Primary Health Properties PLC

A dedicated healthcare REIT

Annual Report for the year ended 31 December 2011

Primary Health Properties

Primary Health Properties PLC ("PHP") is a UK Real Estate Investment Trust ("REIT").

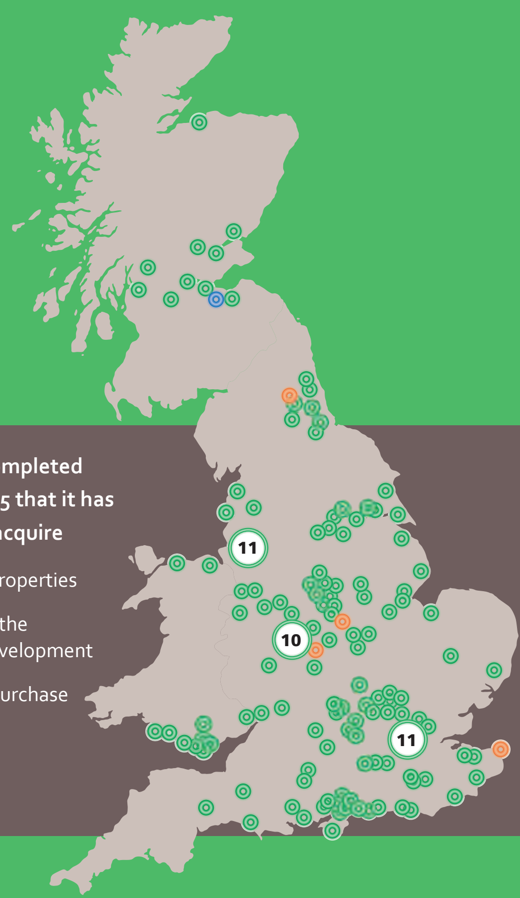
The objective of the Group is to generate rental income and capital growth through investment in primary health property in the United Kingdom leased principally to GPs, NHS organisations and other associated healthcare users.

Contents

Group

Company

Useful Information



for more information visit

www.phpgroup.co.uk

Chess Medical Centre, Chesham

A new, purpose built, two storey primary care centre located in Chesham, Buckinghamshire. The property was completed in December 2011 and was built to relocate two local GP practices to new, modern premises.

size:	1,950 sq m
built:	December 2011
cost:	£5.63million
patient numbers:	15,900
tenants:	2 GP practices, PCT and pharmacy

Financial Highlights

Year ended 31 December 2011	2011	2010	Increase %
Rental and related income	£30.7m	£26.9m	14%
Profit before revaluation result and change in fair value of derivatives	£10.0m	£9.1m	10%
Total dividend paid to shareholders	18.0p	17.5p	3%
Total investment property	£525.6m	£469.3m	12%
Loan to value ratio	57.8%	57.6%	-
EPRA net asset value per share	318.73p	311.47p	2%

- Total debt of £300m secured or with agreed terms to refinance for an average term of 4.6 years
- Total annualised rent roll including commitments has risen by 6% to £32.3 million (2010: £30.4 million)
- Total portfolio including commitments has increased by 7% to £539.7 million (2010: £503.6 million)

Chairman's Statement

We are pleased to report that PHP has had another successful year.

The Company paid a total of 18.0 pence per share in dividends to shareholders in the year, the 15th consecutive year of dividend growth.

I am pleased to present my report to shareholders for 2011, which has been a year of further progress for the Group.

The Group's asset base of primary care medical centres has performed well. This has enabled further growth in asset values, income and returns to shareholders. This has been achieved against the backdrop of considerable volatility in the wider economy, in underlying financial markets and the healthcare sector, which awaits the enactment of the Health and Social Care Bill (the "Bill").

The Bill has been widely debated by both the House of Lords and Parliament, and is heading towards the final stages of its approval process. It is proposed that a new body, the NHS Commissioning Board, will assume overall responsibility for the creation of a new care commissioning structure. The proposed Chairman, Chief Executive and Board of Directors of this body have been announced and some of the structural changes to be brought about by the Bill are starting to be implemented.

The Board believes that the increased demands made of the NHS and the transfer of services into communities and away from general hospitals can only be met by the provision of modern, fit for purpose medical centres. We see this as a positive backdrop for the Group's growth strategy.

Performance

The Group completed the acquisition of eight properties during the year for a total cost of £45.7 million. This brings the total number of completed assets held by the Group to 156. With forward funding commitments and conditional purchase contracts for a further five assets, the Group's property portfolio consists of 161 primary healthcare assets. These modern medical centres provide care facilities for some 1.65 million patients.

The quality of the asset portfolio in terms of length of unexpired lease, occupancy levels and the strength of its underlying income, being largely reimbursed by Government funded bodies, is reflected in the year end revaluation of the property assets. Including commitments, the total portfolio value stands at £539.7 million, including a revaluation uplift of £10.6 million for the year.

Group revenues received in 2011 increased by 14% to £30.7 million (2010: £26.9 million). Including committed purchases the contracted annual rent roll would be £32.3 million (2010: £30.4 million).

In a difficult environment for the property sector, particularly outside London, the Group achieved satisfactory growth from rent reviews at around 3% per annum on those agreed during the year and has an efficient and tightly controlled cost base.

Profit before revaluation result and change in fair value of derivatives ("Profit from the trading activities") during the year increased by 10% to £10.0 million (2010 - £9.1 million), including the expensing of arrangement fees on refinanced debt.

Increased capital base

The problems inherent in global markets have been widely publicised. These include the continuing sovereign debt issues and increased banking capital requirements in Europe, as well as general illiquidity and constraints in the global equity and debt capital markets.

Against this backdrop, the Group successfully completed a small share issue in April issuing 5.3 million shares at 305 pence, a discount of only 2.5% to the then share price. The small dilution resulting from the issue has been recovered over the remainder of the year

Weelsby View Health Centre, Grimsby

A large, modern, purpose built, two storey health centre located in central Grimsby. Built in 2006 and fully let, PHP acquired this centre in November 2011.

size:	3,300 sq m
built:	2006
cost:	£8.00 million
patient numbers:	16,200 patients
tenants:	5 GP practices, PCT, borough council, pharmacy and mobility unit retailer

and EPRA net asset value per share stood at 318.7 pence at the year end, an increase of some 2.3% for the year.

Debt funding

As previously reported, the Group decided to refinance its older facilities ahead of their scheduled expiry in January 2013. Faced with a declining availability of credit, the Group has successfully agreed terms to refinance a significant majority of its shorter term debt.

The quality of the Group's assets and the security of the underlying rental income have continued to make PHP attractive to lenders, allowing new relationships to be developed with Clydesdale Bank and Aviva. Existing lenders, Royal Bank of Scotland and Santander, have also confirmed their confidence in the Group by agreeing to renew current debt facilities, although, as in the wider market, the cost of these facilities has increased.

A total of £300 million of new debt facilities has been secured or terms have been agreed to refinance as at the date of this report. This will increase the pool of lenders to the Group and extend the average maturity of banking facilities. The cost of using bank debt has increased in the year and is reflected in the higher margins that we will have to pay. This will impact the income statement for 2012 and beyond, but the growth potential within the Group's rent roll and from asset management opportunities will compensate for this in the coming years.

Dividends

The Company paid a total of 18.0 pence per share in dividends to shareholders in the year. This was the 15th successive year of dividend growth, and is fuelled by the strength of the Group's income. The Board has approved the payment of a second interim dividend of 9.25 pence per share in respect of 2011. This will be payable on 5 April 2012 to shareholders on the register on 9 March 2012.

Outlook

The Government has ring fenced the NHS budget and provided for small annual real terms increases in expenditure, reaffirming its commitment to the NHS. The changing demands put upon health care provided by the NHS and the drive to increase patient choice are to be addressed by the provisions of the Health and Social Care Bill.

The country's general practitioners will continue to be the "gatekeepers" for the NHS. They will become more responsible for commissioning services as the Government looks to increase patient choice. Services will move into local communities and non-critical care and diagnostic activities will be devolved from general hospitals. In order to do this in an efficient, cost effective manner there is, in PHP's view, a real demand for new, modern, specialist premises from which primary care is delivered.

2011 has seen the Group strengthen its balance sheet. This will enable the Group to take advantage of opportunities to expand its portfolio as we move into 2012 when the Bill is enacted and the service delivery changes are implemented. The Board is confident in the ability of the current portfolio to generate growth. In addition, the Group has a strong pipeline of acquisition opportunities to further enhance the portfolio.

I look forward to reporting further progress in 2012.

Graeme Elliot
Chairman

20 February 2012

Managing Director's Review

90% of the Group's rent roll is funded by the NHS.

We are achieving solid rental growth within the portfolio which enhances both income and capital values

Rents received increased by
14%
to £30.7m

Profit from trading activities increased
10%
to £10.0m

year ended 31 December 2011

Trading performance

	2011 £m	2010 £m
Rental and related income	**30.7**	26.9
Expenses	**(5.6)**	(5.0)
	25.1	21.9
Net financing costs	**(15.4)**	(12.8)
Profit on sale of AHMP shares	**0.3**	-
Profit before revaluation result and change in fair value of derivatives	**10.0**	9.1
Change in fair values of derivatives	**(8.0)**	(4.7)
Revaluation result on property portfolio	**10.6**	22.8
Profit before tax	**12.6**	27.2
Dividends paid – total	**£11. 8m**	£10.8m
Dividends paid – per share	**18.0 pence**	17.5 pence

Profits from the trading activities of the Group for the year increased by 10% to £10.0 million (2010 - £9.1 million). This included a profit of £0.3 million from the sale of a strategic investment in A H Medical Properties PLC ("AHMP") and the expensing of £0.4 million of arrangement fees relating to bank debt refinanced in the year.

Gross contracted rents have increased by 12.1% to £31.4 million as at 31 December 2011 (31 December 2010 – £28.0 million). This increase has been driven by:

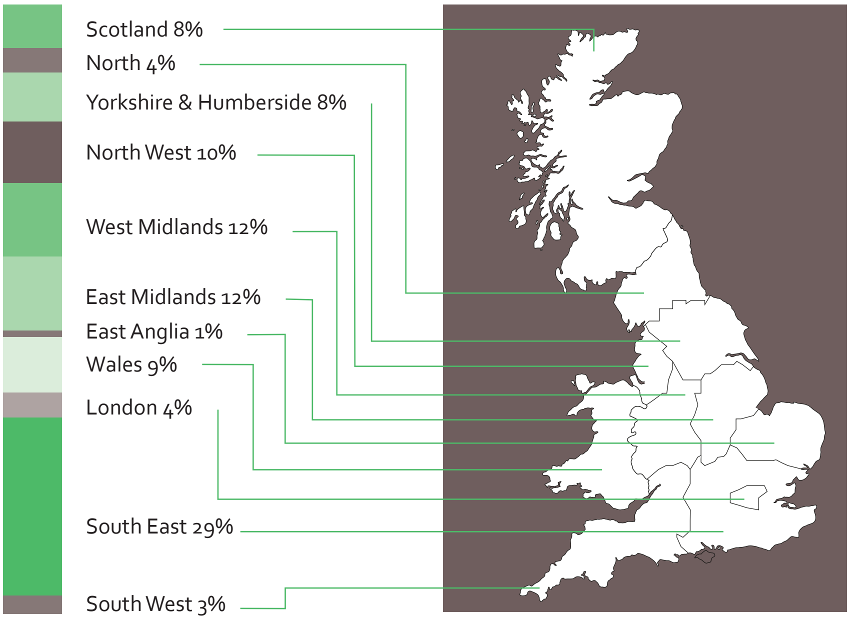
	£m
Acquisitions	2.9
Rent reviews	0.4
Asset management projects	0.1
	3.4

The Group's rent roll is subject to effectively upward only rent reviews. The majority are reviewed to open market values with approximately 13% either formally index linked or with fixed increases. The Group achieved weighted average rental growth on reviews completed in the year of 3.0% per annum (2010 – 3.2%). Growth is still being experienced in all regions within the Group's portfolio, with open market reviews keeping pace with inflation on average over time. Average lease length within the portfolio stands at 16.3 years (2010 - 16.9 years).

Portfolio metrics

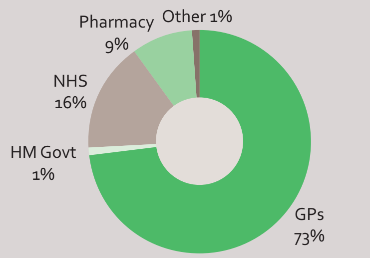
	2011 £m	2010 £m
As at 31 Dec 2011		
Gross contracted rent roll	**31.4**	28.0
Total portfolio value	**525.6**	469.3
Including purchase commitments		
Gross contracted rent roll	**32.3**	30.4
Total portfolio value	**539.7**	503.6

Analysis of rental income by geographic region



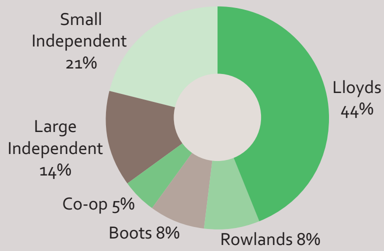
Covenant analysis by annual rent

90% of the Group's rent roll is paid directly or indirectly by the Government.



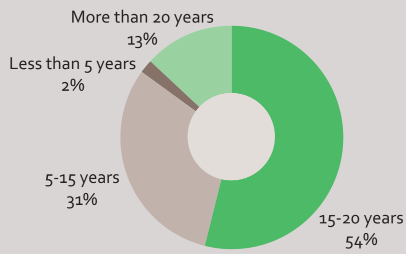
Analysis of pharmacy rental income

Pharmacy rents represent 9% of total income. 65% of this is derived from national covenants.



Analysis of annualised rent by unexpired lease term

67% of occupational leases have a remaining life of 15 years or longer. The weighted average lease length (including commitments) is 16.3 years.



The average fee rate paid to the joint managers has reduced by 5.7% to 0.77% of gross assets (2010 – 0.82%) as the sliding scale fee rate, introduced in 2011, has had an impact as gross assets have increased. As the Group's asset portfolio grows further above £500 million, the average fee rate will reduce further.

Net finance costs have increased in the year by £2.7 million, as the significant growth in assets over the last two years has been partly funded by debt. The 2011 charge also includes an amount of £0.4 million that represents the balance of arrangement fees relating to existing debt facilities that were refinanced in 2011, ahead of their contracted maturity. The average cost of debt in 2011 was 5.02% (including margin and the impact of interest rate swaps) which is an increase of some 45 basis points over that of 2010.

Portfolio valuation and performance

	2011 £m	2010 £m
Investment properties	521.2	462.1
Properties in the course of development	4.4	7.2
Total properties	525.6	469.3
Finance leases	3.1	3.1
Total owned and leased	528.7	472.4
Purchases committed at the period end	11.0	31.2
Total owned, leased and committed	539.7	503.6

The Group's real estate portfolio, including committed development properties, was independently valued by Lambert Smith Hampton (LSH), Chartered Surveyors and Valuers, as at 31 December 2011 at open market value, as defined by the Royal Institution of Chartered Surveyors. On the basis that all development commitments are completed, the total value was £532.7 million. Adding an asset held on a finance lease and a property secured under a conditional purchase contract as at 31 December 2011, the Group's property portfolio is valued at an aggregate £539.7 million.

The average investment yield across the portfolio has tightened marginally during the year, with the 31 December 2011 valuation reflecting an initial yield of 5.74% (31 December 2010 – 5.79%) but a true equivalent yield of 6.06% compared to 6.00% at the end of 2010. The tightening in yields, combined with the rent reviews achieved through the year, has led to an overall revaluation uplift of £10.6 million (2010 - £22.8 million) over cost or December 2010 valuation.

The Joint Managers have also undertaken a valuation of the real estate portfolio using a discounted cash flow ("DCF") methodology, reflecting the quasi infrastructure nature of the underlying assets. Using a DCF basis, the resulting value would be £589.4 million as opposed to the traditional yield based valuation of £539.7 million. This difference in value represents 73 pence per share in net asset value terms.

In the DCF valuation, cash flows from the assets are discounted at 7%. This is based on a margin of 250 basis points over an historic long term gilt yield of 4.5%. At current gilt yields, this would actually be a margin of approximately 430 basis points over a 16 year gilt.

Shropshire Primary Care Centre, Oswestry

This centre was developed within the shell of an existing Victorian railway building in the centre of Oswestry. The modern, purpose built facilities have been provided as the hub for the local Primary Care Trust in its delivery of services to the local community. It comprises a three storey centre for PCT led diagnostics, a minor injuries unit, advanced primary care and dental services and also houses a 4 partner GP practice.

size:	4,600 sq m
built:	August 2011
cost:	£8.80 million
GP patient numbers:	6,000
tenants:	PCT and a GP practice

Property acquisitions in the year

£45.7m

adding

£2.9m

to annual rent roll

year ended 31 December 2011

The Group benchmarks its real estate performance against the IPD Healthcare Property Index. At present, this index is published on an annual basis, although it is hoped to become six monthly in future. The Group's assets outperformed the Index in 2010 delivering a total return of 13% against the Index of 11%. The 2011 index will not be published until May 2012 and we will report our comparative performance with our interim statement.

The Group's property portfolio showed a total return of +8.24% in 2011, +7.13% per annum over the three years to the balance sheet date and +4.68% per annum over the five year period to this date. This compares to the IPD All Property Index that showed +8.1%, -2.5% and +1.1% respectively.

Portfolio activity

The Group completed the acquisition of eight properties during the year for a total of £45.7 million, adding a total of £2.9 million to the Group's annual rent roll and 18,996 square metres of fully let space.

	m²	Occupational tenants
Cowbridge Medical Centre, Cowbridge	2,270	Two GP practices and local NHS Trust
Shefford Medical Centre, Shefford	2,117	GP practice, PCT and pharmacy
Newton Drive Medical Centre, Blackpool	1,613	GP practice, PCT and pharmacy
Oswestry Primary Care Centre, Oswestry	4,909	GP practice, PCT and retail tenant
Chess Medical Centre, Chesham	1,932	Two GP practices, PCT and pharmacy
South Queensferry Medical Centre, Queensferry	1,427	GP practice and local NHS Trust
Lombard Street Practice, Newark	1,434	GP practice and pharmacy
Weelsby View Health Centre, Grimsby	3,294	Five GP practices, NHS Trust, Local Authority and pharmacy

The Group looks to acquire modern, purpose built assets of significance to their local communities and that provide the opportunity for general practitioners to offer additional healthcare related services from these premises. The average lot size of the Group's portfolio stood at £3.35 million at the balance sheet date, having grown by 6.7% through the year (2010 - £3.14 million).

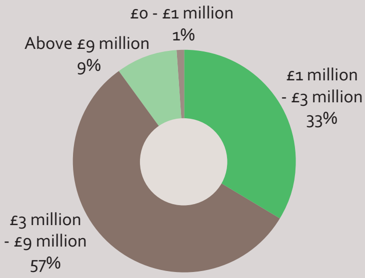
PHP has a strong pipeline of potential investment purchases and opportunities to forward fund the development of new centres. The Group applies prudent acquisition policies to secure assets that contribute immediately to profitability but also have potential for future growth.

Asset management

An important element of managing the Group's portfolio is identifying opportunities to add to the income and value of owned assets through capital projects or lease re-gearing. During 2011, five projects were completed at a total cost of £1.37 million. Capital projects added an average 13.3 years to the unexpired lease term of the respective properties. Total additional rent receivable over the extended term of these leases is some £2.40 million (excluding any growth), whilst these management actions generated an uplift in capital value of 35% over the monies invested.

Terms have been agreed for a further nine projects to be undertaken in 2012, a total capital spend of £3.45 million. This will add an average of 14.4 years to the respective leases, generate additional rental income of £0.3 million per annum and show a valuation uplift of nearly 40% on cost. Further projects have been identified and are at various different stages of negotiation with the parties involved.

Property capital values



Capital Value	Number of Properties[1]	Value (£'m)	%'age 2011	%'age 2010
£0 - £1 million	4	2.82	0.5%	0.5%
£1 million - £3 million	84	179.87	33.3%	37.3%
£3 million - £9 million	69	310.63	57.6%	53.3%
Above £9 million	4	46.42	8.6%	8.9%
Total	161	539.74	100%	100%
Average lot size 2011		3.35		

(1) Including purchase commitments

Commitments

The Group has entered into five forward funded commitments as at the year end. These are to acquire a mix of completed assets and development projects upon completion.

Contracted in 2011	Total commitment £m	Out-standing £m
Pelton	4.0	2.7
Arley	1.9	1.7
Ramsgate	2.4	1.8
Edinburgh	3.6	3.6
	11.9	**9.8**
Pre-existing commitments		
Allesley	2.8	1.2
Total at 31 Dec 2011	**14.7**	**11.0**

Pelton: 1,613 sq m medical centre (5 GP practice, PCT and pharmacy)

Arley: 648 sq m medical centre (4 GP practice)

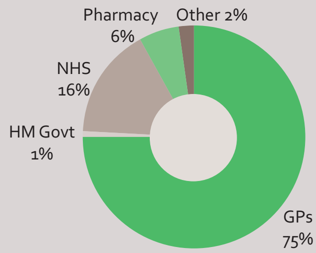
Ramsgate: 773 sq m medical centre (2 GP practice and pharmacy)

Edinburgh: 1,144 sq m medical centre (7 GP practice)

Allesley: 795 sq m medical centre (5 GP practice and pharmacy)

Tenancy class split by floor area

92% of the portfolio is let to GP's or Government bodies.

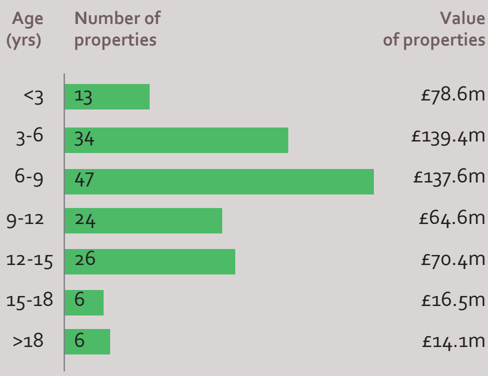


Security of income by term certain

At the end of 5 years the Group would still be receiving 98% of its current income. By year 10 this is still 94%.

Analysis of portfolio by age of building

60% of the Group's properties have an age of 9 years or less. The average age of the portfolio is 9 years 1 month. (Completed assets only)



Managing Director's Review (continued)

Shareholder Value

EPRA NAV

318.73p

increase of

7.26p

over 2010

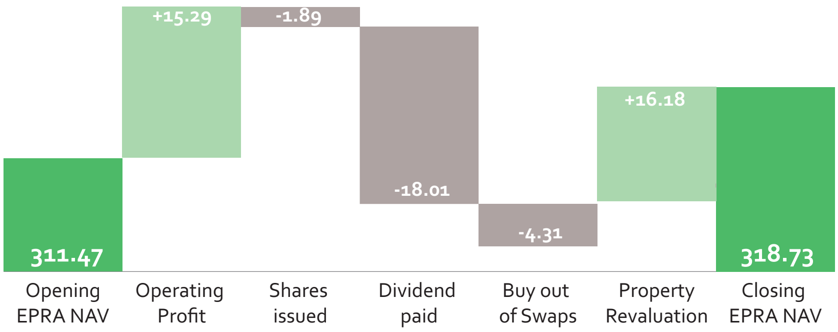
as at 31 December 2011

Dividends and increase in capital base

A total of 18.0 pence per share was distributed to shareholders in 2011 (2010 – 17.5 pence), representing the 15th consecutive year of dividend growth. Once again, no portion of this dividend represents a Property Income Distribution ("PID"). The total dividend paid was 89% covered by earnings in 2011 (2010 – 93%), excluding the revaluation result, the movement in the fair value of derivatives and the value of dividends met by the issue of scrip shares.

In April 2011, the Company undertook a small capital raising, issuing a total of 5,284,041 shares at a price of 305 pence per share, a discount of 2.5% to the then share price. The net proceeds of the issue of £15.7 million have been used to fund property acquisitions. A further 185,856 shares have been issued in the year to satisfy the scrip alternative to the cash dividends paid.

Overall, total net assets have increased by 2.1% in the year, including the impact of the revaluation result and movement in the fair value of derivatives. Net asset value per share, calculated in accordance with the European Public Real Estate Association (EPRA) guidelines, excluding fair value adjustments of debt and associated derivatives, increased by 2.3% to 318.73 pence.



Total shareholder return

Total shareholder return is also benchmarked by the Company to show how its performance compares to that of other investments that may be undertaken by shareholders. The table below shows how PHP has performed on an annualised basis, compared to the main alternative investment classes:

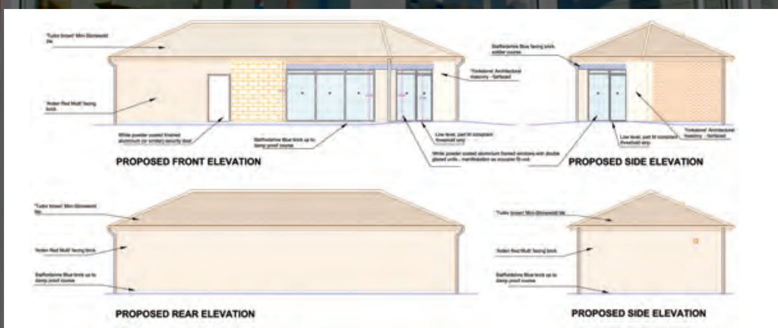
	One year %	Three years %	Five years %
Primary Health Properties	0.5	27.7	(0.4)
FTSE All-Share Real Estate Index	(8.8)	5.0	(17.1)
FTSE All-Share Index	3.5	12.9	1.2

Source: Investment Property Databank ("IPD")

Value adding Asset Management activity

PHP reviews its portfolio on an ongoing basis to pursue opportunities to enhance individual assets, working with our tenants to extend the size of the building, the term of the lease or add to the facilities that can be offered.

Blenheim Medical Centre, Luton



Originally constructed in 2004, a small development program commenced January 2012 to provide a new pre-let pharmacy unit. The construction will complete in the second quarter of 2012 at a total cost of £0.23 million, generating a rental return of 8.6% with a lease term of 17 years.

size:	80 sq m
expected completion:	Q2 2012
cost:	£0.23 million
yield on cost:	8.6%

Debt facilities

£300m

of new or refinanced debt facilities secured or with agreed terms

Debt finance

As at the year end, the Group held a total of £303.0 million of bank debt. This is an increase of £34.7 million from 2010, having been drawn to fund acquisitions and development projects during the year. At 31 December 2011, the Group's loan to value ratio ("LTV") stood at 57.8% (31 December 2010 – 57.6%) against a covenant maximum of 70%. Interest cover for the year was 2.0 times (2010 – 2.1 times) with a Group covenant minimum requirement of 1.3 times.

A major objective of the Group for 2011 was to progress the refinancing of its main banking facilities that were due to expire in January 2013. In total, £300 million of debt facilities have been secured or have agreed terms to date, giving the Group a secure financial base for the coming years, widening the spread of debt providers working with the Group and extending and improving the profile of the maturity of the Group's facilities.

Underlying interest rates and gilt yields have fallen in the year to historic lows. As banking capital has become scarcer, however, margins charged by banks to provide debt have increased during 2011.

In July a new £50 million, three year, interest only, revolving debt facility was completed with Clydesdale Bank, providing resource for the continued acquisition activity of the Group. As at 31 December 2011, this loan had been drawn to the sum of £14.2 million and the balance will be used to finance further acquisitions in 2012.

On 28 November 2011, a £75 million, seven year interest only facility was completed with Aviva to refinance part of the Group's current portfolio. £50 million of this loan was used to repay bi-lateral loans from Royal Bank of Scotland and Allied Irish Banks as part of the wider refinancing of Group debt. The balance of these proceeds will be used to finance commitments and future property acquisitions. This loan was secured at a fixed, all inclusive interest rate of 4% per annum.

The Group has agreed fully credit approved terms to refinance the bi-lateral loans provided by Royal Bank of Scotland and Santander. These facilities, totalling £175 million, will be renewed as a club facility on an interest only basis for a four year term. The maximum LTV allowed under the new facility is capped at 65%, which is a small reduction from the current 70% covenant. This facility is currently being documented and is expected to be completed in March 2012.

The bi-lateral facility with Allied Irish Banks, in a reduced amount of £30 million, will continue to its original maturity of January 2013. Discussions continue to refinance this with a new provider, but cover is already in place from existing resources if needed.

The table below shows the spread of Group debt and maturity following the completion of the refinancing detailed above:

Provider	Maturity	Facility maximum £'m	Drawn at 31 Dec 2011 £'m	Headroom 31 Dec 2011 £'m
Allied Irish Banks	Jan 2013	30.0	30.0	-
Clydesdale Bank	July 2014	50.0	14.2	35.8
Royal Bank of Scotland/ Santander	Mar 2016	175.0	156.5	18.5
Aviva	Nov 2018	75.0	75.0	-
Aviva	Dec 2020	25.0	-	25.0
Aviva	Jan 2032	27.3	27.3	-
		382.3	303.0	79.3

The average weighted maturity of the Group's debt facilities will be increased to 5.6 years (31 December 2010 - 4.0 years).

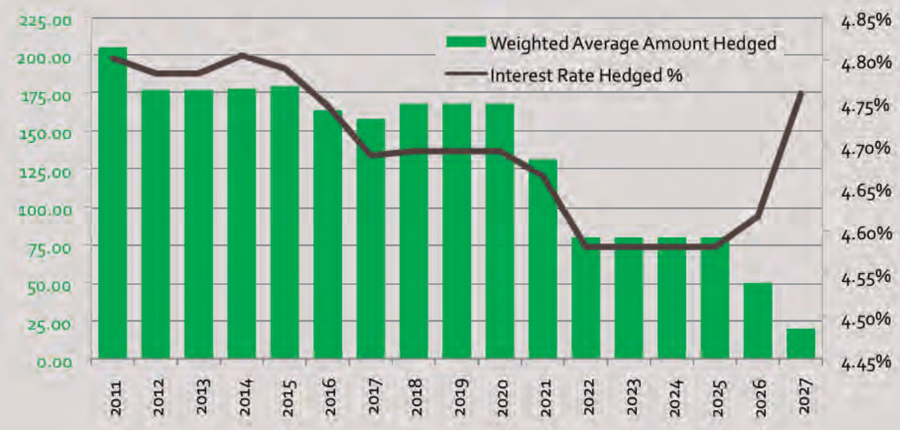
Interest rate hedging

Alongside the agreement to refinance the Group's debt facilities that were due to expire in 2013, the Company decided to close out interest rate swaps with equivalent maturities. A nominal amount of £35 million of interest rate swaps and a floor with a nominal value of £15 million were cancelled. The premium payable on this transaction totalled £2.9 million and had been charged to income in previous periods within the total Mark to Model valuation of the Group's entire derivative portfolio.

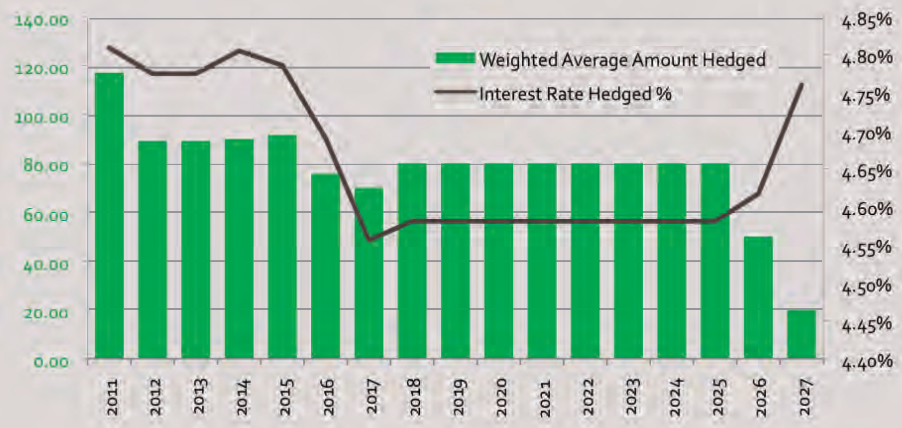
Following the cancellation of the swaps above, a total of £173 million of interest rate swaps were in effect at 31 December 2011 (31 December 2010 - £208 million). As term interest rates have fallen through 2011, the Mark to Model liability of the Group's derivative portfolio has increased. As at 31 December 2011, this stood at £49.5 million (31 December 2010 - £30.9 million). There is no cash flow impact of these Mark to Model adjustments.

Underlying interest rates have been at historic lows in recent periods which has led to the increase in Mark to Model liabilities. If interest rates increase to more normal levels in the years ahead these values will fall whilst the underlying protection will remain in place.

Finance and interest rate hedging (assuming callable swaps are not called)
Bank borrowings economically hedged by interest rate swaps for each financial year to 31 December 2027. Shown in £million.[1]



Finance and interest rate hedging (assuming callable swaps are called)
Bank borrowings covered by effective hedges for each financial year to 31 December 2027. Shown in £million.[1]



(1) The charts assume that the term loans held by the group will be renewed through the chart period

Key Performance Indicators ("KPIs")

Objective:
To deliver sustainable long-term shareholder value and returns

Metric	Sustained real growth in EPS
	Sustained dividend growth
	Growth in NAV
Performance	Adjusted EPS fell from 14.7p to 14.5p
	15th successive year of dividend growth, 3% to 18.0p per share
	EPRA NAV grew from 311.5p to 318.7p

Objective:
To maximise the returns from the investment portfolio

Metric	Out-performance versus IPD benchmark
	Sustained dividend growth
Performance	One, three and five year portfolio performance better than the IPD benchmark
	Rental growth of 3.0% p.a. on reviews completed in the year

Objective:
To manage our balance sheet effectively

Metric	Maintain longevity of debt facilities
	Maintain appropriate balance between debt and equity within covenanted levels
Performance	£300 million of debt facilities secured or with terms agreed
	Equity issue in the year raised net proceeds of £15.7 million
	LTV steady at 57.8%, well within current and future covenant limits

Objective:
To grow property assets under management

Metric	Acquisitions
	Positive movement in asset values
	Future commitments
Performance	8 properties acquired in the year for a total of £45.7 million
	Portfolio revaluation uplift of £10.6 million for the year
	Four further commitments entered into during the year for £11.9 million

Objectives:
To maximise portfolio rent roll and maintain security of income

Metric	Continue to grow annualised rent roll
	Maintain core NHS tenant covenant
	Maintain weighted average remaining lease term
Performance	Contracted rent roll grew from £28.0 million to £31.4 million
	90% of income effectively paid for by the NHS
	Weighted average lease length (including commitments) of 16.3 years (2010: 16.9 years)

A seven year summary of the Group's Financial Performance is provided on page 20.

Key assets

Port Talbot Resource Centre, South Wales

A large, modern, purpose built, 3-storey health centre, located in Port Talbot, purchased by PHP in September 2009. The building provides multiple services in one location and caters for in excess of 50,000 patients.

Principal occupiers 4 GP Practices, Local Health Board, Local Authority, Community and Private Dentists, Pharmacy	
Constructed	September 2009
Size	5,500 sq m
Patient numbers	50,000
Passing rent	£962,000

Prospect House, Kettering

A purpose built, 4-storey primary care centre, located in Kettering, acquired by PHP in March 2007. The building provides a range of primary care services and caters for over 15,000 patients.

Principal occupiers 2 GP Practices, dentistry, PCT and pharmacy	
Constructed	March 2007
Size	3,700 sq m
Patient numbers	15,400
Passing rent	£640,000

The Quay Health Centre, Connah's Quay, North Wales

A modern, purpose built, 3-storey health centre, located in Connah's Quay and acquired by PHP in July 2010. The building forms the hub of local primary care provision providing a wide range of facilities and serving more than 16,000 patients.

Principal occupiers 3 GP Practices, Local Health Board, Town Council	
Constructed	July 2010
Size	3,500 sq m
Patient numbers	16,500
Passing rent	£620,000

Shropshire Primary Care Centre, Oswestry

This centre was developed within the shell of an existing Victorian railway building in the centre of Oswestry. The modern, purpose built facilities have been provided as the hub for the local Primary Care Trust in its delivery of services to the local community. It comprises a three storey centre for PCT led diagnostics, a minor injuries unit, advanced primary care and dental services and also houses a 4 partner GP practice.

Principal occupiers PCT and a GP Practice	
Constructed	August 2011
Size	4,600 sq m
Patient numbers	6,000
Passing rent	£577,000

Principal risks and uncertainties

In common with most businesses, the Group is affected by a number of risks and uncertainties, not all of which are wholly within the Group's control. Note 20 on page 51 provides further detail and quantitative information. The Board has reviewed and agreed policies for managing each of the risks and uncertainties which are summarised below, but regards the first four items as its principal risks at the present time:

Funding and available finance

Risk: Limited debt market capacity restricts ability to continue to fund operations

Impact	Without confirmed debt facilities PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.
Mitigation	PHP funds its operations through a mixture of income from its operations, equity and bank finance. PHP constantly monitors its cash flow and debt funding requirements in order to ensure that it can meet its liabilities. PHP keeps its debt facilities under review to ensure a spread of providers and maturities so that its refinance risk can be minimised.
	PHP has to date secured or agreed terms on £300 million of debt facilities from a variety of lenders, with a spread of maturities to refinance its short term loan facilities and provide further resource for forthcoming commitments and acquisitions.

Risk: Banking facilities include various covenant requirements

Impact	Should the Group be unable to meet these covenants it could result in possible default or penalties being levied.
Mitigation	PHP monitors its covenant compliance on a continuous basis to ensure compliance or early warning of any issues that may arise. The Group maintains its borrowings at levels well below its maximum covenant requirements and retains the flexibility of substituting security or refinancing loans should it need to.

Risk: Exposure to interest rate movements

Impact	Movement in underlying interest rates could adversely affect the Group's profits and cash flows.
Mitigation	The Group retains a proportion of its debt on a long term, fixed rate basis. It looks to mitigate its exposure to interest rate movements through the use of a series of interest rate swaps and other derivative instruments.

Risk: Lack of capital resources to support the Group's activities

Impact	Without sufficient capital, PHP may become unable to progress investment opportunities as they arise or to counteract the impact of falling property values on the Group's balance sheet and finance commitments.
Mitigation	Liquidity and gearing are kept under constant review by the Joint Managers and the Board. Forward fund commitments are only entered into if supported by committed, available funds.
	Historically, the Company has been able to access the equity markets to raise additional capital when required. The Company undertook a share placing during 2011, raising an amount of £15.7 million net of costs.

Property market

Risk: Lack of available properties or the inability to invest on acceptable terms

Impact	The Group may be unable to secure additional investment properties so as to enable PHP to continue to grow.
Mitigation	The Group maintains close relationships with a number of developers of, and other investors in, primary health care properties so as to afford the best possible opportunity to secure future acquisitions.
	The Group is not exclusively reliant on acquisitions to grow as it secures leases with effectively upwards only rent review mechanisms and is able to generate income and value from the management and development of its existing portfolio.

Risk: Property valuations may fall

Impact	Property valuations may fall to such a level that lead PHP to breach its borrowing covenants.
Mitigation	Whilst the specialist nature of the Group's assets can itself be a risk (see below) the inherent characteristics have historically demonstrated low volatility in terms of valuation movements.
	The Group manages its activities so as to always operate well within its banking covenant limits and constantly monitors the margins (i.e. fall to breach) that would have to be experienced in order to cause any default.
	The portfolio is 100% let, on long lease terms with approximately 90% of rent being funded by the NHS. Rental growth is achieved on review, all of which helps in maintaining asset values.

Risk: PHP invests in a niche asset sector

Impact	A change of Government policy or a downturn in demand for primary care premises may adversely affect the Group's portfolio and performance.
Mitigation	The Group constantly monitors Government policy with regard to Primary Care so as to be able to anticipate any changes. The use of GPs within the NHS and the long term, established use of third party owned premises has not changed for some time and is not an area subject to the Health & Social Care Bill. The Group has received written confirmation of the continued funding of its tenants by the NHS.
	The long term nature of the Group's occupational leases provides security of income and protection should a policy change need to be catered for.

Managing Director's Review (continued)

Taxation risks

Risk: Failure to comply with REIT legislation

Impact	A breach of REIT requirements may lead to the Group losing its REIT status and the taxation benefits that affords.
Mitigation	Management monitor the activities and performance of the Group to ensure that all requirements of the REIT legislation are met at all times. New transactions are structured when undertaken so as to continue to meet these statutory requirements.

Risk: A change in Government legislation

Impact	Should the UK-REIT regime cease to apply the Group may become chargeable to taxation with a significant impact on performance and strategy.
Mitigation	The Group monitors communication from HMRC with regard to the ongoing maintenance of the REIT regime. The Group participates in a number of industry bodies and groups that engage in continuous dialogue with HMRC over proposed changes to legislation and their impact on PHP.
	The recently announced changes to the REIT regime are designed to encourage further REITs and confirm the continuance of the regime for the foreseeable future.

Operational risks

Risk: Continuance of Joint Manager contract

Impact	PHP has no employees and depends on services supplied by third parties for the efficient operation and management of the Group. The termination of the Joint Manager contract could adversely affect the Group's ability to effectively manage its operations.
Mitigation	The management fee agreement with the Joint Managers includes incentivisation linked to the performance of the Group and protection for efficient handover should the managers change.
	The Management Engagement Committee regularly reviews the performance of the Joint Managers.

Risk: Breach of Health and Safety and Environmental requirements

Impact	A breach of such requirements could have reputational, criminal or financial implications on the Group which could be significant.
Mitigation	The Board views the assessment of Health and Safety and environmental risk as an important element of its due diligence process when acquiring properties and employs specialist advisers to undertake risk assessments.
	Properties are modern and specifically designed for purpose including best practice with regards to environmental requirements thereby mitigating risks.
	Owned properties are inspected regularly in rotation and well maintained.

Arnewood Surgery, New Milton

This asset management project extends the GP's lease to 19 years from the current 7 years term remaining. In exchange, PHP will undertake a minor refurbishment of the medical space. The property also accommodates a pharmacy and convenience store.

size:	991 sq m
expected completion:	March 2012
project:	minor refurbishment
outcome:	12 year lease extension

100% occupancy

The underlying property portfolio remains attractive with 100% occupancy.

90%

of rent roll effectively paid for by the Government with 16.3 years unexpired lease term

as at 31 December 2011

Environmental matters

PHP specialises in the ownership of freehold or long leasehold interests in modern purpose-built healthcare facilities, the majority of which are leased to general practitioners and other associated healthcare users. Environmental matters are considered as part of the assessment of the suitability of purchasing new medical centres to expand the portfolio, whether through forward purchase development agreements or through open market purchases. PHP undertakes an assessment of environmental risk as an important element of its due diligence process, obtaining an environmental desktop study and energy efficiency certificates. PHP has engaged an Environmental Consultant, Collier & Madge, to help in this process. PHP's ability to influence the energy efficiency of buildings is limited where completed properties are acquired and let on FRI terms. Where possible and as a norm for newly built premises, environmental issues are included in the leases entered into by the medical practitioners. More generally, new buildings acquired are usually specified to meet the NHS's exacting standards with regard to environmental considerations.

PHP is committed to the principles of continuous improvement in managing environmental issues, including the proper management and monitoring of waste, the reduction of pollution and emissions, and compliance with environmental legislation and codes of practice.

Relationships

Other than shareholders, the Group's performance and value are influenced by other stakeholders, principally its lessees (the GPs, NHS organisations and healthcare users), the property developers, the District Valuers, lenders and the Joint Managers. The Group's approach to these relationships is based on the principle of mutual understanding of aims and objectives and the highest standards of ethics and business practice.

Social and community issues

The Group provides purpose built healthcare properties for use by GPs, NHS organisations, pharmacies and healthcare users, thus indirectly benefiting the communities in which they are based.

Harry Hyman
Managing Director

20th February 2012

Summary of Group Financial Performance

	IFRS						
	2005[5]	2006[5]	2007[3]	2008[4 6]	2009	2010	**2011**
Net assets (£m)	57.1	71.3	124.1	78.3	151.9	164.7	**168.12**
Net asset value per share (p)							
• basic	251.9	314.5	369.4	226.7	247.2	262.3	**246.2**
• diluted	246.6	305.1	369.4	226.7	247.2	262.3	**246.2**
EPRA NAV							
• basic	330.8	408.0	377.1	272.9	279.9	311.5	**318.7**
• diluted	320.2	392.4	377.1	272.9	279.9	311.5	**318.7**
Increase/(decrease) in net asset value per share (p)							
• basic	33.1	62.6	54.9	(133.6)	20.5	15.1	**(16.1)**
• diluted	46.6	58.5	64.3	(133.6)	20.5	15.1	**(16.1)**
Closing portfolio including development loans and finance leases (£m)	167.1	203.8	288.9	320.2	344.9	472.4	**528.7**
Annualised rent roll (£m)	10.0	11.3	16.2	19.6	21.3	28.0	**31.4**
Profit/(loss) before taxation (£m)	19.4	18.4	(3.7)	(23.7)	10.8	25.7	**12.7**
Earnings per share (p)							
• basic	59.1	70.3	59.4	(62.0)	26.6	41.3	**19.0**
• diluted	55.4	67.7	59.4	14.0	18.4	14.7	**14.5**
Interim and final dividend per share (p)	12.0	13.5	21.75	16.5	17.0	17.5	**18.0**
Market price per share at 30 June/31 December (p)	310.5	404.0	314.0	290.5	289.0	335.0	**318.5**
Total return per share (p)							
• basic	45.1	76.1	76.7	(52.0)	37.5	32.6	**1.9**
• diluted	58.6	72.0	87.7	(52.0)	37.5	32.6	**1.9**
Indexed diluted net asset value per share [1]	123.3	152.6	184.6	113.44	123.7	131.3	**123.2**

(1) Rebased to 100 at 30 June 2004, being the first period the Group applied IFRS's.
(2) Total return
(3) 18 month period
(4) Restated - see 2009 Annual Report for details
(5) 2005-2006: year ends were 30 June
(6) The net asset value per share and EPS as at 31 December 2008 have been adjusted to illustrate the capital raisings which occurred in 2009, as if these events had been completed on 31 December 2008.

Joint Managers

Nexus Tradeco Limited ("Nexus")

Nexus identifies suitable properties, negotiates the terms of purchase of those properties and provides property management services on behalf of the Group. It also provides the services of the Managing Director. On 5 December 2011, Nexus Group Holdings Limited, the previous holding company of Nexus Property Management Limited, carried out a statutory demerger following which the participation in the Management Agreement was novated to Nexus Tradeco Limited, which is now the Joint Manager. The personnel responsible for managing PHP are unchanged. The Group is engaged in the provision of independent advice and financial services to organisations operating in the public and private sectors, with particular emphasis on health, education and property.

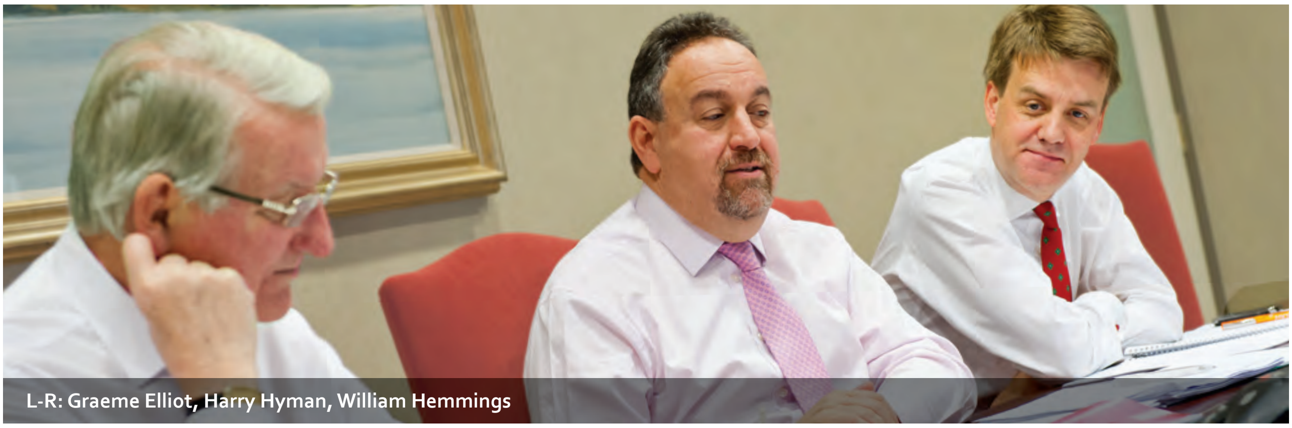
J O Hambro Capital Management Limited ("JOHCML")

JOHCML (a wholly owned subsidiary of J O Hambro Capital Management Holdings Limited ("Holdings")), in turn a wholly owned subsidiary of BTIM UK Limited, provides administrative and accounting services to the Group and is Company Secretary.

JOHCML has offices in London, Prague and Singapore. On 26 October 2011, JOHCML was acquired ultimately by BT Investment Management Limited ("BTIM"), an Australian fund manager, based in Sydney and listed on the Australian Stock Exchange. Following this transaction, JOHCML operates as a stand alone boutique in the BTIM Group. Mr James Hambro is chairman of Holdings.

JOHCML provides investment management services to open ended investment companies, segregated mandates and other public funds. JOHCML is authorised and regulated by the Financial Services Authority in the conduct of its investment business.

The Board


L-R: Graeme Elliot, Harry Hyman, William Hemmings

Graeme Elliot [1,4]

Non-Executive Chairman. Appointed February 1996. Mr Elliot was formerly executive vice chairman of Slough Estates PLC, prior to which he held senior positions at Rio Tinto Plc.


Graeme Elliot

James Hambro [4,5]

Non-Executive Director. Appointed February 1996. Mr Hambro is Chairman of J O Hambro Capital Management Holdings Limited, parent company of JOHCML, the Joint Manager and Company Secretary of Primary Health Properties PLC. He is also Non-Executive Chairman of Hansteen Holdings PLC.


James Hambro

Alun Jones [1,2,3]

Appointed 1 May 2007. Non-Executive Director and Senior Independent Director. Chairman of the Audit Committee and a member of the Remuneration, Nomination and Management Engagement Committees. A Chartered Accountant, Mr Jones retired from PricewaterhouseCoopers LLP in 2006, where he had been a Partner since 1981. His experience included acting as a Senior Audit Partner, responsible for a number of public companies, with relevant experience in the property and medical sectors.


Alun Jones

He was also an elected member of the UK and global Supervisory Boards of Price Waterhouse and subsequently Deputy Chairman of the Supervisory Board of PricewaterhouseCoopers LLP UK Firm. He was a member of the Financial Reporting Review Panel from 2006 to 2011.

Harry Hyman [4,5]

Managing Director. Appointed February 1996. A Chartered Accountant and


Harry Hyman

Managing Director of Nexus, a group of companies engaged in the provision of independent advice and financial services to organisations operating in the public and private sectors, with particular emphasis on health, education and property. He is also a Non-Executive Director of a number of other companies including General Medical Clinics PLC and a director of the Quoted Companies Alliance. PHP has been a member of the Quoted Companies Alliance since 2002.

Martin Gilbert

Non-Executive Director. Appointed May 1996. Mr Gilbert is a Chartered Accountant and Chief Executive of Aberdeen Asset


Martin Gilbert

Our diverse and experienced Board is an essential component of the success of Primary Health Properties PLC.

Graeme Elliot, Chairman


L-R: Alun Jones, Mark Creedy, James Hambro,

Management PLC. He is Chairman of Aberdeen's Operating Subsidiaries. Mr Gilbert is also Chairman of FirstGroup PLC, Chaucer PLC and a Director of a number of investment trusts. He was appointed a non-executive director of British Sky Broadcasting Group Plc during the year.

William Hemmings (alternate to Martin Gilbert)

Appointed by Martin Gilbert as his alternate director in March 2000, Mr Hemmings is Head of Closed End Funds at Aberdeen Asset Managers Limited and a Director of a number of subsidiary companies of Aberdeen Asset Management PLC.


William Hemmings

Mark Creedy [1 2 3]

Non-Executive Director. Appointed to the Board on 1 November 2008. Chairman of the Management Engagement Committee and a member of the Audit, Remuneration and Nomination Committees. A Chartered Surveyor, Mr Creedy is currently Managing Director of Fund Management at UNITE Group plc overseeing the fund management of the UNITE UK Student Accommodation Fund and UNITE's other joint ventures. He was Managing Director of the property


Mark Creedy

fund management subsidiary of Legal & General Investment Management from September 2002 until the end of 2007 and was previously Managing Director of Chartwell Land plc, a wholly owned subsidiary of Kingfisher plc. He was a Non-Executive Director of B&Q from 1998 until 2002. Mr Creedy has extensive experience in the UK property industry and was responsible for the creation and management of a number of sector specialist funds during his time at Legal & General.

Dr Ian Rutter OBE [1 2 3]

Non-Executive Director. Appointed to the Board on 22 September 2005. Chairman of the Remuneration and Nomination Committees and a member of the Audit and Management Engagement Committees. He has been a General Practitioner for 30 years with the Westcliffe Practice in Shipley, Yorkshire. He is currently the Senior European Faculty Head of IHI, the Institute of Healthcare Improvement, based in Boston,USA. He was, until January 2006, Chief Executive of North Bradford PCT, a Three Star Trust having previously won the Prime Minister's Award for excellence and which won the PCT of the Year in 2006. He is a former Clinical Adviser in the Policy & Strategy Directorate of the Department of Health and a former National Deputy Clinical Director for Primary Care. Former Joint Chief Executive Officer of Airedale PCT, he has also worked as an associate of the Prime Minister's Delivery Unit and at a senior level within the Department of Health. He is the National Clinical Adviser on Payment by Results. Dr Rutter retains an ongoing clinical commitment and was made OBE for Services to Medicine in January 2000 in recognition of his contribution to general practice and numerous national organisations.


Dr Ian Rutter OBE

(1) Member of the Audit Committee (2) Independent (3) Member of the Management Engagement, Nomination and Remuneration Committees (4) Member of the Standing Committee (5) Joint Manager representative

Directors' Report

£12.7m profit after tax

Interim dividends totalling 18.0p per Ordinary Share

9.25p

The Board proposes to pay an interim dividend of 9.25p per ordinary share on 5 April 2012

year ended 31 December 2011

The Directors present their report to Shareholders for the year ended 31 December 2011. Certain information that is required to be disclosed in this report has been provided in other sections of this Annual Report and accordingly, these are incorporated into this report by reference.

Results and dividends

The profit after tax for the year ended 31 December 2011 amounted to £12.7 million (year ended 31 December 2010: £25.7 million).

Interim dividends totalling 18.0p per Ordinary Share were paid during the year (year ended 31 December 2010: 17.50p).

The Board proposes to pay an interim dividend of 9.25p per Ordinary shares on 5 April 2012. Further information on dividends can be found in the Shareholder Information section on page 62.

Principal activity

The principal activity of the Group (of which Primary Health Properties PLC is the parent company) continues to be the generation of rental income and capital growth through investment in primary health care property in the United Kingdom. As at the year end, the Group had invested in 161 properties (156 completed and 5 that it had committed to acquire) with a gross asset value of approximately £539.7 million, generating an annualised rent roll of approximately £32.3 million.

The Group became a Real Estate Investment Trust ('UK REIT') on 1 January 2007. It is the opinion of the Directors that the Group has conducted its affairs so as to be able to continue as a UK REIT.

A review of the business, the Group's activities during the year, a description of the principal risks and uncertainties facing the Group and the Key Performance Indicators can be found in the Managing Director's Review, which starts on page 4.

Directors

Biographical information for the current Directors can be found on pages 22 and 23.

The Company's Articles of Association require that Directors should submit themselves for election at the first Annual General Meeting following their appointment and thereafter for re-election at least every three years. However, the Company is adopting the requirements of the UK Corporate Governance Code in relation to the annual re-election of Directors. Therefore, in accordance with provision B.7.1 of the UK Corporate Governance Code all of the Directors will retire at the Annual General Meeting and being eligible, offer themselves up for re-election.

The Chairman has confirmed that, following formal performance evaluation, he is satisfied that the performance of all of the Directors remains effective and that each has demonstrated commitment to their roles and he therefore recommends their re-election at the forthcoming Annual General Meeting. Information on the performance evaluation of members of the Board can be found in the Corporate Governance section on page 31. Details of Directors' remuneration are in the Directors' Remuneration Report on pages 33 to 34. The Senior Independent Director has evaluated the performance of the Chairman and has confirmed that he is satisfied that his performance remains effective and that he has demonstrated commitment to his role and he therefore recommends his re-election at the forthcoming Annual General Meeting.

The interests of the Directors in the share capital of the Company (all of which are direct and beneficial unless otherwise stated) and any interests of a person connected with a Director (indicated as indirect) within the meaning of the Disclosure and Transparency Rules, are shown below:

	31 Dec 2011	31 Dec 2010
Ordinary shares of 50p		
G A Elliot	13,365	13,365
M J Gilbert	57,158	57,158
W J C Hemmings (alternate to Martin Gilbert)	3,833	3,502
J D Hambro	44,416	44,416
J D Hambro (indirect)	501,464	501,464
H A Hyman	63,378	50,958
H A Hyman (indirect)	3,648,562	3,622,396
I P Rutter	7,282	5,495
A R Jones	16,027	16,027
M Creedy	10,000	5,000
M Creedy (non-beneficial)	635	-

Save as disclosed below, no changes occurred between 31 December 2011 and the date of this Report.

Mr Hyman and Mr Hemmings are participants in the Company's monthly investment account that is administered by Equiniti on the Company's behalf. As a consequence of this participation, at the date of this Report Mr Hemmings' beneficial interest had increased to 3,892 shares. Mr Hyman's beneficial interest as at the date of this Report was 63,282 shares.

Powers of the Directors

The Directors have been authorised to allot and issue Ordinary shares and to make market purchases of the Company's Ordinary shares. These powers are pursuant to the passing of resolutions at the Company's Annual General Meeting. Details of the resolutions regarding the allotment, issue and purchase of the Company's shares are set out in the explanatory notes to the Notice of Annual General Meeting which can be found in the separate document posted to shareholders with this Annual Report.

Notifiable interests in shares

As at 31 December 2011, the Company had been notified of the following holdings of 3% or more of the voting rights in the Company's issued share capital:

	Voting rights	%
Nexus Group Holdings Limited (indirect)	3,711,940	5.44
Blackrock Inc. (indirect)	3,035,591	4.45
Legal & General PLC	2,492,675	3.65
Aberdeen Asset Management PLC (indirect)	2,150,350	3.15

3,612,632 of the Ordinary Shares held by Nexus Group Holdings Limited ("Nexus Group") are subject to a debenture and fixed charge (the "Debenture") over all of Nexus Group assets. As at the date of this report, Nexus Group has confirmed that it is not in default of any of its banking commitments and that it has no current intention to sell any of its holding.

Mr Gilbert is a director of Aberdeen Asset Management PLC (the holding company for the fund management subsidiaries) and is Chairman of its operating subsidiaries. Mr Hyman is a director of Nexus Group Holdings Limited. Mr Hemmings is a director of subsidiary companies of Aberdeen Asset Management PLC.

Share capital

The Company has one class of share in issue, being Ordinary Shares of 50 pence each. At the date of this report, the Company had 68,272,229 Ordinary Shares of 50 pence each in issue, each carrying the right to one vote.

The following changes to the issued share capital have occurred during the year:

- 89,617 new Ordinary shares of 50 pence were issued on 31 March 2011, in respect of the Company's Scrip Dividend Scheme;
- 5,284,041 new Ordinary shares of 50 pence each were issued at a price of 305 pence per share in a cash placing on 15 April 2011, which raised gross proceeds of £16.1 million; and
- A further 96,238 new Ordinary shares of 50 pence each were issued on 28 October 2011, in respect of the Scrip Dividend Scheme.

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation, nor is the Company aware of any arrangements between shareholders that may result in restrictions on the transfer of Ordinary Shares and on voting rights.

Subject to the Companies Act 2006, rights attached to any class of shares may be varied with the consent of holders of at least three quarters in nominal value of the issued shares of that class by way of a special resolution passed in General Meeting.

Articles of Association

The Company's Articles of Association (adopted by special resolution on 6 October 2009) may only be amended by special resolution at a General Meeting of the shareholders.

Significant agreements

The Company is required to disclose details of any agreements that it considers to be essential to the business. The Board do not consider the banking facility agreements with the Group's lenders to fall into this category as if any one of these arrangements ended, the Group would seek alternative funding and the loss or disruption caused should only be temporary.

The Management Agreement with the Joint Managers (further details of which can be found in the Related Party Transactions section below) is considered essential to the business as the Group has no employees. The agreement is reviewed at least annually by the Management Engagement Committee. On 5 December 2011 Nexus Group Holdings Limited, the previous holding company of Nexus Property Management Limited, carried out a statutory demerger following which Nexus' participation in the Management Agreement was novated to Nexus Tradeco Limited, which is now the Joint Manager. The personnel involved remain unaltered.

Directors' Report continued

During the financial year and as at the date of this report, none of the Directors other than those referred to below was materially interested in any significant agreements relating to the Group's business nor in any proposed transactions.

Related party transactions

Mr Hyman is a director of Nexus Tradeco Limited ("Nexus") and Nexus Group Holdings Limited. Mr Hambro is a director of J O Hambro Capital Management Holdings Limited ("Holdings", the parent company of JOHCML). Both Nexus and JOHCML are Joint Managers to the Group and Messrs Hyman and Hambro are therefore deemed to have an interest in the Management Agreement referred to above and are thus related parties.

Management Agreement

Pursuant to the Management Agreement dated 14 March 1996 (as amended from time to time and last amended and restated on 28 February 2011) ("the Agreement") between the Company and the Joint Managers (Nexus and JOHCML), the Company appointed:

- Nexus to provide property advisory and management services and the services of the Managing Director of the Company;
- JOHCML to provide administrative and accounting services and is the appointed Company Secretary.

Each Joint Manager has the continuing right to appoint and remove one person as a Director of the Company and to receive the Director's fee (currently £25,000 per annum).

On 28 February 2011, the Agreement was amended and restated, as disclosed in last year's annual report, to change the fee payable to the Joint Managers so that the incremental fee payable to them reduces as gross assets increase above £500 million. The effective date of the revised terms was 1 January 2011. The amended fee structure will continue to be calculated as a percentage of the gross asset value of the Company as follows:

Gross Assets	Total Fee
First £50 million	1.00%
Between £50 million and £500 million	0.75%
Between £500 million and £750 million	0.525%
Between £750 million and £1 billion	0.4375%

The Company has always been able to terminate the agreement upon notice but previously did not have the ability to terminate and make payment to the Joint Managers in lieu of notice. A provision has been added to the management agreement, giving the Company the ability to pay Nexus and JOHCML a payment in lieu of notice in the event that the Company terminates the agreement. Such payment will be calculated by reference to the unexpired notice period and the gross asset value at the time of the termination and cannot be greater than the fees that they are contractually entitled to receive. The Company considered it prudent to have such ability in the event it considered it to be in the best interests of the Company to replace one or both of the Joint Managers during the notice period. The agreement remains terminable by not less than two years' written notice.

The revised agreement also changes the terms of additional payments that may be made to Nexus only for non standard real estate related services. These have been capped at 10% of the total annual fees payable to Nexus.

The Agreement contains no provisions to amend, alter or terminate the Agreement upon a change of control of the Group following a takeover bid.

Performance Incentive Fee ("PIF")

Nexus and JOHCML are entitled to a PIF equal to 15% of any performance in excess of an 8% per annum increase in the Company's "Total Return" (as derived from the audited accounts for the immediately preceding financial period prior to the date of payment) provided that if the Total Return is less than 8% in any one year, the deficit must be made up in subsequent years before any subsequent PIF is paid. No performance fee has been payable in 2011 or 2010 and there is a deficit of some £57.5 million (2010: £42.8 million) to be made up in the net asset value before any further PIF becomes payable under the terms of the Management Agreement.

Using the relevant audited accounts, the Total Return is determined by calculating the change in the net asset value per ordinary share, on a fully diluted basis, after any adjustment for any increase or reduction in the issued share capital and adding back gross dividends paid per ordinary share.

Employees

The Group has no employees, no employee share scheme and there are no agreements between the Company and its Directors providing for compensation for loss of office or employment (whether through resignation, proposed redundancy or otherwise) that may occur because of a takeover bid.

Creditor payment policy

For all trade creditors, the Group's policy is to agree the terms of payment at the start of business with the service provider, ensure that parties are aware of the terms of payment and pay in accordance with contractual and legal obligations. Payment in respect of 12 days average purchases from trade creditors of the Group was outstanding at the year end.

Donations

The Group does not make any political or charitable donations.

Share Service

The Shareholder Information section on pages 62 to 63 provides details of the share services available.

Financial instruments

The Group's financial risk management objectives and policies are discussed in notes 19 and 20.

Post balance sheet events

Details of events occurring since the year end are given in note 31 on page 55.

Going Concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Managing Director's Review on pages 4 to 19. The financial result of the Group, its position, its cash flows, liquidity position and borrowing facilities are described on pages 36 to 38 and note 18 on page 49. In addition notes 19, 20 and 21 to the financial statements include the Group's financial risk objectives, capital position, details of financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group's property portfolio is 100% let to tenants with strong covenants and the property acquisition pipeline is currently strong. As at 31 December 2011 the Group held £205 million of debt facilities that are due to expire in January 2013. Since that date, the Group has agreed fully credit approved terms to refinance £175 million of these facilities for a new four year term commencing upon documentation, expected to be March 2012. This will extend the average maturity of the Group's banking facilities to approximately six years. Discussions are continuing to refinance the balance of £30 million of facilities but undrawn facilities are currently available to the Group and may be used at any time to do this. The Group's loan to value ratio is currently 57.8%, well below the current maximum banking covenant of 70.0% and that of 65.0% to be applied under the agreed terms for the refinancing.

The Directors believe that the Group is well placed to manage its business risks successfully, despite the continuing uncertain economic outlook. Having reviewed the Group's current position and cash flow projections, actual and prospective loan facilities and covenant cover, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors' Statement as to disclosure of information to auditors

Each person who is a Director at the date of approval of this Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- The Director has taken all of the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to ensure that the Group's auditors are aware of this information.

Annual General Meeting

The Annual General Meeting will be held on 16 April 2012 at 10.30am. The Notice convening the Annual General Meeting and explanatory notes for the resolutions sought are set out in the separate document enclosed.

The Directors consider that all of the resolutions proposed are in the best interests of the Company and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own shareholdings.

Auditors

A resolution to reappoint Ernst & Young LLP as the Group's auditor and to authorise the Board to determine their remuneration will be put to Shareholders at the forthcoming Annual General Meeting.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary
20 February 2012

Primary Health Properties PLC
Registered office:
Ground Floor, Ryder Court, 14 Ryder Street
London SW1Y 6QB

Registered in England No: 3033634

Directors' Responsibility Statements

Statement of Directors' Responsibilities in Respect of the Group and Company Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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 Group; and
- the Management report incorporated into the Managing Director's Review on pages 4 to 19 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Graeme Elliot
Chairman

20 February 2012

Corporate Governance

The Group's policy is to achieve best practice in its standards of business integrity in all of its activities. This includes a commitment to follow the highest standards of corporate governance throughout the Group where possible. This section of the Annual Report describes how the Group has complied with the applicable provisions of the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in June 2010 (the "Code"). The Board considers that it has complied with the provisions of the Code throughout the year with the exception that there is no internal audit function, non-executive directors are not appointed for a specific term and certain Directors have served on the Board for more than three terms of three years. However, all Directors have been subject to rigorous review, performance evaluation and now annual election. Their biographies show that they have a wide range of experience directly relevant to the Group's activities.

Board Composition and Independence

The Board comprises the Chairman, Managing Director and five non-executive Directors, three of whom are considered by the Board to be independent under the Code. Details of the Chairman, the Directors and their individual roles are shown on pages 22 and 23. Their biographical details demonstrate a range of corporate, financial, property, investment and NHS experience relevant to the Group's business and demonstrate sufficient calibre to bring independent judgement on issues of strategy and performance of the Group.

The roles of the Chairman and the Managing Director are distinct and have been agreed by the Board. The Chairman chairs the Board and general meetings of the Company, sets the agenda of such meetings and promotes the highest standards of integrity, probity and corporate governance throughout the Group, particularly at Board level. He ensures that the Board receives accurate, timely and clear information, communicates effectively with Shareholders, facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors. He also ensures that any new Directors participate in a full, formal and tailored induction programme and that the performance of the Board, its committees and individual Directors is evaluated at least once a year. There is a clear structure for, and the effective running of, Board committees. The Managing Director is accountable for the management of the Group with the Joint Managers as set out in the Management Agreement.

Mr Jones has been appointed as Senior Independent Director by the Company. He is available to Shareholders if they have any concerns that cannot be resolved through the normal channels. His role is to support the Chairman and act as his sounding board when required and if necessary, to act as an intermediary for the other Directors.

As part of its annual self assessment, the Board critically evaluates the independence of individual Directors and has concluded that all of the Directors continue to act independently in both character and judgement, taking account of the interest of all Shareholders. Alun Jones, Ian Rutter and Mark Creedy meet the independence criteria set out in the Code, whilst Graeme Elliot, Martin Gilbert (alternate William Hemmings) and James Hambro have been on the Board longer than nine years and, as such, do not meet these criteria.

Operation of the Board

The Board is responsible for leading and steering the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. It also sets the Group's strategic aims, ensuring that the necessary resources are available for the Group to meet its objectives, reviews the performance of management through its Management Engagement Committee and sets the Group's values and standards, ensuring that its obligations to its Shareholders and other stakeholders are satisfied.

The Board has a schedule of matters formally reserved to it for its decision such as strategic, major financial and key operational issues. Matters not requiring debate or necessary for the implementation of urgent decisions, on matters previously discussed at Board Meetings, are delegated to a Standing Committee.

The Board has delegated certain activities to the Joint Managers as described in the Management Agreement section of the Directors' Report on page 26.

The Management Agreement also provides for the appointment of JOHCML as Company Secretary, meaning that it is responsible for ensuring that Board procedures are followed, that applicable rules and regulations are complied with and for advising the Board (through the Chairman) on governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The training needs of each Director are regularly reviewed by the Chairman. Directors are able to receive training or additional information on any specific subject pertinent to their role as a Director that they request or require. During the year, the Board as a whole has received appropriate guidance on the implications of the Bribery Act 2010 for the Group and has also reviewed and discussed the FRC Guidance on Board Effectiveness which was published in March 2011. All Directors have access to independent professional advice at the Company's expense, if deemed necessary and subject to clearance by the Chairman.

Corporate Governance continued

The Group maintains appropriate insurance cover in respect of legal action against the Company's Directors.

There are opportunities throughout the year for the Chairman and Independent Directors to discuss matters without the other Directors being present.

Meetings and Attendance

Director	Board Meetings (Total in year 7)	Audit Committee (Total in year 2)
Graeme Elliot	7	2
Alun Jones	7	2
Harry Hyman	7	n/a
Mark Creedy	7	1
James Hambro	6	n/a
Martin Gilbert (alt William Hemmings)	7	n/a
Dr Ian Rutter	7	2

Board Committees

The following Committees have been established by the Board and have been granted specific delegated authority to consider certain aspects of the Group's affairs. The Chairmen of the Committees report back to the Board as and when appropriate.

Audit Committee

The Audit Committee consists of four non-executive directors. These are Alun Jones (Chairman), Dr Ian Rutter and Mark Creedy (all of whom are independent under the Code) and Graeme Elliot. At least one member of the Committee possesses what the Code describes as 'recent and relevant financial experience' as Mr Jones, a Chartered Accountant, was a partner of PricewaterhouseCoopers LLP between 1981 and 2006 and recently sat on the Financial Reporting Review Panel. There are no employees of the Joint Managers on the Committee. The Committee may invite the Managing Director, representatives of the Joint Managers and non independent directors to attend the meetings if they wish.

The main roles and responsibilities of the Audit Committee are set out in written terms of reference which are available from the Company's website and include:

- Monitoring the integrity of the Group's financial statements and reviewing significant financial reporting issues and judgements contained therein;
- Reviewing the Group's systems of financial control and risk management;
- Making recommendations to the Board on the appointment and dismissal of the external auditor and approving their remuneration and terms of engagement;
- Monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements; and
- Annually considering the need for an internal audit function.

These responsibilities are primarily discharged as follows:

- At its scheduled meetings in February and August, the Committee reviews the Company's annual financial report and half year report respectively. On both occasions, the Committee receives reports from the external auditors identifying any accounting, presentation, internal control or judgemental issues requiring its attention;
- The Committee Chairman also meets the auditors and staff of the Joint Managers in December, February and early August to review the audit plans and progress, accounting processes and to discuss emerging points and early drafts of the financial reports; and
- The Joint Managers are, from time to time, required to make presentations to the Audit Committee on the subject of risk, its identification, management and control, accounting and control and property portfolio management.

There are arrangements in place whereby employees of the Joint Managers may, in confidence, raise concerns about possible improprieties in matters of financial reporting amongst other things. The Committee ensures that the Joint Managers have in place arrangements for the proportionate and independent investigation of such matters.

The Company has a policy governing the conduct of non-audit work by the auditors. Under that policy, the auditors are prohibited from performing services where the auditors may be required to audit their own work, participate in activities that would normally be undertaken by management, are remunerated through a 'success fee' structure where the success of a project is dependent upon the accounting treatment, or act in an advocacy role for the Company. Other than the above, there is not an automatic ban in place on the auditors undertaking non-audit work. However, each possible appointment is reviewed on a case by case basis. Activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the fee involved. Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 4 to the financial statements on page 44.

Remuneration Committee

The Remuneration Committee normally meets once per year and comprises three Independent Directors being Dr Rutter (Chairman), Mr Jones and Mr Creedy. The terms of reference, role and composition of the Committee can be found in the Directors' Remuneration Report on page 33. The Committee met once during the year to review Directors' remuneration with all three members in attendance.

Nominations Committee

The Nominations Committee is chaired by Dr Rutter and its other members are Mr Jones and Mr Creedy, all three of whom are Independent and non-executive. The Committee is charged with the responsibility of nominating any new Directors to the Board and considering succession planning. It reviews from time to time the composition of the Board, having regard to its balance and structure. It meets as and when deemed necessary but did not meet during the year under review.

Non-executive Directors are appointed subject to re-election by Shareholders and to three months' notice from the Company or the Director. Each Director, on appointment, is provided with a letter setting out the terms of appointment, the fees to be paid and the time commitment expected. Non-executive Directors are not appointed for specific time periods, but are subject to annual re-election.

Management Engagement Committee

The Management Engagement Committee comprises Mr Creedy (Chairman), Dr Rutter and Mr Jones and meets at least annually to review the terms of the Management Agreement and the performance of the Joint Managers. The non-independent, non- executive Directors may attend the meetings if invited to do so by the Chairman.

During the year the Management Engagement Committee reviewed the terms of the Management Agreement and approved changes to the fee structure under that agreement as described previously on page 26. The Committee also reviewed the remuneration, engagement and performance of the Joint Managers. Further details of the remuneration paid to the Joint Managers is detailed on page 26.

Share Capital Structure

The Group has provided the information required concerning share capital structure in the Directors' Report on page 25.

Board performance and evaluation

The Chairman is responsible for ensuring the annual evaluation of the Board's performance and that of its Committees and individual Directors. During the year, this was done by the circulation of a questionnaire based on the process and questions outlined in the Code concerning Board and Committee performance and meetings. The Chairman discussed with the Board broad themes and outcomes for 2012 and highlighted strengths and any areas of weakness. The outcome of the evaluation process was that the Board and its Committees were judged to be operating effectively. The other Directors, led by the Senior Independent Director, evaluated the performance of the Chairman.

Communications with Shareholders

The Board is accountable to the Company's Shareholders and therefore considers its communication with Shareholders to be very important. The Board uses the annual and half yearly financial reports and interim management statements to report to the Shareholders on its stewardship of the Company and on any significant changes or matters of interest.

Two of the largest Shareholders are represented on the Board (Nexus Group Holdings Limited and Aberdeen Asset Management PLC). The Annual General Meeting provides an opportunity for communication with private and institutional investors and the Board welcomes their participation. All Directors attend the Annual General Meeting and the Chairman, the Chairman of the Audit Committee, the Senior Independent Director and the Managing Directors are all available to answer any questions.

Internal Control

The Board is responsible for the Group's system of internal control, which has been in operation throughout the year and to the date of this Report, and for reviewing its effectiveness. It believes that the key risks facing the business have been identified and it has implemented an ongoing system to identify, evaluate and manage these risks that is based upon, and relevant to, the Group's business as a UK REIT.

Key features of the system of internal control include a comprehensive system of budgeting, financial reporting and business planning, formal documentation procedures and the close involvement of the Managing Director and the Joint Managers in all aspects of the day-to-day operations. The scope and quality of the Joint Managers' systems of internal controls are monitored and reviewed and regular monitoring reports are provided to the Board. Any incidence of significant control failings or weaknesses that have been identified and the extent to which they have impacted on the Group are reported to the Board and the Board ensure that the Joint Managers take the necessary actions to remedy those failings or weaknesses immediately.

Corporate Governance continued

Nevertheless, the Board believes that, although robust, the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives. Therefore the system can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee and the Board consider annually the requirement for an internal audit department and the Board, on the recommendation of the Audit Committee, has concluded that one is not currently required.

In preparing the periodic financial reports of the Group, the Board is reliant on the policies and procedures followed by the Joint Managers to ensure that the records accurately reflect transactions so as to facilitate the production of consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and other applicable reporting standards. In addition, the integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by the Audit Committee and the Board. At the time of reviewing the half yearly and annual financial reports, the Audit Committee also receives comfort letters from each of the Joint Managers to assist the Board in making the disclosures.

By order of the Board

J O Hambro Capital Management Limited
Company Secretary

20 February 2012

Directors' Remuneration Report

Directors' Remuneration Report

This Report has been prepared in accordance with section 420 of the Companies Act 2006 and in accordance with the information required by company law and the Listing Rules. The Notice of Annual General Meeting includes an ordinary resolution to approve the Directors' Remuneration Report. No payment of remuneration is conditional upon this vote being passed and it is an advisory vote only.

Role and composition of the Remuneration Committee

The Remuneration Committee is chaired by Dr Rutter and its other members are Mr Jones and Mr Creedy. Its role is to seek and retain the appropriate calibre of people on the Board and recommend fee levels to the Board consistent with prevailing market conditions, peer group companies and Directors' roles and responsibilities. The Company has no employees and therefore pay and employment considerations are not taken into account in determining Directors' fees, nor does it determine executive pay.

The Committee determines appropriate levels of remuneration for all Directors within the limit on aggregate Directors' fees as set out in the Articles of Association which is £250,000 per annum. The Committee makes recommendations to the Board as a whole and no Director is involved in any decision regarding his own remuneration. Directors' fees were last reviewed on 1st January 2011 when they increased to £25,000 per annum for the Directors and £32,500 per annum for the Chairman. In reaching these figures, the Committee obtained external advice and compared the fees with those paid by the Company's peers. Mr Jones receives an additional £5,000 per annum in respect of his role as Chairman of the Audit Committee.

Remuneration of Directors (audited)

	Year ended 31/12/11 £	Year ended 31/12/10 £
Graeme Elliot (Chairman)	**32,500**	25,000
Harry Hyman (Managing Director)	**25,000**	20,000
Alun Jones (SID and Chairman of Audit Committee)	**30,000**	25,000
James Hambro	**25,000**	20,000
Martin Gilbert	**25,000**	20,000
Ian Rutter (Chairman of Remuneration and Nomination Committees)	**25,000**	20,000
Mark Creedy (Chairman of Management Engagement Committee)	**25,000**	22,500
Total	**187,500**	152,500

Mr Hyman is a Director of Nexus, Mr Hambro is a Director of Holdings, Parent company of JOHCM. Nexus and JOHCML are the joint managers of the Company.

Messrs Hyman's and Hambro's entitlement to Directors' fees (which is the same as other Directors) is contained in the Management Agreement. The fees in respect of the services of Mr Hyman are paid to Nexus. The Management Agreement provides for the first £100,000 of the management fee to be payable to Nexus each year in respect of the services of the Managing Director. The fees in respect of Mr Hambro's services are paid to JOHCML. The fee in respect of Martin Gilbert's services as a Director is paid to Aberdeen Asset Management PLC. The Company has not complied with Code provision D.1.2 and has not disclosed the amount of fees received by the Managing Director in respect of his other non-executive Director appointments. Since he is committed to working a certain number of days a month for this Company, this amount is not deemed relevant and the Remuneration Committee is satisfied that the Company received the appropriate time commitment from the Managing Director. Further details of the Management Agreement are given in the Related Parties section of the Directors' Report on pages 26 and details of the amounts paid to each of the Joint Managers in note 4 on pages 44 to the financial statements.

Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. Directors may be reimbursed for travel and accommodation expenses in connection with Board Meetings and in line with the Group's expense policy.

Service contracts

No director has a service contract nor are they appointed for a specific term of office. The contracts for the services of Messrs Hyman and Hambro are with Nexus and JOHCML respectively, pursuant to the Management Agreement. There are letters of appointment in place for the five other Directors including the Chairman. These provide, subject to the appointment and any re-appointment being in accordance with the terms of the Articles of Association and to retirement by rotation, that such appointment can be terminated upon either party giving not less than three months' prior written notice, with no compensation for loss of office. These letters of appointment are available for inspection at the Registered Office and at the Annual General Meeting.

All Directors are subject to re-appointment by Shareholders at the first Annual General Meeting held after their appointment and annual re-election thereafter in accordance with Code Provision B.7.1.

Directors' Remuneration Report continued

Company's performance

The following graph compares, over a five year period, the total Shareholder return (as required by Company Law) of the Company's Ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE All-Share Real Estate Investment and Services Total Return Index. This Index has been chosen by the Board as the most appropriate in the circumstances. Total Shareholder return is the measure of returns provided by a company to Shareholders reflecting share price movements and assuming reinvestment of dividends.

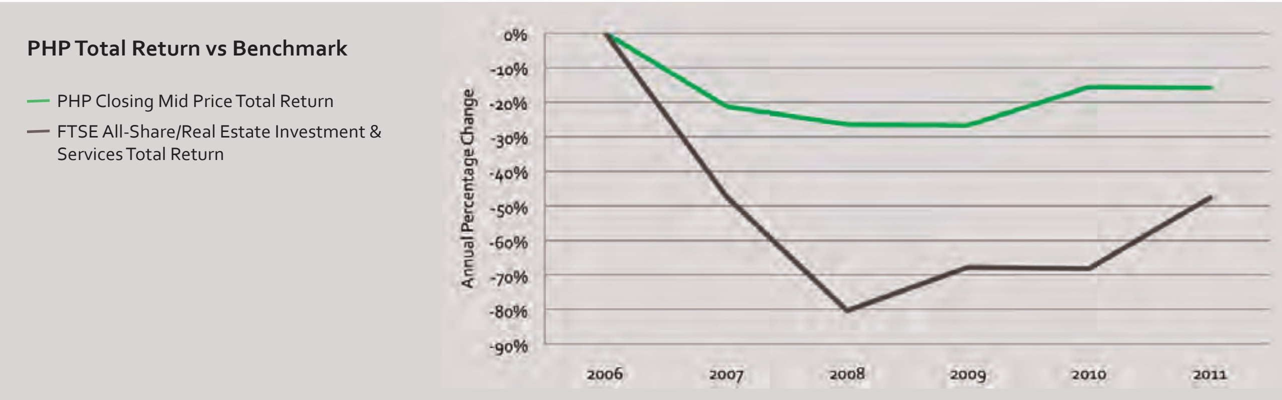
For the year ended 31 December 2011, the highest and lowest mid-market price of the Company's Ordinary shares was 337p and 295p respectively.

In accordance with Section 422 of Companies Act 2006, this Report was approved by the Board on 20 February 2012 and signed by Dr Rutter, Director and Chairman of the Remuneration Committee.

For and on behalf of the Board

Ian Rutter
Chairman of the Remuneration Committee

20 February 2012



Independent Auditor's Report

Independent Auditor's Report to the members of Primary Health Properties PLC

We have audited the Group financial statements of Primary Health Properties PLC for the year ended 31 December 2011 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 28, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 29 to 32 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 27, in relation to going concern; and
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to Shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Primary Health Properties PLC for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

David Wilkinson
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP
Statutory Auditor
London
20 February 2012

Group Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Rental income		**30,333**	26,574
Finance lease income		**343**	341
Rental and related income	3	**30,676**	26,915
Direct property expenses		**(436)**	(398)
Administrative expenses	4	**(5,123)**	(4,646)
Operating profit before revaluation result on property portfolio		**25,117**	21,871
Profit on sale of Available For Sale ("AFS") investments	13	**312**	-
Net revaluation result on property portfolio	10	**10,584**	22,790
Operating profit before financing costs		**36,013**	44,661
Finance income	5	**414**	160
Finance costs	6	**(15,831)**	(12,882)
Fair value loss on interest rate swaps and amortisation of cash flow hedging reserve	6	**(7,947)**	(4,714)
Profit on ordinary activities before taxation		**12,649**	27,225
Current taxation	7	**5**	36
Conversion to UK-REIT charge	7	**-**	(1,586)
Taxation credit/(expense)		**5**	(1,550)
Profit for the year [1]		**12,654**	25,675
Other comprehensive income being:			
Fair value movement on interest rate swaps treated as cash flow hedges	25	**(13,613)**	(6,013)
(Recycling of previously unrealised gain)/unrealised gain on current asset investment	13	**(73)**	79
Other comprehensive income for the year net of tax[1]		**(13,686)**	(5,934)
Total comprehensive income for the year net of tax[1]		**(1,032)**	19,741
Earnings per share [2]	8	**18.97p**	41.30p
Adjusted earnings per share [2 3]	8	**14.54p**	14.72p

The above relates wholly to continuing operations.

(1) Wholly attributable to equity shareholders of Primary Health Properties PLC.
(2) There is no difference between basic and fully diluted EPS.
(3) Adjusted for large one-off items and movements in fair value of properties and derivatives (see note 8).

Group Balance Sheet

as at 31 December 2011

	Notes	2011 £000	2010 Restated [3] £000
Non current assets			
Investment properties	10	525,586	469,290
Net investment in finance leases	12	3,069	3,036
Derivative interest rate swaps	19	24	413
		528,679	472,739
Current assets			
Current asset investments	13	-	555
Trade and other receivables	14	2,633	2,582
Net investment in finance leases	12	30	48
Cash and cash equivalents	15	77	370
		2,740	3,555
Total assets		531,419	476,294
Current liabilities			
Term loans	18	(592)	(3,557)
Derivative interest rate swaps	19	(23,866)	(16,859)
Corporation tax payable	16	-	(48)
UK-REIT conversion charge payable	16	-	(1,998)
Trade and other payables	17	(5,831)	(4,837)
Deferred rental income		(6,624)	(5,942)
		(36,913)	(33,241)
Non-current liabilities			
Term loans	18	(300,747)	(263,888)
Derivative interest rate swaps	19	(25,639)	(14,419)
		(326,386)	(278,307)
Total liabilities		(363,299)	(311,548)
Net assets		168,120	164,746
Equity			
Share capital	21	34,136	31,401
Share premium account	22	54,430	53,934
Capital reserve	23	1,618	1,618
Special reserve	24	57,405	44,442
Cashflow hedging reserve	25	(26,892)	(13,279)
Retained earnings	26	47,423	46,630
Total equity [1]		168,120	164,746
Net asset value per share - basic	27	246.25p	262.32p
EPRA net asset value per share [2]	27	318.73p	311.47p

(1) Wholly attributable to equity shareholders of Primary Health Properties PLC.
(2) See definition on page 10.
(3) Principal repayments on Aviva fixed term loan of £0.6 million restated to current liabilities from non-current liabilities. This restatement has no effect on net assets.

These financial statements were approved by the Board of Directors on 20 February 2012 and signed on its behalf by:

Graeme Elliot
Chairman

Group Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Operating activities			
Profit on ordinary activities before tax		12,649	27,225
Less: Finance income	5	(414)	(160)
Plus: Finance costs	6	15,831	12,882
Plus: Fair value loss on derivatives	6	7,947	4,714
Operating profit before financing costs		36,013	44,661
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Revaluation gain on property portfolio	10	(10,584)	(22,790)
Profit on sale of AFS Investment	13	(312)	-
Increase in trade and other receivables [1]		(146)	(946)
Increase in trade and other payables [1]		1,095	4,003
Cash generated from operations		26,066	24,928
UK-REIT conversion charge instalments	16	(1,998)	(1,934)
Taxation paid [2]		(43)	(193)
Net cash flow from operating activities		24,025	22,801
Investing activities			
Payments to acquire investment properties		(45,712)	(25,234)
Disposal of AFS Investment	13	788	-
Payments to acquire shares in AH Medical Properties PLC		-	(476)
Payments to acquire Anchor Meadow Limited		-	(5,498)
Payments to acquire Sinclair Montrose Properties Limited		-	(23,842)
Payments to acquire Abstract Integrated Healthcare Limited [3]		-	(1,856)
Payments to acquire Charter Medinvest Limited		-	(6,787)
Payments to acquire Health Investments Limited [3]		-	(7,214)
Interest received on developments		296	134
Bank interest received		35	4
Other interest		4	8
Net cash flow used in investing activities		(44,589)	(70,761)
Financing activities			
Proceeds from issue of shares (net of expenses)		15,605	-
Term bank loan drawdowns		145,953	85,700
Term bank loan repayments		(111,007)	(15,924)
Swap interest payable		(8,833)	(8,461)
Non utilisation fee		(224)	-
Loan arrangement fees		(1,690)	(176)
Interest paid		(5,454)	(3,211)
Swap buy back costs	19	(2,880)	-
Dividends received		-	15
Equity dividends paid net of scrip dividend		(11,199)	(9,825)
Net cash flow from financing activities	9	20,271	48,118
(Decrease)/increase in cash and cash equivalents for the year		(293)	158
Cash and cash equivalents at start of year		370	212
Cash and cash equivalents at end of year	15	77	370

(1) Asset movements include movements relating to acquisitions
(2) Taxation was paid in the period in order to settle the outstanding liabilities in the acquired companies. All amounts payable were included in the consideration calculation.
(3) Payment net of acquired debt commitments.

Group Statement of Changes in Equity

for the year ended 31 December 2011

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve[1] £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
1 January 2011	**31,401**	**53,934**	**1,618**	**44,442**	**(13,279)**	**46,630**	**164,746**
Profit for the year	-	-	-	-	-	12,654	12,654
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps	-	-	-	-	(13,669)	-	(13,669)
Amortisation of cash flow hedging reserve	-	-	-	-	56	-	56
Recycling of previously unrealised gain	-	-	-	-	-	(73)	(73)
Total comprehensive income	-	-	-	-	(13,613)	12,581	(1,032)
Proceeds from capital raisings	2,642	-	-	13,474	-	-	16,116
Expenses of capital raisings	-	-	-	(511)	-	-	(511)
Dividends paid:							
Second interim dividend for the year ended 31 December 2010 (9.00p)	-	-	-	-	-	(5,363)	(5,363)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	45	244	-	-	-	(289)	-
First interim dividend for the year ended 31 December 2011 (9.00p)	-	-	-	-	-	(5,836)	(5,836)
Scrip dividend in lieu of first interim cash dividend (net of expenses)	48	252	-	-	-	(300)	-
31 December 2011	**34,136**	**54,430**	**1,618**	**57,405**	**(26,892)**	**47,423**	**168,120**
1 January 2010	**30,729**	**50,664**	**1,618**	**44,442**	**(7,266)**	**31,728**	**151,915**
Profit for the year	-	-	-	-	-	25,675	25,675
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps treated as cash flow hedges	-	-	-	-	(6,013)	-	(6,013)
Unrealised gains at fair value through equity	-	-	-	-	-	79	79
Total comprehensive income	-	-	-	-	(6,013)	25,754	19,741
Dividends paid:							
Second interim dividend for the year ended 31 December 2009 (8.75p)	-	-	-	-	-	(5,061)	(5,061)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	116	595	-	-	-	(711)	-
First interim dividend for the year ended 31 December 2010 (8.75p)	-	-	-	-	-	(4,764)	(4,764)
Scrip issue in lieu of first interim dividend (net of expenses)	54	262	-	-	-	(316)	-
Share consideration for the HIL acquisition	502	2,413	-	-	-	-	2,915
31 December 2010	**31,401**	**53,934**	**1,618**	**44,442**	**(13,279)**	**46,630**	**164,746**

(1) The Special Reserve is a distributable reserve

Notes to the Financial Statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2011 were approved by the Board of Directors on 20 February 2012 and the Balance Sheets were signed on the Board's behalf by the Chairman, G A Elliot. Primary Health Properties PLC is a public limited company incorporated and domiciled in England & Wales. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Services 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 presented in Sterling rounded to the nearest thousand.

Statement of compliance

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

2.2 Summary of significant accounting policies

Basis of consolidation

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

The Parent Company financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will continue to be prepared under UK GAAP. The use of IFRS at Group level does not affect the distributable reserves available to the Group.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in property in the United Kingdom leased principally to GPs, NHS Organisations and other associated health care users.

Investment properties and investment properties under construction

The Group's investment properties are held for long-term investment. Initially, investment properties are 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 cease to be recognised for accounting purposes when they have been disposed of. Any gains and losses arising are recognised in the Group Statement of Comprehensive Income in the year of disposal.

Development loans

The Group has entered into development loan agreements with third party developers in respect of certain properties under development. These loans are repayable at the option of the developer at any time. The Group has entered into contracts to purchase the properties under development when they are completed in accordance with the terms of the contracts. The loans are repayable by the developers in the event that the building work is not completed in accordance with the purchase contracts. Interest is charged under the terms detailed in the respective development agreements and taken to the Group Statement of Comprehensive Income in the year in which it accrues.

Property acquisitions and business combinations

Where a property is acquired through the acquisition of corporate interests, the Board considers the substance of the assets and activities of the acquired entities 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.

Current asset investments

Current asset investments are held as Available For Sale ("AFS") in accordance with IAS 39. Any unrealised gain or loss is recognised through the Group Statement of Comprehensive Income.

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's, fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Group Statement of Comprehensive Income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Group Statement of Comprehensive Income.

Income
Revenue is recognised to the extent that performance has been provided and it is probable that economic benefits will flow to the Group which can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term. A rent adjustment is recognised from the rent review date in relation to unsettled rent reviews. 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.

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 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.

Conversion to UK-REIT
The Group's conversion to UK-REIT status was effective from 1 January 2007. Conversion to a UK-REIT results in, subject to continuing relevant UK-REIT criteria being met, the Group's property profits, both income and gains, being exempt from UK taxation from 1 January 2007. On conversion to a UK-REIT, the Group was subject to a one off taxation charge of £5.2 million based on the value of the properties as at the date of conversion. This amount was payable over four years. Acquired companies are converted to UK-REIT status and further one off charges become payable on conversion.

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 assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as fair value through profit and loss. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS39. Financial assets at fair value through profit and loss are carried in the Balance Sheet at fair value with gains or losses recognised in the Group Statement of Comprehensive Income.

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

De-recognition of financial assets and liabilities

Financial assets

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

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

Derivative financial instruments (derivatives) and hedge accounting

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

The Group documents at the inception of the transaction 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 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 remeasured 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.

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

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, i.e., an interest payment, the element of the gain or loss on the derivative that is an "effective" hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the Group Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Group Statement of Comprehensive Income i.e. when interest income or expense is recognised.
- Derivatives that do not qualify for hedge accounting by virtue of not meeting the strict criteria for being "effective", i.e., the gain or loss on derivatives that 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.

Dividends payable to Shareholders

Dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements as they are appropriations of income. Furthermore, any final dividends would not be recognised until they have been approved by Shareholders at the Annual General Meeting.

Leases – Group as a lessor

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

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

2.3 Significant accounting estimates and judgements

The preparation of the Group financial statements requires management to make a number of estimates and judgements. These estimates and judgements affect the reported amounts of assets and liabilities. Estimates and assumptions may differ from future actual results. The estimates and assumptions 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 under a finance lease in order to earn rentals or for capital appreciation, or both.

Investment property under construction is valued at fair value if it can be reliably determined. If a fair value cannot be reliably determined, the investment property under construction is measured at cost.

The 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, envisaging 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 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.

Fair value of derivatives
In accordance with IAS39, the Group values its derivative financial instruments at fair value. Fair value is calculated by J.C. Rathbone Associates Limited. The calculation uses a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the bid price of the yield curve prevailing on 31 December 2011. The 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 Joint Managers 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.

Hedge effectiveness
The Group has a number of interest rate swaps that mature after the Group's bank facilities 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 the 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 IFRS3(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.

2.4 Standards adopted during the year

The Group has considered and where appropriate, adopted the following amendments to IFRS in these financial statements:

- IAS 24 (amendment) introduced a new definition of a related party which emphasises a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government bodies. The adoption of the amendment did not have any impact on the financial position or performance of the Group.
- IAS 32 Financial Instruments: Presentation (amendment) altered the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.
- Improvement to IFRSs (May 2010). IFRS 7 - Financial Instruments - Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

2.5 Standards issued but not yet effective

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of these financial statements. The directors have set out below only those which may have a material impact on the financial statements in future periods.

- IFRS9 Financial Instruments: Classification and measurement. IFRS9 as issued reflects the first phase of the IASB's work on the replacement of the IAS39 and applies to classification and measurement of financial assets as defined in IAS39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The completion of this project is expected in the first half of 2012. The Directors will quantify the effect on the Group in conjunction with the other phases, when issued, to present a comprehensive picture.
- IFRS 13 Fair value measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact this standard will have on the financial position and performance, which becomes effective beginning on or after 1 January 2013.

3. Rental and related income

Turnover comprises rental income and finance lease income receivable on property investments in the UK, which is exclusive of VAT. Turnover is derived from one reportable operating segment. Details of the lease income is 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 £000s	1-5 years £000s	More than 5 years £000s	Total £000s
2011	**32,146**	**127,953**	**366,156**	**526,255**
2010	29,223	120,243	363,447	512,913

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

b) There were no contingent rents recognised as income in the year.

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

	2011 £000	2010 £000
Administration expenses: recurring		
Management fees (note 4a)	**3,886**	3,364
Performance Incentive Fee (note 4b)	**-**	-
Directors' fees (note 4c)	**188**	153
Property management fees and other services payable to Nexus	**71**	158
Auditors' remuneration for:		
• audit of the Financial Statements	**139**	124
• audit of accounts of subsidiaries	**24**	37
• taxation services - compliance	**82**	48
- advisory	**50**	27
Other professional fees	**360**	369
Other expenses	**323**	366
Total	**5,123**	4,646

a) Management fees

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

	2011 £000	2010 £000
Nexus	**2,295**	1,844
JOHCML	**1,591**	1,520
	3,886	3,364

Further details on the Management Agreement can be found in the Directors' Report on page 26.

As at 31 December 2011, £137,000 of management fees payable to JOHCML were outstanding (2010: £140,600) and £206,000 was payable to Nexus (2010: £171,000).

b) Performance Incentive Fee ("PIF")

Information about the Performance Incentive Fee ("PIF") is provided in the Directors' Report on page 26.

c) Remuneration of Directors

Information about the remuneration of Individual Directors is provided in the Directors' Remuneration Report on page 33.

5. Finance income

	2011 £000	2010 £000
Interest income on financial assets		
Bank interest	**70**	3
Development loan interest	**249**	134
Other interest	**95**	8
Dividend income received	**-**	15
	414	160

6. Finance costs

	2011 £000	2010 £000
Interest expense and similar charges on financial liabilities		
(i) Interest paid		
Swap interest paid	**8,768**	8,518
Bank loan interest paid	**5,792**	3,812
Other interest paid	**-**	15
Notional UK-REIT interest	**5**	36
Bank facility non utilisation fees	**288**	105
Bank charges and loan commitment fees	**978**	396
	15,831	12,882
(ii) Derivatives		
Net fair value loss on interest rate swaps	**7,891**	4,714
Amortisation of cash flow hedging reserve	**56**	-
	7,947	4,714

The fair value loss of £7.9 million (2010: £4.7 million) on derivatives recognised in the Group Statement of Comprehensive Income for the year has arisen from the interest rate swaps for which hedge accounting does not apply. Details of the fair value loss on hedges which meet the effectiveness criteria under IAS 39 are set out in note 25.

During the year, three effective interest rate swaps were terminated early and fully repaid (see note 19 for details). Following the cancellation, the corresponding balances included within the cash flow hedging reserve are being recycled to the income statement, on a straight line basis, up to the respective former swap expiry date.

Net finance costs may be summarised as follows.

	2011 £000	2010 £000
Finance income (note 5)	**(414)**	(160)
Finance costs	**15,831**	12,882
Net finance costs	**15,417**	12,722

7. Taxation

a) Tax expense in the Group Statement of Comprehensive Income

The tax expense is made up as follows:

	2011 £000	2010 £000
Current tax		
UK corporation tax[1] (note 7b)	**(5)**	(36)
Charge on conversion to UK-REIT status	**-**	1,586
Total tax (credit)/charge in Group Statement of Comprehensive Income	**(5)**	1,550

(1) The tax credit relates to the release of tax provisions from prior years and variances in the amount of corporation tax paid in acquired companies against the agreed provision at acquisition.

A reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011. A further reduction from 26% to 25% was substantively enacted in July 2011 and will be effective from 1 April 2012. Accordingly, these rates have been applied in the measurement of the Group's tax liability at 31 December 2011.

In addition, the Government announced its intention to further reduce the UK corporation tax rate to 24% from 1 April 2013 and to 23% from 1 April 2014.

b) Factors affecting the tax (credit)/charge for the year

The tax assessed for the year is lower than (2010: lower) the standard rate of corporation tax in the UK. The differences are explained below:

	2011 £000	2010 £000
Profit on ordinary activities before taxation	**12,649**	27,225
Theoretical tax at UK corporation tax rate of 26.5% (2010: 28%)	**3,352**	7,623
REIT exempt income	**(2,651)**	(2,658)
Non taxable items	**(697)**	(5,059)
Indexation allowance on capital gains	**(7)**	-
Finance lease adjustment	**4**	4
Other differences	**(7)**	-
Losses carried forward	**6**	90
Movement in tax provision relating to prior years	**(5)**	(36)
Current tax credit (note 7a)	**(5)**	(36)

(1) Conversion to a UK REIT means that the Group is no longer subject to UK corporation tax. The UK REIT charge of £1.6 million arose on the conversion of the companies acquired during the year ended 31 December 2010 to UK REIT status, based on the values of the individual properties held within those companies.

8. Earnings per share

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

Adjusted earnings per share		Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per Share (pence)
2011				
Basic earnings per share		**12,654**	**66,696,096**	**18.97p**
Adjustments to remove:				
Net property valuation gains (Note 10)	**(10,584)**			
Fair value loss on derivatives[2]	**7,947**			
Profit on sale of AFS investment	**(312)**			
UK corporation tax credit	**(5)**			
Adjusted basic and diluted earnings per share		**9,700**	**66,696,096**	**14.54p**
2010				
Basic earnings per share		25,675	62,162,797	41.30p
Adjustments to remove:				
Net property valuation gains (Note 10)	(22,790)			
Fair value loss on derivatives[2]	4,714			
Charge on conversion to UK-REIT status	1,586			
UK corporation tax credit	(36)			
Adjusted basic and diluted earnings per share		9,149	62,162,797	14.72p

(1) Weighted average number of Ordinary Shares in issue during the year.
(2) In view of the continuing volatility in the mark-to-model adjustment in respect of the period end valuation of derivatives that flows through the Group Statement of Comprehensive Income, the Directors believe that it is appropriate to remove the gain or loss in the calculation of adjusted earnings.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2011 £000	2010 £000
Second interim dividend for the year ended 31 December 2010 (9.00p) paid 31 March 2011 (2010: 8.75p)	**5,363**	5,061
Scrip dividend in lieu of second interim cash dividend	**289**	711
First interim dividend for the year ended 31 December 2011 (9.00p) paid 28 October 2011 (2010: 8.75p)	**5,836**	4,764
Scrip dividend in lieu of first interim cash dividend	**300**	316
Total dividends	**11,788**	10,852
Per share	**18.0p**	17.5p

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"). 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 fully let. The valuations reflected a 5.7% initial yield (2010: 5.8%) and a 6.1% (2010: 6.0%) true equivalent yield as detailed on page 6. 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 addition to the market value exercise performed by LSH, the Joint Managers monitor the value of the Group's investment portfolio based on DCF analysis and with alternative discount rates. Full details can be found in the Managing Directors' Review, on page 6.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the valuers have used the special assumptions that, as at the valuation date, the developments, have been completed satisfactorily, the agreements of leases have been completed and the rents and other tenants lease obligations have commenced. A fair value increase of £401,000 (2010: increase of £571,000) 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 £10.6m.

In line with Accounting Policies (page 43), the Group has treated the acquisitions during the year as asset purchases rather than business combinations as they were judged to be acquisitions of properties rather than businesses.

	Investment properties freehold	Investment properties long leasehold	Investment properties under construction	Total
As at 1 January 2011	383,223	78,860	7,207	469,290
Property additions	786	2	28,088	28,876
Acquired investment property	12,580	4,256	-	16,836
Transfer from properties in the course of development	27,077	4,244	(31,321)	-
Revaluations for the year	9,579	604	401	10,584
As at 31 December 2011	**433,245**	**87,966**	**4,375**	**525,586**
As at 1 January 2010	280,739	57,655	3,496	341,890
Additions	517	262	20,442	21,221
Acquired investment property	3,641	-	-	3,641
Anchor Meadow Limited	5,498	-	-	5,498
Sinclair Montrose Properties Limited	22,073	1,792	-	23,865
Abstract Integrated Healthcare Limited	1,770	3,086	-	4,856
Charter Medinvest Limited	6,787	-	-	6,787
Health Investment Limited	22,924	15,818	-	38,742
Transfer from properties in the course of development	14,313	2,989	(17,302)	-
Revaluation for the year	24,961	(2,742)	571	22,790
As at 31 December 2010	383,223	78,860	7,207	469,290

11. Investments

The principal subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and shares held
Primary Health Investment Properties Limited (PHIP) [1]	Property investment	100%
Primary Health Investment Properties (No. 2) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 3) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 4) Limited 2	Property investment	100%
Health Investments Limited (HIL)[1]	Property investment	100%
PHP Healthcare (Holdings) Limited [1]	Property investment	100%
PHP Healthcare Investments (Holdings) Limited [2]	Property investment	100%
PHP Investments No1 Limited [2]	Property investment	100%
PHP Investments No2 Limited [2]	Property investment	100%
PHP Investments (2011) Limited [1]	Property investment	100%
PHP AssetCo (2011) Limited [2]	Property investment	100%
PHP Healthcare Investments Limited [2]	Property investment	100%

(1) Subsidiaries directly held by the Company. (2) Subsidiaries held indirectly by the Company.

Notes to the Financial Statements (continued)

12. Net investment in finance leases

	2011 £000	2010 £000
Amounts due in more than five years	**3,026**	2,963
Amounts due between one and five years	**43**	73
	3,069	3,036
Amounts due in less than one year	**30**	48
	3,099	3,084

There were no additions to finance leases during the year ended 31 December 2011 or the year ended 31 December 2010.

	2011 £000	2010 £000
Gross investment in finance leases	**9,104**	9,431
Less: unearned financial revenues	**(6,005)**	(6,347)
Present value of future minimum lease payment receivables	**3,099**	3,084

13. Current asset investment

	2011 £000	2010 £000
As 1 January	**555**	-
Additions at cost	**-**	476
Disposals in the year	**(555)**	-
Unrealised gain recognised directly in equity	**-**	79
	-	555

The current asset investment of 1,970,500 ordinary shares in AH Medical Properties PLC ("AHMP"), an AFS asset, was disposed of on 19 January 2011 for £788,000, resulting in a realised gain of £312,000. Upon derecognition an unrealised gain of £73,000 was recycled to Other Comprehensive Income.

14. Trade and other receivables

	2011 £000	2010 £000
Trade receivables	**793**	775
Other debtors	**687**	602
Prepayments and accrued income	**1,153**	1,205
	2,633	2,582

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

	2011 £000	2010 £000
Past due but not impaired:		
<30 days	**533**	723
30-60 days	**72**	-
60-90 days	**13**	-
90-120 days	**12**	-
>120 days	**163**	52
Total	**793**	775

15. Cash and cash equivalents

	2011 £000	2010 £000
Cash held at bank	**77**	370

There is a £10 million overdraft facility in place, unutilised as at 31 December 2011 and 2010.

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 one month dependent upon available cash and the forthcoming cash requirements of the Group. These deposits earn interest at various short term deposit rates.

16. Tax payable

	2011 £000	2010 £000
Corporation tax payable	**-**	48
UK-REIT conversion charge payable - within twelve months	**-**	1,998
	-	1,998

There were no corporate acquisitions during the year. In the prior year, an additional charge of £1.6 million was recognised on conversion of newly acquired companies to UK REIT status. Following payments of £2.0 million during the year, the UK REIT conversion charge liability has been fully settled.

17. Trade and other payables

	2011 £000	2010 £000
Trade payables	**1,286**	1,288
Bank loan interest accrual	**1,555**	937
Other payables	**2,494**	1,680
VAT	**154**	619
Accruals	**342**	313
	5,831	4,837

Trade payables included amounts of £731,000, £141,000 and £20,000 for works on the developments at Pelton, Ramsgate and Luton respectively. In 2010, trade payables included an amount for £940,000 for development works at Oswestry.

18. Term loans

The table indicates amounts drawn and undrawn from each individual facility:

	Facility		Amounts drawn		Undrawn	
	2011 £000	2010 Restated* £000	2011 £000	2010 Restated* £000	2011 £000	2010 £000
Current						
364 day revolving[1]	**10,000**	10,000	**-**	-	**10,000**	10,000
Term to May 2011[4]	**-**	3,350	**-**	3,000	**-**	350
Fixed term loan[5]	**592**	557	**592**	557	**-**	-
Non-current						
Term to January 2013[1]	**110,000**	140,000	**91,500**	134,300	**18,500**	5,700
Term to January 2013[2]	**30,000**	50,000	**30,000**	37,900	**-**	12,100
Term to January 2013[3]	**65,000**	65,000	**65,000**	65,000	**-**	-
Fixed term loan[5]	**26,710**	27,583	**26,710**	27,583	**-**	-
Term to December 2020[6]	**25,000**	25,000	**-**	-	**25,000**	25,000
Term to July 2014[7]	**50,000**	-	**14,203**	-	**35,797**	-
Term to November 2018[8]	**75,000**	-	**75,000**	-	**-**	-
	392,302	321,490	**303,005**	268,340	**89,297**	53,150

* Principal repayments on Aviva fixed term loan of £0.6 million restated to current liabilities from non-current liabilities. This restatement has no effect on net assets.

Providers:

(1) The Royal Bank of Scotland plc ("RBS").
(2) Allied Irish Banks, plc ("AIB").
(3) Abbey National Treasury Services plc (branded Santander from January 2010).
(4) Natwest Bank plc (acquired as part of Abstract acquisition).
(5) Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032.
(6) Aviva GPFC facility.
(7) Clydesdale Bank facility (new facility in 2011).
(8) Aviva facility (new facility in 2011).

At 31 December 2011, total facilities of £392.3 million including the £10 million revolving facility (2010: £321.5 million) were available. Of these facilities, as at 31 December 2011, £303.0 million was drawn (2010: £268.3 million) and secured by an unlimited guarantee from each respective subsidiary and a first fixed charge over the ownership of the assigned properties. Interest is payable on the loans at a fixed percentage rate above LIBOR and interest payable has fluctuated in the period between 1.4% and 1.7% (2010: 1.4% and 1.5%), including lenders' margins and costs (excluding margins and costs 0.7% and 1.0% (2010: 0.6% and 0.8%)). However, the Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in note 19.

Clydesdale debt facility - On 29 July 2011, the Group entered into a new £50 million, three year interest only revolving debt facility with Clydesdale PLC. Interest is paid at a floating rate of Libor plus margin, the margin varies between 1.8%-2.0% depending on the loan to value ratio held.

Aviva debt facility - On 28 November 2011, the Group entered into a new £75 million, seven year, interest only facility with Aviva, this was immediately fully drawn. The all-inclusive interest rate is 4%, fixed for the term of the loan.

The proceeds of the Aviva loan have been used to repay and cancel £30 million of the current RBS revolving facility and £20 million of the AIB revolving facility. This leaves the total remaining facility available from these lenders at £110 million and £30 million respectively. The balance of £25 million (from the Aviva facility) increased resources available to the Group.

The bank loan with Natwest Bank plc of £3 million was fully repaid on 31 May 2011.

Since the term loan facilities have been in existence, the Group has suffered costs in association with the arrangement of the facilities including legal advice and loan arrangement fees. These costs 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:

	2011 £000	2010 Restated* £000
Term loans drawn: due within one year	**592**	3,557
Term loans drawn: due in greater than one year	**302,413**	264,783
Less: Unamortised borrowing costs	**(1,666)**	(895)
Total terms loan: due in greater that one year	**300,747**	263,888
Term loans in total per Group Balance Sheet	**301,339**	267,445

The Group has been in compliance with all financial covenants on all of the above facilities as applicable through the year. Further details are shown in note 20.

19. Derivatives and other financial instruments

The Group uses interest rate swaps to mitigate exposure to interest-rate risk. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date.

	2011 £000	2010 £000
Fair value of interest rate swaps treated as cash flow hedges under IAS39 ("effective swaps")		
Non current assets	-	413
Non current liabilities	**(25,639)**	(14,419)
	(25,639)	(14,006)
Fair value of interest rate swaps not qualifying as cash flow hedges ("ineffective swaps")		
Non current assets	**24**	-
Current liabilities	**(23,866)**	(16,859)
	(23,842)	(16,859)
Total fair value of interest rate swaps	**(49,481)**	(30,865)

It is Group policy to maintain the proportion of floating rate interest exposure at between 20%-40% of total interest rate cost.

Changes in the fair value of the contracts that do not meet the strict IFRS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IFRS 39 criteria and are designated as 'effective' cash flow hedges, the change in the fair value of the contract is recognised in the 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 2011 was a £7.9 million loss (2010: £4.7 million loss).

Floating to fixed rate interest rate swaps with a contract value of £173 million (2010: £208 million) were in effect at the year-end. Details of all floating to fixed rate interest rate swaps contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2011			
£50.0 million callable[1]	August 2007	August 2021[2]	4.835
£38.0 million callable[1]	August 2007	August 2021[2]	4.740
£65.0 million	July 2010	July 2012	4.805
£10.0 million	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£173 million			
2010			
£50.0 million callable[1]	August 2007	August 2021[2]	4.835
£38.0 million callable[1]	August 2007	August 2021[2]	4.740
£65.0 million	July 2010	July 2012	4.805
£10.0 million	August 2005	August 2015	4.530
£10.0 million	March 2008	March 2013	4.8925
£10.0 million	March 2008	March 2013	4.895
£10.0 million	June 2006	June 2026	4.810
£15.0 million	Sept 2010	Sept 2013	4.915
£208 million			

Contract value	Start date	Maturity	Fixed interest per annum %
Contracts not yet in effect			
£73.3million	July 2012	April 2013	4.805
£63.3million	April 2013	July 2013	4.805
£70.0million	July 2013	July 2015	4.805
£80.0million	July 2015	July 2016	4.805
£10.0million	June 2016	June 2026	4.510
£10.0million	July 2016	July 2026	4.400
£10.0million	July 2016	July 2026	4.475
£10.0million	July 2016	July 2026	4.455
£20.0million	July 2016	July 2026	4.47875
£20.0million	July 2017	July 2027	4.76

(1) Callable swaps can be exercised at the bank's option on a set date each quarter at zero cost to the Group. As the terms do not precisely reflect those of the underlying debt facility, hedge accounting cannot be applied
(2) The final maturity date of the callable swaps is 11 August 2021. However, they may be called at the bank's discretion each quarter. The callable swaps were not called on 11 February 2012. The next date on which they may be called is 11 May 2012.

During the year the Group decided to close out interest rate swaps with a nominal amount of £35 million, held with RBS, Santander and AIB, and a floor with a nominal amount of £15 million, held with Santander. These derivatives were opted for closure as the Group's debt facilities that were due to expire in 2013 were under negotiation at year end and terms agreed subsequent to the year end. These swaps and floor had equivalent maturity dates in 2013. The premium payable to close these swaps totalled £2.9 million.

During the year, the Group entered into two interest rate cap transactions with Clydesdale Bank PLC, following the agreement of the three year, interest only, £50 million facility with the bank. The fair value movement has been posted to the Group Statement of Comprehensive Income, as they are not designated for hedge accounting.

The details of the two new interest rate caps are as follows:

Contract value	Start date	Maturity date	Premium paid[1]	Floating rate cap per % annum[2]
£10.0 million	Oct 2011	Oct 2014	£31,000	3.00%
£10.0 million	Jan 2012	Jul 2014	£26,000	3.00%

(1) One-off fixed amount paid by PHP Group
(2) Payable by Clydesdale Bank PLC

20. Financial risk management

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

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

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Managing Directors' Review on pages 4 to 19. 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 19 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.

		Effect on fair value of financial instruments £000	Effect on profit before taxation £000	Effect on equity £000
2011				
London InterBank Offered Rate	Increase of 50 basis points	9,552	3,530	13,082
London InterBank Offered Rate	Decrease of 50 basis points	(9,552)	(3,530)	(13,082)
2010				
London InterBank Offered Rate	Increase of 50 basis points	8,797	2,851	11,648
London InterBank Offered Rate	Decrease of 50 basis points	(8,797)	(2,851)	(11,648)

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, and finance lease 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 is made 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. An analysis of trade receivables past due is shown in note 14. No trade receivables were impaired at the year end.

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.

Finance lease receivables

Finance lease receivables are not considered a significant credit risk as the tenants are of good financial standing.

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 joint managers.

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
2011						
Interest-bearing loans and borrowings	-	2,223	6,671	223,826	111,675	344,395
Interest rate swaps (net)	-	1,638	4,916	24,515	44,201	75,270
Trade and other payables	60	4,419	10	822	520	5,831
	60	**8,280**	**11,597**	**249,163**	**156,396**	**425,496**
2010						
Interest-bearing loans and borrowings	-	1,459	7,351	249,388	32,813	291,011
UK-REIT Conversion charges	-	936	1,062	-	-	1,998
Interest rate swaps (net)	-	2,422	7,264	38,744	31,592	80,022
Trade and other payables	219	4,191	29	53	345	4,837
	219	9,008	15,706	288,185	64,750	377,868

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given in the Borrowings section of the Managing Director's Review on page 12 and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2010: nil).

d) Market risk

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

Interest rate risk is outlined in detail above. The Joint Managers assess the exposure to other price risks when making each investment decision and monitor 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 on page 13 of the Managing Director's Review.

Fair values

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

	Book value 2011 £000	Fair value 2011 £000	Book value 2010 £000	Fair value 2010 £000
Financial assets				
AFS financial assets	**-**	**-**	555	555
Finance leases - due within one year	**30**	**310**	48	310
Finance leases - due in more than one year	**3,068**	**4,493**	3,036	4,803
Trade and other receivables	**793**	**793**	775	775
Cash and short-term deposits	**77**	**77**	370	370
Financial liabilities				
Interest-bearing loans and borrowings	**(301,339)**	**(303,005)**	(267,445)	(268,340)
Effective interest rate swaps (net)	**(25,615)**	**(25,615)**	(14,006)	(14,006)
Ineffective interest rate swaps	**(23,866)**	**(23,866)**	(16,859)	(16,859)
Trade and other payables	**(5,677)**	**(5,677)**	(4,218)	(4,218)

The fair value of the financial assets and liabilities are 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 and finance leases is estimated by discounting future cash flows using rates currently available for instruments with similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs.
- The fair values of the derivative interest rate swap contracts are estimated by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument.

Fair value hierarchy

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

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

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

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
2011 derivative interest rate swaps	**-**	**24**	**-**	**24**
2010 derivative interest rate swaps	-	413	-	413
2011 current asset investments	**-**	**-**	**-**	**-**
2010 current asset investments	555	-	-	555
Liabilities				
2011 derivative interest rate swaps	**-**	**(49,505)**	**-**	**(49,505)**
2010 derivative interest rate swaps	-	(31,278)	-	(31,278)

e) Capital risk management

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

The capital structure of the Group consists of shareholder's equity and net borrowings. The type and maturity of the Group's borrowings are analysed further in note 18 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 Joint Managers, 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:

- Total bank borrowings are not to exceed 70% of gross assets (reducing to 65% on completion of the loan refinance).
- Rental income must exceed borrowing costs by the ratio 1.3: 1 (increasing to 1.4:1 on completion of the loan refinance).
- UK-REIT compliance tests. These include loan to property and gearing tests. The Group must satisfy these tests in order to continue trading as a UK-REIT. This is also an internal requirement imposed by the Articles of Association.

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

	2011 £000	2010 £000
Fair value of completed investment properties	**521,212**	462,083
Net investment in finance leases	**3,069**	3,036
	524,281	465,119
Carrying value of interest-bearing loans and borrowings	**301,339**	267,445
Unamortised borrowing costs	**1,666**	895
Less cash held	**(77)**	(370)
Principal amount of interest-bearing loans and borrowings	**302,928**	267,970
Loan to value ratio	**57.8%**	57.6%

21. Called up share capital

	2011 Number	2011 £000	2010 Number	2010 £000
Authorised:				
Ordinary Shares of 50p each	**100,000,000**	**50,000**	100,000,000	50,000
Issued and fully paid at 50p each	**68,272,229**	**34,136**	62,802,333	31,401
At beginning of year	**62,802,333**	**31,401**	61,457,298	30,729
Scrip issues in lieu of second interim cash dividends	**89,617**	**45**	231,159	116
Scrip issues in lieu of first interim cash dividends	**96,238**	**48**	108,723	54
Proceeds from capital raisings	**5,284,041**	**2,642**	-	-
Shares issued in consideration for Health Investments Limited (22 June 2010)	-	-	1,005,153	502
At end of year	**68,272,229**	**34,136**	62,802,333	31,401

There has been one capital raising during the year (2010: Nil).

To finance future acquisitions, on 12 April 2011, the Group completed a small share placing at a price of 305 pence per share that represented a discount of 2.5% to 2010 year end and EPRA NAV and 5.3% to the closing share price on the day prior to the issue. 5,284,041 shares were issued generating net cash proceeds of £15.7 million. The cash will be used to finance future acquisitions.

On 22 June 2010, the Company issued 1,005,153 new Ordinary Shares of 50p each at a price of 290p per share as part of the consideration for the acquisition of Health Investments Limited and its subsidiary Motorstep Limited.

22. Share premium

	2011 £000	2010 £000
Balance at beginning of year	**53,934**	50,664
Issue expenses	-	-
Shares issued in consideration of Health Investments Limited	-	2,413
Scrip issues in lieu of interim cash dividends	**496**	857
Balance at end of year	**54,430**	53,934

Company law restricts the applicability of the Share Premium account and in respect of the Company it may only be applied in paying unissued shares of the Company in respect of capitalisation issues and in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company.

23. Capital reserve

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

	2011 £000	2010 £000
Balance at end of year	1,618	1,618

24. Special reserve

The special reserve arose on the Firm Placing and Placing and Open Offer on 7 October 2009 and the Firm Placing on 12 April 2011 and represents the share premium on the issue of the shares net of expenses.

	2011 £000	2010 £000
Balance at start of year	**44,442**	44,442
Placing: 12 April 2011	**13,474**	-
Associated costs	**(511)**	-
Balance at end of year	**57,405**	44,442

25. Cash flow hedging reserve

Information on the Group's hedging policy and interest rate swaps is provided in note 19 on page 50.

The transfer to Group Statement of Comprehensive Income and fair value movement on cash flow hedges taken to equity can be analysed as follows:

	2011 £000	2010 £000
Balance at beginning of year	**(13,279)**	(7,266)
Fair value movement on cash flow hedges	**(18,389)**	(10,689)
Amortisation of cash flow hedge reserve	**56**	-
Reclassification adjustment for interest included in the Statement of Comprehensive Income[1]	**4,720**	4,676
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	**(13,613)**	(6,013)
Balance at end of year	**(26,892)**	(13,279)

(1) Included with finance costs in Group Statement of Comprehensive Income

The net movement on cash flow hedges is made up of the movement in the valuation of the effective swaps - loss £13,605,000 (2010: loss: £6,070,000), plus net accrued interest of £64,000 (2010: £57,000), less amortisation of cash flow hedge reserve £56,000 (2010: £nil).

26. Retained earnings

	2011 £000	2010 £000
Balance at beginning of year	**46,630**	31,728
Retained profit for the year	**12,654**	25,675
(Recycling of previously unrealised gain)/ unrealised gain on current asset investment	**(73)**	79
Second interim dividend for the year ended 31 December 2010 (2010: 31 December 2009)	**(5,363)**	(5,061)
Scrip issue in lieu of second interim cash dividend	**(289)**	(711)
First interim dividend for the year ended 31 December 2011 (2010: 31 December 2010)	**(5,836)**	(4,764)
Scrip issue in lieu of interim cash dividends	**(300)**	(316)
Balance at end of year	**47,423**	46,630

27. Net asset value per share

Net asset values have been calculated as follows:

	2011 £000	2010 £000
Net assets per Group Balance Sheet	**168,120**	164,746
Derivative interest rate swaps (net liability)	**49,481**	30,865
EPRA NAV	**217,601**	195,611
	No. of shares	No. of shares
Ordinary Shares: Issued share capital	**68,272,229**	62,802,333
Basic net asset value per Share	**246.25p**	262.32p
EPRA NAV per Share	**318.73p**	311.47p

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.

28. Total return per share

The total return per share in a period is calculated as the increase or decrease in net asset value per share (as indicated in note 27) plus the dividends per share paid.

	2011	2010
(Decrease)/increase in Net Asset Value per Share	**(16.1)p**	15.1p
Plus dividends paid per Share	**18.0p**	17.5p
	1.9p	32.6p

29. Capital commitments

Primary Health Investment Properties Limited, a wholly owned subsidiary of the Company, has entered into separate development agreements with third parties for the purchase of primary health developments; these agreements are conditional on the completion of certain building development work at a consideration of £7.4 million plus VAT (2010: £31.2 million plus VAT).

On 19 December 2011, the Group entered into a conditional contract to purchase a standing let investment in Edinburgh. The conditionality surrounds the correction of the boundary of the site of the asset, requiring the vendor to have these changes registered to enable purchase completion. All necessary documents have been executed and submitted to the Land Registers of Scotland. Confirmation of registration is awaited but is expected to be received by the end of February 2012. Should registration not be completed by 30 April 2012, the Group may terminate the contract. The purchase consideration is £3.6 million.

30. Related party transactions

The terms and conditions of the Management Agreement are described in the Directors' Report on page 26 and the Directors' Remuneration Report on page 33. Details of the amounts paid in relation to related party transactions are provided in note 4 on page 44.

31. Subsequent events

Since the Balance Sheet date, the Group has received fully credit approved offers from Royal Bank of Scotland PLC and Santander Bank to refinance a total of £175 million of debt facilities that would otherwise mature in January 2013. The covenants within the revised facility terms reduced the maximum allowable Loan to Value ratio to 65% from 70% and increase the minimum required Interest Cover ratio from 1.3 times to 1.4 times. The facility extension is currently being documented and is expected to be completed in March 2012. The term of the extended facility will be four years, ending March 2016. Arrangement fees of £1.3 million will be payable upon completion of the facility which will be expensed during the extended term. Following the completion of the loan refinance the Group's average margin across its debt portfolio will be 220-230 basis points.

Company Financial Statements Independent Auditor's Report

Independent Auditor's Report to the Members of Primary Health Properties PLC

We have audited the Parent Company financial statements of Primary Health Properties PLC for the year ended 31 December 2011 which comprise the Company Balance Sheet, the Company Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on pages 28, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

- We have reported separately on the Group financial statements of Primary Health Properties PLC for the year ended 31 December 2011.

David Wilkinson
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP
Statutory Auditor
London
20 February 2012

Company Balance Sheet

as at 31 December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Investment in subsidiaries	5	106,538	135,568
		106,538	135,568
Current assets			
Current asset investment	6	-	555
Debtors	7	3,541	3,541
Cash at bank	8	-	45
		3,541	4,141
Debtors due in more than one year			
Intercompany debtors		42,826	-
Total assets		152,905	139,709
Creditors: amounts falling due within one year			
Bank overdrafts	8	(2)	-
Other creditors and accruals	9	(16)	(4)
Current liabilities		(18)	(4)
Net current assets		3,523	4,137
Creditors: amounts falling due after more than one year			
Intercompany creditors		(5,275)	-
Net assets		147,612	139,705
Capital and reserves			
Share capital	10	34,136	31,401
Share premium	11	54,430	53,934
Capital reserve		1,618	1,618
Special reserve	12	57,405	44,442
Retained earnings		23	8,310
Equity Shareholders' funds		147,612	139,705
Net asset value per share			
• basic	13	216.21p	222.45p

These financial statements were approved by the Board of Directors on 20 February 2012 and signed on its behalf by:

Graeme Elliot
Chairman

Company Reconciliation of Movements in Shareholders’ Funds

for the year ended 31 December 2011

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve2 £000	Retained earnings £000	Total £000
1 January 2011	**31,401**	**53,934**	**1,618**	**44,442**	**8,310**	**139,705**
Profit for the year	-	-	-	-	3,580	3,580
Recycling of previously unrealised gain on current asset investment					(79)	(79)
Proceeds from capital raisings	2,642	-	-	13,474	-	16,116
Expenses of capital raisings	-	-	-	(511)	-	(511)
Dividends paid:						
Second interim dividend for the year ended 31 December 2010 (9.00p)	-	-	-	-	(5,363)	(5,363)
Scrip dividends in lieu of interim cash dividends	45	244	-	-	(289)	-
First interim dividend for the year ended 31 December 2011 (9.00p)	-	-	-	-	(5,836)	(5,836)
Scrip dividend in lieu of final cash dividend	48	252	-	-	(300)	-
31 December 2011	**34,136**	**54,430**	**1,618**	**57,405**	**23**	**147,612**
1 January 2010	**30,729**	**50,664**	**1,618**	**44,442**	**15,719**	**143,172**
Profit for the year	-	-	-	-	3,364	3,364
Unrealised gains at fair value through equity	-	-	-	-	79	79
Share consideration for the HIL acquisition	502	2,413	-	-	-	2,915
Scrip issue in lieu of first interim dividend	54	262	-	-	(316)	-
Scrip issue in lieu of second interim dividend	116	595	-	-	(711)	-
Dividends paid:						
First interim dividend for the year ended 31 December 2010 (8.75p)	-	-	-	-	(4,764)	(4,764)
Second interim dividend for the period ended 31 December 2009 (8.75p)	-	-	-	-	(5,061)	(5,061)
31 December 2010	**31,401**	**53,934**	**1,618**	**44,442**	**8,310**	**139,705**

(1) Attributable to the equity holders of Primary Health Properties PLC.
(2) The Special reserve is a distributable reserve.

Notes to the Company Financial Statements

1. Accounting policies

Basis of preparation/statement of compliance

These financial statements have been presented as required by the Companies Act 2006 and have been prepared under the historical cost convention and have been prepared in accordance with applicable Accounting Standards and policies in the United Kingdom ("UK GAAP").

The Company has taken advantage of the Companies Act 2006 exemption from presenting a Company Profit and Loss Account together with related profit and loss notes. The Company has also taken advantage of the exemption from preparing a cash flow statement, under the terms of FRS 1 (Revised 1996) 'Cash Flow Statements'.

The profit attributable to the Parent Company for the financial year amounted to £3.6 million (2010: £3.4 million).

Convention

The financial statements are presented in Sterling rounded to the nearest thousand.

Conversion to UK-REIT

The Group, of which the Company is parent, converted to a UK-REIT effective 1 January 2007 and consequently, the Company's profit is exempt from tax under UK-REIT regulations.

Income

Revenue is recognised in the financial statements as follows.

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.

Dividends

Dividend income is recognised in the period in which it received Board approval and hence, when the Company's right to receive payment is established.

Investment in subsidiaries

The carrying value of investments in subsidiaries is reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Current asset investment

The current asset investment sold in the year was held as an Available For Sale ("AFS") asset with the realised gain recognised in the profit for the year. The Company has taken advantage of the exemption from presenting financial instrument disclosures under the terms of FRS29 Financial Instrument Disclosures.

2. Segmental reporting

The Company operates under one business segment and one geographical segment being the holding Company of subsidiaries that invest in primary health care property within the United Kingdom.

3. Taxation

	2011 £000	2010 £000
UK Corporation tax	-	1

4. Dividends

Amounts recognised as distributions to equity holders in the year:

	2011 £000	2010 £000
Second interim dividend for the year ended 31 December 2010 (9.00p) paid 31 March 2011 (2010: 8.75p)	**5,363**	5,061
Scrip dividend in lieu of second interim cash dividend	**289**	711
First interim dividend for the year ended 31 December 2011 (9.00p) paid 28 October 2011 (2010: 8.75p)	**5,836**	4,764
Scrip dividend in lieu of first interim cash dividend	**300**	316
	11,788	10,852
Per share	**18.0p**	17.5p

Notes to the Company Financial Statements (continued)

5. Investments

Investment in subsidiaries

	Shares £000	Loans £000	Total £000
At 1 January 2011	70,062	65,506	135,568
Reduction in loans to subsidiary during the year	-	(29,030)	(29,030)
At 31 December 2011	70,062	36,476	106,538
At 1 January 2010	90,110	49,530	139,640
Acquisition of Health Investments Limited	10,188	-	10,188
Dividend received from Cathedral Portfolio	(30,236)	30,236	-
Reduction in loans to subsidiary during the year	-	(14,260)	(14,260)
At 31 December 2010	70,062	65,506	135,568

The principal subsidiaries of the Company are stated below:

Subsidiary	Principal activity	Proportion of voting rights and ordinary shares held
Primary Health Investment Properties Limited (PHP) [1]	Property investment	100%
Primary Health Investment Properties (No. 2) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 3) Limited [1]	Property investment	100%
Primary Health Investment Properties (No. 4) Limited [1]	Property investment	100%
Health Investments Limited [1]	Property investment	100%
PHP Healthcare (Holdings) Limited [1]	Property investment	100%
PHP Healthcare Investments (Holdings) Limited [2]	Property investment	100%
PHP Investments No. 1 Limited [2]	Property investment	100%
PHP Investments No. 2 Limited [2]	Property investment	100%
PHP Investments (2011) Limited [1]	Property investment	100%
PHP AssetCo (2011) Limited [2]	Property investment	100%
PHP Healthcare Investments Limited [2]	Property investment	100%

(1) Subsidiaries directly held by the Company. (2) Subsidiaries indirectly held by the Company.

6. Current asset investment

	2011 £000	2010 £000
As at beginning of period	**555**	-
Additions at cost	-	476
Disposals	**(555)**	
Unrealised gain recognised directly in equity	-	79
	-	555

The current asset investment disposed of was held as an Available For Sale ("AFS") asset in accordance with FRS 26. 1,970,500 ordinary shares in AH Medical Properties PLC ("AHMP"), were disposed of on 19 January 2011 for £788,000, resulting in a realised gain of £312,000.

7. Debtors

	2011 £000	2010 £000
Other debtors and prepayments	**1**	1
6% Preference dividend due from subsidiary	**3,540**	3,540
	3,541	3,541

8. Cash at bank

	2011 £000	2010 £000
(Overdraft)/cash held at bank	**(2)**	45

9. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Other creditors and accruals	**(16)**	(4)

10. Called up share capital

	2011 Number	2011 £000	2010 Number	2010 £000
Authorised:				
Ordinary Shares of 50p each	**100,000,000**	**50,000**	100,000,000	50,000
Issued and fully paid at 50p each	**68,272,229**	**34,136**	62,802,333	31,401
At beginning of year	**62,802,332**	**31,401**	61,457,298	30,729
Scrip issue in lieu of second interim cash dividends	**89,617**	**45**	231,159	116
Scrip issue in lieu of first interim cash dividend	**96,239**	**48**	108,723	54
Proceeds from capital raisings	**5,284,041**	**2,642**	-	-
Shares issued in consideration for Health Investments Limited (22 June 2010)	**-**	**-**	1,005,153	502
At end of year	**68,272,229**	**34,136**	62,802,333	31,401

There has been one capital raising exercise during the year (2010: none).

On 12 April 2011, the Group completed a small share placing at a price of 305p per share that represents a discount of 2.5% to 2010 year end EPRA NAV and 5.3% to the closing share price on the day prior to the issue. 5,284,041 shares were issued generating net cash proceeds of £15.7 million. The cash will be used to finance future acquisitions.

On 22 June 2010, the Company issued 1,005,153 new Ordinary Shares of 50p each at a price of 290p per share as part of the consideration for the acquisition of Health Investments Limited and its subsidiary Motorstep Limited.

11. Share premium

	2011 £000	2010 £000
Balance at beginning of year	**53,934**	50,664
Issue expenses	**-**	-
Shares issued in consideration for HIL acquisition	**-**	2,413
Scrip issue in lieu of interim cash dividends	**496**	857
Balance at end of year	**54,430**	53,934

Company law restricts the applicability of the Share Premium account and in respect of the Company it may only be applied in paying unissued shares of the Company in respect of capitalisation issues and in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company.

12. Special reserve

The special reserve arose on the Firm Placing and Placing and Open Offer on 7 October 2009 and the Firm Placing on 12 April 2011 and represents the share premium on the issue of the shares net of expenses.

	2011 £000	2010 £000
Balance at start of year	**44,442**	44,442
Placing: 12 April 2011	**13,474**	-
Associated costs	**(511)**	-
Balance at end of year	**57,405**	44,442

13. Net asset value per ordinary share

	2011 pence	2010 pence
Basic and diluted	**216.21**	222.45

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £147,612,000 (2010: £139,705,000) and on 68,272,229 (2010: 62,802,333) shares, being the number of shares in issue at the year end.

14. Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £11.8 million (2010: £31.2 million).

15. Related party transactions

Details of related party transactions are provided in the Directors' Report on page 26, Directors' Remuneration Report on page 33 and notes 4 to the Group Financial Statements on page 44. There are no employees other than the Directors, listed on pages 22 and 23.

The Company has taken advantage of the exemption available in FRS8 "Related Party Disclosures" not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

16. Subsequent events

Since the Balance Sheet date, the Group has received fully credit approved offers from Royal Bank of Scotland PLC and Santander Bank to refinance a total of £175 million of debt facilities that would otherwise mature in January 2013. The covenants within the revised facility terms reduced the maximum allowable Loan to Value ratio to 65% from 70% and increase the minimum required Interest Cover ratio from 1.3 times to 1.4 times. The facility extension is currently being documented and is expected to be completed in March 2012. The term of the extended facility will be four years, ending March 2016. Arrangement fees of £1.3 million will be payable upon completion of the facility which will be expensed during the extended term. Following the completion of the loan refinance the Group's average margin across its debt portfolio will be 220-230 basis points.

Shareholder Information

Financial calendar 2012

Announcement of 2011 Annual Results	21 February
2011 Annual Report posted	2 March
Second interim cash dividend payment (2011)	5 April
Annual General Meeting	16 April
Interim Management Statement for the quarter ended 31 March 2012	May
Half year end	30 June
Announcement of Half Year Results	August
First interim cash dividend payment (2012)	October
Interim Management Statement for the quarter ended 30 September 2012	November
Financial year end	31 December

Dividends

	2011 2nd Interim	2011 1st Interim	2010 2nd Interim	2010 1st Interim
Rate per share	**9.25p**	**9.00p**	9.00p	8.75p
Ex-dividend date	**7.3.12**	**5.10.11**	2.3.11	22.9.10
Record date	**9.3.12**	**7.10.11**	4.3.11	24.9.10
Payment date	**5.4.12**	**28.10.11**	31.3.11	29.10.10

Investment Account

As described in the Directors' Report, the Company has made arrangements for an Investment Account to be made available to allow investors to purchase the Company's Ordinary Shares. The Investment Account Service is operated by Equiniti Financial Services and is designed to allow lump sum and regular savings to facilitate the purchase of the Company's shares. The URL link accessing the detail and forms for the PHP Share Service can be accessed from the Company website or alternatively at: **www.shareview.co.uk/dealing**.

For details of the service please contact:
Equiniti, PHP Share Service, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
Shareholder helpline: 0845 300 0430

Equiniti Financial Services Limited is authorised and regulated by the Financial Services Authority.

As with all stock market investments, the price of shares can go down as well as up and on sale investors may not get back the full amount they invested.

Share price

The Company's mid market share price is quoted daily in the Financial Times appearing under "Real Estate".

Payment of dividends

If you would like your dividend/interest paid directly into your bank or building society account you should write to Equiniti Registrars including details of your nominated account. Although this will enable your dividend/interest to be paid directly into your account your tax voucher will be sent to your registered address.

Scrip Dividend Scheme

The optional Scrip Dividend Scheme enables Shareholders to receive new Ordinary Shares in PHP instead of cash dividends without incurring dealing costs, stamp duty or stamp duty reserve tax by electing to take a scrip dividend instead of a cash dividend. A circular describing the scrip dividend offer will be posted to Shareholders at the appropriate time.

Taxation status

The REIT Regulations in force require that a REIT is obliged to pay distributions equal to 90% of its exempt rental income (as calculated for tax purposes). Distributions from the Company may comprise PIDs, ordinary cash dividends or a combination of the two. No PIDs have been paid by the Group since 1 January 2007. A PID will be taxed as property letting income for Shareholders who pay tax, but this is separate from any other property letting business they may carry on. PIDs are paid out under deduction of tax at the basic rate (currently 22% withholding tax). The Regulations provide that tax is not deducted if the PID is paid to certain classes of Shareholders, in particular UK Companies, charities, local authorities and UK Pension schemes.

In order to pay a PID without withholding tax, the Company has to be satisfied that the shareholder concerned is entitled to that treatment. For that purpose the Company requires Shareholders to submit a valid form. Shareholders who wish to apply for a Tax Exemption Form should contact the registrars on 0871 384 2030* or apply in writing to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Her Majesty's Revenue and Customs ("HMRC") has produced guidance on Real Estate Investment Trusts paying PIDs to non residents and this can be found at the following web address: **http://www.hmrc.gov.uk/cnr/dt-guide-note-9.htm**.

The above is a general guide only and Shareholders who have any doubt about their tax position should consult their own appropriate independent professional adviser.

General information about the Company

General information about the Company can be found on the PHP web site at www.phpgroup.co.uk. Alternatively you may contact Harry Hyman, Phil Holland or Tim Walker-Arnott on 01483 749020.

Registered No. 3033634

* Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary. Lines are open 8.30am to 5.30pm Monday to Friday.

Share dealing

Investors wishing to purchase more Ordinary Shares or dispose of all or part of their holding may do so through a stockbroker. Many banks also offer this service.

The Company's registrars are Equiniti. In the event of any queries regarding your holding of shares, please contact the registrars on 0871 384 2030*.

Changes of name or address must be notified to the registrars in writing.

Equiniti Shareview dealing services

A quick and easy share dealing service is available to either sell or buy more Primary Health Properties PLC shares. An online and telephone dealing facility is available providing Shareholders with an easy to access and simple to use service.

The table below provides you with details of the associated charges.

There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal online or by telephone all you need is your shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest dividend statement. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service, or to buy and sell shares, please contact:

• Equiniti customer services 0845 300 0430
(8.00am – 6.00pm Monday to Friday)
www.shareview.co.uk/dealing

Equiniti Shareview dealing services associated charges

	Trade value	Percentage of trade value	Minimum charge
Telephone	£0-£50,000	1.50%	£30
	£50,001+	1.50%	on first £50,000
		0.20%	on remainder
Internet		1.25%	£25

Corporate Profile and Advisers

Directors
Graeme Elliot (Chairman)
Alun Jones (Chairman of Audit Committee and Senior Independent Director)
Harry Hyman (Managing Director)
Mark Creedy
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