on derivatives which meet the hedge effectiveness criteria under IAS 39 of £9.9 million (2013 gain: £12.0 million) is accounted for directly in equity, together with amortisation of the hedging reserve of nil (2013: £0.5 million).

Details of the fair value loss on hedges which meet the effectiveness criteria for hedge accounting under IAS 39 are set out in Note 24.

	2014 £000	2013 £000
d) Convertible bond		
Fair value (loss) on convertible bond	(4,462)	-

The fair value movement in the convertible bond is recognised in the Group Statement of Comprehensive Income within Profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NAV. Refer to Note 17 for further details about the convertible bond.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 £000	2013 £000
Net finance costs		
Finance income (note 6)	(977)	(434)
Finance costs (as per above)	35,252	26,450
	34,275	26,016

8. TAXATION

a) Tax credit in the Group Statement of Comprehensive Income

The tax credit is made up as follows:

	2014 £000	2013 £000
Current tax		
UK corporation tax (note 8b)	-	(1)

The 2013 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 23% to 21% was effective from 1 April 2014. Accordingly, these rates have been applied in the measurement of the Group's tax liability at 31 December 2014.

b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2013: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2014 £000	2013 £000
Profit before taxation	36,880	20,219
Theoretical tax at UK corporation tax rate of 21.5% (2013: 23.3%)	7,929	4,711
REIT exempt income	(5,935)	(3,280)
Transfer pricing adjustments	2,886	1,870
Non-taxable items	(4,270)	(3,302)
Finance lease adjustment	-	1
Losses carried forward	(610)	-
Movement in tax provision relating to prior years	-	(1)
Current tax credit (note 8a)	-	(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[1] (number)	Per share (pence)
2014				
Basic and diluted earnings				
Basic earnings		36,880	111,044,085	33.2p
Dilutive effect of convertible bond		2,170	13,097,998	
Diluted earnings		39,050	124,142,083	31.5p
EPRA basic and diluted earnings				
Basic earnings		36,880		
Adjustments to remove:	Net result on property (Note 11)	(29,204)		
	Fair value loss on derivatives	2,454		
	Fair value movement on convertible bond	4,462		
	Issue costs of convertible bond	2,426		
	Early loan repayment fee charges[2]	1,187		
EPRA basic and diluted earnings per share		18,205	111,044,085	16.4p
2013				
Basic and diluted earnings				
Basic and diluted earnings		20,220	89,121,611	22.7p
EPRA basic and diluted earnings				
Basic and diluted earnings		20,220		
Adjustments to remove:	Net result on property (Note 11)	(2,313)		
	Fair value loss on derivatives	(11,432)		
	Profit on termination of finance lease[2]	(637)		
	Early loan repayment fee charges	950		
EPRA basic and diluted earnings per share		6,788	89,121,611	7.6p

(1) Weighted average number of Ordinary Shares in issue during the year.
(2) Revised EPRA best practice guidance was issued in January 2014 which advised that early repayment fees associated with the close out of debt instruments should be excluded from EPRA earnings. This has been reflected in the calculation of EPRA earnings for both 2013 and 2014. As a result of these changes the Group no longer calculates an adjusted earnings figure.

On 20 May 2014, the Group issued £82.5 million of unsecured convertible bonds, refer to Note 17 for further details. In accordance with IAS 33 Earnings per Share the Company is required to assess and disclose the dilutive impact of the contingently issuable shares within the convertible bond. The impact is not recognised where it is anti-dilutive. The convertible bonds are dilutive for basic earnings per share but not EPRA earnings per share.

The dilutive impact to basic EPS of convertible bonds is represented by the accrued bond coupon which has been included in the results of the year ended 31 December 2014. The number of dilutive shares is calculated as if the contingently issuable shares within the convertible bond had been in issue for the period from issuance of the bonds to 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

	2014 £000	2013 £000
Second interim dividend for the year ended 31 December 2013 (9.75p) paid 22 April 2014 (2013: 9.50p)	10,542	7,006
Scrip dividend in lieu of second interim cash dividend	279	217
First interim dividend for the year ended 31 December 2014 (9.75p) paid 7 November 2014 (2013: 9.50p)	10,146	9,124
Scrip dividend in lieu of first interim cash dividend	683	171
Total dividends distributed in the year	21,650	16,518
Per share	19.5p	19.0p

The Board proposes to pay a second interim of 10.0p per Ordinary Share for the year to 31 December 2014, payable on 1 April 2015. This dividend will not be a Property Income Distribution ("PID").

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"). There were no changes to the valuation techniques during the year. 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 99.8% let (2013: 99.7%). The valuations reflected a 5.52% initial yield (2013: 5.65%) and a 5.75% (2013: 5.92%) 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 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 £2.8 million (2013: increase of £0.5 million) 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 £29.2 million (2013: gain of £2.3 million).

In line with Accounting Policies, 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 2014	759,871	169,998	11,679	941,548
Property additions	22,835	2,050	30,070	54,955
Property disposals	(525)	-	-	(525)
Impact of lease incentive adjustment	857	168	-	1,025
Transfer from properties in the course of development	20,698	-	(20,698)	-
	803,736	172,216	21,051	997,003
Revaluations for the year	21,944	4,454	2,806	29,204
As at 31 December 2014	825,680	176,670	23,857	1,026,207

	Investment properties freehold £000	Investment properties long leasehold £000	Investment properties under construction £000	Total £000
As at 1 January 2013	510,295	96,421	15,731	622,447
Property Additions	11,351	18,326	18,447	48,124
Acquisition of PHCC[1]	23,711	5,171	-	28,882
Acquisition of PPP[1]	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)	-
	760,509	166,589	11,201	938,299
Revaluations for the year (see below)	(638)	3,409	478	3,249
As at 31 December 2013	759,871	169,998	11,679	941,548
Reconciliation of net result on property portfolio - 2013				
Additional consideration on property transactions	(17)	(919)	-	(936)
Revaluations for the year	(638)	3,409	478	3,249
Revaluations for the year ending 31 December 2013	(655)	2,490	478	2,313

(1) 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. There was no additional consideration on property transactions related to the Apollo portfolio in 2014.

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £997.3 million (2013: £929.1 million).

Fair value hierarchy
All of the Group's properties are level 3, as defined by IFRS 13, in the fair value hierarchy as at 31 December 2014 and 2013. There were no transfers between levels during the year or for the year ended 31 December 2013. Level 3 inputs used in valuing the properties, are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Valuation techniques used to derive Level 3 fair values
The valuations have been prepared on the basis of Fair Market Value (FMV) 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."

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 and using certain unobservable inputs. These inputs are detailed below.

Unobservable input: estimated rental value (ERV) range

ERV	ERV
2014 £55,436-£1,158,011 per annum	**2013** £30,000-£1,157,725 per annum

The rent at which space could be let in the market conditions prevailing at the date of valuation.

Unobservable input: true equivalent yield range

True equivalent yield	True equivalent yield
2014 4.83%-6.76%	**2013** 4.88%-6.85%

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unobservable input: physical condition of the property
The properties are physically inspected by the valuer on a three year rotating basis.

Unobservable input: rental growth
The estimated average increase in rent based on both market estimations and contractual situations.

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 provided to the valuer; 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. GROUP ENTITIES

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

Subsidiary	Subsidiary
Primary Health Investment Properties Limited[1]	PHP Bond Finance PLC[1]
Primary Health Investment Properties (No. 2) Limited[1]	PHP Healthcare Investments Limited[2]
Primary Health Investment Properties (No. 3) Limited[1]	PHIP (Stourbridge) Limited[2]
Primary Health Investment Properties (No. 4) Limited[1]	PHP Clinics Limited[2]
PHIP[5] Limited[2]	PHP St. Johns Limited[2]
Patientfirst Partnerships Limited[2]	PHP (Project Finance) Limited[2]
Patientfirst (Hinckley) Limited[2]	PHP Empire Holdings Limited[1]
Patientfirst (Burnley) Limited[2]	PHP AssetCo (2011) Limited[2]
Health Investments Limited[1]	PHP Glen Spean Limited[2]
Motorstep Limited[2]	PHP Medical Properties Limited[2]
PHP Investments No.1 Limited[2]	Gracemount Medical Centre Limited[2 3 4]
PHP Investments No.2 Limited[2]	PHP Primary Properties (Haymarket) Limited[1 5]
PHP Investments (2011) Limited[1]	PHP Primary Properties Limited[2 5]
PHIP (Gorse Stacks) Limited[1]	PHP Medical Investments Limited[1]
Anchor Meadow Limited[1]	PHP Finance (Jersey) Limited[1 6]

With the exception of PHP Bond Finance PLC, Primary Health Investment Properties (No. 4) Limited and PHP Finance (Jersey) 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 are 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 2013 (name changed from Prime Public Partnerships Limited post acquisition).
(6) Subsidiary company registered in Jersey.

13. TRADE AND OTHER RECEIVABLES

	2014 £000	2013 £000
Trade receivables	1,916	2,318
Prepayments and accrued income	2,527	1,370
Other debtors	459	768
Development loan interest	766	308
	5,668	4,764

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

	2014 £000	2013 £000
Neither past due nor impaired:		
<30 days	1,260	1,998
Past due but not impaired:		
30-60 days	99	15
60-90 days	2	-
90-120 days	257	62
>120 days	298	243
	1,916	2,318

The Group's principal customers are invoiced and pay quarterly in advance, usually on the English quarter days. No bad debt provision was required (2013: £nil) and no receivables were considered impaired or overdue. There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants.

14. CASH AND CASH EQUIVALENTS

	2014 £000	2013 £000
Cash held at bank	8,472	8,788
Restricted cash	3,600	500
	12,072	9,288

Restricted cash at 31 December 2014 is an amount held as security in relation to debt service and repayment of bank borrowings.

Restricted cash as at 31 December 2013 represents a deposit held by the Trustee of the Secured Bond issued by the Group. The deposit was held as temporary collateral until the completion of property assets that are charged as security to the Trustee. The cash deposit was released on 30 June 2014.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. TRADE AND OTHER PAYABLES

	2014 £000	2013 £000
Trade payables	954	906
Bank and bond loan interest accrual	4,287	3,313
Other payables	6,752	7,671
VAT	1,237	2,302
Accruals	1,014	2,077
	14,244	16,269

An additional 282,768 shares were issued on 31 January 2014 upon agreement of the final completion accounts in respect of the acquisition of PPP in 2013, 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 was 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 included in other payables.

16. BORROWINGS: TERM LOANS AND OVERDRAFTS

The table indicates amounts drawn and undrawn from each individual facility as at 31 December:

	Facility		Amounts drawn		Undrawn	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Current						
Overdraft facility[1]	5,000	5,000	-	-	5,000	5,000
Fixed rate term loan[3]	711	1,857	711	1,857	-	-
Fixed rate term loan[8]	-	1,986	-	1,986	-	-
	5,711	8,843	711	3,843	5,000	5,000
Non Current						
Term loan to August 2018[2]	165,000	140,000	123,500	100,500	41,500	39,500
Fixed Rate term loan[3]	24,702	25,511	24,702	25,511	-	-
Fixed Rate term loan to December 2022[4]	25,000	25,000	25,000	25,000	-	-
Term loan to April 2019[5]	50,000	-	21,513	-	28,487	-
Term loan to November 2018[6]	75,000	75,000	75,000	75,000	-	-
Term loan to August 2019[7]	100,000	70,000	59,160	49,470	40,840	20,530
Fixed rate term loan 24 - 29 year[8]	113,000	188,271	113,000	188,271	-	-
	552,702	523,782	441,875	463,752	110,827	60,030
	558,413	532,625	442,586	467,595	115,827	65,030

Providers:
(1) The Royal Bank of Scotland plc
(2) The Royal Bank of Scotland plc ("RBS") and Abbey National Treasury Services plc (branded Santander from January 2010) ("The Club Facility")
(3) Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032
(4) Aviva GPFC facility
(5) HSBC Bank facility
(6) Aviva facility
(7) Barclays facility
(8) Aviva facility (acquired with PPP). The nominal value of this debt was £177.9 million but the table above includes an adjustment of £13.6 million to reflect the fair value of the debt on acquisition of PPP.

At 31 December 2014, total facilities of £785.9 million (2013: £677.6 million) were available to the Group. This included a £75 million Unsecured Retail Bond, a £70 million Secured Bond, a £82.5 million Convertible Bond and a £5 million overdraft facility. Of these facilities, as at 31 December 2014, £670.1 million was drawn (2013: £602.6 million).

As part of the acquisition in December 2013 of the companies that held the PPP portfolio, the Group assumed £178 million of loan obligations funded by Aviva. The transaction pricing included a provision of £13.7 million that estimated the cost of re-setting those loans to current market rates. This amount was paid to Aviva in full in February 2014, reducing the average interest rate on these loans to 5.04% from an inherited average of 5.9%, but with the reduction being effective from 1 January 2014. The Group took the opportunity to make a capital repayment of £15 million at this time also.

On 15 April 2014, a further £50 million of the Aviva loan was repaid following the completion of a new £50 million revolving debt facility with HSBC Bank PLC. This facility was secured at an initial margin of 200 basis points over LIBOR for a five year term and includes an element that can be utilised to match the stage payments that the Group makes on its development of new properties.

On 19 August 2014, the Group entered into a revised and extended loan facility agreement with Barclays Bank PLC. This extended the total facility from £70 million to £100 million for a new four year term and reduced the initial margin chargeable on the debt to 190 basis points over LIBOR.

On 20 August 2014, the Group concluded the final stage of the refinance of the Aviva PPP debt. Two new facilities have been created to split the balance of £113 million of assumed debt. A £50 million, 10 year facility has been completed on an interest only basis and a £63 million 15 year facility has been established with an initial 5 year interest only period and partial amortisation thereafter. This resulted in a further reduction of the interest rate applicable to both facilities to 4.91%. The refinancing is recognised as an extinguishment of an existing financial liability and the inception of a new facility. As a result the unamortised costs associated with the original assumed loan facilities have been written off together with other early repayment fees in the Group Statement of Comprehensive Income.

On 21 August 2014, the Group extended its current Club Facility with RBS and Santander for a new three year term with the option to extend for one additional year and reduced the initial margin chargeable on the debt to 185 basis points over LIBOR.

Costs associated with the arrangement and extension of the facilities, including legal advice and loan arrangement fees 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:

	2014 £000	2013 £000
Term loans drawn: due within one year	711	3,843
Term loans drawn: due in greater than one year	441,875	463,752
Total terms loans drawn	442,586	467,595
Less: Unamortised borrowing costs	(4,853)	(3,567)
Total term loans per the Group Balance Sheet	437,733	464,028

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 19e.

The Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 18.

17. BORROWINGS: BONDS

	2014 £000	2013 £000
Secured		
Secured Bond December 2025	70,000	60,000
Unsecured		
Retail Bond July 2019	75,000	75,000
Convertible Bond May 2019	86,962	-
Unamortised issue costs	(2,419)	(2,592)
	229,543	132,408

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Secured Bond
On 18 December 2013, PHP successfully listed the floating rate guaranteed secured bonds issued on 4 November 2013 (the "Secured Bonds") on the London Stock Exchange. The Secured Bonds have a nominal value of £70 million and mature on or about 30 December 2025. £60 million was paid up on the issue of the Secured Bonds with the remaining £10 million being received on 30 June 2014 following the completion of the construction of four further secured assets. The Secured Bonds incur interest on the paid up amount at an annualised rate of 220 basis points above six month LIBOR, payable semi-annually in arrears.

Retail Bond
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 Retail Bond issue costs are being amortised on a straight line basis over seven years.

Convertible Bond
On 20 May 2014, PHP Finance (Jersey) Limited ("the Issuer"), a wholly owned subsidiary of the Group issued a £82.5 million 4.25% convertible bonds due 2019 (the "Bonds") at par. The Company has guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the Bonds.

Subject to certain conditions, the Bonds are convertible into preference shares of the Issuer which will be automatically and mandatorily exchangeable into fully paid ordinary shares of the Company (the "Shares"). The initial conversion price has been set at 390 pence per Share (the "Exchange Price"). Under the terms of the Bonds, the Company will have the right to settle any conversion rights entirely in Shares, in cash or with a combination of Shares and cash.

The bondholders have the right to convert the Bonds up until 20 May 2017 only where the Parity Value (as defined in the Bond's terms) is greater than the Exchange Price.

On or after 20 May 2017, the Bonds may be redeemed at par at the Company's option subject to the Parity Value equalling or exceeding £130,000. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on the maturity date.

	2014 £000
Nominal value on issuance on 20 May 2014	82,500
Fair value movement in convertible bond	4,462
Balance at 31 December 2014	86,962

The fair value of the convertible bond at 31 December 2014 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within Profit before Taxation and is excluded from the calculation of EPRA earnings and EPRA NAV.

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

It is Group policy to maintain the proportion of floating rate interest exposure at between 20%-40% of total interest rate cost. The Group uses interest rate swaps to mitigate its remaining 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.

	2014 £000	2013 £000
Fair value of interest rate swaps treated as cash flow hedges under IAS39 ("effective swaps")		
Non-current assets	-	472
Current liabilities	(2,825)	(3,772)
Non-current liabilities	(20,956)	(10,499)
	(23,781)	(13,799)
Fair value of interest rate swaps not qualifying as cash flow hedges under IA539 ("ineffective swaps")		
Non-current assets	25	-
Current liabilities	(2,977)	(3,794)
Non-Current liabilities	(14,256)	(10,960)
	(17,208)	(14,754)
Total fair value of interest rate swaps	(40,989)	(28,553)
Shown in the Balance Sheet as		
Total non-current assets	25	472
Total current liabilities	(5,802)	(7,566)
Total non-current liabilities	(35,212)	(21,459)

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 Group 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 2014 was a £2.5 million loss (2013: £11.4 million profit).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Floating to fixed interest rate swaps with a contract value of £206.0 million (2013: £206.0 million) were in effect at 31 December 2014. Details of all floating to fixed rate interest rate swaps contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2014			
£70.0 million	July 2013	July 2015	4.805
£28.0 million	March 2013	March 2017	0.900
£50.0 million[1]	August 2007	August 2021	4.835
£38.0 million[1]	August 2007	August 2021	4.740
£10.0 million	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£206.0 million			
2013			
£70.0 million	July 2013	July 2015	4.805
£28.0 million	March 2013	March 2017	0.900
£50.0 million[1]	August 2007	August 2021	4.835
£38.0 million[1]	August 2007	August 2021	4.740
£10.0 million	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£206.0 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
£160.0 million			

(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 single interest rate cap held by the Group is as follows:

Contract value	Start date	Maturity date	Premium paid	Floating rate cap per % annum
£15.0 million	April 2014	April 2017	176,000	2.000

19. 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 hedged by these swaps. 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. 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 18 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
2014				
London InterBank Offered Rate	Increase of 50 basis points	9,089	4,549	13,638
London InterBank Offered Rate	Decrease of 50 basis points	(9,089)	(4,549)	(13,638)
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)

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. The Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, but the Group does not monitor the credit quality of receivables on an ongoing basis. An analysis of trade receivables past due is shown in Note 13.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Adviser.

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
2014						
Interest-bearing loans and borrowings	-	6,186	20,038	528,325	295,132	849,681
Interest rate swaps (net)	-	1,910	5,597	31,030	27,772	66,309
Trade and other payables	2,166	7,333	2,909	1,312	92	13,812
	2,166	15,429	28,544	560,667	322,996	929,802
2013						
Interest-bearing loans and borrowings	-	8,219	20,617	339,849	456,039	824,724
Interest rate swaps (net)	-	1,914	5,741	28,782	37,672	74,109
Trade and other payables	119	7,890	4,595	1,130	48	13,782
	119	18,023	30,953	369,761	493,759	912,615

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given below under (e) capital risk management and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2013: 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

Interest rate risk is outlined above. The Advisor assesses the exposure to other price risks when making each investment decision and monitors 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 in the Strategic Report in the Annual Report.

Price risk

The Group is exposed to price risk in respect property price risk including property rentals risk. Refer to Note 2.3. The Group has no significant exposure to price risk in respect of financial instruments other than the convertible bond and interest rate derivatives (see Notes 17 and 18) as it does not hold any equity securities or commodities.

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 2014 £000	Fair value 2014 £000	Book value 2013 £000	Fair value 2013 £000
Financial assets				
Trade and other receivables	2,682	2,682	2,626	2,626
Effective interest rate swaps	-	-	472	472
Ineffective interest rate swaps	25	25	-	-
Cash and short-term deposits	12,072	12,072	9,288	9,288
Financial liabilities				
Interest-bearing loans and borrowings	(662,814)	(771,727)	(596,436)	(769,794)
Effective interest rate swaps	(23,782)	(23,782)	(14,271)	(14,271)
Ineffective interest rate swaps (net)	(17,233)	(17,233)	(13,812)	(13,812)
Trade and other payables	(14,244)	(14,244)	(13,782)	(13,782)

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 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.

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

Fair value measurements at 31 December are as follows:

	2014				2013			
Recurring fair value measurements	Level 1 (1) £000	Level 2 (2) £000	Level 3 (3) £000	Total £000	Level 1 (1) £000	Level 2 (2) £000	Level 3 (3) £000	Total £000
Financial assets								
Derivative interest rate swaps	-	25	-	25	-	472	-	472
Financial liabilities								
Derivative interest rate swaps	-	(41,014)	-	(41,014)	-	(29,025)	-	(29,025)
Convertible bond	(86,962)	-	-	(86,962)	-	-	-	-

(1) Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

(2) Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

(3) Valuation is based on inputs that are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The interest rate swaps whose fair values include the use of level 2 inputs are valued by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument. The following inputs are used in arriving at the valuation:
- Interest rates
- Yield curves
- Swaption volatility
- Observable credit spreads
- Credit default swap curve
- Observable market data

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 notes 16 and 17 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 Adviser, 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 (2013: 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 pools of property assets provided to lenders to secure individual loan facilities. These range as follows:

Interest cover: 1:0 to 1.5:1 (2013: 1:1 to 1.5:1)
Loan to value: 50% to 75% (2013: 60% to 100%)

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

	2014 £000	2013 £000
Fair value of completed investment properties	1,002,350	929,869
Fair value of development properties	23,857	11,679
	1,026,207	941,548
Carrying value of interest-bearing loans and borrowings	662,814	596,436
Unamortised borrowing costs	7,272	6,159
Less PPP fair value adjustment (see note 16)	-	(13,589)
Less cash held	(12,072)	(9,288)
Nominal amount of interest-bearing loans and borrowings	658,014	579,718
Group loan to value ratio	64.1%	61.6%

20. CALLED UP SHARE CAPITAL

	2014 Number	2014 £000	2013 Number	2013 £000
Issued and fully paid at 50p each	111,276,662	55,638	110,474,230	55,237
Balance at beginning of year	110,474,230	55,237	76,034,208	38,017
Scrip issues in lieu of second interim cash dividend	81,554	41	64,036	32
Scrip issues in lieu of first interim cash dividend	202,635	101	52,183	26
Proceeds from capital raisings	-	-	21,746,032	10,873
Shares issued as consideration for PPP	518,243	259	12,577,771	6,289
Balance at end of year	111,276,662	55,638	110,474,230	55,237

On 3 December 2013, the Group 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 518,243 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 2014 was 360 pence.

On 13 June 2013, the Group 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.

21. SHARE PREMIUM

	2014 £000	2013 £000
Balance at beginning of year	55,611	58,606
Reserves transfer	-	(3,325)
Share issue expense	(15)	-
Scrip issues in lieu of interim cash dividends	820	330
Balance at end of year	56,416	55,611

During 2013, an amount of £3.3 million was transferred from Share Premium to the Special Reserve with regards to the acquisition of Apollo Medical Properties Limited in December 2012. This is in accordance with the merger relief provision of the Companies Act 2006.

22. CAPITAL RESERVE

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

	2014 £000	2013 £000
Balance at beginning and end of year	1,618	1,618

23. 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.

	2014 £000	2013 £000
Balance at beginning of year	135,483	59,473
Placing: 13 June 2013 (2012: 23 May 2012)	-	57,627
Associated costs	-	(2,728)
Second interim dividend for the year ended 31 December 2013 (2013: 31 December 2012)	(10,542)	(7,006)
Scrip issue in lieu of second interim cash dividend	(279)	(217)
First interim dividend for the year ended 31 December 2014 (2013: 31 December 2013)	(10,146)	(9,124)
Scrip issue in lieu of first interim cash dividend	(683)	(171)
Shares issued in consideration for PPP (note 20)	1,605	35,344
Share issue expenses	-	(1,040)
Reserves transfer from share premium	-	3,325
Balance at end of year	115,438	135,483

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The issue of shares on 13 June 2013, referred to in note 20, 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 2013, £35.3 million was 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. A further £1.6 million of shares were issued in January 2014 upon agreement of the completion accounts of PPP and the premium amount has been included within the Special Reserve.

Also in 2013, £3.3 million was transferred from Share Premium to the Special Reserve with regards to the Apollo transaction under the same merger relief provisions (see Note 21).

24. CASH FLOW HEDGING RESERVE

Information on the Group's hedging policy and interest rate swaps is provided in Note 18.

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:

	2014 £000	2013 £000
Balance at beginning of year	(14,337)	(27,177)
Fair value movement on cash flow hedges	(9,980)	12,269
Amortisation of cash flow hedge reserve	-	571
Reclassification of ineffective hedge to effective	470	-
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	(9,510)	12,840
Balance at end of year	(23,847)	(14,337)

25. RETAINED EARNINGS

	2014 £000	2013 £000
Balance at beginning of year	68,773	48,553
Reclassification of ineffective hedge to effective	(470)	-
Interest rate derivative fair value adjustment	(1,316)	-
Retained profit for the year	36,880	20,220
Balance at end of year	103,867	68,773

26. NET ASSET VALUE PER SHARE

Net asset values have been calculated as follows:

	2014 £000	2013 £000
Net assets per Group Balance Sheet	309,130	302,385
Derivative interest rate swaps (net liability)	40,989	28,553
Convertible bond fair value movement	4,462	-
EPRA net asset value	354,581	330,938

	No. of shares	No. of shares
Ordinary Shares:		
Issued share capital	111,276,662	110,474,230
Net asset value per share:		
Basic net asset value per Share	278p	274p
EPRA NAV per Share	319p	300p

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.

As detailed in Note 9, the Company is required to assess the dilutive impact of the unsecured convertible bond on its net asset value per share, but only report any impact if it is dilutive. With an initial conversion price of 390 pence, the unsecured convertible bond issued by the Group on 20 May 2014 is anti-dilutive to all measures of net asset value per share.

27. CAPITAL COMMITMENTS

As at 31 December 2014, 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 £11.2 million plus VAT (2013: £17.1 million plus VAT).

28. RELATED PARTY TRANSACTIONS

The terms and conditions of the Advisory Agreement are described in the Directors' Report and the Directors' Remuneration Report in the Annual Report. Details of the amounts paid in relation to related party transactions are provided in Note 4.

29. 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 £0.2 million as at 31 December 2014 (2013: £0.6 million), 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.

30. SUBSEQUENT EVENTS

On 18 December 2014, the Group entered into a conditional contract to fund the development of and acquire a new, modern, purpose built medical centre to be constructed in Colwyn Bay, North Wales. The conditions attached to the contract were fully satisfied on 2 January 2015 and the contract completed. The total consideration will be £4.53 million and construction is expected to complete in January 2016.