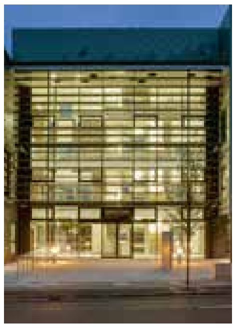
Primary Health Properties

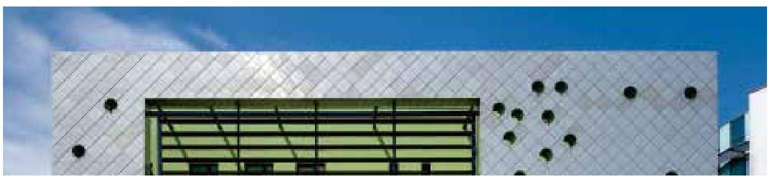
The leading investor in modern healthcare properties

Primary Health Properties PLC
Annual Report 2015





Primary Health Properties is the leading investor in modern healthcare properties.

We generate increased rental income and capital growth through investment in flexible integrated healthcare properties in the UK and Ireland.

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www.phpgroup.co.uk

2015 highlights

Net rental income (£m)

£62.3m (+5.1%)

2015	62.3
2014	59.3
2013	41.6
2012	32.7
2011	30.2

Profit for the year (£m)

£56.0m (+51.9%)

2015	56.0
2014	36.9
2013	20.2
2012	1.1
2011	12.7

EPRA Earnings per share*1 (p)

4.9p (+19.5%)

2015	4.9
2014	4.1
2013	1.9
2012	2.5
2011	3.8

Dividend per share* (p)

5.0p (+2.6%)

2015	5.0
2014	4.9
2013	4.8
2012	4.6
2011	4.5

Investment portfolio (£bn)

£1.1bn (+7.3%)

2015	1.10
2014	1.03
2013	0.96
2012	0.65
2011	0.54

EPRA NAV per share*2 (p)

87.7p (+10.0%)

2015	87.7
2014	79.7
2013	75
2012	76.3
2011	79.8

* Restated to reflect the Company's four for one share sub-division undertaken in November 2015.
[1] See Note 8 to Financial statements.
[2] See Note 25 to Financial statements.

See our key performance indicators on page 14

Primary Health Properties at a glance

Primary Health Properties ("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.

The Group's portfolio comprises over two hundred and seventy primary healthcare facilities, both completed and committed, that provide flexible accommodation to meet the changing demands placed upon primary healthcare services.

PHP endeavours to provide high quality buildings for its tenants and growing returns to its shareholders.

Portfolio value
£1,124m[1]

Occupancy
99.7%

91%
of the Group's rent roll is paid directly or indirectly by the U.K. Government

Properties
273[1]

Registered patients
3.2m[1]

Rent roll
£63.7m[1]

Swindon Health Centre, Swindon

Tenants	Expected completion
NHS Property Services	February 2017
Date committed	**Size**
November 2015	2,473 sqm

White Horse Health Centre, Wiltshire

Date of Purchase	Size
February 2015	2,033 sqm

Tenants
GP Practice, NHS Foundation Trust and Pharmacy

Thornaby Health Centre, North Yorkshire

Date of Purchase	Size
June 2015	2,637 sqm

Tenants
2 GP Practices, Pharmacy, Optician, NHS Property Services and NHS Trust

Our key assets

Read more from page 4

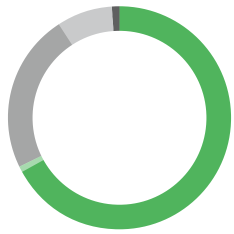
Portfolio distribution by capital value of building[1]

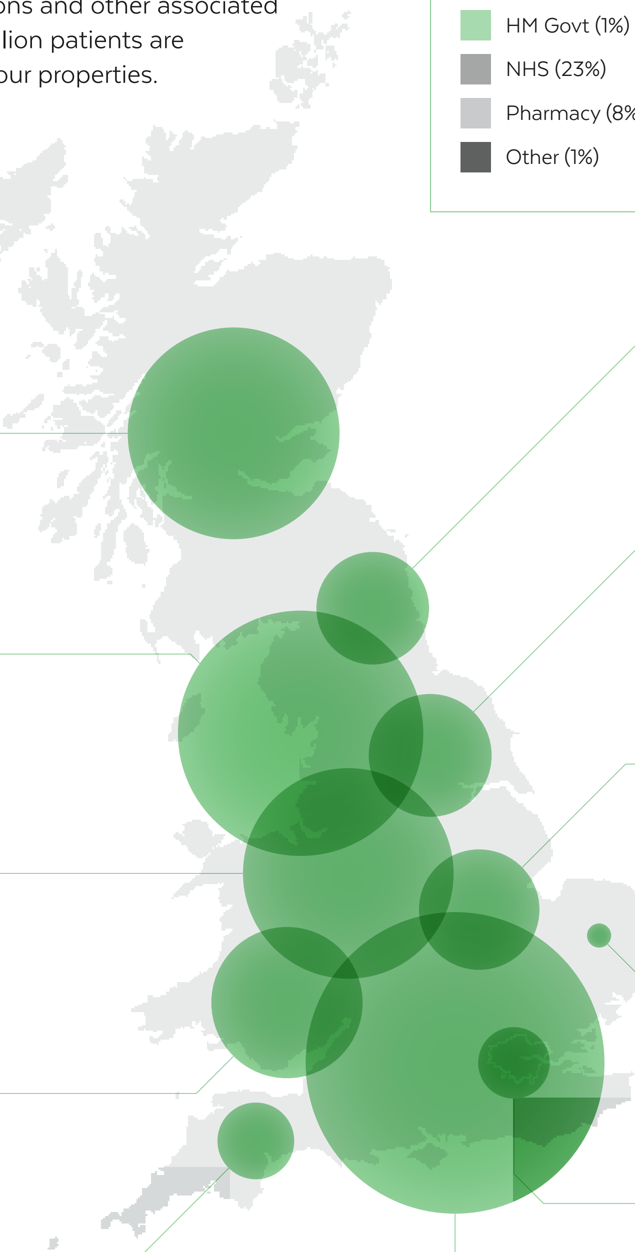
[1] Including development commitments as complete.

Our property portfolio

The Group's completed properties at 31 December 2015 are located in the United Kingdom and leased to general practitioners, NHS organisations and other associated healthcare users. Over 3.2 million patients are registered to GP practices at our properties.

Covenant analysis by annual rent





Total – completed properties only

Capital value	Properties
£1,092.5m	267
Rent roll	**Tenancies**
£61.8m	583

Scotland

Capital value	Properties
£140.1m	29
Rent roll	**Tenancies**
£7.9m	53

North West

Capital value	Properties
£162.3m	30
Rent roll	**Tenancies**
£8.8m	63

West Midlands

Capital value	Properties
£139.3m	29
Rent roll	**Tenancies**
£7.9m	73

Wales

Capital value	Properties
£100.1m	22
Rent roll	**Tenancies**
£5.8m	76

South West

Capital value	Properties
£50.8m	15
Rent roll	**Tenancies**
£2.7m	28

South East

Capital value	Properties
£199.5m	60
Rent roll	**Tenancies**
£11.7m	123

North

Capital value	Properties
£74.5m	23
Rent roll	**Tenancies**
£4.3m	52

Yorkshire and Humberside

Capital value	Properties
£81.3m	19
Rent roll	**Tenancies**
£4.7m	40

East Midlands

Capital value	Properties
£79.7m	22
Rent roll	**Tenancies**
£4.5m	46

East Anglia

Capital value	Properties
£17.6m	7
Rent roll	**Tenancies**
£1.0m	11

London

Capital value	Properties
£47.3m	11
Rent roll	**Tenancies**
£2.5m	18

Our key assets

St Catherine's Health Centre, Birkenhead

Size: 4,614 sqm

Built: 2012

Tenants: Two GP practices, NHS Trust, Pharmacy

WAULT: 27 years

Patient list size: 15,352

Acquired within the PPP portfolio in December 2013, this facility occupies the site of the former St Catherine's Hospital which has been delivering healthcare on the Wirral for over 150 years.

Nairn Health Centre, Scotland

Size: 4,977 sqm

Built: 2009

Tenants: Two GP Practices, Local council

WAULT: 20 years

Patient list size: 14,612

Fountains Medical Centre, Chester

Size: 8,578 sqm

Built: 2015

Tenants: GP Practice, Pharmacy

WAULT: 27 years

Patient list size: 25,491

Lyng Centre, West Bromwich

Size: 5,630 sqm

Built: 2005

Tenants: Four GP Practices, NHSPS, Pharmacy

WAULT: 14 years

Patient list size: 20,971

Victoria Central Health Centre, Wallasey

Size: 4,904 sqm

Built: 2008

Tenants: Three GP Practices, NHSPS, Pharmacy

WAULT: 18 years

Patient list size: 14,910

Port Talbot Resource Centre, South Wales

Size: 3,934 sqm

Built: 2009

Tenants: Four GP Practices, Local Health Board, Council Pharmacy

WAULT: 14 years

Patient list size: 28,452

Rotherham Community Health Centre, South Yorkshire

Size: 4,636 sqm

Built: 2008

Tenants: NHSPS

WAULT: 13 years

Patient list size: N/A

Hume Street Medical Centre, Kidderminster

Size: 2,306 sqm

Built: 2012

Tenants: Two GP Practices, Pharmacy

WAULT: 27 years

Patient list size: 26,179

Oswestry Primary Care Centre, Shropshire

Size: 4,994 sqm

Built: 2011

Tenants: GP Practice, Pharmacy, NHSPS

WAULT: 16 years

Patient list size: 12,553

Prospect House, Kettering

Size: 3,667 sqm

Built: 2008

Tenants: GP Practice, Pharmacy

WAULT: 16 years

Patient list size: 15,521

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Chairman's statement

Alun Jones, Chairman

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

Highlights

- Increased shareholder returns – total NAV return 16.3%
- Portfolio now 273 assets, £44.0 million acquired in period, adding £2.4 million p.a. rent
- Effective and efficient management reducing EPRA cost ratio to 11.5%

Results highlights

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

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

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

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

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

Share capital

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

Dividends

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

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

Markets

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

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

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

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

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

The Primary Care Transformation Fund, which commits £1.1 billion over four years to improve access to GP services, will from 2016/17 see CCGs lead proposals for how the funding will be invested. Twelve projects in the Group's portfolio received funding in 2015, some of which were amongst a number of asset enhancement projects completed by PHP in 2015. We will continue to work with our GP practice tenants to deliver schemes that develop existing premises to meet their and their patients' needs.

Outlook

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

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

We are a leading investor in healthcare real estate in the UK and our reputation and experience will benefit our expansion into Ireland.

We are well placed to provide new premises to support the modernisation of the NHS and to work alongside the HSE to reposition healthcare provision in Ireland.

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

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

[1] Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

Alun Jones
Chairman
3 February 2016

Read the Directors' biographies from page 26

◄ **Thornaby Health Centre, North Yorkshire**

Size: 2,637 sqm

Built: 2003

Cost: £7.45 million

Patient list size: 42,000

Tenants: Two GP Practices, Pharmacy, Optician, NHS Property Services and NHS Trust

PHP completed the purchase of the investment in June 2015. The property comprises a purpose built health centre housing 2 GP Practices, a pharmacy, an optician, and accommodation let to NHS Property Services and an NHS Trust for health and community purposes. It was constructed in 2003 and extends to 2,637 sqm with a WAULT of circa 14.5 years.

Strategic report
Corporate governance
Financial statements
Further information

How we create value

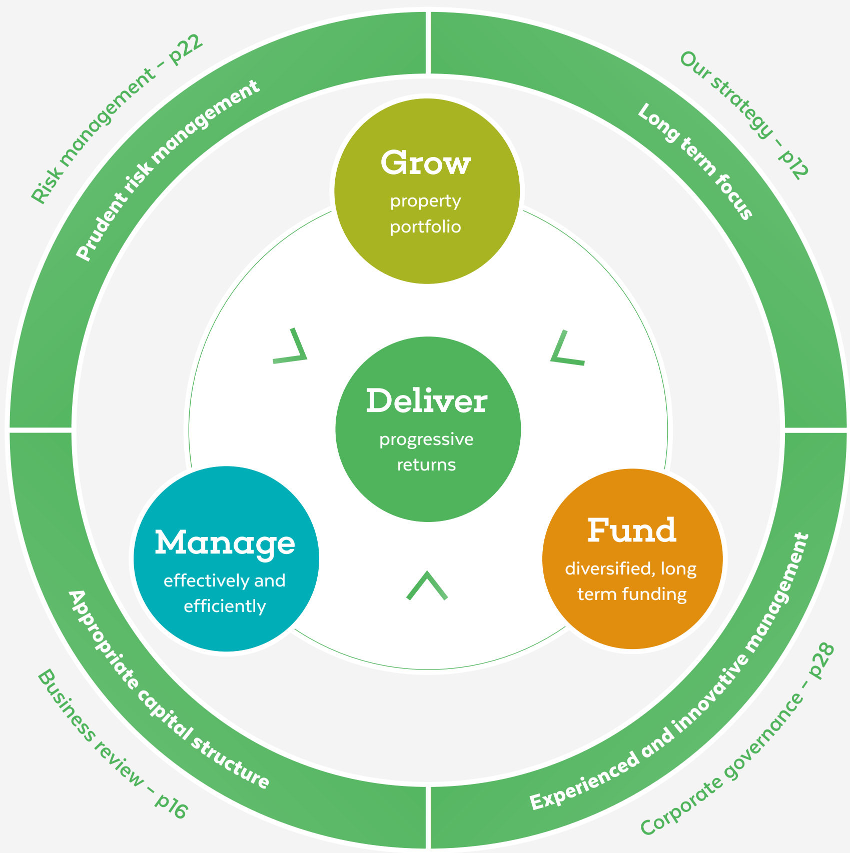
A business model focused on long-term sustainable value

What we do

We invest in flexible properties for local primary healthcare.

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

How we do it



Strategic objectives

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

The Group is pursuing selected investments in the Republic of Ireland. The principal tenant will typically be the Health Service Executive ("HSE"), the executive agency of the Irish Government's Department of Health, representing between 60% and 75% of rental income and providing a similar low risk, high covenant income stream to the NHS in the UK. Tenants will also include GPs but their rent will represent a smaller proportion of total income than in the UK and will not be funded by the HSE. Other occupiers in both territories will include other associated healthcare users, including on-site pharmacies.

Business model

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

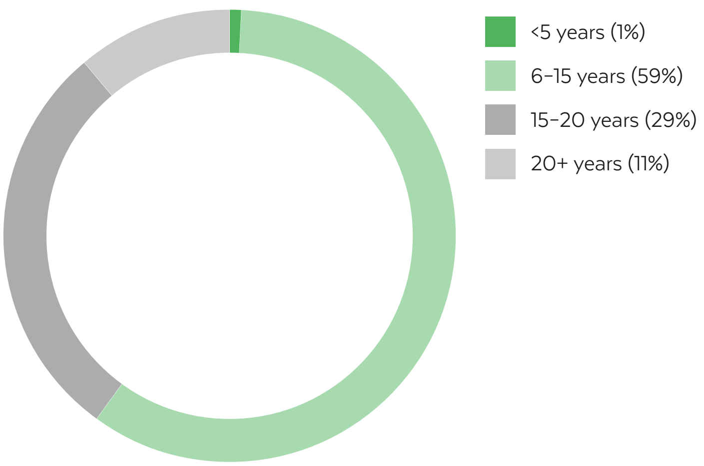
Initial lease terms in the UK are typically of 21 years or more, at effectively upward only rentals. With the large majority of income received either from the NHS or from NHS funded GPs, this provides a secure, transparent income stream.

The HSE in Ireland, will typically enter into 25 year leases with CPI linked rent reviews, providing similar long term secure income streams to that the NHS in the UK.

High quality recurring rental income

In order to achieve stable earnings growth and capital appreciation, PHP targets healthcare properties across the United Kingdom and the Republic of Ireland let on long term leases, backed by a secure underlying covenant where the majority of rental income is funded directly or indirectly by the Government.

Analysis of unexpired leases



Wider outcomes

Social impact

PHP aims to provide modern premises located within residential communities to enable better access to an increasing range of services being delivered away from hospitals.

Environmental impact

Environmental impact is an integral consideration in the development, design and construction of new PHP properties. Developing new premises PHP and its development partners seek to achieve the highest BREEAM standards.

NHS targets

The modern, flexible premises that PHP provides facilitate the provision of more wide ranging and integrated care services helping to realise the NHS target of 24/7 access to GP services.

Read more about Environmental and social issues on page 25

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

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

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

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

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

Our markets

PHP is a long term investor in modern, flexible, purpose-built healthcare properties, working with experienced development partners, healthcare bodies and healthcare professionals to develop premises that meet the ever-changing needs of primary care provision.

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

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

United Kingdom

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

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

Primary care is the foundation of the NHS in the UK and the GP continues to be the first point of access to healthcare services for UK residents, other than acute emergency care. More than 1.3 million patients visit their GP practice each day[1], representing 90% of all NHS patient contacts.

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

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

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

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

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

Republic of Ireland

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

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

Whilst the primary health care system in Ireland is based on a system of insurance and private payment, it is still led by the General Practitioner. A 2013 report[7] estimated over 14 million visits to GPs, compared to 6.3 million hospital visits, but the GP in Ireland also acts as the "gatekeeper" to secondary or specialist care.

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

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

The DoHI and the Health Service Executive ("HSE") are in the process of rolling out an integrated portfolio of reform programmes to ensure that their core objectives to deliver safe and effective health and social care services for patients, services users, carers and families in multiple settings are met. The 2015 Budget saw a modest increase in health spending to €13.2 billion to assist with this, a proportion of which was ear-marked for improved and expanded service delivery, including the provision of free GP services for those aged under six and over 70.

The HSE has recognised the role that modern, flexible premises can play in providing extended integrated care and is looking to procure a substantial number of new premises to facilitate this. To support this, the HSE is typically entering into 25 year leases with CPI linked rent reviews on a five year cycle for between 60% to 75% of the property's rental income, providing a covenant similar to that provided by the NHS funding of 90% of the Group's UK income. The different characteristics of the Irish healthcare real estate sector in terms of tenant mix, location etc. provide for enhanced returns, compared to the UK, that are underpinned by the HSE covenant.

Strong underlying property characteristics

The primary care premises market is controlled by the NHS in the UK and largely influenced by the HSE in the Republic of Ireland, meaning there is little or no speculative development of new facilities. Buildings are often located within residential areas which can lead to restricted alternative use potential. Against this, initial lease terms are longer than in general commercial markets, more than 20 years on average and locally provided healthcare will continue to be a necessity for the foreseeable future.

In the UK, PHP's income benefits from a shorter rent review cycle, typically three yearly and on an upwards only basis. GPs form the largest tenant group, receiving reimbursement for rent, maintenance and insurance costs from the NHS, a practice set out in legislation. Together with leases direct to the NHS, the sector benefits from a very strong underlying rental covenant.

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

Overall, these factors combine to create a long term, low risk income environment where over the medium term, through a mix of indexed linked and open market review characteristics, rental growth has broadly tracked inflation.

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

Returns

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

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

The data in the table below is taken from the Index for the period ended 31 December 2014 and illustrates how primary healthcare real estate has produced superior risk adjusted returns over that period. This reflects the low risk nature of its tenants and lower volatility in capital values underpinned by the long term nature of the income streams, generating a very compelling investment case.

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

[1] Royal College of General Practitioners January 2015.

[2] Health and Social Care Information Centre, General Practice trends in the UK, 23 January 2013.

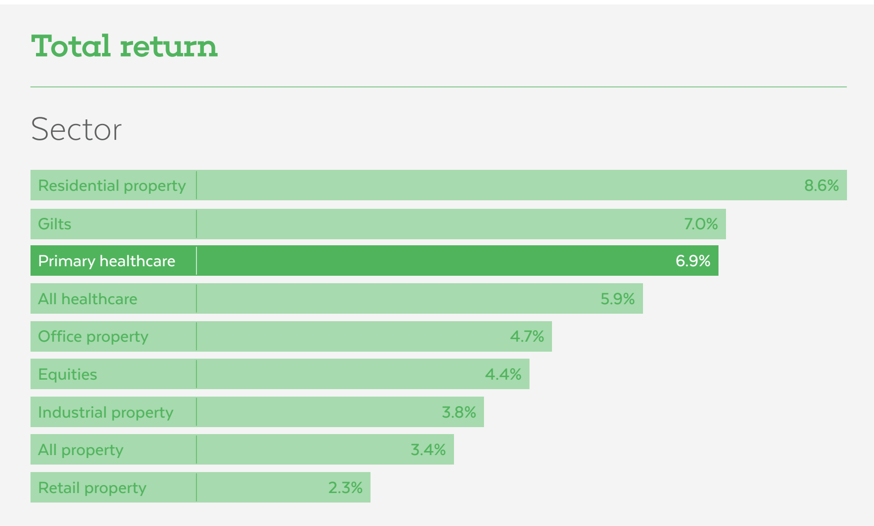
[3] British Medical Association GP Committee Premises Survey.

[4] ONS.

[5] Central Statistics Office, Ireland.

[6] Health Service Executive Corporate Plan 2015–2017.

[7] Irish Journal of Medical Science, July 2013.



Source: IPD – eight year total return versus standard deviation 2007–2014.

Capitalising on our proven strategy

	Strategic objective	Activity in 2015
Deliver progressive returns	Generate progressive shareholder returns through a combination of earnings and valuation growth. See pages 16 and 17.	■ EPRA earnings per share increased by 19.5% to 4.9 pence ■ Dividend per share increased by 2.6% to 5.0 pence ■ Dividend cover increased to 98% for the year as a whole; 2015 second half dividend covered 107% ■ Total NAV Return of 16.3%
Grow property portfolio	Fund the development of and acquire modern, purpose built health care premises that provide secure long term income streams with the potential for rental growth and capital enhancement. See pages 17 and 18.	■ Acquired or committed to acquire 8 assets in the year totalling £44 million ■ Total property return in the year of 9.7%
Manage effectively and efficiently	Work to improve the rental potential, longevity of underlying income streams and secure capital growth from assets within the portfolio, whilst controlling operating costs. See page 19.	■ Seven asset management projects completed in the year, investing £2.5 million, producing £0.3 million of rent for an average of 19.4 years ■ EPRA cost ratio reduced by 50 basis points to 11.5%
Fund diversified, long term funding	Fund activities through a prudent mix of shareholder equity and debt, from a diverse range of sources with varied maturities. See page 20.	■ £50 million facility with HSBC extended to a new five year term ■ Barclays facility expanded by £15 million to £115 million and secured for a new five year term ■ Interest rate swap portfolio revised to provide longer term protection at lower rates ■ Average cost of debt reduced in the period by 48 basis points to 4.67%

Looking forward

- Active management of debt and derivative portfolio has further reduced average cost of debt into 2016
- Commenced quarterly dividend payment
- Investment in Ireland to secure enhanced returns

Key risks managed by the Group

- Investment in a niche asset sector dependent on government policy and funds available for primary care
- As PHP builds a portfolio of assets in the Republic of Ireland currency exchange exposures will arise

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- The sector fundamentals remain strong with continued demand for modern, purpose built premises
- Strong pipeline of further opportunities identified for 2016 across the UK and Ireland

- The development of new properties is tightly controlled by the NHS. Recent level of approvals has been low
- Continued availability of funding is key to the Group's ability to secure further assets

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- Two further projects on-site committing £1.5 million of capital, 12 years to lease terms and £0.2 million of rental income
- A number of additional projects being progressed with tenants and the NHS
- Cost ratio will continue to fall due to reducing fee rates as portfolio grows

- The bespoke nature of the Group's assets can lead to limited alternative use requiring them to be kept fit for purpose
- The Group has no employees and depends upon services provided by third parties for its efficient operation and management

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- The Group has strong relationships with its existing funders and will continue to look at additional sources of funds so as to provide longevity of facility maturity and maintain appropriate levels of gearing
- The Group will seek to take advantage of current market conditions to secure further reductions in the cost of its debt

- Movement in underlying interest rates could adversely affect the Group's profits and cash flows
- Without the continuity and longevity of debt facilities, PHP may be unable to meet current and future commitments

KPIs

Deliver

Deliver progressive returns

Generate progressive shareholder returns through a combination of earnings and valuation growth.

See pages 16 and 17

Grow

Grow property portfolio

Fund the development of and acquire modern, purpose built health care premises that provide secure long term income streams with the potential for rental growth and capital enhancement.

See pages 17 and 18

Key Performance Indicators

	ERPA earnings per share	Dividend cover	Total NAV return	Total property portfolio	Total property return
Headline	4.9p	98%	16.3%	£1.10bn	9.7%
2015	4.9p	98%	16.3%	£1.10bn	9.7%
2014	4.1p	84%	12.8%	£1.03bn	8.9%
2013	1.9p	57%	4.6%	£0.96bn	8.2%

Rationale for KPI

ERPA earnings per share: EPRA earnings per share is a key measure of the Group's operational performance as it excludes all elements not relevant to the underlying net income performance of the properties.

Dividend cover: The Group looks to maintain a progressive dividend policy which it aims to cover from its operational performance. Dividend cover looks at the proportion of dividends paid in the year that are funded by EPRA earnings.

Total NAV return: Total NAV return looks at the value that has been generated for shareholders in a financial period. It compares the movement in the net asset value of the Group in the year plus distributions made to shareholders in the year, with opening net asset value.

Total property portfolio: The Group looks to grow its portfolio in order to secure the yield gap between income returns and the cost of funds.

Total property return: The Group invests in properties that provide the opportunity for increased returns through a combination of rental and capital growth.

Evaluation of performance

ERPA earnings per share: EPRA earnings per share grew by 19.5% in the year from the combined result of expansion of the portfolio, efficient management and lower costs of debt.

Dividend cover: A major priority of the Board has been to return to a fully covered dividend. For the year as a whole cover increased to 98%, but the second half year's dividend payment was 107% covered by related earnings.

Total NAV return: Total NAV return of 16.3% was delivered in the year, a combination of dividends yield of 6.3% and net NAV growth of 10.0%.

Total property portfolio: Assets acquired in the year have added £2.4 million to the Group's rent roll for an average of 21 years.

Total property return: Total property return includes underlying capital growth of 3.9% in the year from the Group's property portfolio, in addition to its rental return.

Manage

Manage effectively and efficiently

Work to improve the rental potential, longevity of underlying income streams and secure capital growth from assets within the portfolio, whilst controlling operating costs.

See page 19

Fund

Diversified, long term funding

Fund activities through a prudent mix of shareholder equity and debt, from a diverse range of sources with varied maturities.

See page 20

Capital invested in asset management projects

£2.5m

2015	£2.5m
2014	£4.4m
2013	£0.4m

The Board is committed to keeping its assets fit for purpose and developing them to meet the needs of the Group's tenants.

The Group has continued to secure asset management projects that maintain the longevity of the use of its properties and generate enhanced income and capital growth.

ERPA cost ratio

11.5%

2015	11.5%
2014	12.0%
2013	21.4%

The EPRA cost ratio is used to provide an indicator of the efficiency of the management of the Group looking at total administrative costs as a proportion of net rental income.

The full impact of the consolidation of administrative services and reductions in advisory fee rates is evident in the EPRA cost ratio.

Loan To Value Average Ratio

62.7%

2015	62.7%
2014	64.1%
2013	61.6%

The Board seeks to maintain an appropriate balance between the use of external debt facilities and shareholder equity in order to enhance shareholder returns whilst managing the risks associated with debt funding.

The extension of the term of facilities representing more than 20% of the Group's debt portfolio was achieved in the year.

Average cost of debt

4.67%

2015	4.67%
2014	5.15%
2013	5.85%

The combination of a range of maturities and tenors of debt is key to the Group achieving the lowest blended cost of debt whilst retaining the longer term availability of debt facilities.

Revising the Group's interest rate swap portfolio has provided both a lower average cost of debt and a longer period of protection against adverse market movements.

Business review

Delivering progressive returns

EPRA earnings per share
4.9p
+19.5%

Dividend per share
5.0p
+2.6%

EPRA NAV per share
87.7p
+10.0%

Total NAV return
13.0p
16.3%

PHP has achieved further growth in earnings through 2015 as we

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

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

Earnings

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

Total administrative costs were unchanged in 2015 and active management of the Group's debt and hedging portfolio lowered the average cost of the Group's debt finance, contributing to the overall growth in earnings. EPRA earnings increased by 19.2% to £21.7 million (2014: £18.2 million) and including another year of strong valuation growth for the Group's property portfolio, profit before tax rose by 51.9% to £56.0 million (2014: £36.9 million).

Summarised results

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

[1] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

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

Shareholder value

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

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

As at 31 December 2015, EPRA net asset value per share stood at 87.7 pence (2014: 79.7 pence), an increase of 8.0 pence or 10.0%. Adding total dividends paid to shareholders in the year Total NAV Return for the period was 13.0 pence per share or 16.3% (2014: 12.8%).

EPRA net asset value per share

	2015 pence per share	2014 pence per share[1]
Opening EPRA NAV per share	**79.7**	75.0
EPRA earnings for the year	**4.9**	4.1
Net result on property portfolio	**8.9**	6.6
Dividend paid	**(5.0)**	(4.9)
Early repayment charges	**–**	(0.3)
Share issue	**–**	0.1
Convertible bond issue costs	**–**	(0.6)
Interest rate derivative fair value cost	**(0.8)**	(0.3)
Closing EPRA NAV per share	**87.7**	79.7

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

[1] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

Growing PHP's property portfolio

Total property assets
£1.1bn
+7.3%

Revaluation surplus
£39.8m
8.9p per share

Contracted rent roll
£63.7m
+4.6%

WAULT
14.7 years
2014: 15.3 years

Commercial property has experienced marked yield movements in 2015 as a weight of money has continued to flow into UK real estate. The valuation of primary care property has historically been much more stable due to the attractive qualities of the sector with its long lease lengths and the security of its income with such a large proportion derived from the NHS (directly or indirectly). These are unchanged and many investors target healthcare real estate to provide them with a stable, consistent yield.

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

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

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

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

Business review continued

Growing PHP's property portfolio continued

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

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

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

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

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

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

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

Property portfolio – completed properties only

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

[1] Includes cost to complete asset management projects of £0.6 million.

Managing effectively and efficiently

Rental growth on review

0.9% per annum

£0.4m per annum of additional rent

Capital projects

£2.5m invested

£0.3m of additional rent
Average 19.4 years additional WAULT

EPRA cost ratio

11.5% for the year

Reduced by 50 basis points

The majority of leases in PHP's UK portfolio have either explicit or effectively upwards-only review terms (i.e. where the review can only be triggered by the landlord). Some 23% of UK leases have fixed periodic rental uplifts or increases that are formally indexed linked, mostly in line with RPI. The most common review is undertaken to "open market".

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

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

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

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

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

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

Projects take a number of forms that include:

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

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

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

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

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

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

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

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

EPRA cost ratio

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

Business review continued

Diversified, long term funding

Net debt
£689.8m
(2014: £658.1m)

Loan-to-value
62.7%
(2014: 64.1%)

Weighted average facility maturity
5.9 years
(2014: 6.2 years)

The Group is funded through a combination of shareholder equity and external debt in order to enhance the returns that are generated for shareholders. A key objective is to ensure that appropriate facilities continue to be available to the Group to enable future growth. This will include a range of instruments, sources and maturities, combined to give an appropriate blended cost of debt.

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

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

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

▶ **Beacon Centre for Health, Swansea**

Date of Purchase	**Size**
December 2012	2,901 sqm

Tenants

2 GP Practices, ABMU NHS Trust, Swansea University, Pharmacy and Dental Practice

Risk management and principal risks

Risk management overview

Effective risk management is a key element of the Board's operational processes. The Group faces a variety of risks that have the potential to impact on its performance, position and its longer term viability. These include external factors that may arise from the markets in which the Group operates, government and fiscal policy and general economic conditions, and internal risks that arise from how the Group is managed and chooses to structure its operations.

The Board has structured operations in order to minimise the Group's residual exposure to risks that it may face, but also to ensure that risks that are accepted are appropriate to the returns they may generate and within the overall risk appetite of the Board. These operations include rigorous, regular review of risks and how these are mitigated and managed across all areas of the Group's activities.

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

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

Principal risks and uncertainties

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

Risk	Change to risk in 2015
Delivering progressive returns	
PHP invests in a niche asset sector where changes in healthcare policy the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	Unchanged
The value of income derived from and expenses related to PHP's investment in primary care assets in the Republic of Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates impacting the Group's earnings and portfolio valuation.	Increased
Grow property portfolio	
The emergence of new purchasers to the sector and the recent slowing in the level of approvals of new centres in the UK may restrict the ability of the Group to secure new investments.	Increased
The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest.	Unchanged
Manage effectively and efficiently	
The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit for purpose medical centres is key to delivering on the Group's strategic objectives.	Unchanged
The Group has no employees. The continuance of the Adviser contract is a key for the efficient operation and management of the Group.	Unchanged
Diversified, long term funding	
Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.	Unchanged
Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	Unchanged

Factors affecting risk in the year	Mitigation
In the UK, the Government has committed additional funding to the NHS with a resulting increase in funding for primary care. The drive to move services into the local community is further underpinned by the commitment to provide 24/7 access to GP services. In Ireland, increasing pressures on health care systems has led the Irish Government to seek to restructure its primary care provision with the aim of achieving universal primary care for residents of Ireland. The attractiveness of the long term, secure and growing income streams that characterise the sector leads to stability of values.	The commitment to primary care is a stated objective of both UK and Irish Governments. Management regularly engages with the NHS and government directly to promote the continued investment in primary care and modern premises in the UK and is developing similar relationships with bodies in Ireland. The Board includes members experienced and active in primary care provision. The non-cyclical nature of the sector in which the Group operates reduces the impact of the wider economy.
In 2015 the Board took its decision to seek to make its first investment outside of the UK. Its investments and related income and costs will be Euro denominated, whereas the Group's main operating currency is Sterling.	The investments will offer a natural hedge in meeting local property related expenses from local currency rental income. The Board will put in place a policy to hedge wherever possible its exposure to Euro cash flows and the valuation of its assets and liabilities in Ireland. This will include the use of currency derivatives and matching Euro denominated assets with Euro debt facilities.
The sector has seen an increased number of new development approvals through 2015 in the UK. In addition, the continued availability of the Primary Care Transformation Fund has provided an increased ability to secure projects to enhance or extend existing properties. The Group has identified a pipeline of primary care real estate assets in Ireland, giving access to a pool of potential modern medical centre investments.	The Group has a number of formal pipeline agreements and long standing development relationships that provide an increased opportunity to secure developments that come to market in the UK. The reputation and track record of the Group in the sector means it is able to source investment in existing standing investments from investors and owner occupiers and is also proving beneficial in dealing with vendors, developers and users of primary care properties in Ireland.
There has continued to be a healthy appetite from both equity investors and debt providers to fund the sector through 2015. There have been a number of new providers to the sector in the year.	The Board monitors its capital structure and maintains regular contact with funders. A programme of meetings with existing and potential equity investors is supported by regular discussions with debt providers.
As the Group's portfolio grows in the number of assets that it owns and initial lease terms erode, the importance of active management to extend the use of a building is increased.	The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. The Group is experienced in identifying and implementing asset management projects that enhance income and values at properties and extend occupational lease terms.
The provision of administrative and company secretarial services was consolidated with the Adviser in 2014, significantly reducing the costs of these services. The consolidation removed execution risk arising from the previous split responsibilities of joint advisers.	The Advisory Agreement with and performance of Nexus is regularly reviewed. Nexus remuneration is linked to the performance of the Group to incentivise long term levels of performance. Nexus can be required to serve all or any part of its notice period should the Group decide to terminate providing protection for an efficient handover.
The Group has been successful in extending the availability of certain debt facilities in the year. New entrants to the debt capital markets have increased available resource.	Management constantly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds. The Adviser regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.
Competition in debt markets has increased during the year lowering the cost of new facilities. The Group has continued to apply its defined policy as regards mitigating interest rate risk.	The Group retains a proportion of its debt on a long term, fixed rate basis. It also mitigates its exposure to interest rate movements on floating rate facilities through the use of a series of interest rate swaps and other derivative instruments.

Risk management and principal risks continued

Approach to risk management

The Board has overall responsibility for effective risk management across the Group. The Audit Committee is delegated responsibility for reviewing the Group's systems of risk management and their effectiveness on behalf of the Board, which have been in place for the year under review and up to the date of approval of the Annual Report and accounts. The Adviser is delegated responsibility for assessing and monitoring operational and financial risks and has in place robust systems and procedures to ensure this is embedded in its approach to managing the Group's portfolio and business. Key risks are recorded in a Risk Register and owned by the Board which is responsible for overseeing the monitoring and mitigation of that risk.

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

The Adviser has established a wide ranging system of internal controls and operational procedures that are designed to manage risk as effectively as possible, but it is recognised that risk cannot be totally eliminated. Staff employed by the Adviser are intrinsically involved in the identification and management of risk and regular risk management workshops are undertaken to encourage open participation and communication.

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

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code as revised in 2014, the Directors confirm that, as part of their strategic planning and risk management processes, they undertake an assessment of the current position of the Group, its principal risks and prospects over a period that is longer than the 12 months, required in order to adopt the going concern principle as the basis of the preparation of its financial statements.

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

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

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

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

Sensitivities applied are derived from the principal risks faced by the Group (see Risk Management on pages 22 to 24) that could affect solvency or liquidity. These include the rate of investment in new properties and the return achieved from those investments, the availability and cost of debt finance, any potential reasonable decline in asset valuations and the ability to meet debt facility covenants. Sensitivities also flex assumed rental growth rates.

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

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

Environmental and social issues

Environmental considerations

Properties in the sector are specified to meet the NHS's exacting standards with regard to environmental considerations. Environmental matters are an integral element of PHP's assessment of the suitability of new medical centres that the Group looks to fund and acquire. PHP undertakes an assessment of environmental risk as an important element of its due diligence process, obtaining an environmental desktop study and energy performance certificate ("EPC"). PHP has engaged an Environmental Consultant, Collier & Madge, to help in this process.

PHP engages with its development partners to promote the highest possible standards of environmental performance when designing and constructing new premises. As a minimum, new properties are required to achieve a BREEAM "Excellent" rating, but where possible the aim is to exceed this. Ongoing environmental responsibilities are included in the leases entered into by the occupational tenants as a norm for newly built premises. 100% of the newly completed assets delivered in 2015 held an EPC with a rating of B or better.

Where PHP acquires already completed assets, however, its ability to influence energy efficiency is limited. In these instances and for existing assets within its portfolio, PHP will assess the opportunities to improve the environmental efficiency of a property and work with its tenants to improve the environmental performance of an asset with enhancements such as the installation of solar panels.

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. PHP works with its development partners, tenants and other stakeholders to develop ways in which to monitor and improve the management of such issues.

Social impact

PHP's aim is to modernise and improve the ability to provide efficient and effective healthcare in the UK through the provision of modern, purpose built properties, let to GPS, the NHS and other healthcare operators. The facilities are predominantly located within residential communities and enable the UK population to access better health services in their local area. This is central to the organisation's strategic objectives and business planning processes.

PHP is committed to ensuring that the properties it develops and owns both meet NHS requirements and also provide flexibility for future change, update and expansion. When working with its partners to develop a new healthcare property, PHP's appraisal of a project will include a review of matters such as:

- location: looking at the sustainable nature of a site and how it will serve the local population;
- importance to the local healthcare provision: ensuring that the centre is affordable and that the centre meets the needs of the local healthcare demand;
- flood risk: to ensure the risk is avoided or appropriate prevention measures are developed; and
- design standards and environmental responsibility: a review of a project to ensure that it conforms from a design and environmental standpoint with applicable requirements.

Ongoing active management of the property portfolio seeks to maintain the centres as fit for purpose, minimise obsolescence and provide for repairs and maintenance to be undertaken efficiently, so as to minimise both cost and pollution.

Social impact consideration and management sits at the heart of the management of the Group and is directly reviewed by the Board. Systems have been established to ensure that PHP is properly monitoring its social impact and identifying and managing opportunities and risks associated with the provision of its properties. Where possible, data is collected that evidences PHP's impact against set measures, such as continuing to obtain energy certificates for properties within PHP's portfolio. Ongoing activity also includes regular engagement with key stakeholders, for example, to assess their experience of working in or visiting a PHP centre so as to identify opportunities to enhance the facilities or address issues that may arise.

Harry Hyman
Managing Director
3 February 2016

Board of Directors

A N R E S

ALUN JONES
Independent Non-executive Chairman

Alun Jones is a member of the Audit Committee, Nomination Committee, the Remuneration Committee and the Advisers Engagement Committee. A Chartered Accountant, Mr Jones retired as a partner from PricewaterhouseCoopers LLP ("PwC") in 2006, having been a previous member of PwC's UK and Global Supervisory Boards. He was a member of the Financial Reporting Review Panel from 2006 to 2011.

A

HARRY HYMAN
Managing Director

Harry Hyman is a Chartered Accountant and corporate treasurer. Harry is the founder and Managing Director of the company and the Adviser, Nexus Tradeco Limited. Nexus has three operating divisions, property fund management, publishing and corporate finance. The group specialises in health, education and property. He is also the non-executive chairman of Summit Germany Limited, a company registered in Guernsey and listed on AIM, Chairman of ORBIG, the Orderbook of Retail Bond Issuers Group and a director of the Quoted Companies Alliance.

A N R E S

STEVEN OWEN
Independent Non-executive Director and Senior Independent Director

Steven Owen is Chairman of the Audit Committee and a member of the Nomination Committee, Remuneration Committee and the Advisers Engagement Committee. A Chartered Accountant, Steven is currently CEO and Partner of Wye Valley Partners LLP and a non-executive director of the Milford Haven Port Authority. He was Deputy CEO and Finance Director of Brixton plc until 2009.

WILLIAM HEMMINGS
Non-executive Director

William Hemmings 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. He is also a director of the Association of Investment Companies.

A N R E S

MARK CREEDY
Independent Non-executive Director

Mark Creedy is Chairman of the Advisers Engagement Committee and a member of the Audit, Remuneration and Nomination Committees. Mr Creedy was a 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 up to 31 December 2015. He was Managing Director of the property 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 from 1994. He was a Non-Executive Director of B&Q PLC from 1998 to 2002.

A

PHIL HOLLAND
Finance Director and Deputy Managing Director

Phil Holland is a Chartered Accountant who joined Nexus in November 2010. He was previously CFO of Natixis Capital Partners Limited, a private equity real estate fund manager, managing a family of funds invested in commercial real estate across Western Europe. Mr Holland has previously held board positions within public and private property investment, development and fund management companies operating across the UK and mainland Europe. He is also a non-executive director of Network Housing Group.

Key to Committee membership

- A — Audit Committee
- N — Nomination Committee
- R — Remuneration Committee
- E — Adviser Engagement Committee
- S — Standing Committee
- Chairman of Committee
- A — Adviser representative

JAMES HAMBRO
Non-executive Director

Mr Hambro is Chairman of James Hambro and Partners LLP, and Chairman of J O Hambro Capital Management Holdings Limited, parent company of J O Hambro Capital Management Limited, previously a Joint Adviser and the Company Secretary of the Company. He is also Non-Executive Chairman of Hansteen Holdings PLC.

A N R E S

DR IAN RUTTER OBE
Non-executive Director

Dr Ian Rutter OBE is Chairman of the Remuneration and Nomination Committees and a member of the Audit Committee and Advisers Engagement Committee. Dr Rutter worked as a GP in Shipley, Yorkshire for 35 years until his retirement in 2015. He is a Fellow of IHI, the Institute of Healthcare Improvement, based in Boston, USA. He is a former CEO of North Bradford and Airedale PCTs. He has worked at the Department of Health as Clinical Lead in the Policy and Strategy Unit and as a Deputy National Director of Primary Care. Dr Rutter was made O.B.E. for Services to Medicine in January 2000 in recognition of his contribution to general practice and numerous national organisations.

Adviser

Nexus Tradeco Limited ("Nexus")

The Company has appointed Nexus Tradeco Limited ("Nexus") to provide property advisory, management and administration services to the PHP Group.

The Nexus team comprises property and finance professionals with a wealth of knowledge and experience in health sector real estate and has an exemplary track record. Nexus is engaged to provide property management services which include identifying suitable properties, negotiating, subject to Board approval, the terms of purchase of those properties and providing day to day property management on behalf of the Group. Nexus provides the services of the Managing Director, the Finance Director, the Company Secretary and also administrative and accounting services to the Group.

The Nexus Group is engaged in the provision of independent advice and financial services to other organisations operating in the public and private sectors, with particular emphasis on health, education and property.

Nexus team

Nexus provides the Company with the services of Harry Hyman, Managing Director and Phil Holland, Finance Director. Both are experienced advisers to and managers of listed property groups and have many years' experience of PHP's sector of focus.

Nexus has provided property advisory and management services since its appointment in March 1996. The Nexus property team has grown with PHP's business and currently comprises of 13 members of staff. It is headed by Tim Walker-Arnott, a qualified surveyor who joined Nexus in January 2006 having previously worked with NHP Plc.

The team includes a further eight qualified surveyors, two trainee surveyors and two administrative assistants. The property team has a wealth of experience of the healthcare real estate sector, having between them worked in investment, development and asset and property management functions at either Nexus or other specialist sector operators prior to joining Nexus.

Nexus' administrative team includes three qualified accountants, a trainee accountant and two finance assistants. Members of the team have worked within large professional services companies advising major property companies or held positions within listed and privately owned real estate businesses.

Company secretarial services are provided on a day to day basis by Tony Brown, an experienced company secretary. Tony is supported by the administrative team, many of whom have held positions as company secretary to listed companies or subsidiary companies in listed groups.

Nexus remuneration

Fees payable to Nexus for its Advisory Services are as follows. Details of the rates and quantum of fees paid can be found in the Directors' Report on pages 42 and 43:

- Property advisory fees in respect of investment, asset development and property management. These are calculated based on the Group's gross asset value;
- Administrative fees in respect of accounting and Company secretarial services. These are fixed subject to RPI linked variations; and
- A performance incentive fee, subject to minimum hurdle criteria.

Corporate governance report

The Group's policy is to achieve best practice in its standards of business integrity in all of its activities, including a commitment to follow the highest standards of corporate governance throughout the Group where possible.

Statement of compliance with the UK Corporate Governance Code

The Board considers that it has complied with the provisions of the UK Corporate Governance Code ("the Code") published in September 2014, throughout the year, with the one exception that certain Directors have served on the Board for more than three terms of three years. All such Directors have, however, been subject to rigorous review, performance evaluation and annual election and bring significant experience and specialist expertise to the Board.

The Company has applied the principles set out in the Code, including both the Main Principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the Main Principles have been applied is set out below and in the Directors' Remuneration Report and Audit Committee Report.

The governance of the Group is centred on a focused strategy, an effective Board and an experienced Adviser. 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.

The Board 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 the Adviser and sets the Group's values and standards, ensuring that its obligations to its shareholders and other stakeholders are satisfied.

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 and 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 are evaluated at least once a year. There is a clear structure for the effective running of Board Committees.

The Board has a schedule of matters formally reserved to it for its decision, such as strategic, major financial and key operational issues.

The roles of the Chairman and the Managing Director are distinct and have been agreed by the Board. The Managing Director is accountable for the day to day management of the Group together with the Adviser. The Board has delegated certain activities to the Adviser as described on page 42 in the Advisory Agreement section of the Directors' Report.

Matters not requiring debate or necessary for the implementation of urgent decisions, on matters previously discussed at Board meetings, are delegated to the Standing Committee.

Board composition

The Board comprises the Chairman, the Managing Director, the Finance Director and five Non-executive Directors. The Chairman and three further Non-executive Directors 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 26 and 27. 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.

Steven Owen is the Senior Independent Director. 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, Mark Creedy and Steven Owen meet the independence criteria set out in the Code.

Dr Rutter has served on the Board for more than nine years since his first election. Notwithstanding this, the Board consider that Dr Rutter is objective and professional and brings specialist expertise of clinical and NHS matters to the Board. Having reviewed his appointment, the Board is happy that he is independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement.

James Hambro has served on the Board longer than ten years and so does not meet the Code's independence criteria.

The Board considers that William Hemmings meets the criteria of independence in spirit. However, having acted as an alternate director since March 2000, he is not considered independent under the Code.

Board diversity, training and communication

The Board believes that it must include the right blend of individuals whose skills and experience have been derived from a variety of backgrounds. Directors must demonstrate independence of mind, integrity and willingness to challenge constructively. Appointments are made first and foremost on the basis of merit using objective criteria and taking into account the recognised benefits of all types of diversity. The Board will continue to ensure that this is taken into account when considering any new appointments. The Board is currently formed wholly of male directors.

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.

All Directors have access to independent professional advice at the Company's expense, if deemed necessary and subject to clearance by the Chairman.

In addition to the Board meetings held during the year, the Board is regularly in touch for consultation by electronic means and holds at least an annual strategy meeting where it reviews a range of matters that may be pursued in the years ahead.

Full Board packs are distributed to all Board members for all meetings. Packs include reports from the Managing Director and Finance Director that comment on market conditions, operational matters, shareholder interaction, financial results, projections and transactions and when applicable, documents and financial statements to be published.

The papers will also include a review of ongoing property matters including progress of acquisition activity, asset management projects and portfolio management activity. The Company Secretary will report on governance and regulatory matters.

On rare occasions that a director is unable to attend a meeting due to unavoidable business interests, separate discussions were held with, or comments were sought by, the Chairman on all matters of relevance.

During the year, the Chairman and Independent Directors will meet to discuss matters without the other Directors being present.

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:

- Audit Committee;
- Remuneration Committee;
- Nomination Committee; and
- Advisers Engagement Committee.

The Chairmen of the Committees report back to the Board as and when appropriate. Reports from each Committee Chairman are included on pages 31 to 36. The terms of reference of each committee are displayed on the Company's website – www.phpgroup.co.uk.

Meetings and attendance

Director	Board (total in year – 9)	Audit Committee (total in year – 3)	Nomination Committee (total in year – 1)	Adviser Engagement Committee (total in year – 2)	Remuneration Committee (total in year – 2)
Alun Jones	9	3	1	2	2
Mark Creedy	9	3	1	2	2
James Hambro	8	n/a	n/a	n/a	n/a
William Hemmings	6	n/a	n/a	n/a	n/a
Harry Hyman	9	n/a	n/a	n/a	n/a
Dr Ian Rutter	9	3	1	2	2
Steven Owen	9	3	1	2	2
Phil Holland	7[1]	n/a	n/a	n/a	n/a

[1] Mr Holland was appointed to the Board on 17 February 2015 and has attended all 7 Board meetings held since that date.

The Board has also formed a Standing Committee to implement decisions of Board meetings, deal with items of routine business and to deal with any urgent items arising between meetings that do not require debate. The Standing Committee comprises Alun Jones, Harry Hyman (who may be represented by Phil Holland as his alternate) and any other Non-executive Director.

Corporate governance report continued

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. 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 and a series of one to one meetings between the Chairman and each Director. The Chairman discussed with the Board broad themes and outcomes for 2015 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.

Relations with shareholders

The Board promotes the importance of regular communication with its shareholders and potential investors. Working together with its brokers and communications adviser, regular meetings are conducted with institutional investors, analysts and the financial press throughout the year. Annual and interim reports are presented to formal meetings of analysts and trading updates are widely distributed to these and other parties who may have an interest in the Group's performance. These documents, statements and analyst presentations are also made available on the Company's website.

The Managing Director reports at each Board meeting on investor relations and to provide feedback from meetings with major shareholders and analysts and the Board receives copies of all research published on the Group. The Board meets periodically on a formal and informal basis with the Company's brokers and professional advisers in order to better understand the views of major shareholders about the Company.

Investors are encouraged to attend the Annual General Meeting at which they have an opportunity to ask questions of the Board. The Annual General Meeting is normally attended by all Directors and the Chairmen of each of the Board Committees are available to answer questions.

The Company ensures that any price-sensitive information is released to all shareholders at the same time in accordance with regulatory requirements. All major presentations are available to all shareholders through the Company's website. Shareholders may choose to receive the Annual and Interim Reports either in paper form or electronically. These reports, along with a wide range of shareholder information, are also available on the Company's website. Additional information for shareholders can be found on page 86.

Viability statement

The Code requires the Board to explain how they have assessed the prospects of the company over a period that they see as appropriate for such a review, the Viability Statement (see page 24). The Board has directly undertaken this assessment for the initial statement to be made in this Annual Report, but will in future periods be advised by the Audit Committee.

Audit Committee report

I am pleased to present my report as Chairman of the Audit Committee. I am supported by Alun Jones and two Independent Non-executive Directors, Dr Ian Rutter and Mark Creedy. All members served throughout the year.

Alun Jones and I are Chartered Accountants and, as can be seen from our biographies on pages 26 and 27, we both possess the recent and relevant commercial knowledge and experience to satisfy the provisions of the Code. There are no employees of the Adviser on the Committee. The Committee may invite the Managing Director, Finance Director, representatives of the Adviser and non-independent Directors to attend the meetings as appropriate.

Responsibilities

The main roles and responsibilities of the Audit Committee include:

- monitoring the integrity of the Group's financial statements and reviewing significant financial reporting issues and judgements contained therein;
- monitoring the statutory audit of the annual and consolidated accounts;
- reviewing the Group's systems of financial control and risk management and receiving reports from the Adviser's own risk committee;
- 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 auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements; and
- annually considering the need for an internal audit function.

The Audit Committee will also be responsible for advising the Board on the viability assessment and statement to be made in Annual Reports following this one.

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

Report on the Committee's activities during the year

During the year, the Committee discharged its responsibilities, under its terms of reference, by:

- reviewing the Group's draft annual financial statements and 2015 half-year results statement prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- advising the Board on whether the Annual Report, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's performance, position, business model and strategy;
- reviewing the continuing appropriateness of the Group's accounting policies;
- reviewing the auditor's plan for the audit of the Group's 2015 financial statements, receiving and reviewing confirmations of auditor independence and approving the terms of engagement and proposed fees for the 2015;
- considering the qualifications, expertise, resources and independence of the auditor through reviews of their reports and performance;
- recommending the re-appointment of the auditor for 2016;
- the Committee Chairman meeting with the auditor and with staff of the Adviser in February, early August and December to review the audit plans and progress, accounting processes and to discuss emerging points and early drafts of the financial reports;
- the Committee receiving presentations from the Adviser on the subject of risk, its identification, management and control, accounting and control and property portfolio management and performing a robust and rigorous review of risk management procedures; and
- considered the need for an internal audit function.

Financial reporting

The Board and the Adviser are responsible for preparing the Annual Report. The Audit Committee is asked to review the Annual Report and consider whether it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

In undertaking its assessment, the Committee considered the systems and controls operated by the Adviser around the preparation of the accounts and the procedures included in these to bring relevant information to the attention of those who prepare the accounts, the consistency of the reports and whether they are in accordance with the information provided to the Board during the year. It also considered whether the Annual Report had been written in straightforward language, without unnecessary repetition of information and that market specific terms and any non-statutory measures, such as EPRA ratios, had been adequately defined or explained.

The Audit Committee has reviewed the contents of this year's Annual Report and financial statements and confirmed to the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Audit Committee report continued

Auditor independence

The Company's policy prohibits the external auditor from performing services where there may be perceived to be a conflict with their role as external auditor or which may compromise their independence or objectivity.

There is not an automatic ban in place on the external auditor undertaking non-audit work and each possible appointment is reviewed on a case-by-case basis. Subject to the overriding requirement to ensure independence and objectivity of the external auditor, the Adviser may procure non-audit services from the external auditor up to £25,000 in value. All other proposed engagements must be submitted to the Committee for approval prior to engagement. Details of the amounts paid to the external auditor during the year for audit and other services are set out in Note 4 to the financial statements on page 59.

The external auditor was engaged for two non-audit assignments during the year, relating to tax compliance and advisory work. Both engagements were for fees less than £25,000. The services were deemed to be ancillary to other assurance services provided by the external auditor where using their knowledge of the facts under consideration was seen as being cost effective for the Group. Their engagement was not deemed to compromise their objectivity and independence as sufficient safeguards were in place and the work was performed by individuals who do not form part of the audit team. The external auditor has also been engaged to provide tax advice in relation to the Group's investment in assets in the Republic of Ireland.

Effectiveness of external auditors

The effectiveness of the audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received from Deloitte LLP a detailed audit plan, identifying their assessment of these key risks. For 2015, the primary risks identified were in relation to the valuation of the property portfolio, investment properties under construction, revenue recognition, financing and the valuation of financial instruments and going concern.

The Board and the Adviser take responsibility for exercising judgement when necessary in preparing the Annual Report and financial statements. They prepare and review papers provided to the auditor setting out their judgements and approaches taken to specific items. The work undertaken by the auditor in this area to test management's assumptions and estimates is challenged by the Audit Committee, which assess the effectiveness of the audit process through the reporting received from Deloitte LLP at both half year and year end. In addition, the Audit Committee seeks feedback from the Adviser on the effectiveness of the audit process. The Committee is satisfied with the effectiveness of the auditor and therefore recommends their re-appointment.

Deloitte LLP have been the external auditor of PHP since being appointed in June 2013, which is also the date of the last audit tender. There are no contractual obligations that restrict the Audit Committee's choice of external auditor.

Audit tender policy

During the year, the Committee established an audit tender policy that was adopted by the Board on 18 August 2015. The Audit Committee will consider the need for a competitive tender for the role of external auditor at least every five years and recommend to the Board if a tender process is felt to be appropriate. In any event, a competitive tender will take place at least every ten years.

The tender process will be administered by the Audit Committee who will consider whether to seek major investors' views on the audit firms to be invited to tender and success criteria to be used by the Company in the course of the tender.

If a tender is conducted as part of a normal tender cycle, the incumbent auditor will be invited to participate in the tender unless prohibited due to specific factors such as independence.

The Audit Committee will make a recommendation to the Board of its preferred appointee.

Significant accounting matters

The Committee considers all financial information published in the annual and half-year financial statements and considers accounting policies adopted by the Group, presentation and disclosure of financial information and, in particular, the key judgements made in preparing the financial statements.

Valuation of the property portfolio

The Group has property assets of £1.1 billion as detailed in the Group Balance Sheet. As explained in Note 10 to the financial statements, properties are independently valued by Lambert Smith Hampton in accordance with IAS 40 'Investment property'. The Audit Committee reviewed and discussed with management the judgements and assumptions made in respect of the property valuation, reviewed the valuer's report and the auditors comments thereon, and concluded that the valuation is appropriate.

Revenue recognition

Following objective assessments, the Group adopts a policy of recognising 90% of the expected uplift from rent reviews from the date a rent review falls due until the date it is settled, when any additional balance due is recognised. The Committee reviewed the judgements made in respect of this policy, reviewed past experience of settlements and challenged management as to its continued appropriateness. The Committee received confirmation from management that the policy remained appropriate. The Committee also discussed with Deloitte LLP, the external auditor, this matter and is satisfied that the policy remains appropriate.

Financing and valuation of financial instruments

The Group hedges its exposure to interest rate risk swaps using financial instruments. The Group accounts for these instruments in accordance with IAS 39 and makes the additional required disclosures under IFRS 7 'Financial instruments: disclosures'. This is a complex area of accounting and accordingly the Committee monitors the work of the Adviser and where it feels necessary seeks advice from Deloitte LLP on the Company's compliance with such requirements and evaluations.

The valuation of the financial instruments is undertaken by J.C. Rathbone ("JCRA"), an independent specialist in this area. The Committee has considered and complied with the requirements of IFRS 13, concerning the measurement of credit risk in the valuation of financial instruments. The Committee received detailed verbal and written reporting from JCRA and Deloitte LLP and accordingly is satisfied that the accounting guidelines have been applied appropriately.

Review of risk management and internal control processes

The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's risk management processes and systems of internal control reviewing.

Following a review of material controls and the report of the Adviser's own risk committee and the work it performed on risk management procedures operated by the Adviser, the Committee believes that the key risks facing the business have been correctly identified and disclosed in the Risk Management section of the Strategic Report on pages 22 and 24.

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 Finance Director in all aspects of the day-to-day operations. The scope and quality of the Adviser's systems of internal controls are monitored and reviewed by the Adviser's Risk Committee and regular monitoring reports are provided to the Board. The Committee believes that, although robust, the Group's and Adviser's systems of internal control are 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.

In reviewing the periodic financial reports of the Group, the Committee is reliant on the policies and procedures followed by the Adviser 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. 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 a comfort letter from the Adviser to assist the Board in assessing the policies and procedures and making the disclosures. No significant deficiencies in internal control have been identified.

Internal audit

The Audit Committee considers annually the requirement for an internal audit function and the Board, on the recommendation of the Audit Committee, having regard to the matters considered above, has concluded that one is not currently required.

Steven Owen
Chairman of the Audit Committee
3 February 2016

Remuneration Committee report

Composition and responsibilities

The Remuneration Committee meets at least once per year and comprises four Independent Directors, being chaired by me, Dr Ian Rutter (Chairman), supported by Alun Jones, Mark Creedy and Steven Owen.

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. The Managing Director and Finance Director are employed by the Adviser and remunerated by them and so the Committee does not determine executive pay.

Report on the Committee's activities during the year

The Committee met twice during the year to receive data from the Company Secretary benchmarking Directors' remuneration with that of the Company's peers and to agree the rates of remuneration that were applied from April 2015. All members were in attendance at both meetings.

The Committee also met on 2 February 2016 to benchmark Directors' remuneration with that to be paid by the Company's peers for 2016.

The Directors' remuneration report is set out on pages 37 to 40.

Dr Ian Rutter
Chairman of the Remuneration Committee
3 February 2016

Nomination Committee report

Composition and responsibilities

The Nomination Committee, which I chair, 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. I am supported on the Committee by Alun Jones, Mark Creedy and Steven Owen, all of whom are Independent Non-executive directors.

Board diversity

The terms of reference of the Nomination Committee state that potential candidates should be considered on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including, but not limited to gender.

The Directors consider the background and experience brought to the Board by each individual to contribute to its diversity. In any recruitment, the Board prefers to select the best qualified candidate to provide the Board with the expertise required to implement its long term strategy, rather than to fulfil any fixed quota. Subject to that overriding principle, the Directors believe that the Board's perspective and approach can be greatly enhanced through gender, age and cultural diversity. In recommending new appointments to the Board the Nomination Committee considers the existing balance of skills, knowledge and experience and the time candidates have available to commit to the role.

Report on the Committee's activities during the year

During the year, the Committee discharged its responsibilities, under its terms of reference, by:

- reviewing the proposals for rotation and re-election of Directors at the Annual General Meeting;
- reviewing the succession plan for the Board;
- discussing the results of the performance and evaluation exercise; and
- reviewing its terms of reference.

Specifically, the Committee, in reviewing succession planning for the Board, recommended in February 2015 that Phil Holland be appointed to the Board as Finance Director. Phil is a long standing member of the Adviser's senior management team with overall responsibility for the day to day financial management of the Group. The Committee felt it appropriate that Mr Holland, as Deputy Managing Director, was formally appointed to the Board.

The Committee has also commenced a process to identify, assess and nominate replacement directors to be appointed by the Company to replace Mr. Hambro and Mr. Hemmings who will retire following the conclusion of the Company's 2016 Annual General Meeting.

Terms of Non-executive appointments

Non-executive Directors are appointed for an initial three-year term and are subject to annual 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.

Dr Ian Rutter
Chairman of the Nomination Committee
3 February 2016

Adviser Engagement Committee report

The Adviser Engagement Committee comprises Mark Creedy (Chairman), Ian Rutter, Alun Jones and Steven Owen. The Committee meets at least annually to review the terms of the Advisory Agreement and the performance of the Adviser. Other Non-executive Directors may attend the meetings if invited to do so by the Chairman.

Responsibilities

The main roles and responsibilities of the Adviser Engagement Committee include:

- Annual review of the terms of the Advisory Agreement;
- Consideration and discussion of any amendments to be made to the Advisory Agreement;
- Annual review and evaluation of the performance of the Adviser;
- Annual review and approval of remuneration paid to the Adviser; and
- Advising the Board on such other matters relating to the Advisory Agreement and the Adviser as may be requested by the Board.

During the year, the Committee twice met formally to review the performance of the Adviser and the terms of the Advisory Agreement.

Mark Creedy
Chairman of the Adviser Engagement Committee
3 February 2016

Directors' remuneration report

Statement from the Chairman of the Remuneration Committee

I present the Remuneration Report for the year to 31 December 2015 in accordance with the regulations governing the disclosure and approval of Directors' remuneration. The report has been divided into two parts:

- the Directors' Remuneration Policy, which was approved by shareholders at the 2014 AGM, to be reviewed every three years thereafter; and
- the Annual Report on Remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory resolution at the forthcoming AGM.

In preparing the report the Committee has taken into account guidance on directors' remuneration reporting from the GC100 and Investors Group.

The Remuneration Committee's 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. A recommendation is then made to the Board.

The Committee met twice during the year and having considered relevant external survey information of Directors' fees paid by companies similar to the Company, the Committee resolved to increase the level of directors' remuneration with effect from 1 April 2015, in order to be able to attract, retain and motivate Directors of the highest calibre.

Directors' Remuneration Policy

The Company's policy is to pay each Director a fixed fee per annum commensurate with the level of commitment required and prevailing rates informed by external consultants and comparable organisations. Additional responsibility, such as that of the Chairman, is rewarded by a fixed additional sum. Expenses incurred in connection with the Company's business are reimbursed.

This Remuneration Policy was approved by shareholders at the Company's AGM on 10 April 2014. Accordingly, the Remuneration Policy provisions set out below will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or when the Committee recommends that Remuneration Policy is varied, in which case, shareholder approval for the new Remuneration Policy will be sought.

The table below shows the annualised rates of fees paid to Non-executive Directors and to the Adviser, with regard to the Managing Director, during the year ending 31 December 2015. No fees are paid to the Finance Director.

Component	Director	Remuneration up to 31 March 2015	Remuneration since 1 April 2015
Annual fee	All Non-executive Directors	£30,000	£35,000
Additional fee	Chairman of the Board	£10,000	£11,667
Additional fee	Chairman of the Audit Committee	£6,000	£7,000

Recruitment and remuneration policies

- No Director is entitled to receive any remuneration which is performance related. As a result there are no performance conditions in relation to any elements of the Directors' remuneration in this policy.
- The remuneration package for any new Chairman or Non-executive Director will be the same as the prevailing rates determined on the bases set out above. The fee and entitlement to reclaim reasonable expenses is set out in the Directors' letters of appointment.
- There is no provision for the recovery of sums paid to a Director or the withholding of the payment of any sum due to a Director.
- The Company will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay fees to search and selection consultants in connection with the appointment of any Non-executive Director.
- The Committee determines appropriate levels of remuneration for all Directors' fees, subject to the overall limit as set out in the Articles of Association of £500,000.
- Having appointed the Finance Director during the year, the Company only intends to appoint Non-executive Directors for the foreseeable future.

There have been no changes to the Company's Remuneration Policy for Directors since the publication of the last Annual Report of the Group.

Directors' remuneration report continued

Service contracts

No Director has a service contract, nor are they appointed for a specific term.

The contract for the services of Harry Hyman and Phil Holland is with Nexus, pursuant to the Advisory Agreement. The Adviser receives the annual fee for a Non-executive Director for the services of Harry Hyman.

There are letters of appointment in place for the 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 Directors appointments can be terminated upon either party giving not less than three months' prior written notice. These letters of appointment are available for inspection at the Registered Office and at the AGM.

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.

Loss of office – Directors do not have any entitlement to payment upon loss of office over and above the pro-rated fees due to them and any outstanding expenses.

Scenarios – as the Directors' fees are fixed at annual rates, there are no other scenarios where remuneration will vary. It is accordingly not considered appropriate to provide different remuneration scenarios for each Director.

Statement of consideration of conditions elsewhere in the Company
As the Company has no employees, the process of consulting with employees on the setting of the Remuneration Policy is not relevant.

Other items

None of the Directors has any entitlement to bonus, pensions or pension related benefits, medical or life insurance schemes, share options, long term incentive plans, performance related payments or other benefits. Non-executive Directors may be reimbursed for travel and accommodation expenses in connection with Board meetings and in line with the Group's expense policy. No Director is entitled to any other monetary payment or any assets of the Company except in their capacity as shareholders of the Company.

Directors' and officers' liability insurance cover is maintained by the Company, at its expense, on behalf of the Directors.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, and relevant sections of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2016 AGM. The information on pages 37 to 40 has been audited where required under the regulations and indicated as audited information where applicable.

The Remuneration Committee determines appropriate levels of remuneration for all Directors' fees as set out in the Articles of Association. 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 reviewed on 1 April 2015.

The set fee for each Non-executive Director and payable to the Adviser for the services of the Managing Director from that date was £35,000 per annum and £46,667 per annum for the Chairman. The Audit Committee Chairman received an additional £7,000 per annum.

The Directors who served during the year received the following fees:

Single total figure of remuneration (audited information)

	Year ended 31 December 2015	Year ended 31 December 2014
Graeme Elliot[1]	–	£20,000
Alun Jones[2]	**£45,000**	£39,000
Harry Hyman (Managing Director)[3]	**£33,750**	£30,000
James Hambro	**£33,750**	£30,000
William Hemmings	**£33,750**	£30,000
Dr Ian Rutter	**£33,750**	£30,000
Mark Creedy	**£33,750**	£30,000
Phil Holland[4]	–	–
Steven Owen[5]	**£40,500**	£34,348
Total	**£254,250**	£243,348

1 Payment in role as Chairman until retirement on 10 April 2014.

2 Payment as Chairman of Audit Committee from 1 January 2014 to 10 April 2014 and as Chairman from 11 April 2014.

3 Payable to the Adviser in accordance with the Advisory Agreement.

4 Mr Holland's appointment is as a representative of the Adviser and no separate fee is payable to either him or the Adviser.

5 Payment as a Director from appointment in 1 January 2014. Additional fee paid from 11 April 2014 following appointment as Chairman of Audit Committee.

Harry Hyman is a Director of Nexus, the Adviser to the Group. The fees in respect of the services of Harry Hyman are paid to Nexus.

Phil Holland is employed by Nexus, the Adviser to the Group. No additional fees are paid to Nexus in respect of the services of Phil Holland.

James Hambro is a Director of J O Hambro Capital Management Holdings Limited, the holding company for JOHCM. Until the termination of its service agreement on 30 April 2014, JOHCM was a joint adviser to the Group.

The fee in respect of Mr Hemmings' services as a Director is paid to Aberdeen Asset Management PLC.

The fee in respect of Mr Owen's service as a Director is paid to Oakland Ventures Limited.

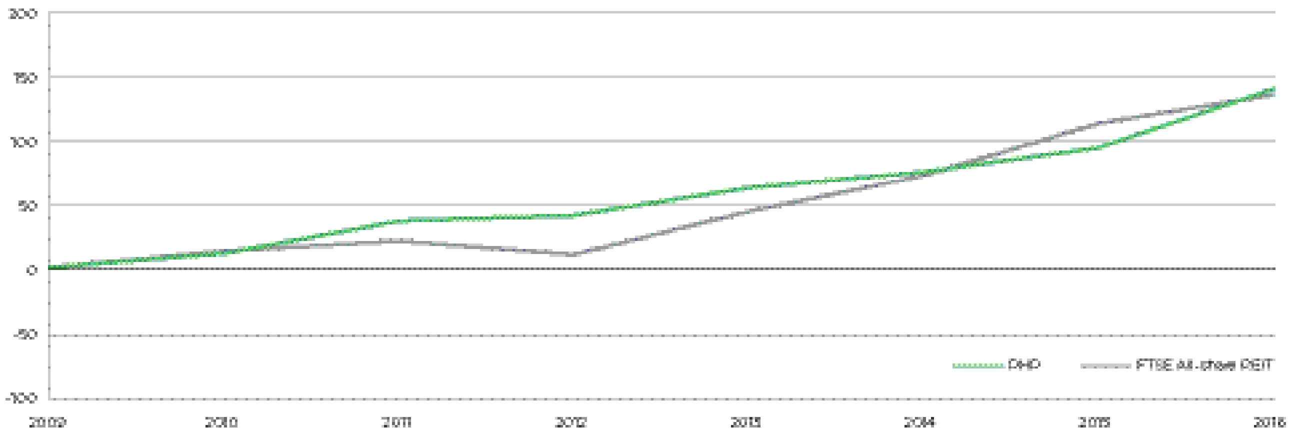
The Managing Director holds a non-executive director appointment outside of the Company. The Advisory Agreement does not require the services of the Managing Director on a full time basis and he is committed to working a minimum number of days a month for the Company. The Remuneration Committee is satisfied that the Company has received the appropriate time commitment from the Managing Director.

Further details of the Advisory Agreement are given in the Directors' Report on page 42 and details of the amounts paid to the Adviser in Note 4 to the financial statements on page 59.

Company's performance

The following graph compares, over a seven-year period, the total shareholder return 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 Trust 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 2015, the highest and lowest mid-market prices of the Company's Ordinary Shares were 91.25[2] pence and 111.25[2] pence respectively.



Relative importance of spend on pay

The following table shows the total remuneration paid to Directors and total management fees paid compared to the dividends paid to shareholders:

	2015	2014	Difference
Directors' fees[1]	**£254,250**	£243,348	£10,902
Management fee	**£5,296,000**	£5,345,000	(£49,000)
Dividends	**£22,265,243**	£21,651,318	£613,925

[1] As the Company has no employees the total spend on remuneration comprises just the Directors' fees.

[2] Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

Note: the items listed in the table above are as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 section 20 with the exception of the management fee which has been included because the Directors believe it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are as shown in Note 4 to the financial statements.

There is no separate amount to be disclosed with regard to the Managing Director as his services are provided in accordance with the advisory agreement.

Directors’ remuneration report continued

Relative importance of spend on pay continued

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

	31 December 2015 Held outright	31 December 2015 Held by connected parties	31 December 2014[1] Held outright	31 December 2014[1] Held by connected parties
Mark Creedy	**48,000**	**2,540**	48,000	2,540
James Hambro	**195,428**	**–**	195,428	–
William Hemmings	**26,133**	**–**	23,748	–
Harry Hyman	**287,153**	**16,032,853**	279,976	16,030,924[2]
Alun Jones	**90,000**	**–**	90,000	–
Phil Holland	**12,936**	**20,912**	12,936[3]	14,000[3]
Steven Owen	**36,632**	**–**	34,872	–
Dr Ian Rutter	**40,320**	**–**	38,476	–

1 Restated to reflect the Company’s four for one share sub-division undertaken in November 2015.

2 Includes 16,000,000 shares held by Nexus Group Holdings Limited.

3 As appointment at 17 February 2015.

Save as disclosed below, no changes occurred between 31 December 2015 and the date of this report.

Mr and Mrs 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 held outright 26,222 shares and Mr Hymans held outright 287,242 shares, and connected parties to Mr Hyman 16,032,942 shares.

Statement of shareholder voting

At the 2015 AGM, shareholder voting on the Remuneration Report was as follows:

	Number of shares	% of votes cast
Votes cast in favour	41,716,624	99.9
Votes cast against	57,124	0.1
Total votes cast	**41,773,748**	**100.0**
Abstentions	27,727	0.1

Statement of implementation of the remuneration policy for the year ending 31 December 2016

The Committee will apply the current remuneration policy for the year ending 31 December 2016. On 2 February 2016, following a recommendation from the Committee, the Board resolved to pay the following annual fees to the Non-executive Directors’ from 1 April 2016.

Component	Director	Remuneration from 1 April 2016
Annual fee	All Non-executive Directors	£38,000
Additional fee	Chairman of the Board	£12,000
Additional fee	Chairman of the Audit Committee	£7,000

Approval

The Directors’ Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors

Dr Ian Rutter
Chairman of the Remuneration Committee
3 February 2016

Directors' report

The Directors present their Annual Report to shareholders for the year ended 31 December 2015.

The Company has chosen, in accordance with section 414c(ii) of the Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report on pages 1 to 25 which otherwise would be required to be disclosed in the Directors' Report. These include:

- Future developments;
- Post balance sheet events;
- Directors and Directors' interests;
- Related party transactions; and
- Use of financial instruments.

Principal activity

The principal activity of the Group (of which Primary Health Properties PLC is the Parent Company) is the generation of rental income and capital growth through investment in primary healthcare property in the United Kingdom and the Republic of Ireland.

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.

Results and dividends

The results for the year are shown in the Group Statement of Comprehensive Income on page 49.

Interim ordinary dividends totalling 5.0 pence per Ordinary Share[1] were paid during the year (year ended 31 December 2014: 4.875 pence[1]).

The Board has also resolved to pay quarterly dividends from 2016 onwards until further notice. On 4 January 2016, the Board declared an interim dividend of 1.28125 pence per Ordinary share, payable on 26 February 2016, to shareholders on the register at 15 January 2016. Further information on dividends can be found in the Shareholder Information section on page 86.

[1] Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

Directors

Biographical information for the current Directors can be found on pages 26 and 27.

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. The Company has, however, adopted the requirements of the UK Corporate Governance Code in requiring the annual re-election of all Directors.

Phil Holland was appointed to the Board as Finance Director and Deputy Managing Director on 17 February 2015 and subsequently elected by shareholders at the Company's Annual General Meeting on 22 April 2015. Mr Hemmings and Mr Hambro will both retire after the conclusion of the Company's 2016 Annual General Meeting to be held on 5 April 2016 and will therefore not be seeking re-election.

All other Directors who served during the year will retire and being eligible, will offer themselves for re-election at the Company's next Annual General Meeting. A proposal to re-elect such Directors will be included within the Notice of Annual General Meeting. The Chairman confirms to shareholders that, following formal performance evaluation, the continuing individual Directors' performance is effective and valuable and they demonstrate full commitment to their roles.

Information on the performance evaluation of the Board is shown in the Corporate Governance Report on page 30. Details of Directors' interests in the share capital and equity of the Company and Directors' remuneration are contained in the Directors' Remuneration Report on pages 37 to 40.

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 resolutions regarding the allotment, issue and purchase of the Company's shares will be set out in the Notice of Annual General Meeting which can be found in the separate document being posted to shareholders in due course.

Indemnities

The Company procures directors' and officers' liability insurance in respect of itself, the Directors and the directors of its subsidiaries. These indemnities are qualifying third-party indemnity provisions as defined by Section 234 of the Companies Act 2006.

The indemnities were valid throughout the year and are currently valid.

Substantial interests

As at 3 February 2016, the Company had been notified or was otherwise aware of the following shareholders who were directly or indirectly interested in 3% or more of the voting rights in the Company's issued share capital:

	Voting rights	%
Unicorn Asset Management	24,305,720	5.45
Blackrock	23,827,282	5.34
Investec Wealth & Investment	22,093,393	4.95
CCLA Investment Management	19,999,380	4.48
Charles Stanley	19,849,430	4.45
Troy Asset Management	18,880,000	4.23
Brooks Macdonald Asset Management	17,866,076	4.00
Nexus Group Holdings Limited	16,000,000	3.59
Hargreaves Lansdown	14,027,827	3.14

The Ordinary Shares held by Nexus Group Holdings Limited ("Nexus Group") are subject to a debenture and fixed charge 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. Nexus Group is connected to Harry Hyman.

Directors' report continued

Share capital
At a General Meeting of the Company on 11 November 2015, shareholders approved the resolution to sub-divide each issued Ordinary Share of 50.0 pence each into four Ordinary Shares of 12.5 pence. The sub-division of the Ordinary Shares became effective on 12 November 2015 (see Note 19 to the financial statements for further information).

At the date of this report, the Company has one class of share in issue, being 446, 281, 348 Ordinary Shares of 12.5 pence each and each carrying the right to one vote. Details of changes in share capital are set out in Note 19 of the financial statements.

Corporate governance
A report on corporate governance and compliance with the provisions of the UK Corporate Governance Code, which forms part of this Directors' Report, is contained on pages 28 to 30.

Report on greenhouse gas emissions
The Group is externally advised and administered by the Adviser and therefore has no employees or office premises. Any emissions are therefore negligible. Further information on the Group's social and environmental impact can be found in the Strategic Report on page 25.

Requirements of the Listing Rules
None of the requirements of the Listing Rule 9.8.4R are applicable to the Group and therefore a separate identifiable section has not been included.

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 does 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 Advisory Agreement with the Adviser (further details of which can be found in the section below) is considered essential to the business as the Group has no employees. The Agreement is reviewed at least annually by the Advisers Engagement Committee.

During the financial year and as at the date of this report, none of the Directors other than those referred to below were materially interested in any significant agreements relating to the Group's business or in any proposed transactions.

Related party transactions
Mr Hyman is a director of Nexus Tradeco Limited ("Nexus"). Nexus is the Adviser to the Group and, as a result, Mr Hyman is deemed to have an interest in the Advisory Agreement referred to below and is thus a related party.

Advisory Agreement
Pursuant to an advisory agreement between the Company and the Adviser (Nexus) ("the Advisory Agreement"), last updated on 17 November 2014, the Company has appointed Nexus:

- to provide property advisory and management services to the Group and the services of the Managing Director of the Company ("Property Advisory Services");
- to provide administrative and accounting services to the Group; and
- to act as the appointed Company Secretary (together the "Administrative Services").

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

Advisory fees
(a) Property Advisory Services
The current fee arrangement for Property Advisory Services (the "Property Services Fee"), based on gross asset value, is as follows:

Gross assets	Total fee
First £250 million	0.500%
Between £250 million and £500 million	0.475%
Between £500 million and £750 million	0.400%
Between £750 million and £1 billion	0.375%
Between £1 billion and £1.25 billion	0.325%
Above £1.25 billion	0.300%

Additional payments that may be made to Nexus for non-standard real estate related services are capped at 10% of the total annual Property Services Fee payable to Nexus.

As regards Property Advisory Services, the Advisory Agreement is terminable by not less than two years' written notice.

(b) Administrative services
The Advisory Agreement provides for the Company to pay Nexus in relation to Administrative Services:

- a fixed annual fee of £748,621 for a period of two years from 1 May 2014; and
- a fixed annual fee of £935,776 from 1 May 2016.

The Administrative Services fee may be increased or decreased by up to 5% per annum subject to movements in RPI from 1 May 2016.

Nexus' appointment to provide Administrative Services was initially for a minimum two-year period ending 1 May 2016. Thereafter, the notice period to terminate such services shall be 12 months given by either Nexus or the Company.

(c) Performance Incentive Fee ("PIF")
Nexus is entitled to a PIF equal to 11.25% of any performance in excess of an 8% per annum increase in the Group'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 was payable in 2015 or 2014 and there is a deficit of some £12.5 million

(2014: £41.9 million) to be made up in the net asset value before any further PIF becomes payable under the terms of the Agreement.

Using the relevant audited accounts, the Total Return for the purpose of PIF 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.

Donations

The Group does not make any political or charitable donations.

Share service

The Shareholder Information section on page 86 provides details of the share services available.

Financial instruments

The Group's financial risk management objectives and policies are discussed in Notes 17 and 18.

Post balance sheet events

Details of events occurring since the year end are given in Note 29 on page 77.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report.

The Group's property portfolio is 99.7% occupied with 91% of its income funded directly or indirectly by the UK Government.

In July 2015, the Group extended its £50 million revolving credit facility with HSBC Bank PLC for a new five-year term with all other aspects of the facility remaining unchanged. In addition, on 7 January 2016 the Group completed the expansion and extension of its £100 million mixed revolving credit/term loan facility with Barclays Bank plc. The facility was increased to £115 million, with the additional capacity being provided by Allied Irish Banks plc and the enlarged facility provided for a new five year term.

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

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

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 26 and 27. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing the report) of which the Company's auditors are unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Annual General Meeting

The Annual General Meeting will be held on 5 April 2016 at 10.30 a.m. The Notice convening the Annual General Meeting and explanatory notes for the resolutions sought will be sent to shareholders separately from this document.

The Directors consider that all of the resolutions to be 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 re-appoint Deloitte LLP as the Group's auditors 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

Nexus Management Services Limited
Company Secretary
3 February 2016

Primary Health Properties PLC
Registered office: 5th Floor, Greener House, 66–68 Haymarket, London SW1Y 4RF

Registered in England Number: 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 ("IFRS") 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 IFRS 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.

Responsibility statements under the Disclosure and Transparency Rules

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

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the business review incorporated into the Strategic Report on pages 16 to 21 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces. The Board believes that the disclosures set out on pages 1 to 25 of the Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

In addition, having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Directors are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, position, business model and strategy.

For and on behalf of the Board

Alun Jones
Chairman
3 February 2016

Independent auditor's report

to the members of Primary Health Properties PLC

Opinion on financial statements of Primary Health Properties PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS"s) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity, the Parent Company Statement of Changes in Equity and the related notes 1 to 29 for the Group and 1 to 17 for the Parent Company. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "reduced disclosure framework".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Directors' Report on page 43 and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 24.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 22 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22 and 23 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 43 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanations on page 24 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Independent auditor's report continued

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Valuation of property portfolio The Group owns and manages a portfolio of modern primary healthcare properties that are carried at fair value in the financial statements. The portfolio is valued at £1,100.6 million as at 31 December 2015. The valuation of the portfolio is a significant judgement area and is underpinned by a number of assumptions. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the income statement and balance sheet, warrants specific audit focus in this area. The Group uses a professionally qualified external valuer to fair value the Group's portfolio at six-monthly intervals. The valuer is engaged by the Directors and performs their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards. The valuer used by the Group has considerable experience in the markets in which the Group operates. The portfolio (excluding development properties) is valued by the investment method of valuation with development properties valued by the same methodology with a deduction made by the Directors for all costs necessary to complete the development. Key inputs into the valuation exercise are yields and current market rent, which are influenced by prevailing market forces, comparable transactions and the specific characteristics of each property in the portfolio. Please see accounting policies on page 53 and note 10 to the financial statements.	We assessed management's process for reviewing and challenging the work of the external valuer; We assessed the competence, independence and integrity of the external valuer and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; We tested the integrity of the data provided to the independent valuer relating to rental income; We assessed the forecast costs to complete on development properties by reviewing a sample of the commitments per the development agreements and auditing a sample of costs incurred in the year to supporting documentation; We obtained the external valuation reports for all properties and confirmed that the valuation approach is in accordance with RICS and suitable for use in determining the carrying value in the balance sheet; We met with the external valuer of the portfolio to discuss the results of the work on a sample of properties. Our sample focused on the largest properties in the portfolio and those where the assumptions used and/or year-on-year capital value movement implied a possible outlier against available market data and the remaining portfolio; We discussed and challenged the valuation process, performance of the portfolio and significant assumptions and critical judgement areas by benchmarking the key assumptions to external industry data and comparable property transactions, in particular the yields applied.
Valuation of financial instruments The Group uses a portfolio of interest rate swaps to hedge the risk associated with the variable rate debt facilities. The portfolio was valued at a liability of £35.3 million at 31 December 2015. The swaps are recognised in the financial statements at fair value. The Group uses a professionally qualified external valuer to provide the fair value of the Group's interest rate swap portfolio at six-monthly intervals. The portfolio was valued by projecting future interest rates in order to provide a present value of the cash flows payable on the swap contracts. This gives rise to a significant audit risk due to the judgement required and the impact of small changes in the projected interest rates on the fair value of the liability recorded. Please see accounting policies on pages 54 to 56 and note 17 to the financial statements.	We have assessed management's reviews of derivative valuations and hedge effectiveness documentation for the accuracy of calculations and compliance with accounting standard criteria. With the assistance of a member of the audit team who specialises in financial instrument valuations, we have audited a sample of the interest rate swaps by assessing and recalculating the valuation using our own models with reference to the terms of the underlying derivative contracts. We have independently recalculated hedge effectiveness calculations and reviewed the hedge designation documentation for a sample of the hedged instruments to assess that the appropriate hedge accounting has been reflected in the financial statements.

Our assessment of risks of material misstatement continued

Risk	How the scope of our audit responded to the risk
Appropriateness of revenue recognition Revenue for the Group consists of rental income earned on its investment property portfolio. Total revenue for the year to 31 December 2015 totalled £63.1 million. Within revenue, there are certain transactions which warrant additional audit focus and have an increased inherent risk of error due to their non-standard nature. Our risk of material misstatement focuses on the accounting treatment for such unusual or more complex items including lease incentives and the cut-off around property transactions. Please see accounting policies on page 53 and note 3 to the financial statements.	We carried out testing relating to the design and implementation of controls over revenue recognition, the treatment of rents and other property related income to assess the controls to prevent and detect fraud and errors in revenue recognition. We performed detailed analytical procedures in connection with revenue (including rents, incentives and other property related revenue) to assess whether revenue had been recognised in the appropriate accounting period. We have tested the accounting treatment of lease incentive calculations, with our sample covering both existing and new leases, by recalculating the relevant income statement and balance sheet amounts.

Last year our report included an additional risk relating to the accounting for financing transactions because there was significant refinancing of debt facilities and the issue of the £82.5 million convertible bond. This is not included in our report this year due to the lower number and reduced complexity of financing transactions undertaken in the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 32 to 33.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £6.7 million (2014: £6.2 million), which is based on 2% (2014: 2%) of net assets. In addition to net assets, we consider EPRA earnings to be a critical financial performance measure for the Group and we applied a lower threshold of £1.0 million (2014: £0.6 million) based on 5% of that measure for testing of all impacted balances.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £135,000 (2014: £125,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally, as the books and records for each entity within the Group are maintained at the offices of the adviser.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

We perform full scope audit procedures on all of the Group's subsidiaries which are subject to statutory audit at materiality levels which in most cases are substantially lower than Group materiality. This results in full scope audit procedures performed on 99% of the Group's net assets.

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report continued

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

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

Claire Faulkner (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
3 February 2016

Group statement of comprehensive income

for the year ended 31 December 2015

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

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

[2] Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

The above relates wholly to continuing operations.

Group balance sheet

at 31 December 2015

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

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

[2] Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

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

Alun Jones
Chairman

Group cash flow statement

for the year ended 31 December 2015

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

1 Acquisition of Thornaby Property.

2 Acquisition of White Horse, Westbury Property.

Group statement of changes in equity

for the year ended 31 December 2015

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

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

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

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

Notes to the financial statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2015 were approved by the Board of Directors on 3 February 2016 and the Balance Sheets were signed on the Board's behalf by the Chairman, Alun Jones. Primary Health Properties PLC is a public limited company incorporated and domiciled in England and Wales. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Conduct Authority, and traded on the London Stock Exchange.

2. Accounting policies

2.1 Basis of preparation

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

The Group's financial statements are prepared on the going concern basis (see page 43 for further details) and presented in Sterling rounded to the nearest thousand.

2.2 Summary of significant accounting policies

Basis of consolidation

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

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

Segmental reporting

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

Investment properties and investment properties under construction

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

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

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

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

Property acquisitions and business combinations

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

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

Net rental income

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

Notes to the financial statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Interest income

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Bank loans and borrowings

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

Borrowing costs

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

Convertible bond

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

Taxation

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

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

Financial instruments

Financial liabilities at fair value through profit or loss

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

Other loans and payables

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

Loans and receivables

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

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

De-recognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

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

Fair value measurements

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Derivative financial instruments (derivatives) and hedge accounting

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

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

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

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

- Where a derivative is designated as a hedge of the variability of a highly probable forecast transaction, such as an interest payment, the element of the gain or loss on the derivative that is an "effective" hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in the cash flow hedging reserve are reclassified into the Group Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Group Statement of Comprehensive Income, i.e. when interest income or expense is recognised.
- The gain or loss on derivatives that do not meet the strict criteria for being "effective" and so do not qualify for hedge accounting and the non-qualifying element of derivatives that do qualify for hedge accounting are recognised in the Group Statement of Comprehensive Income immediately. The treatment does not alter the fact that the derivatives are economic hedges of the underlying transaction.

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

Leases – Group as a lessor

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

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

2.3 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

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

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

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

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

Fair value of derivatives

In accordance with IAS 39, the Group values its derivative financial instruments at fair value. Fair value is estimated by J.C. Rathbone Associates Limited on behalf of the Group, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid-price of the yield curve prevailing on 31 December 2015. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

2. Accounting policies continued

2.3 Significant accounting estimates and judgements continued

a) Estimates continued

Rent reviews

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

b) Judgements

Leases

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

Hedge effectiveness

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

Property acquisitions during the year

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

2.4 Standards adopted during the year

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

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

2.5 Standards issued but not yet effective

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

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 16	Leases
IAS 16 and IAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation
IAS 16 and IAS 41 (amendments)	Agriculture bearer plants
IAS 19 (amendments)	Defined benefit plans: employee contributions
IAS 27 (amendments)	Equity method in separate financial statements
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
IFRS 11 (amendments)	Accounting for acquisitions of interests in joint operations
Annual improvements to IFRSs: 2012-2014	Amendments to: IFRS 5 – Non-current assets held for sale and discontinued operations, IFRS 7 – Financial instruments: disclosures, IAS 19 – Employee benefits and IAS 34 – Interim financial reporting

Notes to the financial statements continued

2. Accounting policies continued

2.5 Standards issued but not yet effective continued

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, but are not yet applicable to the Group and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following set out below:

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

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

IFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to EU adoption. The Group is assessing the impact of IFRS 15 but it is not expected to be material.

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

3. Rental and related income

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

Group as a lessor

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

	Less than one year £000	One to five years £000	More than five years £000	Total £000
2015	**61,850**	**246,566**	**590,357**	**898,773**
2014	58,811	234,577	591,842	885,230

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

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

4. Group operating profit is stated after charging

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

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

a) Advisory fees

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

	2015 £000	2014 £000
Nexus	**5,296**	4,697
J O Hambro Capital Management ("JOHCM")	**–**	648
	5,296	5,345

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

As at 31 December 2015 £0.5 million was payable to Nexus (2014: £0.4 million). There were no outstanding sums payable to JOHCM (2014: £nil).

Further fees paid to Nexus in accordance with the Advisory Agreement of £0.1 million (2014: £0.1 million) in respect of capital projects were capitalised in the year.

Service charge management fees paid to Nexus in the year in connection with the Group's properties totalled £0.1 million (2014: £nil).

b) Performance Incentive Fee

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

c) Remuneration of Directors

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

5. Finance income

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

Notes to the financial statements continued

6. Finance costs

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

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

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

The fair value gain on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A fair value loss on derivatives which do meet the hedge effectiveness criteria under IAS 39 of £0.1 million (2014: loss of £9.9 million) is accounted for directly in equity. An amount of £1.6 million has been amortised from the cash flow hedging reserve in the year resulting from an early termination of an effective swap contract (see Note 23).

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

	2015 £000	2014 £000
d) Convertible bond		
Fair value loss on convertible bond	**(6,469)**	(4,462)

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

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

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2015 £000	2014 £000
Current tax		
UK corporation tax (Note 7b)	**–**	–

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

b) Factors affecting the tax credit for the year

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

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

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

c) Basis of taxation

The Group elected to be treated as a UK REIT with effect from 1 January 2007. The UK REIT rules exempt the profits of the Group's property rental business from corporation tax. Gains on properties are also exempt from tax, provided they are not held for trading or sold in the three years post completion of development. The Group will otherwise be subject to corporation tax at 20% (2014: 21%).

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

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

To remain as a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activities and the balance of its business. The Group remains compliant as at 31 December 2015.

Notes to the financial statements continued

8. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per Share (pence)
2015			
Basic and diluted earnings			
Basic earnings	**56,032**	**445,606,491**	**12.6**
Dilutive effect of convertible bond	**3,506**	**84,615,385**	
Diluted earnings	**59,538**	**530,221,876**	**11.2**
EPRA basic and diluted earnings			
Basic earnings	**56,032**		
Adjustments to remove:			
Net result on property (Note 10)	**(39,767)**		
Fair value gain on derivatives	**(1,005)**		
Fair value movement on convertible bond	**6,469**		
EPRA basic earnings	**21,729**	**445,606,491**	**4.9**
Dilutive effect of convertible bond	**3,506**	**84,615,385**	
EPRA diluted earnings	**25,235**	**530,221,876**	**4.8**
2014			
Basic and diluted earnings			
Basic earnings	36,880	444,176,340	8.3
Dilutive effect of convertible bond	2,170	52,391,992	
Diluted earnings	39,050	496,568,332	7.9
EPRA basic and diluted earnings			
Basic and diluted earnings	36,880		
Adjustments to remove:			
Net result on property (Note 10)	(29,204)		
Fair value loss on derivatives	2,454		
Fair value movement on convertible bond	4,462		
Early loan repayment fee charges[1]	1,187		
Issue costs of convertible bond	2,426		
EPRA basic and diluted earnings	18,205	444,176,340	4.1

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

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

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

The dilutive impact to basic EPS of convertible bonds is represented by the accrued bond coupon which has been included in the results of the year ended 31 December 2015. The number of dilutive shares is calculated as if the contingently issuable shares within the convertible bond had been in issue for the period from issuance of the bonds to 31 December 2015.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

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

[1] Restated to reflect the Company's four for one share sub-division undertaken in November 2015.

On 4 January 2016, the Board declared an interim dividend of 1.28125 pence per Ordinary Share with regard to the year ended 31 December 2015, payable on 26 February 2016. This dividend will not be a Property Income Distribution ("PID").

10. Investment properties, investment properties under construction

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

The properties are 99.7% let (2014: 99.7%). The valuations reflected a 5.32% net initial yield (2014: 5.52%) and a 5.53% (2014: 5.75%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the Valuers.

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

Notes to the financial statements continued

10. Investment properties, investment properties under construction continued

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

	Investment properties freehold £000	Investment properties long leasehold £000	Investment properties under construction £000	Total £000
1 January 2015	825,274	177,075	23,858	1,026,207
Property additions	18,078	148	14,839	33,065
Impact of lease incentive adjustment	629	944	–	1,573
Transfer from properties under construction	6,853	23,750	(30,603)	–
	850,834	201,917	8,094	1,060,845
Revaluations for the year	31,182	7,944	641	39,767
31 December 2015	**882,016**	**209,861**	**8,735**	**1,100,612**
1 January 2014	759,781	170,088	11,679	941,548
Property additions	22,833	2,051	30,071	54,955
Property disposals	(525)	–	–	(525)
Impact of lease incentive adjustment	857	168	–	1,025
Transfer from properties under construction	20,698	–	(20,698)	–
	803,644	172,307	21,052	997,003
Revaluations for the year	21,630	4,768	2,806	29,204
31 December 2014	825,274	177,075	23,858	1,026,207

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £1,051 million (2014: £997.3 million).

Fair value hierarchy

All of the Group's properties are level 3, as defined by IFRS 13, in the fair value hierarchy as at 31 December 2015 and 31 December 2014. There were no transfers between levels during the year or during 2014. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Valuation techniques used to derive level 3 fair values

The valuations have been prepared on the basis of fair market value ("FMV") which is defined in the RICS Valuation Standards as:

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

Valuation techniques: market comparable method

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

Unobservable input: estimated rental value ("ERV")

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

	2015	2014
ERV – range of the portfolio	**£55,436–£1,159,877 per annum**	£55,436–£1,158,011 per annum

Unobservable input: equivalent yield

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

	2015	2014
True equivalent yield – range of the portfolio	**4.58%–6.70%**	4.83%–6.76%

10. Investment properties, investment properties under construction continued

Unobservable input: physical condition of the property

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

Unobservable input: rental growth

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

Special assumptions

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

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

Sensitivity of measurement of significant unobservable inputs

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

11. Group entities

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

Subsidiaries held directly by the Company

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

Subsidiaries indirectly held by the Company

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

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

[1] Subsidiary acquired during the year.

[2] Subsidiary company registered in Scotland.

[3] Subsidiary company registered in Jersey.

Notes to the financial statements continued

12. Trade and other receivables

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

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

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

The Group's principal customers are invoiced and pay quarterly in advance, usually on the English quarter days. No bad debt provision was required (2014: £nil) and no receivables were considered impaired. There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants.

13. Cash and cash equivalents

	2015 £000	2014 £000
Cash held at bank	**2,881**	8,472
Restricted cash	**–**	3,600
	2,881	12,072

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

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

14. Trade and other payables

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

15. Borrowings: term loans and overdrafts

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

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

Providers:

1 The Royal Bank of Scotland plc.

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

3 Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032.

4 Aviva GPFC facility.

5 HSBC Bank facility.

6 Aviva facility.

7 Barclays facility.

8 Aviva facility.

9 RBS facility (acquired with Crestdown Limited).

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

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

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

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

Notes to the financial statements continued

15. Borrowings: term loans and overdrafts continued

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

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

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

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

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

16. Borrowings: bonds

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

Secured Bond

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

Retail Bond

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

Convertible Bond

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

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

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

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

16. Borrowings: bonds continued

Convertible bond continued

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

The fair value of the convertible bond at 31 December 2015 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NAV.

17. Derivatives and other financial instruments

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

	2015 £000	2014 £000
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 ("effective swaps")		
Non-current assets	**9**	–
Current liabilities	**(1,403)**	(2,825)
Non-current liabilities	**(19,383)**	(20,956)
	(20,777)	(23,781)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 ("ineffective swaps")		
Non-current assets	**–**	25
Current liabilities	**(3,331)**	(2,977)
Non-current liabilities	**(11,170)**	(14,256)
	(14,501)	(17,208)
Total fair value of interest rate swaps	**(35,278)**	(40,989)
Shown in the balance sheet as:		
Total non-current assets	**9**	25
Total current liabilities	**(4,734)**	(5,802)
Total non-current liabilities	**(30,553)**	(35,212)

Changes in the fair value of the contracts that do not meet the strict IAS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IAS 39 criteria and are designated as "effective" cash flow hedges, the change in fair value of the contract is recognised in the Group Statement of Changes in Equity through the cash flow hedging reserve. The result recognised in the Group Statement of Comprehensive Income on "ineffective" cash flow hedges in 2015 was a £1.0 million gain, including the amortisation of the cash flow hedging reserve of £1.6 million (2014: £2.5 million loss).

Notes to the financial statements continued

17. Derivatives and other financial instruments continued

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

Contract value	Start date	Maturity	Fixed interest per annum %
2015			
£28.0 million	March 2013	March 2017	0.900
£50.0 million	August 2007	August 2021	4.835
£38.0 million	August 2007	August 2021	4.740
£10.0 million	June 2006	June 2026	4.810
£126.0 million			
2014			
£70.0 million	July 2013	July 2015	4.805
£28.0 million	March 2013	March 2017	0.900
£50.0 million	August 2007	August 2021	4.835
£38.0 million	August 2007	August 2021	4.740
£10.0 million	August 2005	August 2015	4.530
£10.0 million	June 2006	June 2026	4.810
£206.0 million			

Contracts not yet in effect	Start date	Maturity	Fixed interest per annum %
£25.0 million[1]	January 2018	January 2023	2.470
£75.0 million[1]	January 2019	January 2024	2.650
£10.0 million	June 2016	June 2026	4.510
£10.0 million	July 2016	July 2026	4.400
£10.0 million	July 2016	July 2026	4.475
£10.0 million	July 2016	July 2026	4.455
£20.0 million	July 2016	July 2026	4.479
£20.0 million	July 2017	July 2027	4.760
£180.0 million			

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

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

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

18. Financial risk management

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

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

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

Financial risk factors

a) Interest rate risk

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

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

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

		Effect on fair value of financial instruments £000	Effect on profit before taxation £000	Effect on equity £000
2015				
London InterBank Offered Rate	Increase of 50 basis points	**9,922**	**3,377**	**13,299**
London InterBank Offered Rate	Decrease of 50 basis points	**(9,922)**	**(3,377)**	**(13,299)**
2014				
London InterBank Offered Rate	Increase of 50 basis points	9,089	4,549	13,638
London InterBank Offered Rate	Decrease of 50 basis points	(9,089)	(4,549)	(13,638)

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, and trade and other receivables.

Trade receivables

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

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

Bank and financial institutions

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

c) Liquidity risk

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

Notes to the financial statements continued

18. Financial risk management continued
Financial risk factors continued
c) Liquidity risk continued
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 three months £000	Three to twelve months £000	One to five years £000	>five years £000	Total £000
2015						
Interest-bearing loans and borrowings	**–**	**6,350**	**20,577**	**535,724**	**286,642**	**849,293**
Interest rate swaps (net)	**–**	**1,002**	**4,142**	**31,599**	**27,152**	**63,895**
Trade and other payables	**2,899**	**9,922**	**778**	**1,828**	**102**	**15,529**
	2,899	**17,274**	**25,497**	**569,151**	**313,896**	**928,717**
2014						
Interest-bearing loans and borrowings	–	6,186	20,038	528,325	295,132	849,681
Interest rate swaps (net)	–	1,910	5,597	31,030	27,772	66,309
Trade and other payables	2,166	7,333	2,909	1,312	92	13,812
	2,166	15,429	28,544	560,667	322,996	929,802

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given below under (e) Capital risk management and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2014: none).

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

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

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

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

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

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

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

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

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

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

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

Fair value measurements at 31 December 2015 are as follows:

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

Fair value measurements at 31 December 2014 are as follows:

Recurring fair value measurements	Level 1[1] £000	Level 2[2] £000	Level 3[3] £000	Total £000
Financial assets				
Derivative interest rate swaps	–	25	–	25
Financial liabilities				
Derivative interest rate swaps	–	(41,014)	–	(41,014)
Convertible bond	(86,962)	–	–	(86,962)

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

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

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

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

- interest rates;
- yield curves;
- swaption volatility;
- observable credit spreads;
- credit default swap curve; and
- observable market data.

Notes to the financial statements continued

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

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

Under its banking facilities, the Group is subject to the following capital and covenant requirements:

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

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

- interest cover: 1.0 to 1.5:1 (2014: 1:0 to 1.5:1); and
- loan to value: 50% to 75% (2014: 50% to 75%).

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

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

19. Share capital
Issued and fully paid at 12.5p each[1]

	2015 Number	2015 £000	2014 Number	2014 £000
Balance at 1 January	**445,106,648[1]**	**55,638**	441,896,920[1]	55,237
Scrip issues in lieu of second interim cash dividend	**406,396[1]**	**51**	326,216[1]	41
Scrip issues in lieu of first interim cash dividend	**768,304[1]**	**96**	810,540[1]	101
Shares issued as consideration for PPP	**–**	**–**	2,072,972[1]	259
Balance at 31 December	**446,281,348[1]**	**55,785**	445,106,648[1]	55,638

Issue of shares in 2015

	Date of issue	Number of shares[1]	Issue price[1]
Scrip issue in lieu of second interim cash dividend	1 April 2015	406,396	97.125p
Scrip issue in lieu of first interim cash dividend	30 October 2015	768,304	102.5375p

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

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

20. Share premium

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

21. Capital reserve

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

	2015 £000	2014 £000
Balance at 1 January and 31 December	**1,618**	1,618

22. Special reserve

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

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

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

23. Cash flow hedging reserve

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

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

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

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

Notes to the financial statements continued

24. Retained earnings

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

25. Net asset value per share

Net asset values have been calculated as follows:

	2015 £000	2014 £000
Net assets per Group Balance Sheet	**345,360**	309,130
Derivative interest rate swaps (net liability)	**35,278**	40,989
Convertible bond fair value movement	**10,931**	4,462
EPRA net asset value	**391,569**	354,581

	Number of shares	Number of shares
Ordinary Shares		
Issued share capital	**446,281,348**	445,106,648
Net asset value per share:		
Basic net asset value per share	**77.4p**	69.5p
EPRA NAV per share	**87.7p**	79.7p

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

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

26. Capital commitments

As at 31 December 2015, the Group has entered into separate development agreements with third parties for the purchase of primary health developments. The Group has acquired the land on which they are being built and advanced funds to the developer as the construction has progressed. Upon completion of the building development work, the Group will acquire ownership of the completed asset. Total consideration of £21.8 million plus VAT (2014: £11.2 million plus VAT) remains to be funded with regard to these properties.

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

27. Related party transactions

The terms and conditions of the Advisory Agreement are described in the Directors' Report and the Directors' Remuneration Report.

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

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

28. Contingent liabilities

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

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

29. Subsequent events

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

Company balance sheet

as at 31 December 2015

	Notes	2015 £000	Restated 2014 £000
Non-current assets			
Investment in subsidiaries	6	**124,884**	120,824
		124,884	120,824
Current assets			
Trade and other receivables	7	**311,234**	306,248
Cash at bank and in hand	8	**10**	–
		311,244	306,248
Total assets		**436,128**	427,072
Current liabilities			
Trade and other payables	9	**(45,375)**	(41,419)
		(45,375)	(41,419)
Non-current liabilities			
Borrowings	10	**(164,065)**	(155,056)
		(164,065)	(155,056)
Total liabilities		**(209,440)**	(196,475)
Net assets		**226,688**	230,597
Equity			
Share capital	12	**55,785**	55,638
Share premium		**57,422**	56,416
Capital reserve		**1,618**	1,618
Special reserve	13	**93,063**	115,438
Retained earnings		**18,800**	1,487
Total equity		**226,688**	230,597
Net asset value per share – basic	14	**51p**	52p

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

Alun Jones
Chairman

Company statement of changes in equity

for the year ended 31 December 2015

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
1 January 2015	55,638	56,416	1,618	115,438	1,487	230,597
Profit for the year	–	–	–	–	17,313	17,313
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	17,313	17,313
Share issue expenses	–	(30)	–	(109)	–	(139)
Dividends paid:						
Second interim dividend for the year ended 31 December 2014 (2.5p)	–	–	–	(10,733)	–	(10,733)
Scrip dividend in lieu of second interim cash dividend	51	344	–	(395)	–	–
First interim dividend for the year ended 31 December 2015 (2.5p)	–	–	–	(10,350)	–	(10,350)
Scrip dividend in lieu of first interim cash dividend	96	692	–	(788)	–	–
31 December 2015	**55,785**	**57,422**	**1,618**	**93,063**	**18,800**	**226,688**

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
1 January 2014	55,237	55,611	1,618	135,483	(507)	247,442
Profit for the year	–	–	–	–	1,994	1,994
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	1,994	1,994
Share issue as part of consideration for PPP	259	–	–	1,605	–	1,864
Share issue expenses (PPP)	–	(15)	–	–	–	(15)
Dividends paid:						
Second interim dividend for the year ended 31 December 2013 (2.4375p)	–	–	–	(10,542)	–	(10,542)
Scrip dividend in lieu of second interim cash dividend	41	238	–	(279)	–	–
First interim dividend for the year ended 31 December 2014 (2.4375p)	–	–	–	(10,146)	–	(10,146)
Scrip dividend in lieu of first interim cash dividend	101	582	–	(683)	–	–
31 December 2014	55,638	56,416	1,618	115,438	1,487	230,597

Notes to the Company financial statements

1. Accounting policies

The Company is a limited company incorporated in England and Wales in accordance with the Companies Act 2006. These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates.

Basis of accounting/statement of compliance

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

For all periods up to and including the year ended 31 December 2014 the Company prepared its financial statements in accordance with applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements for the year ended 31 December 2015 are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made the relevant changes in accounting policies and other restatements required for the first time adoption of FRS 101. Refer to Note 17 for an explanation of the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6 to 33 of IFRS 1 "First time adoption of International Financial Reporting Standards" as amended in accordance with paragraph 5(b) of FRS 101.

As permitted by FRS 101, exemptions from applying the following requirements have been adopted:

- IFRS 7 'Financial Instruments: Disclosures';
- IFRS 13 'Fair Value Measurement' paragraphs 91 to 99;
- IAS 1 'Presentation of Financial Statements' paragraphs 10(d), 10(f), 38 to 40, 76, 79(d) and 134 to 136;
- IAS 7 'Statement of Cash Flows';
- IAS 24 'Related Party Disclosures' paragraphs 17 and 18A; and
- IAS 36 'Impairment of Assets' paragraphs 130(f)(ii), 130(f)(iii), 134(d) to (f) and 135(c) to (e).

The Company has also taken advantage of the exemption from the requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

The financial statements have been prepared under the historical cost convention.

Statement of comprehensive income

The Company has taken advantage of the exemption in the Companies Act from presenting a Company statement of comprehensive income together with related notes.

Cash flow statement

The Directors have taken advantage of the exemption in FRS 101 from including a cash flow statement in the financial statements on the grounds that a consolidated cash flow statement is presented in the Group financial statements of PHP.

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 the payment is established.

1. Accounting policies continued

Investment in subsidiaries

Investments in subsidiary undertakings are stated at cost in the Company's statement of financial position less any provision for permanent impairment in value. The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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 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.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Revenue

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

4. Taxation

	2015 £000	2014 £000
UK corporation tax	–	–

5. Dividends

Amounts recognised as distributions to equity holders in the year:

	2015 £000	2014 £000
Second interim dividend for the year ended 31 December 2014 (2.5p) paid 1 April 2015 (2014: 2.4p)	**10,733**	10,542
Scrip dividend in lieu of second interim cash dividend	**395**	279
First interim dividend for the year ended 31 December 2015 (2.5p) paid 30 October 2015 (2014: 2.4p)	**10,350**	10,146
Scrip dividend in lieu of first interim cash dividend	**788**	683
Total dividends distributed in the year	**22,266**	21,650
Per share	**5.0p**	4.9p

Notes to the Company financial statements continued

6. Investment in subsidiaries

	£000
At 1 January 2015	**120,824**
Acquisition of Crestdown Limited	**4,022**
Issue of PHP Bond Finance PLC unpaid share capital	**38**
At 31 December 2015	**124,884**
At 1 January 2014	133,893
Impairment of investment in subsidiaries	(13,164)
Acquisition of PPP Limited	95
At 31 December 2014	120,824

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

Subsidiaries held directly by the Company

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

Subsidiaries held indirectly by the Company

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

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

[1] Subsidiary acquired during the year.

[2] Subsidiary company registered in Scotland.

[3] Subsidiary company registered in Jersey.

7. Trade and other receivables

	2015 £000	2014 £000
Amounts due from Group undertakings	**310,725**	302,452[1]
Prepayments and accrued income	**74**	65
Other receivables	**435**	3,731
	311,234	306,248

1 Re-presented to reflect that the amounts due from Group undertakings are repayable on demand.

Amounts due from Group undertakings are unsecured, interest free and repayable on demand.

8. Cash at bank and in hand

	2015 £000	2014 £000
Cash at bank and in hand	**10**	—

9. Trade and other payables

	2015 £000	2014 £000
Current		
Trade payables	**34**	1
Amounts owed to Group undertakings	**43,227**	39,480[1]
Other payables	**220**	45
Accruals and deferred income	**1,894**	1,893
	45,375	41,419

1 Re-presented to reflect that the amounts owed to Group undertakings are repayable on demand.

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

10. Borrowings

	2015 £000	2014 £000
Retail bond July 2019	**75,000**	75,000
Unamortised issue costs	**(680)**	(869)
Intra-group loan with PHP Finance (Jersey) Limited (Note 11)	**78,905**	77,968
Option to convert (Note 11)	**10,840**	2,957
	164,065	155,056

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a Retail Bond, following the issue of a £75 million unsecured, seven year bond, to retail investors, with an interest rate of 5.375% paid semi-annually in arrears. The bond issue costs are being amortised using the effective interest rate method in accordance with FRS 101.

11. Intra-group loan with PHP Finance (Jersey) Limited

On 20 May 2014 PHP Finance (Jersey) Limited (the "Issuer") – a wholly-owned subsidiary of the Company – issued £82.5 million of convertible bonds due in 2019 (the "Bonds") at par. The proceeds have been loaned to the Company and the Company has unconditionally and irrevocably guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the Bonds.

Subject to their terms, the Bonds are convertible into preference shares of the Issuer which are automatically transferred to the Company in exchange for Ordinary Shares in the Company or, at the Company's election, any combination of Ordinary Shares and cash.

The intra-group loan between the Issuer and the Company arising from the transfer of the loan proceeds was initially recognised at fair value, net of capitalised issue costs and is accounted for using the amortised cost method.

In addition to the intra-group loan, the Company has effectively entered into a derivative contract due to its guarantee of the obligations of the Issuer in respect of the Bonds and the commitment to provide shares or a combination of shares and cash on conversion of the Bonds. This derivative contract is included within the balance sheet as a liability carried at fair value through profit and loss.

See Note 16 in the Group financial statements for further details about the convertible bond.

Notes to the Company financial statements continued

12. Share capital

Issued and fully paid at 12.5p each[1]

	2015 Number	2015 £000	2014 Number	2014 £000
Balance at 1 January	**445,106,648[1]**	**55,638**	441,896,920[1]	55,237
Scrip issues in lieu of second interim cash dividend	**406,396[1]**	**51**	326,216[1]	41
Scrip issues in lieu of first interim cash dividend	**768,304[1]**	**96**	810,540[1]	101
Shares issued as consideration for PPP	—	—	2,072,972[1]	259
Balance at 31 December	**446,281,348[1]**	**55,785**	445,106,648[1]	55,638

Issue of shares in 2015

	Date of issue	Number of shares[1]	Issue price[1]
Scrip issue in lieu of second interim cash dividend	1 April 2015	406,396	97.125p
Scrip issue in lieu of first interim cash dividend	30 October 2015	768,304	102.5375p

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

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

13. Special reserve

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

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

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

14. Net asset value per Ordinary Share

	2015 pence	2014 pence
Basic and diluted	**51**	52

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £226.7 million (2014: £230.6 million) and on 446,281,348 (2014: 445,106,648 shares), being the number of shares in issue at the year end.

15. Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £21.8 million plus VAT (2014: £11.2 million plus VAT).

16. Related party transactions

Details of related party transactions are provided in the Directors' Report on page 41, the Directors' Remuneration Report on page 38 and Notes 27 to the Group Financial Statements on page 77. There are no employees other than the Directors, listed on pages 26 and 27.

The Company has also taken advantage of the exemption from the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

17. Conversion to FRS 101

Following the Company's adoption of FRS 101, the 2014 comparative information in these financial statements has been restated and re-presented under FRS 101. The adoption of FRS 101 has resulted in no movement in the profit or loss for the year ended 31 December 2014 from UK GAAP to FRS 101 and no movement in the total equity under UK GAAP at 1 January 2014 and 31 December 2014 to the total equity under FRS 101. The balance sheet at 1 January 2014 is re-presented below under FRS 101.

Balance sheet at 1 January 2014 under FRS 101

	Restated 1 January 2014 £000
Non-current assets	
Investment in subsidiaries	133,893
	133,893
Current assets	
Trade and other receivables	215,694
Cash at bank and in hand	12
	215,706
Total assets	349,599
Current liabilities	
Trade and other payables	(28,216)
	(28,216)
Non-current liabilities	
Borrowings	(73,941)
	(73,941)
Total liabilities	(102,157)
Net assets	247,442
Equity	
Share capital	55,237
Share premium	55,611
Capital reserve	1,618
Special reserve	135,483
Retained earnings	(507)
Total equity	247,442

Shareholder information

Corporate calendar 2016

Annual General Meeting	5 April 2016
AGM statement	5 April 2016
Announcement of half year results	July 2016

Dividends

Starting in 2016 and until further notice, the Company intends to make quarterly dividend payments to shareholders. The proposed timetable for 2016 is:

Payment of quarterly dividend (record date 15 January 2016)	26 February 2016
Anticipated interim payments	May 2016 August 2016 November 2016

Distributions from the Company may comprise PIDs (see below), ordinary cash dividends or a combination of the two. No PIDs have been paid by the Group since 1 January 2007.

Payment of dividends

If you would like your dividend/interest paid directly into your bank or building society account, you should write to the Registrar 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. Shareholders can obtain information about the Scrip Dividend Scheme from the Company or the Registrar.

Investment account

The Company has made arrangements for Equiniti Financial Services Limited to provide an Investment Account to allow lump sum and regular savings to facilitate the purchase the Company's Ordinary Shares. Detail and the forms required for this Service can be accessed from the Company's website or alternatively at:

www.shareview.co.uk/dealing

For details of the service please contact: Equiniti, PO Box 4605, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA Shareholder helpline: 0345 300 0430.

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

Taxation status

The REIT Regulations require a REIT to distribute at least 90% of its exempt rental income (as calculated for tax purposes) as a PID.

PIDs are paid out under deduction of withholding tax at the basic rate, currently 20%. Certain classes of shareholders, including UK companies, charities, local authorities and UK pension schemes may receive PIDs without deduction of withholding tax, if a valid claim is lodge with the Company by a qualifying shareholder. Shareholders who wish to apply for a tax exemption form should contact the Registrar.

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.

Registrar

The Company's registrar is Equiniti. In the event of any queries regarding your holding of shares, please contact the registrars free of charge on 0371 384 2030 (lines are open 8.30am to 5.30pm Monday to Friday), or in writing to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

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 PHP shares. 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. 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) or access www.shareview.co.uk/dealing.

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Property valuer

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Glossary of terms

Adviser is Nexus Tradeco Limited.

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

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

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

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

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

Dividend cover is the number of times the dividend payable (on an annual basis) is covered by EPRA earnings.

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

European Public Real Estate Association ("EPRA") is a real estate industry body, which has issued Best Practice Recommendations in order to provide consistency and transparency in real estate reporting across Europe.

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

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

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

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

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

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

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

Gross rental income is the gross accounting rent receivable.

Group is Primary Health Properties PLC and its subsidiaries.

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

Interest cover is the number of times net interest payable is covered by net rental income.

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

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

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

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

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

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

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

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

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

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

NHSPS is NHS Property Services Limited, the company wholly owned and funded by the Department of Health, which, as of 1 April 2013, has taken on all property obligations formerly borne by Primary Care Trusts.

Parity value is calculated based on dividing the convertible bond value by the exchange price.

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

Real Estate Investment Trust (“REIT”) is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK profits, arising from property rental income and gains on investment property disposals, from corporation tax, but which has a number of specific requirements.

Rent reviews take place at intervals agreed in the lease and their purpose is usually to adjust the rent to the current market level at the review date.

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

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

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

RICS is the Royal Institution of Chartered Surveyors.

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

Special reserve is a distributable reserve.

Total expense ratio (“TER”) is calculated as total administrative costs for the year divided by the average total asset value during the year.

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

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

Total shareholder return is calculated as the movement in the share price for the period plus the dividends paid, divided by the opening share price.

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

Weighted average unexpired lease term (“WAULT”) is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

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

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

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Primary Health Properties PLC’s commitment to environmental issues is reflected in this Annual Report which has been printed on Claro Silk, an FSC® Mix Certified paper, which ensures that all virgin pulp is derived from well-managed forests and other responsible sources.

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