

# Primary Health Properties PLC

## Audited results for the year ended 31 December 2015

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 2015.

### FINANCIAL HIGHLIGHTS

- IFRS profit before taxation increased by 51.9% to £56.0 million (2014: £36.9 million)
- EPRA earnings<sup>1</sup> increased by 19.2% to £21.7 million (2014: £18.2 million)
- EPRA earnings<sup>1</sup> per share increased by 19.5% to 4.9 pence (2014: 4.1 pence<sup>2</sup>)
- IFRS net assets increased by 11.7% to £345.4 million (2014: £309.1 million)
- EPRA net asset value per share<sup>3</sup> increased by 10.0% to 87.7 pence (2014: 79.7 pence<sup>2</sup>)
- Group Loan to Value<sup>4</sup> ratio 62.7% (2014: 64.1%), including unsecured debt outstanding
- Dividend cover<sup>5</sup> increased to 98% (2014: 84%); 2015 second half dividend 107% covered
- Total dividends of 5.0 pence per share paid in 2015, an increase of 2.6% (2014: 4.875 pence<sup>2</sup>)

### OPERATIONAL HIGHLIGHTS

- Investment property as at 31 December 2015 £1.1 billion (31 December 2014: £1.0 billion)
- Eight properties added to portfolio in the year adding £2.4 million of additional rent and an average of 21 years of unexpired lease term
- Surplus on property valuation of £39.8 million for the year, underlying like-for-like growth of 3.9%; net portfolio initial valuation yield of 5.32% (2014: 5.52%)
- Annualised rent roll, including commitments, increased by 4.6% to £63.7 million (2014: £60.9 million)
- Net rental income increased by 5.1% to £62.3 million (2014: £59.3 million)
- Average annualised uplift of 0.9% on reviews completed in the year (2014: 1.8%)
- Portfolio 99.7% let with 14.7 years weighted average unexpired lease term (including commitments) (2014: 15.3 years)
- EPRA cost ratio<sup>6</sup> reduced to 11.5% (2014: 12.0%)

<sup>1</sup> – See note 8 to financial statements

<sup>2</sup> – Restated to reflect the Company’s four for one share sub-division undertaken in November 2015

<sup>3</sup> – See note 25 to financial statements

<sup>4</sup> – See note 18 to financial statements

<sup>5</sup> – As defined in Glossary

<sup>6</sup> – See “Managing effectively and efficiently” in Strategic Report

## OUTLOOK

- Strong pipeline of transactions across both the UK and Ireland in solicitors hands and being documented
- Further acquisition pipeline in both jurisdictions well advanced in negotiation with vendors
- First quarterly interim dividend for 2016 declared, 1.28125p per share, payable on 26 February 2016

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

“2015 was another strong and active year for PHP marked by the 19<sup>th</sup> consecutive year of dividend growth and the achievement of full dividend cover during the second half of the year. This coupled with our continued investment in and effective management and growth of our high quality portfolio, which offers long term leases with secure government-backed income, has resulted in PHP continuing to create strong returns for shareholders.

“We have identified and are progressing a number of healthcare real estate investment opportunities in Ireland, an important step for the Company. We are confident that, as we have long done in the UK, we will be able to apply our strategy to a market which faces similar challenges to its healthcare provision: a growing and ageing population, increasing rates of chronic illness and outdated GP premises.

“The fundamental drivers of the primary care arena remain in place and increased spend committed by the NHS stresses the important role primary care has to play in the future of the health service.”

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This document may contain certain forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by or on behalf of the Company speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or on the basis upon which they were prepared. The Company does not undertake to update forward-looking statements to reflect any changes in the Company’s expectations with regard thereto or any changes in events, conditions or circumstances upon which any such statement is based.

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](http://www.phpgroup.co.uk/investors/email-alerts).

**Financial Highlights**

	<b>Year ended 31 December 2015</b>	Year ended 31 December 2014
<b>Investment portfolio</b>	£1.10bn	£1.03bn
<b>Net rental income</b>	£62.3m	£59.3m
<b>Weighted average unexpired lease length</b>	14.7 years	15.3 years
<b>Contracted rent roll (annualised)<sup>1</sup></b>	£63.7m	£60.9m
<b>EPRA results</b>		
EPRA Earnings Per Share <sup>2</sup>	4.9p	4.1p
EPRA Net Asset Value ("NAV")	£391.6m	£354.6m
EPRA NAV Per Share <sup>2</sup>	87.7p	79.7p
EPRA cost ratio	11.5%	12.0%
<b>Dividends</b>		
Dividend per share <sup>2</sup>	5.0p	4.875p
Dividend cover	98%	84%
<b>Reported results</b>		
IFRS profit for the period	£56.0m	£36.9m
Total equity	£345.4m	£309.1m
Diluted earnings per share <sup>2</sup>	11.2p	7.9p

<sup>1</sup> Includes development properties under construction and purchase commitments at the period end as if completed

<sup>2</sup> Restated to reflect the Company's four for one share sub-division undertaken in November 2015

**Performance**

	<b>Year ended 31 December 2015</b>	Year ended 31 December 2014
Total property return	9.7%	9.2%
Total NAV return	16.3%	12.8%



## Chairman's Statement

I am pleased to present the Group's Annual Report for 2015, a year in which we have continued to deliver on our strategic objectives. Further accretive property acquisitions, efficient management and lower costs of borrowing in the year enabled the Company to grow its dividend for the 19<sup>th</sup> successive year. Importantly, this was coupled with achieving one of our key goals of returning to full dividend cover in the second half of the year.

### Results highlights

Profit for the year rose by 51.9% to £56.0 million (2014: £36.9 million). EPRA earnings have grown by 19.2% to £21.7 million (2014: £18.2 million), which equates to EPRA earnings per share of 4.9 pence (2014: 4.1 pence<sup>1</sup>). Net rental income increased by 5.1% due to acquisitions, completing assets under construction, enhancing and expanding existing assets and from rent reviews completed in the year.

The efficient management structure of the Group, with a reducing adviser fee rate as the portfolio grows, is once again evident. Our EPRA cost ratio fell by 50 basis points to 11.5% (2014: 12.0%) and continues to be the lowest cost ratio in the UK listed real estate sector.

Debt facilities were actively managed in the year, securing two facility extensions. We also added to our interest rate swap portfolio, lengthening the term of our protection at current market rates and lowering the average cost of the Group's debt.

Eight properties, including one forward purchase contract, were added to the Group's portfolio for a total of £44 million. The Group's property portfolio grew to £1.1 billion. With like for like capital growth of 3.9%, an overall valuation surplus of £39.8 million was generated after allowing for acquisition costs.

EPRA net asset value per share increased by 10.0% to 87.7 pence (2014: 79.7 pence<sup>1</sup>) which together with dividends paid in the year produced a Total NAV Return of 16.3% (2014: 12.8%).

### Share Capital

In November, shareholders approved the sub-division of the Company's existing share capital into four new ordinary shares. The purpose of this was to increase the marketability of our stock and the ability for our smaller shareholders to more easily access the value of their holding in PHP. The results and performance indicators presented throughout this report are all reported on the enlarged number of shares and prior year comparatives have been converted accordingly.

### Dividends

A total of 5.0 pence per share was paid in dividend to shareholders in 2015, an increase of 2.6% (2014: 4.875 pence<sup>1</sup>). This continued the Company's unbroken record of dividend growth in every year since its first dividend payment in 1997. The total dividend for the year was covered 98% by EPRA earnings, increased from 84% for 2014. Importantly, following investment and debt management activity in the first part of 2015, second half year earnings covered the dividend paid in that period 107%, resulting in the Company meeting a key objective of returning to full dividend cover.

When announcing the approval of the sub-division, the Board confirmed its intention to move to paying a quarterly dividend from 2016 onwards. On 4 January, the Board approved its first quarterly dividend, resolving to pay 1.28125 pence per ordinary share on 26 February 2016 to holders on the register as at close of business on 15 January 2016. We anticipate further dividend payments being made in May, August and November this year.

### Markets

In November 2015, the Chancellor, George Osborne, confirmed that £6 billion of additional funding would be provided to the NHS by the end of 2016-17 as part of an overall £10 billion pledged to support the NHS Five Year Forward View ("FYFV").

<sup>1</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015

The FYFV reconfirmed primary care as the bedrock of the National Health Service. Alongside this, NHS England and its fellow health and care agencies published guidance on how local health systems will access this funding, stating that overall primary care spend will increase by 4-5% each year to 2021. The Government has also committed to providing 24/7 access to GP services by 2020.

Clinical Commissioning Groups (“CCGs”) in England are required to submit plans for the future of their local healthcare provision in conjunction with their fellow health and social care providers. These will cover operational plans but also accommodation requirements.

Modern, flexible premises such as those in the Group's portfolio will be key to achieving each of these plans and goals, allowing more services to be delivered locally in an integrated manner away from hospitals. There has been a slow improvement in the number of new development schemes that have been approved by the NHS and we expect the rate of approvals to increase further.

Investors are attracted to our sector by the long term, secure income streams that primary care premises deliver. Pricing expectations have increased, but we have continued to be prudent in our acquisition activity, appraising targets for their initial return, but also for their longer term viability and capability for physical enhancement that can translate into greater returns to the Group.

The Primary Care Transformation Fund, which commits £1 billion over four years to improve access to GP services will, from 2016/17, see CCGs lead proposals for how the funding will be invested. Twelve projects in the Group's portfolio received funding in 2015, some of which were amongst a number of asset enhancement projects completed by PHP in 2015. We will continue to work with our GP practice tenants to deliver schemes that develop existing premises to meet their and their patients' needs.

## **Outlook**

After careful evaluation, we have taken our first steps to invest in primary care property in the Republic of Ireland. The challenges facing Ireland's healthcare provision are similar to those in the UK with a growing, ageing population and increasing rates of chronic illness but a disparate and outdated estate from which services are delivered.

The Irish State's Health Service Executive (“HSE”) is driving forward significant change in healthcare provision in Ireland, focussed on the modernisation of the primary care sector. This is seeing the development of a number of new primary care centres with the HSE itself as the majority occupier, providing a similar covenant to that of the NHS in the UK.

We are a leading investor in healthcare real estate in the UK and our reputation and experience will benefit our expansion into Ireland. We are well placed to provide new premises to support the modernisation of the NHS and to work alongside the HSE to reposition healthcare provision in Ireland.

The fundamentals of the sector in both the UK and Ireland provide confidence that the assets in which we invest will continue to provide strong, reliable and growing long term returns. The Group's operational structure ensures that our activities are managed efficiently, whilst active management of our debt portfolio will maintain a balanced maturity profile and an appropriate blended cost of debt. This will all be reflected in the progressive dividend that we pay to shareholders.

I would like to thank the Board and the team of advisers and managers with whom we work at PHP and who contribute to the continued success of the Group. In particular, I would like to thank Jamie Hambro and William Hemmings, who will retire from the Board following the forthcoming AGM, and who have done an excellent job in helping steer the Group's impressive record over many years. We will miss their wise counsel, but anticipate being able to nominate their replacements in the near future. I look forward to working with the continuing team again in 2016 and delivering further growth of the Group.

**Alun Jones**  
**Chairman**  
**3 February 2016**

## 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 has invested 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 currently located in the UK. The majority of tenants are general practitioners ("GP") and NHS organisations, with over 90% of UK income funded directly or indirectly by the NHS, providing a low risk, high covenant income stream.

The Group is pursuing selected investments in the Republic of Ireland. The principal tenant will typically be the Health Service Executive ("HSE"), the executive agency of the Irish Government's Department of Health, representing between 60% and 75% the rental income and 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, will typically enter into 25 year leases with CPI linked rent reviews, providing similar long term income streams to that 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 is a long term investor in modern, flexible, purpose-built healthcare properties, working with experienced development partners, healthcare bodies and healthcare professionals to develop premises that meet the ever-changing needs of primary care provision.

The demand for healthcare services is ever increasing as populations grow and age and as, for example, the incidence of chronic disease increases. As a result, the overall cost of providing healthcare services has also increased.

It is widely recognised internationally that primary care is the preferred setting for most health care to meet the demands of increasing need, stabilise health care costs and accommodate patient preference for care close to home. The primary care arena also offers the opportunity to provide more efficient healthcare services. In 2014, the Royal College of GPs in the UK commissioned a survey by Deloitte that suggested that for every £1 increase in the GP budget, a saving of £5 could be made in other areas of NHS cost such as hospital admissions.

### United Kingdom

Latest estimates place the UK population at circa 65 million<sup>4</sup>. This included 11.4 million people aged 65 or over, an increase of 300,000 people in the year to June 2014. The total population is projected to grow by 10% in the next 15 years, but the number over the age of 70 will grow by more than 45%.

This is creating significant additional demand upon healthcare services. By way of example, around 15 million people in England alone have a long term condition which is managed by medicine and other treatments. These cases account for approximately half of all GP appointments. The number of people with three or more long-term conditions is predicted to rise from 1.9 million in 2008 to 2.9 million in 2018 with long term conditions being more prevalent in older people.

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. More than 1.3 million patients visit their GP practice each day<sup>1</sup>, representing 90% of all NHS patient contacts.

In October 2014, NHS England published its Five Year Forward View ("FYFV"), its strategic plan for the development of healthcare services for England. The FYFV reiterates that "the foundation of NHS care will remain list-based primary care" and NHS England plans to invest more in primary care and provide more services within the local community. Here, these services can be delivered more cost effectively, provide greater choice to the patient and be better integrated with social care services, another stated aim of the FYFV.

The UK Government has delivered on its support for the vision of the FYFV and has a stated objective to improve access to GPs and move to a 24/7 service. It has delivered on its funding pledge, announcing in the November 2015 Spending Review that a total of £10 billion would be provided with £6 billion of funding being given to NHS England by the end of 2016-17. In exchange for this, the NHS has to deliver internal cost savings of £22 billion per annum as set out in the FYFV.

Changing models of care, the continued drive to deliver more care services in the local community, greater integration of health and care services and the objective to offer round the clock access to primary care services will require more modern, purpose built, flexible premises.

A large part of the primary care estate is comprised of ageing, converted residential properties many of which need to be replaced simply to meet minimum quality standards. 40% of GPs see their existing properties as not being fit for purpose<sup>3</sup> and 70% feel that their existing premises are inadequate for them to deliver the range of services they would like.

In December 2014, the Government announced £1.1 billion in funding over four years specifically to improve GP premises, establishing the Primary Care Transformation Fund. Following a number of issues with the initial awards and access to the fund, a series of changes have been introduced to allow funds to be applied to a wider range of projects. PHP has worked with its tenants to access these funds and continues to invest in its assets to facilitate service expansion and cost efficiencies to be made. PHP is primed to fund the larger scale capital investment that is required to properly modernise the primary care estate.

### **Republic of Ireland**

As of April 2015, Ireland had a population of 4.6 million people<sup>5</sup>, projected to rise to 5.2 million by 2031. Currently some 9% or 400,000 people are aged over 70, but this is predicted to rise to 14% in 2031, a rate of increase that is nearly double the European average.

Similar to the UK, chronic, long term disease rates are increasing. An estimated 500,000<sup>6</sup> people in Ireland have a serious lung disease, 10% of those aged over 50 have diabetes and the overall incidence of chronic disease is rising by 4% per annum.

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<sup>7</sup> 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 Department of Health in Ireland (“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 (“HSE”) are in the process of rolling out 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. The 2015 Budget saw a modest increase in health spending to €13.2 billion to assist with this, a proportion of which was ear-marked for improved and expanded service delivery, including the provision of free GP services for those aged under six and over 70.

The HSE has recognised the role that modern, flexible premises can play in providing extended integrated care and is looking to procure a substantial number of new premises to facilitate this. To support this, 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 90% of the Group’s UK income. The different characteristics of the Irish healthcare real estate sector in terms of tenant mix, location etc. provide for enhanced returns, compared to the UK, that are underpinned by the HSE covenant.

### ***Strong underlying property characteristics***

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 facilities. Buildings are often located within residential areas which can lead to restricted alternative use potential. Against this, initial lease terms are longer than in general commercial markets, more than 20 years on average and locally provided healthcare will continue to be a necessity for the foreseeable future.

In the UK, PHP’s income benefits from a shorter rent review cycle, typically three yearly and on an upwards only basis. 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 Ireland, the HSE makes a strong commitment to each primary care centre in order to create an integrated healthcare system alongside GP services. The HSE presence, representing 60% to 75% of rent received at a centre, will underpin the long term secure income to be received from Irish properties.

Overall, these factors 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.

The anticipated increase in the levels of development of new medical centres will assist open market rent reviews, resulting in a higher rate of growth than in recent years.

### Returns

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.

MSCI/IPD established its UK Healthcare Property Index in 2007 (the “Index”). The Index is published toward the end of February each year reflecting data collected for the year to the preceding December.

The data in the table below is taken from the Index for the period ended 31 December 2014 and illustrates how primary healthcare real estate has produced superior risk adjusted returns over that period. This reflects 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%
Gilts	7.0%
<b>Primary healthcare</b>	<b>6.9%</b>
All healthcare	5.9%
Office property	4.7%
Equities	4.4%
Industrial property	3.8%
All property	3.4%
Retail property	2.3%

Source: IPD – 8 year total return versus standard deviation 2007-2014

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.

<sup>1</sup> - Royal College of General Practitioners January 2015

<sup>2</sup> - Health and Social Care Information Centre, General practice trends in the UK, 23 January 2013

<sup>3</sup> - British Medical Association GP Committee Premises Survey

<sup>4</sup> - ONS

<sup>5</sup> - Central Statistics Office, Ireland

<sup>6</sup> - Health Service Executive Corporate Plan 2015-2017

<sup>7</sup> - Irish Journal of Medical Science, July 2013

## Business Review

### Delivering progressive returns

<b>EPRA earnings per share</b> 4.9 pence + 19.5%	<b>Dividend per share</b> 5.0 pence + 2.6%	<b>EPRA NAV per share</b> 87.7 pence + 10.0%	<b>Total NAV return</b> 13.0 pence 16.3%
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PHP has achieved further growth in earnings through 2015 as we:

- acquired further properties;
- invested into existing sites achieving increased income and extending the longevity of leases;
- secured modest growth on rent reviews in what remains a challenging market;
- managed the Group in an efficient manner; and
- continued to lower the average cost of the Group's debt.

We have continued to increase the dividend paid to shareholders and transactions in the year meant we have met our objective of returning to full dividend cover.

### Earnings

Property acquisitions, along with the delivery of some large development properties completed in the year, have added to the Group's contracted rent roll. Net rental income receivable in the year increased by 5.1% to £62.3 million (2014: £59.3 million).

Total administrative costs were unchanged in 2015 and active management of the Group's debt and hedging portfolio lowered the average cost of the Group's debt finance, contributing to the overall growth in earnings. EPRA earnings increased by 19.2% to £21.7 million (2014: £18.2 million) and including another year of strong valuation growth for the Group's property portfolio, profit before tax rose by 51.8% to £56.0 million (2014: £36.9 million).

<b>Summarised results</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Net rental income	62.3	59.3
Administrative expenses	(6.8)	(6.8)
<b>Operating profit before revaluation gain and financing</b>	<b>55.5</b>	<b>52.5</b>
Net financing costs	(33.8)	(34.3)
<b>EPRA earnings</b>	<b>21.7</b>	<b>18.2</b>
Net result on property portfolio	39.8	29.2
Non-recurring: early loan repayment fee	-	(1.2)
Non-recurring: convertible bond issue costs	-	(2.4)
Fair value gain/(loss) on interest rate swaps	1.0	(2.4)
Fair value loss on convertible bond	(6.5)	(4.5)
<b>IFRS profit before tax</b>	<b>56.0</b>	<b>36.9</b>
<b>EPRA earnings per share</b>	<b>4.9p</b>	<b>4.1p<sup>1</sup></b>

Dividends paid in the year increased by 2.6% to 5.0 pence per share<sup>1</sup> (2014: 4.875 pence<sup>1</sup>). A key priority of the Board has been to return the Company to full dividend cover whilst maintaining its progressive dividend policy. Dividend cover for the year as a whole was 98% (2014: 84%) but importantly, in the second half of the year PHP returned to paying a fully covered dividend. The interim dividend paid in April 2015 was 89% covered, but as earnings increased in the second half of 2015, the interim dividend paid in October 2015 was 107% covered.

<sup>1</sup> - Restated due to reflect the Company's four for one share sub-division undertaken in November 2015

**Shareholder Value**

Yields in the healthcare property sector have tightened further during the year as demand for assets has continued and supply has been restricted. The independent valuation of the Group's portfolio at 31 December 2015 produced a net surplus of £39.8 million (2014: £29.2 million). This equates to an additional 8.9 pence per share of value growth.

In July, PHP completed the restructuring of an element of its interest rate swap portfolio, lengthening the overall period of this protection. This included terminating a short dated contract resulting in a breakage payment being made. This totalled £3.2 million or 0.8 pence per share.

As at 31 December 2015, EPRA Net Asset Value per share stood at 87.7 pence (2014: 79.7 pence<sup>1</sup>), an increase of 8.0 pence or 10.0%. Adding total dividends paid to shareholders in the year. Total NAV Return for the period was 13.0 pence per share or 16.3% (2014: 12.8%).

<b>EPRA Net asset value per share</b>	<b>2015</b>	<b>2014</b>
	<b>pence per share</b>	<b>pence per share<sup>1</sup></b>
Opening EPRA NAV per share	79.7	75.0
EPRA earnings for the year <sup>2</sup>	4.9	4.1
Net result on property portfolio	8.9	6.6
Dividend paid	(5.0)	(4.9)
Early repayment charges	-	(0.3)
Share issue	-	0.1
Convertible Bond issue costs	-	(0.6)
Interest rate derivative fair value cost	(0.8)	(0.3)
<b>Closing EPRA NAV per share</b>	<b>87.7</b>	<b>79.7</b>

The Company's share price opened the year at 92.5 pence<sup>1</sup>. Equity markets were at times quite volatile during the year, but the improvement in earnings and attractiveness of the reliable yield that PHP provides saw the share price perform well, rising to 108.75 pence as at 31 December 2015. Adding the dividends paid in the year to the increase in share price gives a Total Shareholder Return of 23.0%.

<sup>1</sup> - Restated due to reflect the Company's four for one share sub-division undertaken in November 2015



## Growing PHP's property portfolio

<b>Total property assets</b> £1.1 billion + 7.3%	<b>Revaluation surplus</b> £39.8 million 8.9 pence per share	<b>Contracted rent roll</b> £63.7 million + 4.6%	<b>WAULT</b> 14.7 years 2014: 15.3 years
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Commercial property has experienced marked yield movements in 2015 as a weight of money has continued to flow into UK real estate. The valuation of primary care property has historically been much more stable due to the attractive qualities of the sector with its long lease lengths and the security of its income with such a large proportion derived from the NHS (directly or indirectly). These are unchanged and many investors target healthcare real estate to provide them with a stable, consistent yield.

The supply of new premises has been restricted since the structural changes implemented by the NHS in England ("NHSE") in April 2013. This has led to some further yield tightening in 2015 due to continued investor appetite, but this movement has been of a much lesser scale than wider commercial property.

The Group held a total of 273 property assets as at 31 December 2015. This comprised 267 that were completed and rent producing and 6 that were on-site, under construction. The entire portfolio was independently valued by Lambert Smith Hampton ("LSH"), at market value in accordance with RICS rules. The aggregate value of the Group's property assets totalled £1.1 billion, generating a surplus of £39.8 million for the year, after allowing for acquisition costs, the cost to complete development properties and capital invested in asset management projects. This represents a like for like valuation increase of 3.9% equivalent to an increase of 8.9 pence per share.

PHP's portfolio now reflects an average net initial yield of 5.32% (2014: 5.52%) and a true equivalent yield of 5.53% (2014: 5.75%).

	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Investment properties	1,091.9	1,002.4
Properties in the course of development	8.7	23.9
<b>Total properties owned and leased</b>	<b>1,100.6</b>	<b>1,026.3</b>
Cost to complete developments and asset management projects	21.8	11.2
<b>Total completed and committed</b>	<b>1,122.4</b>	<b>1,037.5</b>

In a sector where pricing has generally increased, the Group has maintained its disciplined approach to acquisitions, underwriting each opportunity for its fundamental characteristics, position in its local health economy, its prospects for income and capital growth and the ability to enhance and expand the building to lengthen its period of use as a primary care centre.

The Group added eight properties to its portfolio in the year, comprising two standing let investments, one forward purchase commitment and five development assets. These added £2.4 million of additional rent and an average of 21 years of unexpired lease term.

Asset	Acquisition basis	Acquisition cost	Size sqm	WAULT at acquisition/ on completion
Colwyn Bay Primary Care Centre, North Wales	Development asset	£4.6 million	1,535	20 years
Dinas Powys, South Wales	Development asset	£3.4 million	1,148	20 years
Two Rivers Medical Centre, Ipswich	Development asset	£6.7 million	1,987	25 years
Kimmerfields, Swindon	Development asset	£10.4 million	2,473	20 years
NHS Trust Building, Macclesfield	Forward commitment	£2.5 million	929	21 years
Jubilee Medical Centre, Croxteth	Development asset	£1.2 million	468	25 years
White Horse Medical Centre, Westbury	Completed investment	£7.7 million	2,033	27 years
Thornaby Health Centre, North Yorkshire	Completed investment	£7.5 million	2,637	14 years

The Jubilee Medical Centre, Croxteth was delivered in December 2015. Three development properties that had been contracted in 2014 were also delivered in the year, including the major investment in the new Fountains Medical Centre in Chester. In total these crystallised contracted rent of £1.5 million, for an average lease term of 25 years.

Taking all development assets and commitments as complete, the Group's contracted rent roll has increased by 4.6% to £63.7 million (31 December 2014: £60.9 million). More than 90% of rental income is funded directly or indirectly by the NHS and the portfolio has an average unexpired lease term of 14.7 years (2014: 15.3 years). Average lot size increases to £4.1 million (2014: £3.9 million).

We work closely with GP "owner/occupiers" who are considering disposing of their assets perhaps to allow partnership restructuring or to access further capital to improve the premises to allow expansion of services. PHPs long term track record and experience of the sector and its understanding of the objectives and concerns of GP tenants' means that we are able to help GPs structure a sale appropriately and where an occupational lease may be needed for the first time, assist them in liaising with the NHS in order to obtain approval and reimbursement.

We continue to work with a number of specialist healthcare developers and our customers to ensure that we deliver properties that meets the needs of GPs and the NHS, and in future the HSE in Ireland, to provide fit for purpose buildings that offer flexibility for reconfiguration or expansion to meet the future needs of their business.

#### Property Portfolio – completed properties only

	London	South West	South East	East Anglia	East Mids	West Mids	North West	Yorks & H'side	North	Scotland	Wales	Total
Number of properties	11	15	60	7	22	29	30	19	23	29	22	267
Number of tenancies	18	28	123	11	46	73	63	40	52	53	76	583
Rent roll (£m)	2.5	2.7	11.7	1.0	4.5	7.9	8.8	4.7	4.3	7.9	5.8	61.8
Capital value (£m) <sup>1</sup>	47.3	50.8	199.5	17.6	79.7	139.3	162.3	81.3	74.5	140.1	100.1	1,092.5

<sup>1</sup> – Includes cost to complete asset management projects of £0.6 million

## Managing effectively and efficiently

<b>Rental growth on review</b> 0.9% per annum £0.4 m per annum of additional rent	<b>Capital projects</b> £2.5 million invested £0.3 million of additional rent Average 19.4 years additional WAULT	<b>EPRA cost ratio</b> 11.5% for the year Reduced by 50 basis points
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The majority of leases in PHP's UK portfolio have either explicit or effectively upwards-only review terms (i.e. where the review can only be triggered by the landlord). Some 23% of UK leases have fixed periodic rental uplifts or increases that are formally indexed linked, mostly in line with RPI. The most common review is undertaken to "open market".

The portfolio has a well spread schedule of rent reviews with 10% of the portfolio reviewed annually, 77% on a three yearly basis and 13% every five years. The weighted average uplift on 153 reviews completed in the year was 0.9% per annum, down from 1.8% on reviews completed in 2014.

Fewer new development approvals by the NHS has limited the stimulus this provides to support increases in rental levels. A slow increase in the number of approvals has been seen and it is expected that this will grow further as the provision of new centres supports the development of care models and is used as an enabler to drive efficiency saving the NHS. We expect to see rental growth at similar levels for the immediate future, but to increase as the rate of new development approvals increases.

In 2015, Nexus started the process of taking on all property management functions for the portfolio, replacing a small number of external agents who had previously managed service charges for tenants or larger scale landlord management programmes for the Group. This will enable yet higher standards of ongoing maintenance and provide a more cost effective service to our tenants and for PHP.

PHP's portfolio is substantially fully let. As at 31 December 2015, PHP's EPRA Vacancy Rate was 0.3% (2014: 0.2%).

We work closely with each of our tenants to ensure that, over the longer term, the property continues to be fit for purpose and offers the flexibility to be adapted and/or extended to meet the aspirations and changing demands put upon primary care providers. This ensures that we retain our tenants and enables us to increase contracted rental income and lengthen occupational lease durations which add to both earnings and capital value.

This regular contact with tenants and the development of individual property and asset management strategies for each of the Group's properties enables Nexus to identify and secure an increasing number of asset management projects. These enhance the configuration and suitability of the premises to continue to meet the needs of our tenants for the longer term.

Projects take a number of forms that include:

- capital expenditure, ranging from small extensions to major construction projects; and
- managing existing leases through re-gearing or refurbishment and planned or specific maintenance programmes.

The introduction of the Primary Care Transformation Fund provided further opportunities where GP tenants were able to secure funding from the Fund to be put alongside PHP's capital and secure larger, more wide ranging improvements.

PHP completed seven projects in 2015 and invested a total of £2.5 million of capital. The projects in total generated an additional £0.3 million of rental income and secure an average of 19.4 additional years of lease term.

Two further projects are currently in progress on site, with a total cost of £1.5 million, generating additional rent of £0.1 million for an average additional term of 12 years.



In 2014, the provision of advisory and administrative services was consolidated with the Adviser, Nexus. This has resulted in further reductions in the proportionate cost of managing the Group's activities.

Nexus receives a property advisory fee, payable based on the gross asset value of the Group's property portfolio. The incremental rate reduces as the portfolio grows securing economies of scale for the Group.

Administrative and company secretarial services provided by Nexus are remunerated on a fixed annual fee basis, that may be varied upwards or downwards in line with RPI annually from May 2016.

The total fee paid to Nexus averaged 50 basis points of gross assets, a 9% reduction on the 2014 figure of 55 basis points. Total overhead costs were broadly consistent in 2015 with those of 2014, but with an increasing property portfolio, the Group's EPRA cost ratio fell by 50 basis points to 11.5% (2014: 12.0%).

#### EPRA cost ratio

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
<b>Gross rent less ground rent</b>	<b>62.7</b>	<b>59.7</b>
Direct property expense	0.8	0.8
Administrative expenses	6.8	6.8
Less: Ground rent	(0.1)	(0.1)
Less: Other operating income	(0.3)	(0.3)
<b>EPRA costs (including direct vacancy costs)</b>	<b>7.2</b>	<b>7.2</b>
<b>EPRA cost ratio</b>	<b>11.5%</b>	<b>12.0%</b>

## Diversified, long term funding

<b>Net debt</b> £689.8 million (2014: £658.1 million)	<b>Weighted average facility maturity</b> 5.9 years (2014: 6.2 years)	<b>Loan to value</b> 62.7% (2014: 64.1%)
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The Group is funded through a combination of shareholder equity and external debt in order to enhance the returns that are generated for shareholders. A key objective is to ensure that appropriate facilities continue to be available to the Group to enable future growth. This will include a range of instruments, sources and maturities, combined to give an appropriate blended cost of debt.

2014 was a particularly active year in which more than £440 million of debt facilities were either refinanced, restructured or procured by the Group and an £82.5 million unsecured Convertible Bond was issued. Activity in 2015 has sought to further extend existing facilities and lengthen the period of the Group's interest rate protection through management of the interest rate swap portfolio.

In July 2015, the Group extended the maturity of its £50 million revolving credit facility with HSBC Bank plc for a new five year term. All other terms of the loan remain unaltered.

With terms agreed in 2015, but completed on 7 January 2016, the £100 million loan facility provided by Barclays plc was extended by £15 million, with Allied Irish Banks plc ("AIB") providing the additional capital and once again becoming a funding partner to the Group. The enlarged facility will be made available for a new five year term from January 2016 and allows the Group to more efficiently use its collateral and provides additional available headroom.

A swap contract for a notional £80 million of debt with a coupon of 4.805% and maturing in July 2016 was terminated in July 2015. The termination cost totalled £3.2 million, but the saving in interest costs for the Group will be £1.7 million in each of 2015 and 2016.

Two forward starting interest rate swaps were procured to replace existing fixed rate loans and interest rate swaps as they mature. These will provide protection for the Group from interest rate rises expected to occur in the medium term, secured at rates that are below those currently incurred on the facilities/contracts that they will replace.

A nominal value of £25 million of debt has been swapped for a five year period from January 2018 at 2.47% and £75 million of debt has been swapped for a five year period from January 2019 at 2.65%.

The principal value of debt drawn as at 31 December 2015 totalled £692.7 million (2014: £670.1 million). Cash balances were £2.9 million resulting in Group net debt of £689.8 million, 23% of which was held on an unsecured basis. The total remaining cost of development work on-site at the year-end was £21.8 million, resulting in headroom of £91.1 million from existing facilities being available to the Group (2014: £116.7 million).

<b>Debt metrics</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Loan-to-value	62.7%	64.1%
Interest cover	1.90 times	1.73 times
Weighted average debt maturity	5.9 years	6.2 years
Total drawn secured debt	£535.2m	£512.6m
Total drawn unsecured debt	£157.5m	£157.5m





An analysis of the Group's exposure to interest rate risk in its debt portfolio, including the additional headroom within the extended Barclays/AIB loan, is as follows:

	Facilities		Drawn	
	£'m	%	£'m	%
Fixed rate debt	395.2	49.2	395.2	57.1
Hedged by interest rate swaps/caps	141.0	17.6	141.0	20.4
Floating rate debt - unhedged	266.5	33.2	156.5	22.5
Total	802.7	100.0	692.7	100.0

## Outlook

In 2015, we have seen further growth in earnings such that the dividend for the second half of the year was more than fully covered and cover for the year as a whole rose to 98%. We have delivered this strong performance whilst continuing to raise the dividend paid to shareholders each year.

We look forward to 2016 safe in the knowledge that the strong income and covenant characteristics and underlying property fundamentals of primary healthcare real estate remain. There is an increasing appetite from lenders to provide funds for the sector and with term interest rates still at historically low levels, the sector offers the opportunity to lock in healthy spreads between investment yields and cost of funds. Our operating model continues to demonstrate its efficiency and incremental management costs, as a percentage of the portfolio's value, reduce as the portfolio grows.

We have a strong pipeline of opportunities in the UK with a number of transactions in solicitors' hands and further transactions in advanced stages of agreement with vendors. We will continue to be selective in what we acquire, ensuring that we are not overpaying in what is a more competitive market at present.

In addition to this, we have agreed terms and are documenting our first investments in the Republic of Ireland. The Irish Government is looking to make significant changes to Irish healthcare provision and is committed to the provision of new, modern integrated primary care centres to enable this. The Health Service Executive are prepared to anchor the rental income in these new centres and the covenant quality this adds means investment yields in Ireland are very attractive compared to UK assets. We have a good pipeline of potential acquisitions in Ireland, both of income producing assets and the funding of new development projects.

PHP is well placed to continue to support both the NHS and the HSE as they look to implement new models of care and extract cost savings from their healthcare systems.

## RISK MANAGEMENT OVERVIEW

Effective risk management is a key element of the Board's operational processes. The Group faces a variety of risks that have the potential to impact on its performance, position and its 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.

The Board has structured operations in order to minimise the Group's residual exposure to 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 overall risk appetite of the Board. These operations include rigorous, regular review of risks and how these are mitigated and managed across all areas of the Group's activities.

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 health 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 provides clear visibility of income;
- The Group is not a direct developer of real estate, which although 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, maintains a spread of maturities and with a mix of terms so as to fix or hedge the majority of interest costs.

## APPROACH TO RISK MANAGEMENT

The Board has overall responsibility for effective risk management across the Group. The Audit Committee is delegated responsibility for reviewing the Group's systems of risk management and their effectiveness on behalf of the Board, which have been in place for the year under review and 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 business. Key risks are recorded in a Risk Register and owned by the Board which is responsible for overseeing the monitoring and mitigation of that risk.

The Adviser has established a Risk Committee that is formed of members of its senior management team. The chairman of the Adviser's Risk Committee is independent of both the Adviser and the Group and experienced in the operation and oversight of risk management processes. The Adviser's Risk Committee reports on its processes of risk management and the rating of risks it identifies to the Audit Committee, who agrees those risks that will be managed by the Adviser and those where the Board will assume direct responsibility for management and monitoring.

The Adviser has established 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.

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	Change to risk in 2015	Factors affecting risk in the year	Mitigation
<b>Delivering Progressive Returns</b>			
<p>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.</p>	Unchanged	<p>In the UK, the Government has committed additional funding to the NHS with a resulting increase in funding for primary care. The drive to move services into the local community is further underpinned by the commitment to provide 24/7 access to GP services.</p> <p>In Ireland, increasing pressures on health care systems has led the Irish Government to seek to restructure its primary care provision with the aim of achieving universal primary care for residents of Ireland.</p> <p>The attractiveness of the long term, secure and growing income streams that characterise the sector leads to stability of values.</p>	<p>The commitment to primary care is a stated objective of both UK and Irish Governments.</p> <p>Management regularly engages with the NHS and government directly to promote the continued investment in primary care and modern premises in the UK and is developing similar relationships with bodies in Ireland.</p> <p>The Board includes members experienced and active in primary care provision.</p> <p>The non-cyclical nature of the sector in which the Group operates reduces the impact of the wider economy.</p>
<p>The value of income derived from and expenses related to PHP's investment in primary care assets 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.</p>	Increased	<p>In 2015 the Board took its decision to seek to make its first investment outside of the UK. Its investments and related income and costs will be Euro denominated, whereas the Group's main operating currency is Sterling.</p>	<p>The investments will offer a natural hedge in meeting local property related expenses from local currency rental income.</p> <p>The Board will put in place a policy to hedge wherever possible its exposure to Euro cash flows and the valuation of its assets and liabilities in Ireland. This will include the use of currency derivatives and matching Euro denominated assets with Euro debt facilities.</p>

Risk	Change to risk in 2015	Factors affecting risk in the year	Mitigation
<b>Grow Property Portfolio</b>			
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.	Increased	<p>The sector has seen an increased number of new development approvals through 2015 in the UK. In addition, the continued availability of the Primary Care Transformation Fund has provided an increased ability to secure projects to enhance or extend existing properties.</p> <p>The Group has identified a pipeline of primary care real estate assets in Ireland, giving access to a pool of potential modern medical centre investments.</p>	<p>The Group has a number of formal pipeline agreements and long standing development relationships that provide an increased opportunity to secure developments that come to market in the UK.</p> <p>The reputation and track record of the Group in the sector means it is able to source investment in existing standing investments from investors and owner occupiers and is also proving beneficial in dealing with vendors, developers and users of primary care properties in Ireland.</p>
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.	Unchanged	There has continued to be a healthy appetite from both equity investors and debt providers to fund the sector through 2015. There have been a number of new providers to the sector in the year.	The Board monitors its capital structure and maintains regular contact with funders. A programme of meetings with existing and potential equity investors is supported by regular discussions with debt providers.
<b>Manage effectively and efficiently</b>			
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.	Unchanged	As the Group's portfolio grows in the number of assets that it owns and initial lease terms erode, the importance of active management to extend the use of a building is increased.	The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. The Group is experienced in identifying and implementing asset management projects that enhance income and values at properties and extend occupational lease terms.
The Group has no employees. The continuance of the Adviser contract is a key for the efficient operation and management of the Group.	Unchanged	The provision of administrative and company secretarial services was consolidated with the Adviser in 2014, significantly reducing the costs of these services. The consolidation removed execution risk arising from the previous split responsibilities of joint advisers.	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.



<b>Risk</b>	<b>Change to risk in 2015</b>	<b>Factors affecting risk in the year</b>	<b>Mitigation</b>
<b>Diversified, long term funding</b>			
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.	Unchanged	The Group has been successful in extending the availability of certain debt facilities in the year. New entrants to the 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.
Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	Unchanged	Competition in debt markets has increased during the year lowering the cost of new facilities. The Group has continued to apply its defined policy as regards mitigating interest rate risk.	The Group retains a proportion of its debt on a long term, fixed rate basis. It also mitigates its exposure to interest rate movements on floating rate facilities through the use of a series of interest rate swaps and other derivative instruments.

**Harry Hyman**  
**Managing Director**  
**3 February 2016**



**Group Statement of Comprehensive Income  
for the year ended 31 December 2015**

	Notes	2015 £000	2014 £000	
Rental income		<b>63,115</b>	59,985	
Direct property expenses		<b>(852)</b>	(723)	
<b>Net rental income</b>	3	<b>62,263</b>	59,262	
Administrative expenses	4	<b>(6,807)</b>	(6,782)	
Non-recurring expenses: convertible bond expenses		-	(2,426)	
Net result on property portfolio	10	<b>39,767</b>	29,204	
<b>Operating profit</b>		<b>95,223</b>	79,258	
Finance income	5	<b>737</b>	977	
Finance costs	6a	<b>(34,464)</b>	(35,252)	
Non recurring: Early loan repayment fees	6b	-	(1,187)	
Fair value gain/(loss) on derivative interest rate swaps and amortisation of cash flow hedging reserve	6c	<b>1,005</b>	(2,454)	
Fair value loss on convertible bond	6d	<b>(6,469)</b>	(4,462)	
<b>Profit before taxation</b>		<b>56,032</b>	36,880	
Taxation charge	7	-	-	
<b>Profit for the year <sup>(1)</sup></b>		<b>56,032</b>	36,880	
<b>Other comprehensive income/(loss):</b>				
<b>Items that may be reclassified subsequently to profit and loss</b>				
Fair value gain/(loss) on interest rate swaps treated as cash flow hedges	23	<b>1,420</b>	(9,980)	
<b>Other comprehensive income/(loss) for the year net of tax <sup>(1)</sup></b>		<b>1,420</b>	(9,980)	
<b>Total comprehensive income for the year net of tax <sup>(1)</sup></b>		<b>57,452</b>	26,900	
<b>Earnings per share</b>				
	Basic	8	<b>12.6p</b>	8.3p <sup>2</sup>
	Diluted	8	<b>11.2p</b>	7.9p <sup>2</sup>
<b>EPRA earnings per share</b>				
	Basic	8	<b>4.9p</b>	4.1p <sup>2</sup>
	Diluted	8	<b>4.8p</b>	4.1p <sup>2</sup>

The above relates wholly to continuing operations.

<sup>1</sup> - Wholly attributable to equity shareholders of Primary Health Properties PLC

<sup>2</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015


**Group Balance Sheet  
at 31 December 2015**

	Notes	2015 £000	2014 £000
<b>Non-current assets</b>			
Investment properties	10	1,100,612	1,026,207
Derivative interest rate swaps	17	9	25
		<b>1,100,621</b>	1,026,232
<b>Current assets</b>			
Trade and other receivables	12	4,153	5,668
Cash and cash equivalents	13	2,881	12,072
		<b>7,034</b>	17,740
<b>Total assets</b>		<b>1,107,655</b>	1,043,972
<b>Current liabilities</b>			
Derivative interest rate swaps	17	(4,734)	(5,802)
Corporation tax payable		-	-
Deferred rental income		(13,169)	(12,308)
Trade and other payables	14	(16,099)	(14,244)
Borrowings: term loans and overdraft	15	(862)	(711)
		<b>(34,864)</b>	(33,065)
<b>Non-current liabilities</b>			
Borrowings: term loans and overdraft	15	(460,550)	(437,022)
Borrowings: Bonds	16	(236,328)	(229,543)
Derivative interest rate swaps	17	(30,553)	(35,212)
		<b>(727,431)</b>	(701,777)
<b>Total liabilities</b>		<b>(762,295)</b>	(734,842)
<b>Net assets</b>		<b>345,360</b>	309,130
<b>Equity</b>			
Share capital	19	55,785	55,638
Share premium account	20	57,422	56,416
Capital reserve	21	1,618	1,618
Special reserve	22	93,063	115,438
Cash flow hedging reserve	23	(22,402)	(23,847)
Retained earnings	24	159,874	103,867
<b>Total equity <sup>(1)</sup></b>		<b>345,360</b>	309,130
<b>Net asset value per share – basic</b>	25	<b>77.4p</b>	69.5p <sup>2</sup>
<b>EPRA net asset value per share - basic</b>	25	<b>87.7p</b>	79.7p <sup>2</sup>

These financial statements were approved by the Board of Directors on 3 February 2016 and signed on its behalf by:

**Alun Jones**  
Chairman

<sup>1</sup> - Wholly attributable to equity shareholders of Primary Health Properties PLC.

<sup>2</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015.



**Group Cash Flow Statement  
for the year ended 31 December 2015**

	Notes	2015 £000	2014 £000
<b>Operating activities</b>			
Profit on ordinary activities before tax		56,032	36,880
Finance income	5	(737)	(977)
Finance costs	6a	34,464	35,252
Early loan repayment fee	6b	-	1,187
Fair value (gain)/loss on interest rate swaps and amortisation of cash flow hedging reserve	6c	(1,005)	2,454
Fair value loss on convertible bond	6d	6,469	4,462
<b>Operating profit before financing costs</b>		<b>95,223</b>	<b>79,258</b>
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Revaluation gain on property portfolio	10	(39,767)	(29,204)
Fixed rent uplift		(1,480)	(1,025)
Convertible bond issue costs		-	2,426
Decrease/(increase) in trade and other receivables		999	(447)
Increase/(decrease) in trade and other payables		2,170	(1,985)
<b>Cash generated from operations</b>		<b>57,145</b>	<b>49,023</b>
Taxation paid		-	(23)
<b>Net cash flow from operating activities</b>		<b>57,145</b>	<b>49,000</b>
<b>Investing activities</b>			
Payments to acquire investment properties		(17,863)	(54,921)
Payment to acquire Crestdown Limited <sup>1</sup>		(3,869)	-
Payment to acquire White Horse Centre Limited <sup>2</sup>		(7,745)	-
Proceeds from disposal of investments properties		-	525
Interest received on development loans		1,311	478
Bank interest received		12	40
<b>Net cash flow used in investing activities</b>		<b>(28,154)</b>	<b>(53,878)</b>
<b>Financing activities</b>			
Cost of share issues and sub-division		(139)	(15)
Term bank loan drawdowns		45,750	164,922
Term bank loan repayments		(25,764)	(176,343)
Termination of derivative financial instruments		(3,286)	-
Proceeds of bond issue		-	92,500
Bond issue costs		-	(2,560)
Swap interest paid		(6,724)	(7,667)
Non-utilisation fees		(875)	(990)
Loan arrangement fees		(270)	(3,092)
Interest paid		(25,791)	(24,078)
Breakage fee on Aviva debt		-	(14,327)
Equity dividends paid net of scrip dividend	9	(21,083)	(20,688)
<b>Net cash flow from financing activities</b>		<b>(38,182)</b>	<b>7,662</b>
<b>(Decrease)/increase in cash and cash equivalents for the year</b>		<b>(9,191)</b>	<b>2,784</b>
<b>Cash and cash equivalents at start of year</b>		<b>12,072</b>	<b>9,288</b>
<b>Cash and cash equivalents at end of year</b>	13	<b>2,881</b>	<b>12,072</b>

<sup>1</sup> – acquisition of Thornaby property

<sup>2</sup> – acquisition of White Horse, Westbury property





**Group Statement of Changes in Equity  
for the year ended 31 December 2015**

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
<b>1 January 2015</b>	55,638	56,416	1,618	115,438	(23,847)	103,867	309,130
Profit for the year	-	-	-	-	-	56,032	56,032
<b>Other comprehensive income</b>							
Fair value movement on interest rate swaps	-	-	-	-	(132)	-	(132)
Amortisation of cash flow hedging reserve	-	-	-	-	1,552	-	1,552
<b>Total comprehensive income</b>	-	-	-	-	1,420	56,032	57,452
Reclassification of swap interest accrual from hedge reserve <sup>1</sup>	-	-	-	-	25	(25)	-
Share issue expenses	-	(30)	-	(109)	-	-	(139)
<b>Dividends paid:</b>							
Second interim dividend for the year ended 31 December 2014 (2.5p) <sup>2</sup>	-	-	-	(10,733)	-	-	(10,733)
Scrip dividends in lieu of second interim cash dividend	51	344	-	(395)	-	-	-
First interim dividend for the year ended 31 December 2015 (2.5p) <sup>2</sup>	-	-	-	(10,350)	-	-	(10,350)
Scrip dividend in lieu of first interim cash dividend	96	692	-	(788)	-	-	-
<b>31 December 2015</b>	<b>55,785</b>	<b>57,422</b>	<b>1,618</b>	<b>93,063</b>	<b>(22,402)</b>	<b>159,874</b>	<b>345,360</b>

<sup>1</sup> - This relates to fair value changes in prior periods incorrectly recognised within the cash flow hedging reserve movement.

<sup>2</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

	Share capital	Share premium	Capital reserve	Special reserve <sup>(1)</sup>	Cash flow hedging reserve	Retained earnings	Total
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	£000	£000	£000	£000	£000	£000	£000
<b>1 January 2014</b>	55,237	55,611	1,618	135,483	(14,337)	68,773	302,385
Profit for the year	-	-	-	-	-	36,880	36,880
<b>Other comprehensive income</b>							
Fair value movement on interest rate swaps	-	-	-	-	(9,980)	-	(9,980)
<b>Total comprehensive income</b>	-	-	-	-	(9,980)	36,880	26,900
Interest rate derivative fair value adjustment	-	-	-	-	-	(1,316)	(1,316)
Reclassification of swap from ineffective to effective <sup>1</sup>	-	-	-	-	470	(470)	-
Share issue as part of consideration for PPP	259	-	-	1,605	-	-	1,864
Share issue expenses (PPP)	-	(15)	-	-	-	-	(15)
<b>Dividends paid:</b>							
Second interim dividend for the year ended 31 December 2013 (2.4375p) <sup>2</sup>	-	-	-	(10,542)	-	-	(10,542)
Scrip dividends in lieu of second interim cash dividend	41	238	-	(279)	-	-	-
First interim dividend for the year ended 31 December 2014 (2.4375p) <sup>2</sup>	-	-	-	(10,146)	-	-	(10,146)
Scrip dividend in lieu of first interim cash dividend	101	582	-	(683)	-	-	-
<b>31 December 2014</b>	55,638	56,416	1,618	115,438	(23,847)	103,867	309,130

<sup>1</sup> - This relates to fair value changes in prior periods incorrectly recognised within the cash flow hedge reserve movements.

<sup>2</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

## Notes to the financial statements

### 1. Corporate information

The Group's financial statements for the year ended 31 December 2015 were approved by the Board of Directors on 3 February 2016 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 and presented in Sterling rounded to the nearest thousand.

#### Statement of compliance

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

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 2016.

#### 2.2 Summary of significant accounting policies

##### Basis of consolidation

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

The individual financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will continue to be prepared under UK GAAP, 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 property in the United Kingdom leased principally to GPs, NHS organisations and other associated healthcare users.

### ***Investment properties and investment properties under construction***

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

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

Investment properties are recognised for accounting purposes upon completion of contract, 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 de-recognised or impaired, as well as through the amortisation process.

### **De-recognition of financial assets and liabilities**

#### *Financial assets*

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

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

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

#### *Financial liabilities*

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

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

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

### **Fair value measurements**

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

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

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

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

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

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

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

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

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

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

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

#### ***Derivative financial instruments (derivatives) and hedge accounting***

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

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions meet the strict criteria of IAS 39 for being described as "effective" in offsetting changes in cash flows of hedged items.

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

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

- where a derivative is designated as a hedge of the variability of a highly probable forecast transaction, such as an interest payment, the element of the gain or loss on the derivative that is an "effective" hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in 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.

### ***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 2015. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.



### *Rent reviews*

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

### **b) Judgements**

#### *Leases*

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

#### *Hedge effectiveness*

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

#### *Property acquisitions during the year*

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

### **2.4 Standards adopted during the year**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for this Group as of 1 January 2015. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- IFRIC 21 Levies
- Annual improvements to IFRSs 2010-2012
- Annual improvement to IFRSs: 2011-2013

## 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
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 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
IFRS 11 (amendments)	Accounting for acquisitions of interests in joint operations
Annual improvements to IFRSs: 2012-2014	Amendments to: IFRS 5 – non-current assets held for sale and discontinued operations, IFRS 7 – Financial instruments: disclosures, IAS 19 – employee benefits and IAS 34 – Interim financial reporting

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, 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 2017 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 and finance lease income receivable on property investments in the UK, which is exclusive of VAT. Revenue is derived from one reportable operating segment. Details of the lease income are given below.

#### Group as a lessor

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

	Less than one year £000	1 to 5 years £000	More than 5 years £000	Total £000
<b>2015</b>	<b>61,850</b>	<b>246,566</b>	<b>590,357</b>	<b>898,773</b>
2014	58,811	234,577	591,842	885,230

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

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

### 4. Group operating profit is stated after charging

	2015 £000	2014 £000
<b>Administrative expenses including:</b>		
Advisory fees (Note 4a)	<b>5,296</b>	5,345
Directors' fees (Note 4c)	<b>254</b>	243
<b>Audit fees</b>		
Fees payable to the Company's auditors and their associates for the audit of the Company's annual accounts	<b>119</b>	102
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries	<b>114</b>	120
<b>Total audit fees</b>	<b>233</b>	222
Audit-related assurance services for the interim review	<b>42</b>	41
<b>Total audit and assurance services</b>	<b>275</b>	263
<b>Non-audit fees</b>		
Tax compliance services	<b>15</b>	-
Tax advisory services	<b>20</b>	50
<b>Total non-audit fees</b>	<b>35</b>	50
<b>Total fees</b>	<b>310</b>	313



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

**a) Advisory fees**

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

	2015	2014
	£000	£000
Nexus	5,296	4,697
J O Hambro Capital Management ("JOHCM")	-	648
	<b>5,296</b>	<b>5,345</b>

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 2015 £0.5 million was payable to Nexus (2014: £0.4 million). There were no outstanding sums payable to JOHCM (2014: £nil).

Further fees paid to Nexus in accordance with the Advisory Agreement of £0.1 million (2014: £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 (2014: £nil).

**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.

**5. Finance income**

	2015	2014
	£000	£000
<b>Interest income on financial assets</b>		
Bank interest	9	37
Development loan interest	725	937
Other interest	3	3
	<b>737</b>	<b>977</b>

**6. Finance costs**

	2015	2014
	£000	£000
<b>Interest expense and similar charges on financial liabilities</b>		
<b>a) Interest</b>		
Bank loan interest	16,287	16,959
Swap interest	5,954	7,609
Bond interest	9,567	8,058
Bank facility non-utilisation fees	922	926
Bank charges and loan commitment fees	1,734	1,700
	<b>34,464</b>	<b>35,252</b>
<b>b) Early loan repayment fees</b>		
Fee on breakage of PPP debt	-	1,187
	-	1,187

A charge of £1.2 million was made to the Group Statement of Comprehensive Income in 2014 with regard to costs associated with the early repayment and restructuring of loans acquired with the PPP portfolio in 2013.

	2015	2014
	£000	£000
<b>c) Derivatives</b>		
Net fair value gain/(loss) on interest rate swaps	2,557	(2,454)
Amortisation of cash flow hedging reserve	(1,552)	-
	<b>1,005</b>	<b>(2,454)</b>

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 £0.1 million (2014 loss: £9.9 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 the early termination of an effective swap contract (see Note 23).

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.

	2015	2014
	£000	£000
<b>d) Convertible bond</b>		
Fair value loss on convertible bond	(6,469)	(4,462)

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



	2015	2014
	£000	£000
<b>Net finance costs</b>		
Finance income (Note 5)	(737)	(977)
Finance costs (as per above)	34,464	35,252
	<b>33,727</b>	<b>34,275</b>

## 7. Taxation

### a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2015	2014
	£000	£000
<b>Current tax</b>		
UK corporation tax (Note 7b)	-	-

The UK corporation tax rate reduced from 21% to 20% on 1 April 2015. Accordingly, these rates have been applied in the measurement of the Group's tax liability at 31 December 2015.

### b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2014: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2015	2014
	£000	£000
Profit on ordinary activities before taxation	56,032	36,880
Theoretical tax at UK corporation tax rate of 20.3% (2014: 21.5%)	11,375	7,929
REIT exempt income	(6,940)	(5,935)
Transfer pricing adjustments	4,023	2,886
Non-taxable items	(7,035)	(4,270)
Losses brought forward utilised	(1,423)	(610)
<b>Taxation charge (Note 7a)</b>	<b>-</b>	<b>-</b>

At the balance sheet date, the Group has unused tax losses of £14.3 million (2014: £20.6 million) available for offset against future 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% (2014: 21%).

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 2015.

## 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) <sup>(1)</sup>	Per Share (pence)
<b>2015</b>			
<b>Basic and diluted earnings</b>			
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
<b>EPRA basic and diluted earnings</b>			
Basic earnings	56,032		
Adjustments to remove:			
Net result on property (Note 10)	(39,767)		
Fair value gain on derivatives	(1,005)		
Fair value movement on convertible bond	6,469		
<b>EPRA basic earnings</b>	<b>21,729</b>	<b>445,606,491</b>	<b>4.9</b>
Dilutive effect of convertible bond	3,506	84,615,385	
<b>EPRA diluted earnings</b>	<b>25,235</b>	<b>530,221,876</b>	<b>4.8</b>
<b>2014<sup>1</sup></b>			
<b>Basic and diluted earnings</b>			
Basic earnings	36,880	444,176,340	8.3
Dilutive effect of convertible bond	2,170	52,391,992	
Diluted earnings	39,050	496,568,332	7.9
<b>EPRA basic and diluted earnings</b>			
Basic and diluted earnings	36,880		
Adjustments to remove:			
Net result on property (Note 11)	(29,204)		
Fair value loss on derivatives	2,454		
Fair value movement on convertible bond	4,462		
Early loan repayment fee charges <sup>(2)</sup>	1,187		
Issue costs of convertible bond	2,426		
<b>EPRA basic and diluted earnings</b>	<b>18,205</b>	<b>444,176,340</b>	<b>4.1</b>

<sup>1</sup> Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

<sup>2</sup> Revised EPRA best practice guidance was issued in January 2014 which advised that early repayment fees associated with the close out of debt instruments should be excluded from EPRA earnings. This has been reflected in the calculation of EPRA earnings for both 2014 and 2015. As a result of these changes the Group no longer calculates an "adjusted" earnings figure.

On 20 May 2014, the Group issued £82.5 million of unsecured convertible bonds, refer to Note 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 2015. 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 2015.

## 9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2015	2014
	£000	£000
Second interim dividend for the year ended 31 December 2014 (2.5p) <sup>1</sup> paid 1 April 2015 (2014: 2.375p) <sup>1</sup>	<b>10,733</b>	10,542
Scrip dividend in lieu of second interim cash dividend	<b>395</b>	279
First interim dividend for the year ended 31 December 2015 (2.5p) <sup>1</sup> paid 30 October 2015 (2014: 2.375p) <sup>1</sup>	<b>10,350</b>	10,146
Scrip dividend in lieu of first interim cash dividend	<b>788</b>	683
<b>Total dividends distributed in the year</b>	<b>22,266</b>	21,650
<b>Per share</b>	<b>5.0p</b>	4.875p <sup>1</sup>

<sup>1</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

On 4 January 2016, the Board declared an interim dividend of 1.28125 pence per Ordinary Share with regard to the year ended 31 December 2015, payable on 26 February 2016. 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 (2014: 99.7%). The valuations reflected a 5.32% net initial yield (2014: 5.52%) and a 5.53% (2014: 5.75%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the Valuer.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the Valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the Valuers have used the special assumptions that, as at the valuation date, the developments have been completed satisfactorily. Management deduct the outstanding cost to the Group through to the completion of construction in arriving at the fair value to be included in the financial statements. A fair value increase of £0.6 million (2014: increase of £2.8 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 £39.8 million (2014: gain of £29.2 million).





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

	Investment properties freehold £000	Investment properties long leasehold £000	Investment properties under construction £000	Total £000
<b>As at 1<sup>st</sup> January 2015</b>	<b>825,274</b>	<b>177,075</b>	<b>23,858</b>	<b>1,026,207</b>
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)	-
	<b>850,834</b>	<b>201,917</b>	<b>8,094</b>	<b>1,060,845</b>
Revaluations for the year	31,182	7,944	641	39,767
<b>As at 31 December 2015</b>	<b>882,016</b>	<b>209,861</b>	<b>8,735</b>	<b>1,100,612</b>
As at 1 <sup>st</sup> January 2014	759,781	170,088	11,679	941,548
Property additions	22,833	2,051	30,071	54,955
Property disposals	(525)	-	-	(525)
Impact of lease incentive adjustment	857	168	-	1,025
Transfer from properties under construction	20,698	-	(20,698)	-
	<b>803,644</b>	<b>172,307</b>	<b>21,052</b>	<b>997,003</b>
Revaluations for the year	21,630	4,768	2,806	29,204
As at 31 December 2014	825,274	177,075	23,858	1,026,207

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £1,051 million (2014: £997.3 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 2015 and 31 December 2014. There were no transfers between levels during the year or during 2014. 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	
2015	2014
£55,436-£1,159,877 per annum	£55,436-£1,158,011 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	
2015	2014
4.58%-6.696%	4.83%-6.76%

**Unobservable input: physical condition of the property**

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

**Unobservable input: rental growth**

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

**Special assumptions**

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

- That all works to construct the proposed developments have been completed fully and to an acceptable standard in accordance with plans and specifications;
- The leases to the various occupiers have been completed in accordance with the agreed lease terms provided to the Valuer; and

**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.

## 11. Group entities

Subsidiaries of the Company, all of which are 100% owned and incorporated in the UK except as noted, are listed below:

### ***Subsidiaries held directly by the Company***

PHP Empire Holdings Limited	PHP Finance (Jersey) Limited <sup>3</sup>
Primary Health Investment Properties Limited	PHP Investments (2011) Limited
Primary Health Investment Properties (No. 2) Limited	PHP 2013 Holdings Limited
Primary Health Investment Properties (No. 3) Limited	PHIP (Gorse Stacks) Limited
PHIP CH Limited	Anchor Meadow Limited
PHP Healthcare (Holdings) Limited	PHP Bond Finance PLC
Health Investments Limited	PHP Primary Properties (Haymarket) Limited
Primary Health Investment Properties (No. 4) Limited	PHP Medical Investments Limited
White Horse Centre Limited <sup>1</sup>	Apollo (Ipswich) Limited
Crestdown Limited <sup>1</sup>	

### ***Subsidiaries indirectly held by the Company***

SPCD (Northwich) Limited	Leighton Health Limited <sup>1</sup>
SPCD (Shavington) Limited	PHP (Portsmouth) Limited
PHIP (5) Limited	PHP (Chandler's Ford) Limited
PatientFirst Partnerships Limited	PHP (FRMC) Limited
PatientFirst (Hinckley) Limited	PHP (Basingstoke) Limited
PatientFirst (Burnley) Limited	PHP Healthcare Investments Limited
AHG (2006)	PHP St. Johns Limited
PHIP (Hoddesdon) Limited	PHP Clinics Limited
PHIP (Milton Keynes) Limited	PHIP (Stourbridge) Limited
PHIP (RHL) Limited	PHP (Project Finance) Limited
PHIP (Sheerness) Limited	PHP Medical Properties Limited
PHP Healthcare Investments (Holdings) Limited	PHP Glen Spean Limited
PHP Investments No.1 Limited	Gracemount Medical Centre Limited <sup>2</sup>
PHP Investments No.2 Limited	PHP AssetCo (2011) Limited
Motorstep Limited	PHP Primary Properties 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.

<sup>1</sup> - Subsidiary acquired during the year.

<sup>2</sup> - Subsidiary company registered in Scotland.

<sup>3</sup> - Subsidiary company registered in Jersey.

**12. Trade and other receivables**

	2015	2014
	£000	£000
Trade receivables	1,686	1,916
Prepayments and accrued income	1,379	2,527
Other debtors	908	459
Development loan interest	180	766
	<b>4,153</b>	<b>5,668</b>

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

	2015	2014
	£000	£000
Neither past due nor impaired:		
<30 days	1,224	1,260
Past due but not impaired:		
30-60 days	54	99
60-90 days	-	2
90-120 days	95	257
>120 days	313	298
	<b>1,686</b>	<b>1,916</b>

The Group's principal customers are invoiced and pay quarterly in advance, usually on the English quarter days. No bad debt provision was required (2014: £nil) and no receivables 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.

**13. Cash and cash equivalents**

	2015	2014
	£000	£000
Cash held at bank	2,881	8,472
Restricted cash	-	3,600
	<b>2,881</b>	<b>12,072</b>

Restricted cash at 31 December 2014 represented an amount held as security in relation to debt service and repayment of bank borrowings and was released in June 2015.

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

	2015	2014
	£000	£000
Trade payables	1,520	954
Bank and bond loan interest accrual	4,389	4,287
Other payables	7,302	6,752
VAT	2,105	1,237
Accruals	783	1,014
	<b>16,099</b>	<b>14,244</b>

#### 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	
	2015	2014	2015	2014	2015	2014
	£000	£000	£000	£000	£000	£000
<b>Current</b>						
Overdraft facility <sup>(1)</sup>	5,000	5,000	-	-	5,000	5,000
Fixed rate term loan <sup>(3)</sup>	755	711	755	711	-	-
Term loan to November 2028 <sup>(9)</sup>	107	-	107	-	-	-
	<b>5,862</b>	5,711	<b>862</b>	711	<b>5,000</b>	5,000
<b>Non-current</b>						
Term loan to August 2017 <sup>(2)</sup>	165,000	165,000	146,250	123,500	18,750	41,500
Fixed Rate term loan <sup>(3)</sup>	23,948	24,702	23,948	24,702	-	-
Fixed Rate term loan to December 2022 <sup>(4)</sup>	25,000	25,000	25,000	25,000	-	-
Term loan to July 2020 <sup>(5)</sup>	50,000	50,000	21,513	21,513	28,487	28,487
Fixed rate term loan to November 2018 <sup>(6)</sup>	75,000	75,000	75,000	75,000	-	-
Term loan to August 2019 <sup>(7)</sup>	100,000	100,000	57,160	59,160	42,840	40,840
Fixed rate term loan to August 2024 <sup>(8)</sup>	50,000	50,000	50,000	50,000	-	-
Fixed rate term loan August 2029 year <sup>(8)</sup>	63,000	63,000	63,000	63,000	-	-
Term loan to November 2028 <sup>(9)</sup>	2,415	-	2,415	-	-	-
	<b>554,363</b>	552,702	<b>464,286</b>	441,875	<b>90,077</b>	110,827
	<b>560,225</b>	558,413	<b>465,148</b>	442,586	<b>95,077</b>	115,827

Providers:

<sup>(1)</sup> The Royal Bank of Scotland plc

<sup>(2)</sup> The Royal Bank of Scotland plc ("RBS") and Abbey National Treasury Services plc (branded Santander from January 2010) ("The Club Facility")

<sup>(3)</sup> Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032

<sup>(4)</sup> Aviva GPFC facility

<sup>(5)</sup> HSBC Bank facility

<sup>(6)</sup> Aviva facility

<sup>(7)</sup> Barclays facility

<sup>(8)</sup> Aviva facility

<sup>(9)</sup> RBS facility (acquired with Crestdown Limited)

At 31 December 2015, total facilities of £787.7 million (2014: £785.9 million) were available to the Group. This included a £75 million Unsecured Retail Bond, a £70 million Secured Bond, a £82.5 million Convertible Bond and a £5 million overdraft facility. Of these facilities, as at 31 December 2015, £692.8 million was drawn (2014: £670.1 million).

As part of the acquisition of Crestdown Limited on 29 June 2015, the Group acquired an existing loan with the Royal Bank of Scotland PLC in the sum of £2.5 million. The loan incurs interest at a rate of 100 basis points over LIBOR and matures in 2028.

On 16 July 2015, the £50 million revolving credit facility with HSBC Bank plc was extended for a new five year term. All other terms of the loan remain unaltered.

On 7 January 2016, the £100 million loan facility provided by Barclays Bank plc was successfully extended by £15 million. The enlarged facility will be made available for a new five year term from January 2016. All other terms of the facility remain unchanged.

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:

	2015	2014
	£000	£000
Term loans drawn: due within one year	862	711
Term loans drawn: due in greater than one year	464,286	441,875
Total terms loans drawn	465,148	442,586
Less: Unamortised borrowing costs	(3,736)	(4,853)
<b>Total term loans per the Group Balance Sheet</b>	<b>461,412</b>	<b>437,733</b>

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**

	2015	2014
	£000	£000
<b>Secured</b>		
Secured Bond December 2025	<b>70,000</b>	70,000
<b>Unsecured</b>		
Retail Bond July 2019	<b>75,000</b>	75,000
Convertible Bond May 2019	<b>93,431</b>	86,962
Unamortised issue costs	<b>(2,103)</b>	(2,419)
	<b>236,328</b>	229,543

**Secured Bond**

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

**Retail Bond**

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

	2015	2014
	£000	£000
Nominal value on issue on 20 May 2014	-	82,500
As at 1 January	<b>86,962</b>	-
Fair value movement in convertible bond	<b>6,469</b>	4,462
<b>Balance at 31 December</b>	<b>93,431</b>	86,962

The fair value of the convertible bond at 31 December 2015 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.

	2015	2014
	£000	£000
Fair value of interest rate swaps treated as cash flow hedges under IAS39 ("effective swaps")		
Non-current assets	<b>9</b>	-
Current liabilities	<b>(1,403)</b>	(2,825)
Non-current liabilities	<b>(19,383)</b>	(20,956)
	<b>(20,777)</b>	(23,781)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS39 ("ineffective swaps")		
Non-current assets	-	25
Current liabilities	<b>(3,331)</b>	(2,977)
Non-current liabilities	<b>(11,170)</b>	(14,256)
	<b>(14,501)</b>	(17,208)
Total fair value of interest rate swaps	<b>(35,278)</b>	(40,989)
<b>Shown in the Balance Sheet as:</b>		
Total non-current assets	<b>9</b>	25
Total current liabilities	<b>(4,734)</b>	(5,802)
Total non-current liabilities	<b>(30,553)</b>	(35,212)

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 2015 was a £1.0 million gain, including the amortisation of the cash flow hedging reserve of £1.6 million (2014: £2.5 million loss).



Floating to fixed interest rate swaps with a contract value of £126.0 million (2014: £206.0 million) were in effect at 31 December 2015. Details of all floating to fixed rate interest rate swaps contracts held are as follows:

<b>Contract value</b>	<b>Start date</b>	<b>Maturity</b>	<b>Fixed interest per annum %</b>
<b>2015</b>			
£28.0 million	March 2013	March 2017	0.900
£50.0 million <sup>1</sup>	August 2007	August 2021	4.835
£38.0 million <sup>1</sup>	August 2007	August 2021	4.740
£10.0 million	June 2006	June 2026	4.810
£126.0 million			
<b>2014</b>			
£70.0 million	July 2013	July 2015	4.805
£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	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£206.0 million			
<b>Contracts not yet in effect</b>			
£25.0 million <sup>1</sup>	January 2018	January 2023	2.470
£75.0 million <sup>1</sup>	January 2019	January 2024	2.650
£10.0 million	June 2016	June 2026	4.510
£10.0 million	July 2016	July 2026	4.400
£10.0 million	July 2016	July 2026	4.475
£10.0 million	July 2016	July 2026	4.455
£20.0 million	July 2016	July 2026	4.479
£20.0 million	July 2017	July 2027	4.760
£180.0 million			

<sup>(1)</sup> In July 2015, two new forward starting swap contracts were entered into. These will replace the interest rate protection provided by existing fixed rate loans and interest rate swaps as they mature that are currently incurring interest well in excess of these rates.

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

<b>Contract value</b>	<b>Start date</b>	<b>Maturity date</b>	<b>Premium paid</b>	<b>Floating rate cap per annum %</b>
£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 £000	Effect on profit before taxation £000	Effect on equity £000
<b>2015</b>				
London InterBank Offered Rate	Increase of 50 basis points	9,922	3,377	13,299
London InterBank Offered Rate	Decrease of 50 basis points	(9,922)	(3,377)	(13,299)
<b>2014</b>				
London InterBank Offered Rate	Increase of 50 basis points	9,089	4,549	13,638
London InterBank Offered Rate	Decrease of 50 basis points	(9,089)	(4,549)	(13,638)

### 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 £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	> 5 years £000	Total £000
<b>2015</b>						
Interest-bearing loans and borrowings	-	6,350	20,577	535,724	286,642	849,293
Interest rate swaps (net)	-	1,002	4,142	31,599	27,152	63,895
Trade and other payables	2,899	9,922	778	1,828	102	15,529
	2,899	17,274	25,497	569,151	313,896	928,717
<b>2014</b>						
Interest-bearing loans and borrowings	-	6,186	20,038	528,325	295,132	849,681
Interest rate swaps (net)	-	1,910	5,597	31,030	27,772	66,309
Trade and other payables	2,166	7,333	2,909	1,312	92	13,812
	2,166	15,429	28,544	560,667	322,996	929,802

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 in under (e) capital risk management and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2014: 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.

	<b>Book value</b>	<b>Fair value</b>	Book value	Fair value
	<b>2015</b>	<b>2015</b>	2014	2014
	<b>£000</b>	<b>£000</b>	£000	£000
<b>Financial assets</b>				
Trade and other receivables	<b>2,364</b>	<b>2,364</b>	2,682	2,682
Effective interest rate swaps	<b>9</b>	<b>9</b>	-	-
Ineffective interest rate swaps	-	-	25	25
Cash and short term deposits	<b>2,881</b>	<b>2,881</b>	12,072	12,072
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	<b>(692,648)</b>	<b>(731,532)</b>	(662,814)	(771,727)
Effective interest rate swaps	<b>(20,776)</b>	<b>(20,776)</b>	(23,782)	(23,782)
Ineffective interest rate swaps (net)	<b>(14,502)</b>	<b>(14,502)</b>	(17,233)	(17,233)
Trade and other payables	<b>(15,529)</b>	<b>(15,529)</b>	(14,244)	(14,244)

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 2015 are as follows:

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

Fair value measurements at 31 December 2014 are as follows:

Recurring fair value measurements	Level 1 <sup>1</sup> £000	Level 2 <sup>2</sup> £000	Level 3 <sup>3</sup> £000	Total £000
<b>Financial assets</b>				
Derivative interest rate swaps	-	25	-	25
<b>Financial liabilities</b>				
Derivative interest rate swaps	-	(41,014)	-	(41,014)
Convertible bond	(86,962)	-	-	(86,962)

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

<sup>2</sup> 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).

<sup>3</sup> 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 its banking facilities, the Group is subject to the following capital and covenant requirements:

- Rental income must exceed borrowing costs by the ratio 1.3:1 (2014: 1.3:1); and
- UK-REIT compliance tests. These include loan to property and gearing tests. The Group must satisfy these tests in order to continue trading as a UK-REIT. This is also an internal requirement imposed by the Articles of Association.

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

Interest cover: 1.0 to 1.5:1 (2014: 1:0 to 1.5:1); and  
Loan to value: 50% to 75% (2014: 50% to 75%).

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

	2015	2014
	£000	£000
Fair value of completed investment properties	1,091,877	1,002,350
Fair value of development properties	8,735	23,857
	<b>1,100,612</b>	1,026,207
Carrying value of interest-bearing loans and borrowings	686,809	662,814
Unamortised borrowing costs	5,839	7,272
Less cash held	(2,881)	(12,072)
Nominal amount of interest-bearing loans and borrowings	689,767	658,014
Group loan to value ratio	<b>62.7%</b>	64.1%

## 19. Share capital

### Issued and fully paid at 12.5p each

	2015	2015	2014	2014
	Number	£000	Number	£000
<b>Balance at 1 January</b>	<b>445,106,648<sup>1</sup></b>	<b>55,638</b>	441,896,920 <sup>1</sup>	55,237
Scrip issues in lieu of second interim cash dividend	406,396 <sup>1</sup>	51	326,216 <sup>1</sup>	41
Scrip issues in lieu of first interim cash dividend	768,304 <sup>1</sup>	96	810,540 <sup>1</sup>	101
Shares issued as consideration for PPP	-	-	2,072,972 <sup>1</sup>	259
<b>Balance at 31 December</b>	<b>446,281,348<sup>1</sup></b>	<b>55,785</b>	445,106,648 <sup>1</sup>	55,638
<b>Issue of shares in 2015</b>				
	<b>Date of issue</b>	<b>Number of shares<sup>1</sup></b>	<b>Issue price<sup>1</sup></b>	
Scrip issue in lieu of second interim cash dividend	1 April 2015	406,396	97.125p	
Scrip issue in lieu of first interim cash dividend	30 October 2015	768,304	102.5375p	

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

<sup>1</sup> - Restated to reflect the Company's four for one share sub-division undertaken in November 2015.



## 20. Share premium

	2015	2014
	£000	£000
<b>Balance at 1 January</b>	<b>56,416</b>	55,611
Share issue expense	<b>(30)</b>	(15)
Scrip issues in lieu of interim cash dividends	<b>1,036</b>	820
<b>Balance at 31 December</b>	<b>57,422</b>	56,416

## 21. Capital reserve

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

	2015	2014
	£000	£000
Balance at 1 January and 31 December	<b>1,618</b>	1,618

## 22. Special reserve

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

	2015	2014
	£000	£000
<b>Balance at 1 January</b>	<b>115,438</b>	135,483
Second interim dividend for the year ended 31 December 2014 (2014: 31 December 2013)	<b>(10,733)</b>	(10,542)
Scrip issue in lieu of second interim cash dividend	<b>(395)</b>	(279)
First interim dividend for the year ended 31 December 2015 (2014: 31 December 2014)	<b>(10,350)</b>	(10,146)
Scrip issue in lieu of first interim cash dividend	<b>(788)</b>	(683)
Share capital related expenses	<b>(109)</b>	-
Shares issued in consideration for PPP	-	1,605
<b>Balance at 31 December</b>	<b>93,063</b>	115,438

As the special reserve is a distributable reserve, the dividends declared in the year 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:

	2015	2014
	£000	£000
<b>Balance at 1 January</b>	<b>(23,847)</b>	(14,337)
Fair value movement on cash flow hedges	<b>(132)</b>	(9,980)
Amortisation of cash flow hedging reserve	<b>1,552</b>	-
Reclassification of swap from ineffective to effective	<b>25</b>	470
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	<b>1,445</b>	(9,510)
<b>Balance at 31 December</b>	<b>(22,402)</b>	(23,847)

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 is being 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

	2015	2014
	£000	£000
Balance at 1 January	<b>103,867</b>	68,773
Reclassification of swap from ineffective to effective	<b>(25)</b>	(470)
Interest rate derivative fair value adjustment	-	(1,316)
Retained profit for the year	<b>56,032</b>	36,880
<b>Balance at 31 December</b>	<b>159,874</b>	103,867

### 25. Net asset value per share

Net asset values have been calculated as follows:

	2015	2014
	£000	£000
Net assets per Group Balance Sheet	<b>345,360</b>	309,130
Derivative interest rate swaps (net liability)	<b>35,278</b>	40,989
Convertible bond fair value movement	<b>10,931</b>	4,462
<b>EPRA net asset value</b>	<b>391,569</b>	354,581
<b>Ordinary Shares</b>	<b>No. of shares</b>	<b>No. of shares</b>
Issued share capital	<b>446,281,348</b>	445,106,648
<b>Net asset value per share:</b>		
Basic net asset value per Share	<b>77.4p</b>	69.5p
<b>EPRA NAV per Share</b>	<b>87.7p</b>	79.7p

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 subdivision 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 2015, the Group has entered into separate development agreements with third parties for the purchase of primary health developments. The Group has acquired the land on which they are 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 £21.8 million plus VAT (2014: £11.2 million plus VAT) remains to be funded with regard to these properties.

In addition, the Group has entered into a forward contract to acquire a building in Macclesfield from its developer once construction has been completed. The contract is conditional upon completion and the total consideration of £2.5 million will be paid to the developer once completion has been achieved.

## **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. JOHCM was previously a related party as a Joint Adviser due to Mr Hambro, a non-executive Director, being a shareholder and director of JOHCM.

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

## **28. Contingent liabilities**

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

A number of the properties acquired with Apollo include small areas of vacant space to which no value was ascribed on acquisition. PHP has agreed a three-year period within which the vendor is engaged to let this space and should they be successful, additional consideration may become payable, with the sums due being valued based on the underlying terms of each letting achieved, type of the tenant and the area of space let. The Group estimates the maximum potential payment for these events at £0.1 million as at 31 December 2015 (2014: £0.2 million), but there is no certainty that such lettings will be achieved within the agreed time frame. The new lettings will add value to the investment portfolio.

## **29. Subsequent events**

On 7 January 2016, the £100 million loan facility provided by Barclays Bank plc was successfully extended by £15 million, with the introduction of Allied Irish Banks plc to the facility to provide this additional sum. The enlarged facility will be made available for a new five year term from January 2016. All other terms of the facility remain unchanged.

### **30. Annual Report**

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2015 or 2014 but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered in due course. The auditors have reported on those accounts; 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 2015 will be published on the Group's website at [www.phpgroup.co.uk](http://www.phpgroup.co.uk) and will be posted to shareholders on 16 February 2016.

Copies of this announcement can be obtained from the Company Secretary of Primary Health Properties PLC, 5<sup>th</sup> 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 2015. 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**

The Group's business activities together with the factors likely to affect its future development, performance and position, together with 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 91% of its income funded directly or indirectly by the UK Government.

In July 2015, the Group extended its £50 million revolving credit facility with HSBC Bank PLC for a new five-year term with all other aspects of the facility remaining unchanged. In addition, 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.

As at 31 December 2015, the Group had £110.0 million of headroom on its debt facilities, with a further £2.9 million of cash. The Group has total commitments of £21.8 million outstanding to fund on properties under construction through the course of 2016. The Group's consolidated loan to value ratio, including drawn, unsecured debt, is 62.7%, with all banking covenants being met during the year and subsequent to the year end.

The Directors believe that the Group is well placed to manage its business risks successfully. Having reviewed the Group's 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**  
**3 February 2016**

## Glossary of Terms

**Adviser** is Nexus Tradeco Limited.

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

**Clinical Commissioning Groups (“CCGs”)** are the groups of GPs and other healthcare professionals that are responsible for designing local health services in England with effect from 1 April 2013.

**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.

**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.

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

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

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

**Net Initial Yield** is the annualised rents generated by an asset, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the asset valuation (after notional purchaser's costs).

**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 Expense Ratio (“TER”)** is calculated as total administrative costs for the year divided by the average total asset value during the year.

**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.