Primary Health Properties

Primary Health Properties PLC

Audited results for the year ended 31 December 2016

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), the UK's leading investor in modern primary healthcare facilities, is pleased to announce its audited results for the year ended 31 December 2016.

STRONG OPERATIONAL PERFORMANCE

- Net rental income increased by 6.9% to £66.6 million (2015: £62.3 million)
- IFRS profit before tax of £43.7 million (2015: £56.0 million) including surplus on property valuation of £20.7 million (2015: £39.8 million)
- EPRA Earnings[1, 2] increased by 23.5% to £26.8 million (2015: £21.7 million)
- EPRA Earnings per share 4.8 pence (2015: 4.9 pence), a fall of 2% due to the impact of additional shares issued in April 2016, as equity raise proceeds of £145.3 million (net of issue costs) invested through remainder of 2016 and into 2017
- Dividends per share paid in the year increased by 2.5% to 5.125 pence (2015: 5.0 pence), the 20th successive year of dividend growth
- Total cost of dividends paid in the year £26.8 million (2015: £22.2 million) fully covered by EPRA Earnings[1, 2] (2015: 98%)
- EPRA Net Asset Value per share[2, 3] increased by 3.9% to 91.1 pence (2015: 87.7 pence)
- EPRA cost ratio[4] maintained at 11.5% (2015: 11.5%)
- Interest rate on £88 million of swap contracts reduced from 4.79% to 0.87% at a one-off cash outlay of £14.5 million[5], saving interest of £16.4 million for the period November 2016 to August 2021

STRENGTHENED BALANCE SHEET

- Successful, oversubscribed equity issue completed in April 2016 raised £145.3 million net of issue costs
- Shares issued at a 14% premium to EPRA NAV per share as at 31 December 2015
- A total of 24 properties acquired for an aggregate consideration of £74.2 million[6], adding £4.2 million to annual contracted rent roll
- Balance of proceeds used to lower Group Loan to Value ratio to 53.7%[7, 8] (2015: 62.7%) pending further property investment in 2017

PHP Primary Health Properties

FURTHER GROWTH IN PROPERTY PORTFOLIO

- Investment property grown by 11% to £1.2 billion (31 December 2015: £1.1 billion); underlying like-for-like growth of 2.3%
- Portfolio valuation net initial yield of 5.17% (31 December 2015: 5.32%)
- Total property return 7.9% (2015: 9.7%) outperforms IPD UK Quarterly Property Index, All Property total return at 3.6%
- First primary care centre acquired in Republic of Ireland in October 2016 for €6.7 million
- Average annualised uplift of 0.9% on rent reviews completed or closed in the period (2015: 0.9%)
- Annualised rent roll, including commitments, increased by 6.8% to £68.0 million (2015: £63.7 million)
- Portfolio 99.7% let with 13.7 years weighted average unexpired lease term (including commitments) (31 December 2015: 14.7 years)

CONTINUED POSITIVE OUTLOOK DRIVEN BY SUPPORTIVE MARKET

- Capital raised in 2016 continues to be invested in further earnings accretive primary care properties
- NHS Environment and Technology Transformation Fund has sanctioned 200 new primary care developments in England
- Strong pipeline of high quality acquisition opportunities in both the UK - £72 million, and Republic of Ireland - €53 million, to capture yield spread on lower debt costs
- First quarterly interim dividend for 2017 declared, 1.31p per share, payable on 24 February 2017

[1] See Note 8 to the financial statements.
[2] The Company uses a number of Alternative Performance Measures in this Preliminary Announcement. See page 25, EPRA performance measures.
[3] See Note 25 to the financial statements
[4] See page 20, Business Review
[5] See Note 23 to the financial statements.
[6] Consideration before costs of acquisition.
[7] See Note 18 to the financial statements.
[8] Including unsecured debt outstanding

Harry Hyman, Managing Director of Primary Health Properties, commented:

"2016 was a year of significant milestones for PHP, in which the Company celebrated the 20th anniversary of being listed on the London Stock Exchange; secured the largest ever equity issue in its history; and expanded outside of the UK, following the acquisition of its first asset in the Republic of Ireland.

“The Group’s activities throughout the year continued to focus on growing earnings through selective acquisitions, strategic asset management activity, careful debt management and securing growth from rent reviews. This enabled the Company to pay an increased, fully covered dividend to shareholders, the 20th consecutive year of dividend growth.

“The demand for healthcare services remains higher than ever and, as a result, the role played by primary care in communities across the UK and the Republic of Ireland is set to increase. PHP remains alive to the strong pipeline of potential acquisition and forward funding opportunities in both the UK and Ireland and is in a strong position to grow its portfolio, building on its track record of providing GPs with flexible, purpose built medical centres which meet the needs of modern, integrated care systems.”

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Information contained in this presentation relating to the Company or Group should not be relied upon as a guide to future performance.

Shareholders wishing to register for electronic notification of any release or announcement made by the Company may do so using the Company’s website www.phpgroup.co.uk/investors/email-alerts.

This announcement includes inside information.

Financial highlights

	Year ended 31 December 2016	Year ended 31 December 2015
Investment portfolio	£1.2bn	£1.1bn
Net rental income	£66.6m	£62.3m
Weighted average unexpired lease term	13.7 years	14.7 years
Contracted rent roll (annualised)	£68.0m	£63.7m
EPRA results (see pages 25 and 26)		
EPRA Earnings	£26.8m	£21.7m
EPRA Earnings per share	4.8p	4.9p
EPRA Net Assets	£545.0m	£391.6m
EPRA NAV per share	91.1p	87.7p
EPRA Cost Ratio	11.5%	11.5%
Dividends		
Dividend per share[1, 2]	5.125p	5.0p
Dividend cover[3]	100%	98%
Reported results		
IFRS profit for the period	£43.7m	£56.0m
Total equity	£499.2m	£345.4m
Diluted earnings per share	7.3p	11.2p

1 See note 9 to the financial statements.
2 Paid in quarterly instalments. New shares issued in April 2016 qualified for final two instalments only. See page 6, Chairman's Statement.
3 See page 14, Business Review.

Performance

	Year ended 31 December 2016	Year ended 31 December 2015
Total property return	7.9%	9.7%
Total EPRA NAV return	9.7%	16.3%

Chairman's statement

I am delighted to present PHP's Annual Report for 2016, another successful year in which the Group has continued to grow and reach several significant milestones.

In March 2016, PHP celebrated the 20th anniversary of the Company becoming listed on the London Stock Exchange. In each of those 20 years, we have provided our shareholders with an unbroken record of dividend growth and at this year-end held a portfolio that now consists of 296 primary care assets valued at over £1.2 billion whose secure underlying income supports our commitment to long term sustained dividend growth.

The Group's strong capital base and access to equity has underpinned the growth in its property portfolio. We have looked to equity markets at times over the years to raise fresh funds to enable the Group to acquire additional properties, whilst ensuring that a prudent ratio of debt to equity is maintained.

The Company successfully closed its largest ever capital raise in April 2016, raising £145.3 million, net of issue costs. The issue was over-subscribed and strongly supported by existing shareholders in addition to adding several new institutional investors to our register. The equity raised represented an increase of 37% in the Company's EPRA Net Assets as at 31 December 2015 and was achieved at a 14% premium to EPRA NAV per share at that date. This underlines the attractiveness of PHP's long-term, secure income streams to investors.

PHP has traditionally focused on the UK market, building a large, high quality portfolio of primary care properties in the UK. In 2016, the Group added to its domestic assets by completing its first property transaction outside of the UK. After careful appraisal of the primary care property market in the Republic of Ireland, as a first step in the market, PHP acquired the Tipperary Primary Care Centre in October 2016.

The Group has built strong relationships with developers, existing owners, agents and advisers in Ireland and has a deep pipeline of further opportunities that we aim to contract in 2017. Investment in primary care assets in Ireland represents an opportunity to secure high quality, well let properties as the Irish government seeks to modernise its primary care infrastructure, procuring numerous new, purpose built facilities which it anchors as a tenant through the Health Service Executive.

Results highlights

We added prudently to our property portfolio through the selective acquisition of £74.2 million of fully let assets, adding a total of £4.2 million to the Group's annual rent roll. We maintained our discipline in the pricing that we agreed with vendors, ensuring that PHP acquired well priced assets that provide strong income returns and the potential for further growth.

Acquisitions combined with the contribution of successful asset management activity and rent reviews led to net rental income for the year increasing by 6.9% to £66.6 million (2015: £62.3 million). The costs of managing the Group represented 11.5% of net rents, unchanged from 2015. Revolving Group debt was temporarily repaid from the proceeds of the equity issue, which together with a marginally reduced average cost of Group debt saw net finance costs fall by 3.7% in 2016.

The revaluation of the Group's property portfolio generated a surplus of £20.7 million (2015: £39.8 million), with underlying like-for-like growth of 2.3%. The portfolio valuation average net initial yield tightened to 5.17% (31 December 2015: 5.32%). The lower valuation surplus resulted in IFRS profit for the year falling by 22.0% to £43.7 million (2015: £56.0 million)

The growth in the portfolio, underpinned by a fully covered dividend payment, has resulted in EPRA NAV per share increasing by 3.9% to 91.1 pence (2015: 87.7 pence) which when added to the dividend paid produces a total EPRA NAV return for the year of 9.7% (2015: 16.3%).

Earnings and dividends

EPRA Earnings increased by 23.5% to £26.8 million (2015: £21.7 million), however, EPRA Earnings per share fell marginally, by 2% to 4.8 pence per share for the year (2015: 4.9 pence per share). This was to be expected as the proceeds of the equity issue are effectively invested "in arrears" with acquisitions through the remainder of 2016 and in the early part of 2017 to date.

PHP maintained its 20-year unbroken record of annual dividend growth, paying a total of 5.125 pence per share to shareholders in 2016 (2015: 5.0 pence), an increase of 2.5%. The dividend was paid in four equal instalments in February, May, August and November with the new shares issued by the Company in April 2016, qualifying to receive the final two instalments. Accordingly, total dividends paid to shareholders in the year were fully covered by EPRA Earnings, in line with one of the Board's ongoing objectives, having returned the Company to full dividend cover in the second half of 2015.

We will continue to pay dividends quarterly for the foreseeable future and, on 4 January 2017, the Board approved its first quarterly dividend for 2017. The Company will pay 1.31 pence per ordinary share on 24 February 2017 to holders on the register as at close of business on 13 January 2017.

Our markets

The UK experienced a major political event in June 2016, with the majority of the British public voting to leave the European Union. The long term impact that this will have on the UK will be unknown until Brexit negotiations have concluded.

What is certain is that the demands that are being placed upon the NHS will continue to increase and a growing, ageing population and increased incidence of chronic conditions will bring more pressure to bear on the NHS budget. New models of care are being developed that recognise the ability of primary care settings to help ease the burden on hospitals and provide greater access to healthcare services located in the communities that they serve. Leaving the EU will not change this and PHP will continue to move forward with its strategy unchanged.

In my Interim statement, I detailed how the NHS had expanded upon its wider Five Year Forward View, with a direct plan for primary care. The General Practice Forward View ("GPFV") was published in April 2016 setting out plans to recruit 5,000 more GPs over the next five years together with additional healthcare professionals and support staff.

To do this, a further £2.4 billion per annum is to be invested into general practice, an increase of 25% over the 2015/16 GP budget. This will help to meet commitments to provide greater "out of hours" access and to develop clinical hubs and reform urgent care facilities.

The second half of 2016 saw the first series of projects approved for funding from the Estates and Technology Transformation Fund ("ETTF"). Numerous premises improvement projects have been given the green light by the NHS with varying levels of NHS capital contributions being made available alongside private funds to enhance, enlarge or reposition existing premises. PHP has approval for 8 projects from this first set of approved schemes.

The ETTF process has also sanctioned the construction of a number of new medical centres, many of which will be developed by PHP's development partners, providing the opportunity for PHP to fund and acquire properties as they are realised.

Toward the end of the year, Sustainability and Transformation Plans ("STPs") were published for the 44 STP areas in England. STPs comprise a plan of how local services will evolve over the next five years to create long term, sustainable and fundable integrated care systems for an area. STPs include estates plans for primary care premises that are required to deliver these care objectives.

PHP will play a key role in the implementation of these initiatives providing new premises and enhancing and enlarging existing properties. There is a very clear movement toward the formation of larger practices and local alliances, and demand for larger, hub-style medical centres to replace outdated, smaller, often converted residential, properties. PHP is working with GP practices, federations (groups of GPs that join together to provide and develop services collaboratively), emerging “super-practices” (practices merging to create larger patient lists and benefit from economies of scale) and other NHS bodies to contribute towards estates planning and STPs as well as the procuring and funding of new premises across the UK.

In the Republic of Ireland, the Health Service Executive (“HSE”) of the Irish government plans to procure a total of 100 modern, purpose built primary care centres across the country. Ireland is experiencing similar rates of growth in the demand for healthcare services as in the UK. As GP services, however, are not state funded or integrated with HSE provided secondary care, greater strain is being placed on hospital services. The HSE is actively looking to establish integrated primary care centres across the country that will provide local access to a greater range of services alongside the traditional GP, in a more cost efficient and sustainable manner.

Board membership

We welcomed Geraldine Kennell and Nick Wiles to the Company’s Board in April, replacing the retiring Jamie Hambro and William Hemmings. Geraldine and Nick have immersed themselves in getting to understand the Group’s affairs and are making a valuable contribution to Board meetings.

We have previously informed shareholders that Phil Holland will stand down from the Board at the end of March this year, leaving PHP to take on a commercial, property development role. I would like to thank Phil for his contribution to the growth and success of the Group in his six years working with us and I and the Board wish him well for the future.

I am delighted to announce the appointment of Richard Howell as Finance Director Designate, to take over from Phil upon his departure. Richard joins us from his position as Finance Director, Joint Ventures with LondonMetric Property plc and brings many years’ experience of working in senior finance positions with listed property companies. I look forward to working with Richard, who will join Nexus in the middle of March.

Outlook

In times when there is increased volatility in economic and financial markets, largely brought about by Brexit and political changes both in and outside of Europe, the increasing requirement for healthcare services continues. The populations of the UK and Republic of Ireland continue to grow and age and with this comes a greater burden on healthcare systems and the need for healthcare to be delivered in a new, more cost-efficient and integrated manner.

Strategic publications such as the GPFV and delivery plans such as STPs reinforce the importance of primary care in replacing elements of secondary care to modernise healthcare systems and improve access to services and the efficiency with which they are delivered. They also recognise the importance of the need for sufficient, appropriate premises in delivering these new models of care.

PHP has a strong pipeline of opportunities in both the UK and Republic of Ireland, working with specialist development partners to procure and fund the development of new facilities to expand its portfolio and support the modernisation of healthcare services. This will enable us to capture yield spread on lower debt costs in both territories. In addition, the Group is progressing numerous value-add projects from within its existing portfolio that will secure additional rental income and extend the unexpired duration of associated lease terms.

The possibility of higher rates of inflation will be positive for PHP with 20% of portfolio rents being reviewed in line with RPI increases. In addition, increased development activity will have a positive impact on rental levels as inflationary factors lead to higher initial rents for new centres which in turn will generate greater increases on review at existing centres.

PHP is well funded with a large proportion of its debt cost fixed, providing a hedge against possible interest rate increases if inflation does continue to rise.

We are well positioned in both the UK and Ireland to continue to grow our portfolio through prudent acquisition and accretive asset management activity. Through this we will continue to increase earnings and maintain our progressive, covered dividend policy to provide attractive returns to shareholders.

I thank all those who have contributed to the success of 2016 and look forward to working with the team to deliver further growth within the Group in 2017.

Alun Jones
Chairman
15 February 2017

Strategic Review

Strategic objectives

The overall objective of the Group is to create progressive returns to shareholders through a combination of earnings growth and capital appreciation. To achieve this, PHP invests in healthcare real estate let on long term leases, backed by a secure underlying covenant where the majority of rental income is funded directly or indirectly by a government body.

The Group's portfolio is predominantly located in the UK with tenants mostly comprising general practitioners ("GP") and NHS organisations. The funding of these enterprises means that over 90% of UK income is funded directly or indirectly by the NHS, providing a low risk, high covenant income stream.

The Group widened its geographical scope in 2016 with its first property investment in the Republic of Ireland. The principal tenant in the series of new, modern primary care centres that PHP is targeting in Ireland will be the Health Service Executive ("HSE"), the executive agency of the Irish government's Department of Health. The HSE typically accounts for up to as much as 75% of the rental income at a centre, providing a similar low risk, high covenant income stream to the NHS in the UK. Tenants will also include GPs but their rent will represent a smaller proportion of total income than in the UK and will not be funded by the HSE. Other occupiers in both territories will include other associated healthcare users, including on-site pharmacies.

Business model

The Group works in partnership with its stakeholders to create and maintain a portfolio of fit for purpose facilities that provide a long term home for local healthcare provision and that are easily adapted to meet the changing needs of a community.

Initial lease terms in the UK are typically of 21 years or more, at effectively upward-only rentals. With the large majority of income received either from the NHS or from NHS funded GPs, this provides a secure, transparent income stream.

The HSE in Ireland typically enters into 25-year leases with CPI linked rent reviews, providing similar long term income streams to those of the NHS in the UK.

Achieving each of the strategic objectives outlined below will enable PHP to meet its overriding aim of **delivering progressive shareholder returns** through a mix of income and long term value growth.

(i) The Group looks to **grow** its property portfolio by funding and acquiring high quality, newly developed facilities and investing in already completed, let properties. PHP concentrates on assets with strong underlying fundamentals that it can acquire for a fair price and secure an acceptable gap between the income yield an asset generates and the cost of managing and funding that investment.

(ii) PHP **manages** its portfolio effectively and efficiently managing the risks faced by its business in order to achieve its strategic objectives. This includes taking a long term view of its properties in keeping with the strategic horizons of its tenants. By providing additional space facilitating the provision of additional services or extending the term of underlying leases, PHP can increase and lengthen its income streams and create the opportunity to add capital value.

The portfolio is **managed** by an experienced and innovative team within an efficient management structure where operating costs are tightly controlled by the Adviser and their fees are structured to gain economies of scale as the Group continues to grow.

(iii) The Group **funds** its portfolio with a diversified mix of equity and debt, in order to optimise risk adjusted returns to shareholders. Debt facilities are arranged on both a secured and unsecured basis, provided by traditional bank lenders and debt capital markets, with a spread of maturities that ensures flexibility and availability over the longer term to match the longevity of income streams.

Our markets

PHP targets long term investment in modern, flexible, purpose built healthcare properties that are located either in the UK or the Republic of Ireland. Across both territories, the Group's assets are leased on a long term basis to GPs, government health departments, pharmacy operators and other associated healthcare users.

In both territories, the demand for healthcare services continues to increase as populations grow and age and we unfortunately see a greater incidence of chronic conditions. There is a growing recognition of the important role that primary care plays in the provision of health services, providing local services for greater ease of access and proving to be more efficient as technology advances and more services can be provided away from over-burdened hospital settings.

The Group works with experienced development partners, engaging with government, healthcare bodies and healthcare professionals to procure and continue to improve and reconfigure premises that are able to meet the ever-changing needs of primary care provision. This interaction continues through the life of an occupational lease with PHP building long-standing relationships that enable forward planning of premises enhancement.

The primary care premises market is controlled by the NHS in the UK and largely influenced by the HSE in the Republic of Ireland, meaning there is little or no speculative development of new modern, flexible facilities. Initial lease terms are typically longer than in general commercial markets, more than 20 years on average.

In the UK, GPs form the largest tenant group, receiving reimbursement for rent, maintenance and insurance costs from the NHS, a practice set out in legislation. Together with leases direct to the NHS, the sector benefits from a very strong underlying rental covenant.

In the Republic of Ireland, the HSE makes a strong commitment to each primary care centre to create an integrated healthcare system alongside GP services. The HSE presence, representing 60% to 75% of rent received at a centre, underpins the long term secure income to be received from Irish properties.

United Kingdom

The latest projections of the Office for National Statistics suggested that the UK population will rise by 15% over the 25-year period from 2014 to 2039 to over 74 million people. Whilst the overall growth rate may slow a little as the Government places immigration control as a key outcome of Brexit, the projected change in the age profile will be realised, with an additional 4.7 million people aged 75 or over, a full 5% of the population more than in 2014. This changing demographic is creating significant additional demand on healthcare services. A Kings Fund study in autumn 2016 revealed a 10% increase in the number of GP patient contacts in the previous two years. Those aged over 85 accounted for 26% of all GP appointments and are growing at a rate more than twice as high as any other age group.

Primary care is the foundation of the NHS in the UK and the GP continues to be the first point of access to healthcare services for UK residents, other than acute emergency care. In October 2014, NHS England published its Five Year Forward View ("FYFV"), its strategic plan for the development of healthcare services for England, reiterating the importance of primary care as "the foundation of NHS care". In April 2016, this was backed up by the publication of the General Practice Forward View ("GPFV").

The GPFV set out targets for all aspects of GP services for the next five years, including recruitment targets, access to "out of hours" services and reforming urgent care. Funding to general practice will be increased by 25% over the 2015/16 GP budget, a further £2.4 billion per annum.

A £900 million funding pool was established specifically for capital investment into GP estate and infrastructure. In late 2016, the ETTF made its first awards of funding, supporting 600 projects, with more than 200 of these to be "new build" primary care facilities.

Alongside this, NHS organisations across England were asked to develop a plan for the future delivery of health services in their area, a Sustainability and Transformation Plan ("STP"). The country was split into 44 STP "footprints" and plans were to include details of how an area would interact with local authorities and other care providers.

These plans were released toward the end of 2016 and once again emphasise the increasingly important role of primary care and the GP in the future of the National Health Service. Total savings of £22 billion per annum need to be realised by the NHS within the STP timeframe and many identify the movement of non-acute hospital based services into the community as a means of achieving some of this.

Republic of Ireland

Similar pressures are being experienced in the Republic of Ireland with its population predicted to rise by 17% in the period between 2016 and 2036 to 5.5 million. This will be more noticeable in older age groups also, as the proportion aged 65 or over is estimated to rise to 20.6% in 2036, from 13.3% in 2016.

Chronic, long term illness rates are also increasing. Currently, 38% of the Irish population has a chronic illness. This is predicted to rise to 40% of the adult population by 2020. 40% of all hospitalisations in Ireland in 2011 were as a direct or indirect result of such conditions.

In December 2016, the Department of Health in Ireland ("DoHI") published its strategy document for 2016-2019. In this it stressed that "…the starting point for a more effective and integrated model of care is the development of comprehensive primary care." DoHI plans to develop a comprehensive range of primary care services that will be integrated with other care services, but where primary care will be the first point of contact with the health system in Ireland.

Whilst the primary health care system in Ireland is based on a system of insurance and private payment, it is still led by the General Practitioner. A 2013 report estimated over 14 million visits to GPs, compared to 6.3 million hospital visits, but the GP in Ireland also acts as the "gatekeeper" to secondary or specialist care.

The DoHI plans to implement its objective of a single-tier health service, to enable the population to have equal access to healthcare based on need, not income. This includes the introduction of universal primary care, including GP care without fees for all and universal hospital care.

The DoHI strategy is based on primary care services meeting the great majority of people's day-to-day healthcare needs, comprising integrated team-based delivery by GPs and a wide range of other health professionals, provided in the communities where people live. It sees the development of the capacity and range of services in primary care as a cornerstone of the changes to be made to health systems to meet the rising demand.

The DoHI and the Health Service Executive continue to develop an integrated portfolio of reform programmes to ensure that their core objectives to deliver safe and effective health and social care services for patients, services users, carers and families in multiple settings are met. Recent budgetary increases have funded the provision of free GP services to those aged under six and over 70 years old, and targeted initiatives for asthma and diabetes care.

More modern, flexible primary care premises have been delivered to assist with the development of an integrated care system and the HSE is looking to procure numerous additional new premises. The HSE is typically entering into 25 year leases with CPI linked rent reviews on a five-year cycle for between 60% to 75% of the property's rental income, providing a covenant similar to that provided by the NHS funding of some 90% of the Group's UK income.

Stable, secure returns on investment

There are several different characteristics within the Irish healthcare real estate sector from those in the UK, but the underlying security of the NHS and HSE covenants provide for superior risk adjusted returns for PHP.

In the UK, PHP's income benefits from a shorter rent review cycle, typically three yearly and on an upwards only basis, with 20% of leases reviewed upwards only in line with RPI. In Ireland, leases to the HSE vary without restriction in line with the change in Irish CPI over a five-year period.

The government backed funding for tenants and positive rent review terms, combine to create a long term, low risk income environment where over the medium term, through a mix of indexed linked and open market review characteristics, rental growth has broadly tracked inflation.

An anticipated increase in the levels of development of new medical centres in the UK will see initial rents increase due to building costs inflation in recent times. This will provide strong comparable evidence to assist open market rent reviews, resulting in a higher rate of growth than in recent years. A fifth of PHP's UK portfolio is formally linked to RPI and recent increases in the rate of inflation will feed through to rental increases in coming periods.

The secure long term underlying income and high quality covenant derived from the predominance of government backed tenancies within the healthcare sector has translated into stable long term returns on primary care real estate.

The data in the table below is with reference to UK real estate only. It is taken from the MSCI/IPD UK Healthcare Property Index for the nine-year period ended 31 December 2015. The results illustrate how primary healthcare real estate has produced superior risk adjusted returns over that period, reflecting the low risk nature of its tenants and lower volatility in capital values underpinned by the long-term nature of the income streams, generating a very compelling investment case.

Sector	Total Return
Residential property	8.6%
Primary healthcare	**7.3%**
All healthcare	6.4%
Bonds	6.3%
Office property	6.0%
Industrial property	5.2%
Secondary healthcare	4.9%
All property	4.4%
Equities	3.6%
Retail property	3.1%

Source: IPD – 9 year risk adjusted total returns 2007-2015

The primary care real estate sector in Ireland is still in its infancy and as a result, specific performance data is not yet available. The sector has many characteristics in common with the UK and the Board expects to see similar trends develop over the medium term

Business review

Delivering progressive returns

Key performance indicators	
EPRA earnings per share 4. 8p -2.0%	**Dividend cover** 100% (2015: 98%)
Other performance measures	
EPRA NAV per share 91.1p +3.8%	**Total EPRA NAV return** 8.5p +9.7%

2016 was a further year of growth across PHP's business that built upon the major equity issue that the Company successfully completed in April 2016. The proceeds of this issue were immediately put to work for shareholders with selective property acquisitions and effective debt management that were accretive to the Group's earnings.

This was supported by further investment into existing assets through a series of asset management projects, modest growth secured on rent reviews and continued efficient administration of the Group.

This investment combined with debt management to generate increased profitability for PHP that accrued to shareholders through an increased, fully covered dividend and growth in the value of the Group's assets, that is reflected in NAV growth and impressive total returns in a volatile period in wider markets.

Earnings

The Group acquired further property assets in the year, maintaining its strict selection criteria and pricing approach to ensure that additions are high quality, immediately accretive to earnings and offer the opportunity for future growth.

New property additions, coupled with the completion of several development properties, generated increased rental income for the Group with net rental income receivable in the year increasing by 6.9% to £66.6 million (2015: £62.3 million).

The costs of managing the Group continue to benefit from the reducing scale structure of management fees and careful control of overhead costs. Whilst administrative expenses increased by £0.5 million in 2016, total costs as a proportion of income remained unchanged with the Group's EPRA Cost Ratio being 11.5% (2015: 11.5%).

The net proceeds of the equity issue were applied so as to ensure that funds not immediately invested in acquisitions were applied to the Group's debt and hedging portfolio to achieve savings in Group debt costs for the year and lower the average cost of Group debt finance for this and future years.

PHP's consistent year-on-year growth in EPRA Earnings continued, with an increase of 23.5% in the year to £26.8 million (2015: £21.7 million). The attractiveness of the Group's property assets with their long term, secure income streams led to steady valuation growth, albeit at a lesser rate than that of 2015. A net property valuation surplus of £20.7 million (2015: £39.8 million) was partially offset by fair value movements on interest rate swaps and the Group's convertible bond, resulting in a fall in IFRS profit from £56.0 million to £43.7 million.

Summarised results	2016 £m	2015 £m
Net rental income	66.6	62.3
Administrative expenses	(7.3)	(6.8)
Operating profit before revaluation gain and financing	59.3	55.5
Net financing costs	(32.5)	(33.8)
EPRA earnings	**26.8**	**21.7**
Net result on property portfolio	20.7	39.8
Fair value (loss)/gain on interest rate swaps	(2.2)	1.0
Fair value loss on convertible bond	(1.6)	(6.5)
IFRS profit before tax	**43.7**	**56.0**

The Company recorded its 20th successive year of dividend growth in 2016, paying a total of 5.125 pence per share in the year. This represents an increase of 2.5% over that paid in 2015 of 5.0 pence per share.

The equity raise in April 2016 saw the Company issue 150 million new Ordinary Shares, which qualified for dividends paid only in the second half of 2016. As the proceeds of the issue were not immediately fully invested in new acquisitions EPRA Earnings per share fell marginally to 4.8 pence (2015: 4.9 pence). The total value of dividends distributed to shareholders across the year rose by 21% to £26.8 million (2015: £22.2 million) and were fully covered by EPRA Earnings (2015: 98%).

Dividend cover	Year ended 31 December 2016 £'m	Year ended 31 December 2015 £'m
EPRA Earnings	26.8	21.7
Total dividends paid	26.8	22.2
Dividend cover for the period	100%	98%

Shareholder value

The Company issued shares in April 2016 at a price of 100 pence per new share, a premium of 14% over EPRA Net Asset Value per share as at the end of 2015. After deducting the costs of the issue, a premium of £13.8 million was realised over the underlying EPRA Net Asset Value of the Company's shares prior to the issue.

The Group used this premium to reset two interest swaps in May 2016. A one-off cash payment of £14.5 million was made to achieve a total interest saving of £16.4 million over the term of these swaps to August 2021.

The strength of the Group's property portfolio was evident in the year end, independent valuation. Yields in the healthcare property sector saw a modicum of tightening and the Group recorded a revaluation surplus of £20.7 million year (2015: £39.8 million).

EPRA Net Assets grew by 39% to £545.0 million (2015: £391.6 million) as at 31 December 2016 with EPRA Net Asset Value per share rising to 91.1 pence per share (2015: 87.7 pence), an increase of 3.9% in the year. Adding dividends paid to shareholders, total EPRA NAV return for the period was 8.5 pence per share or 9.7% (2015: 16.3%).

EPRA Net Asset Value per share	2016	2015
	pence per share	**pence per share**
Opening EPRA NAV per share	87.7	79.7
EPRA Earnings for the year	4.8	4.9
Net result on property portfolio	3.5	8.9
Dividend paid	(4.8)	(5.0)
Share issue	2.2	-
Re-coupon of interest rate swaps	(2.3)	-
Termination of interest rate derivative	-	(0.8)
Closing EPRA NAV per share	**91.1**	**87.7**

At the start of 2016, the Company's share price stood at 108.75 pence. The many political and economic events of the year have led to some volatility in equity markets, but the strong income characteristics of PHP's portfolio and the attractiveness of the reliable yield that PHP provides have seen PHP's share price remain steady through the year. PHP's closed the year with a share price of 111.5 pence which with dividends paid in the year gave a total shareholder return of 7.3%.

Primary Health Properties

Growing PHP's property portfolio

Key performance indicators		
Total property assets £1.2 billion + 10.9%	**Total property return** 7.9% (2015: 9.7%)	
Other performance measures		
Revaluation surplus £20.7 million 3.5 pence per share	**Contracted rent roll** £68.0 million + 8.5%	**WAULT** 13.7 years 2015: 14.7 years

The wider UK property sector experienced a turbulent period in 2016 as uncertainty both before and after the EU referendum saw values fall overall. The UK primary care property sector is characterised by the security and longevity of its income streams, underlying fundamentals that have made the asset class increasingly attractive to investors seeking a secure yield in volatile times. These characteristics are mirrored in the Republic of Ireland, where PHP acquired its first non-UK asset in October 2016.

In the UK, a large proportion of the Group's rent is derived from the NHS (directly or indirectly), whereas in Ireland, the majority payer is the Health Service Executive. Accordingly, many investors look to healthcare real estate to provide them with a stable, consistent yield.

Acquisitions in the year saw the Group hold a total of 296 property assets as at 31 December 2016, 295 of these located in the UK and one in the Republic of Ireland. One UK asset is on site, under construction, and due to complete in early 2017.

Lambert Smith Hampton ("LSH") independently valued the UK and Irish assets at market value in accordance with RICS rules. The aggregate value of the Group's property portfolio totalled £1.2 billion as at 31 December 2016, with a valuation surplus of £20.7 million being achieved for the year, after allowing for acquisition costs, the cost to complete development properties and capital invested in asset management projects. This represents like-for-like valuation growth of 2.3% equivalent to an increase of 3.5 pence per share.

The demand for healthcare real estate saw the average net initial yield of PHP's UK portfolio tighten slightly to 5.17% (2015: 5.32%) with a true equivalent yield of 5.38% (2015: 5.53%).

	2016 £m	2015 £m
Investment properties	1,212.3	1,091.9
Properties in the course of development	7.9	8.7
Total properties owned and leased	1,220.2	1,100.6
Cost to complete developments and asset management projects	3.3	21.8
Total completed and committed	1,223.5	1,122.4

The Group has continued to be disciplined in its approach to acquiring new assets. Increased demand for healthcare assets has seen pricing become more competitive, but PHP has continued to focus its due diligence on an asset's underlying fundamental characteristics and its current and planned position in its local health economy. PHP will buy an asset only if it is priced to provide a satisfactory initial return but where the property also demonstrates prospects for future income and capital growth and where there is the prospect of enhancing and expanding the building to extend its life as a primary care centre.

PHP invested a total of £68.5 million in acquiring 23 properties in the UK in the year and completed its first acquisition in the Republic of Ireland for £5.7 million (both before acquisition costs). All properties acquired were standing let investments.

	London	South West	South East	East Anglia	East Midlands	North West	North	Ireland
Number of properties	8	3	4	1	1	3	3	1
Floor area (m^2)	4,828	1,659	3,082	2,687	1,300	4,973	1,603	2,448
Rent roll (£m)	1.3	0.3	0.6	0.4	0.2	0.8	0.2	0.4
Rent roll (%)	29%	6%	14%	11%	5%	19%	6%	10%
WAULT (years)	10.7	14.1	15.3	7.5	18.8	16.7	10.6	25.0
Percentage of rent funded by government	88%	100%	100%	80%	100%	100%	100%	79%
Acquisition cost (£m)	22.2	4.8	10.2	7.4	4.1	15.4	4.4	5.7

The above acquisitions added a total of £4.2 million to the Group's rent roll for an average unexpired term of 14 years. Including the impact of asset management projects and rent reviews, the total contracted Group rent roll increased by 6.8% to £68.0 million (31 December 2015: £63.7 million).

As at 31 December 2016, the portfolio had an average unexpired lease term of 13.7 years (2015: 14.7 years) and an EPRA Vacancy Rate of just 0.3%. The properties that the Group owns and will continue to invest in are purpose built primary care premises that form a key element of the social infrastructure of the UK and Republic of Ireland.

There is no speculative development of new primary care premises in either territory with the NHS and HSE controlling the number and location of properties through a longstanding approval process. In the UK, there has been limited new development approvals by the NHS in recent years. This landscape is now changing, however, as the ETTF initiative has produced a series of new centre approvals alongside improvement projects for existing centres.

PHP's strength and track record in the UK market continues and close ties to a number of specialist healthcare developers will give the Group access to projects approved by the ETTF and provide opportunities to secure further investment in modern primary care assets in the UK.

In Ireland, PHP has developed strong relationships with healthcare bodies and regional developers to create a comprehensive offering to the HSE for the funding and construction of the numerous primary care centres that it plans to procure in the coming years.

The Group has a strong pipeline of opportunities in both the UK and Ireland to continue to grow the number of fit for purpose, flexible primary care premises it provides. This continued investment will support the ongoing movement of healthcare services away from expensive, inflexible hospitals into the community. The importance of appropriate, accessible premises in facilitating new models of healthcare delivery and the integration of wider care services is understood as a contributor to achieving the budgetary efficiencies that are sought by government healthcare agencies.

PHP works closely with its customers to ensure that we deliver properties that meet the needs of GPs, the NHS and HSE not only now, but in the years to come as demands on healthcare systems increase. The Board is confident in the strength of the Group's current property values and its ability to continue to invest in earnings enhancing assets to grow the portfolio.

Geographical analysis of the property portfolio – completed properties only

	Properties	Tenancies	Rent roll (£m)	Capital value (£m)
London	16	24	3.4	63.8
South West	18	31	3.1	57.2
South East	67	132	12.7	219.4
East Anglia	9	18	1.9	32.5
East Midlands	23	48	4.7	85.5
West Midlands	31	76	8.6	155.5
North West	32	65	9.0	178.4
Yorkshire & Humberside	19	40	4.7	82.5
North	25	55	4.6	72.0
Scotland	29	53	7.9	144.5
Wales	25	85	6.5	115.0
Ireland	1	3	0.4	6.0
Total	**295**	**630**	**67.5**	**1,212.3**

Managing effectively and efficiently

Key performance indicators	
Capital projects £1.8 million invested £0.2 million of additional rent Average 12 years additional WAULT	**EPRA cost ratio** 11.5% for the year Unchanged (2015: 11.5%)
Other performance measures	
Rental growth on review 0.9% per annum £0.3 million per annum of additional rent	

Effective management
A total of 166 rent reviews were completed on tenancies within the Group's portfolio in 2016. 58% of these represented leases with open market review clauses with 64 reviews being index linked and six fixed rental uplifts being applied in the year. A significant majority of all leases in the portfolio are either explicitly or effectively upwards only, where a review can only be triggered by the landlord.

There continued to be low levels of new development approval by the NHS in 2016, meaning that benchmarks for open market rental levels showed little growth over 2015. Whilst reported rates of inflation rose in the latter parts of the year, index-linked reviews look backward and so the impact of these increases will be seen in future periods rather than 2016. The weighted average uplift on the reviews completed in 2016 was on a par with that of 2015 at 0.9% per annum.

Work has continued to enhance and extend existing assets within the Group's portfolio. PHP completed 7 projects in 2016, investing a total of £1.8 million to secure an additional £0.2 million of new rental income and, as importantly, extending the unexpired occupational lease term at the project properties by an average of 12 years.

The Group is working to deliver a strong pipeline of asset management projects for 2017. Capital will be invested in a range of physical extension or refurbishment projects, the major redevelopment of one asset and the re-gearing of several existing leases. The outcome of these projects will be the long-term retention of tenants and an increase in contracted rental income through the extension of occupational leases adding to both earnings and capital value.

PHP worked closely with its tenants in submitting 23 applications for funding from the ETTF. The projects covered by these applications will ensure that the respective properties continue to be fit for purpose and can meet the aspirations and objectives of local healthcare bodies as their strategic plans are implemented.

The Group had 8 of these 23 projects approved for first wave funding and many others are moving ahead to the next series of approvals. PHP will invest £5.3 million into these 8 projects, generating additional rental income of £325,000 per annum and securing an average additional 13 years' unexpired lease term at each project.

In addition to this, the Group has 10 other projects that have different stages of NHS or other required approvals. A total of £4.6 million would be invested into these projects, with total additional rent of £222,000 being secured and an average of eleven years added to each occupational lease.

The conclusion of the first round of ETTF project approvals will generate greater development activity with many new centre developments having been approved alongside enhancement and refurbishment projects. This will in turn provide a stimulus to open market rental levels that will result in higher settlements on review as these assets are delivered over the coming years. The prospect of sustained higher levels of inflation will not only directly translate into stronger rental growth on index-linked reviews but will also feed into open market increases as underlying construction costs impact new starting rental levels. We expect to see rental growth slowly increasing over that of 2016 as inflation rises and the rate of new development activity increases.

Efficient management
As reported at the interim stage, the initial discounted pricing period for the provision of administrative services by Nexus Tradeco Limited to the Group came to an end on 30 April 2016. Still on a fixed basis and in line with the contract signed in 2014, the price for these services increased with effect from 1 May 2016 to £904,000 per annum from £749,000 per annum.

Despite this increase, the reducing scale basis for the property advisory fee continues to demonstrate its efficiency as assets added to the portfolio in the year between £1 billion and £1.25 billion incurred fees at just 32.5 basis points.

With other overhead costs being held constant at £1.5 million, total administrative costs rose by 7.3% to £7.3 million (2015: £6.8 million) as the Group's portfolio continued to grow. The efficiency of the Group's management model is evident, however, with its EPRA Cost Ratio unchanged at 11.5% (2015: 11.5 %), the lowest in the listed property sector.

EPRA cost ratio

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Gross rent less ground rent	**66.9**	**62.7**
Direct property expense	0.9	0.8
Administrative expenses	7.3	6.8
Less: Ground rent	(0.1)	(0.1)
Less: Other operating income	(0.4)	(0.3)
EPRA costs (including and excluding direct vacancy costs)	**7.7**	**7.2**
EPRA cost ratio	**11.5%**	**11.5%**

Diversified, long term funding

Key performance indicators	
Loan to value 53.7% (2015: 62.7%)	**Average cost of debt** 4.65% (2015: 4.67%)
Other performance measures	
Net debt £655.7 million (2015: £689.8 million)	**Weighted average facility maturity** 5.1 years (2015: 5.9 years)

We look to finance the Group using a prudent blend of shareholder equity and external debt finance to generate enhanced returns to shareholders. A key objective of the Board is to ensure the longer-term availability of resources to the Group to facilitate its growth objectives, with appropriate limits on the use of debt funding in order to manage shareholder risk.

Action has been taken through the year to strengthen the balance sheet and reduce the average cost of the Group's debt.

Capital raise
In April 2016, the Company completed an over-subscribed equity issue, successfully raising £150 million of new share capital (£145.3 million, net of expenses). New shares were issued to existing and new shareholders at 100 pence each, a premium of 14% to EPRA NAV per share as at 31 December 2015. This issue price represented a discount of 9.5% to the closing share price on 21 March 2016, the day before the offer was announced.

At the same time as securing the additional resource to fund the next stage of growth for the Group, the Board took the opportunity of the equity raise to review how it balances its use of shareholder equity and external debt when funding operations. In the short to medium term, the Group will work to a target Group loan-to-value ratio of no more than 60%.

Debt facilities
In January 2016, the Group extended its £100 million loan facility with Barclays plc by an additional £15 million, provided by Allied Irish Banks plc. The enlarged facility was made available to the Group for a new five-year term from its completion.

PHP seeks to avoid holding significant cash balances, as the returns available on cash deposits are extremely low. The Group follows a net debt strategy, applying surplus cash to temporarily pay down revolving debt facilities, saving the Group's incremental cost of funds and representing a more efficient use of cash resource. The proceeds of the equity issue initially paid down the Group's revolving debt facilities but the funds remain available to PHP to be redrawn when needed to fund investment in new and existing properties.

The Board reviews its resource requirements periodically to ensure an appropriate blend of facility type, tenor and cost. Following the pay down of revolving debt facilities from the equity issue proceeds, a £50 million revolving tranche of the Group's Club facility with RBS and Santander was cancelled in order to save non-utilisation costs.

The remaining £115 million term loan element of this facility matures in August 2017. In recent weeks, we have agreed fully credit approved terms to renew this facility up to £100 million, for a maximum five-year term, at a marginally reduced cost to that of the current loan. Other conditions of the facility are unchanged.

Management has met with several new potential debt providers to identify additional long term sources of debt for the Group. These include institutional lenders who would look to provide facilities on a secured basis for longer maturities than the current Group average term and at competitive rates.

Total debt

Total debt facilities available to the Group reduced in 2016 following the cancellation of the Club revolving tranche. At 31 December 2016, the Group had access to debt facilities totalling £749.5 million.

The net impact of funds raised and assets acquired in 2016 led to an overall reduction in total drawn debt to £660.8 million at the balance sheet date (31 December 2015: £692.7 million). Year-end cash balances were £5.1 million (31 December 2015: £2.9 million), resulting in Group net debt of £655.7 million (31 December 2015: £689.8 million).

The Group had one asset on site under development at the year end, with a remaining cost of development of £3.3 million (31 December 2015: £21.8 million). Resulting headroom from existing debt facilities available to the Group therefore totalled £90.5 million (31 December 2015: £91.1 million).

Net finance costs for the year fell by 3.6% to £32.5 million (2015: £33.7 million), primarily due to the application of the proceeds of the equity issue.

Despite the new equity paying down less costly, revolving debt facilities, the average cost of Group debt fell marginally to 4.65% from 4.67% in 2015.

Debt metrics	31 December 2016	31 December 2015
Loan-to-value	53.7%	62.7%
Interest cover	2.05 times	1.90 times
Weighted average debt maturity	5.1 years	5.9 years
Total drawn secured debt	£503.3m	£535.2m
Total drawn unsecured debt	£157.5m	£157.5m
Total undrawn facilities and cash available to the Group[1]	£90.5m	£91.1m

[1] – After deducting the remaining cost to complete properties under development

Hedging

Interest rate swap contracts

An element of the funds generated by the issue of shares was applied to re-coupon two interest rate swap contracts in May 2016, which hedged a total nominal value of debt of £88 million.

A one-off payment of £14.5 million was made to the swap counterparty to reset the contracted rates applied to both swaps from 4.79% to 0.87%, effective from November 2016 to their maturity in August 2021. A total saving of £16.4 million in interest costs will be realised by the Group over that period.

Changes in the fair value of the re-couponed swaps had been recorded in the income statement in previous financial periods. The cash payment to re-coupon the contracts crystallised a significant proportion of the fair value liability already held in the balance sheet for these swaps and the residual movement in fair value resulting from their re-couponing was recognised in the income statement in the year.

There has been considerable volatility in term interest rates across the year with a noticeably sharp fall in rate immediately following the EU referendum result. This has been followed by both upward and downward movements as periodic statements have been made on the likely path of Brexit, new economic data has been released and the potential impact of President Trump's proposed spending policies has been appraised.

The overall outcome is that rates ended 2016, circa 40% below those at the start of the year. This has led to a net increase in the mark-to-market ("MtM") liability of the Group's swap portfolio of £12.5 million in the year.

These movements are accounting entries only and do not represent cash flows. No interest rate swaps fair value liability is included in any debt facility covenant test and no debt facility held by the Group has a net asset value covenant. The Group's debt is 88% fixed or hedged as at 31 December 2016, limiting any exposure to movements in market interest rates.

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 31 December 2016 is as follows:

	Facilities		Drawn	
	£'m	%	£'m	%
Fixed rate debt	394.4	52.6	394.4	59.7
Hedged by interest rate swaps	186.0	24.8	186.0	28.2
Floating rate debt - unhedged	169.1	22.6	80.4	12.1
Total	749.5	100.0	660.8	100.0

Currency exposure
The Group acquired its first Euro-denominated asset in the Republic of Ireland in the year, with associated Euro-denominated income flows and costs. The value of this asset and its rental income represents just 0.5% of the Group's total portfolio. In order to hedge the risk associated with exchange rates, the Group has chosen to fully fund its investment in Irish assets through the use of Euro-denominated debt, always within the overall Group LTV limits set by the Board.

Initially, this debt has been sourced by establishing Euro-denominated tranches within existing Sterling collateralised revolving credit facilities. As further assets are acquired in the Republic of Ireland, direct Euro debt facilities will be procured in Ireland, but PHP will continue to fund the balance of its investment from Group-level, Euro debt resource so as to maintain a natural asset to liability hedge.

Euro rental receipts are used first to finance Euro interest and administrative costs and surpluses will be used to fund portfolio expansion.

Convertible bond
As previously reported, no change to the conversion price of the convertible bond was required following the equity issue. The issue price of 100 pence per share was within allowable pricing parameters such that no adjustment was required to the conversion price of the convertible bond.

Notwithstanding the increased dividend to equity shareholders in the year, the impact of total dividends paid was also within maximum dilution parameters and so no adjustment to the conversion price was required and it remains unchanged at 97.5 pence. There has been no conversion of any bonds during the period.

Outlook
We strengthened the Company's balance sheet considerably in 2016 raising new equity capital to fund further growth in the Group's portfolio. Our careful, well appraised acquisition strategy has added assets that have made an immediate contribution to earnings. Notwithstanding the increased number of shares on which we have paid a growing dividend in the year, we have achieved our objective of fully covering our dividend with underlying rental profits.

We have worked hard with healthcare bodies in the UK to position PHP as a partner of choice for the real estate elements of the new strategic plans that seek to modernise care delivery in the UK. The publication of STPs and the approval of enhancement and development projects by the ETTF point to an increase in the development of new healthcare properties. PHP is well positioned to provide the capital that is needed to be invested on a standalone basis or alongside the NHS to develop further purpose built, flexible premises to facilitate change and modernisation.

Alongside this, we also have an existing strong pipeline of opportunities in the UK with several transactions in solicitors' hands. As we seek to add more properties to the portfolio with negotiations well advanced with vendors for a number of possibilities, we will continue to apply our strict acquisition criteria to ensure we that do not overpay for assets in our sector and that we are investing where there is potential for future growth.

PHP completed its first property purchase in the Republic of Ireland in 2016, the culmination of detailed research into Irish primary care real estate and its underlying economic, healthcare and covenant fundamentals. We have established good working relationships with developers of healthcare real estate in Ireland and have a healthy pipeline of potential acquisitions of both income-producing assets and new development projects. We are committed to investing capital into the territory to support the Irish government's drive to provide new, integrated primary care centres to develop a modern primary care infrastructure to the country.

We move ahead into 2017 with clear potential to grow the number of assets the Group owns and add to the contracted rent roll. As an element of inflation returns to the UK economy we also expect to see increased growth on rent reviews albeit slowly at first. We operate with a well-defined, tightly controlled management structure that incurs a reducing proportionate cost as the portfolio grows.

With well-priced debt resources available to the Group to fund its investment, we will continue to deliver growth in earnings through 2017. This will allow PHP to achieve its objective of continuing to pay an increased, fully covered dividend to its shareholders.

Harry Hyman
Managing Director
15 February 2017

EPRA performance measures

The Company is a member of the European Public Real Estate Association (“EPRA”). EPRA has developed a series of measures that aim to establish best practices in accounting, reporting and corporate governance and to provide transparent and comparable information to investors.

We use EPRA measures to illustrate PHP’s performance and to enable stakeholders to benchmark the Group against other property investment companies.

Set out below is a description of each measure and how PHP has performed.

EPRA Earnings per share

EPRA EPS: 4.8 pence, down 2.0% (2015: 4.9 pence)

Diluted EPRA EPS: 4.7 pence, down 1.5% (2015: 4.8 pence)

Definition**:** Earnings from operational activities

Purpose: A key measure of a company’s underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

Calculation: see Note 8 to the financial statements.

EPRA NAV per share

EPRA NAVPS: 91.1 pence, up 3.9% (2015: 87.7 pence)

Definition**:** Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

Purpose: Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.

Calculation: see Note 25 to financial statements.

Primary Health Properties

EPRA Net Initial Yield

EPRA NIY: 5.17%, down 13bps (2015: 5.30%)

Definition: Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

Purpose: A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of the Group's portfolio compares with others.

Calculation	**2016 £m**	**2015 £m**
Investment property (excluding those under construction)	1,212.3	1091.9
Allowance for estimated purchaser's costs	77.6	63.3
Grossed up completed property portfolio valuation *(B)*	**1,289.9**	**1,154.2**
Annualised cash passing rental income	67.5	62.0
Property outgoings	(0.8)	(0.8)
Annualised net rents *(A)*	**66.7**	**61.2**
EPRA Net Initial Yield *(A/B)*	**5.17%**	**5.30%**

EPRA Vacancy Rate

EPRA Vacancy Rate: 0.29%, down 3bps (2015: 0.32%)

Definition: Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.

Purpose: A 'pure' (%) measure of investment property space that is vacant, based on ERV.

Calculation	**2016 £m**	**2015 £m**
ERV of vacant space	0.2	0.2
ERV of completed property portfolio (including vacant space)	67.7	62.1
EPRA Vacancy Rate	**0.29%**	**0.32%**

EPRA Cost Ratio

EPRA Cost Ratio: 11.5% (including and excluding costs of direct vacancy), unchanged (2015: 11.5%)

Definition: Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income.

Purpose: A key measure to enable meaningful measurement of the changes in a company's operating costs.

Calculation: see page 20, "Business review: managing effectively and efficiently".

Risk management and principal risks

Risk management overview
The Board has structured operations in order to minimise the Group's exposure to the risks that it may face, but also to ensure that risks that are accepted are appropriate to the returns they may generate and within the Group's overall risk appetite that is defined by the Board and reviewed on an annual basis.

The Group aims to operate in a relatively low risk environment, appropriate for its strategic objective of generating progressive returns for shareholders. Key elements of maintaining this low risk approach are:

- investment focuses on the primary heath real estate sector which is traditionally much less cyclical than other real estate sectors;
- the majority of the Group's rental income is received directly or indirectly from government bodies;
- the Group benefits from long initial lease terms, most with upwards only review terms, that provide clear visibility of income;
- the Group is not a direct developer of real estate, which, whilst there is little or no speculative development in the sector, means that the Group is not exposed to risks that are inherent in property development; and
- the Board funds its operations so as to maintain an appropriate mix of debt and equity. Debt funding is procured from a range of providers, maintaining a spread of maturities and a mix of terms so as to fix or hedge the majority of interest costs.

The structure of the Group's operations includes rigorous, regular review of risks and how these are mitigated and managed across all areas of the Group's activities. The Group faces a variety of risks that have the potential to impact on its performance, position and longer term viability. These include external factors that may arise from the markets in which the Group operates, government and fiscal policy and general economic conditions, and internal risks that arise from how the Group is managed and chooses to structure its operations.

Approach to risk management
Risk is considered at every level of the Group's operations and the Board's appetite for risk is embedded in the controls and processes that have been put in place across the Group. The risk management process is underpinned by strong working relationships between the Board, the Adviser and members of the Adviser's team which enables the prompt assessment and response to risk issues that may be identified at any level of the Group's business.

The Board is responsible for effective risk management across the Group and retains ownership of the significant risks that are faced by the Group. This includes ultimate responsibility for determining and reviewing the nature and extent of the principal risks faced by the Group and assessing the Group's risk management processes and controls. These systems and controls are designed to identify, manage and mitigate risks that the Group faces but will not eliminate such risks and can provide reasonable but not absolute assurance.

The Audit Committee is delegated responsibility for reviewing the Group's systems of risk management and their effectiveness on behalf of the Board. These systems and processes have been in place for the year under review and remained in place up to the date of approval of the Annual Report and accounts.

The Adviser is delegated responsibility for assessing and monitoring operational and financial risks and has in place robust systems and procedures to ensure this is embedded in its approach to managing the Group's portfolio and operations. The Adviser has established a Risk Committee that is formed of members of its senior management team, with a chairman who is independent of both the Adviser and the Group and experienced in the operation and oversight of risk management processes.

The Adviser has implemented a wide-ranging system of internal controls and operational procedures that are designed to manage risk as effectively as possible, but it is recognised that risk cannot be totally eliminated. Staff employed by the Adviser are intrinsically involved in the identification and management of risk and regular risk management workshops are undertaken to encourage open participation and communication. Significant risks are recorded in a Risk Register and are assessed and rated within a defined scoring system. The Risk Register is updated for each quarterly meeting of the Adviser's Risk Committee and the risks are identified and their ratings are reviewed.

The Adviser's Risk Committee reports its processes of risk management and rating of risks identified to the Audit Committee. The Risk Register forms an appendix to the report which details risks that have (i) an initial high rating, and (ii) the higher residual ratings once the effectiveness of mitigation and/or management actions have been overlaid. The Audit Committee in turn agrees those risks that will be managed by the Adviser and those where the Board will retain direct ownership and responsibility for management and monitoring those risks.

The Board recognises that it has limited ability to control a number of the external risks that the Group faces, such as government policy, but keeps the possible impact of such risks under review and considers them as part of its decision-making process.

Principal risks and uncertainties

The Board has undertaken a robust assessment of the principal risks faced by the Group that may threaten its business model, future performance, solvency or liquidity and its ability to meet the overall objective of the Group of delivering progressive returns to shareholders through a combination of earnings growth and capital appreciation. These are set out below.

Risk	Inherent risk rating	Change to risk in 2016	Factors affecting risk in the year	Mitigation	Residual risk rating
Delivering progressive returns					
PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	***Medium*** as likelihood is low but impact of occurrence may be very major.	Unchanged	UK and Irish governments continue to be committed to the development of primary care services and initiatives to develop new models of care increasingly focus on greater utilisation of primary care. The eventual outcome of EU exit negotiations is unknown but the demand for health services will continue regardless. Future funding levels in the UK may be impacted by any long term, material change to economic performance and the uncertainty caused by the referendum may lead to fluctuations in the value of the Group's assets, but no evidence of this can be seen at present. The attractiveness of the long term, secure and growing income streams that characterise the sector leads to stability of values.	The commitment to primary care is a stated objective of both UK and Irish governments. Management engages directly with government and healthcare management in both the UK and in Ireland to promote the need for continued investment in modern premises. The attractiveness of long term, secure income streams that characterise the sector leads to stability of values. The Group has reduced its borrowing levels following its capital raise in April 2016, maintains headroom in its covenant tests and holds a pool of unfettered assets.	***Medium*** Policy risk is out of the control of the Board, but proactive measures are taken to monitor developments and ensure prudent financing and continued availability of resources to the Group.

Primary Health Properties

Risk	Inherent risk rating	Change to risk in 2016	Factors affecting risk in the year	Mitigation	Residual risk rating
Income and expenditure that will be derived from PHP's investment in the Republic of Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates impacting the Group's earnings and portfolio valuation.	***Medium*** as likelihood of volatility is high but the potential impact at present is low due to the quantum of investment in Ireland.	Increased	The Group has completed its first acquisition of a primary care centre in Ireland. Asset values, funding and net income are denominated in Euros. The UK referendum vote to leave the EU has seen Sterling exchange rates fall sharply. Volatility will continue whilst the exit process is ongoing.	The Board has and will continue to fund its investments so as to create a natural hedge between asset values and liabilities in Ireland. Operating cash flows will be hedged wherever possible to limit exposure to exchange rate fluctuations. This will include the use of currency derivatives and matching Euro-denominated assets with Euro debt facilities.	***Low*** Action has been taken to implement a hedging strategy so as to manage exchange rate risk.
Grow property portfolio					
The emergence of new purchasers to the sector and the recent slowing in the level of approvals of new centres in the UK may restrict the ability of the Group to secure new investments.	***High*** as likelihood is high and impact of occurrence could be major.	Unchanged	A flight to income is emerging post-referendum which has attracted property investors to the sector due to its long term, secure government cash flows. The sector continues to experience a low number of new development approvals in the UK. The Group has an identified pipeline of primary care real estate assets in the UK and Ireland, giving access to a pool of potential modern medical centre investments.	The reputation and track record of the Group in the sector means it is able to source investment in existing standing investments from developers, investors and owner-occupiers. The Group has a number of formal pipeline agreements and longstanding development relationships that provide an increased opportunity to secure developments that come to market in the UK. The ETTF has approved several projects within PHP's portfolio which enhance or extend existing properties.	***Medium*** The Group's position within the sector and commitment to and understanding of the asset class sees PHP being aware of a high proportion of transactions in the market. Active management of the property portfolio generates regular opportunity to increase income and enhance value.
The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest.	***High*** as likelihood of a restricted supply is medium and the potential impact of such a restriction could be major.	Reduced	The Company successfully raised £145.3 million (after costs) of equity capital in April 2016. Proceeds were initially used to pay down revolving credit facilities, but these funds remain available to be redrawn as needed by the Group. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term with significant overall headroom.	Overall debt levels have been reduced in the period and the quantum of unfettered assets increased. Existing and new debt providers are keen to provide funds to the sector, attracted by the strength of its cash flows. The Board monitors its capital structure and maintains regular contact with existing and potential equity investors and debt funders.	***Medium*** The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinance debt facilities in advance of their maturity.

Risk	Inherent risk rating	Change to risk in 2016	Factors affecting risk in the year	Mitigation	Residual risk rating
Manage effectively and efficiently					
The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit for purpose medical centres is key to delivering on the Group's strategic objectives.	***Medium*** as likelihood of limited alternative use value is medium and the impact of such values could be serious.	Unchanged	The Group's property portfolio has grown by 24 assets in the period. Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.	The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. Ten projects procured in the period and ten bids successfully approved for ETTF funding. These all enhance income and extend occupational lease terms.	***Medium*** The Adviser employs an active asset management programme and has a successful track record of securing enhancement projects, including lease extensions.
The Group has no employees. The continuance of the Adviser contract is key for the efficient operation and management of the Group.	***Medium*** as the likelihood of any unexpected change is low, but if that occurred, the impact could be significant.	Unchanged	None.	The Advisory Agreement with and performance of Nexus is regularly reviewed. Nexus' remuneration is linked to the performance of the Group to incentivise long term levels of performance. Nexus can be required to serve all or any part of its notice period should the Group decide to terminate providing protection for an efficient handover.	***Medium*** The Adviser is aligned with the objectives of the Group and the composition of its team is monitored by the Board.
Diversified, long term funding					
Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.	***Medium*** as the likelihood of insufficient facilities is medium and the impact of such an event would be serious.	Unchanged	Total Group borrowing has been decreased in the period and a short term (twelve months remaining) revolving credit facility has been cancelled. The Group was successful in extending the quantum and term of a facility with Barclays Bank plc and Allied Irish Banks plc in January 2016. The facility is for a total of £115 million for a new five-year term. Fully credit approved terms have been agreed with RBS to refinance the Group's Club facility that matures in August 2017 for a new term of up to five years.	Existing lenders remain keen to finance PHP and new entrants to debt capital markets have increased available resource. Management constantly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds. The Adviser regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.	***Medium*** The Board constantly monitors the facilities available to the Group and looks to refinance in advance of any maturity. The Group is subject to the changing conditions of debt capital markets.

Risk	Inherent risk rating	Change to risk in 2016	Factors affecting risk in the year	Mitigation	Residual risk rating
Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	***High*** as the likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.	Increased	Term interest rate markets experienced significant volatility across the year falling sharply following the result of the referendum but seeing spikes as information has come to market concerning the exit process and upon the election of a new US president. Over the year, term interest rates have fallen leading to an increase in the mark to market liability ("MtM") valuations of the Group's interest rate derivative portfolio.	The Group holds a proportion of its debt in long term, fixed rate loans and mitigates its exposure to interest rate movements on floating rate facilities mainly through the use of interest rate swaps. As at the balance sheet date 88% of drawn debt is fixed or hedged. MtM valuation movements do not impact on the Group's cash flows and are not included in any covenant test in the Group's debt facilities.	***Medium*** The Group is currently well protected against the risk of interest rate rises but, due to its continued investment in new properties and the need to maintain available facilities, will be exposed to future interest rate levels.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code as revised in 2014, the Directors confirm that, as part of their strategic planning and risk management processes, they undertake an assessment of the current position of the Group, its principal risks and prospects over a period that is longer than the twelve months required in order to adopt the going concern principle as the basis of the preparation of its financial statements.

Although individually the Group's assets may have relatively long unexpired lease terms and will all have a defined asset management strategy, the Board has undertaken its detailed financial review over a three-year period. This period is selected as:

- The Group's financial review and budgetary processes cover a three-year look forward period; and
- Most occupational leases within the Group's property portfolio have a three-yearly rent review pattern. Modelling over this period allows the Group's financial projections to include a full cycle of reversion, including fixed and indexed increases, to be assessed.

The Group's financial review and budgetary processes are based on an integrated model that projects performance, cash flows, position and other key performance indicators including earnings per share, leverage rates, net asset values per share and REIT compliance over the review period. In addition, the forecast model looks at the funding of the Group's activities and its compliance with the financial covenant requirements of its debt facilities.

The model uses a number of key parameters in generating its forecasts that reflect the Group's strategy, operating processes and the Board's expectation of market developments in the review period. In undertaking its financial review, these parameters have been flexed to reflect severe, but realistic scenarios both individually and collectively.

Sensitivities applied are derived from the principal risks faced by the Group (see Risk Management on pages 27 to 31) that could affect solvency or liquidity. These include the rate of investment in new properties and the return achieved from those investments, the availability and cost of debt finance, any potential reasonable decline in asset valuations and the ability to meet debt facility covenants. Sensitivities also flex assumed rental growth rates.

In making its assessment, the Board has made a number of specific assumptions that overlay the financial parameters used in the Group's models. The Board has assumed that there is little or no change to healthcare policies or reduction in the levels of funding for primary care. In addition to the specific impact of the agreed refinance of the Group's "Club" debt facility with Royal Bank of Scotland, the Board has reflected its reasonable confidence that the Group will be able to refinance or replace other debt facilities that mature within the review period in advance of their maturity and on terms similar to those at present.

Based on the results of their assessment and on the assumptions that have been made, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period.

Harry Hyman
Managing Director
15 February 2017

Group Statement of Comprehensive Income

for the year ended 31 December 2016

		Notes	2016 £000	2015 £000
Rental income			**67,439**	63,115
Direct property expenses			**(868)**	(852)
Net rental income		3	**66,571**	62,263
Administrative expenses		4	**(7,332)**	(6,807)
Net result on property portfolio		10	**20,686**	39,767
Operating profit			**79,925**	95,223
Finance income		5	**464**	737
Finance costs		6a	**(32,954)**	(34,464)
Non recurring: Early loan repayment fees		6b	**(24)**	-
Fair value (loss)/gain on derivative interest rate swaps and amortisation of hedging reserve		6c	**(2,185)**	1,005
Fair value loss on convertible bond		6d	**(1,525)**	(6,469)
Profit before taxation			**43,701**	56,032
Taxation charge		7	**-**	-
Profit for the year [(1)]			**43,701**	56,032
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit and loss				
Fair value (loss)/gain on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve		23	**(10,370)**	1,420
Foreign currency translation gain on net investment in foreign subsidiary			**6**	-
Other comprehensive (loss)/income for the year net of tax [(1)]			**(10,364)**	1,420
Total comprehensive income for the year net of tax [(1)]			**33,337**	57,452
Earnings per share	Basic	8	**7.8p**	12.6p
	Diluted	8	**7.3p**	11.2p
EPRA earnings per share	Basic	8	**4.8p**	4.9p
	Diluted	8	**4.7p**	4.8p

The above relates wholly to continuing operations.

[1] - Wholly attributable to equity shareholders of Primary Health Properties PLC

Group Balance Sheet
at 31 December 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Investment properties	10	**1,220,155**	1,100,612
Derivative interest rate swaps	17	**-**	9
		1,220,155	1,100,621
Current assets			
Trade and other receivables	12	**3,343**	4,153
Cash and cash equivalents	13	**5,099**	2,881
		8,442	7,034
Total assets		**1,228,597**	1,107,655
Current liabilities			
Derivative interest rate swaps	17	**(3,795)**	(4,734)
Corporation tax payable		**-**	-
Deferred rental income		**(14,062)**	(13,169)
Trade and other payables	14	**(13,600)**	(16,099)
Borrowings: term loans and overdraft	15	**(803)**	(862)
		(32,260)	(34,864)
Non-current liabilities			
Borrowings: term loans and overdraft	15	**(429,433)**	(460,550)
Borrowings: Bonds	16	**(238,197)**	(236,328)
Derivative interest rate swaps	17	**(29,511)**	(30,553)
		(697,141)	(727,431)
Total liabilities		**(729,401)**	(762,295)
Net assets		**499,196**	345,360
Equity			
Share capital	19	**74,773**	55,785
Share premium account	20	**59,102**	57,422
Capital reserve	21	**1,618**	1,618
Special reserve	22	**192,894**	93,063
Hedging reserve	23	**(32,772)**	(22,402)
Retained earnings	24	**203,575**	159,874
Translation reserve		**6**	-
Total equity[1]		**499,196**	345,360
Net asset value per share – basic	25	**83.5p**	77.4p
EPRA net asset value per share - basic	25	**91.1p**	87.7p

These financial statements were approved by the Board of Directors on 15 February 2017 and signed on its behalf by:

Alun Jones
Chairman

[1] - Wholly attributable to equity shareholders of Primary Health Properties PLC.

Group Cash Flow Statement
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Operating activities			
Profit on ordinary activities before tax		**43,701**	56,032
Finance income	5	**(464)**	(737)
Finance costs	6a	**32,954**	34,464
Early loan repayment fee	6b	**24**	-
Fair value loss/(gain) on interest rate swaps and amortisation of cash flow hedging reserve	6c	**2,185**	(1,005)
Fair value loss on convertible bond	6d	**1,525**	6,469
Operating profit before financing costs		**79,925**	95,223
Adjustments to reconcile Group operating profit before financing costs to net cash flows from operating activities:			
Revaluation gain on property portfolio	10	**(20,686)**	(39,767)
Fixed rent uplift		**(1,498)**	(1,480)
Decrease in trade and other receivables		**616**	999
(Decrease)/increase in trade and other payables		**(1,519)**	2,170
Cash generated from operations		**56,838**	57,145
Taxation paid[1]		**(51)**	-
Net cash flow from operating activities		**56,787**	57,145
Investing activities			
Payments to acquire and improve investment properties		**(97,359)**	(17,863)
Payment to acquire Crestdown Limited[2]		**-**	(3,869)
Payment to acquire White Horse Centre Limited[3]		**-**	(7,745)
Interest received on development loans		**576**	1,311
Bank interest received		**59**	12
Net cash flow used in investing activities		**(96,724)**	(28,154)
Financing activities			
Proceeds from issue of shares		**150,000**	-
Cost of share issues and sub-division		**(4,768)**	(139)
Term bank loan drawdowns		**68,453**	45,750
Term bank loan repayments		**(100,290)**	(25,764)
Termination of derivative financial instruments		**(14,512)**	(3,286)
Swap interest paid		**(4,987)**	(6,724)
Non-utilisation fees		**(886)**	(875)
Loan arrangement fees		**(794)**	(270)
Interest paid		**(25,318)**	(25,791)
Loan breakage costs		**(24)**	-
Equity dividends paid net of scrip dividend	9	**(24,734)**	(21,083)
Net cash flow from financing activities		**42,140**	(38,182)
Increase/(decrease) in cash and cash equivalents for the year		**2,203**	(9,191)
Effect of exchange rate fluctuations on cash and cash equivalents[4]		**15**	-
Cash and cash equivalents at start of year		**2,881**	12,072
Cash and cash equivalents at end of year	13	**5,099**	2,881

[1] – payment of liabilities acquired with subsidiaries
[2] – acquisition of Thornaby property
[3] – acquisition of White Horse, Westbury property
[4] – exchange difference on euro denominated loan used to hedge net investment in foreign operation, see Note 2.2 to the Financial Statements

Primary Health Properties

Group Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Total £000
1 January 2016	55,785	57,422	1,618	93,063	(22,402)	-	159,874	345,360
Profit for the year	-	-	-	-	-	-	43,701	43,701
Other comprehensive income								
Fair value movement on interest rate swaps	-	-	-	-	(11,930)	-	-	(11,930)
Foreign currency translation gain on net investment in subsidiary	-	-	-	-	-	6	-	6
Amortisation of hedging reserve	-	-	-	-	1,560	-	-	1,560
Total comprehensive income	-	-	-	-	(10,370)	6	43,701	33,337
Shares issued	18,750	-	-	131,250	-	-	-	150,000
Share issue expenses	-	(101)	-	(4,667)	-	-	-	(4,768)
Dividends paid:								
Dividends paid	-	-	-	(24,733)	-	-	-	(24,733)
Scrip dividend in lieu of cash	238	1,781	-	(2,019)	-	-	-	-
31 December 2016	**74,773**	**59,102**	**1,618**	**192,894**	**(32,772)**	**6**	**203,575**	**499,196**

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
1 January 2015	55,638	56,416	1,618	115,438	(23,847)	103,867	309,130
Profit for the year	-	-	-	-	-	56,032	56,032
Other comprehensive income							
Fair value movement on interest rate swaps	-	-	-	-	(132)	-	(132)
Amortisation of hedging reserve	-	-	-	-	1,552	-	1,552
Total comprehensive income	-	-	-	-	1,420	56,032	57,452
Reclassification of interest accrual from hedging reserve[1]	-	-	-	-	25	(25)	-
Share issue expenses	-	(30)	-	(109)	-	-	(139)
Dividends paid:							
Dividends paid	-	-	-	(21,083)	-	-	(21,083)
Scrip dividends in lieu of cash	147	1,036	-	(1,183)	-	-	-
31 December 2015	55,785	57,422	1,618	93,063	(22,402)	159,874	345,360

[1] This relates to fair value changes in prior periods incorrectly recognised within the cash flow hedging reserve movements

Notes to the financial statements

1. Corporate information
The Group's financial statements for the year ended 31 December 2016 were approved by the Board of Directors on 15 February 2017 and the Balance Sheets were signed on the Board's behalf by the Chairman, Alun Jones. Primary Health Properties PLC is a public limited company incorporated and domiciled in England and Wales. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Conduct Authority, and traded on the London Stock Exchange.

2. Accounting policies

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

The Group's financial statements are prepared on the going concern basis (see page 69 for further details) and presented in Sterling rounded to the nearest thousand.

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

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in February 2017.

2.2 Summary of significant accounting policies

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

The individual financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will be prepared under UK GAAP, the Board having chosen to adopt FRS 101 for the current year. The use of IFRS at Group level does not affect the distributable reserves available to the Group.

Segmental reporting
The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in healthcare property assets in the United Kingdom and Ireland leased principally to GPs, government healthcare organisations and other associated healthcare users.

Foreign currency transactions
Each Group company presents its individual financial statements in its functional currency. The functional currency of all UK subsidiaries is Sterling and the functional currency of Primary Health Properties ICAV is Euro.

Transactions in currencies other than an individual entity's functional currency (foreign currencies) are recognised at the applicable exchange rate ruling on the transaction date. Exchange differences resulting from settling these transactions, or from retranslating monetary assets and liabilities denominated in foreign currencies, are included in the Group Statement of Comprehensive Income, except for exchange differences on foreign currency loans that hedge the Group's investment in foreign subsidiaries where exchange differences are booked in equity until the investment is realised.

Foreign operations
In preparing the Group's consolidated financial statements, the assets and liabilities of foreign entities are translated into Sterling at exchange rates prevailing on the Balance Sheet date. The income, expenses and cash flows of a foreign entity are translated at the average exchange rate for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

Exchange differences are recognised in a separate component of equity reserves and recognised in the Statement of Comprehensive Income on disposal of a foreign entity.

The only exchange rates used to translate foreign currency amounts in 2016 are as follows (the Group did not have any foreign operations in 2015).

Balance Sheet: £1 = €1.1722. Statement of Comprehensive Income: £1 = €1.1843

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

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

Investment properties are recognised for accounting purposes upon completion of contract, when the risks and rewards of ownership are transferred to the Group. Investment properties cease to be recognised when they have been disposed of. Any gains and losses arising are recognised in the Group Statement of Comprehensive Income in the year of disposal.

The Group may enter into a forward funding agreement with third-party developers in respect of certain properties under development. In accordance with these agreements, the Group will make monthly stage payments to the developer based on certified works on site at that time. Interest is charged to the developer on all stage payments made during the construction period and on the cost of the land acquired by the Group at the outset of the development and taken to the Group Statement of Comprehensive Income in the year in which it accrues.

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

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

Net rental income
Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. Such adjustments are accrued at 90% of the additional rental income that is expected to result from the review. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

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

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

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

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

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

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

Convertible bond
The convertible bond is designated as “at fair value through profit or loss” and so is presented on the Group Balance Sheet at fair value with all gains and losses, including the write-off of issuance costs, recognised in the Group Statement of Comprehensive Income. The fair value of the convertible bond is assessed in accordance with level 1 valuation techniques as set out within “Fair value measurements” within these accounting policies. The interest charge in respect of the coupon rate on the bond has been recognised within the underlying component of net financing costs on an accruals basis. Refer to Note 16 for further details.

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

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

Financial instruments

Financial liabilities at fair value through profit or loss

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

Other loans and payables

Other loans and payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market. Such liabilities are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group statement of comprehensive income when the loans and payables are de-recognised or impaired, as well as through the amortisation process.

Loans and receivables

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

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or

- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques at three levels that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

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

Hedge accounting
At the inception of a transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the hedging instrument meets the criteria of IAS 39 for being described as "effective" in offsetting changes in the fair values or cash flows of hedged items.

(i) Derivative financial instruments (derivatives)
The Group uses interest rate swaps to help manage its interest rate risk.

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

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

- where a derivative is designated as a hedge of the variability of a highly probable forecast transaction, such as an interest payment, the element of the gain or loss on the derivative that is an "effective" hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in the cash flow hedging reserve are reclassified into the Group Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Group Statement of Comprehensive Income i.e. when interest income or expense is recognised;

- the gain or loss on derivatives that do not meet the strict criteria for being "effective" and so do not qualify for hedge accounting and the non-qualifying element of derivatives that do qualify for hedge accounting, are recognised in the Group Statement of Comprehensive Income immediately. The treatment does not alter the fact that the derivatives are economic hedges of the underlying transaction.

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

(ii) Hedging net investments in foreign entities

The Group uses foreign currency borrowings to fund and hedge its investment in foreign entities. Any gain or loss on the loan designated as a hedging instrument is recognised in other comprehensive income and accumulated in a foreign currency translation reserve. Gains or losses on the hedge that are accumulated in the foreign currency translation reserve are reclassified to the Statement of Comprehensive Income on disposal of a foreign entity.

Leases – Group as a lessor

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

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

2.3 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

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

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

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

In determining the fair value of investment properties under construction the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. The valuer takes into account where the Group's assets under construction are pre-let and construction risk remains with the respective developer or contractor.

Fair value of derivatives
In accordance with IAS 39, the Group values its derivative financial instruments at fair value. Fair value is estimated by J.C. Rathbone Associates Limited on behalf of the Group, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid-price of the yield curve prevailing on 31 December 2016. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

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

Hedge effectiveness
The Group has a number of interest rate swaps that mature after the Group's bank facilities, to which they relate, are due to expire. In accordance with IAS 39, in order to apply hedge accounting in relation to these interest rate swaps, the Group has determined that it is highly probable that these bank facilities will be renegotiated on or before expiry and that variable interest rate debt finance will be in place until the expiry date of the swaps.

Property acquisitions during the year
The Directors have reviewed the acquisitions during the year on an individual basis in accordance with the requirements of IFRS 3(R). They consider that they all meet the criteria of asset acquisitions rather than business combinations and have accounted for them as such. Although corporate entities were acquired, they were special purpose vehicles for holding properties rather than separate business entities. This judgement was made due to the absence of business processes inherent in the entities acquired.

2.4 Standards adopted during the year
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective for the Group as of 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Annual improvement to IFRSs: 2012-2014
- IAS 16 and IAS 38 (amendments): Clarification of acceptable methods of depreciation and amortisation
- IAS 16 and IAS 41 (amendments): Agriculture bearer plants
- IAS 19 (amendments): Defined benefit plans: employee contributions
- IAS 27 (amendments): Equity method in separate financial statements
- IFRS 11 (amendments): Accounting for acquisitions of interests in joint operations

2.5 Standards issued but not yet effective
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 16	Leases
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
Annual improvements to IFRSs: 2014-2016	Amendments to: IFRS 1 – First-time Adoption of International Financial Reporting Standards, IFRS 12 – Disclosure of Interests in Other Entities, IAS 28 – Investments in Associates and Joint Ventures

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, but are not yet applicable to the Group and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss, with the irrevocable option at inception to present changes in fair value in Other Comprehensive Income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the "bright line" hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The Group is assessing the impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to EU adoption. The Group is assessing the impact of IFRS 15 but it is not expected to be material.

IFRS 16, 'Leases', establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard specifies how entities reporting in accordance with IFRS will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted if IFRS 15 'Revenue from contracts with customers' has also been applied. The Group is assessing the impact of IFRS 16 but it is not expected to be material.

3. Rental and related income

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

Group as a lessor

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

	Less than one year	1 to 5 years	More than 5 years	Total
	£000	£000	£000	£000
2016	**66,894**	**264,895**	**575,480**	**907,269**
2015	61,850	246,566	590,357	898,773

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

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

4. Group operating profit is stated after charging

	2016	2015
	£000	£000
Administrative expenses including:		
Advisory fees (Note 4a)	**5,806**	5,296
Directors' fees (Note 4c)	**285**	254
Audit fees		
Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts	**120**	119
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries	**135**	114
Total audit fees	**255**	233
Audit-related assurance services for the interim review	**22**	42
Total audit and assurance services	**277**	275
Non-audit fees		
Tax compliance services	**5**	15
Tax advisory services	**34**	20
Total non-audit fees	**39**	35
Total fees	**316**	310

a) Advisory fees

The advisory fees calculated and payable for the period to 31 December were as follows:

	2016	2015
	£000	£000
Nexus	**5,806**	5,296

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

As at 31 December 2016 £0.5 million was payable to Nexus (2015: £0.5 million).

Further fees paid to Nexus in accordance with the Advisory Agreement of £0.1 million (2015: £0.1 million) in respect of capital projects were capitalised in the year.

Service charge management fees paid to Nexus in the year in connection with the Group's properties totalled £0.1 million (2015: £0.1 million).

b) Performance Incentive Fee

Information about the Performance Incentive Fee is provided in the Corporate Governance section of the Strategic Review in the Annual Report.

c) Remuneration of Directors

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

Primary Health Properties

5. Finance income

	2016 £000	2015 £000
Interest income on financial assets		
Bank interest	**57**	9
Development loan interest	**405**	725
Other interest	**2**	3
	464	737

6. Finance costs

	2016 £000	2015 £000
Interest expense and similar charges on financial liabilities		
a) Interest		
Bank loan interest	**15,647**	16,287
Swap interest	**5,061**	5,954
Bond interest	**9,577**	9,567
Bank facility non-utilisation fees	**846**	922
Bank charges and loan commitment fees	**1,823**	1,734
	32,954	34,464
b) Early loan repayment fees		
Fee on breakage of Crestdown debt	**24**	-

	2016 £000	2015 £000
c) Derivatives		
Net fair value (loss)/gain on interest rate swaps	(625)	2,557
Amortisation of cash flow hedging reserve	(1,560)	(1,552)
	(2,185)	1,005

The fair value gain on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A fair value loss on derivatives which do meet the hedge effectiveness criteria under IAS 39 of £11.9 million (2015: £0.1 million) is accounted for directly in equity. An amount of £1.6 million has been amortised from the cash flow hedging reserve in the year resulting from an early termination of an effective swap contract (see Note 23).

Primary Health Properties

Details of the fair value loss on hedges which meet the effectiveness criteria for hedge accounting under IAS 39 are set out in Note 23.

	2016	2015
	£000	£000
d) Convertible bond		
Fair value loss on convertible bond	**(1,525)**	(6,469)

The fair value movement in the convertible bond is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NAV. Refer to Note 16 for further details about the convertible bond.

	2016	2015
	£000	£000
Net finance costs		
Finance income (Note 5)	**(464)**	(737)
Finance costs (as per above)	**32,954**	34,464
	32,490	33,727

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

	2016	2015
	£000	£000
Current tax		
UK corporation tax (Note 7b)	**-**	-

The UK corporation tax rate of 20% has been applied in the measurement of the Group's tax liability at 31 December 2016.

b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2016	2015
	£000	£000
Profit on ordinary activities before taxation	**43,701**	56,032
Theoretical tax at UK corporation tax rate of 20.0% (2015: 20.3%)	**8,740**	11,375
REIT exempt income	**(9,044)**	(6,940)
Transfer pricing adjustments	**4,106**	4,023
Non-taxable items	**(3,578)**	(7,035)
Losses brought forward utilised	**(224)**	(1,423)
Taxation charge (Note 7a)	**-**	-

At the balance sheet date, the Group has unused tax losses of £15.0 million (2015: £14.3 million) available for offset against future taxable profits.

c) Basis of taxation

The Group elected to be treated as a UK REIT with effect from 1 January 2007. 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 20% (2015: 20%).

Primary Health Properties

Acquired companies are effectively converted to UK-REIT status from the date on which they become a member of the Group.

As a UK REIT, the Company is required to pay Property Income Distributions ("PIDs") equal to at least 90% of the Group's rental profit calculated by reference to tax rules rather than accounting standards.

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 its business. The Group remains compliant as at 31 December 2016.

8. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)	Per Share (pence)
2016			
Basic and diluted earnings			
Basic earnings	**43,701**	**560,026,372**	**7.8**
Dilutive effect of convertible bond	**3,506**	**84,615,385**	
Diluted earnings	**47,207**	**644,641,757**	**7.3**
EPRA basic and diluted earnings			
Basic earnings	**43,701**		
Adjustments to remove:			
Net result on property (Note 10)	**(20,686)**		
Fair value loss on derivatives	**2,185**		
Early loan repayment fee charges[1]	**24**		
Fair value movement on convertible bond	**1,525**		
EPRA basic earnings	**26,749**	**560,026,372**	**4.8**
Dilutive effect of convertible bond	**3,506**	**84,615,385**	
EPRA diluted earnings	**30,255**	**644,641,757**	**4.7**
2015			
Basic and diluted earnings			
Basic earnings	56,032	445,606,491	12.6
Dilutive effect of convertible bond	3,506	84,615,385	
Diluted earnings	59,538	530,221,876	11.2
EPRA basic and diluted earnings			
Basic and diluted earnings	56,032		
Adjustments to remove:			
Net result on property (Note 10)	(39,767)		
Fair value loss on derivatives	(1,005)		
Fair value movement on convertible bond	6,469		
EPRA basic and diluted earnings	21,729	445,606,491	4.9
Dilutive effect of convertible bond	3,506	84,615,385	
EPRA diluted earnings	25,235	530,221,876	4.8

On 20 May 2014, the Group issued £82.5 million of unsecured convertible bonds, refer to Note 16 for further details. In accordance with IAS 33 (Earnings per Share) the Company is required to assess and disclose the dilutive impact of the contingently issuable shares within the convertible bond. The impact is not recognised where it is anti-dilutive.

The dilutive impact to basic EPS of convertible bonds is represented by the accrued bond coupon which has been included in the results of the year ended 31 December 2016. The number of dilutive shares is calculated as if the contingently issuable shares within the convertible bond had been in issue for the period from issuance of the bonds to 31 December 2016.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2016	2015
	£000	£000
Quarterly interim dividend paid 26 February 2016	**5,357**	-
Scrip dividend in lieu of quarterly cash dividend 26 February 2016	**361**	-
Quarterly interim dividend paid 27 May 2016	**5,170**	-
Scrip dividend in lieu of quarterly cash dividend 27 May 2016	**552**	-
Quarterly interim dividend paid 26 August 2016	**6,832**	-
Scrip dividend in lieu of quarterly cash dividend 26 August 2016	**819**	-
Quarterly interim dividend paid 25 November 2016	**7,374**	-
Scrip dividend in lieu of quarterly cash dividend 25 November 2016	**287**	-
Interim dividend paid 1 April 2015	**-**	10,733
Scrip dividend in lieu of interim cash dividend 1 April 2015	**-**	395
Interim dividend paid 30 October 2015	**-**	10,350
Scrip dividend in lieu of cash dividend 30 October 2015	**-**	788
Total dividends distributed in the year	**26,752**	22,266
Per share	**5.125p**	5.0p

On 5 January 2017, the Board declared an interim dividend of 1.31 pence per Ordinary Share with regard to the year ended 31 December 2016, payable on 24 February 2017. This dividend will not be a Property Income Distribution ("PID").

10. Investment properties, investment properties under construction

Properties have been independently valued at fair value by Lambert Smith Hampton ("LSH"), Chartered Surveyors and Valuers, as at the balance sheet date in accordance with IAS 40 'Investment property'. LSH confirm that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards ("Red Book"). There were no changes to the valuation techniques during the year. The Valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location and category of investment property and have had full regard to market evidence when determining the values.

The properties are 99.7% let (2015: 99.7%). The valuations reflected a 5.17% net initial yield (2015: 5.32%) and a 5.38% (2015: 5.53%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the Valuer.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the Valuers are required to value development property as if complete, deduct the costs remaining to be paid to complete the development and consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks and the impact they may have on fair value. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the Valuers have deemed that the residual risk to the Group is minimal.

As required by the Red Book, LSH has deducted the outstanding cost to the Group through to the completion of construction of £3.3 million (2015: £21.8 million) in arriving at the fair value to be included in the financial statements. A fair value increase of £0.8 million (2015: increase of £0.6 million) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on property portfolio in the year of £20.7 million (2015: gain of £39.8 million).

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

	Investment properties freehold	Investment properties long leasehold	Investment properties under construction	Total
	£000	£000	£000	£000
As at 1st January 2016	**882,016**	**209,861**	**8,735**	**1,100,612**
Property additions	**70,335**	**9,000**	**18,033**	**97,368**
Impact of lease incentive adjustment	**657**	**832**	**-**	**1,489**
Transfer from properties under construction	**19,703**	**-**	**(19,703)**	**-**
	972,711	**219,693**	**7,065**	**1,199,469**
Revaluations for the year	**14,219**	**5,642**	**825**	**20,686**
As at 31 December 2016	**986,930**	**225,335**	**7,890**	**1,220,155**
As at 1st January 2015	825,274	177,075	23,858	1,026,207
Property additions	18,078	148	14,839	33,065
Impact of lease incentive adjustment	629	944	-	1,573
Transfer from properties under construction	6,853	23,750	(30,603)	-
	850,834	201,917	8,094	1,060,845
Revaluations for the year	31,182	7,944	641	39,767
As at 31 December 2015	882,016	209,861	8,735	1,100,612

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £1,069 million (2015: £1,051 million).

Fair value hierarchy

All of the Group's properties are level 3, as defined by IFRS 13, in the fair value hierarchy as at 31 December 2016 and 31 December 2015. There were no transfers between levels during the year or during 2015. Level 3 inputs used in valuing the properties, are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Valuation techniques used to derive Level 3 fair values

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

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

Valuation techniques: market comparable method

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions and using certain unobservable inputs. These inputs are detailed below.

Unobservable input: estimated rental value (ERV)

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

ERV – range of the portfolio	
2016	**2015**
£57,722-£1,183,453 per annum	£55,436-£1,159,877 per annum

Unobservable input: equivalent yield

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

TRUE EQUIVALENT YIELD – range of the portfolio	
2016	**2015**
4.334%-7.753%	4.580%-6.696%

Unobservable input: physical condition of the property

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

Unobservable input: rental growth

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

Sensitivity of measurement of significant unobservable inputs

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

PHP Primary Health Properties

11. Group entities

All subsidiaries of the Company are 100% owned and listed below. All are incorporated in the UK and their registered office is 5th Floor, Greener House, 66-68 Haymarket, London SW1Y 4RF, except as noted.

Subsidiaries held directly by the Company

PHP Empire Holdings Limited
Primary Health Investment Properties Limited
Primary Health Investment Properties (No. 2) Limited
Primary Health Investment Properties (No. 3) Limited
PHIP CH Limited
PHP Healthcare (Holdings) Limited
Health Investments Limited
Primary Health Investment Properties (No. 4) Limited
White Horse Centre Limited
Crestdown Limited
PHP (Chandler's Ford) Limited
PHP (Bingham) Limited (previously PHP (Basingstoke) Limited)
PHP Finance (Jersey) Limited[1]
PHP Investments (2011) Limited
PHP 2013 Holdings Limited
PHIP (Gorse Stacks) Limited
Anchor Meadow Limited
PHP Bond Finance PLC
PHP Primary Properties (Haymarket) Limited
PHP Medical Investments Limited
PHP (Ipswich) Limited
PHP (Portsmouth) Limited
PHP (FRMC) Limited
Primary Health Properties ICAV[2, 3]

Subsidiaries indirectly held by the Company

SPCD (Northwich) Limited
SPCD (Shavington) Limited
PHIP (5) Limited
PatientFirst Partnerships Limited
PatientFirst (Hinckley) Limited
PatientFirst (Burnley) Limited
AHG (2006)
PHIP (Hoddesdon) Limited
PHIP (Milton Keynes) Limited
PHIP (RHL) Limited
PHIP (Sheerness) Limited
PHP Healthcare Investments (Holdings) Limited
PHP Investments No.1 Limited
Leighton Health Limited
PHP Healthcare Investments Limited
PHP St. Johns Limited
PHP Clinics Limited
PHIP (Stourbridge) Limited
PHP (Project Finance) Limited
PHP Medical Properties Limited
PHP Glen Spean Limited
Gracemount Medical Centre Limited[4]
PHP AssetCo (2011) Limited
PHP Primary Properties Limited
PHP Investments No.2 Limited
Motorstep Limited

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

[1] – Subsidiary company registered in Jersey, registered office 44 Esplanade, St Helier, Jersey JE4 9WG.
[2] – An Irish Collective Asset-management Vehicle ("ICAV") established in the Republic of Ireland.
[3] – Registered in the Republic of Ireland, registered office Riverside 1, Sir John Rogerson's Quay, Dublin 2.
[4] – Subsidiary company registered in Scotland, 3rd Floor, 1 West Regent Street, Glasgow G2 1RW..

12. Trade and other receivables

	2016	2015
	£000	£000
Trade receivables (net of provision for doubtful debts)	**1,276**	1,686
Prepayments and accrued income	**1,463**	1,379
Other debtors	**595**	908
Development loan interest	**9**	180
	3,343	4,153

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

	2016	2015
	£000	£000
Neither past due nor impaired:		
<30 days	**461**	1,224
Past due but not impaired:		
30-60 days	**541**	54
60-90 days	**154**	-
90-120 days	**64**	95
>120 days	**56**	313
	1,276	1,686

The Group's principal customers are invoiced and pay quarterly in advance, usually on English quarter days. No bad debt provision was required in the year (2015: £nil) and no receivables arising in the year were considered impaired. There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants.

Following the acquisition of Crestdown Limited in 2015, aged receivables of £81k were considered impaired as management is not expecting collection (2015:£nil). This sum was provided for within the agreed consideration paid for Crestdown Limited.

13. Cash and cash equivalents

	2016	2015
	£000	£000
Cash held at bank	**4,944**	2,881
Restricted cash	**155**	-
	5,099	2,881

Restricted cash at 31 December 2016 represented an amount held as security in relation to repayment of bank borrowings.

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

14. Trade and other payables

	2016	2015
	£000	£000
Trade payables	**188**	1,520
Bank and bond loan interest accrual	**4,331**	4,389
Other payables	**5,679**	7,302
VAT	**2,536**	2,105
Accruals	**866**	783
	13,600	16,099

15. Borrowings: Term loans and overdrafts

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

	Facility		Amounts drawn		Undrawn	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Current						
Overdraft facility[(1)]	**5,000**	5,000	**-**	-	**5,000**	5,000
Fixed rate term loan[(3)]	**803**	755	**803**	755	**-**	-
Term loan to November 2028	**-**	107	**-**	107	**-**	-
	5,803	5,862	**803**	862	**5,000**	5,000
Non-current						
Term loan to August 2017[(2)]	**115,000**	165,000	**115,000**	146,250	**-**	18,750
Fixed Rate term loan[(3)]	**23,145**	23,948	**23,145**	23,948	**-**	-
Fixed Rate term loan to December 2022[(4)]	**25,000**	25,000	**25,000**	25,000	**-**	-
Term loan to July 2020[(5)]	**50,000**	50,000	**6,398**	21,513	**43,602**	28,487
Fixed rate term loan to November 2018[(6)]	**75,000**	75,000	**75,000**	75,000	-	-
Term loan to August 2019[(7)]	**115,000**	100,000	**74,974**	57,160	**40,026**	42,840
Fixed rate term loan to August 2024[(8)]	**50,000**	50,000	**50,000**	50,000	**-**	-
Fixed rate term loan August 2029 year[(8)]	**63,000**	63,000	**63,000**	63,000	**-**	-
Term loan to November 2028	**-**	2,415	**-**	2,415	**-**	-
	516,145	554,363	**432,517**	464,286	**83,628**	90,077
	521,948	560,225	**433,320**	465,148	**88,628**	95,077

Providers:
(1) The Royal Bank of Scotland plc
(2) The Royal Bank of Scotland plc ("RBS") and Abbey National Treasury Services plc (branded Santander from January 2010) ("The Club Facility")
(3) Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032
(4) Aviva GPFC facility
(5) HSBC Bank facility
(6) Aviva facility
(7) Barclays/AIB facility
(8) Aviva facility

At 31 December 2016, total facilities of £749.4 million (2015: £787.7 million) were available to the Group. This included a £75 million unsecured retail bond, a £70 million secured bond, an £82.5 million convertible bond and a £5 million overdraft facility. Of these facilities, as at 31 December 2016, £660.8 million was drawn (2015: £692.8 million).

On 7 January 2016, the £100 million loan facility provided by Barclays Bank plc was successfully extended by £15 million, with the additional resource being provided by Allied Irish Banks plc. The enlarged facility is available for a new five year term from January 2016. All other terms of the facility remain unchanged.

On 22 January 2016, the £2.4 million term loan to 2028 with the Royal Bank of Scotland PLC was repaid in full. The loan had been acquired as part of the acquisition of Crestdown Limited on 29 June 2015.

On 10 June 2016, the revolving element of the RBS facility was voluntarily cancelled. This reduced the facility to £115 million, which is fully drawn on a term basis, and removes any further non-utilisation charges. No penalties were incurred.

On 17 August 2016, a Euro denominated tranche was agreed within the £50 million revolving credit facility with HSBC Bank plc. This allows an equivalent of £25 million to be drawn in Euro, secured by existing sterling denominated collateral. Euro drawings incur interest at Euribor plus the current UK loan facility margin. All other terms of the loan remain unaltered.

On 7 October 2016, a Euro denominated tranche was agreed within the £115 million revolving credit facility provided by Barclays Bank plc and Allied Irish Banks plc allowing an equivalent of £12 million to be drawn in Euro, secured by existing sterling denominated collateral. Euro drawings incur interest at Euribor plus the current UK loan facility margin. All other terms of the loan remain unaltered.

Costs associated with the arrangement and extension of the facilities, including legal advice and loan arrangement fees, are amortised over the remaining life of the related facility.

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

	2016	2015
	£000	£000
Term loans drawn: due within one year	**803**	862
Term loans drawn: due in greater than one year	**432,517**	464,286
Total terms loans drawn	**433,320**	465,148
Less: Unamortised borrowing costs	**(3,084)**	(3,736)
Total term loans per the Group Balance Sheet	**430,236**	461,412

The Group has been in compliance with all of the financial covenants of the above facilities as applicable through the year. Further details are shown in Note 18e.

The Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in Note 17.

16. Borrowings: bonds

	2016 £000	2015 £000
Secured		
Secured Bond December 2025	**70,000**	70,000
Unsecured		
Retail Bond July 2019	**75,000**	75,000
Convertible Bond May 2019	**94,956**	93,431
Unamortised issue costs	**(1,759)**	(2,103)
	238,197	236,328

Secured Bond
On 18 December 2013, PHP successfully listed the floating rate guaranteed secured bonds issued on 4 November 2013 (the “Secured Bonds”) on the London Stock Exchange. The Secured Bonds have a nominal value of £70 million and mature on or about 30 December 2025. The Secured Bonds incur interest at an annualised rate of 220 basis points above six month LIBOR, payable semi-annually in arrears.

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

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

Subject to certain conditions, the Bonds are convertible into preference shares of the Issuer which will be automatically and mandatorily exchangeable into fully paid Ordinary Shares of the Company (the “Shares”). The initial conversion price was set at 390 pence per Share (the “Exchange Price”), which has subsequently been revised to 97.5 pence following the Company’s four for one share sub-division undertaken in November 2015. Under the terms of the Bonds, the Company will have the right to settle any conversion rights entirely in Shares, in cash or with a combination of Shares and cash.

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

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

Convertible bond

	2016	2015
	£000	£000
As at 1 January	**93,431**	86,962
Fair value movement in convertible bond	**1,525**	6,469
Balance at 31 December	**94,956**	93,431

The fair value of the convertible bond at 31 December 2016 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NAV.

17. Derivatives and other financial instruments

It is Group policy to maintain the proportion of floating rate interest exposure at between 20% and 40% of total debt. The Group uses interest rate swaps to mitigate its remaining exposure to interest-rate risk in line with this policy. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date.

	2016	2015
	£000	£000
Fair value of interest rate swaps treated as cash flow hedges under IAS39 ("effective swaps")		
Non-current assets	**-**	9
Current liabilities	**(3,395)**	(1,403)
Non-current liabilities	**(29,311)**	(19,383)
	(32,706)	(20,777)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS39 ("ineffective swaps")		
Non-current assets	**-**	-
Current liabilities	**(400)**	(3,331)
Non-current liabilities	**(200)**	(11,170)
	(600)	(14,501)
Total fair value of interest rate swaps	**(33,306)**	(35,278)
Shown in the Balance Sheet as:		
Total non-current assets	**-**	9
Total current liabilities	**(3,795)**	(4,734)
Total non-current liabilities	**(29,511)**	(30,553)

Changes in the fair value of the contracts that do not meet the strict IAS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IAS 39 criteria and are designated as "effective" cash flow hedges, the change in fair value of the contract is recognised in the Group Statement of Changes in Equity through the cash flow hedging reserve. The result recognised in the Group Statement of Comprehensive Income on "ineffective" cash flow hedges in 2016 was a £2.2 million loss, including the amortisation of the cash flow hedging reserve of £1.6 million (2015: £1.6 million loss).

Floating to fixed interest rate swaps with a contract value of £186.0 million (2015: £126.0 million) were in effect at 31 December 2016. Details of all floating to fixed rate interest rate swaps contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2016			
£28.0 million	March 2013	March 2017	0.900
£50.0 million	August 2007	August 2021	0.870
£38.0 million	August 2007	August 2021	0.870
£10.0 million	June 2006	June 2026	4.810
£10.0 million	June 2016	June 2026	4.510
£10.0 million	July 2016	July 2026	4.400
£10.0 million	July 2016	July 2026	4.475
£10.0 million	July 2016	July 2026	4.455
£20.0 million	July 2016	July 2026	4.479
£186.0 million			
2015			
£28.0 million	March 2013	March 2017	0.900
£50.0 million	August 2007	August 2021	4.835
£38.0 million	August 2007	August 2021	4.740
£10.0 million	June 2006	June 2026	4.810
£126.0 million			

Contracts not yet in effect	Start date	Maturity	Fixed interest per annum %
£25.0 million	January 2018	January 2023	2.470
£75.0 million	January 2019	January 2024	2.650
£20.0 million	July 2017	July 2027	4.760
£120.0 million			

On 11 May 2016, PHP paid a one-off cash sum of £14.5 million to re-set the contracted rates on two interest rate swaps. The contracts were as follows:

- for a nominal value of £50.0 million, at a rate of 4.835%, maturing on 11 August 2021; and
- for a nominal value of £38.0 million, at a rate of 4.74%, maturing on 11 August 2021.

The contracted rate on both swaps was bought down to the prevailing market rate of 0.87% for the period of the contract between 11 November 2016 and maturity. The swaps are no longer callable at the option of the bank. All other terms remain unchanged.

These swap contracts were classified as ineffective swaps. As such, Mark to Market valuation movements have been recognised in the Income Statement in the period they arose. The payment made to re-set the rates on these contracts crystallised part of the value held in the balance sheet at that time. Further fair value movements resulting from the re-coupon of these swaps are recognised in the Income Statement (see above).

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

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

18. Financial risk management

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

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

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

Financial risk factors

a) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating rates as the Group, generally, does not hold significant cash balances, with short term borrowings being used when required. To manage its interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon principal amount. Note 17 provides details of interest swap contracts in effect at the year end.

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

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

		Effect on fair value of financial instruments	Effect on profit before taxation	Effect on equity
		£000	£000	£000
2016				
London InterBank Offered Rate	Increase of 50 basis points	**9,382**	**1,982**	**11,364**
London InterBank Offered Rate	Decrease of 50 basis points	**(9,382)**	**(1,982)**	**(11,364)**
2015				
London InterBank Offered Rate	Increase of 50 basis points	9,922	2,326	12,248
London InterBank Offered Rate	Decrease of 50 basis points	(9,922)	(2,326)	(12,248)

b) Credit risk

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

Trade receivables
Trade receivables, primarily tenant rentals, are presented in the balance sheet net of allowances for doubtful receivables and are monitored on a case-by-case basis. Impairment allowance is recorded where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable concerned. Credit risk is primarily managed by requiring tenants to pay rentals in advance.

The Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, but the Group does not monitor the credit quality of receivables on an ongoing basis. An analysis of trade receivables past due is shown in Note 12.

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

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

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	£000	£000	£000	£000	£000	£000
2016						
Interest-bearing loans and borrowings	-	6,004	133,658	386,559	273,566	799,787
Interest rate swaps (net)	-	873	3,005	24,275	21,417	49,570
Trade and other payables	1,242	10,249	529	1,008	110	13,138
	1,242	17,126	137,192	411,842	295,093	862,495
2015						
Interest-bearing loans and borrowings	-	6,350	20,577	535,724	286,642	849,293
Interest rate swaps (net)	-	1,052	4,342	33,082	28,513	66,989
Trade and other payables	2,899	9,922	778	1,828	102	15,529
	2,899	17,324	25,697	570,634	315,257	931,811

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given below under (e) capital risk management and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2015: none)

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

Interest rate risk
Interest rate risk is outlined above. The Board, with the assistance of the Adviser, assesses the exposure to other price risks when making each investment decision and monitors the overall level of market risk on the investment portfolio on an ongoing basis through a discounted cash flow analysis. Details of this analysis can be found in the Strategic Review in the Annual Report.

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

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

	Book value 2016 £000	**Fair value 2016 £000**	Book value 2015 £000	Fair value 2015 £000
Financial assets				
Trade and other receivables	**2,012**	**2,012**	2,364	2,364
Effective interest rate swaps	-	-	9	9
Ineffective interest rate swaps	-	-	-	-
Cash and short term deposits	**5,099**	**5,099**	2,881	2,881
Financial liabilities				
Interest-bearing loans and borrowings	**(660,820)**	**(708,505)**	(692,648)	(731,532)
Effective interest rate swaps	**(32,706)**	**(32,706)**	(20,777)	(20,777)
Ineffective interest rate swaps (net)	**(600)**	**(600)**	(14,501)	(14,501)
Trade and other payables	**(13,104)**	**(13,104)**	(15,529)	(15,529)

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

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

Fair value hierarchy

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

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

Fair value measurements at 31 December 2016 are as follows:

Recurring fair value measurements	Level 1[1] £000	Level 2[2] £000	Level 3[3] £000	Total £000
Financial assets				
Derivative interest rate swaps	**-**	**-**	**-**	**-**
Financial liabilities				
Derivative interest rate swaps	-	**(33,306)**	**-**	**(33,306)**
Convertible bond	**(94,956)**	-	-	**(94,956)**

Fair value measurements at 31 December 2015 are as follows:

Recurring fair value measurements	Level 1[1] £000	Level 2[2] £000	Level 3[3] £000	Total £000
Financial assets				
Derivative interest rate swaps	-	9	-	9
Financial liabilities				
Derivative interest rate swaps	-	(35,287)	-	(35,287)
Convertible bond	(93,431)	-	-	(93,431)

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

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

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

The interest rate swaps whose fair values include the use of level 2 inputs are valued by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument. The following inputs are used in arriving at the valuation:

- Interest rates;
- Yield curves;
- Swaption volatility;
- Observable credit spreads;
- Credit default swap curve;
- Observable market data.

e) Capital risk management

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

The capital structure of the Group consists of shareholders' equity and net borrowings. The type and maturity of the Group's borrowings are analysed further in Notes 15 and 16 and the Group's equity is analysed into its various components in the Statement of Changes in Equity. The Board, with the assistance of the Adviser, monitors and reviews the Group's capital so as to promote the long term success of the business, facilitate expansion and to maintain sustainable returns for shareholders.

Under several of its debt facilities, the Group is subject to a covenant whereby consolidated Group rental income must exceed Group borrowing costs by the ratio 1.3:1 (2015: 1.3:1). No debt facility has a Group Loan to value covenant.

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

Interest cover: 1.0 to 1.5:1 (2015: 1:0 to 1.5:1); and
Loan to value: 50% to 75% (2015: 50% to 75%).

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

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

Group loan to value ratio	**2016**	2015
	£000	£000
Fair value of completed investment properties	**1,212,265**	1,091,877
Fair value of development properties	**7,890**	8,735
	1,220,155	1,100,612
Carrying value of interest-bearing loans and borrowings	**655,977**	686,809
Unamortised borrowing costs	**4,843**	5,839
Less cash held	**(5,099)**	(2,881)
Nominal amount of interest-bearing loans and borrowings	**655,721**	689,767
Group loan to value ratio	**53.7%**	62.7%

19. Share capital

Ordinary shares issued and fully paid at 12.5p each

	2016 Number	2016 £000	2015 Number	2015 £000
Balance at 1 January	**446,281,348**	**55,785**	445,106,648	55,638
Scrip issues in lieu of cash dividends	**1,903,844**	**238**	1,174,700	147
Share issue 14 April 2016	**150,000,000**	**18,750**	-	-
Balance at 31 December	**598,185,192**	**74,773**	446,281,348	55,785

Issue of shares in 2016	Date of issue	Number of shares	Issue price
Scrip issue in lieu of cash dividend	26 February 2016	345,669	104.575p
Share issue	14 April 2016	150,000,000	100.0p
Scrip issue in lieu of cash dividend	27 May 2016	544,520	101.35p
Scrip issue in lieu of cash dividend	26 August 2016	756,949	108.2p
Scrip issue in lieu of cash dividend	25 November 2016	256,706	111.75p

On 13 April 2016, a general meeting of the Company approved the issue of 150,000,000 new Ordinary Shares at a price of 100 pence each. The shares were issued and admitted to trading on the Main Market of the London Stock Exchange on 14 April 2016.

At a general meeting of the Company on 11 November 2015, shareholders approved the resolution to sub-divide each issued Ordinary Share of 50.0 pence each into four Ordinary Shares of 12.5 pence. The sub-division of the Ordinary Shares became effective on 12 November 2015.

20. Share premium

	2016 £000	2015 £000
Balance at 1 January	**57,422**	56,416
Scrip issue in lieu of cash dividend	**1,781**	1,036
Share issue expense	**(101)**	(30)
Balance at 31 December	**59,102**	57,422

21. Capital reserve

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

	2016 £000	2015 £000
Balance at 1 January and 31 December	**1,618**	1,618

22. Special reserve

	2016 £000	2015 £000
Balance at 1 January	**93,063**	115,438
Share issue 14 April 2016	**131,250**	-
Share issue expenses	**(4,667)**	(109)
Dividends paid	**(24,733)**	(21,083)
Scrip issue in lieu of cash dividend	**(2,019)**	(1,183)
Balance at 31 December	**192,894**	93,063

The special reserve has arisen on previous issues of the Company's shares. It represents the share premium on the issue of the shares, net of expenses, from issues effected by way of a cash box mechanism. The issue of shares on 14 April 2016, referred to in note 16, was also effected by way of a cash box.

A cash box raising is a mechanism for structuring a capital raising whereby the cash proceeds from investors are invested in a subsidiary company of the parent instead of the parent itself. Use of a cash box mechanism has enabled the share premium arising from the issue of shares to be deemed to be a distributable reserve and has therefore been shown as a special reserve in these financial statements. Any issue costs are also deducted from the special reserve.

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

23. Cash flow hedging reserve

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

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

	2016 £000	2015 £000
Balance at 1 January	**(22,402)**	(23,847)
Fair value movement on cash flow hedges	**(11,930)**	(132)
Amortisation of cash flow hedging reserve	**1,560**	1,552
Reclassification of swap from ineffective to effective	**-**	25
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	**(10,370)**	1,445
Balance at 31 December	**(32,772)**	(22,402)

On 11 May 2016, PHP paid a one-off cash sum of £14.5 million to re-set the contracted rates on two interest rate swaps. The contracts were as follows:

- for a nominal value of £50.0 million, at a rate of 4.835%, maturing on 11 August 2021; and
- for a nominal value of £38.0 million, at a rate of 4.74%, maturing on 11 August 2021.

The contracted rate on both swaps was brought down to the prevailing market rate of 0.87% for the period of the contract between 11 November 2016 and maturity. The swaps are no longer callable at the option of the bank. All other terms remain unchanged.

These swap contracts are classified as ineffective swaps. As such, Mark to Market valuation movements have been recognised in the Income Statement in the period they arose. The payment made to re-set the rates on these contracts crystallised part of the value held in the balance sheet at that time. Further fair value movements resulting from the re-couponing of these swaps are recognised in the Income Statement (see above).

In July 2015, an interest rate swap for a notional amount of £80 million was terminated early. The termination cost totalled £3.2 million. This sum has been amortised through the Statement of Comprehensive Income over the remainder of what was its contract period through to 2 July 2016 (see note 6c).

24. Retained earnings

	2016	2015
	£000	£000
Balance at 1 January	**159,874**	103,867
Reclassification of swap from ineffective to effective	**-**	(25)
Retained profit for the year	**43,701**	56,032
Balance at 31 December	**203,575**	159,874

25. Net asset value per share
Net asset values have been calculated as follows:

	2016	2015
	£000	£000
Net assets per Group Balance Sheet	**499,196**	345,360
Derivative interest rate swaps (net liability)	**33,306**	35,278
Convertible bond fair value movement	**12,456**	10,931
EPRA net asset value	**544,958**	391,569
Ordinary Shares	**No. of shares**	**No. of shares**
Issued share capital	**598,185,192**	446,281,348
Net asset value per share:		
Basic net asset value per Share	**83.5p**	77.4p
EPRA NAV per Share	**91.1p**	87.7p

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

As detailed in note 8, the Company is required to assess the dilutive impact of the unsecured convertible bond on its net asset value per share, but only report any impact if it is dilutive. With an initial conversion price of 97.5 pence (390 pence upon issue, restated to reflect the Company's four for one share sub-division undertaken in November 2015), the unsecured convertible bond issued by the Group on 20 May 2014 is non-dilutive to all measures of net asset value per share.

26. Capital commitments
As at 31 December 2016, the Group has entered into a development agreement with a third party for the purchase of a primary health development. The Group has acquired the land on which it is being built and advanced funds to the developer as the construction has progressed. Upon completion of the building development work, the Group will acquire ownership of the completed asset. Total consideration of £3.3 million plus VAT (2015: £21.8 million plus VAT) remains to be funded with regard to this property.

27. Related party transactions
The terms and conditions of the Advisory Agreement are described in the Directors' Report and the Directors' Remuneration Report in the Annual Report.

Nexus, the Adviser, is a related party due to the Managing Director being a shareholder and director of Nexus.

Details of the amounts paid in relation to related party transactions are provided in Note 4.

28. Subsequent events
On 20 January 2017, the Company acquired the entire share capital of Carden Medical Investments Limited ("Carden"). Carden is a company registered in Scotland whose sole activity was the ownership and letting of two medical centre properties near Aberdeen.

The underlying property assets were valued at £7.2 million for the purposes of the transaction and PHP acquired the shares in Carden for their estimated net asset value, being £3.1 million after deducting loans and associated breakage costs. This sum may vary by up to £100,000 more or less as completion accounts are agreed in due course.

Immediately upon completion, PHP repaid the existing bank loans with no termination costs incurred by PHP.

29. Annual Report
The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered in due course. The Auditor has reported on those accounts and their reports were (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2016 will be published on the Group's website at www.phpgroup.co.uk and will be posted to shareholders on 28 February 2016.

Copies of this announcement can be obtained from the Company Secretary of Primary Health Properties PLC, 5th Floor, Greener House, 66-68 Haymarket, London SW1Y 4RF.

Directors' Responsibility Statement

The responsibility statement below has been prepared in connection with the Company's full Annual Report for the year ending 31 December 2016. Certain parts thereof are not included within this announcement.

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

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Review above includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces; 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.

Going concern

A review of the Group's business activities and the factors that may impact its future development, performance and position, together with a summary and review of the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Review.

The Group's property portfolio is 99.7% occupied with 90% of its income funded directly or indirectly by the Government bodies in the UK and Republic of Ireland. The nature of the Group's tenant base and long term lease agreements, provides secure, transparent cash flows that are collected promptly. A strategy of maintaining a prudent level of hedging combined with stable and predictable administrative costs enables the Board to have great visibility on the Group's liquidity.

On 7 January 2016, the Group completed the expansion and extension of its £100 million mixed revolving credit/term loan facility with Barclays Bank plc. The facility was increased to £115 million, with the additional capacity being provided by Allied Irish Banks plc and the enlarged facility provided for a new five-year term.

On 13 April 2016, PHP successfully raised £150 million of new capital (£145.3 million, net of expenses) from an oversubscribed offer of shares to new and existing shareholders. Initially the funds were used to pay down revolving credit facilities which are available to PHP to be redrawn as investment opportunities are secured.

As at 31 December 2016, the Group had £88.9 million of headroom on its debt facilities, with a further £5.1 million of cash. The Group has total commitments of £3.3 million outstanding to fund on properties under construction through the course of 2017 and acquired two further properties for a total of £7.2 million on20 January 2017. Net headroom available to the Group, therefore amounts to £83.1 million.

The Group's consolidated loan to value ratio, including drawn, unsecured debt, was 53.7% as at 31 December 2016, with all banking covenants being met during the year and subsequent to the year end.

The Group is currently fully drawn on a £115 million term loan provided by The Royal Bank of Scotland plc ("RBS") and Santander Corporate Banking. This loan facility expires in August 2017. The Group has agreed terms with RBS to renew this facility on a bi-lateral basis that have been fully approved by RBS credit committees and are currently being documented. The new loan will be for up to £100 million for a term of up to five years.

Further opportunities are being pursued by the Group in wider debt capital markets which may result in additional term debt facilities being secured during the course of 2017.

The Directors believe that the Group is well placed to manage its business risks successfully. Having reviewed the Group's business activities, financial development, performance and position including its cash flows, liquidity position, borrowing facilities and covenant cover, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as they fall due for a period of at least twelve months from the date of this report. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

For and on behalf of the Board

Alun Jones
Chairman
15 February 2017

Glossary of Terms

Adviser is Nexus Tradeco Limited.

Company and/or **Parent** is Primary Health Properties PLC.

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 EPRA earnings.

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 a real estate industry body, who have issued Best Practices Recommendations in order to provide consistency and transparency in real estate reporting across Europe.

EPRA Cost Ratio is the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA Earnings is the profit after taxation excluding investment and development property revaluations and gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA Net Assets ("EPRA NAV") are the balance sheet net assets excluding own shares held and mark-to-market derivative financial instruments.

EPRA Vacancy Rate is, as a percentage, the ERV of vacant space in the Group's property portfolio divided by the ERV of the whole portfolio.

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.

Exchange Price is 116% of the share price at the date of issue.

Gross Rental Income is the gross accounting rent receivable.

Group is Primary Health Properties PLC and its subsidiaries.

HSE or the **Health Service Executive** is the executive agency of the Irish Government, responsible for health and social services for people living in Ireland.

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 net rental income.

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.

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

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).

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.

NHSPS is NHS Property Services Limited 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 Primary Care Trusts.

Parity Value is calculated based on dividing the convertible bond value by the Exchange Price.

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 which has a number of specific requirements.

Rent Reviews take place at intervals agreed in the lease 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.

RICS is the Royal Institution of Chartered Surveyors.

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

Special Reserve is a distributable reserve.

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 NAV Return is calculated as the movement in EPRA net assets for the period plus the dividends paid, divided by opening EPRA net assets.

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.

Weighted Average Facility Maturity is calculated by multiplying each tranche of Group debt by the remaining period to its maturity and dividing the result by total Group debt in issue at the year end.

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 basis points) 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.