# BUILDING A PLATFORM FOR GROWTH

Assura

ANNUAL REPORT 2014

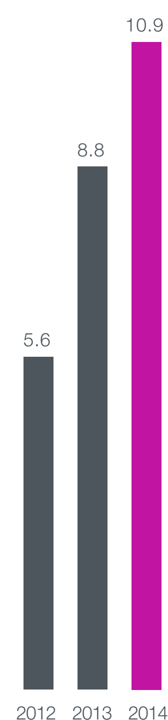
# FINANCIAL HIGHLIGHTS

**Investment property**
# £656.7m
**+17.8%**

**Adjusted EPRA NAV**
# 43.4p
**+12.4%**

**Net rental income**
# £37.8m
**+12.2%**

**Underlying profit**
# £10.9m
**+23.9%**

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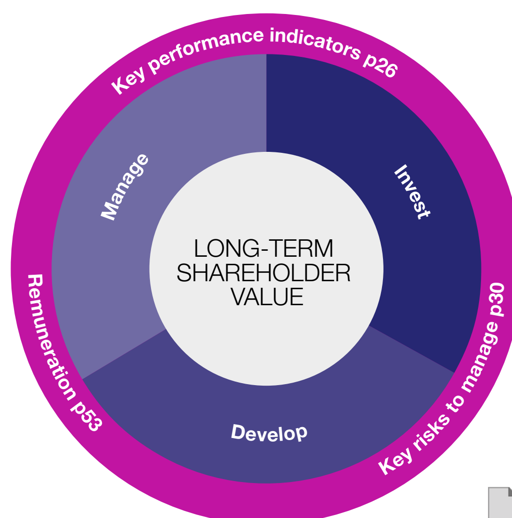
# WHO WE ARE

**Assura is a leading UK healthcare REIT and our vision is to be the UK's best developer and owner-manager of primary care property**

# OUR BUSINESS MODEL

We offer a long-term partner approach to GPs. That means we:

**Develop, Invest, Manage**




Read more p13

# OUR STRATEGIES

To achieve our vision we have four strategic priorities:

## Focus

Maintaining a strategic focus on a highly attractive market

Read more p18

## Expertise

Responding to the NHS agenda

Read more p20

## Culture

Spearheading investment in social infrastructure

Read more p22

## Effectiveness

Leveraging our skills to maximum advantage

Read more p24

# OUR INVESTMENT CASE

By following our strategies we can deliver long-term shareholder value through:

- **Low volatility of returns**
- **Low default risk**
- **Linkage to cost inflation**
- **Scalable, internally managed model**
- **Covered, progressive dividend**
- **Excellent risk adjusted returns**

# PROPERTY PORTFOLIO

## 202 medical centres that are well diversified both by geography and size

### CORE PORTFOLIO ANALYSIS BY CAPITAL VALUE

| | Number of properties | Total value £m | Total value % |
|---|---|---|---|
| <£1m | 37 | 25.1 | 4 |
| £1–5m | 139 | 350.4 | 56 |
| £5–10m | 19 | 139.4 | 22 |
| >£10m | 7 | 111.9 | 18 |
| | **202** | **626.8** | **100** |

### CORE PORTFOLIO ANALYSIS BY REGION

| | Number of properties | Total value £m | Total value % |
|---|---|---|---|
| North | 90 | 322.0 | 51 |
| South | 64 | 180.0 | 29 |
| Midlands | 30 | 83.3 | 13 |
| Scotland | 9 | 23.0 | 4 |
| Wales | 9 | 18.5 | 3 |
| | **202** | **626.8** | **100** |

### CORE PORTFOLIO ANALYSIS BY TENANT COVENANT

| | Total rent roll £m | Total rent roll % |
|---|---|---|
| GPs | 27.7 | 69 |
| NHS body | 8.1 | 20 |
| Pharmacy | 3.0 | 7 |
| Other | 1.5 | 4 |
| | **40.3** | **100** |

ANSDELL MEDICAL CENTRE, LYTHAM ST ANNES
An approved training practice which means that they train the doctors and GPs of the future, in association with both Manchester and Liverpool Universities and Blackpool Victoria Hospital.

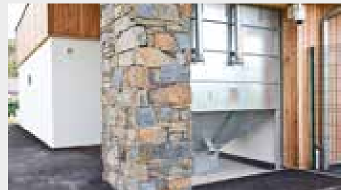
ST HILARY GROUP PRACTICE, WALLASEY
A forward thinking practice with the latest facilities. Enabling secondary care in a primary care setting, facilities include a minor surgery suite and additional diagnostic services.

Y FELINHELI PRIMARY CARE CENTRE, Y FELINHELI
Y Felinheli is an outstanding building receiving a BREEAM Excellent rating for sustainability, incorporating measures such as rainwater harvesting and ground source heating.

MAPLE VIEW PRACTICE, REDDITCH
The opening of this surgery in November 2013 enabled the practice to increase their patient number by 3,000 to accommodate the influx from a new housing estate nearby.

FRECKLETON HEALTH CENTRE, PRESTON
One of our more recent additions to the portfolio, known locally for its quirky design and watchtower feature. The building was rebuilt during 2005 and finished in March 2006.

VICTORIA PARK HEALTH CENTRE, LEICESTER
The centre is a state of the art facility serving students of the nearby University of Leicester and local residents.



ARDUDWY HEALTH CENTRE, HARLECH
Assura's most sustainable property to date, with an insulated timber frame and biomass boiler that uses wood pallets to fuel the building, resulting in a highly efficient and cost effective building.

<£1m
£1-5m
£5-10m
>£10m

# OUR MILESTONES OF THE YEAR

**April 2013**

**REIT conversion**
The REIT conversion was an important milestone for the Company. This is a favourable government-backed tax regime that enables us to compete effectively with other tax efficient investors. It also confirms our commitment to remain long-term property investors.

**May 2013**

**Completion of Y Felinheli**
The 780 square metre development cost just under £2 million and provides modern premises for Dr McCann & Partners, along with the Local Health Board which is also taking space in the building. The building is situated overlooking the Menai Straits in North Wales and is BREEAM Excellent, the second highest energy efficiency standard attainable.

**April 2013**

**Start on site at Sudbury**
The new integrated 3,315 square metre health centre in Sudbury will provide a state of the art facility that will incorporate a range of out-patient, diagnostic and therapy services and will be one of the largest of its type in the East of England. The new building has been designed to achieve BREEAM Excellent rating and features a green roof and on-site renewable energy sources.

**June 2013**

**Winner of HealthInvestor Awards – Property Investor of the Year**
In June Assura secured the prestigious accolade of Property Investor of the Year at the HealthInvestor Awards. This is the third time in four years Assura has won this prestigious award which is a testament to its role as the leading investor and developer in the sector and the professionalism and dedication of the team.

**August 2013**

### Completion of Victoria Park, Leicester

The £3.5 million 1,600 square metre Victoria Park Health Centre in Leicester provides new eco-friendly accommodation for a local GP practice located next to the University. It incorporates innovative environmental features, including a sustainable drainage system, air source heat pumps and a 'bio-diverse' roof. The new building also has a nearby wetland area with native grass, wildflowers and a flower meadow.

**September 2013**

### Trinity acquisition

The Trinity portfolio of 32 modern high quality medical centres with a rent roll of £4.0 million was acquired for £62.9 million. The tenants are GPs, NHS bodies and pharmacy operators on industry standard open market rent review terms, which provide an excellent covenant and opportunity to benefit from future rental growth.

**October 2013**

### Gained membership to the Social Stock Exchange

Assura Group joined the Social Stock Exchange, which groups together listed companies delivering a strong positive social and environmental impact. Investors will be able to assess the social and environmental impact of its members through a transparent, measurable and comprehensive Annual Impact Report.

**November 2013**

### Completion of Harlech

The completion of the new £1.6 million medical centre in Harlech, North Wales represented an important milestone for the Company as it is the 200th medical centre owned by Assura and is also its most sustainable to date. The innovative use of an insulated timber frame, biomass boiler and the installation of PV arrays to the roof will give the centre a zero carbon status.

**November 2013**

### Sale of LIFT investments

Equity and loan note investments in seven LIFT sold for a combined consideration of £22.4 million, for a gain of £10.5 million. Proceeds are to be re-invested in core primary care properties.

**December 2013**

### Completion of Stockton extension

Our largest asset management project of the year was the £1.5 million investment in the Queens Park Medical Centre, Stockton which has provided for a refurbishment of the existing premises together with completion of a 500 square metre two storey extension. The works have almost doubled the floor area of the existing practice and provided capacity for a new pharmacy which will complement the enhanced delivery of GP services from the medical centre.

**January 2014**

### Completion of Church Hill Centre, Redditch

The £3.5 million, 1,600 square metre Church Hill Centre regeneration scheme in Redditch provides space for the local surgery and neighbourhood facilities.

The development has enabled the practice to increase the number of patients they can manage and has made a vast improvement to the range of services that can be offered to those patients.

# CHAIRMAN'S STATEMENT

We have a unique proposition in our sector as developer, landlord and asset manager

## DEAR SHAREHOLDER

Assura has delivered another successful year. We have continued our core activity of investing in primary care property. This year, we invested £22.8 million in upgrading eight units of the nation's basic medical infrastructure, GP surgeries, and we are now on site with schemes with a value of £23.2 million and have a further pipeline of £75 million of projects.

In addition, in September 2013, we acquired 32 GP surgeries in the Trinity portfolio at a gross cost of £62.9 million, as well as further divesting non-core assets, notably the LIFT assets for £22.4 million in November 2013.

As a result of these initiatives, we have been able, despite soft rental growth, to increase underlying earnings per share by 24% and adjusted net assets per share by 12%. Since we have internal management, rather than a third party manager, all such gains go fully to our shareholders. We pay dividends out of earnings, not from new debt or from additional equity issuance. As a result, this earnings gain, together with cash from non-core disposals, directly increases our ability to pay dividends.

We therefore raised our quarterly dividend by 49% to 0.45 pence per share, as announced in December. This is more than 116% covered by our underlying profit reported here. Our policy remains to grow dividends broadly in line with underlying rental growth.

### Primary care property – a highly attractive sector

The primary care property sector continues to display strong real estate fundamentals; excellent occupier covenants, limited development risk, restricted supply with no speculative development and long leases without breaks. In addition the underlying open market rent review mechanism most common in the sector has provided inflation tracking returns over the medium term.

Taken together these provide a secure and predictable income stream, an underpinning of inflation linkage, a low volatility of returns and a low default risk, which together contribute to excellent risk adjusted returns.

### Engaging with the NHS

It remains a disappointment to us that continued disruption from the NHS reorganisation is causing a significant slowdown in the approval procedure of new premises for GPs. There is near universal agreement that more care should be delivered by primary health providers, as it is both more efficient and preferred by patients, but the truth is that GPs often simply do not have the facilities to be able to offer this. When the Government does turn its mind to tackling this issue, as surely it must, it will find a private sector willing to supply the capital at highly competitive rental levels, which are themselves regulated by government employees. It is a highly efficient and cost effective model for private sector funding of state infrastructure.

### Shareholders
We are committed to the highest standards of financial transparency and believe a significant investment in investor relations activity is a key responsibility for any company. We have held 123 meetings with investors during the year and I am delighted to welcome eight new shareholders into our 20 largest shareholders. The level of interest in the Company has been increasing as we have been effectively communicating our strategy and our ability to deliver long-term capital and dividend growth to our shareholders. We have seen the level of trading in our shares increase from 70,000 to 270,000 and we are confident of re-joining the FTSE All Share Index at the end of June.

### Our people and the Board
We have 27 people in Assura and I would like to thank each and every one for their hard work and contribution to the success of the business. There have been no changes to the Board during the year and it has proved to be a very effective leadership and decision making body for the Group through a busy and productive year.

### Corporate activity
In May last year we received an unsolicited approach to acquire the business from a competitor. The preliminary approach indicated a potential offer that was at the time valued at 38.5 pence per share in the competitor's shares, equivalent to 31 pence per share in their net asset value per share. Following consultations with major shareholders, we concluded that this approach should be rejected, as it substantially undervalued the Group and exposed our shareholders to a fund with an uncovered dividend and external management fees. Our share price has since ended the year at 42.75 pence per share, up 20% on the previous year. I would like to thank our shareholders for their help and support during this time.

### The future
Over the last two years, we have demonstrated our ability to make strong, reliable progress in this highly attractive sector. We have strong brand recognition with GPs and proactively engage with the NHS to make the case for further investment in modern primary care facilities, with a unique offering as developer, landlord and asset manager.

## OUR BUSINESS MODEL

Uniquely in our sector we provide all of the elements of the property service for GPs, which enables us to offer a long-term partner approach throughout their involvement in the lifecycle of their medical centre.

### Develop
Our team of development managers works with our design and development partners to provide bespoke, community-led property solutions for each of our healthcare partners. We monitor and manage the process from design through to delivery of the completed building.

### Invest
As a long-term investor we are committed to any new development being constructed to the highest possible standards and to its ongoing efficient operation and maintenance. We support the evolving requirements of the GPs through lease renewals, property extensions or co-locating appropriate partners such as pharmacies.

### Manage
Our team of property surveyors manage the medical centre and its efficient operation through frequent liaison with our tenants.

This integrated approach enables us to capture more development and other added value opportunities.

Our internally managed structure provides a highly scalable model that means as we grow the benefits of scale accrue to shareholders and help drive our progressive dividend policy.

Whilst the current economic and political climate had depressed both open market rent reviews and new developments, the Board believes that open market reviews are a lagging indicator and as the economy continues to recover, this will feed through into rent reviews in the future. Once the NHS reorganisation settles down, we also believe that the overwhelming need for replacement and upgrade of GP surgeries will reassert itself and demand will recover.

**Simon Laffin**
Chairman

# MARKET

**No. of people over 75 is forecast to increase**

from 4.2 million in 2012 to 5.5 million in 2022[1]

**No. of people with more than one long-term condition is forecast to increase**

from 1.9 million in 2008 to 2.9 million in 2018[2]

**Demand for GP services continues to increase**

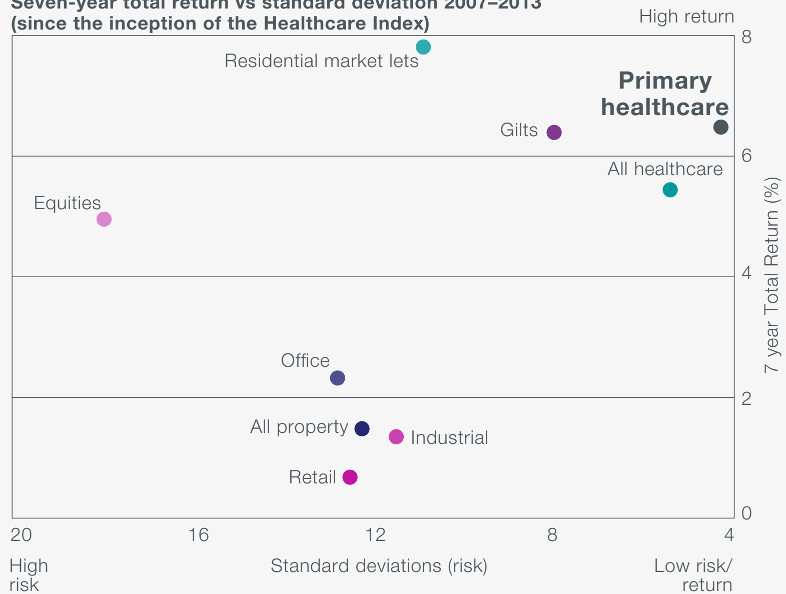
from 300 million consultations in 2008 to 340 million in 2012[3]

**Highly attractive sector**
The primary care sector displays very strong real estate fundamentals: excellent occupier covenants, minimal development risk, restricted supply with no speculative development and long leases without breaks. In addition the open market rent review mechanism most common in the sector has provided inflation tracking returns over the medium term.

A secure and predictable income stream with an underpinning of inflation linkage is a highly attractive proposition to the investor in all economic conditions.

The benefits of this are illustrated by the IPD analysis of real estate returns over the past seven years, which is the period that IPD has been collecting data for the Healthcare Index. This period was one of heightened volatility as it includes the financial crisis following the collapse of Lehman Brothers. Primary care has provided both a superior return and a lower risk (as measured by volatility) than all other real estate sectors (except residential, which has very different characteristics) and equities in general. Put simply, this illustrates the investment case for our sector; superior risk adjusted returns.

## RISK REWARD SPECTRUM




Source: IPD

## Increasing demand
Assura is a developer and investor in primary care property for the NHS. We provide bespoke, purpose built premises that meet the evolving needs of GPs as they look to meet the increasing health requirements of the UK population.

GPs are the cornerstone of the UK health model and provide consultations with almost a million patients every day[4]. Many of these consultations take place in outdated and unsuitable premises that are not able to provide the broad range of additional services that are available in our modern purpose built premises. The Care Quality Commission ("CQC") commenced inspections in primary care in 2013/14 and found 24% of the premises they inspected failed the safety and suitability criteria.

The demands on our health service are increasing. An ageing population places greater demands on our GPs. There are 4.2 million people aged over 75 in England and this age group has twice as many GP consultations as the average person. Population forecasts predict a 30% increase in this demographic over the next ten years[4] and this will have a corresponding increase in the demands on GPs.

In addition to an ageing population the number of people with long-term conditions is also increasing and the number of people living with more than one long-term condition is forecast to increase from 1.9 million in 2008 to 2.9 million in 2018[2].

These trends will provide further strains on the primary care infrastructure over the coming years and will come on top of an already increasing demand for GP services as evidenced by the increase in GP consultations from 300 million in 2008 to 340 million in 2012.

These increasing demands on primary care will be in the context of wider demands on the NHS in the decades to come. The NHS budget has increased from £80 billion to £120 billion in the last decade following a massive investment in secondary care (hospitals) over this period. This rate of growth is not sustainable and efficiencies need to be found to maintain the funding level of the NHS.

The migration of services out of the acute, secondary sector and into the community, primary care sector, is both a clinical and financial imperative to meet the increasing health needs of the population within reasonable budgetary constraints.

A further trend is the increasing coordination of health and social care; the greater involvement of GPs in this service provision. We believe a GP led model of integrated primary and social care in the community would be attractive to the NHS and enable these services to be delivered in an integrated and cost effective manner.

## Restricted supply
The reorganisation of the NHS that was implemented in April 2013 led to a reduction in the number of approvals of new developments as the new organisational structures took time to be bedded in. The principle of delegating decision making on the provision of health services to local GP led bodies is a sound one and should lead to the increased provision of services in the primary care setting. However, more than a year after their implementation there is still a lack of clarity on the processes for investing in new premises. The pressures on the existing primary care estate increase while these delays continue and the deferral of the investment required is frustrating for all of the parties concerned.

We are confident that the processes for approving new premises will be clarified and implemented in the near future and we remain ready to provide the expertise and the capital to support this essential investment in the infrastructure of the NHS.

## Development trends
In the recent "call to action" Dr Mike Bewick highlighted that new premises funding would not be available only on a new for old basis and investment had to lead to a change in the service provision. The expertise and experience of our design and development team mean that our developments are enablers for changing the way that primary care is delivered. In our current Sudbury scheme we are providing facilities for no fewer than seven clinical services that are currently provided only in hospitals in the region. In our Wallasey development the co-location of service providers enabled the trialling of a never full GP service with extended hours and guaranteed same day appointments. These are just two examples of how innovative investment in primary care premises can support the provision of extended and cost effective services in the local community.

## Market outlook
The requirement for investment in primary care premises is getting greater as the demands on the NHS are increasing and the reorganisation of the NHS has resulted in a drop-off in approvals for new schemes. Despite this temporary reduction in the supply of new premises the sector continues to provide rental growth and strong returns for investors. Against a backdrop of tightening yields across other property sectors primary care continues to provide excellent property fundamentals with good prospects for capital and income growth.

1. ONS National Population Predictions, Table A2-4
2. Long Term Conditions Compendium of Information
3. Dr Baker, Royal College of GPs
4. Improving General Practice, A call to action, March 2014

# CHIEF EXECUTIVE'S STRATEGIC REVIEW

## We have built a platform for growth

I am pleased to be reporting to you on a year of significant achievement. In my second year as Chief Executive we have built on the foundations laid in my first year to provide a platform for growth. This is reflected in the results we are reporting to you today with a 24% increase in underlying profit and a 12% increase in adjusted net asset value. On the back of these fundamentals we have already announced a 49% increase in the quarterly dividend.

We have delivered this through our attention to our four strategic priorities:

### Focus
maintaining a strategic focus on a highly attractive market

### Expertise
responding to the NHS agenda

### Culture
spearheading investment in social infrastructure

### Effectiveness
leveraging our team's skills to maximum advantage

**Year of achievement**
The successful completion of the Trinity acquisition was an example of these priorities in action. Our focus provided us with the market knowledge to identify an off-market transaction, our expertise to execute a transaction efficiently and our effectiveness to utilise our skills to maximise the value for our shareholders. The 32 high quality medical centres were acquired for £62.9 million with a passing rent roll of £4.0 million and have provided 10% growth to both our passing rents and our underlying profit.

The portfolio has been integrated seamlessly into our existing in-house property management team without additional headcount. We have since identified a number of asset management opportunities and have commenced on site with building one extension and one new development. This highlights the advantages of our scalable internal management model. We can integrate acquisitions without significant additional costs and we have the skills in-house to maximise the value of the portfolio.

During the year we disposed of our equity and loan note investments in seven LIFT companies for a combined consideration of £22.4 million. This represented a premium over the book value of £10.5 million. These investments did not provide Assura with the opportunity to manage the underlying property assets or to apply any of our asset management skills. During the year a number of infrastructure funds raised new funds for investment and we felt the market for secondary infrastructure assets such as our LIFT investments was particularly strong. As a result we concluded that we could achieve a good sales price and profitably re-invest the proceeds into core primary care property.

We have completed eight developments during the year with a valuation at completion of £24.5 million. This has added £1.5 million to our annual rent roll and generated a 6.7% yield on cost. Our in-house development capability gives us the opportunity to source new premises at levels significantly cheaper than we could

# 24% INCREASE IN UNDERLYING PROFIT

# 49% INCREASE IN THE QUARTERLY DIVIDEND

achieve through purchasing completed properties from developers. On a typical scheme we are able to source a development at a yield on cost 1% higher than for an equivalent property acquired in the investment market. This provides an important incremental return to our shareholders. In addition by being involved as a developer, long-term landlord and asset manager we are able to build effective long-term relationships with our GPs and this provides us with a unique positioning in our sector.

In addition to the sale of our LIFT investments we have continued our focus on the disposal of our non-core assets. We have disposed of six other assets for £3.4 million and have three further sites under contract and an additional one under offer. During the year we were disappointed not to complete on the sale of our site in Scarborough to a major supermarket retailer. The conditional contract expired as the requisite conditions in respect of transport were not met in the required timescale. We are holding active discussions with other end users and sector developers about an alternative scheme.

At the heart of our strategic priorities is our focus on our highly attractive sector. To further support this we have restructured our in-house property management team during the year to create a team with the sole focus of client interaction and management. By understanding the evolving needs and demands of our GPs we can position ourselves to be at the forefront of the significant investment required in improving premises in the future.

A separate team has now been created of investment managers who will have responsibility for identifying value enhancing asset management opportunities such as lease extensions and redevelopments within our existing estate.

**Market outlook**

The primary care sector displays very strong real estate fundamentals: excellent occupier covenants, minimal development risk, restricted supply with no speculative development and long leases without breaks. In addition the underlying open market rent review mechanism most common in the sector has provided inflation tracking returns over the medium term.

The demand for new premises in primary care is increasing. An ageing population, the increasing number of people living with chronic illnesses and the shifting of the burden for elderly care into community based services are all increasing the demands on GPs. The migration of services out of hospitals and into the primary care sector is both a clinical and financial imperative to meet these increasing health needs within reasonable budgetary constraints.

The increasing demand for new premises is against a backdrop of an existing property estate that is not able to meet these challenges. The CQC commenced inspecting GP surgeries in 2013/14 and found 24% of the premises they inspected failed the safety and suitability criteria.

At the same time as these increasing demands the supply of new premises has slowed. The reorganisation of the NHS that was implemented in April 2013 led to a reduction in the number of approvals of new developments as the new organisational structures took time to be bedded in.

We remain well placed to provide the expertise and the private sector capital to meet the required investment in primary care infrastructure.

## Income growth

We have delivered rental growth in the year of 1.9% from settled rent reviews which is in line with inflation over the period. The majority of our rent reviews are on an open market basis set by reference to rental awards agreed with the District Valuer on new schemes. As new schemes are currently held up pending financial approval there is a current lack of market evidence on which to base the Company's case. The basis of these reviews effectively means that they are underpinned by land and construction cost inflation over the medium term. Over the last 12 months this inflation has picked up markedly. This increased cost is yet to be reflected in our passing rents as rents are set by reference to new developments and there has been a slowdown in the approval of new schemes.

Our portfolio is well placed to capture this rental growth once new developments recommence and this gives us confidence for the medium term prospects for rental growth in our sector.

## Capital growth

The stability of our property returns has also been replicated in the stability of our valuations. Over the economic cycle many other property sectors have seen greater volatility in their valuations.

It is worth noting that in our sector we have seen only a relatively moderate repricing since the financial crash and we maintain a premium over fixed return gilts in excess of 265 basis points. Many other sectors have seen greater movement in yields over the same period.

Given the quality and stability of our property returns there is a case to be made for a more significant re-rating of the sector in general and for an increase in capital values. We are seeing new entrants in the sector as in line with other alternative asset classes, such as student property, the relative attractiveness of the sector is becoming better understood by the wider property market. The timing of any price movement is difficult to predict and there can be no certainty that the market will respond as might be expected.

## Supporting the NHS agenda

We are passionate advocates of the benefits of investing in primary care infrastructure for delivering improved and cost effective medical care under the NHS. We extensively engage with all levels of the NHS to understand the ongoing requirements for GP property infrastructure and to ensure that property receives the focus it deserves. Despite being fundamental to the daily delivery of medical services in this country it is an area that is too often neglected. We have been architects in establishing a healthcare committee at the British Property Federation to provide a forum for discussing and communicating these benefits.

Our commitment to supporting the NHS on a broader level is illustrated by our current project to develop a zero carbon medical centre. Working with our design and development partners we are developing a model for the construction of a medical centre with the latest sustainability design to ensure that the building could be operated with zero carbon emissions and zero ongoing running costs once completed.

Our primary strategic priority is focus and we apply this in everything we do, whether in customer service to our GP tenants, designing best-in-class medical centres or identifying investment opportunities. To support our ongoing investment programme we remain committed to a disciplined approach to capital allocation supported by our programme of non-core property disposals.

## Platform for growth

We are starting the new financial year in a strong position with a greatly increased core property portfolio of 202 medical centres with a value of £627 million and a passing rental yield of 6.4% with income security from a weighted average unexpired lease length of 14.7 years. The business is well funded with a 62% loan to value ratio, a weighted maturity on our debt of 10.9 years and 98% of our debt at a fixed rate.

We have strong brand recognition across the GP community and our team has the right blend of skills across medical investment and development to ensure that we are best placed to deliver on the opportunities in our sector for our shareholders.

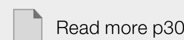
**Graham Roberts**
Chief Executive

WE ARE BEST PLACED TO DELIVER ON THE OPPORTUNITIES IN OUR SECTOR

# BUSINESS MODEL
# CREATING LONG-TERM SHAREHOLDER VALUE

**Our vision**
We are a leading UK healthcare REIT and key to that is being the UK's best developer and owner-manager of primary care property.

**Key risks to manage**
Risk management is essential to the way we operate and is a key responsibility of the Board. We monitor and manage both external and internal risks and ensure that those risks assumed are regularly assessed by the Board.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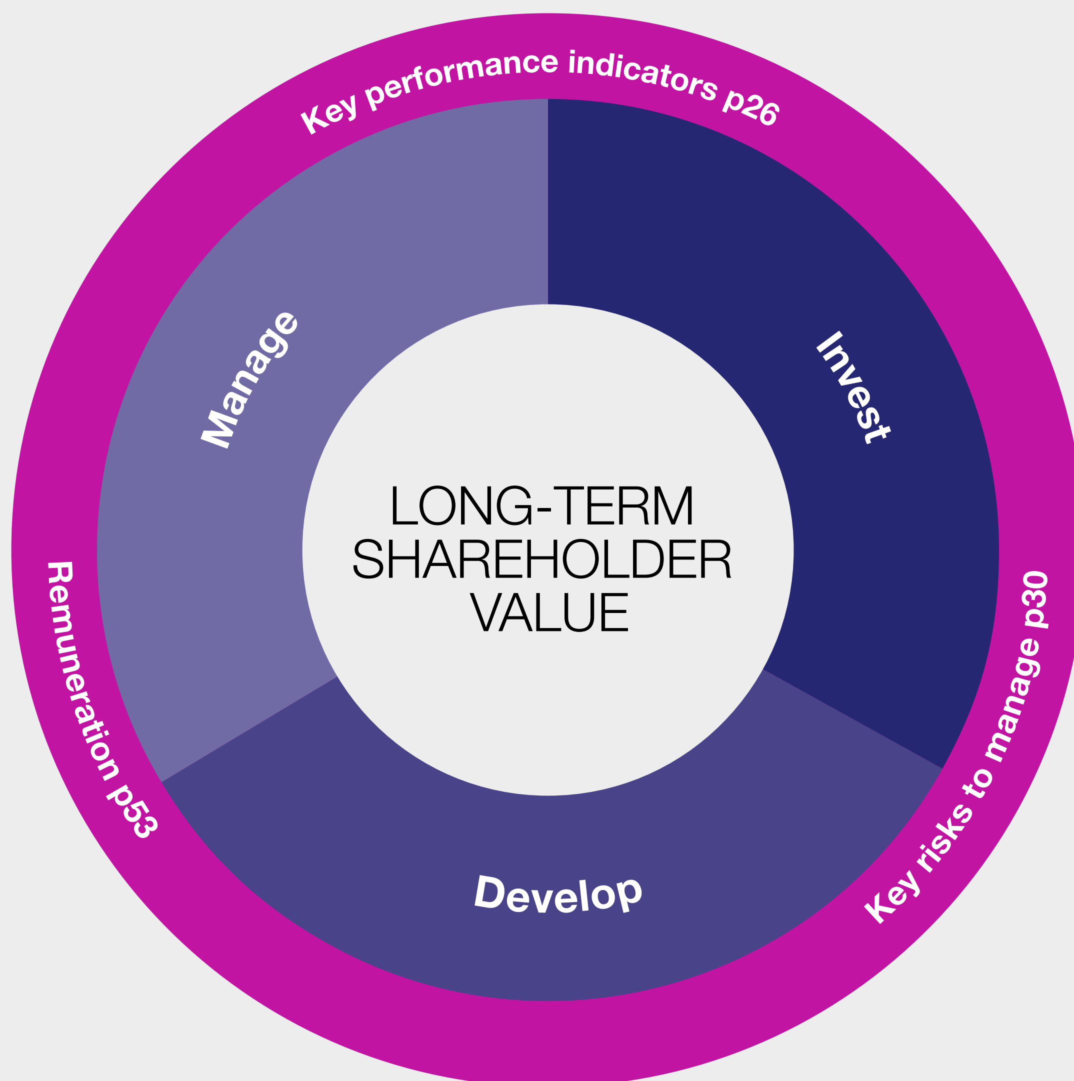
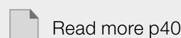



**Corporate responsibility**
As a leading investor in social infrastructure and a member of the Social Stock Exchange we take our corporate and wider social responsibilities very seriously. In addition, the highest levels of Corporate Governance are applied and supported by the extensive personal experience of the Board in this area.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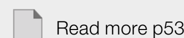
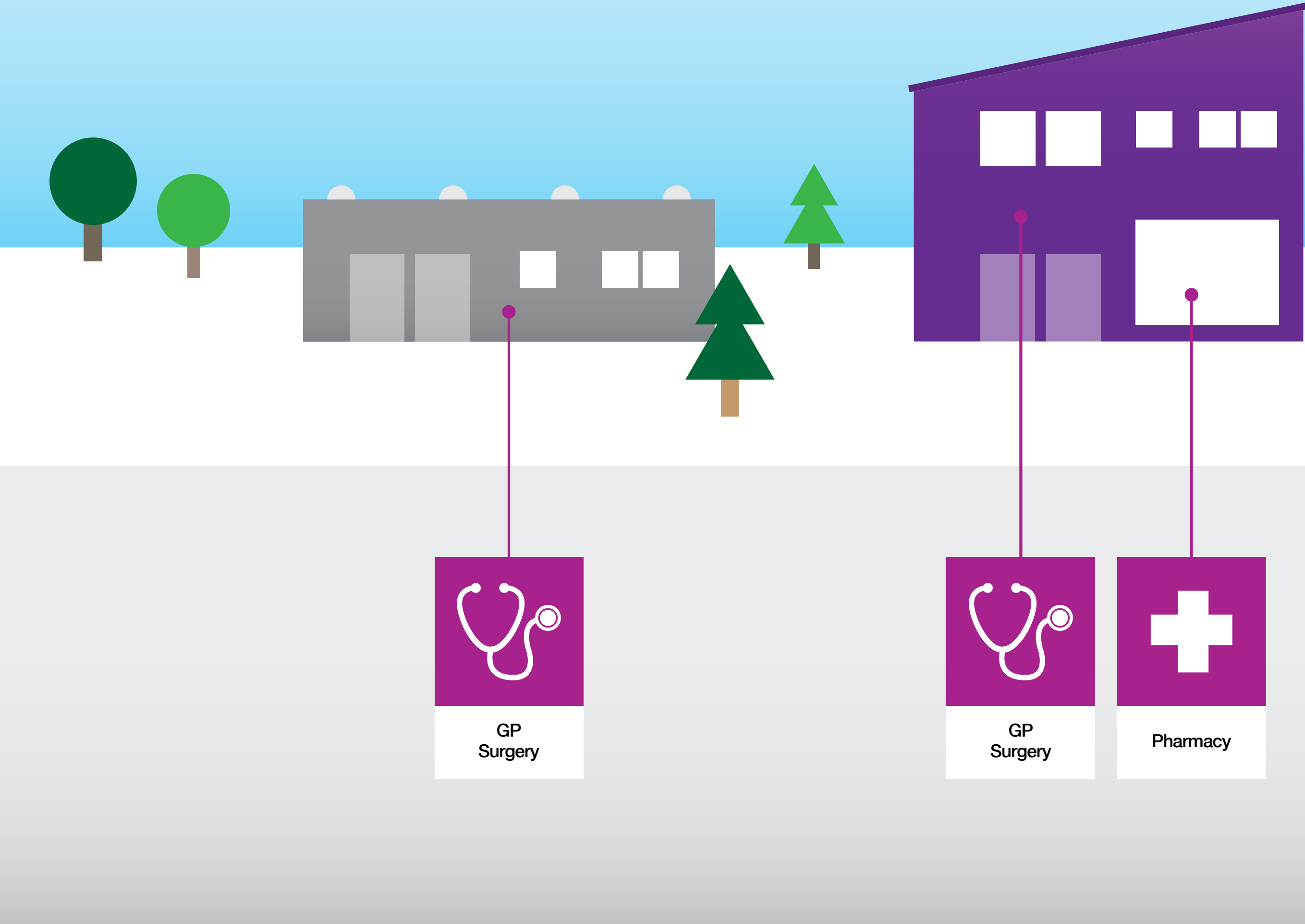
**Directors' remuneration**
We believe the alignment of the long-term interests of shareholders and management is essential and this key principle drives the remuneration policy for Directors. Retaining and motivating the required calibre of management and the avoidance of excessive risk taking are key considerations.

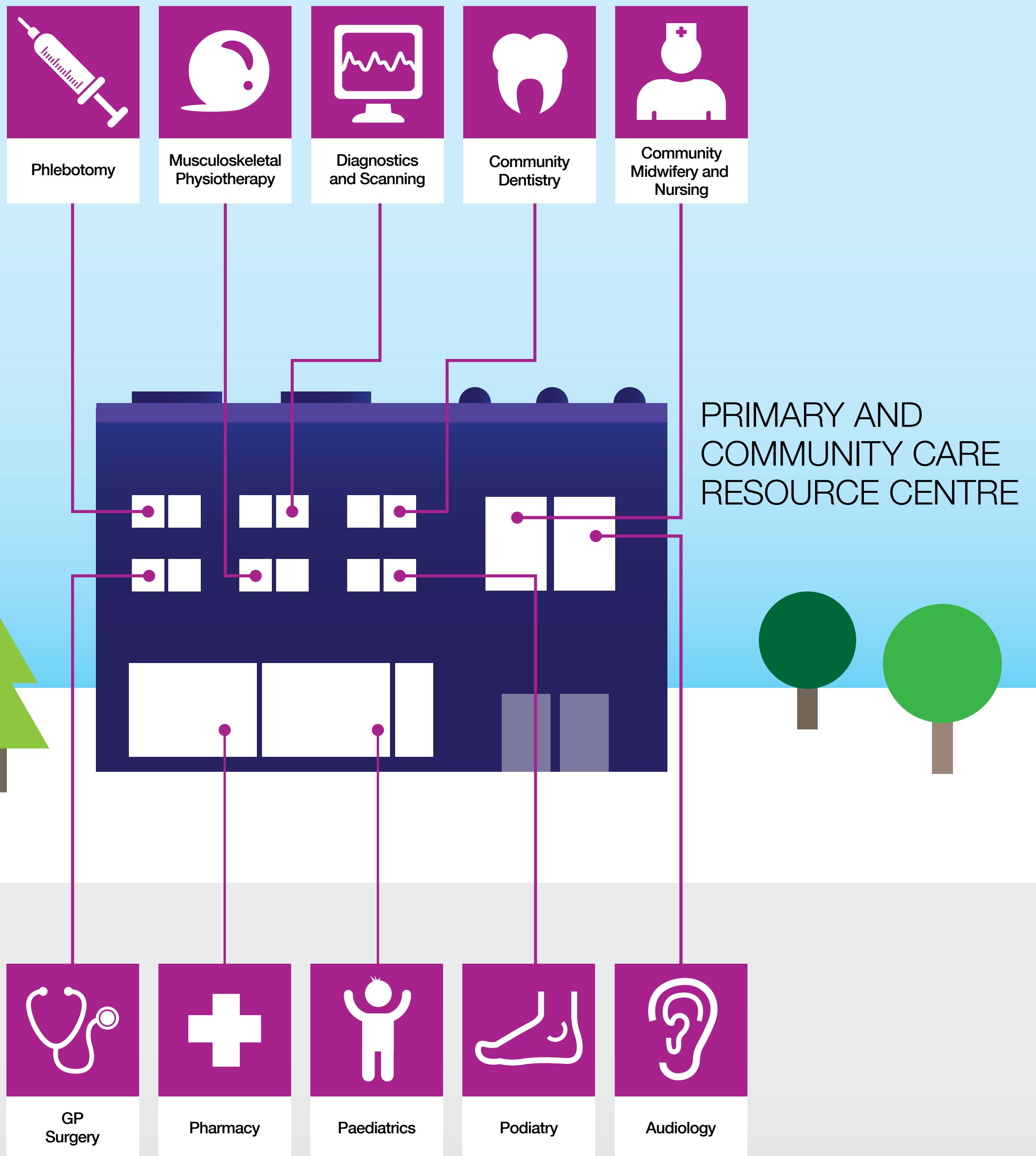

Read more p53

# MEETING THE NHS AGENDA

Large co-located GP practices can vastly increase the services offered to patients in their locality

This reduces the burden on secondary care and enables Assura to assist in meeting the NHS agenda

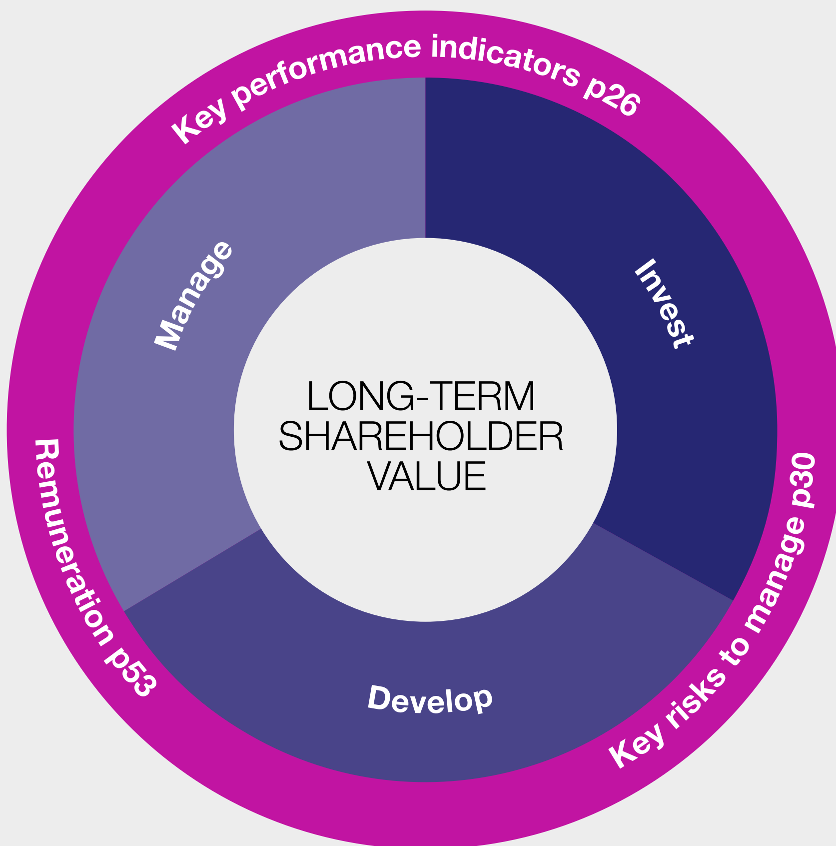



Phlebotomy
Musculoskeletal Physiotherapy
Diagnostics and Scanning
Community Dentistry
Community Midwifery and Nursing
PRIMARY AND COMMUNITY CARE RESOURCE CENTRE
GP Surgery
Pharmacy
Paediatrics
Podiatry
Audiology

# STRATEGY

**Vision**

## TO BE THE UK'S BEST DEVELOPER AND OWNER-MANAGER OF PRIMARY CARE PROPERTY




**Strategy**

## FOCUS

Assura has a deep understanding of the economic dynamics of healthcare real estate. By building on the knowledge and expertise of our team and engagement with our healthcare partners we believe we can generate superior Total Property Return through a strategic focus on a highly attractive market.

## EXPERTISE

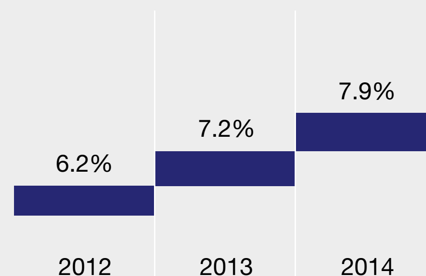
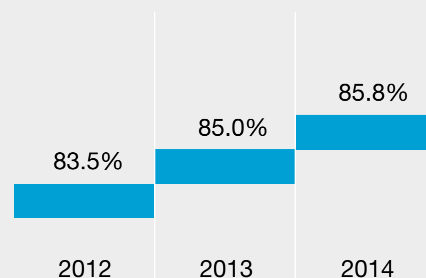
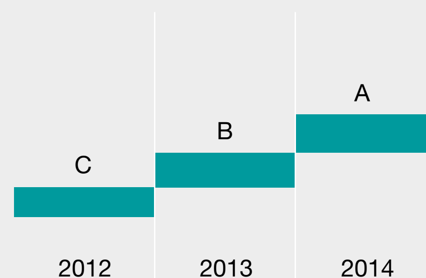
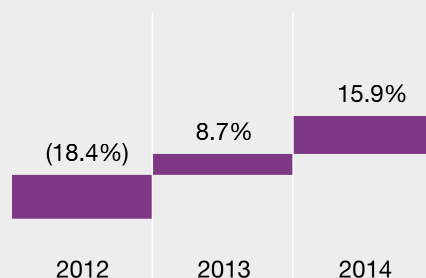
The Assura brand has a strong reputation for innovation derived from our bespoke designs for our medical centres. Our designs have an emphasis on flexibility and adaptability to ensure that the buildings can adapt to the changing NHS agenda.

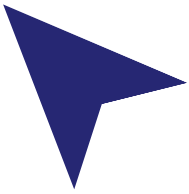
## CULTURE

We pride ourselves on our commitment to the highest possible standards in everything we do, our commitment to the sustainability agenda, the personal development of our teams and our role in spearheading investment in social infrastructure.

## EFFECTIVENESS

We are committed to supporting the NHS in tackling the major underinvestment in UK primary care property and utilising our skills and capital in achieving this. We have the right team to source and manage these opportunities and the right plans to leverage our team's skills to maximum advantage.

| Performance in 2014 | Priorities for 2015 | KPIs (read more p26) |
|---|---|---|
| • Delivered rental growth of 1.9% from settled rent reviews.<br>• Total Property Return of 7.9%.<br>• Outperformed the IPD Healthcare Index by 2.1%. | • Drive development opportunities to support rental growth evidence.<br>• Newly created role of investment manager to focus on asset enhancement opportunities.<br>• Continue to seek growth opportunities through acquisitions and purchase and leasebacks. | **Property return**  |
| • Engaged with senior NHS leaders and politicians to support transforming primary care property.<br>• Delivered eight bespoke GP led developments. | • Promote benefits of investment in primary care infrastructure for NHS.<br>• Build on strong brand with GPs to be at forefront of new development planning. | **% NHS tenant covenant**  |
| • Five out of our eight completed developments achieved BREEAM Excellent, with the remainder achieving Very Good.<br>• Joined Social Stock Exchange. | • Develop zero carbon medical centre of the future for the NHS.<br>• Further investment in our team's development. | **Average EPC rating**  |
| • Joined REIT regime.<br>• Sold LIFT investments for a profit of £10.5 million.<br>• Acquired Trinity portfolio for £62.9 million and reduced our administrative costs to 0.82% of the average property assets. | • Seek further opportunities to expand the portfolio.<br>• Continue to recycle proceeds from non-core asset sales into primary care property.<br>• Promote Company to wider shareholder base to continue increase in share trading volumes. | **Accounting return**  |



# FOCUS
# STRATEGIC FOCUS ON A HIGHLY ATTRACTIVE MARKET

**GP vision**
St Hilary Group Practice has always been regarded as innovative and forward thinking, and as part of their selection process wanted a developer and long-term investor who shared their enthusiasm for primary care being at the centre and forefront of the NHS. In selecting Assura they found a partner who had the focus and expertise to deliver their ambitions. The practice very much sees the GP as the focal point for the delivery of services and a primary care medical centre as the place that patients should view as their first port of call.

**Facilitating change**
Restricted in its ambitions by its old premises, the practice wanted a development team who could turn its aspirations into reality, enabling the practice to fundamentally change its way of working, resulting in a greater range of locally delivered services, coupled with improved access. The practice, having its patients at the heart of all its decisions, wanted to make a fundamental difference to the lives of its patients. Assura embraced the challenge and secured a site at the heart of its community, and worked strenuously to deliver the premises in what was a constrained site.

**Dedication**
New premises enabled the practice to offer extended hours, thus relieving pressure on the overburdened secondary care and repatriating many services into a primary care medical centre which were previously impossible from their old practice property. The extended hours were only possible from a new building designed to the highest standards and with the GP vision being understood by the design team from the outset. Turning the practice's vision into reality can only be achieved by dedication and a passion for the work we do.

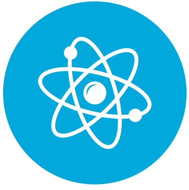
**Testament**
Dr James Kingsland, senior partner, said: "The practice premises have been designed and completed to an extremely high standard. The extended services offered at the new centre will allow us to make speedier diagnoses, make more specific use of hospital resources and allow us to complete the cycle of care in one location." Enabling GPs and the primary care team to complete more episodes of care in the community invariably brings benefits to the patients and vastly improves the patient experience, especially when delivered from modern facilities.

**Focus**
Assura has a deep understanding of the economic dynamics of healthcare real estate. By building on the knowledge and expertise of our team and engagement with our healthcare partners we believe we can generate superior Total Property Return through a strategic focus on a highly attractive market.

## OUR NEW PREMISES ARE FANTASTIC. IT HAS EVERYTHING WE NEED IN ONE SPACE

**MONIKA DOYLE, PRACTICE MANAGER**

Compared to our previous property it's bigger, better and completely up to the level required for CQC standards. All staff find it a joy to come to work and you can see the difference it makes to patients to have everything they need close by, including the pharmacy right next door.



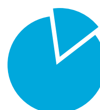
# EXPERTISE
# RESPONDING TO THE NHS AGENDA

## NHS vision
Blackpool NHS wanted to increase the service offering to its communities and patients through a hub and spoke model for primary care. Assura was appointed to deliver the North hub incorporating GP primary care, NHS community services, dentistry and diagnostics. For a truly integrated facility at the heart of the community, a partnership approach was adopted with the City Council and a site identified within Moor Park adjacent to the tired Council owned swimming pool. As part of the development, Assura facilitated an extensive refurbishment and upgrade of the leisure facility, and incorporated a library and café.

## Delivery
Once appointed, Assura worked closely with all stakeholders, including the local residents and registered patients of the three practices, to gather the vision and aspirations of all involved and affected by the development. The resulting scheme is now a hub for the community offering extensive services for health and wellbeing in addition to treatment and diagnosis. Assura's expertise and track record in the delivery of complicated multi-agency premises ensured a smooth design process and on-site construction.

## Occupation
That the completed project was delivered on time and within budget to the exacting requirements of the NHS and the Council is testimony to the professionalism of the entire team. Dr Steve Parr-Burnham GP, who was a key advocate and supporter for the scheme from the outset, stated: "Our new facilities have significantly enhanced what we can offer to the local community. The new buildings are a vast improvement to our previous practice premises with much more light and space. It is evident that patients were at the heart of the design; the flexible and open plan space is relaxing and purpose built to cater for a high footfall and a stress free experience. It is fantastic to see patients benefiting from all aspects of the new build."

## Innovation
As part of the vision the stakeholders wanted a building that promotes health and wellbeing and education, not just somewhere to go when feeling sick or ill. The integration of the leisure facility and library met some of these objectives. Assura added to the experience, taking advantage of the adjacent park. We staked out measured walks around the park, enabling GPs to prescribe exercise to promote healthy living and lifestyles. Conscious of the setting within a park, Assura used environmentally sensitive and ecologically sound techniques to deal with surface water, creating a sustainable drainage system that incorporates wetland areas for wildlife. Assura engaged a specialist horticulturist to select plants that promote wildlife and would also be educational for school children.



**Expertise**
The Assura brand has a strong reputation for innovation derived from our bespoke designs for our medical centres. Our designs have an emphasis on flexibility and adaptability to ensure that the buildings can adapt to the changing NHS agenda.

OUR PRACTICE IS NO LONGER JUST A PLACE TO BE SEEN BY A DOCTOR; PATIENTS HAVE BEEN MAKING IT A DAY OUT
**SHARON ORR, PRACTICE MANAGER**

They go to the library and some even have their lunch here. Previously we didn't have the capacity to meet patient demands whereas now we can. The increased space and modernity of the building has enabled us to offer additional services such as our own chiropody and dermatology, making us more of a one stop shop for patients.

# CULTURE SPEARHEADING INVESTMENT IN SOCIAL INFRASTRUCTURE

## Ardudwy Health Centre, Harlech

### Transforming health facilities for local communities

The new medical centre provides new branch surgery premises for the Ardudwy Health Centre. The practice was previously in extremely cramped and unfit facilities, so the new centre has transformed working conditions for the practice as well as primary care services to the local population.

### Innovation in sustainability

Sustainability was a key consideration from the outset, as with all our new build construction schemes. We recognise the positive benefits that carefully designed, environmentally aware premises bring to staff and patients, and as long-term owners have a vested interest in ensuring that the highest possible performance standards are achieved. All of our current development projects are set to achieve a BREEAM Excellent rating and incorporate a variety of sustainable technologies.

The Harlech scheme typifies this approach with the incorporation of a biomass boiler, locally sourced materials and highly insulated timber structure. The biomass boiler is fed from locally sourced biofuels, which is a highly sustainable and efficient system, reducing carbon emissions.

In addition to the above measures, significant emphasis was given to high quality landscaping and external finishes, which in this instance utilise locally sourced Welsh stone to mirror the traditional dry stone walling of the area and add to the aesthetic value of the site, which, given its setting in close proximity to the UNESCO World Heritage Site of Harlech Castle, was a key concern of the local planning authority. As well as locally sourced materials, a local building contractor and design team were also appointed, supporting local employment.

### The first zero carbon medical centre in the UK

These leading edge innovations were complemented by the installation of supplementary PV panels, which further reduced the Energy Performance Certificate (“EPC”) rating to a score of –2 and thereby gives the centre a zero carbon status; the first zero carbon medical centre in the UK.

**Culture**
We pride ourselves on our commitment to the highest possible standards in everything we do, our commitment to the sustainability agenda, the personal development of our teams and our role in spearheading investment in social infrastructure.

## ASSURA HAS ALWAYS SUPPORTED MY PROFESSIONAL DEVELOPMENT
### AMANDA RODDY, DEVELOPMENT MANAGER

I first joined the Assura team in 2006 as an asset manager for their rapidly expanding healthcare portfolio. Originally from a non-surveying background, Assura supported me to fulfil a postgraduate diploma in Surveying. I simultaneously completed my Assessment of Professional Competence with the Royal Institution of Chartered Surveyors ("RICS") and became a fully qualified Chartered Surveyor in 2008. In my current role as Property Development Manager, I am responsible for securing and delivering development and investment opportunities across the North of England, as well as Wales, Scotland and Northern Ireland.

# EFFECTIVENESS
## LEVERAGING SKILLS TO MAXIMUM ADVANTAGE

### Acquisitions
As a market leader our market intelligence enables us to source new investment acquisitions through identification of both on or off-market portfolios and individual investments along with purchase and leasebacks.

The acquisition of the Trinity portfolio is an example of our using market knowledge to secure an off-market transaction. Our awareness of the opportunity was able to be converted into a completed transaction within a matter of weeks. Our team was able to evaluate and value the portfolio and to assess its merits and identify future enhancement opportunities.

### Day to day property management
The core of our business is in the long-term partnering relationship we build with the tenants and occupiers. Each asset is assigned to an individual Portfolio Manager in our team of chartered surveyors who has personal responsibility for the asset and getting to know the primary care teams working within our buildings.

The Trinity portfolio was promptly transferred onto our property management system with all leases reviewed, enabling us to achieve our target rent collection rate of 90% collected within seven days.

Our surveyors undertook full site visits and brought all the health and safety inspections up to date promptly. This allowed our team to start developing a close working relationship with our GP tenants so that we can understand their ongoing requirements and property needs.

### Developing long-term asset plans
In addition to our team of Portfolio Managers, our Investment Managers set and regularly review a strategic plan for each asset. The analysis undertaken includes benchmarking of assets using internal rates of return and IPD data.

These plans can involve re-gearing leases to extend the term, physical extensions to increase the floor area or identifying complementary tenants to come onto our sites.

Immediate plans delivered on the Trinity portfolio include the building of an extension to accommodate a pharmacy on the premises in Bishop Auckland, which delivered a rental increment of £35,000. In addition an agreement for the development of a new medical centre in Lanchester has been signed and the former premises are being marketed for sale.

### Summary
The Trinity acquisition is a good example of how we are able to use our market knowledge and the expertise of our team to identify an off-market transaction, execute the deal in a timely fashion and maximise the value in the opportunity from strategic asset management immediately post acquisition.

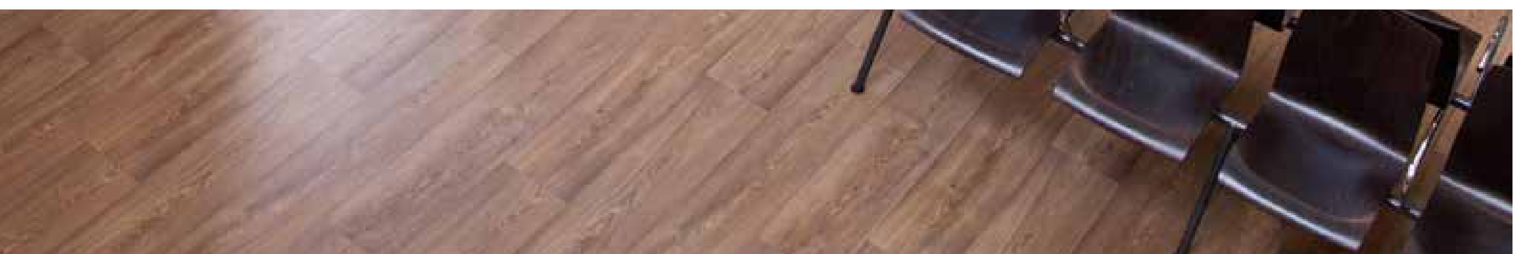
### Effectiveness

We are committed to supporting the NHS in tackling the major underinvestment in UK primary care property and utilising our skills and capital in achieving this. We have the right team to source and manage these opportunities and the right plans to leverage our team's skills to maximum advantage.

## MY TEAM HAS THE RIGHT SKILLS TO IDENTIFY AND MAXIMISE THE OPPORTUNITIES IN OUR SECTOR

**SPENCER KENYON, HEAD OF PORTFOLIO MANAGEMENT**

The Trinity acquisition was a good example of how my team can add value for shareholders. We sourced the opportunity, assessed the quality of the portfolio and then integrated the portfolio seamlessly into our property management systems and processes.



# KEY PERFORMANCE INDICATORS

## Our vision

Our vision is to be the UK's best developer and owner-manager of primary care property

| Strategic priority | KPI and benchmark |
|---|---|

### FOCUS:

**Maintaining a strategic focus on a highly attractive market**

Assura has a deep understanding of the economic dynamics of healthcare real estate.

By building on the knowledge and expertise of our team and engagement with our healthcare partners we believe we can generate superior Total Property Return through a strategic focus on a highly attractive market.

RENTAL GROWTH FROM RENT REVIEWS

1.9% — 2014
2.4% — 2013

TOTAL PROPERTY RETURN

7.9% — 2014
7.2% — 2013

IPD FIVE-YEAR TOTAL RETURN

8.5% — ASSURA
6.4% — IPD

### EXPERTISE:

**Responding to the NHS agenda**

The Assura brand has a strong reputation for innovation derived from our bespoke designs for our medical centres. Our designs have an emphasis on flexibility and adaptability to ensure that the buildings can adapt to the changing NHS agenda.

LEASE LENGTH

14.4 YEARS — 2014
14.8 YEARS — 2013

% OF TENANT COVENANT NHS/GP

86% — 2014
85% — 2013

COMPLETED DEVELOPMENTS

£24.5m — 2014 – 8 SITES
£14.4m — 2013 – 5 SITES

DEVELOPMENTS ON SITE

£23.2m — 2014 – 5 SITES
£34.9m — 2013 – 9 SITES

In order to be the best we need to demonstrate that we can consistently outperform over time. In order to measure ourselves against this objective we have a wide range of key performance indicators, but these can be distilled into three key areas. Firstly Total Property Return, which measures our success in choosing the right investments and managing these over time. Secondly Total Accounting Return, which measures the returns we have delivered to our shareholders in the form of dividends paid and our growth in net asset value ("NAV"). Lastly, we consider Total Shareholder Return as measured by the stock market, which reflects the value of dividends paid and the relative movement in our share price over the period.

These measures are complementary and should build on each other although the share price movement is also affected by other external factors outside of our control. By managing the Property Return and Accounting Return over the medium term we should be able to deliver a superior Total Shareholder Return to our investors. This overriding objective is reflected in the long-term management incentive scheme, which was approved by shareholders this year. The Value Creation Plan ("VCP") provides incentives to management based on the Total Shareholder Return delivered to investors over a five-year time horizon. This is explained in more detail in the Remuneration Committee Report on pages 53 to 70.

In order to achieve these objectives we have four strategic priorities and how we monitor ourselves against them is outlined below:

| Explanation | Performance |
|---|---|
| Rental growth is the weighted average annualised uplift in rent reviews settled in the year. | We have delivered rental growth of 1.9% which is in line with inflation over the period.<br>The rate of growth has been slowing, though with construction cost inflation returning we believe medium-term prospects will recover. |
| Total Property Return measures the overall return generated by our properties on a debt free basis. It is calculated as the net rental income generated by the portfolio plus the change in our market values, divided by opening property assets plus additions. | We have continued to deliver a Total Property Return in excess of our net initial yield from delivering capital growth from our investment portfolio. |
| We measure our performance against the All Healthcare Benchmark as calculated by IPD. | Over the last five years, our Total Return of 8.5% has outperformed the All Healthcare Benchmark of 6.4%.<br>This has been achieved with low volatility of returns and is in line with our estimated cost of equity. |
| The weighted average unexpired lease term ("WAULT") provides the average period until the first available break in our underlying property leases calculated on the basis of the weighted average of the underlying rent. | Our lease length of 14.4 years provides a high level of income certainty to underpin investor returns. |
| The proportion of our rent roll that is paid directly by GPs or NHS PropCo. | An effective government backing for 86% of our income provides low default risk for our income at a premium to the equivalent gilt rates. |
| The number and valuation on completion of completed developments during the year. | The value of completed schemes has increased during the year to £24.5 million. |
| The number and estimated valuation on completion of developments currently commenced at the year end. | The NHS reorganisation has inevitably led to a slowdown in development activity and so the number of schemes we have on site has reduced. Despite this we have continued to work with the NHS on future developments and we currently have an indicative pipeline in excess of 25 schemes and £75 million. |

| Strategic priority | KPI and benchmark |
|---|---|

## CULTURE:

**Spearheading investment in social infrastructure**

We pride ourselves on our commitment to the highest possible standards in everything we do, our commitment to the sustainability agenda, the personal development of our teams and our role in spearheading investment in social infrastructure.

### BREEAM RATING ACHIEVED ON DEVELOPMENTS 'VERY GOOD' OR BETTER

| 2014 | 2013 |
|---|---|
| 100% | 100% |

### AVERAGE EPC RATING

| 2014 | 2013 |
|---|---|
| A | B |

## EFFECTIVENESS:

**Leveraging our team's skills to maximum advantage**

We are committed to supporting the NHS in tackling the major underinvestment in UK primary care property and utilising our skills and capital in achieving this. We have the right team to source and manage these opportunities and the right plans to leverage our team's skills to maximum advantage.

### TOTAL ACCOUNTING RETURN

| 2014 | 2013 |
|---|---|
| 15.9% | 8.7% |

### ADMIN COSTS AS % OF AVERAGE PORTFOLIO VALUE

| 2014 | 2013 |
|---|---|
| 0.82% | 0.89% |

### TOTAL SHAREHOLDER RETURN

| 2014 | 2013 |
|---|---|
| 24.2% | 18.6% |

### UNDERLYING PROFIT PER SHARE

| 2014 | 2013 |
|---|---|
| 2.1p | 1.7p |

| Explanation | Performance |
| --- | --- |
| BREEAM is the world's foremost environmental assessment method and ratings for buildings. BREEAM sets the standard for best practice in sustainable building design, construction and operation, and has become one of the most comprehensive and widely recognised measures of a building's environmental performance. | Five of our developments achieved a rating of Excellent in the current year with the remaining three achieving a Very Good rating. |
| An EPC is an assessment based on the construction and type of property and relevant fittings such as heating systems, insulation or double glazing. | The average EPC rating on all our completed developments in the year is 19 or a grade A. This is an improvement on the prior year when the average rating was 49, equating to a grade B. |
| Total Accounting Return is the overall return generated by the Group including the impact of debt. It is calculated as the movement on EPRA NAV for the year plus the dividends paid, divided by the opening EPRA NAV for the year and is expressed as a percentage. Over time we would expect our Total Accounting Return to be a good proxy or our Total Shareholder Return. | Our Total Accounting Return is in excess of our Total Property Return of 7.9%, which reflects the net positive impact of our borrowings and our efficient cost base. This is well in excess of our estimated cost of equity.<br>5.1% of the return reflects the one-off impact of the profit on sale of our LIFT investments. |
| This is measured as the total administrative costs for the year divided by the average investment property value for the year. It is expressed as a percentage. | The integration of the Trinity portfolio has been achieved with no addition to headcount, which has contributed to a reduction in the ratio to 0.82%. |
| Total Shareholder Return is calculated as the movement in the share price for the period plus the dividends paid, divided by the opening share price for the year expressed as a percentage. | Total Shareholder Return will differ from Total Accounting Return to the extent that there has also been a movement during the period of the ratio of the share price to the EPRA NAV. During the year we have increased the share trading volume such that we expect to rejoin the FTSE All Share Index at the end of June 2014.<br>The discount to EPRA NAV at 31 March 2014 was 1.5% (2013: 8.1%). |
| The underlying profit per share is calculated as the underlying profit (see income statement definitions on page 84 for more detail on this definition) divided by the average number of shares in issue during the year. | We have increased underlying profits by 24% from £8.8 million to £10.9 million and on a per share basis from 1.7 pence per share to 2.1 pence per share. |

# RISK MANAGEMENT

## Risk management is essential to the way we operate and is a key responsibility of the Board

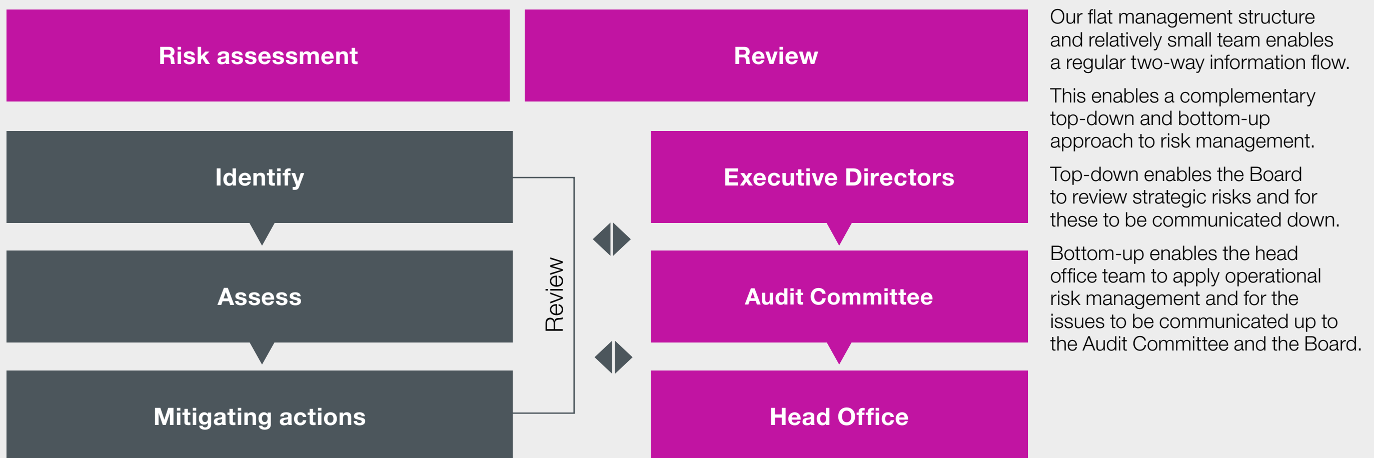
The level and type of risk assumed is regularly monitored by the Board and key to this is having an appropriate internal controls and risk management process, which is subject to regular review by the Board.

With a small head office team with a flat structure and detailed day to day engagement of Executive Directors, emerging risks are identified and existing risks monitored constantly. It is inherent in the nature of risk that it is not possible to eliminate all risk. In fact it is not desirable as assuming manageable risk is key to enhancing profits and returns to investors.

Many of the key external risks are areas where we have limited control, such as government policy towards the NHS and the strength of the economy. Although these cannot be controlled we regularly review their potential impact on our business and consider how our strategy and its implementation can be adjusted to mitigate any potential impact.

A summary of the more critical risks identified through that review and identified by the Board as having potential to affect the Group's operating results, financial control and its reputation are summarised opposite.

## RISK ASSESSMENT REVIEW




Our flat management structure and relatively small team enables a regular two-way information flow.

This enables a complementary top-down and bottom-up approach to risk management.

Top-down enables the Board to review strategic risks and for these to be communicated down.

Bottom-up enables the head office team to apply operational risk management and for the issues to be communicated up to the Audit Committee and the Board.

## RISK ASSESSMENT

| Risk | Risk rating 2013 | Risk rating 2014 | Change | Description of risk change |
|---|---|---|---|---|
| **External risk – government policy** | High | High | ➤ | The recent NHS reorganisation has negatively impacted decision making processes for approving new premises. We actively engage with government and the NHS to highlight the benefits of "unblocking" future investment. |
| **External risk – availability and cost of finance** | Medium | Low | ▼ | We have seen new entrants lending to our sector during the year and increased competition has reduced the cost of borrowing in the year. |
| **External risk – investor demand** | Medium | Low | ▼ | The fundamentals remain very strong for our sector. The relative price movements of other sectors have increased the attractiveness of our sector to investors. |
| **External risk – threat of new entrants** | | Low | ▲ | The attractiveness of the sector could lead to new entrants and increased competition to acquire assets. |
| **Internal risk – development** | Medium | Medium | ➤ | The Group continues to manage development risk closely through our investment surveyors. |
| **Internal risk – capital structure, gearing** | Medium | Medium | ➤ | Gearing has remained constant in the period. An increase in property values would improve the risk profile. The Group's capital structure is subject to regular review. |
| **Corporate and compliance risk – communication** | Medium | Low | ▼ | The number of investor meetings has increased in the year and we continue to treat investor communications as a key priority. |
| **Corporate and compliance risk – people** | Low | Low | ➤ | We continue to focus on a culture of continuous improvement and personal development and are increasing our training and development expenditure in the year ahead. |

# EXTERNAL RISKS

| Risks and impacts | Key mitigating factors | Change from last year |
|---|---|---|
| **Government policy**<br>Changes in NHS procurement and funding could adversely affect the Group.<br><br>Reduced funding for premises expenditure in the primary care sector of the NHS could lead to a reduction in our development pipeline and growth prospects.<br><br>A change to the reimbursement mechanism for GPs could lead to a change in the risk profile of our underlying tenants. | The increased provision of healthcare services in the community and a closer coordination of primary and elderly care provision is a stated policy objective of all three major political parties and so a reduction in funding to this sector is considered unlikely.<br><br>The recent organisation changes in the NHS have led to a reduction in the number of new developments being approved. A new procedure for approval is to be announced shortly by the NHS and we are confident the increasing demands on GPs and their premises will lead to an increase in the funding for new developments.<br><br>The Group actively engages with the Government over policy that could impact the business, both directly and through the recently established Healthcare Committee of the British Property Federation.<br><br>The reimbursement mechanism is not currently under review. Any change would probably result in an increased cost to the NHS in the future supply of primary care properties, which could reduce the opportunities to increase healthcare provision in the community. | |
| **Availability and cost of finance**<br>Reduced availability of real estate financing could adversely affect the Group's ability to source new funding and refinance existing facilities.<br><br>Reduced availability of new financing could delay or prevent the development of new premises.<br><br>Increasing financing costs could increase the overall cost of debt to the Group and so reduce underlying profits. | The Group predominantly has long-term facilities, which reduces the refinancing risk both in terms of availability of finance and potential rate increases.<br><br>The Group has a policy of active engagement in capital and banking markets and engages with a range of funders to ensure a breadth of financing options. The current appetite for lending into the sector is very strong.<br><br>The Group regularly monitors and manages its re-financing profile.<br><br>98% of current debt is fixed for the duration of the loans. | |
| **Investor demand**<br>Reduction in investor demand for UK primary care property may result in falls in asset valuations, which could reduce the Group's future profits and net asset values and could arise from:<br>• Changes in NHS policy<br>• Health of the UK economy<br>• Availability of finance<br>• Relative attractiveness of other asset classes. | The overall economic position and its impact on the Group's operations are regularly assessed and considered in reviewing the Group's strategy.<br><br>The Group's focus on the primary care sector provides a strong covenant and long-term income, which reduces the impact of the wider economy.<br><br>The relative attractiveness of the sector has increased during the year as other prime markets have seen significant price increases, which are yet to feed into our sector. | |
| **Threat of new entrants**<br>Increased competition from new purchasers could lead to a reduction in our ability to acquire new properties. | We have seen evidence of new entrants into the sector during the year. Increased competition could lead to a general increase in prices across the sector. Our specialist knowledge and strong brand recognition with GPs reduces this overall risk. | |

## INTERNAL RISKS

| Risks and impacts | Key mitigating factors | Change from last year |
|---|---|---|
| **Development**<br>Development risk could adversely impact the performance of the Group including:<br>• Cost overruns and delays on new projects<br>• Delays in letting parts of premises. | The Group has a dedicated and experienced development management team to manage this exposure.<br>The Group's policy is to engage in developments that are substantially pre-let with fixed price or capped price build contracts.<br>The Group has substantial experience of developments in the sector and has strong relationships with suppliers. | ◀▶ |
| **Capital structure, gearing**<br>Property valuations are inherently uncertain and subject to significant judgement. A fall in property values or income could adversely affect the covenants on facilities with lenders.<br>If covenants were breached this could lead to forced asset disposals which could reduce the Group's net assets and profitability. | The Group engages two external valuers to review property valuations on a regular basis and these are formally reviewed by the Board twice a year.<br>All financial forecasting, including scenario analysis of prospective transactions, incorporates consideration of the impact on gearing and covenant headroom.<br>Covenant headroom and gearing is monitored with reference to possible valuation movements and future expenditure.<br>The Board regularly reviews the capital structure of the Group. | ◀▶ |

## CORPORATE AND COMPLIANCE RISKS

| Risks and impacts | Key mitigating factors | Change from last year |
|---|---|---|
| **Communication**<br>Failure to adequately communicate the Company's strategy and explain performance in respect of this may result in an increased disconnect between the investor perceptions of value and actual performance. | Strategic priorities in corporate communications, including the Annual Report, are clearly articulated and reiterated.<br>We have significantly increased the number of investor meetings in the year.<br>The Group reports performance transparently and communicates regularly with investors and analysts. | ▼ |
| **People**<br>Failure to recruit, develop and retain staff and Directors with the right skills and experience may result in underperformance. | Succession planning is regularly evaluated.<br>Director and employee remuneration and incentives are aligned with appropriate peer groups and periodically benchmarked.<br>The Group has a regular performance appraisal process with a focus on continuous personal development and an employee engagement programme, which promotes its corporate values and culture. | ◀▶ |

# BUSINESS REVIEW

During the year we have integrated the acquisition of the Trinity portfolio of 32 medical centres that we acquired in September and disposed of our LIFT investments

Following these successful actions, together with the strong performance of the underlying business, we created the capacity to increase our dividend by 49%

**Core portfolio £626.8 million (2013: £524.4 million)[1]**
Our business is built on our core investment portfolio of 202 medical centres. This has a passing rent roll of £40.3 million (2013: £34.1 million), which provides an excellent base for future shareholder returns with 89% of its income underpinned by the NHS and a WAULT of 14.7 years. The portfolio is diversified both geographically and by size.

CORE PORTFOLIO ANALYSIS BY CAPITAL VALUE

| | Number of properties | Total value £m | Total value % |
|---|---|---|---|
| <£1m | 37 | 25.1 | 4 |
| £1–5m | 139 | 350.4 | 56 |
| £5–10m | 19 | 139.4 | 22 |
| >£10m | 7 | 111.9 | 18 |
| | **202** | **626.8** | **100** |

CORE PORTFOLIO ANALYSIS BY REGION

| | Number of properties | Total value £m | Total value % |
|---|---|---|---|
| North | 90 | 322.0 | 51 |
| South | 64 | 180.0 | 29 |
| Midlands | 30 | 83.3 | 13 |
| Scotland | 9 | 23.0 | 4 |
| Wales | 9 | 18.5 | 3 |
| | **202** | **626.8** | **100** |

CORE PORTFOLIO ANALYSIS BY TENANT COVENANT

| | Total rent roll £m | Total rent roll % |
|---|---|---|
| GPs | 27.7 | 69 |
| NHS body | 8.1 | 20 |
| Pharmacy | 3.0 | 7 |
| Other | 1.5 | 4 |
| | **40.3** | **100** |

[1]Calculated as investment property (£523.6 million), plus investment property held for sale (£0.8 million).

We have continued to deliver rental growth despite the disruption from the NHS reforms and have successfully concluded on 96 rent reviews during the year to generate a weighted average annual rent increase of 0.8% (2013: 2.3%) on those properties. Our portfolio benefits from a 20% weighting in fixed and Retail Price Index ("RPI") uplifts which generated an average uplift of 2.1% during the year. The majority of our portfolio is subject to open market reviews and these have generated an average uplift of 0.4% during the year. In common with the wider sector we have experienced a reduction in the rate of growth in open market reviews and recent increases in land values and construction cost inflation have yet to feed through into reviews. We expect these factors will contribute to rental growth as the development pipeline picks up and provides evidence of the increasing rent levels.

At 31 March 2014 our core portfolio was valued at a total of £626.8 million (2013: £524.4 million), which produced a net initial yield of 5.88% (2013: 5.95%), a net equivalent yield of 6.04% (2013: 6.15%) and a true equivalent yield of 6.28% (2013: 6.40%). Our valuations reflect a modest increase in valuation from a movement in the yield on rental income, rental growth in the period and the enhancement of the portfolio through acquisition and completed developments. Given that prime markets in other sectors have seen significantly greater valuation movements over the past year there is potential for a similar re-rating and associated increase in values in our sector as well. The characteristics of the sector are strong enough to support this, though there is no immediately obvious catalyst to cause this valuation movement.

We work very hard at developing and maintaining customer relationships. This approach is carried across the range of services we provide both during development and after completion, as an asset manager. We have a dedicated team of asset managers who are in regular communication with our customers and we monitor progress through regular customer satisfaction surveys. All asset managers are appraised on their success in a continuous improvement on tenant interaction.

Our approach to development sourcing, which includes direct development, partnering with other developers and purchase and leasebacks, means that we are able to meet a wide range of our potential customers' needs. We work very closely with our design and development partners and jointly provide the expertise and capital to meet the aspirations of GPs in delivering their new premises. Every project we work on is developed jointly with the GPs to deliver a bespoke, tailored solution to their property needs.

In addition we offer potential customers a long-term commitment as development partner, landlord and asset manager. Our flexible approach, long track record and commitment as a long-term owner and asset manager of the sites we develop provides us with a unique position in the sector.

We have completed eight developments during the year with a total development cost of £22.8 million. This has added £1.5 million to our annual rent roll and generated a 6.7% yield on cost. We are currently on site with a further five developments with an estimated total development cost of £21.5 million.

During the year we have successfully secured six new tenancies with an annual rent roll of £0.2 million covering 1,429 square metres. In addition we have significantly extended the lease on two properties and managed significant capital expenditure projects across a further four sites.

The core portfolio contributed to earnings before interest and exceptional items in the year as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Net rental income | 36.7 | 32.1 |
| Valuation movement | 14.1 | 5.4 |
| Total Property Return | 50.8 | 37.5 |

Over the last five years, our Total Return of 8.5% compares to the All Healthcare Benchmark of 6.4% as published by IPD.

The valuation gain of £14.1 million represents a 2.2% valuation gain on a like-for-like basis and includes profits on developments of £2.3 million.

Our Total Property Return of 7.9% and our five-year Total Return of 8.5% represent solid returns on property assets that exhibit low volatility of returns and low default risk and are consistent with our estimated cost of equity.

**Non-Core portfolio: £16.4 million (2013: £20.5 million) (comprising £11.6 million assets held for sale and £4.8 million of investment property)**

We have continued our focus on capital recycling during the year. In addition to the LIFT sale we have disposed of six properties during the year with a further four sites either exchanged or under offer at the year end. These have resulted in proceeds of £3.4 million during the year.

The non-core portfolio contributed to earnings in the year as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Net rental income | 1.1 | 1.6 |
| Valuation movement | (1.7) | 0.6 |
| Total Property Return | (0.6) | 2.2 |

The non-core portfolio includes three retail malls (valued at £4.7 million) in hospitals which are held on short leases which expire on average in 15 years. These are challenging retail assets and have high direct property costs due to vacancies. Their valuation yields at 31 March 2014 were initial 17.35% (2013: 16.11%) and equivalent 12.64% (2013: 12.44%).

Other properties within non-core comprise surplus land of £9.5 million (2013: £9.7 million). The largest asset available for sale is a plot of land in Scarborough, which was the subject of a conditional sale contract to a national supermarket chain. This conditional contract has expired as the requisite conditions were not met. The land, together with an adjacent site owned by Scarborough Council, benefits from a recently approved planning consent for a supermarket and active discussions are being held with other end users and sector developers about an alternative scheme. The land is valued at £5.5 million.

The current valuation of the land in Scarborough represents a reduction of £0.7 million from the value at 31 March 2013 and is the largest contributor to the negative valuation movement of £1.7 million. In addition value reductions have been reported in land values of £0.3 million, retail malls £0.4 million and other non-core property £0.3 million.

| Property assets | 2014 Core £m | 2014 Non-Core £m | 2014 Total £m | 2013 Core £m | 2013 Non-Core £m | 2013 Total £m |
|---|---|---|---|---|---|---|
| Market value of investment property as estimated by valuer | **626.8** | **4.8** | **631.6** | 523.6 | 9.3 | 532.9 |
| Add IPUC[1] | **14.8** | **–** | **14.8** | 14.3 | – | 14.3 |
| Add pharmacy lease premiums | **7.2** | **–** | **7.2** | 7.0 | – | 7.0 |
| Add finance lease obligations recognised separately | **1.0** | **2.1** | **3.1** | 1.0 | 2.1 | 3.1 |
| Fair value for financial reporting purposes | **649.8** | **6.9** | **656.7** | 545.9 | 11.4 | 557.3 |
| Investment property held for sale | **–** | **2.0** | **2.0** | 0.8 | 1.3 | 2.1 |
| Vacant property held for sale | **–** | **0.1** | **0.1** | – | 0.2 | 0.2 |
| Land held for sale | **–** | **9.5** | **9.5** | – | 9.7 | 9.7 |
| Total property assets held for sale | **–** | **11.6** | **11.6** | 0.8 | 11.2 | 12.0 |
| Total property assets | **649.8** | **18.5** | **668.3** | 546.7 | 22.6 | 569.3 |

[1] Investment property under construction.

## Underlying profit

| | 2014 £m | 2013 £m |
|---|---|---|
| **Net rental income** | | |
| – Core | **36.7** | 32.1 |
| – Non-Core | **1.1** | 1.6 |
| | **37.8** | 33.7 |
| Administration | **(5.0)** | (4.9) |
| Net finance costs | **(21.9)** | (20.0) |
| Underlying profit | **10.9** | 8.8 |

The movement in underlying profit can be summarised as follows:

| | £m |
|---|---|
| Year ended 31 March 2013 | 8.8 |
| Net rental income | 4.1 |
| Administrative expenses | (0.1) |
| Net finance costs | (1.9) |
| Year ended 31 March 2014 | 10.9 |

Underlying profit has grown 24% to £10.9 million in the year to 31 March 2014. The acquisition of the Trinity portfolio and the completion of new developments have been the largest contributors to underlying profit growth during the year.

## Administrative costs

The Group measures its operating efficiency as the proportion of administrative costs to the average gross investment property value. This ratio during the year was 0.82% (2013: 0.89%) and administrative costs stood at £5.0 million (2013: £4.9 million).

## Taxation

On 1 April 2013 the Company elected to join the REIT regime. From this date the Group is free from taxes on rental income and capital gains from investment property disposals. Non-property related income will continue to be subject to corporation tax, though the Group currently has brought forward losses, which should minimise this liability from a cash perspective.

The charge for taxation recorded in the accounts relates to a movement on the deferred tax asset during the year. At the year end the deferred tax asset was £0.7 million (2013: £1.1 million).

### LIFT

During the year we disposed of our equity and loan note investments in seven LIFT companies for a combined consideration of £22.4 million. This represented a premium over the book value of £10.5 million.

### Exceptional items

The Trinity acquisition resulted in negative goodwill of £0.6 million and acquisition costs of £0.4 million. The release of a provision for onerous leases on the former head office in Pall Mall resulted in a credit of £0.5 million.

Corporate finance fees in relation to a preliminary approach from a competitor were £1.1 million. These resulted in net exceptional costs of £0.4 million.

### Earnings per share

The adjusted basic and diluted earnings per share from continuing operations for the year was 4.2 pence (2013: 2.8 pence). This includes the net impact of valuation movements and other capital or one-off items. The underlying profit per share has increased 24% to 2.1 pence (2013: 1.7 pence).

### Dividends

Total dividends paid in the year to 31 March 2014 were £7.2 million or 1.3575 pence per share (2013: 0.855 pence per share).

As a result of brought forward tax losses all dividends paid during the year were normal dividends with an associated tax credit.

The successful sale of the LIFT assets and the completion of the Trinity acquisition have boosted our earnings and our balance sheet capacity. Reflecting this, the quality of the assets, the tenant covenant and the underlying rental growth we have increased the quarterly dividend by 49% to 0.45 pence per share.

We remain committed to maintaining a covered dividend that is progressive broadly in line with underlying rental growth.

| Cash flow | 2014 £m | 2013 £m |
|---|---|---|
| **Net cash from operations** | **7.9** | 12.9 |
| **Cash flows from investing activities:** | | |
| Investment acquisitions | **(9.1)** | (3.6) |
| Development expenditure | **(23.5)** | (18.1) |
| Sale of properties | **3.3** | 8.4 |
| Sale of businesses | **27.7** | 3.6 |
| Other | **(0.3)** | (0.3) |
| **Cash flows from financing activities:** | | |
| Dividend paid | **(7.2)** | (4.5) |
| Net borrowings movement | **4.1** | 15.9 |
| Net increase in cash | **2.9** | 14.3 |

Net cash inflow from operating activities was £7.9 million (2013: £12.9 million), which represents a decrease from the prior year as a result of fluctuations in working capital balances and the payment of exceptional costs. Development expenditure was £23.5 million (2013: £18.1 million) which was partially debt financed with facilities from both Aviva and Santander. Proceeds from the sale of properties were £3.3 million (2013: £8.4 million).

The sale of our LIFT assets (£21.7 million) and the scheduled receipt of deferred consideration from the sale of the Pharmacy business in 2012 (£6.0 million) generated cash inflows of £27.7 million from sale of businesses.

Dividends paid were £7.2 million (2013: £4.5 million). Cash and cash equivalents increased by £2.9 million (2013: increased by £14.3 million), which reflected the proceeds of £27.7 million from the sale of businesses net of the cash consideration of £6.9 million paid to acquire Trinity, as well as development expenditure incurred of £23.5 million.

## Balance sheet

At 31 March 2014 the EPRA NAV per share was 43.4 pence per share, an increase of 12.4% compared with the prior year. The growth has predominantly been driven by the successful sale of the LIFT investments and the valuation performance of the portfolio underpinned by the continued successful delivery of our development programme.

**EPRA NAV movement:**

| | £m | Pence per share |
|---|---|---|
| **EPRA NAV at 31 March 2013** | 204.4 | 38.6 |
| Underlying profit | 10.9 | 2.1 |
| Capital (revaluations and capital gains) | 12.6 | 2.4 |
| Dividend | (7.2) | (1.4) |
| LIFT disposal | 10.5 | 2.0 |
| Other | (1.6) | (0.3) |
| **EPRA NAV at 31 March 2014** | 229.6 | 43.4 |

Our Total Accounting Return for the year ended 31 March 2014 of 15.9% comprises an income return which represents 1.4 pence per share (3.5%) that has been distributed to shareholders, and a movement on EPRA NAV of 4.8 pence per share (12.4%).

## Finance

| Financing statistics | 2014 | 2013 |
|---|---|---|
| Net debt | **£414.8m** | £359.5m |
| Weighted average debt maturity | **10.9 years** | 11.3 years |
| Weighted average interest rate | **5.28%** | 5.25% |
| % of debt at fixed/capped rates | **98%** | 99% |
| Interest cover[2] | **150%** | 144% |
| Loan to value | **62%** | 62% |

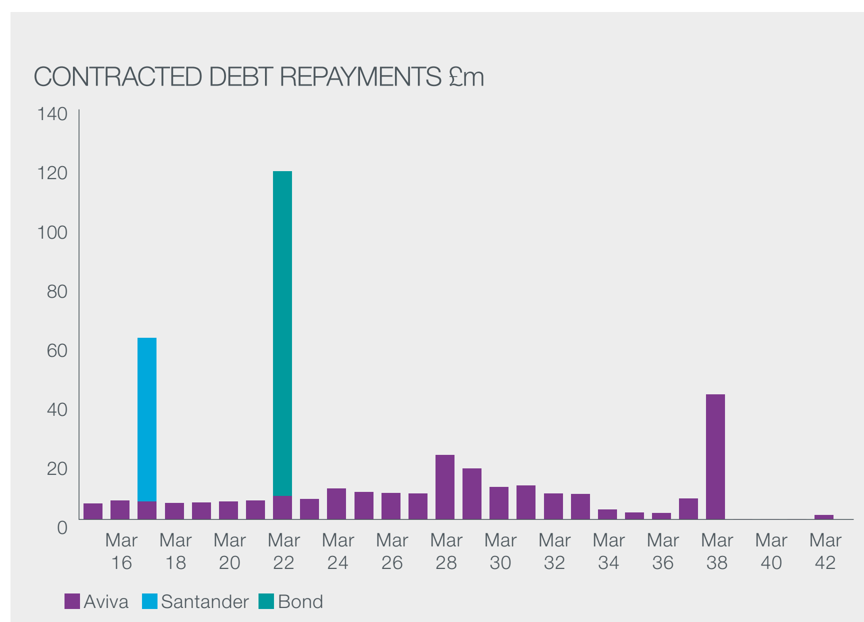
[2] Interest cover is the number of times net interest payable is covered by underlying profit before net interest.

The appetite for lending into our sector has remained positive throughout the economic cycle and we continue to see strong interest from the banks and insurers who have traditionally lent into our sector. We believe there is merit in broadening the range of lenders and so we have held discussions with a large number of potential parties through the year. The reduced level of developments started during the year means there has been a reduced requirement for new borrowings during the year.

Since the year end we have announced the agreement of a five-year club revolving credit facility with Royal Bank of Scotland plc ("RBS") and Barclays Bank plc ("Barclays") for £30 million at an initial margin of 185 basis points over LIBOR. The facility provides the Group with flexible facilities to support new developments and acquisitions. The pricing achieved highlights the increasingly competitive nature of the lending market and the quality of the borrowing proposition we are able to provide.

Our loan to value ratio currently stands at 62%, which is a level that the quality of our cash flows can comfortably support. The capital structure of the Group is something which the Board considers on a regular basis.

98% of the debt facilities are fixed with a weighted average debt maturity of 10.9 years compared to a WAULT of 14.4 years, which highlights the security of the cash flows of the business. The maturity of the facilities is spread over a significant number of years, as is highlighted below:




Details of the facilities and their covenants are set out in Note 22 to the accounts.

Net finance costs in the year amounted to £21.9 million (2013: £20.0 million) including £1.6 million from the assumption of the borrowings from the Trinity acquisition.

# SUSTAINABILITY

As part of our strategic priority of culture we pride ourselves on our commitment to the sustainability agenda, the personal development of our teams and our role in spearheading investment in social infrastructure

**Environmental policy**

The Group is committed to minimising the environmental impact of its activities and achieving continual improvement in its environmental performance by:

- openly addressing the environmental risks of the work carried out, and identifying and managing the environmental risks associated with the business on an ongoing basis;
- setting and reviewing annual environmental objectives and targets, and monitoring performance;
- complying with applicable environmental legislation and other requirements relevant to the Group's operations;
- gaining certification to the ISO14001: 2004 management standard and carrying out regular internal and external audits to ensure good performance and identify opportunities for improvement;
- working with partners, sub-contractors and suppliers to promote good environmental management and performance;
- reducing the environmental impacts of new developments by achieving a Building Research Establishment Environmental Assessment Method ("BREEAM") Excellent rating where possible;
- reducing the environmental impacts of all owned and leased premises by adopting or promoting reasonable controls for preventing pollution, improving resource efficiency, reducing waste and reducing the Group's carbon footprint; and
- training employees appropriately and promoting environmental awareness and commitment amongst all staff.

This policy is reviewed and updated annually by the Board of Directors and is available to the public.

**Social and community matters**

Assura Group aspires to operate in a responsible, professional, ethical and reliable manner and is trusted as a provider of services and facilities. Reflecting our commitment to the sustainability agenda, Assura has aligned itself with the wider corporate and social responsibility interests of the NHS. Accordingly, the Group has a formal Environmental Management System and has gained accreditation of ISO14001: 2004 standard.

The Group's role in developing new medical facilities in the community, thereby bringing services closer to the patient, helps to improve quality of life. In developing a new medical centre, the Group enters into consultation with local communities. Many of the Group's developments are part of regeneration schemes that also enhance the non-medical facilities for local communities.

Responsibility for reporting to the Board on environmental, social and community matters sits with the Chief Executive, who has a responsibility to maintain attention on policy and ensure implementation. A current example of work in this area include the soon to be completed development at Sudbury which is targeted to achieve BREEAM Excellent rating. This scheme includes a biodiverse habitat creation, a green roof, photovoltaic ("PV") cells and combined heat and power.

Assura supports a charity close to its head office which is heavily involved with the local communities.

As part of this commitment Assura became a founder member of the Social Stock Exchange ("SSE") during the year. On 6 June 2013 the SSE was launched by David Cameron to coincide with the Government's Social Impact Investment Conference organised as part of the UK's hosting of the G8.

The SSE showcases Social Impact Businesses that have taken the step to evidence their impact via the publication of an Impact Report. A Social Impact Business is one that uses commercial models to organise, mobilise and manage a for-profit business that delivers social and environmental change.

The aim of the SSE is to provide stakeholders with the information they need to identify and compare organisations that deliver value to society and the environment.

To achieve membership of the SSE a rigorous admissions process takes place. As a result, impact investors are assured that members of the SSE adhere to a clear set of values, standards and disclosures. The admissions process includes the publication of an Impact Report and application for admission to an independent Admissions Panel.

Member companies update their Impact Reports annually and a mechanism is in place to remove companies which are no longer operating as a Social Impact Business.

As part of this commitment, in future periods we will be reporting on how the Company is:

- increasing the capacity of GP surgeries and addressing the under-provision of services within the community setting;
- increasing revenue and employment for local businesses as a result of development projects;
- minimising the ongoing environment impact of the portfolio;
- increasing access to co-located pharmacy services; and
- cost efficiency from efficient running of newly developed buildings.

## Health and safety

The Group is committed to maintain safe working environments, and regularly undertakes programmes to identify, evaluate and reduce risk in the work place and on site. Risk reviews, supported by executive management reporting, are presented to the Board on a regular basis.

# CHARITIES

## Médecins Sans Frontières

Médecins Sans Frontières/Doctors Without Borders (MSF) is an independent international medical humanitarian organisation that delivers emergency aid in more than 60 countries to people affected by armed conflict, epidemics, natural or man-made disasters or exclusion from healthcare.

In emergencies and their aftermath, MSF rehabilitates and runs hospitals and clinics, performs surgery, battles epidemics, carries out vaccination campaigns, operates feeding centres for malnourished children and offers mental healthcare.

Through longer-terms programmes, MSF treats patients with infectious diseases such as tuberculosis, sleeping sickness and HIV/AIDS, and provides medical and psychological care to marginalised groups such as street children.

Founded by doctors and journalists in 1971, MSF is now a worldwide movement with offices in 19 countries and an international coordination office in Geneva, Switzerland.

During 2013, Assura supported the Urumuri Centre regional hospital in Burundi. The hospital lies in the hills at an altitude of some 1,850 metres. This is where MSF built the Urumuri (meaning "the light chasing darkness away" in Kirundi) Centre, with the support of the Burundi Ministry of Health, to treat obstetrical fistulas. This disease continues to devastate lives in sub-Saharan Africa, due to a lack of specialist healthcare for pregnant women.

At the Urumuri Centre, MSF offers free treatment to women suffering from obstetric fistulas and is training two Burundian doctors in the technique. If women are treated for fistulas early, surgery can be avoided, and MSF has piloted a programme to do just that. For women who have developed fistulas within the previous six weeks, doctors in Gitega insert a catheter to drain the bladder of urine. This decompresses the bladder walls and allows the wounded edges to meet and join together, so that the fistula heals naturally.

For further information, please go to www.msf.org.uk

"During 2013, Assura supported the Urumuri Centre regional hospital in Burundi. The hospital lies in the hills at an altitude of some 1,850 metres."

## Our charities for 2014/15

During the forthcoming year Assura will once again be supporting MSF and our local charity will be Brainwave. Brainwave is a charity that exists to help children with disabilities and developmental delay achieve their full potential. The children they work with have a range of conditions including autism, brain injuries such as cerebral palsy and genetic conditions such as Down's syndrome. The centre we are supporting is in Birchwood, Warrington. For more information please see their website www.brainwave.org.uk

## St Rocco's Hospice – Corporate Challenge 2013

St Rocco's Hospice provides specialist palliative care and support to hundreds of families living with life limiting conditions in the Warrington area each year. The hospice offers in-patient care, day therapies and family support services in a purpose built, supportive environment.

The cost of running the hospice is around £3 million. £2 million of this is raised locally in our community each year. As part of this fundraising St Rocco's set up the Corporate Challenge, which was sponsored by Assura. This took place throughout 2013 with 33 local companies taking on the challenge – including Assura.

The challenge was to take £50 and turn it into as much as they could for the hospice. Some entered events organised by the hospice, some did their own events. From a Wagon Pull across Warrington to dancing in Strictly St Rocco's, the companies pulled out the stops to raise funds for St Rocco's.

Assura participated in several of the events organised by St Rocco's including the Dragon Boat Race, It's a Knockout and a sponsored 60 mile cycle race, as well as raising money selling donated items on eBay.

# CHAIRMAN'S INTRODUCTION TO GOVERNANCE

## DEAR SHAREHOLDER

The Board is committed to maintaining the highest standards of Corporate Governance, which we consider to be of fundamental importance to the future success of Assura. This commitment is demonstrated by our continued attention to embedding our core values, principles, ethics and risk management throughout the organisation during 2014.

The regulatory and reporting landscape for UK listed companies continued to evolve during the year, with the introduction of the new strategic report, new requirements to report on greenhouse gas emissions, and a new formal requirement on the Board to ensure that the Annual Report presents a "fair, balanced and understandable" assessment of the Company's financial position and future prospects. These new requirements, together with the enhanced disclosures required by the Audit Committee, have been the subject of detailed planning throughout the year, and processes have been adopted to ensure that we are able to meet these obligations in a transparent and open manner.

On a similar theme, this year's Annual Report represents the first occasion on which full implementation of the recent reforms on remuneration reporting is required. This includes, for the first time, a binding shareholder vote on remuneration policy, in addition to a vote to adopt the Remuneration report (as set out on pages 53 to 70 of this report). We introduced the majority of these requirements last year and so the format and disclosure will largely be familiar to shareholders.

The Board continues to take the view that it has an effective, well-balanced structure, which includes a group of Non-Executives who collectively draw on a wealth and variety of experience, thus providing for meaningful discussion, constructive challenge and effective decision making. In accordance with Corporate Governance best practice, all Directors will submit themselves for re-election at the 2014 Annual General Meeting ("AGM").

The Board has engaged widely with shareholders during the year and we are delighted to welcome so many new shareholders to our register during the year. Effective communication with investors is a key strategic priority and no fewer than 123 investor meetings have been held during the year. All shareholders are encouraged to attend the AGM in July where the Directors and executive team will be available to meet shareholders directly and to discuss any matters of importance.

## BOARD STRENGTHS

- Non-Executive Chairman
- Executive Director
- Non-Executive Director

**Simon Laffin**
Non-Executive Chairman

- Experienced Chairman
- Strategy
- Finance

**Graham Roberts**
Chief Executive

- Real Estate
- Capital Markets
- Investment

**Jonathan Murphy**
Finance Director

- Corporate Finance
- Accounting and Reporting
- Risk Management

**Jenefer Greenwood**
Non-Executive Director

- Real Estate
- Customer Focus
- Marketing

**David Richardson**
Senior Independent Director

- Finance and Accounting
- Merger and Acquisition
- Corporate Governance

### Composition of the Board

| | |
|---|---|
| Chairman | 1 |
| Executive | 2 |
| Independent Non-Executive | 2 |

### Length of tenure of Directors

| | |
|---|---|
| One year | 1 |
| Two years | 4 |

### Chairman's responsibilities

- The effective running of the Board, ensuring that the Directors receive accurate and timely information to enable debate and high quality decision making
- Promoting high standards of Corporate Governance
- Ensuring that the Board agendas take full account of the important issues facing the Company and the concerns of all Board members
- Ensuring, as Chairman of the Nominations Committee, that there are Board succession plans in place in order to retain and build an effective and complementary Board.

### Chief Executive's responsibilities

- Running the Company's business
- Implementing the business strategy
- Regularly updating the Board on progress against approved plans
- Providing effective leadership of the Executive Board to achieve the agreed strategies and objectives.

# BOARD OF DIRECTORS

| Name and title | **Simon Laffin**<br>Non-Executive Chairman | **Graham Roberts**<br>Chief Executive |
|---|---|---|
| | | |
| Experience | Simon Laffin is also Non-Executive Chairman of Flybe Group plc and Non-Executive Director of Quintain Estates & Development PLC. He runs his own advisory business, with clients having ranged from CVC Capital Partners to Dentsu Inc. Previously he has served as Chairman of Hozelock Group and a Non-Executive Director of Mitchells & Butlers plc, Aegis Group plc and Northern Rock plc (as part of the rescue team).<br><br>Between 1995 and 2004 he was Group CFO of UK grocery retailer Safeway plc, latterly also responsible for property, which he joined in 1990. Prior to that, Simon held a variety of finance and management roles in Mars Confectionery, Rank Xerox and BP. He is a qualified accountant. | Graham Roberts was previously Finance Director at The British Land Company PLC from 2002 to 2011, and before that was Senior Partner for real estate at Arthur Andersen, where he also headed up the public sector assurance practice, which included clients such as NHS Estates and a number of NHS trusts.<br><br>His early career was at Binder Hamlyn. He is currently Non-Executive Director and Chairman of the Audit Committee at Balfour Beatty plc. |
| Year appointed | 2011 | 2012 |
| Board meetings and attendance | Board meeting 14/14<br>Audit Committee 5/5<br>Remuneration Committee 3/3<br>Nominations Committee (Chair) 3/3 | Board meeting 14/14<br><br>Nominations Committee 3/3 |
| Independent | Not applicable | Not applicable |

**Jonathan Murphy**
Finance Director

Jonathan Murphy was previously Finance Director of the fund management business of Brooks Macdonald Group plc, having joined through the acquisition of Braemar Group plc in 2010, where he was Finance Director for four years. Jonathan has extensive experience in the creation and management of property funds and was previously Managing Director for the property management business of Brooks Macdonald.

His earlier career included commercial and strategic roles at Spirit Group and Vodafone. Jonathan qualified as a Chartered Accountant with PricewaterhouseCoopers, holding management roles in both the UK and Asia, and holds an MBA from IESE, the leading European Business School in Barcelona.

2013

| Board meeting | 14/14 |
|---|---|

Not applicable

**Jenefer Greenwood**
Non-Executive Director

Jenefer Greenwood was appointed to the Board of The Crown Estate in 2004, and chairs its Remuneration Committee. Jenefer is a Chartered Surveyor and started her career at Hillier Parker (latterly CBRE) in 1978, rising to Executive Director and Head of Retail Division.

Jenefer worked for Grosvenor Estate from 2003 until 2012, having also been Chair of the National Skills Academy for Retail and President of the British Council of Shopping Centres.

2012

| Board meeting | 14/14 |
|---|---|
| Audit Committee | 5/5 |
| Remuneration Committee (Chair) | 3/3 |
| Nominations Committee | 3/3 |

Yes

**David Richardson**
Senior Independent Director

David Richardson is currently Chairman of BBGI SICAV SA and a Board member of The Edrington Group. Previously he spent 22 years at Whitbread Plc where he was the Strategic Planning Director for eight years and the Finance Director for four years.

At Whitbread he played a pivotal role in transforming the Group from a brewing and pubs company into a market leader in hotels, restaurants and leisure clubs. Following this he has held a number of non-executive roles in FTSE listed companies including Serco Group plc, Forth Ports PLC, Tomkins plc, Dairy Crest plc and De Vere Group plc. He is a Chartered Accountant.

2011

| Board meeting | 14/14 |
|---|---|
| Audit Committee (Chair) | 5/5 |
| Remuneration Committee | 3/3 |
| Nominations Committee | 3/3 |

Yes

# CORPORATE GOVERNANCE

## Statement of compliance with the UK Corporate Governance Code

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 March 2014 and as at the date of this Annual Report it was compliant with all the relevant provisions as set out in the UK Corporate Governance Code published in September 2012 ("the Code"). The Board has taken account of the flexibility in the Code in its application to smaller companies.

## Role of the Board

The Company has an effective Board which is collectively responsible for the long-term success of the Company by directing and supervising the activity of the Company. The Board has approved a schedule of matters reserved for decision by the Board. This includes all corporate acquisitions or corporate disposals, debt raising above £50 million, the remuneration policy, the annual budget approval and amendments to delegated authorities. The Board meets at least six times per year for scheduled meetings. It also meets as required to consider any important or urgent business.

The Directors acknowledge their responsibility for preparing the Annual Report and Accounts. The Directors consider the Annual Report and Accounts, taken as a whole, as fair, balanced and understandable and provides shareholders with the necessary information to assess the Company's performance, business model and strategy.

## Shareholder relations

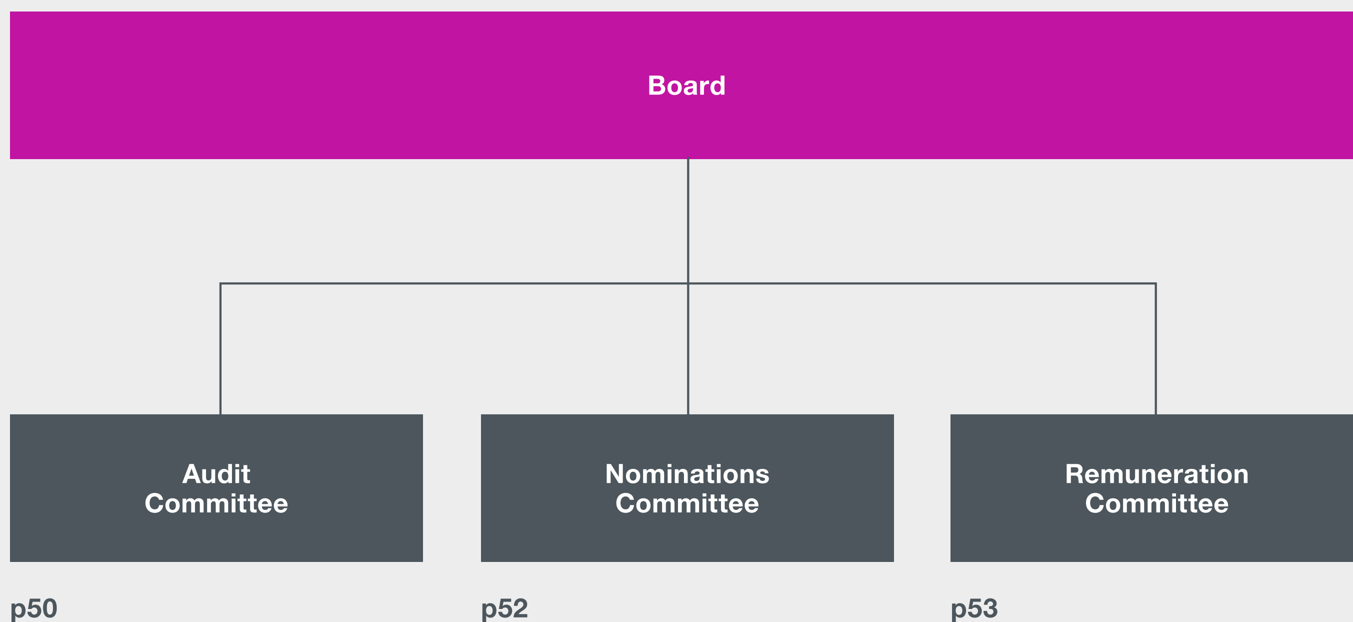
The Board welcomes open communication with its shareholders and works with its stockbrokers Liberum Capital and Oriel Securities to ensure that an appropriate level of communication is maintained. The dialogue with shareholders is facilitated by a series of investor relations mechanisms, including regular meetings between senior members of the Company's executive management with institutional investors and sales teams and industry/sector analysts. Feedback from these meetings is regularly relayed to the Board in order to ensure that all Board members, and Non-Executive Directors in particular, develop an understanding of the views of major shareholders. This process augments the regular dissemination of annual and quarterly interim management statements. Copies of these announcements and any accompanying presentational materials are available on the Company's website at www.assuragroup.co.uk.

The Board responds to ad-hoc requests for information from shareholders and all shareholders have access to the Board and senior management, with an opportunity to raise questions, at the AGM and other shareholder meetings.

## September 2013 AGM – key highlights

- Full Director attendance.
- 274.2 million to 289.2 million votes cast for each resolution.
- All Directors retired and were re-elected to the Board.
- Remuneration report resolution passed with 84.05% of votes cast in favour.

## BOARD STRUCTURE




p50 p52 p53

To assist in the proper discharge of its Corporate Governance responsibilities, the Board has established standing committees. In relation to these committees non-executive members serve on all committees. This is appropriate given the relatively small size of the Board. Each committee follows a Terms of Reference which is reviewed annually.

**Other Director information**

On appointment, new Directors receive a full briefing on the role, duties and responsibilities of a Director of a listed company, and on the Company and its Board. An induction pack with important information is provided. Training needs are reviewed annually as part of the Board evaluation.

Each Board member is permitted to take professional advice on any matter which relates to their position, role and responsibilities as a Director at the cost of the Company.

## Audit Committee report

## Responsibilities

### Financial statements and reports

- To monitor the integrity of the half year and annual Financial Statements before submission to the Board, reviewing significant financial reporting matters and judgements focusing particularly on matters of material financial impact.
- To review the effectiveness of the Company's system of internal control.
- To conduct an annual review of the need to establish an internal audit function.
- To discuss the issues arising from the interim and final audits.
- To monitor and review annually the auditor's independence, objectivity and effectiveness.
- To develop and implement the policy for provision of non-audit services by the external auditor.
- To make recommendations to the Board in relation to the selection process for the appointment of the external auditor, their fees and terms of engagement.

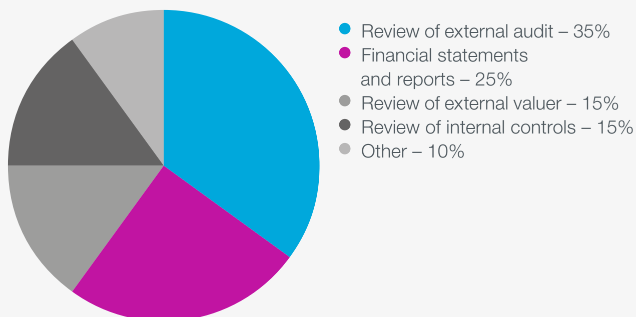
## Audit Committee members

- **David Richardson** (Chairman)
- **Simon Laffin**
- **Jenefer Greenwood**

Number of meetings in the year: five

**Other attendees**
Deloitte LLP
Savills and Jones Lang LaSalle
Graham Roberts – Chief Executive
Jonathan Murphy – Finance Director
Paul Carroll – Financial Controller
Andrew Darke – Managing Director – Property

## Allocation of time %




## Key activities of the Committee

### Financial statements and reports

- Reviewed the Annual Report and Financial Statements and half year financial report and made recommendations to the Board regarding the approval of these documents.

### Review of external audit

- Reviewed, considered and agreed the scope of the audit work to be undertaken by the external auditor.
- Reviewed the effectiveness, performance and fees of the external auditor.

### Review of external valuer

- Received presentations from both valuers and raised queries on these.
- Reviewed the effectiveness, performance and fees of the external valuer.

### Review of internal controls

- Reviewed the effectiveness of the Company's internal controls and processes and the disclosures made in the Annual Report.
- Reviewed the appropriateness of the accounting policies and the design and operation of the internal controls.

### Other

- Reviewed the effectiveness of the Committee.
- Reviewed the requirement for an internal audit function.
- Reviewed the approved treasury counterparties.

# DEAR SHAREHOLDER

As Chairman of the Audit Committee, I have pleasure in setting out below the formal report on its activities for the year ended 31 March 2014. I would like to emphasise three matters.

Your Company acquired the Trinity Property Portfolio during the year for a gross value of £62.9 million. The way in which this was accounted for and the impact its inclusion had on the overall valuations of the Group's property portfolio is key to an understanding of the Financial Statements for the year. We discussed the accounting treatments with Deloitte LLP, both before and after their audit work, and the valuations with Messrs Jones Lang LaSalle at the conclusion of their work. We satisfied ourselves that all aspects were properly treated.

You will also note from the report that the Company engaged Deloitte LLP in 2011, prior to their appointment as auditors, to carry out some tax consultancy to facilitate the Company's conversion to REIT status. This work has now been completed satisfactorily. I am satisfied that Deloitte LLP's independence as auditors was not adversely impacted by carrying out this work.

The Board as a whole has determined that the Financial Statements are "fair, balanced and understandable".

### Significant financial reporting matters

- Valuation of investment properties including those under construction.
- Validity of the going concern basis and the availability of finance going forward.
- Accounting for the Trinity acquisition and the disposal of our LIFT investments.

These issues were discussed with management, the external auditor and external consultants, such as valuers, where applicable.

We are satisfied that there were no matters that we wish to draw to the attention of the shareholders.

### Internal audit

The Audit Committee is satisfied that the current level of control and risk management within the business adequately meets the Group's current needs and that therefore there is no economic case for having an internal audit department.

### Policy of audit independence and services

Prohibited non-audit services:

- Bookkeeping
- Financial information system design or implementation
- Appraisals and valuations
- Internal audit outsourcing
- Management functions
- Executive recruitment services
- Legal services.

### Level of fees for non-audit work

- All material non-audit services require approval from the Audit Committee.
- Materiality before VAT and expenses is set at £25,000 or 20% of the audit fee.

### Audit/non-audit fees payable to external auditor

Analysis of the fees earned by the Company's external auditor (divided between audit and non-audit services) is disclosed in Note 6(a) to the audited accounts.

During the year Deloitte LLP continued two pieces of tax consultancy work in respect of capital allowances and REIT conversion. The fees for both projects in the current year were £0.1 million. The external auditor was engaged on an exceptional basis to provide these services since they are widely recognised as the market leader in this area. Additionally, Deloitte LLP were engaged to undertake preparatory work in contemplation of a transaction. All engagements were commissioned on an arm's length basis.

The Audit Committee carefully considered the level of total non-audit fees in the current year and satisfied itself that they were appropriate. The Committee was therefore able to satisfy itself that Deloitte LLP's independence was not prejudiced.

**David Richardson**
Chairman of the Audit Committee

## Nominations Committee report

## Responsibilities

The Terms of Reference, which are reviewed annually, require the Committee to meet at least once per year.

### Key issues

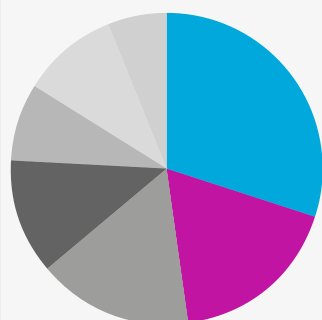
- Re-election of all Directors at the September 2013 Annual General Meeting.
- Review of succession planning.
- Review of Board composition, Committee composition and Committee Chairmanship.
- Consideration of training needs and skills updating.
- Board performance evaluation.

## Nominations Committee members

- **Simon Laffin** (Chairman)
- **David Richardson**
- **Jenefer Greenwood**
- **Graham Roberts**

Number of meetings in the year: three

## Allocation of time %



- Board performance evaluation – 30%
- Succession planning – 18%
- Review of Board composition – 16%
- Review of Committee composition – 12%
- Review of Committee Chairmanship – 8%
- Consideration of training needs – 10%
- Re-election of Directors – 6%

## Key activities of the Committee

### Board and Committee changes

Following the review of the Board composition there have been no appointments to the Board or Board Committees during the year.

### Board performance evaluation

The Board has reviewed its performance, its Committees and individual Directors based on an internal evaluation and concluded that its access to relevant information is good, discussions are carried out in an appropriate manner, the strategy and goals of the Company have been clarified and the Board is appraised promptly and fully of investor views. The Nominations Committee also met in the absence of the Chairman to appraise his performance. There were no major changes adopted in the way the Board operates. The Board also concluded that no further appointments were necessary at this time.

### Commitments of the Chairman

During the year Simon Laffin was appointed as Chairman of Flybe Group plc. Mr Laffin manages his time effectively in order to allocate sufficient time to each of his roles.

### Policies

The Board believes that a diverse workforce and management team improve the culture of the organisation and add value to the business as a whole.

The Board targeted having at least 20% female representation which was achieved in 2012.

The Committee will continue to consider gender diversity when recommending any future Board appointments. Final appointments will always be made on merit.

# REMUNERATION REPORT

## Remuneration Committee report

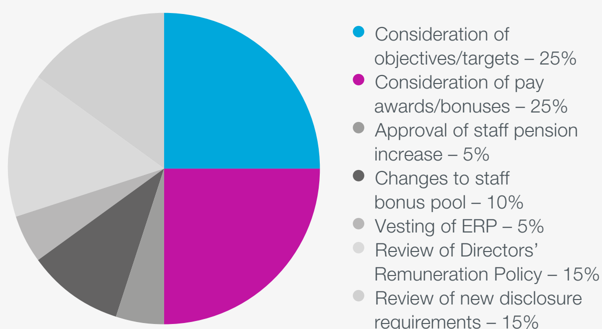
## Remuneration Committee members

- **Jenefer Greenwood** (Chairman)
- **Simon Laffin**
- **David Richardson**

Number of meetings in the year: three

**Attendees**
Graham Roberts – Chief Executive
Marcus Peaker – PwC

## Allocation of time %




## Responsibilities

The Terms of Reference, which are reviewed annually, require the Committee to meet at least once per year.

The Committee's activities during the year included:

- Consideration of objectives and targets for annual bonuses.
- Consideration of annual pay awards and bonuses.
- Approval of increase in staff pension contributions (company and personal).
- Review and agreement of changes to allocation basis for the staff bonus pool.
- Confirmation of first vesting of Executive Recruitment Plan ("ERP").
- Review of the Directors' Remuneration Policy.
- Review of new disclosure requirements.
- Review and allocation of staff awards under the VCP.

## PART 1: ANNUAL STATEMENT – UNAUDITED

# DEAR SHAREHOLDER

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2014. This report has been prepared by the Remuneration Committee ("the Committee") and approved by the Board. As required by the Regulations[1], this Remuneration Report is split into two parts:

- The Annual Report on Remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the 2013/14 financial year.
- The Directors' Remuneration Policy sets out the policy for 2014/15 and the subsequent two years together with the key factors that have been taken into account.

The Directors' Remuneration Policy will be subject to a binding vote at the AGM in July 2014, and will last for a period of three years from that date or until another Policy is approved in a general meeting. The Annual Report on Remuneration together with this letter is subject to an advisory shareholder vote at the same meeting.

**Policy update**
There were no material changes to the remuneration policy set out in the Annual Report for last year.

**Background to award decisions included in the report**
The business has progressed in a number of important ways in the past year. The Executives were specifically tasked this year with developing and executing a strategy to improve substantially the dividend paying capacity of the group (i.e. the ability to pay dividends covered by income), whilst not adversely affecting long-term performance. The combination of the LIFT disposal and the Trinity acquisition improved that capacity by a third, increased NAV by 2 pence per share and increased underlying profitability by some 10%, so enabling the Board to declare a 49% increase in the dividend in November 2013.

The results reflect the benefits of these two deals, as well as strong operational performance, with underlying profit up 24% and adjusted net asset value up 12.4%.

There have been knock-on benefits as intended from this transformation. The resulting higher dividend yield has in turn generated a greater interest in the Company's shares from a wider investor base and so improved liquidity for shareholders. The Company anticipates re-joining the FTSE index in June 2014.

**Key reward decisions**

- The Executive Directors earned a bonus equal to 95% of the maximum for 2013/14 (95% of salary for the Chief Executive and 47.5% for the Finance Director).
- The salary for 2014/15 of the Chief Executive, Graham Roberts, has been increased by 2%. This is in line with the general inflation increase for staff of 2%. The average increase for staff was 4% including experience and promotion increases.
- The salary of the Finance Director, Jonathan Murphy, has been increased for 2014/15 by 17.6%. Jonathan's salary was below policy on appointment and is being progressively increased to align with policy over his first few years in the role dependent on performance.
- The Committee also decided to increase the payment in lieu of pension for Jonathan Murphy to 13.5% of salary to bring this element of his remuneration closer to the policy position.

**In conclusion**
I trust you find this report helpful and informative. I look forward to receiving your support for the resolutions on the Remuneration Policy and the Annual Report on Remuneration at our forthcoming AGM.

**Jenefer Greenwood**
Chairman of the Remuneration Committee

[1] The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

## Remuneration policy and practice at a glance

We summarise below the linkage between remuneration policy and strategy and highlight the performance and remuneration outcomes for 2013/14.

**Strategy linkage**

Our goal is to maximise returns for shareholders over the long term. Our success is measured by three KPIs:

| Total Property Return | Total Accounting Return | Total Shareholder Return |
|---|---|---|
| measuring income and capital appreciation generated from the portfolio | measuring total reported returns for the Company after all overheads and including the effect of leverage | which is the dividend and capital appreciation experienced by shareholders |

Over the long term, delivering consistent strong performance in Total Property Return ("TPR") and Total Accounting Return ("TAR") should culminate in a consistent and strong Total Shareholder Return ("TSR"). This is the dominant KPI and is the basis for aligning Executives' and shareholders' interests through the Value Creation Plan.

The remuneration structure is designed to attract and incentivise a top quality management team. We are both a small company and a long-term investor, so the remuneration structure is geared to reward performance over a five-year horizon. This is reflected in the approach adopted to each element of remuneration relative to the market: fixed remuneration is set at lower quartile to median; the annual bonus at median; the VCP at upper quartile.

In selecting targets for the annual bonus, these relate to actions primarily required to deliver the strategy and the desired long-term outcome, but which need to be completed in the next 12 months.

The VCP is a five-year plan commenced 1 April 2012 which rewards the Executive Directors (and participating members of staff) with nil-cost options over shares, where the reward is up to 10% of any excess TSR created over an 8% threshold (below which there is no reward). By linking the main element of reward to TSR rather than absolute or relative accounting returns, Executives' interests are directly aligned with the those of long-term shareholders.

The table below shows progress on the three KPIs over the year and over the last two years of the scheme measurement period.

| Measure | 2013/14 | Since 1 April 2012 |
|---|---:|---:|
| Total Property Return | 7.9% | 14.0% |
| Total Accounting Return | 15.9% | 25.5% |
| Total Shareholder Return | 24.2% | 46.7% |

We are a late cycle business as seen by our current rent reviews, which reflect the compression in construction margins and correction to land prices over the last five-years that have influenced development appraisal rents agreed with District Valuers. We are therefore currently experiencing good but lower annual returns at the Property level than historically. TAR and TSR, on the other hand are strong, reflecting the positive outcome from management actions designed to reverse previous underperformance.

**Key awards decisions for 2013/14**

The key decision for the year related to the annual bonus. The Annual Report on Remuneration (Part 3 below) gives further details of performance against targets. The Executive Directors each received 95% of maximum. The most important factor driving the reward was the actions taken in the year to improve dividend capacity by 33%. This important achievement was identified as an essential first step on the journey to creating a fully capable healthcare REIT. It has had the desired effect of closing substantially the share price discount to adjusted net asset value per share, enabling future acquisitions to be value enhancing and providing shareholders with property investor returns from relatively illiquid investments in a more liquid form.

## PART 2: DIRECTORS' REMUNERATION POLICY – UNAUDITED

This section of the Remuneration Report sets out the Company's Directors' Remuneration Policy governing future remuneration payments. The policy is subject to approval by shareholders at the Company's AGM on 22 July 2014, applies for three years and will be available on the Company's website.

The Committee has established the remuneration policy for the Executive Directors; the Executive Directors have established a policy on the remuneration of the Non-Executive Directors.

**Remuneration policy for Executive Directors**
The Committee's remuneration policy continues to be based on five key principles:

1. The interests of shareholders and management should be aligned.
2. Excessive risk taking should be discouraged and effective risk management is given due consideration.
3. It should retain and motivate, based on selection and interpretation of appropriate benchmarks.
4. Poor performance should not be rewarded.
5. The long-term interests of the Company should be promoted.

**Future policy table – Executive Directors**

| Objective and link to strategy | Operation | Maximum opportunity | Performance measures and assessment |
|---|---|---|---|
| **Fixed remuneration** | | | |
| **Base salary**<br>Core element of remuneration set at a level that recognises the small size of the Company but when combined with the performance based variable remuneration potential can attract and retain Executive Directors of the quality to execute the strategy.<br><br>**Policy position:** Lower quartile to median | An Executive Director's base salary is considered by the Committee on appointment and then reviewed periodically or when an individual changes position or responsibility.<br><br>Any changes normally take effect from 1 April each year.<br><br>When making a determination as to the appropriate salary level, the Committee first considers remuneration practices within the Group as a whole and, where considered relevant, conducts objective research on companies within the Company's peers.<br><br>It should be noted that the results of any benchmarking will only be one of many factors taken into account by the Committee. Other factors include:<br>• individual performance and experience;<br>• pay and conditions for employees across the Group;<br>• the general performance of the Company; and<br>• the economic environment.<br><br>No recovery provisions apply to base salary. | Any increase in salary for the Executive Directors will take into account the lower quartile to median salary levels of comparable companies within the FTSE Real Estate Investment Trusts, FTSE Real Estate Investment Services sectors, and companies of comparable size in the FTSE All Share and FTSE Small Cap. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the average until the target positioning is achieved.<br><br>In the normal course of events, increases in the Executive Directors' salaries will not exceed the average increase for employees.<br><br>The annual salaries for the Executive Directors for 2014/15 are set out in the Annual Report on Remuneration on page 65. | None. |

| Objective and link to strategy | Operation | Maximum opportunity | Performance measures and assessment |
|---|---|---|---|
| **Benefits**<br>The Company provides a benefits package in line with standard market practice.<br>**Policy position:** Market practice | Executive Directors may receive a benefit package which includes:<br>• health insurance;<br>• death in service benefits;<br>• company car allowance; and<br>• other benefits as provided from time to time.<br>Benefits are reviewed periodically to ensure that they remain market competitive.<br>The payments are not included in salary for the purposes of calculating any benefit or level of participation in incentive arrangements.<br>No recovery provisions apply to benefits. | Benefit values vary year on year depending on premiums and the maximum value is the cost of the provision of these benefits. | None. |
| **Pension**<br>The Company provides a level of pension contribution in order to be competitive and to ensure that it has the ability to recruit and retain Executive Directors.<br>**Policy position:** Median | The Executive Directors receive payments in lieu of pension payments.<br>The payments are not included in salary for the purposes of calculating any benefit or level of participation in incentive arrangements.<br>No recovery provisions apply to pension. | The maximum payment in lieu of pension is 20% of salary for the CEO and 15% for other Executive Directors. | None. |
| **Performance based variable remuneration** | | | |
| **Bonus plan**<br>Incentivises the achievement of a range of key performance targets that are key to the success of the Company.<br>**Policy position:** Median | Awards may be made annually.<br>The performance period is one financial year with pay-out in cash determined by the Committee following the financial year end, based on achievement against a range of financial and strategic targets.<br>Bonus payments are not pensionable.<br>Bonus payments are subject to clawback provisions.<br>The Committee views the performance targets for the bonus plan as commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. The targets will be disclosed after the end of the relevant financial year in that year's remuneration report, except in exceptional circumstances where their disclosure remains commercially sensitive. | The maximum annual bonus for Executive Directors is 100% of salary. Currently the maximum for the Chief Executive is 100% and 50% for the Finance Director.<br>At threshold performance 0% of maximum can be earned.<br>At target 75% of maximum can be earned. | Performance measures are set annually based on a number of financial and strategic measures, including for example:<br>• delivering specific added value activities;<br>• delivering financial goals;<br>• improving operational performance; and<br>• developing the performance capability of the team.<br>The Committee has the discretion to vary the performance targets depending on economic conditions and Company specific circumstances that may occur during the year.<br>At the end of each financial year the Committee takes into account the Company's financial performance and achievement against key short-term objectives established at the beginning of the year. This involves establishing in advance what constitutes success for good, strong or outstanding performance. It is the Committee's approach to view the performance in the round at the end of the year, taking into account extraneous events and changing priorities, where relevant. |

<table>
<tr><th>Objective and link to strategy</th><th>Operation</th><th>Maximum opportunity</th><th>Performance measures and assessment</th></tr>
<tr><td>Assura Value Creation Plan (“VCP”)<br>The long-term incentive arrangements are structured so as to align the incentives of relevant participants with the long-term performance of the business and to motivate and retain key members of staff.<br><br>Policy position: Upper quartile</td><td>Executive Directors, and other eligible employees, are granted an award of performance units that have no value on grant, but which may convert into nil-cost options over shares provided the performance conditions have been achieved at three separate dates (known as Measurement Dates “MDs”) over a five-year performance period.<br><br>The overall effect of the VCP is that the Executive Directors and other participants will be able to earn shares equivalent to 10% of any TSR created above a pre-determined hurdle (Threshold Price) at the three MDs.<br><br>The first MD will be in 2015, the second in 2016 and the third in 2017.<br><br>50% of the total accrued nil-cost options become exercisable at the first and second MDs and 100% of accrued nil-cost options at the third MD.</td><td>Under the VCP a total of 1 million performance units can be granted to all participants. As at 31 March 2014, 175,000 have not yet been awarded.<br><br>All employees are eligible to participate in the VCP.<br><br>The maximum aggregate number of shares that can be issued to satisfy awards under the VCP to all participants is limited to 25 million.<br><br>Following approval of the VCP by shareholders in 2013, the Executive Directors were granted a number of performance units as set out below:<br><br><table><tr><th>Executive</th><th>Number of performance units</th></tr><tr><td>G. Roberts</td><td>400,000</td></tr><tr><td>J. Murphy</td><td>175,000</td></tr><tr><td>Total</td><td>575,000</td></tr></table><br>No further awards were made to the Executive Directors in 2013/14.</td><td>At each MD the Threshold Price will be the higher of the highest return achieved (Measurement Price) at any previous MD or 8% p.a. compound TSR growth from the Base Price (31.25 pence) which was the share price on 31 March 2012.<br><br>The Measurement Price at each MD is to be calculated from the average share price over three months following the announcement of the Company’s financial results plus dividends paid.<br><br>Participants in aggregate may earn shares equivalent to 10% of any TSR created above the Threshold Price at each MD.<br><br>Unless shareholders receive an 8% p.a. total return by each MD, the VCP will not pay out. Any unvested awards accrued at the first and second MDs will lapse at the third MD if the 8% p.a. return to shareholders has not been sustained.<br><br>A full description of the detailed conditions and calculations attached to the VCP awards are contained in the Circular to shareholders dated 28 January 2013.</td></tr>
<tr><td colspan="4">Shareholding requirement</td></tr>
<tr><td>To ensure alignment between Executive Directors’ and shareholders’ interests over a longer time horizon.</td><td>The Committee operates a system of shareholder guidelines to encourage long-term share ownership by the Executive Directors.<br><br>Executive Directors may not sell any shares acquired via the VCP if the sale would take their shareholding below the shareholding requirement.</td><td>The Executive Directors are expected to acquire shares equal to at least 100% of their salary. At the Committee’s discretion this may be acquired over a time frame determined by the Committee.</td><td>Not applicable.</td></tr>
<tr><td colspan="4">Other Share Incentive Plan awards (i.e. provisions of previous policy that will continue to apply)</td></tr>
<tr><td>Executive Recruitment Plan (“ERP”)<br><br>To facilitate the recruitment of new Executive Directors</td><td>Awards of nil-cost options, or equivalent incentives, may be made up to the equivalent value as the fair value of awards/incentives foregone from a previous employer.</td><td>Up to the value of rewards foregone.</td><td>Jonathan Murphy’s awards in 2013 do not have performance conditions and vest in three equal instalments on the first, second and third anniversary of the award.</td></tr>
<tr><td>Outstanding VCP Awards</td><td>See description of VCP above.</td><td>Following approval of the VCP by shareholders in 2013, the Executive Directors were granted a number of performance units as set out above. These awards were granted in a previous year but continue to apply.</td><td>See description above.</td></tr>
</table>

## Notes to the future policy for Executive Directors

### Performance measures and targets

**Rationale for the annual bonus plan**

The annual bonus plan measures were selected as the Committee believes they provide direct alignment with the short-term operational targets of the Company. Care is taken to ensure that the short term is always supportive of the long-term objectives. This is especially important in a business which has a long-term investment horizon. These short-term targets are stretching and geared to encourage outstanding performance, which if delivered can earn the Executive up to the maximum under the plan.

**Rationale for the Assura Value Creation Plan**

***Alignment with the strategic aims***

The VCP is intended to directly support the achievement of the key long-term performance indicator of the Company, TSR. Growth in TSR is the main measure demonstrating the successful execution of a number of the Company's financial objectives including:

- capital returns and growth in NAV per share;
- growth in income returns and earnings per share; and
- the reduction of costs and improvement in recovery rates.

Further, maximising TSR supports sustainable growth and a progressive dividend policy.

***Alignment of interests with shareholders***

One of the main criteria of success by which shareholders will judge the executive team is the long-term sustainable increase in absolute TSR. The VCP provides a direct relationship between returns to shareholders and value delivered to participants.

TSR is easy to communicate to shareholders and participants and also to explain the basis of the value received by participants as a proportion of the value delivered to shareholders.

***Risk adjustment***

Pay-out under the VCP is capped. This ensures that participants do not share in a disproportionate amount of the value created for shareholders.

Before any awards vest and become exercisable at each measurement date a minimum level of TSR must have been achieved (i.e. 8% p.a. compound growth from the Base Price). This ensures that participants are focused on sustaining and growing long-term TSR.

The detailed conditions and calculations attached to the VCP awards are attached in the Circular to shareholders dated 28 January 2013, which is available on the Company's website www.assuragroup.co.uk.

**Discretion**

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

**Differences in remuneration policy for all employees**

There are no significant differences in the types of reward between Directors and staff. All employees are entitled to base salary, benefits and defined contribution pension payments and are eligible for annual bonuses and to participate in the VCP. The bonus targets for staff are more focused on specific personal goals that further the Company's interests. The maximum opportunity available is based on the seniority and responsibility of the role.

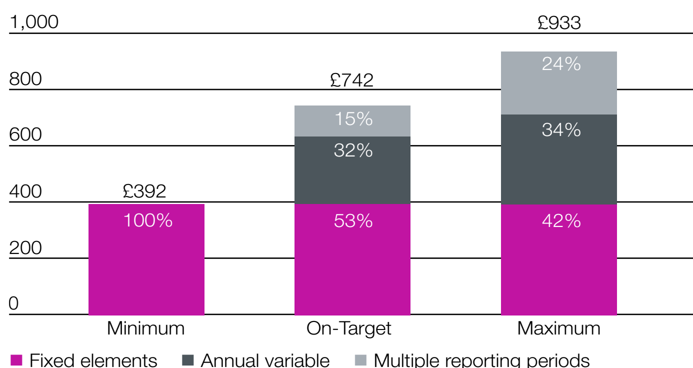
**Changes to remuneration policy from previous policy**

There have been no changes to the operation, maximum or performance measures in relation to the salary, annual bonus, pension, other benefits or the VCP.

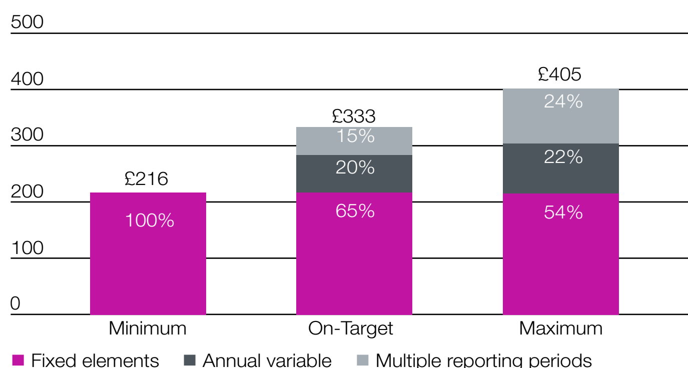
**Illustrations of application of remuneration policy**
The policy of the Committee is to align Executive Directors' interests with those of shareholders and to give the Executive Directors incentives to perform at the highest levels. To achieve this it seeks to ensure that a significant proportion of the remuneration package varies with the performance of the Company and that targets are aligned with the Company's stated business objectives.

The composition and total value of the Executive Directors' remuneration package for the financial year 2014/15 at minimum, on-target and maximum performance scenarios are set out in the charts below.

**Graham Roberts £'000**




**Jonathan Murphy £'000**




Assumptions used in determining the level of pay-out under given scenarios are as follows:

| Element | Minimum | On-target | Maximum |
|---|---|---|---|
| Fixed elements | 2014/15 base salary, benefits estimate and pension | | |
| Annual variable element (bonus plan) | 0% | 75% of maximum award[1] | 100% of maximum award[1] |
| Multiple reporting period elements (VCP) | 0% | 50% of IFRS 2 annual value of award[2] | 100% of the IFRS 2 annual value of award[2] |

Notes
1. 100% of salary for the CEO, 50% for the FD.
2. The VCP is a one-off award granted in 2013 with a five-year period. The maximum value represents 100% of the annualised IFRS 2 value of the award.
3. In accordance with the Regulations, no allowance has been made for share price appreciation.

## Approach to recruitment remuneration and promotions

The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role. The remuneration package for any new recruit would be assessed following the same principles as for the Executive Directors, as set out in the remuneration policy table. The Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short or long-term incentive payments made on recruitment and the appropriateness of any performance measures associated with an award.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the employee. These would be disclosed to shareholders in the following year's Annual Report on Remuneration.

The table below summarises our key policies with respect to recruitment remuneration.

| Element | Policy |
|---|---|
| Fixed remuneration | The salary level, benefits and pension entitlement will be set taking into account a number of factors including market practice, the individual's experience and responsibilities and the policies for salary, benefits and pensions for existing Executive Directors as set out in the remuneration policy table.<br><br>In certain circumstances the Committee may choose to recruit unproven Executive Directors at a salary below the Committee's policy position (lower quartile to median) with a view to providing above average increases in salary until the policy position is achieved, subject to performance, experience and to the individual proving themselves in the role. |
| Performance based variable remuneration | The recruited Executive Director will be eligible to participate in the annual bonus plan and the Assura Group VCP as set out in the remuneration policy table.<br><br>The maximum annual variable remuneration that an Executive Director can receive is limited to 100% of salary under the annual bonus plan and a percentage of the value created under the VCP. Awards under the VCP have no value at grant but provide participants with the opportunity to receive a percentage of the value created for shareholders (see remuneration policy table). Under the VCP, a maximum of 25 million shares can be used to satisfy awards to all participants. |
| Share buyouts/replacement awards | The Committee's policy is not to provide buyouts as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justified the provision of a buyout, the value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following:<br><br>• the proportion of the performance period completed on the date of the Director's cessation of employment;<br>• the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and<br>• any other terms and conditions having a material effect on their value ("lapsed value").<br><br>The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used. |
| Relocation policies | In instances where the new Executive is relocated from one work-base to another, the Company may provide compensation to reflect the cost of relocation for the Executive at the discretion of the Committee.<br><br>The level of the relocation package will be assessed on a case by case basis but will take into consideration any incremental cost of living differences or housing and schooling costs. |

## Approach to service contracts and cessation of employment

### Service contracts

Each of the Executive Directors has a service contract with the Company which is terminable by the Company on six months' notice and by the Director on six months' notice. The Company's practice is to appoint the Non-Executive Directors, including the Chairman, under letters of appointment. Their appointment is usually for a term of three years subject to annual re-election by the shareholders, at the Company's AGM. When setting notice periods, the Committee has regard for market practice and Corporate Governance best practice.

| Executive Director | Date of contract | Unexpired term | Notice period by Company or Director |
|---|---|---|---|
| Graham Roberts | 29 March 2012 | Rolling contract | 6 months |
| Jonathan Murphy | 2 January 2013 | Rolling contract | 6 months |

| Non-Executive Director | Date of letter of appointment | Unexpired term as at 31 March 2014 |
|---|---|---|
| Simon Laffin | 13 September 2011 | 6 months |
| David Richardson | 21 December 2011 | 9 months |
| Jenefer Greenwood | 8 May 2012 | 13 months |

All service contracts and letters of appointment are available for viewing at the Company's registered office.

When determining any loss of office payment for a departing Director the Committee will always seek to minimise cost to the Company whilst complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

### Good leaver status

The Committee has discretion to determine whether an individual is a good leaver. Where the Committee uses its general discretion to determine that an Executive Director is a good leaver, it will provide a full explanation to shareholders of the basis for its determination.

In the circumstances of a good leaver (see reasons in the table on page 63), the Committee in its absolute discretion will determine:

- whether a pro-rated bonus will be payable for the year of cessation;
- the proportion of awards under the VCP, if any, that will be capable of converting into nil-cost options on cessation;
- whether the awards will convert on the date of cessation or continue until the nearest normal MD on which they would otherwise have converted; and
- whether unvested accrued nil-cost options shall vest on cessation of employment.

The Committee may also decide to extend the period in which good leavers can exercise their nil-cost options.

The table below sets out, for each element of total remuneration, the Company's policy on payment for loss of office in respect of Executive Directors and any additional discretion available to the Committee.

| Element | Cessation of employment | |
|---|---|---|
| **Base salary, benefits and pension** | There will be no compensation for normal resignation or in the event of termination by the Company due to misconduct. In other circumstances, Executive Directors will be entitled to receive payment in lieu of notice. | Salary, benefits and pension contributions/salary supplement will normally be paid over the notice period. The Company has discretion to make a lump sum payment on termination for the salary, value of benefits and pension amounts payable during the notice period. In all cases the Company will seek to mitigate any payments due. |

| Element | Cessation of employment | Change of control |
|---|---|---|
| **Bonus plan** | Where an Executive Director's employment is terminated after the end of a performance year but before the payment is made, the Executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period.<br><br>Where an Executive Director's employment is terminated during a performance year and provided the individual is a "good leaver", a pro-rata annual bonus award for the period worked in that performance year may be payable at the Committee's discretion subject to an assessment based on performance achieved over the period.<br><br>No award will be made in the event of gross misconduct. | On a change of control, triggering the Executive's termination of contract, the extent to which the performance requirements are satisfied will determine the annual bonus which is earned.<br><br>Note that this excludes a reorganisation or reconstruction where ownership does not materially change.<br><br>The Committee will take into account such factors as it consider relevant in relation to the bonus plan payment for the year in which the event occurs. |
| **Value Creation Plan**<br>The treatment of awards granted under the VCP is governed by the rules, as approved by shareholders. | On termination of employment before an MD, all unvested awards will lapse, unless the following circumstances apply:<br>• death, injury, ill-health or disability;<br>• retirement or redundancy;<br>• any other circumstances if the Committee decides in any particular case.<br><br>Where an Executive Director is deemed a good leaver prior to the MD, the Committee will have discretion to allow some or all of the awards to vest by deeming:<br>• there to be a new MD at the date of cessation and the number of nil-cost options to be accrued will be calculated as at any other MD; or<br>• that the nearest normal MD to the date of cessation of employment can be used.<br><br>All accrued nil-cost options will then vest and be immediately exercisable (including any other vested nil-cost options) for a period of six months.<br><br>Anyone who is not a good leaver will be a bad leaver. Where a bad leaver ceases to be employed prior to the awards becoming exercisable all awards will lapse (including accrued unvested nil-cost options). | On a change of control (takeover, reconstruction, amalgamation, winding-up or demerger before the MD) there will be a new MD deemed to be the date of the change of control.<br><br>In determining the value created, the Measurement Price will be the offer price for the Company's shares. The calculation of the number of Company shares to be allocated to a participant will be as at any other MD.<br><br>All accrued nil-cost options will vest on a change of control and be exercisable together with any other vested nil-cost options immediately for a set period of up to six months. |

## Future policy table – Non-Executive Directors

| Objective and link to strategy | Operation | Maximum opportunity | Performance measures and assessment |
|---|---|---|---|
| The Company sets fee levels necessary to attract and retain experienced and skilled Non-Executive Directors to advise and assist with establishing and monitoring the strategic objectives of the Company.<br><br>**Policy position:** Median | Fee levels are sufficient to attract individuals with appropriate knowledge and experience.<br><br>Non-Executive Directors are paid a base fee and additional fees for Chairmanship of Committees.<br><br>Fees are reviewed periodically with any changes generally effective from 1 April.<br><br>In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside of the normal duties.<br><br>Non-Executive Directors do not receive a bonus, do not participate in awards under the Company's share plans, and are not eligible to join the Company's pension scheme. | Fees will be in line with the median fee levels of comparable companies within the FTSE Real Estate Investment Trusts and FTSE Real Estate Investment Services sectors, and companies of comparable size in the FTSE All Share and FTSE Small Cap.<br><br>In the normal course of events, increases in Non-Executive Directors' fees will not exceed the average increase for employees and will take into consideration the level of responsibility and fees paid in companies of comparable size and complexity.<br><br>The Non-Executive Director fees for 2014/15 are set out in the Annual Report on Remuneration on page 67. | None. |

**Consideration of employment conditions elsewhere in Assura when developing policy**
In setting the remuneration policy for Directors, the pay and conditions of other employees of Assura are taken into account, including any base salary increases awarded. The Committee is provided with data on the remuneration structure for all staff and uses this information to ensure consistency of approach throughout the Company. No comparison metrics were used.

The Company has a small number of employees and applies the same policy in relation to incentive compensation throughout the organisation. All employees are eligible for annual bonuses and to participate in the VCP.

Although the Committee takes into account the pay and conditions of other employees, the Company did not consult with employees when drawing up the policy report.

**Consideration of shareholder views**
The Committee takes the views of the shareholders seriously and these views are taken into account in shaping remuneration policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its remuneration policy.

At the 2013 AGM the Committee obtained support for its proposals. This followed extensive consultation with shareholders on its Executive Remuneration policy including the VCP during the 2012/13 financial year.

## PART 3: ANNUAL REPORT ON REMUNERATION – UNAUDITED UNLESS STATED

This Annual Report on Remuneration contains details of how the Company's remuneration policy for Directors was implemented during the financial year ended 31 March 2014. This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An advisory resolution to approve this report will be put to shareholders at the AGM.

**Single total figure of remuneration – Executive Directors – audited**
The remuneration of Executive Directors showing the breakdown between components with comparative figures for the prior year are shown below. Figures provided have been calculated in accordance with the Regulations.

| Executive Director (£'000) | | Salary | Taxable benefits | Bonus | Pensions | Long-term incentives | Total |
|---|---|---|---|---|---|---|---|
| Graham Roberts | **2013/14** | **309** | **15** | **294** | **62** | **0** | **680** |
| | 2012/13 | 300 | 14 | 300 | 60 | 0 | 674 |
| Jonathan Murphy | **2013/14** | **153** | **11** | **73** | **19** | **61** | **317** |
| | 2012/13 | 38 | 3 | 19 | 5 | 0 | 65 |

Notes
1. Graham Roberts and Jonathan Murphy received payments in lieu of pension contributions equivalent to 20% and 12.5% of salary respectively for 2013/14 and 2012/13.
2. Jonathan Murphy joined the Company on 2 January 2013. His long-term incentive which vested on 29 January 2014 is the first of three due under his Executive Recruitment Plan and comprised 153,334 shares at 39.55 pence each.

### 2013/14 annual bonus plan outcome
In determining the award for 2013/14, the Committee took into account the Company's financial performance and achievement against key short-term objectives established at the beginning of the year. This involved establishing in advance what would constitute success for good, strong or outstanding performance. The performance targets and performance are summarised below. It is the Committee's approach to view the performance in the round at the end of the year, taking into account extraneous events and changing priorities, where relevant.

The requirement to rebuild dividend capacity through corporate activity and balance sheet restructuring was identified as the most critical success factor for the Company at this stage of its evolution, having special regard to its REIT status.

For 2013/14 the maximum potential bonus awards were 100% of salary for the Chief Executive and 50% of salary for the Finance Director.

| Performance measures | Actual targets set at the beginning of the year | Actual performance outcome |
|---|---|---|
| Restructuring the balance sheet to create more dividend capacity | Increased dividend capacity created:<br>Good +15%<br>Strong +25%<br>Outstanding +35% | Following sale of LIFT and purchase of Trinity, capacity increased by 33% |
| Delivering underlying profit budget and development surpluses | Underlying profit budget achieved plus development surpluses recognised:<br>Good 95% + £2 million<br>Strong 100% +£2.2 million<br>Outstanding 105% +£2.5 million | Substantial outperformance: 119% including capital recycling benefits; 110% outperformance excluding capital recycling benefits<br>Development profits were £2.3 million |
| Increase awareness of Assura's new business model in NHS and the importance of addressing primary care development<br>(Graham Roberts only) | Achieve recognition within NHS that primary care premises development should be at the heart of the primary care strategy | Included prominently within the results of the GP "call to action" (March 2014) |
| Achieving a step change in perception of the Group | Identify and execute initiatives to improve the Group's image amongst health professionals | Membership of Social Stock Exchange<br>Extensive thought leadership contributions within health press and in camera |
| Building the team's performance capability | Embedding a continuous improvement culture | New focus and accountabilities introduced into property team creating better focus and enhancing capacity |
| Other personal goals<br>(Jonathan Murphy only) | Build finance team as a strong partner for the property team | Extended finance remit |
| | Build relationships with new banks | Revolving credit facility agreed for £30 million (completed post year end) |

The Remuneration Committee reviewed performance against the above targets and considered that the Chief Executive had had an outstanding year in respect of financial targets, defending an unwelcome bid for the Company and achieving significant change in the share register, whilst some further direction could have been given to property related matters and measurable achievements from lobbying. The Committee concluded the bonus for the Chief Executive should be awarded at 95% of maximum. The Committee reviewed the performance against targets of the Finance Director and considered he had an outstanding year in respect of financial targets and in supporting the Chief Executive, defending the unwelcome bid for the Company and achieving significant change in the share register, whilst further development of the finance team could have been achieved. The Committee concluded a bonus for the Finance Director should be 95% of maximum.

**Vesting of long-term incentive awards – audited**
There was no vesting under the VCP in 2013/14 as the first measurement date is in 2015.

Awards were made under the ERP to Jonathan Murphy in 2013 to facilitate his recruitment. The awards have no performance criteria and vest in three equal instalments on the first, second and third anniversary of their award. One third of the awards granted to Jonathan Murphy vested on 29 January 2014.

| Award | Performance measures | Number of nil-cost options vested | Value of vested awards £'000 |
|---|---|---|---|
| ERP awards | None | 153,334 | 61 |

Notes
1. The value of nil-cost options is calculated using the closing middle market share price on 29 January 2014 of 39.55 pence per share, the date the awards became exercisable.

## Total pension entitlements

No Executive Director or any member of staff is entitled to a defined benefit pension arrangement. Graham Roberts and Jonathan Murphy received payments in lieu of pension contributions equivalent to 20% and 12.5% of salary respectively for 2013/14.

## Single total figure of remuneration – Non-Executives – audited

The remuneration of Non-Executive Directors showing the breakdown between components, with comparative figures for the prior year, are shown below. Figures provided have been calculated in accordance with the Regulations.

| Non-Executive Director (£'000) | | Basic fees | Additional fees | Total fees |
|---|---|---|---|---|
| Simon Laffin | **2013/14** | **126** | **–** | **126** |
| | 2012/13 | 120 | – | 120 |
| David Richardson | **2013/14** | **36** | **16** | **52** |
| | 2012/13 | 34 | 16 | 50 |
| Jenefer Greenwood | **2013/14** | **36** | **8** | **44** |
| | 2012/13 | 34 | 8 | 42 |
| Clare Hollingsworth | **2013/14** | **–** | **–** | **–** |
| | 2012/13 | 6 | – | 6 |

Notes
1. Simon Laffin's fees are paid to Simon Laffin Business Services Limited.
2. Clare Hollingsworth stepped down from the Board on 23 May 2012.
3. Additional fees represent Senior Independent Director's and Chairman of Board Committee fees.

## Statement of Directors' shareholding and share interests

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain a personal shareholding equal to 100% of their basic salary in the Company.

## Shareholding and other interest at 31 March 2014

| | Shareholding | | | | | |
|---|---|---|---|---|---|---|
| Director | Shares required to be held (% salary) | Number of shares required to hold | Number of beneficially owned shares[1] | Number of shares in ERP[2] | Total interests held at 31 March 2014 | Shareholding requirement met?[3] |
| **Executive** | | | | | | |
| Graham Roberts | 100% | 722,800 | 1,500,000 | – | 1,500,000 | Yes |
| Jonathan Murphy | 100% | 358,800 | 281,267 | 306,668 | 587,935 | On track |
| **Non-Executive** | | | | | | |
| Simon Laffin | – | – | 2,104,095 | – | 2,104,095 | n/a |
| David Richardson | – | – | 253,616 | – | 253,616 | n/a |
| Jenefer Greenwood | – | – | 51,279 | – | 51,279 | n/a |

Notes
1. Beneficial interests include shares held directly or indirectly by connected persons.
2. ERP interests are subject to vesting conditions as set out on page 58.
3. Shareholding requirement calculation is based on the share price at the end of the year.
4. VCP interests are not included in this table because they are awards of performance units with a right to a number of nil-cost options over shares at each MD provided the performance conditions are achieved. At the date of grant of the performance units the number of nil-cost options that could be earned is unknown.

The Company funds its share incentives through a combination of new issue and market purchased shares. The Company monitors the levels of share grants and the impact of these on the ongoing requirement for shares. In accordance with guidelines set out by the Association of British Insurers ("ABI") the Company can issue a maximum of 10% of its issued share capital in a rolling 10-year period to employees under all its share plans.

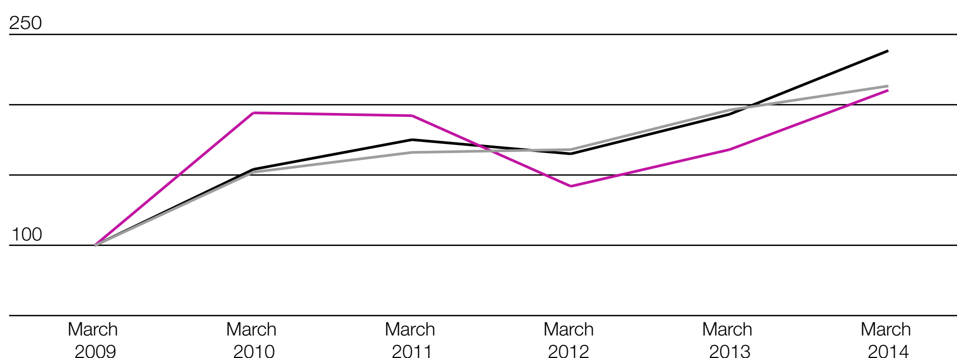
There has been no movement in Directors' shareholdings and share interests from 31 March 2014 to the date of this report.

## Performance graph and table

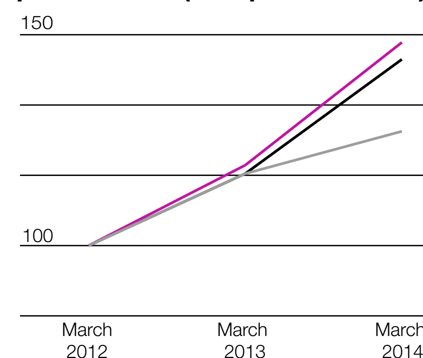
The Committee believes that the current Executive Remuneration policy and the supporting reward structure provide clear alignment with the Company's performance. Following the sale of the Company's Pharmacy business in 2011 and conversion to a REIT in April 2013, the Committee believes it is appropriate to monitor the Company's performance against the FTSE All Share Real Estate Investment Trusts index.

The graph below sets out the TSR performance of the Company compared to the FTSE All Share Real Estate Investment Trusts index and for comparison, the FTSE All Share index over a five-year period as required by regulation and for the two-year period elapsed of the VCP.

### Five-year relative TSR performance




### Two-year relative TSR performance (VCP period to date)




– Assura – FTSE UK Real Estate Investment Trusts – FTSE All Share

The table below shows the Chief Executive's remuneration package over the past five years.

| Year | Name | Single figure of total remuneration (£'000)[1] | Bonus pay-out (as % maximum opportunity) | Long-term incentive vesting rates (as % maximum opportunity) |
|---|---|---|---|---|
| 2013/14 | Graham Roberts | 680 | 95 | – |
| 2012/13 | Graham Roberts | 674 | 100 | – |
| 2011/12 | Nigel Rawlings[2] | 395 | 85 | – |
| 2010/11 | Nigel Rawlings | 314 | 75 | – |
| 2009/10 | Nigel Rawlings (from 16/03/10) | 11 | – | – |
| 2009/10 | Richard Burrell[3, 4] (until 15/03/10) | 487 | – | – |

Notes
1. Includes base salary, taxable benefits, bonus payments for the relevant financial year, long-term incentive awards that vested for performance related to the financial year and cash in lieu of pension.
2. Nigel Rawlings ceased to be a Director with effect from 30 April 2012. The bonus of £100,000 was a one-off award reflecting his contribution to selling the Pharmacy business.
3. Richard Burrell ceased to be a Director on 15 March 2010.
4. During the financial year 2009/10 Richard Burrell was Chief Executive from 1 April 2009 until 15 March 2010 when Nigel Rawlings assumed the position. The amounts above are therefore reflective of the relative lengths of service.

## Percentage change in the Chief Executive's remuneration

The table below compares the percentage increase in the Chief Executive's pay (including salary and fees, taxable benefits and annual bonus) with the wider employee population. The Company considers the 27 full-time employee population, excluding the Executive Board, to be an appropriate comparator group.

| | Salary % increase | Taxable benefits % increase | Bonus % increase |
|---|---|---|---|
| Chief Executive | 2.1 | – | (2.0) |
| Total employee pay | 4.0 | – | 2.5 |
| Average employee pay | 4.0 | – | 15.3 |

## Relative importance of spend on pay

The table below sets out the overall spend on pay for all employees compared with the returns distributed to shareholders.

| Significant distributions | 2012/13 (£m) | 2013/14 (£m) | % change |
|---|---|---|---|
| Overall spend on pay for employees including Executive Directors | 1.8 | 1.9 | 5.6 |
| Distributions to shareholders by way of dividends | 4.5 | 7.2 | 60.0 |

Notes
1. The above figures are taken from Notes 6 and 25 to the financial statements.

## Payments to past Directors or for loss of office

During the year there were no payments to past Directors, and no payments for loss of office.

## Statement of implementation of remuneration policy for 2014/15

### Executive Directors

### Salary

The salaries for 2014/15 and the relative increases are set out below.

| Executive Director | 2013/14 salary | 2014/15 salary | % change |
|---|---|---|---|
| Graham Roberts | £309,000 | £315,500 | 2.1% |
| Jonathan Murphy | £153,000 | £180,000 | 17.6% |

### Annual bonus

The performance objectives under the annual bonus plan for 2014/15 relate to value-added opportunities, refining strategy to reflect current market drivers, financial targets, external engagement and team development. The Committee is of the opinion that the precise performance targets for the bonus plan are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. Actual targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs. The Committee will also follow the same practice of the last two years and view the weightings for bonus purposes at the end of the year, having regard to all known factors.

### Long-term incentive plan

Awards were made under the VCP in 2012/13. These are one-off awards to cover the period up to 2017/18.

### Pension and benefits

Graham Roberts and Jonathan Murphy will receive payments in lieu of pension contributions equivalent to 20% and 13.5% of salary respectively. Benefits will be provided in line with the Executive Directors' remuneration policy table.

### Non-Executive Directors

The following table sets out the fee rates for the Non-Executive Directors for 2013/14 and those rates which will apply from 1 April for 2014/15:

| | 2013/14 | 2014/15 | % change |
|---|---|---|---|
| Chairman fee | £126,000 | £126,000 | – |
| Non-Executive Director base fee | £35,500 | £35,500 | – |
| Additional fee for Chairmanship of Audit and Remuneration Committee | £8,000 | £8,000 | – |
| Additional fee for Senior Independent Director | £8,000 | £8,000 | – |

## Consideration by the Committee of matters relating to Directors' remuneration

### Role of the Committee and activities

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the senior management and for setting the remuneration packages for each Executive Director. The Committee also has oversight of the remuneration policy and packages for other senior members of staff.

The written Terms of Reference of the Committee are available on the Company's website and from the Company on request. The Committee's activities during the 2013/14 financial year included:

- Consideration of objectives and targets for annual bonus
- Consideration of annual pay awards and bonuses
- Approval of increase in staff pension contributions (company and personal)
- Review and agreement of changes to allocation basis for the staff bonus pool
- Confirmation of first vesting of the ERP
- Review of the Directors' Remuneration Policy
- Review of new disclosure requirements.

### Advisors to the Committee

The Committee received external advice in 2013/14 from PwC, who were appointed by the Committee and are considered objective and independent. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to Executive remuneration consulting in the UK.

The Committee reviewed the nature of the services provided and was satisfied that no conflict of interest exists or existed in the provision of these services.

The Committee also sought the views of Graham Roberts during the year. The Chief Executive is given notice of all meetings and, at the request of the Chairman of the Committee, attends the meetings. The Chief Executive may request that he attends and speaks at Committee meetings but not on decisions relating to his own remuneration. In normal circumstances, the Chief Executive will be consulted on general policy matters and matters concerning the other Executive Directors and employees.

The total fees paid to PwC in respect of services to the Committee during the year were £27,500. Fees were determined based on the scope and nature of the projects carried out for the Committee during the year.

### Statement of shareholder voting

The table below shows the advisory vote on the 2012/13 Directors' Remuneration Report at the AGM held on 19 September 2013. In addition, at General Meeting of the Company on 15 February 2013 shareholders approved the VCP.

| | Votes for | % | Votes against | % | Votes withheld |
|---|---|---|---|---|---|
| 2012/13 Remuneration Report | 232,558,568 | 84.17 | 43,733,310 | 15.83 | 15,006,818 |
| Approval of the VCP | 346,064,477 | 80.40 | 84,509,520 | 19.60 | 23,672,207 |

The first votes on the Annual Report on Remuneration and the Directors' Remuneration Policy are due to take place at the AGM to be held on 22 July 2014.

By order of the Board

**Jenefer Greenwood**
Chairman of the Remuneration Committee
22 May 2014

# DIRECTORS' REPORT

## Financial and business reporting
The Directors present their Annual Report and Accounts on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 March 2014. The Corporate Governance Statement set out on page 48 forms part of this report.

The Directors' Report and the other sections of this Annual Report contain forward-looking statements. The extent to which the Company's shareholders or anyone may rely on these forward-looking statements is set out in the Glossary on page 114.

## Principal activities
Assura Group is the UK's leading primary care property investor and developer. It owns and procures good quality primary care properties across the UK.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in Note 13 to the financial statements.

## Business review
The Group is required to include a business review in this report. The information that fulfils the requirements of the business review can be found on pages 34 to 39, which are incorporated in this report by reference.

## Going concern
The Group's business activities together with factors likely to affect its future performance are set out in the business review on pages 34 to 39. In addition, Note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk.

The Group has facilities from two financial institutions, neither of which is repayable before November 2016 other than modest annual amortisation and much of the debt is not repayable before 2021. In addition to surplus available cash of £27.6 million at 31 March 2014 (2013: £15.6 million), the Group has surplus security comprising unmortgaged property assets totalling £7.6 million at that date (2013: £3.3 million).

The Group's medical centre property developments in progress are all substantially pre-let and in the main have funding in place.

The Group has benefited from periodic sales of non-core assets which included surplus land and non-medical properties in the year under review. We continue to market a number of non-core properties for sale.

The Group has adequate headroom in its banking covenants. The Group has been in compliance with all financial covenants on its loans throughout the year.

The Group's properties are substantially let with rent paid or reimbursed by the NHS and they benefit from a weighted average lease length of 14.4 years. They are also diverse both geographically and by lot size and therefore represent excellent security.

The Group's financial forecasts show that borrowing facilities are adequate and the business can operate within these facilities and meet its obligations when they fall due for the foreseeable future. The Directors believe that the business is well placed to manage its current and reasonably possible future risks successfully.

Accordingly, the financial statements have been prepared on a going concern basis.

## Internal controls and risk management

The Board accepts and acknowledges that it is both accountable and responsible for ensuring that the Group has in place appropriate and effective systems, procedures, policies and processes for internal controls.

Throughout the period covered by this report and up to the date of this report the Board believes that there have been appropriate internal controls and risk management processes in place which have been reviewed and updated as outlined in this report.

## Dividends

Details of the dividend can be found in Note 25. The Group benefits from brought forward tax losses which results in all dividends paid during the year being paid as ordinary dividends with an associated tax credit.

## Supplier payment policy

The Group has not signed up to any specific supplier payment code; it is Assura's policy to comply with the terms of payment agreed with its suppliers. Where specific payment terms are not agreed, the Group endeavours to adhere to the suppliers' standard payment terms. As at 31 March 2014, the average number of days taken by the Group to pay its suppliers was 20 days (2013: 36 days).

## Post balance sheet events

Subsequent to the year end, a subsidiary of the Group has entered into a five-year, £30 million revolving credit facility with RBS and Barclays.

## Directors' liability insurance

The Company has arranged insurance cover in respect of legal action against its Directors.

## Company share scheme

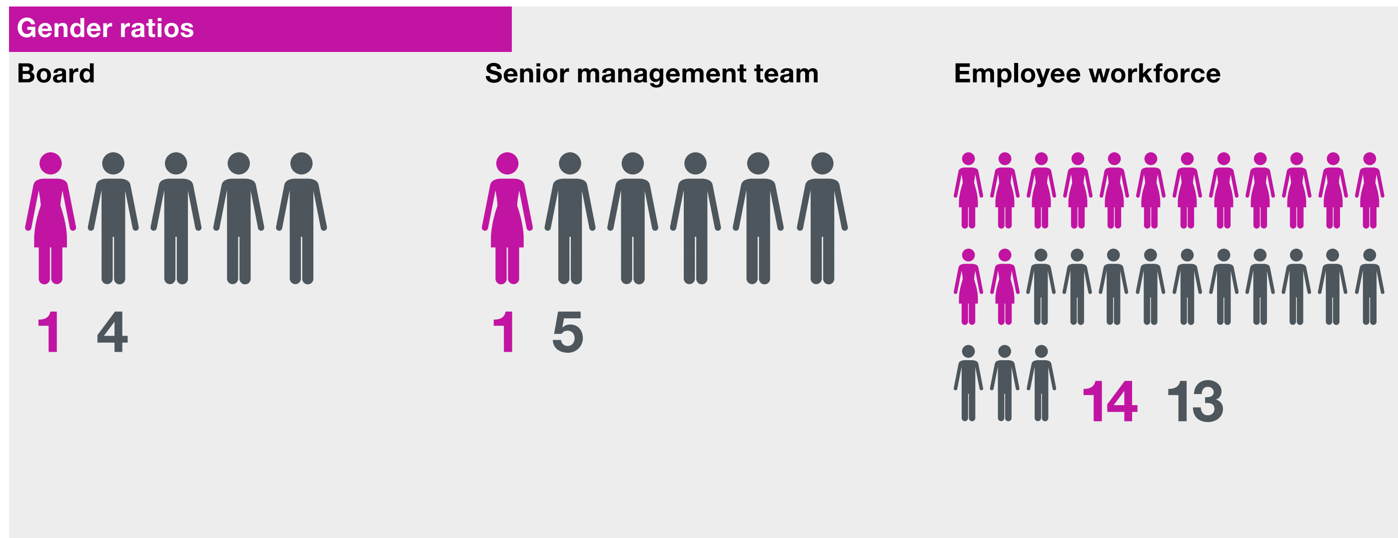
The Assura Group Employee Benefit Trust holds 4,064,885 (0.8%) of the issued share capital of the Company on trust for the benefit of employees of the Group and their dependants. The voting rights in relation to these shares are exercised by the Trustees who will take into account any recommendation made to them by the Board of Assura Group Limited.

## Donations

In the year to 31 March 2014 Assura donated £13,094 to charities (2013: £23,451), all of which were UK registered charities, and no contributions were made for political purpose (2013: nil). More details of our chosen charities can be found on pages 42 and 43.

## Employees

Employees are encouraged to maximise their individual contribution to the Group. In addition to competitive remuneration packages, they participate in an annual bonus scheme which links personal contribution to the goals of the business. Outperformance against the annual targets can result in a bonus of up to 20% for all staff below the Senior Leadership Team. Employees are provided regularly with information regarding progress against the budget, financial and economic factors affecting the business's performance and other matters of concern to them. In addition, all staff are eligible to participate in a defined contribution pension scheme and the VCP. The views of employees are taken into account when making decisions that might affect their interests. Assura encourages openness and transparency, with staff having regular access to the Chief Executive and being given the opportunity to express views and opinions.



The Group is committed to the promotion of equal opportunities, supported by its Equal Opportunity and Valuing Diversity Policy. The policy reflects both current legislation and best practice. It highlights the Group's obligations to race, gender and disability equality. Full and fair consideration is given to applications for employment from disabled persons and appropriate training and career development is provided.

## Interests in voting rights
As at 1 May 2014 the Company had been notified of the following interests representing 5% or more of its issued Ordinary Share Capital.

## Share capital
The issued share capital of the Company is 529,548,924 Ordinary Shares of 10 pence each.

| Name of shareholder | 31 March 2014 | | 1 May 2014 | |
|---|---|---|---|---|
| | Number of shares | % of Ordinary Shares | Number of shares | % of Ordinary Shares |
| Somerston Investments Limited | 156,928,493 | 29.63 | 156,736,965 | 29.60 |
| Artemis Investment Management | 90,856,242 | 17.16 | 93,034,881 | 17.57 |
| Aberforth | 44,363,188 | 8.38 | 44,363,188 | 8.38 |
| Whitehall Associated SA | 26,500,000 | 5.00 | 26,500,000 | 5.00 |

## Price risk, credit risk, liquidity risk and cash flow risk
Full details of how these risks are mitigated can be found in Note 29.

## Future developments
Details of future developments are discussed on page 35 in the business review.

## Greenhouse gas emissions
The greenhouse gas emissions from operating activities and property occupied by the Company represented 71.5mt $CO_2$e. These reported levels exclude investment properties where we are not the occupier.

## Auditor
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors, on recommendation from the Audit Committee, intend to place a resolution before the AGM to re-appoint Deloitte LLP as auditor for the year ending 31 March 2015.

## Amendments to the Articles of Incorporation
The Articles of Incorporation of the Company may be amended by special resolution of the Company.

## Annual General Meeting
The AGM of the Company will be held at the offices of Addleshaw Goddard, 60 Chiswell Street, London EC1Y 4AG on 22 July 2014 at 10am.

By order of the Board

**Jonathan Murphy**
Company Secretary
22 May 2014

# DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Guernsey company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, IAS 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

**Jonathan Murphy**
Company Secretary
22 May 2014

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ASSURA GROUP LIMITED

**Opinion on financial statements of Assura Group Limited**

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 March 2014 and of the Group's and the Parent Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated and Parent Company Income Statements, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 33 and A to L. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

**Going concern**

As required by the Listing Rules we have reviewed the Directors' statement contained within the Directors' Report on page 71 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**<br>The Group owns and manages a portfolio of primary care properties (including a number of development properties). The valuation of the portfolio is underpinned by a number of judgements and assumptions.<br><br>The Group fair values 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 method with a deduction of all costs necessary to complete the development together with a developer's margin. | We assessed management's process for reviewing and challenging the work of the external valuer.<br><br>We held calls with the third party valuers, Savills and Jones Lang LaSalle ("JLL"), appointed by management for the valuation of the property portfolio and we assessed the reasonableness of the significant judgements and assumptions applied in their valuations including outstanding rent reviews and yields. Further, our in-house property specialists were present on these calls in order to provide sector specific knowledge as part of our discussion and challenge of the valuation.<br><br>We assessed the competence, independence and integrity of the external valuer, by consideration of the professional qualifications and market standing as valuers of primary care properties.<br><br>We benchmarked and challenged the key assumptions to external industry data and comparable portfolios, in particular the yield.<br><br>We verified the integrity of a sample of information provided to valuers by management relating to rental income, occupancy and life of the lease. |

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Accounting for acquisitions and disposals**<br>The Group has undertaken two significant transactions during the current year including an acquisition of two companies which own a portfolio of properties and the disposal of the Group's LIFT interests. | We challenged the fair value of consideration paid and received by reference to acquisition or disposal agreements and other external evidence.<br><br>For the acquisition, we performed procedures to assess the fair value of the assets and liabilities acquired and assessed the accounting treatment adopted, with reference to the significant judgements and estimates involved (as per Note 2).<br><br>We considered the date at which the transactions completed based on the acquisition or disposal agreements and considered the impact of these transactions on revenue recognition.<br><br>We considered the adequacy of the disclosure of the transactions in the financial statements. |

The Audit Committee's consideration of these risks is set out on page 51.

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.

### 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 £1.1 million. In determining the materiality of the Group, we have considered a number of factors including net assets, underlying profit and profit before tax being the critical performance measures of the Group. The figure represents less than 5% of pre-tax profit and less than 0.5% of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000, 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 in its entirety by Deloitte LLP in Manchester. Our audit work on the individual subsidiary entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

At the parent entity level we also tested the consolidation process.

### Other matter

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 as if that Act had applied to the Company.

### Matters on which we are required to report by exception

**Adequacy of explanations received and accounting records**

Under the Companies (Guernsey) Law, 2008 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; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

| | |
|---|---|
| **Corporate Governance Statement** | Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review. |
| **Our duty to read other information in the Annual Report** | Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:<br>• materially inconsistent with the information in the audited financial statements; or<br>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or<br>• otherwise misleading.<br><br>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' Responsibility 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 strategically focused second partner reviews.<br><br>This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. 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. |

**Christopher Robertson**
for and behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
Manchester, UK
22 May 2014

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2014

| | Note | 2014 Underlying £m | 2014 Capital and other £m | 2014 Total £m | 2013 (represented)[1] Underlying £m | 2013 (represented)[1] Capital and other £m | 2013 (represented)[1] Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Gross rental and related income** | 4 | **39.9** | **–** | **39.9** | 37.1 | – | 37.1 |
| Property operating expenses | 5 | **(2.1)** | **–** | **(2.1)** | (3.4) | – | (3.4) |
| **Net rental income** | | **37.8** | **–** | **37.8** | 33.7 | – | 33.7 |
| Administrative expenses | 6 | **(5.0)** | **–** | **(5.0)** | (4.9) | – | (4.9) |
| Revaluation gains | 15 | **–** | **12.4** | **12.4** | – | 6.0 | 6.0 |
| Gain/(loss) on sale of property | | **–** | **0.2** | **0.2** | – | (0.1) | (0.1) |
| Share-based payment charge | 26 | **–** | **(0.7)** | **(0.7)** | – | (0.6) | (0.6) |
| Exceptional items | 9 | **–** | **(0.4)** | **(0.4)** | – | – | – |
| Finance revenue | 7 | **0.3** | **–** | **0.3** | 0.5 | – | 0.5 |
| Finance costs | 8 | **(22.2)** | **–** | **(22.2)** | (20.5) | – | (20.5) |
| Gain/(loss) on derivative financial instruments | 8 | **–** | **1.8** | **1.8** | – | (1.2) | (1.2) |
| **Profit before taxation** | | **10.9** | **13.3** | **24.2** | 8.8 | 4.1 | 12.9 |
| Taxation | 10 | | | **(0.4)** | | | (0.2) |
| **Profit for the year from continuing operations** | | | | **23.8** | | | 12.7 |
| **Discontinued operations** | | | | | | | |
| Profit for the year and gain on disposal from discontinued operations | 30 | | | **11.2** | | | 1.4 |
| **Profit for the year attributable to equity holders of the parent** | | | | **35.0** | | | 14.1 |
| **Earnings per share** | | | | | | | |
| from underlying profit | 11 | **2.1p** | | | 1.7p | | |
| from continuing operations – basic and diluted | 11 | | | **4.5p** | | | 2.4p |
| from continuing operations – adjusted basic and diluted | 11 | | | **4.2p** | | | 2.8p |
| on profit for year – basic and diluted | 11 | | | **6.6p** | | | 2.7p |
| on profit for year – adjusted basic and diluted | 11 | | | **6.3p** | | | 3.1p |

There were no items of other comprehensive income or expense and therefore the profit for the year also reflects the Group's total comprehensive income.

[1] The consolidated income statement has been re-presented for the year ended 31 March 2013 to transfer profits and losses from the LIFT segment to profit for the period from discontinued operations.

# CONSOLIDATED BALANCE SHEET

As at 31 March 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 15 | **656.7** | 557.3 |
| LIFT investments and associates | 13, 30 | **0.5** | 11.2 |
| Property, plant and equipment | 16 | **0.1** | 0.1 |
| Deferred tax asset | 28 | **0.7** | 1.1 |
| | | **658.0** | 569.7 |
| **Current assets** | | | |
| Cash, cash equivalents and restricted cash | 17 | **38.6** | 35.7 |
| Trade and other receivables | 18 | **5.5** | 9.6 |
| Property assets held for sale | 15 | **11.6** | 12.0 |
| | | **55.7** | 57.3 |
| **Total assets** | | **713.7** | 627.0 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **14.8** | 14.3 |
| Borrowings | 22 | **5.9** | 3.9 |
| Deferred revenue | 20 | **9.9** | 8.2 |
| Provisions | 21 | **0.1** | 0.1 |
| | | **30.7** | 26.5 |
| **Non-current liabilities** | | | |
| Borrowings | 22 | **444.4** | 388.2 |
| Obligations due under finance leases | 19 | **3.0** | 3.1 |
| Derivative financial instruments at fair value | 23 | **1.8** | 3.6 |
| Deferred revenue | 20 | **6.8** | 6.6 |
| Provisions | 21 | **0.4** | 0.9 |
| | | **456.4** | 402.4 |
| **Total liabilities** | | **487.1** | 428.9 |
| **Net assets** | | **226.6** | 198.1 |
| **Capital and reserves** | | | |
| Share capital | 24 | **53.0** | 53.0 |
| Own shares held | 24 | **(1.9)** | (1.9) |
| Share premium | | **77.1** | 77.1 |
| Reserves | | **98.4** | 69.9 |
| **Total equity** | | **226.6** | 198.1 |
| | | | |
| **Basic and diluted net asset value per Ordinary Share** | 12 | **42.8p** | 37.4p |
| **Adjusted basic and diluted net asset value per Ordinary Share** | 12 | **43.4p** | 38.6p |

The financial statements were approved at a meeting of the Board of Directors held on 22 May 2014 and signed on its behalf by:

Graham Roberts, Chief Executive

Jonathan Murphy, Finance Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

| | Share capital £m | Own shares held £m | Share premium £m | Reserves £m | Total equity £m |
|---|---|---|---|---|---|
| **1 April 2012** | 53.0 | (1.9) | 77.1 | 59.7 | 187.9 |
| Profit attributable to equity holders | – | – | – | 14.1 | 14.1 |
| **Total comprehensive income** | – | – | – | 14.1 | 14.1 |
| Dividend (Note 25) | – | – | – | (4.5) | (4.5) |
| Employee share-based incentives | – | – | – | 0.6 | 0.6 |
| **31 March 2013** | 53.0 | (1.9) | 77.1 | 69.9 | 198.1 |
| Profit attributable to equity holders | **–** | **–** | **–** | **35.0** | **35.0** |
| **Total comprehensive income** | **–** | **–** | **–** | **35.0** | **35.0** |
| Dividend (Note 25) | **–** | **–** | **–** | **(7.2)** | **(7.2)** |
| Employee share-based incentives | **–** | **–** | **–** | **0.7** | **0.7** |
| **31 March 2014** | **53.0** | **(1.9)** | **77.1** | **98.4** | **226.6** |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Rent received | | **39.3** | 37.7 |
| Interest paid and similar charges | | **(22.3)** | (20.6) |
| Fees received | | **0.9** | 0.8 |
| LIFT and bank interest received | | **0.8** | 1.5 |
| Cash paid to suppliers and employees (inc. acquisition costs) | | **(10.8)** | (6.5) |
| **Net cash inflow from operating activities** | 27 | **7.9** | 12.9 |
| **Investing activities** | | | |
| Purchase of investment property | | **(2.5)** | (3.6) |
| Development spend | | **(23.5)** | (18.1) |
| Proceeds from sale of property | | **3.3** | 8.4 |
| Proceeds from sale of LIFT investments | 30 | **21.7** | – |
| Proceeds from sale of businesses | 18 | **6.0** | 3.6 |
| Net loans advanced to associated companies | | **(0.3)** | (0.3) |
| Subsidiaries acquired | 14 | **(6.6)** | – |
| **Net cash outflow from investing activities** | | **(1.9)** | (10.0) |
| **Financing activities** | | | |
| Dividends paid | 25 | **(7.2)** | (4.5) |
| Repayment of loan | 22 | **(5.1)** | (7.0) |
| Long-term loans drawdown | 22 | **9.2** | 23.2 |
| Swap cash settlement | | **–** | (0.1) |
| Loan issue costs | | **–** | (0.2) |
| **Net cash (outflow)/inflow from financing activities** | | **(3.1)** | 11.4 |
| **Increase in cash and cash equivalents** | | **2.9** | 14.3 |
| Opening cash and cash equivalents | | **35.7** | 21.4 |
| **Closing cash and cash equivalents** | 17 | **38.6** | 35.7 |

## 1. Corporate information and operations

Assura Group Limited ("Assura") is incorporated in Guernsey with its investment objective to achieve capital growth and rising rental income from the ownership and development of a diversified portfolio of primary care properties.

The Company's Ordinary Shares are traded on the London Stock Exchange. The Company is domiciled in England and Wales for taxation purposes. As of 1 April 2013, the Company has elected to be treated as a UK REIT. See Note 10 for further details.

## 2. Significant accounting policies

### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment properties, including investment properties under construction and land. The financial statements have also been prepared in accordance with IFRSs and interpretations adopted by the European Union and in accordance with the Companies (Guernsey) Law, 2008.

### Standards affecting the financial statements

The following standards and amendments became effective for the Company in the year ended 31 March 2014. The pronouncements either had no material impact on the financial statements or resulted in changes in presentation and disclosure only (effective for periods beginning on or after the date in brackets):

- IFRS 13 Fair Value Measurement (1 January 2013)
- IAS 19 Employee Benefits (1 January 2013)
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (1 July 2012)
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (1 January 2013).

### Standards in issue not yet effective

The following standards and amendments are in issue as at the date of the approval of these financial statements, but are not yet effective for the Company. The Directors do not expect that the adoption of the standards listed below will have a material impact on the financial statements of the Company in future periods (effective for periods beginning on or after the date in brackets):

- IFRS 10 Consolidated Financial Statements (1 January 2014)
- IFRS 11 Joint Arrangements (1 January 2014)
- IFRS 12 Disclosures of Interests in Other Entities (1 January 2014)
- IAS 27 Separate Financial Statements (2011) (1 January 2014)
- IAS 28 Investments in Associates and Joint Ventures (2011) (1 January 2014)
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (1 January 2014)
- Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (1 January 2014)
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (1 January 2014).

The financial statements are prepared on a going concern basis as explained in the Directors' report on page 71 and are presented in sterling.

The accounting policies have been applied consistently to the results, other gains and losses, liabilities and cash flows of entities included in the consolidated financial statements. All intragroup balances, transactions, income and expenses are eliminated on consolidation.

### Significant judgements and key estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

#### Property valuations

The key source of estimation and uncertainty relates to the valuation of the property portfolio, where a valuation is obtained twice a year by professionally qualified external valuers. The evidence to support these valuations is based primarily on recent, comparable market transactions on an arm's length basis. However, the assumptions applied are inherently subjective and so are subject to a degree of uncertainty. Property valuations are one of the principal uncertainties of the Group.

#### Accounting for acquisitions and disposals

A degree of judgement is required in relation to acquisitions to determine whether they should be accounted for as business combinations under IFRS 3 or as asset purchases. Consideration is taken of all the facts concerning the transaction in making the appropriate judgement. In addition, the fair value of assets and liabilities acquired as part of the transaction must be determined, which is based on external market evidence where available.

## 2. Significant accounting policies continued

### Basis of consolidation

#### Subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains 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.

In the Company financial statements, investments in subsidiaries are held at cost less any provision for impairment.

Where properties are acquired through the purchase of a corporate entity but the transaction does not meet the definition of a business combination under IFRS 3, the purchase is treated as an asset acquisition. Where the acquisition is considered a business combination, the excess of the consideration transferred over the fair value of assets and liabilities acquired is held as goodwill, initially recognised at cost with subsequent impairment assessments completed at least annually. Where the initial calculation of goodwill arising is negative, this is recognised immediately in the income statement.

#### LIFT investments and associates

LIFT investments and associates are accounted for under the equity method, whereby the consolidated balance sheet incorporates the Group's share of the net assets of the entities. The income statement incorporates the Group's share of LIFT investment and associate profits after tax, although following the sale during the year, these results have been presented as discontinued operations.

Interests in LIFT investments and associates include long-term loans receivable, which are held at amortised cost less provision for any impairment.

### Property portfolio

Properties are externally valued on an open market basis as at the balance sheet date and are recorded at valuation.

Any surplus or deficit arising on revaluing investment properties and investment property under construction ("IPUC") is recognised in the income statement.

All costs associated with the purchase and construction of IPUC are capitalised including attributable interest. Interest is calculated on the expenditure by reference to specific borrowings where relevant and otherwise on the average rate applicable to short-term loans. When IPUC are completed, they are classified as investment properties.

In determining whether leases and related properties represent operating or finance leases, consideration is given to whether the tenant or landlord bears the risks and rewards of ownership.

Leasehold properties that are leased out to tenants under operating leases are classified as investment properties or development properties, as appropriate, and included in the balance sheet at fair value.

Where an investment property is held under a head lease it is initially recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

The market value of investment property as estimated by an external valuer is increased for the unamortised pharmacy lease premium held at the balance sheet date.

#### Net rental income

Rental income is recognised on an accruals basis and recognised on a straight line basis over the lease term. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Pharmacy lease premiums received from tenants are spread over the lease term, even if the receipts are not received on such a basis. The lease term is the non-cancellable period of the lease.

Property operating expenses are expensed as incurred and property operating expenditure not recovered from tenants through service charges is charged to the income statement.

#### Gains on sale of properties

Gains on sale of properties are recognised on the completion of contract, and are calculated by reference to the carrying value at the end of the previous reporting period, adjusted for subsequent capital expenditure.

## 2. Significant accounting policies continued

### Financial assets and liabilities

Trade receivables and payables are initially recognised at fair value and subsequently measured at amortised cost and discounted as appropriate.

Other investments are shown at amortised cost and held as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Debt instruments are stated at their net proceeds on issue. Finance charges including premiums payable on settlement or redemption and direct issue costs are spread over the period to redemption at a constant rate on the carrying amount of the liability.

### Financial instruments

Where the Group uses derivative financial instruments, in the form of interest rate swaps, to hedge its risks associated with interest rate fluctuations they are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value by reference to market values for similar instruments. The resulting gains or losses are recognised through the income statement.

Cash equivalents are limited to instruments with a maturity of less than three months.

### Tax

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are not taxable (or tax deductible).

Deferred tax is provided on items that may become taxable at a later date, on the difference between the balance sheet value and tax base value, on an undiscounted basis.

### Income statement definitions

Underlying profit represents adjusted earnings, with further Company adjustments to exclude items such as property revaluations, exceptional items and share-based payment charges. These adjustments have been made on the basis they are non-cash fair value adjustments, which are not reflective of the underlying performance of the business.

Capital and other represents all other statutory income statement items that are not considered underlying, including exceptional items.

### Employee costs

#### Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are charged to the income statement as incurred.

#### Share-based employee remuneration

Share-based employee remuneration is determined with reference to the fair value of the equity instruments at the date at which they are granted and charged to the income statement over the vesting period on a straight line basis. The fair value of share options is calculated using the Black Scholes option pricing model or the Monte Carlo Model and is dependent on factors including the exercise price, expected volatility, option life and risk-free interest rate. IFRS 2 Share-based Payment has been applied to share options granted.

## 3. Segmental information

The Group's operating segments are Core and Non-Core, which are both located in the UK.

The Core segment invests in, manages and develops primary care premises.

The Non-Core segment actively manages the assets to realise maximum value through both income and capital receipts from sales.

In addition, the Group previously had a third operating segment: the LIFT segment, which held investments in LIFT companies through investments in associated companies, along with loan notes. The business interests were sold during the year and consequently the results are presented as discontinued operations. See Note 30.

## 3. Segmental information continued

The following table presents revenue, profit and certain assets and liability information regarding the Group's business segments:

| Year ended 31 March 2014: | Core £m | Non-Core £m | Total £m |
|---|---|---|---|
| Gross rental income | **37.4** | **1.6** | **39.0** |
| Other related income | **0.9** | **–** | **0.9** |
| Property operating expenses | **(1.6)** | **(0.5)** | **(2.1)** |
| Net rental income | **36.7** | **1.1** | **37.8** |
| Administration costs | **(5.0)** | **–** | **(5.0)** |
| Underlying operating profit | **31.7** | **1.1** | **32.8** |
| Net finance cost | **(21.3)** | **(0.6)** | **(21.9)** |
| **Underlying profit** | **10.4** | **0.5** | **10.9** |
| Revaluation gains/(losses) | **14.1** | **(1.7)** | **12.4** |
| Gain on sale of property | **0.2** | **–** | **0.2** |
| Exceptional items | **(0.4)** | **–** | **(0.4)** |
| Share-based payment charge | **(0.7)** | **–** | **(0.7)** |
| Segment result | **23.6** | **(1.2)** | **22.4** |
| Revaluation of derivative financial instruments | | | **1.8** |
| Taxation | | | **(0.4)** |
| Profit for the period from discontinued operations | | | **11.2** |
| Profit for the year | | | **35.0** |

| Year ended 31 March 2013: | Core £m | Non-Core £m | Total £m |
|---|---|---|---|
| Gross rental income | 34.0 | 2.3 | 36.3 |
| Other related income | 0.8 | – | 0.8 |
| Property operating expenses | (2.7) | (0.7) | (3.4) |
| Net rental income | 32.1 | 1.6 | 33.7 |
| Administration costs | (4.9) | – | (4.9) |
| Underlying operating profit | 27.2 | 1.6 | 28.8 |
| Net finance cost | (19.1) | (0.9) | (20.0) |
| **Underlying profit** | 8.1 | 0.7 | 8.8 |
| Revaluation gains | 5.4 | 0.6 | 6.0 |
| Loss on sale of property | – | (0.1) | (0.1) |
| Share-based payment charge | (0.6) | – | (0.6) |
| Segment result | 12.9 | 1.2 | 14.1 |
| Revaluation of derivative financial instruments | | | (1.2) |
| Taxation | | | (0.2) |
| Profit for the period from discontinued operations | | | 1.4 |
| Profit for the year | | | 14.1 |

### 3. Segmental information continued

Assets and liabilities at 31 March 2014

| | Core £m | Non-Core £m | Total £m |
|---|---|---|---|
| Property assets | **649.8** | **18.5** | **668.3** |
| Current assets | **44.1** | **0.1** | **44.2** |
| LIFT investments and associates | **–** | **0.5** | **0.5** |
| Segment assets | **693.9** | **19.1** | **713.0** |
| Deferred tax asset | | | **0.7** |
| Total assets | | | **713.7** |
| Segment liabilities | | | |
| Current liabilities | **(30.5)** | **(0.2)** | **(30.7)** |
| Derivative financial instruments | | | **(1.8)** |
| Non-current liabilities | | | **(454.6)** |
| Total liabilities | | | **(487.1)** |

Assets and liabilities at 31 March 2013

| | Core £m | Non-Core £m | LIFT £m | Total £m |
|---|---|---|---|---|
| Property assets | 546.7 | 22.6 | – | 569.3 |
| Current assets | 45.1 | 0.3 | – | 45.4 |
| LIFT investments and associates | – | – | 11.2 | 11.2 |
| Segment assets | 591.8 | 22.9 | 11.2 | 625.9 |
| Deferred tax asset | | | | 1.1 |
| Total assets | | | | 627.0 |
| Segment liabilities | | | | |
| Current liabilities | (26.3) | (0.2) | – | (26.5) |
| Derivative financial instruments | | | | (3.6) |
| Non-current liabilities | | | | (398.8) |
| Total liabilities | | | | (428.9) |

## 4. Revenue

| | 2014 £m | 2013 £m |
|---|---|---|
| Rental revenue – core | **37.4** | 34.0 |
| Rental revenue – non-core | **1.6** | 2.3 |
| Other related income | **0.9** | 0.8 |
| Gross rental and related income | **39.9** | 37.1 |
| | | |
| LIFT interest (through discontinued operations) | **0.6** | 1.0 |
| Bank and other interest | **0.3** | 0.5 |
| | **0.9** | 1.5 |
| | | |
| Total revenue | **40.8** | 38.6 |

## 5. Property operating expenses

| | 2014 £m | 2013 £m |
|---|---|---|
| Property expenses arising | | |
| – from core portfolio | **1.6** | 2.7 |
| – from non-core portfolio | **0.5** | 0.7 |
| | **2.1** | 3.4 |

## 6. Administrative expenses

| | | 2014 £m | 2013 £m |
|---|---|---|---|
| Wages and salaries | | **1.6** | 1.5 |
| Social security costs | | **0.3** | 0.3 |
| | | **1.9** | 1.8 |
| Auditor’s remuneration | Note 6(a) | **0.3** | 0.4 |
| Directors’ fees | p 65 & 67 | **1.2** | 0.9 |
| Other administrative expenses | | **1.6** | 1.7 |
| Depreciation | | **–** | 0.1 |
| | | **5.0** | 4.9 |

### a) Auditor’s remuneration

| | 2014 £m | 2013 £m |
|---|---|---|
| Group audit including interim | **–** | 0.1 |
| Statutory audit | **0.1** | 0.1 |
| Total audit fees | **0.1** | 0.2 |
| Corporate finance services | **0.1** | – |
| Tax services – advisory | **0.1** | 0.2 |
| | **0.3** | 0.4 |

The Group’s policy on non-audit fees is discussed in detail in the Report of the Audit Committee on page 51.

## 6. Administrative expenses continued

The average monthly number of employees during the year was made up as follows:

| | 2014 Number | 2013 Number |
|---|---|---|
| Property | **30** | 28 |
| | **30** | 28 |

Key management are the Executive Directors and other key management personnel.

| | 2014 £m | 2013 £m |
|---|---|---|
| **Key management staff** | | |
| Salaries, pension, holiday pay, payments in lieu of notice and bonus | **1.6** | 1.4 |
| Cost of employee share-based incentives | **0.7** | 0.6 |
| Social security costs | **0.3** | 0.2 |
| | **2.6** | 2.2 |

## 7. Finance revenue

| | 2014 £m | 2013 £m |
|---|---|---|
| Bank and other interest | **0.3** | 0.5 |
| | **0.3** | 0.5 |

## 8. Finance costs

| | 2014 £m | 2013 £m |
|---|---|---|
| Interest payable | **22.4** | 20.4 |
| Interest capitalised on developments | **(0.6)** | (0.4) |
| Amortisation of loan issue costs | **0.5** | 0.5 |
| Amortisation of Trinity loan fair value adjustment | **(0.1)** | – |
| | **22.2** | 20.5 |
| Change in fair value of interest rate swaps | **(1.8)** | 1.2 |
| | **20.4** | 21.7 |

Interest was capitalised on property developments at 5% (2013: 5%).

## 9. Exceptional items

| | 2014 £m | 2013 £m |
|---|---|---|
| Negative goodwill on acquisition of Trinity | **0.6** | – |
| Acquisition costs of Trinity | **(0.4)** | – |
| Corporate finance fees | **(1.1)** | – |
| Property provision | **0.5** | – |
| | **(0.4)** | – |

Acquisition costs and negative goodwill relate to the acquisition of the Trinity portfolio. For further details see Note 14.

£1.1 million of corporate finance fees were incurred in considering a takeover approach from MedicX Fund Limited during the year.

See Note 21 for further information in respect of the property provision.

## 10. Taxation

| Consolidated income tax | 2014 £m | 2013 £m |
|---|---|---|
| Current tax | | |
| Current income tax charge | **–** | – |
| | | |
| Deferred tax | | |
| Relating to origination and reversal of temporary differences | **0.4** | 0.2 |
| Income tax charge reported in consolidated income statement | **0.4** | 0.2 |

The differences from the standard rate of tax applied to the profit before tax may be analysed as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Profit from continuing operations before taxation | **24.2** | 12.9 |
| Profit from discontinued operations before taxation | **11.2** | 1.4 |
| Net profit before taxation | **35.4** | 14.3 |
| | | |
| UK income tax at rate of 23% (2013: 24%) | **8.1** | 3.4 |
| Effects of: | | |
| Non-taxable income (including REIT exempt income) | **(7.8)** | (0.9) |
| Expenses not deductible for tax purposes | **0.5** | – |
| Utilisation of losses brought forward | **–** | (1.3) |
| Movement in unrecognised deferred tax | **(0.4)** | (1.0) |
| | **0.4** | 0.2 |

The Group elected to be treated as a UK REIT with effect from 1 April 2013. The UK REIT rules exempt the profits of the Group's property rental business from corporation tax. Gains on properties are also exempt from tax, provided they are not held for trading or sold in the three years post completion of development. The Group will otherwise be subject to corporation tax at 21% (2014: 23%).

The Group tax charge relates to its non-property income. As the Group has sufficient brought forward tax losses, no tax is payable and so the charge represents the movement in deferred tax.

As a REIT, the Group is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain as a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activities and the balance of business. The Group remains compliant at 31 March 2014.

Further reductions in the main rate of corporation tax have been substantively enacted; the rate will reduce to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have been reflected in the calculation of deferred tax.

### 11. Earnings per Ordinary Share

| | Basic & diluted EPS per Ordinary Share 2014 £m | Adjusted EPS per Ordinary Share 2014 £m | Basic & diluted EPS per Ordinary Share (re-presented) 2013 £m | Adjusted EPS per Ordinary Share (re-presented) 2013 £m |
|---|---|---|---|---|
| Profit attributable to equity holders of the parent | **35.0** | **35.0** | 14.1 | 14.1 |
| Acquisition costs and negative goodwill | | **(0.2)** | | – |
| Revaluation of derivative financial instrument of: | | | | |
| Parent | | **(1.8)** | | 1.2 |
| Associates | | **–** | | 0.7 |
| Deferred tax | | **0.4** | | 0.2 |
| | | **33.4** | | 16.2 |
| Weighted average number of shares in issue – basic and diluted | **529,548,924** | **529,548,924** | 529,548,924 | 529,548,924 |
| Earnings per Ordinary Share from continuing operations | **4.5p** | **4.2p** | 2.4p | 2.8p |
| Earnings per Ordinary Share from discontinued operations | **2.1p** | **2.1p** | 0.3p | 0.3p |
| Earnings per Ordinary Share | **6.6p** | **6.3p** | 2.7p | 3.1p |

Underlying profit per share of 2.1 pence (2013: 1.7 pence) has been calculated as underlying profit for the year as presented on the income statement of £10.9 million (2013: £8.8 million) divided by the weighted average number of shares in issue of 529,548,924 (2013: 529,548,924).

Calculations completed in accordance with IAS 33 Earnings Per Share have shown that although share option schemes in place as at 31 March 2014 are potentially dilutive, the low magnitude of potential dilution results in there being no difference between basic and diluted earnings and NAV per Ordinary Share.

## 12. Net asset value per Ordinary Share

| | NAV per Ordinary Share 2014 £m | Adjusted (EPRA) NAV per Ordinary Share 2014 £m | NAV per Ordinary Share 2013 £m | Adjusted (EPRA) NAV per Ordinary Share 2013 £m |
|---|---|---|---|---|
| Net assets | **226.6** | **226.6** | 198.1 | 198.1 |
| Own shares held | | **1.9** | | 1.9 |
| Derivative financial instruments of: | | | | |
| Parent | | **1.8** | | 3.6 |
| Associates | | **–** | | 1.9 |
| Deferred tax | | **(0.7)** | | (1.1) |
| NAV in accordance with EPRA | | **229.6** | | 204.4 |
| Number of shares in issue | **529,548,924** | **529,548,924** | 529,548,924 | 529,548,924 |
| NAV | **42.8p** | **43.4p** | 37.4p | 38.6p |

| | Adjusted NAV per Ordinary Share 2014 £m | Adjusted NAV per Ordinary Share 2013 £m |
|---|---|---|
| EPRA NAV | **229.6** | 204.4 |
| Mark to market of derivative financial instruments | **(1.8)** | (5.5) |
| Mark to market of fixed rate debt | **(5.5)** | (48.2) |
| EPRA NNNAV | **222.3** | 150.7 |
| EPRA NNNAV per share | **42.0p** | 28.5p |

The EPRA measures set out above are in accordance with the guidance of the European Property Real Estate Association dated August 2011.

## 13. Investments

A table listing all the principal subsidiaries of Assura Group Limited is below:

| Name of subsidiary | Place of incorporation | Shareholding | Business activity |
|---|---|---|---|
| Assura Properties Plc | England | 100% | Property investment |
| Assura Properties UK Limited | England | 100% | Property investment |
| Assura Medical Centres Limited | England | 100% | Property investment |
| Assura Health Investments Limited | England | 100% | Property investment |
| Medical Properties Limited | England | 100% | Property investment |
| Trinity Medical Properties Limited | England | 100% | Property investment |

The Group also holds the following investments:

GB Partnerships Investments Limited; 15% equity holding (book value £0.5 million, 2013: £0.5 million).

Virgin Healthcare Holdings Limited; made up of a 6% equity holding (book value £nil) and a £4 million loan note receivable (book value £nil, 2013: £nil).

## 14. Business combinations

On 10 September 2013, the Group acquired 100% of the Ordinary Share capital of Trinity Medical Developments Limited and its wholly owned subsidiary Trinity Medical Properties Limited ("Trinity"). The companies are involved in property investment and development and the acquisition has enlarged the existing investment portfolio of the Group. The consideration of £6.9 million was wholly satisfied by cash as shown below.

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

| | Fair value £m |
|---|---|
| Investment properties | 62.9 |
| Cash, cash equivalents and restricted cash | 0.3 |
| Trade and other receivables | 1.1 |
| Trade and other payables | (1.7) |
| Deferred revenue | (1.4) |
| Long-term loans | (53.7) |
| **Total identifiable net assets** | 7.5 |
| Cash consideration paid | (6.9) |
| **Negative goodwill arising** | 0.6 |

| | |
|---|---|
| Analysis of cash flows on acquisition: | |
| Cash paid as consideration (included within cash flows from investing activities) | (6.9) |
| Cash acquired (included within cash flows from investing activities) | 0.3 |
| Transaction costs (included within cash flows from operating activities) | (0.4) |
| **Net cash flow on acquisition** | (7.0) |

The gross value and fair value of the trade receivables acquired was £0.9 million. The full contractual amount has been collected and therefore no provision for doubtful debt has been recorded.

The principal amount of the debt assumed with the acquisition of Trinity was £52.0 million. The debt has been recorded on the balance sheet at £53.7 million, which represents the fair value as determined by the Group. This fair value adjustment will be amortised over the remaining term of the debt.

Total transaction costs of £0.4 million have been expensed and are included within exceptional items.

Negative goodwill of £0.6 million arising from the transaction has been taken to the consolidated income statement and is shown within exceptional items. Negative goodwill has arisen as a result of movements in the fair value of the assets and liabilities between negotiation of the transaction and the completion date.

From the date of acquisition to 31 March 2014, Trinity has contributed £2.3 million to consolidated gross rental and related income and £0.8 million to consolidated profit for the period. If the acquisition had occurred at the start of the financial period, the consolidated gross rental and related income would have been £41.6 million and the consolidated profit for the period would have been £35.3 million.

## 15. Property assets

**Investment property and investment property under construction (IPUC)**

Properties are stated at fair value, which has been determined for the Group by Savills Commercial Limited and Jones Lang LaSalle as at 31 March 2014. The properties have been valued individually and on the basis of open market value in accordance with RICS valuation – Professional Standards 2012 ("the Red Book").

Initial yields mainly range from 5.60% to 5.80% (2013: 5.70% to 6.00%) for prime units. For properties with weaker tenants and poorer units, the yields range between 6.50% and 18.30% (2013: 6.50% and 17.00%). The higher yields are in the non-core portfolio.

A 0.25% shift of valuation yield would have approximately a £27.7 million (2013: £21.2 million) impact on the investment property valuation.

| | Investment 2014 £m | IPUC 2014 £m | Total 2014 £m | Investment 2013 £m | IPUC 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| Opening fair value | **539.9** | **14.3** | **554.2** | 526.3 | 8.4 | 534.7 |
| Additions: | | | | | | |
| – Directly acquired | **0.6** | **–** | **0.6** | 2.8 | – | 2.8 |
| – Business combination | **62.9** | **–** | **62.9** | – | – | – |
| – Improvements | **1.9** | **–** | **1.9** | 0.8 | – | 0.8 |
| | **65.4** | **–** | **65.4** | 3.6 | – | 3.6 |
| Development costs | **–** | **23.7** | **23.7** | – | 18.6 | 18.6 |
| Transfers | **24.8** | **(24.8)** | **–** | 15.6 | (15.6) | – |
| Transfer from/(to) assets held for sale | **0.2** | **0.2** | **0.4** | – | (0.6) | (0.6) |
| Capitalised interest | **–** | **0.6** | **0.6** | – | 0.4 | 0.4 |
| Disposals | **(2.6)** | **(0.5)** | **(3.1)** | (8.1) | (0.4) | (8.5) |
| Unrealised surplus on revaluation | **11.1** | **1.3** | **12.4** | 2.5 | 3.5 | 6.0 |
| Closing market value | **638.8** | **14.8** | **653.6** | 539.9 | 14.3 | 554.2 |
| Add finance lease obligations recognised separately | **3.1** | **–** | **3.1** | 3.1 | – | 3.1 |
| Closing fair value of investment property | **641.9** | **14.8** | **656.7** | 543.0 | 14.3 | 557.3 |

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Core £m | Non-Core £m | Total £m | Core £m | Non-Core £m | Total £m |
| Market value of investment property as estimated by valuer | **626.8** | **4.8** | **631.6** | 523.6 | 9.3 | 532.9 |
| Add IPUC | **14.8** | **–** | **14.8** | 14.3 | – | 14.3 |
| Add pharmacy lease premiums | **7.2** | **–** | **7.2** | 7.0 | – | 7.0 |
| Add finance lease obligations recognised separately | **1.0** | **2.1** | **3.1** | 1.0 | 2.1 | 3.1 |
| Fair value for financial reporting purposes | **649.8** | **6.9** | **656.7** | 545.9 | 11.4 | 557.3 |
| Investment property held for sale | **–** | **2.0** | **2.0** | 0.8 | 1.3 | 2.1 |
| Vacant property held for sale | **–** | **0.1** | **0.1** | – | 0.2 | 0.2 |
| Land held for sale | **–** | **9.5** | **9.5** | – | 9.7 | 9.7 |
| Total property assets held for sale | **–** | **11.6** | **11.6** | 0.8 | 11.2 | 12.0 |
| Total property assets | **649.8** | **18.5** | **668.3** | 546.7 | 22.6 | 569.3 |

Two non-core property investments and 10 land sites are held as available for sale (2013: one core and three non-core property investments and 10 land sites).

## 15. Property assets continued

### Fair value hierarchy

The fair value measurement hierarchy for all investment property and investment property under construction as at 31 March 2014 was Level 3 – Significant unobservable inputs (2013: Level 3). There were no transfers between Levels 1, 2 or 3 during the year.

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

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

**Unobservable inputs:**
These include: Estimated Rental Value ("ERV") based on market conditions prevailing at the valuation date; estimated average increase in rent based on both market estimations and contractual situations; equivalent yield (defined as the internal rate of return of the cash flow from the property); and the physical condition of the property determined by inspections on a rotational basis.

## 16. Property, plant and equipment

The Group holds computer and other equipment assets with cost of £0.5 million (2013: £0.5 million), accumulated depreciation of £0.4 million (2013: £0.4 million) giving a net book value of £0.1 million (2013: £0.1 million).

Additions during the year were £nil (2013: £0.1 million) and depreciation charged to the income statement was £nil (2013: £0.1 million).

## 17. Cash, cash equivalents and restricted cash

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Cash held in current account | **27.6** | 15.6 |
| Restricted cash | **11.0** | 20.1 |
| | **38.6** | 35.7 |

Restricted cash arises where there are interest payment guarantees, cash is ring-fenced for committed property development expenditure, which is released to pay contractors invoices directly, or under the terms of security arrangements under the Group's banking facilities or its bond.

## 18. Trade and other receivables

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Trade receivables | **3.4** | 2.3 |
| Prepayments and accrued income | **1.4** | 1.1 |
| Loan note | **–** | 3.0 |
| Other debtors | **0.7** | 0.2 |
| | **5.5** | 6.6 |
| Loan note due after more than one year | **–** | 3.0 |
| | **5.5** | 9.6 |

Trade and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The Group's principal customers are invoiced and pay quarterly in advance, usually on the English quarter days. Other debtors are generally on 30-60 days' terms. No bad debt provision was required (2013: £nil).

The loan note receivable related to the sale of the Pharmacy business in 2011. The loan was settled in full during the year.

## 18. Trade and other receivables continued

As at 31 March 2014 and 31 March 2013, the analysis of trade debtors that were past due but not impaired is as follows:

| | Total £m | Neither past due nor impaired £m | Past due but not impaired >30 days £m | >60 days £m | >90 days | >120 days £m |
|---|---|---|---|---|---|---|
| **2014** | **3.4** | **2.8** | **0.1** | **–** | **0.1** | **0.4** |
| 2013 | 2.3 | 1.9 | 0.2 | 0.1 | – | 0.1 |

The bulk of the Group's income derives from the NHS or is reimbursed by the NHS, hence the risk of default is minimal.

The amount due over 120 days relates to one property for which there is currently a legal dispute to clarify the terms of the lease.

## 19. Trade and other payables

| | 2014 £m | 2013 £m |
|---|---|---|
| Trade creditors | **1.6** | 2.4 |
| Other creditors and accruals | **11.7** | 11.1 |
| VAT creditor | **1.4** | 0.8 |
| Payments due under finance leases | **0.1** | – |
| | **14.8** | 14.3 |

Finance lease arrangements are in respect of investment property held by the Group on leasehold property. The amounts due after more than one year, which total £3.0 million (2013: £3.1 million), have been disclosed in non-current liabilities on the consolidated balance sheet. The maturity of trade and other payables and the minimum payments due under finance leases are disclosed in Note 29.

The fair value of the Group's lease obligations is approximately equal to their carrying value.

## 20. Deferred revenue

| | 2014 £m | 2013 £m |
|---|---|---|
| Arising from rental received in advance | **9.5** | 7.8 |
| Arising from pharmacy lease premiums received in advance | **7.2** | 7.0 |
| | **16.7** | 14.8 |
| Current | **9.9** | 8.2 |
| Non-current | **6.8** | 6.6 |
| | **16.7** | 14.8 |

## 21. Provisions

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 April | **1.0** | 1.0 |
| Released | **(0.5)** | – |
| At 31 March | **0.5** | 1.0 |
| Analysed as: | | |
| Current | **0.1** | 0.1 |
| Non-current | **0.4** | 0.9 |
| | **0.5** | 1.0 |

Provisions relate to the onerous property lease on the former Pall Mall office and represent management's best estimate of the Group's liability. A proportion of the provision was released during the year following a subtenant not exercising a break clause.

## 22. Borrowings

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 April | **392.1** | 375.6 |
| Amount issued or drawn down in year | **9.2** | 23.2 |
| Amount repaid in year | **(5.1)** | (7.0) |
| Acquired with acquisition of subsidiaries | **53.7** | – |
| Amortisation of Trinity loan fair value adjustment | **(0.1)** | – |
| Loan issue costs | **–** | (0.2) |
| Amortisation of loan issue costs | **0.5** | 0.5 |
| At 31 March | **450.3** | 392.1 |
| | | |
| Due within one year | **5.9** | 3.9 |
| Due after more than one year | **444.4** | 388.2 |
| At 31 March | **450.3** | 392.1 |

The Group has the following bank facilities:

1. 10-year senior secured bond for £110 million at a fixed interest rate of 4.75% maturing in December 2021. The secured bond carries a loan to value covenant of 75% (70% at the point of substitution of an investment property or cash) and an interest cover requirement of 1.15 times (1.5 times at the point of substitution).
2. Loans from Aviva with an aggregate balance of £284.5 million at 31 March 2014 (2013: £230.5 million). The Aviva loans are partially amortised by way of quarterly instalments and partially repaid by way of bullet repayments falling due between 2021 and 2041 with a weighted average term of 14 years to maturity; £5.3 million is due within a year. These loans are secured by way of charges over specific medical centre investment properties with cross-collateralisation between the loans and security. The loans are subject to fixed all-in interest rates ranging between 4.11% and 6.66%, and a weighted average of 5.65% and do not have loan to value covenants. Debt service cover required typically ranges between 1.00 times and 1.05 times.

   The principal amount of the debt assumed with the acquisition of Trinity was £52.0 million. The debt has been recorded on the balance sheet at £53.7 million, which represents the fair value as determined by the Group. This fair value adjustment will be amortised over the remaining term of the debt.
3. Loans from Santander with an aggregate balance of £57.4 million at 31 March 2014 (2013: £55.2 million); £0.6 million is due within a year. This comprises a £57.4 million investment facility available until November 2016 that carries interest at 1.95% above LIBOR and a £2.6 million development facility available until November 2014 that carries interest at 2.75% above LIBOR. On practical completion of the development property, the development facility is converted and added to the investment facility. A £50.0 million interest rate swap at a rate of 2.575% has been taken out to hedge the interest on the existing investment facility. The loan must not exceed 75% of the value of the security, interest cover must be above 1.7 times and debt service cover must be above 1.05 times.

The Group has been in compliance with all financial covenants on all of the above loans as applicable throughout the year.

## 23. Derivative financial instrument at fair value through profit or loss

| | Interest rate swaps (Santander) £m |
|---|---|
| Liability at 1 April 2013 | 3.6 |
| Movement in year | (1.8) |
| Liability at 31 March 2014 | 1.8 |

The table above includes the net position of derivative financial instruments at the balance sheet date. These are presented under the following captions on the consolidated balance sheet:

| | 2014 £m | 2013 £m |
|---|---|---|
| Non-current liabilities | **1.8** | 3.6 |
| | **1.8** | 3.6 |

**Fair value hierarchy**
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 March 2014 and 31 March 2013 and throughout the two-year period the financial liabilities measured have been determined and valued as Level 2.

During the reporting years ending 31 March 2014 and 31 March 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

## 24. Share capital

| | 2014 | 2014 £m | 2013 | 2013 £m |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary Shares of 10p each | **3,000,000,000** | **300.0** | 3,000,000,000 | 300.0 |
| Preference Shares of 10p each | **20,000,000** | **2.0** | 20,000,000 | 2.0 |
| | | **302.0** | | 302.0 |

| | Number of shares 2014 | Share capital 2014 £m | Number of shares 2013 | Share capital 2013 £m |
|---|---|---|---|---|
| **Ordinary Shares issued and fully paid** | | | | |
| **At 1 April and 31 March** | **529,548,924** | **53.0** | 529,548,924 | 53.0 |
| Own shares held | **(4,064,885)** | **(1.9)** | (4,218,219) | (1.9) |
| Total share capital | **525,484,039** | **51.1** | 525,330,705 | 51.1 |

Own shares held comprise shares held by the Employee Benefit Trust.

## 25. Dividends paid on Ordinary Shares

| Payment date | Pence per share | Number of Ordinary Shares | 2014 £m | 2013 £m |
|---|---|---|---|---|
| 22/01/2014 | 0.45 | 529,548,924 | **2.4** | – |
| 23/10/2013 | 0.3025 | 529,548,924 | **1.6** | – |
| 24/07/2013 | 0.3025 | 529,548,924 | **1.6** | – |
| 24/04/2013 | 0.3025 | 529,548,924 | **1.6** | – |
| 23/01/2013 | 0.285 | 529,548,924 | **–** | 1.5 |
| 24/10/2012 | 0.285 | 529,548,924 | **–** | 1.5 |
| 25/07/2012 | 0.285 | 529,548,924 | **–** | 1.5 |
| | | | **7.2** | 4.5 |

A dividend of 0.45 pence per share was paid to shareholders on 23 April 2014.

A quarterly dividend for 2014/15 of 0.45 pence per share is expected to be paid on 23 July 2014 to shareholders on the share register at 11 July 2014.

The dividends paid do not include any Property Income Distributions ("PID") as defined under the REIT regime.

## 26. Share-based payments

As at 31 March 2014, the Group had three long-term incentive schemes in place – the Value Creation Plan ("VCP"), the Executive Recruitment Plan ("ERP") and the Long Term Incentive Plan ("LTIP").

The long-term incentive arrangements are structured so as to align the incentives of relevant Executives with the long-term performance of the business and to motivate and retain key members of staff. To the extent practicable long-term incentives are provided through the use of share-based (or share-fulfilled) remuneration to provide alignment of objectives with the Group's shareholders. Long-term incentive awards are granted by the Remuneration Committee which reviews award levels on a case by case basis.

As at 31 March 2014 the Employee Benefit Trust held a total of 4,064,885 (2013: 4,218,219) Ordinary Shares of 10 pence each in Assura Group Limited. Previous long-term incentive plans have lapsed without vesting.

**Value Creation Plan**

As at 31 March 2014, a total of 822,080 performance units (2013: 791,700) had been granted to employees (including 575,000 units granted to Executive Directors as detailed in the Remuneration Committee Report). No payment has been made for the grant of these awards and the performance units have no value at grant.

Participants have the opportunity to receive 10% of the total value created for shareholders above a threshold price determined at three measurement dates in a five-year measurement period. Before any awards vest, which are granted as nil-cost options on conversion of any value created, a minimum level of Total Shareholder Return of 8% per annum compound growth from the base price at each measurement date must be achieved.

Further details in respect of the VCP are provided in the Remuneration Committee Report on page 58.

**Executive Recruitment Plan**

During the prior year, a nil-cost contingent award of 460,002 Ordinary Shares was made under the ERP. The scheme is in respect of one Executive Director and full details are provided in the Remuneration Committee Report on page 58.

**Long Term Incentive Plan**

The units (equivalent to one Ordinary Share) outstanding in respect of the LTIP are as follows:

| | 2014 Units | 2013 Units |
|---|---|---|
| Outstanding as at the start of the year | **400,000** | 725,000 |
| Expired during the year | **(400,000)** | (325,000) |
| Outstanding as at the end of the year | **–** | 400,000 |
| Units exercisable at the end of the year | **–** | – |

No Executive Directors hold shares under the scheme and key management personnel had no units at 31 March 2014 (2013: 400,000 units). These relate to grants on 29 July 2011 which had a performance period that ended on 31 March 2014.

## 26. Share-based payments continued

### All schemes

The fair value of equity settled units granted during 2013 is estimated as at the date of grant using the Monte Carlo Model, taking into account the terms and conditions upon which units were granted. The following table lists the inputs to the models used for the year ended 31 March 2013, being the last point at which a valuation was required under IFRS 2.

| | 2013 |
|---|---|
| Dividend yield (%) | 3.5 |
| Expected share price volatility (%) | 20.7 |
| Risk-free interest rate (%) | 0.74 |
| Expected life of units (years) | 4.5 |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The fair value of the units granted in 2013 was £2,475,000 based on the market price at the date the units were granted. This cost is allocated over the vesting period. The cost allocation for all outstanding units in the period was a charge of £655,500 (2013: charge of £575,000).

For share options outstanding as at 31 March 2014, the weighted average remaining contractual life is 1.83 years (2013: 1.98 years). The weighted average fair value of share options granted during 2014 was n/a (2013: £0.34).

## 27. Note to the consolidated cash flow statement

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| **Reconciliation of net profit before taxation to net cash inflow from operating activities:** | | |
| Net profit before taxation | | |
| Profit from continuing activities | **24.2** | 12.9 |
| Profit from discontinued activities | **11.2** | 1.4 |
| | **35.4** | 14.3 |
| Adjustment for non-cash items: | | |
| Depreciation | **–** | 0.1 |
| (Increase)/decrease in debtors | **(1.1)** | 0.1 |
| (Decrease)/increase in creditors | **(0.7)** | 2.8 |
| Decrease in provisions | **(0.5)** | – |
| Revaluation gain | **(12.4)** | (6.0) |
| Interest capitalised on developments | **(0.6)** | (0.4) |
| (Gain)/loss on revaluation of financial instrument | **(1.8)** | 1.2 |
| (Gain)/loss on disposal of properties | **(0.2)** | 0.1 |
| Amortisation of Trinity loan fair value adjustment | **(0.1)** | – |
| Profit on disposal of LIFT business | **(10.5)** | – |
| Negative goodwill on acquisition of Trinity | **(0.6)** | – |
| Share of profits of associates and joint ventures | **(0.2)** | (0.4) |
| Employee share-based incentive costs | **0.7** | 0.6 |
| Amortisation of loan issue costs | **0.5** | 0.5 |
| **Net cash inflow from operating activities** | **7.9** | 12.9 |

## 28. Deferred tax

Deferred tax consists of the following:

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 April | **1.1** | 1.3 |
| Income statement movement | **(0.4)** | (0.2) |
| At 31 March | **0.7** | 1.1 |

The amount of deductible temporary differences and unused tax losses are as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Tax losses | **207.0** | 227.4 |
| Other timing differences | **7.5** | 71.1 |
| | **214.5** | 298.5 |

The majority of tax losses carried forward relate to capital losses generated on the disposal of former divisions of the Group.

The following deferred tax assets have not been recognised due to uncertainties around future recoverability:

The tax effect of these unrecognised assets is as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Tax losses | **41.4** | 52.3 |
| Other temporary differences | **1.5** | 16.4 |
| | **42.9** | 68.7 |

## 29. Derivatives and other financial instruments

The Group holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations.

The main risks arising from the Group's financial instruments and properties are credit risk, liquidity risk, interest rate risk and capital risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below.

**Credit risk**

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group.

In the event of a default by an occupational tenant, the Group will suffer a rental income shortfall and may incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property. Given the nature of the Company's tenants and enhanced rights of landlords who can issue proceedings and enforcement by bailiffs, defaults are rare and potential defaults are managed carefully by the credit control department. The maximum credit exposure in aggregate is one quarter's rent of circa £11 million; however, this amount derives from all the tenants in the portfolio and such a scenario is hypothetical. The Group's credit risk is well spread across circa 470 tenants at any one time. Furthermore the bulk of the Group's property income derives from the NHS or is reimbursed by the NHS, which has an obligation to ensure that patients can be seen and treated and steps in when GPs are unable to practise, hence the risk of default is minimal.

The maximum credit risk exposure relating to financial assets is represented by their carrying values as at the balance sheet date.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. Investments in property are relatively illiquid; however, the Group has tried to mitigate this risk by investing in modern purpose built medical centres which are let to GPs and NHS PropCo. In order to progress its property investment and development programme, the Group needs access to bank and equity finance, both of which may be difficult to raise notwithstanding the quality, long lease length, NHS backing and geographical and lot size diversity of its property portfolio.

The Group manages its liquidity risk by ensuring that it has a spread of sources and maturities.

The Group has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have remaining terms of up to 27 years and have a weighted average lease length of 14.4 years. All leases are subject to revision of rents according to various rent review clauses. Future minimum rentals receivable under non-cancellable operating leases along with trade and other receivable as at 31 March are as follows:

| Receivables as at 31 March 2014 | On demand £m | Less than 3 months £m | 3 to 12 months £m | 1 to 5 years £m | >5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Non-cancellable leases | **–** | **10.6** | **32.0** | **170.4** | **449.9** | **662.9** |
| Trade and other receivables | **–** | **5.5** | **–** | **–** | **–** | **5.5** |
| | **–** | **16.1** | **32.0** | **170.4** | **449.9** | **668.4** |

| Receivables as at 31 March 2013 | On demand £m | Less than 3 months £m | 3 to 12 months £m | 1 to 5 years £m | >5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Non-cancellable leases | – | 8.9 | 26.9 | 149.1 | 426.9 | 611.8 |
| Trade and other receivables | – | 6.6 | – | 3.0 | – | 9.6 |
| | – | 15.5 | 26.9 | 152.1 | 426.9 | 621.4 |

## 29. Derivatives and other financial instruments continued

The table below summarises the maturity profile of the Group's financial liabilities, including interest, at 31 March 2014 and 31 March 2013 based on contractual undiscounted payments at the earliest date which the Group can be required to pay.

The total contracted discounted payments are higher than the total minimum rentals receivable due to the rent receivable not including any residual values on properties at the end of the lease contract.

| Payables as at 31 March 2014 | On demand £m | Less than 3 months £m | 3 to 12 months £m | 1 to 5 years £m | >5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | | | |
| Interest bearing loans and borrowings | **–** | **8.2** | **19.9** | **163.5** | **529.4** | **721.0** |
| Trade and other payables | **–** | **11.7** | **3.1** | **0.1** | **3.0** | **17.9** |
| | **–** | **19.9** | **23.0** | **163.6** | **532.4** | **738.9** |
| Derivative financial liabilities: | | | | | | |
| Interest rate swap | **–** | **0.3** | **0.8** | **3.5** | **–** | **4.6** |
| | **–** | **0.3** | **0.8** | **3.5** | **–** | **4.6** |
| Total financial liabilities | **–** | **20.2** | **23.8** | **167.1** | **532.4** | **743.5** |

| Payables as at 31 March 2013 | On demand £m | Less than 3 months £m | 3 to 12 months £m | 1 to 5 years £m | >5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | | | |
| Interest bearing loans and borrowings | – | 5.0 | 9.9 | 121.0 | 531.4 | 667.3 |
| Trade and other payables | – | 11.3 | 3.0 | 0.1 | 3.0 | 17.4 |
| | – | 16.3 | 12.9 | 121.1 | 534.4 | 684.7 |
| Derivative financial liabilities: | | | | | | |
| Interest rate swap | – | 0.2 | 0.7 | 6.0 | – | 6.9 |
| | – | 0.2 | 0.7 | 6.0 | – | 6.9 |
| Total financial liabilities | – | 16.5 | 13.6 | 127.1 | 534.4 | 691.6 |

### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash deposits and, as debt is utilised, long-term debt obligations. The Group's policy is to manage its interest cost using fixed rate debt or by interest rate swaps (see below). The swaps are revalued to their market value by reference to market interest rates at each balance sheet date.

### 29. Derivatives and other financial instruments continued

The ageing analysis of the financial assets and liabilities excluding trade receivables and payables of the Group at 31 March 2014 was as follows:

| | Within 1 year £m | 1 to 5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|
| **Floating rate asset/(liability)** | | | | |
| Cash | **38.6** | **–** | **–** | **38.6** |
| Santander – investment facility | **(0.6)** | **(56.8)** | **–** | **(57.4)** |
| Interest rate swap | **–** | **(1.8)** | **–** | **(1.8)** |
| **Fixed rate (all liabilities)** | | | | |
| Long-term loans: | | | | |
| Bond | **–** | **–** | **(110.0)** | **(110.0)** |
| Aviva | **(5.3)** | **(32.6)** | **(246.6)** | **(284.5)** |
| Payments due under finance leases | **(0.1)** | **(0.1)** | **(2.9)** | **(3.1)** |

In November 2011 the Group issued a £110.0 million 10-year senior secured bond at 4.75%.

Aviva loans were increased during the period to £284.5 million (2013: £230.5 million). The Aviva loans are partially amortised by way of quarterly instalments and partially repaid by way of bullet repayments falling due between 2021 and 2041. £5.3 million is due within a year. These loans are secured by way of charges over specific medical centre investment properties with cross-collateralisation between the loans and security. The loans are subject to fixed all-in interest rates ranging between 4.11% and 6.66%.

In November 2011 the Group entered into an interest rate swap with Santander for a principal of £50.0 million at 2.575% plus 1.95% margin for five years. This replaced the previous swap held with Santander.

The ageing analysis of the financial assets and liabilities excluding trade receivables and payables of the Group at 31 March 2013 was as follows:

| | Within 1 year £m | 1 to 5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|
| **Floating rate asset/(liability)** | | | | |
| Cash | 35.7 | – | – | 35.7 |
| Santander – investment facility | – | (50.0) | – | (50.0) |
| Santander – development facility | – | (5.2) | – | (5.2) |
| Interest rate swap | – | (3.6) | – | (3.6) |
| **Fixed rate (all liabilities)** | | | | |
| Long-term loans: | | | | |
| Bond | – | – | (110.0) | (110.0) |
| Aviva | (3.9) | (20.5) | (206.1) | (230.5) |
| Payments due under finance leases | – | (0.1) | (3.0) | (3.1) |

## 29. Derivatives and other financial instruments continued

**Sensitivity analysis**

The Group has largely eliminated its exposure to interest rate movements affecting income by the use of fixed rate debt and interest rate swaps. The Group is 98% fixed such that a 0.25% movement in interest rate has a negligible impact on underlying profits.

| | Book value | | Fair value | |
|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Cash | **38.6** | 35.7 | **38.6** | 35.7 |
| Interest rate swap | **(1.8)** | (3.6) | **(1.8)** | (3.6) |
| Long-term loan | **(450.3)** | (392.1) | **(455.8)** | (440.3) |
| Payments due under finance leases | **(3.1)** | (3.1) | **(3.1)** | (3.1) |

The Group is exposed to the valuation impact on investor sentiment of long-term interest rate expectations, which can impact transactions in the market and increase or decrease valuations accordingly.

**Capital risk**

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may make disposals, adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital structure with reference to loan to value (LTV), which is calculated as net debt divided by total property and LIFT value. The LTV percentage on this basis is 62% at 31 March 2014 (62% at 31 March 2013).

| | 2014 £m | 2013 £m |
|---|---|---|
| Investment property | **641.9** | 543.0 |
| Investment property under construction | **14.8** | 14.3 |
| Held for sale – investment property | **2.1** | 2.3 |
| Held for sale – land | **9.5** | 9.7 |
| LIFT and investments | **0.5** | 11.2 |
| **Total property and LIFT** | **668.8** | 580.5 |

| | 2014 £m | 2013 £m |
|---|---|---|
| Loans | **450.3** | 392.1 |
| Finance lease | **3.1** | 3.1 |
| Cash | **(38.6)** | (35.7) |
| **Net debt** | **414.8** | 359.5 |
| **LTV** | **62%** | 62% |

## 30. Discontinued operations

During the year, the Board announced plans to sell the investments held in LIFT companies, as it was concluded that shareholder value would be best realised through any proceeds being re-invested in primary care property assets. Contracts were exchanged on 24 November 2013, with the sale completed in two tranches: the first on 23 January 2014 and the second on 13 February 2014.

The following table shows the calculation of gain on disposal, relative to the net assets at the effective date of the transaction (30 September 2013, being the date at which the purchasers were entitled to interest and equity returns):

| | £m |
|---|---|
| Gross consideration | 22.4 |
| Costs | (0.7) |
| Net proceeds | 21.7 |
| LIFT investments at 30 September 2013 | (10.9) |
| Additional investment | (0.3) |
| Gain on disposal of discontinued operations | 10.5 |

Prior to the sale, the Group increased its investment in one LIFT company for consideration of £0.3 million.

The results of the LIFT segment for the period are presented below:

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Share of profits of associates and joint ventures | **0.1** | 0.4 |
| Finance revenue | **0.6** | 1.0 |
| Profit before tax | **0.7** | 1.4 |
| Gain on disposal of discontinued operations | **10.5** | – |
| Profit for the period from discontinued operations | **11.2** | 1.4 |

The net cash flows attributable to the LIFT segment were as follows:

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Operating activities | **0.6** | 1.0 |
| Investing activities | **21.4** | (0.3) |
| Net cash inflow | **22.0** | 0.7 |

## 31. Commitments

At the year end the Group had five (2013: nine) developments on-site with a contracted total expenditure of £21.5 million (2013: £33.1 million) of which £12.5 million (2013: £13.9 million) had been expended.

## 32. Related party transactions

Details of transactions during the year and outstanding balances at 31 March 2014 in respect of associates and joint ventures are detailed in Notes 13 and 30 as applicable.

Details of payments to key management personnel are provided in Note 6.

## 33. Post balance sheet events

Subsequent to the year end, a subsidiary of the Group has entered into a five-year, £30 million revolving credit facility with RBS and Barclays.

# COMPANY INCOME STATEMENT

For the year ended 31 March 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Revenue** | | | |
| Dividends received from subsidiary companies | | **0.7** | 3.7 |
| Interest receivable from subsidiary companies | | **0.4** | – |
| Bank and other interest receivable | | **0.1** | 0.1 |
| **Total revenue** | | **1.2** | 3.8 |
| Administration costs | | **(0.9)** | (0.8) |
| Share-based payment charge | | **(0.7)** | (0.6) |
| Exceptional items | B | **(1.1)** | – |
| **Total operating expenses** | | **(2.7)** | (1.4) |
| **Operating (loss)/profit** | | **(1.5)** | 2.4 |
| Reversal of provision/(provision) for diminution in value of investments in subsidiaries | C | **19.5** | (16.2) |
| Reversal of provision against subsidiary loan balances | G | **–** | 27.9 |
| **Profit before taxation** | | **18.0** | 14.1 |
| Taxation | | **–** | – |
| **Profit attributable to equity holders** | | **18.0** | 14.1 |

All amounts relate to continuing activities. There were no items of other comprehensive income or expense and therefore the profit for the period also reflects the Company's total comprehensive income.

# COMPANY BALANCE SHEET

For the year ended 31 March 2014

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiary companies | C | **180.1** | 154.1 |
| Loans to subsidiary companies | D | **53.0** | 68.1 |
| | | **233.1** | 222.2 |
| **Current assets** | | | |
| Cash and cash equivalents | E | **0.6** | 3.4 |
| Other receivables | F | **0.1** | – |
| Amounts owed by subsidiary companies | G | **15.2** | 0.4 |
| | | **15.9** | 3.8 |
| **Total assets** | | **249.0** | 226.0 |
| **Current liabilities** | | | |
| Other payables | H | **0.8** | 1.0 |
| Amount owed to subsidiary companies | I | **38.6** | 26.9 |
| **Total liabilities** | | **39.4** | 27.9 |
| **Net assets** | | **209.6** | 198.1 |
| **Represented by:** | | | |
| **Capital and reserves** | | | |
| Share capital | 24 | **53.0** | 53.0 |
| Own shares held | | **(1.9)** | (1.9) |
| Share premium | | **77.1** | 77.1 |
| Reserves | | **81.4** | 69.9 |
| **Total equity** | | **209.6** | 198.1 |

The financial statements were approved at a meeting of the Board of Directors held on 22 May 2014 and signed on its behalf by:

Graham Roberts, Chief Executive     Jonathan Murphy, Finance Director

# COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

| | Share capital £m | Own shares held £m | Share premium £m | Reserves £m | Total equity £m |
|---|---|---|---|---|---|
| **1 April 2012** | 53.0 | (1.9) | 77.1 | 59.7 | 187.9 |
| Profit attributable to equity holders | – | – | – | 14.1 | 14.1 |
| **Total comprehensive income** | – | – | – | 14.1 | 14.1 |
| Dividends paid (Note 25 to the Group accounts) | – | – | – | (4.5) | (4.5) |
| Employee share-base incentives | – | – | – | 0.6 | 0.6 |
| **31 March 2013** | 53.0 | (1.9) | 77.1 | 69.9 | 198.1 |
| Profit attributable to equity holders | **–** | **–** | **–** | **18.0** | **18.0** |
| **Total comprehensive income** | **–** | **–** | **–** | **18.0** | **18.0** |
| Dividends paid (Note 25 to the Group accounts) | **–** | **–** | **–** | **(7.2)** | **(7.2)** |
| Employee share-base incentives | **–** | **–** | **–** | **0.7** | **0.7** |
| **31 March 2014** | **53.0** | **(1.9)** | **77.1** | **81.4** | **209.6** |

# COMPANY CASH FLOW STATEMENT

For the year ended 31 March 2014

| Operating activities | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| **Net cash (outflow)/inflow from operating activities** | J | **(1.1)** | 3.7 |
| **Investing activities** | | | |
| Increase in share capital of subsidiaries | | **(6.5)** | (83.0) |
| Net loans received from subsidiaries | | **12.0** | 85.0 |
| **Net cash inflow from investing activities** | | **5.5** | 2.0 |
| **Financing activities** | | | |
| Dividends paid | | **(7.2)** | (4.5) |
| **Net cash outflow from financing activities** | | **(7.2)** | (4.5) |
| **(Decrease)/increase in cash and cash equivalents** | | **(2.8)** | 1.2 |
| Cash and cash equivalents at 1 April | | **3.4** | 2.2 |
| **Cash and cash equivalents at 31 March** | E | **0.6** | 3.4 |

# NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 March 2014

## A. Accounting policies

The accounts of the Company are separate to those of the Group.

The accounting policies of the Company are consistent with those of the Group which can be found in Note 2.

## B. Exceptional items

| | 2014 £m | 2013 £m |
|---|---|---|
| Corporate finance fees | **(1.1)** | – |
| | **(1.1)** | – |

£1.1 million of corporate finance fees were incurred in considering a takeover approach from MedicX Fund Limited during the year.

## C. Investments in subsidiary companies

| | 2014 £m | 2013 £m |
|---|---|---|
| Cost | **297.0** | 290.5 |
| Provision for diminution in value | **(116.9)** | (136.4) |
| | **180.1** | 154.1 |

During the year to 31 March 2014, the Company has increased its investment in certain subsidiaries.

The investment carrying values are reviewed annually by reference to the net assets of the subsidiary companies and any required provision for impairment is provided for as a diminution in value. A reversal of provision of £19.5 million has been recognised in the year (2013: additional provision of £16.2 million).

Details of principal subsidiaries as at 31 March 2014 are shown in Note 13 to the Group accounts.

## D. Loans to subsidiary companies – non-current

| | 2014 £m | 2013 £m |
|---|---|---|
| Interest bearing | **–** | 15.0 |
| Non-interest bearing | **53.0** | 53.1 |
| Amounts owed by Group undertakings | **53.0** | 68.1 |

Interest bearing loans comprise unsecured subordinated loans with interest charged at 5%.

Non-interest bearing loans are unsecured subordinated loans.

## E. Cash and cash equivalents

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash held in current account | **0.6** | 3.4 |

## F. Other receivables

| | 2014 £m | 2013 £m |
|---|---|---|
| Prepayments and other debtors | **0.1** | – |

## G. Loans to subsidiary companies – current

| | 2014 £m | 2013 £m |
|---|---|---|
| Amounts owed by Group undertakings | **15.2** | 3.3 |
| Provisions | **–** | (2.9) |
| | **15.2** | 0.4 |

The above loans are unsecured, non-interest bearing and repayable upon demand.

The recoverable amount of loans receivable from subsidiaries is reviewed annually by reference to the subsidiary balance sheet and expected future activities, with a provision recorded to the extent the loan is not considered recoverable. In the year to 31 March 2014, the provision against subsidiary receivables has crystallised following the striking off of certain dormant subsidiaries (2013: reversal of provision of £27.9 million).

## H. Other payables

| | 2014 £m | 2013 £m |
|---|---|---|
| Trade creditors | **0.1** | 0.2 |
| Other creditors and accruals | **0.7** | 0.8 |
| | **0.8** | 1.0 |

## I. Loans from Group undertakings

| | 2014 £m | 2013 £m |
|---|---|---|
| Amounts owed to Group undertakings | **38.6** | 26.9 |

The above loans are unsecured, non-interest bearing and repayable upon demand.

## J. Note to the cash flow statement

| | 2014 £m | 2013 £m |
|---|---|---|
| Reconciliation of net profit before taxation to net cash inflow from operating activities: | | |
| Net profit before taxation | **18.0** | 14.1 |
| Adjustment for non-cash items: | | |
| (Increase)/decrease in receivables | **(0.1)** | 0.4 |
| (Decrease)/increase in payables | **(0.2)** | 0.3 |
| Release of provision for impairment of investments and loan from a subsidiary | **(19.5)** | (11.7) |
| Employee share-based incentives cost | **0.7** | 0.6 |
| Net cash (outflow)/inflow from operating activities | **(1.1)** | 3.7 |

## K. Related party transactions

| | Interest receivable £m | Dividends received £m | Amounts owed by £m | Amounts owed to £m |
|---|---|---|---|---|
| Group undertakings | | | | |
| 2014 | **0.4** | **0.7** | **68.2** | **38.6** |
| 2013 | – | 3.7 | 68.5 | 26.9 |

The above transactions are with subsidiaries.

## L. Risk management

### Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company.

Credit risks within the Company derive from non-payment of loan balances. However as the balances are receivable from subsidiary companies the risk of default is considered minimal.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

The Company balance sheet largely comprises illiquid assets in the form of investments in subsidiaries and loans to subsidiaries, which have been used to finance property investment and development activities. Accordingly the realisation of these assets may take time and may not achieve the values at which they are carried in the balance sheet.

The Company's other assets are cash of £0.6 million (2013: £3.4 million). Its trade and other payables amount to £0.8 million at 31 March 2014 (2013: £1.0 million) all of which are due within three months.

There are no differences between the book value of cash and trade payables, nor is there any meaningful interest rate sensitivity.

# GLOSSARY

**Adjusted Earnings per Ordinary Share from Continuing Operations** ("Adjusted EPS") is the profit attributable to equity holders of the parent adjusted for non-recurring items including goodwill impairment, revaluation losses on derivative financial instruments (including associates) and movements in deferred tax divided by the weighted average number of shares in issue during the period.

**Average Debt Maturity** is each tranche of Group debt multiplied by the remaining period to its maturity and the result divided by total Group debt in issue at the year end.

**Average Interest Rate** is the Group loan interest and derivative costs per annum at the year end, divided by total Group debt in issue at the year end.

**Building Research Establishment Environmental Assessment Method ("BREEAM")** assesses the sustainability of buildings against a range of criteria.

**Clinical Commissioning Groups ("CCGs")** is the groups of GPs and other healthcare professionals that took over commissioning of primary and secondary healthcare from PCTs in England with effect 1 April 2013.

**Company** is Assura Group Limited.

**Debt Service Cover** is the number of times net interest payable plus debt amortisation is covered by underlying profit before net interest.

**Direct Property Costs** comprise ground rents payable under head leases, void costs, other direct irrecoverable property expenses, rent review fees and valuation fees.

**District Valuer ("DV")** is the District Valuer Service being the commercial arm of the Valuation Office Agency ("VOA"). It provides professional property advice across the public sector and in respect of Primary Healthcare represents NHS bodies on matters of valuation, rent reviews and initial rents on new developments.

**Dividend Cover** is the number of times the dividend payable (on an annual basis) is covered by underlying profit.

**Earnings per Ordinary Share from Continuing Operations ("EPS")** is the profit attributable to equity holders of the parent divided by the weighted average number of shares in issue during the period.

**European Public Real Estate Association ("EPRA")** is the industry body for European REITs.

**EPRA net assets ("EPRA NAV")** are the balance sheet net assets excluding own shares held, mark-to-market derivative financial instruments (including associates) and deferred taxation.

**EPRA NNNAV** is the EPRA NAV adjusted to reflect the fair value of debt and derivatives.

**Equivalent Yield (true and nominal)** is a weighted average of the Net Initial Yield and Reversionary Yield and represents the return a property will produce based upon the timing of the income received. The true equivalent yield assumes rents are received quarterly in advance. The nominal equivalent assumes rents are received annually in arrears.

**Estimated Rental Value ("ERV")** is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

**Gross Rental Income** is the gross accounting rent receivable.

**Group** is Assura Group Limited and its subsidiaries.

**IFRS** is International Financial Reporting Standards as adopted by the European Union.

**Interest Cover** is the number of times net interest payable is covered by underlying profit before net interest.

**Interest Rate Swap** is a contract to exchange fixed payments for floating payments linked to an interest rate, and is generally used to manage exposure to fluctuations in interest rates.

**IPD** is the Investment Property Databank Limited which provides performance analysis for most types of real estate and produces an independent benchmark of property returns.

**IPD Healthcare** is the Investment Property Databank's UK Annual Healthcare Property Index.

**IPD Total Return** is calculated as the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period, as calculated by IPD.

**London Interbank Offered Rate ("LIBOR")** is the interest rate charged by one bank to another for lending money.

**Local Improvement Finance Trusts ("LIFT")** are public-private consortia that develop primary care and community based facilities and services.

**Loan to Value ("LTV")** is the ratio of net debt to the total value of property and LIFT assets.

**Mark to Market ("MtM")** is the difference between the book value of an asset or liability and its market value.

**Net Initial Yield** is the annualised rents generated by an asset, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the asset valuation (after notional purchaser's costs). Development properties are not included.

**Net Rental Income** is the rental income receivable in the period after payment of direct property costs. Net rental income is quoted on an accounting basis.

**NHS Property Services Limited ("NHS PropCo")** is the company, wholly owned and funded by the Department of Health, which, as of 1 April 2013, has taken on all property obligations formerly borne by the PCTs.

**Primary Care Property** is the property occupied by health services providers who act as the principal point of consultation for patients such as GP practices, dental practices, community pharmacies and high street optometrists.

**Property Income Distribution ("PID")** is the required distribution of income as dividends under the REIT regime. It is calculated as 90% of exempted net income.

**Real Estate Investment Trust ("REIT")** is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK profits, arising from property rental income and gains on investment property disposals, from corporation tax, but requires the distribution of a PID.

**Rent Reviews** take place at intervals agreed in the lease (typically every three years) and their purpose is usually to adjust the rent to the current market level at the review date.

**Rent Roll** is the passing rent being the total of all the contracted rents reserved under the leases.

**Reversionary Yield** is the anticipated yield, which the initial yield will rise to once the rent reaches the ERV and when the property is fully let. It is calculated by dividing the ERV by the valuation.

**Retail Price Index ("RPI")** is the official measure of the general level of inflation as reflected in the retail price of a basket of goods and services such as energy, food, petrol, housing, household goods, travelling fare, etc. RPI is commonly computed on a monthly and annual basis.

**RPI Linked Leases** are those leases which have rent reviews which are linked to changes in the RPI.

**Total Accounting Return** is the overall return generated by the Group including the impact of debt. It is calculated as the movement on EPRA NAV for the year plus the dividends paid, divided by the opening EPRA NAV.

**Total Property Return** is the overall return generated by properties on a debt free basis. It is calculated as the net rental income generated by the portfolio plus the change in market values, divided by opening property assets plus additions.

**Total Shareholder Return ("TSR")** is the combination of dividends paid to shareholders and the net movement in the share price during the year. It is calculated as the movement in the share price for the period plus the dividends paid, divided by the opening share price.

**Underlying Profit** is the pre-tax earnings measure adjusted for non-cash fair value adjustments and non-recurring items such as revaluation gains, revaluation of derivatives, share-based payment charge and gains on sale of property.

**Weighted Average Unexpired Lease Term ("WAULT")** is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

**Yield on cost** is the estimated annual rent of a completed development divided by the total cost of development including site value and finance costs expressed as a percentage return.

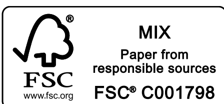
**Yield shift** is a movement (usually expressed in bps) in the yield of a property asset, or like-for-like portfolio over a given period. Yield compression is a commonly-used term for a reduction in yields.

**Forward-looking statements**
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking in nature and are subject to risks and uncertainties. Actual future results may differ materially from those expressed in or implied by these statements. Many of these risks and uncertainties relate to factors that are beyond Assura's ability to control or estimate precisely, such as future market conditions, the behaviour of other market participants, the actions of governmental regulators and other risk factors such as the Company's ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which the Company operates or in economic or technological trends or conditions, including inflation and consumer confidence, on a global, regional or national basis. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Assura does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document. Information contained in this document relating to the Company should not be relied upon as a guide to future performance.

# CORPORATE INFORMATION

| | |
|---|---|
| Head Office and Principal Place of Business: | The Brew House<br>Greenalls Avenue<br>Warrington<br>Cheshire<br>WA4 6HL |
| Company Secretary: | Jonathan Murphy |
| Registered Office: | Old Bank Chambers<br>La Grande Rue<br>St Martin's<br>Guernsey<br>GY4 6RT |
| Auditor: | Deloitte LLP<br>2 Hardman Street<br>Manchester<br>M60 2AT |
| Legal Advisors: | Addleshaw Goddard LLP<br>100 Barbirolli Square<br>Manchester<br>M2 3AB |
| Stockbrokers: | Oriel Securities Limited<br>150 Cheapside<br>London<br>EC2V 6ET<br><br>Liberum Capital Limited<br>Ropemaker Place<br>25 Ropemaker Street<br>London<br>EC2Y 9LY |
| Bankers: | Aviva plc<br>Barclays Bank plc<br>Santander UK plc<br>The Royal Bank of Scotland plc |

# NOTES

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