Primary Health Properties

The leading investor in modern health properties

Primary Health Properties PLC
Annual Report 2016

Delivering for over 20 years

Primary Health Properties is a 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.

Manage
effectively and efficiently

See pages 16–17

Deliver

“PHP celebrated its 20th year as a listed investor in healthcare real estate in 2016 and delivered its 20th successive year of dividend growth.”

See page 12

Fund
diversified, long term funding

See page 18

Grow
property portfolio

See pages 14–15

Net rental income (£m)

£66.6m +6.9%

2016	66.6
2015	62.3
2014	59.3

EPRA earnings per share[1] (p)

4.8p -0.8%

2016	4.8
2015	4.9
2014[2]	4.1

IFRS profit for the year (£m)

£43.7m -22.0%

2016	43.7
2015	56.0
2014	36.9

IFRS net assets (£m)

£499.2m +44.5%

2016	499.2
2015	345.4
2014	309.1

EPRA NAV per share[1] (p)

91.1p +3.9%

2016	91.1
2015	87.7
2014[2]	79.7

Total property portfolio (£bn)

£1.2bn +10.8%

2016	1.2
2015	1.1
2014	1.0

EPRA cost ratio[1] (%)

11.5% unchanged

2016	11.5
2015	11.5
2014	12.02

Loan to value[3] (%)

53.7% -9.0%

2016	53.7
2015	62.7
2014	64.1

[1] See page 19 for information.

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

[3] See Note 18 to financial statements.

>> Read more about KPIs on page 13

Tipperary Primary Care Centre

Size: 2,448 sqm

Built: 2016

Tenants: HSE, GP practice and Pharmacy

WAULT: 25 years

The leading investor in modern primary healthcare premises

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, government healthcare bodies and other associated healthcare users.

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

PHP's strategy is to provide high quality buildings for its tenants and growing returns to its shareholders.

Portfolio value

£1,223.5m[1]

Occupancy

99.7%

Proportion of Group's rent roll funded by government bodies

90.2%[2]

Properties

296[1]

Registered patients – UK only

3.2m[1]

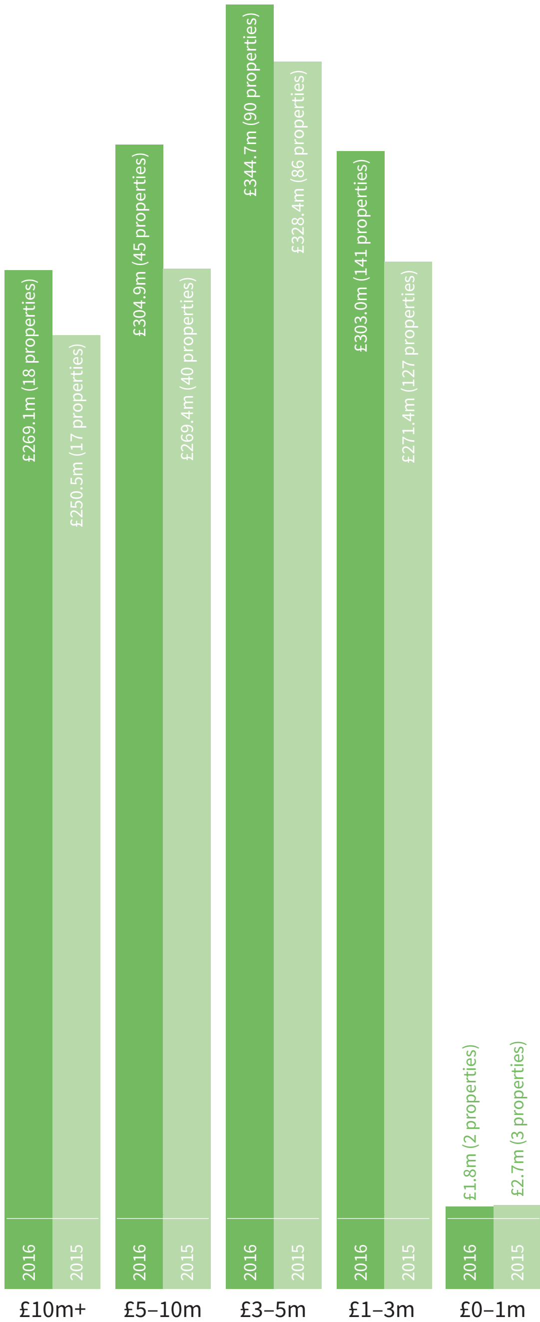
Contracted annual rent roll

£68.0m[1]

[1] Including development commitments as complete.

[2] Includes GP rent roll reimbursed by the NHS and lettings direct to government bodies including the NHS and HSE.

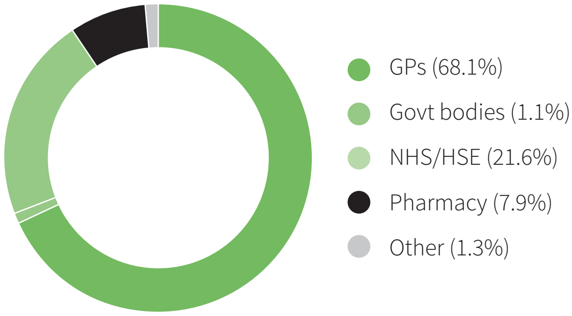
Portfolio distribution by capital value of building



Our property portfolio

The Group's completed properties at 31 December 2016 are located in the United Kingdom and the Republic of Ireland and leased to general practitioners, government healthcare bodies and other associated healthcare users. Over 3.2 million patients are registered to GP practices at our properties in the UK.

Covenant analysis by annual rent



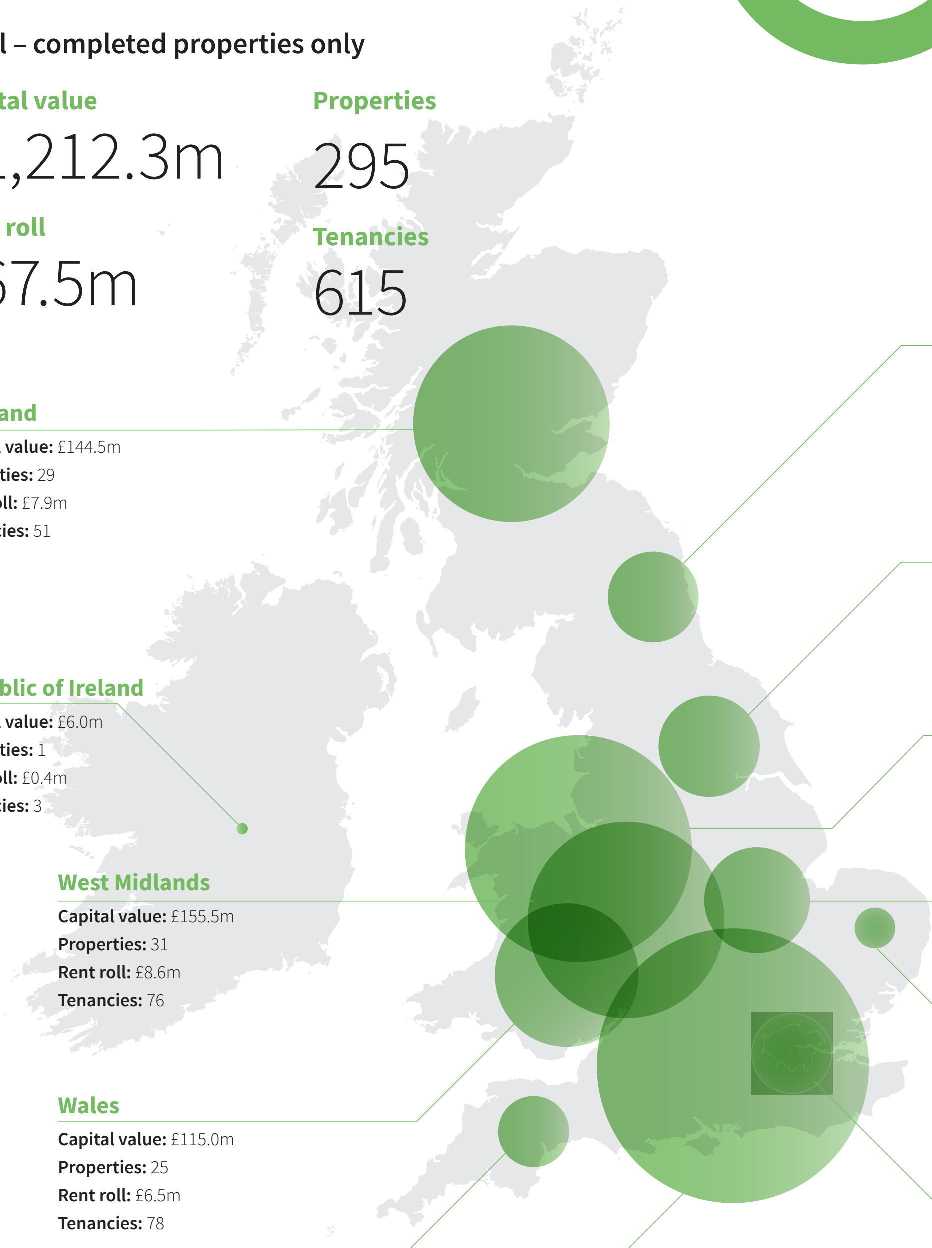
Total – completed properties only

Capital value
£1,212.3m

Properties
295

Rent roll
£67.5m

Tenancies
615



Scotland
Capital value: £144.5m
Properties: 29
Rent roll: £7.9m
Tenancies: 51

Republic of Ireland
Capital value: £6.0m
Properties: 1
Rent roll: £0.4m
Tenancies: 3

West Midlands
Capital value: £155.5m
Properties: 31
Rent roll: £8.6m
Tenancies: 76

Wales
Capital value: £115.0m
Properties: 25
Rent roll: £6.5m
Tenancies: 78

South West
Capital value: £57.2m
Properties: 18
Rent roll: £3.1m
Tenancies: 30

South East
Capital value: £219.4m
Properties: 67
Rent roll: £12.7m
Tenancies: 132

North
Capital value: £72m
Properties: 25
Rent roll: £4.6m
Tenancies: 54

Yorkshire and Humberside
Capital value: £82.5m
Properties: 19
Rent roll: £4.7m
Tenancies: 39

North West
Capital value: £178.4m
Properties: 32
Rent roll: £9.0m
Tenancies: 64

East Midlands
Capital value: £85.5m
Properties: 23
Rent roll: £4.7m
Tenancies: 47

East Anglia
Capital value: £32.5m
Properties: 9
Rent roll: £1.9m
Tenancies: 18

London
Capital value: £63.8m
Properties: 16
Rent roll: £3.4m
Tenancies: 23

Chairman's statement

Another successful year of growth

Alun Jones, Chairman

Highlights

- EPRA earnings increased by 23.5%
- First acquisition completed in the Republic of Ireland
- Equity issue raises £150 million of new capital
- Dividend fully covered

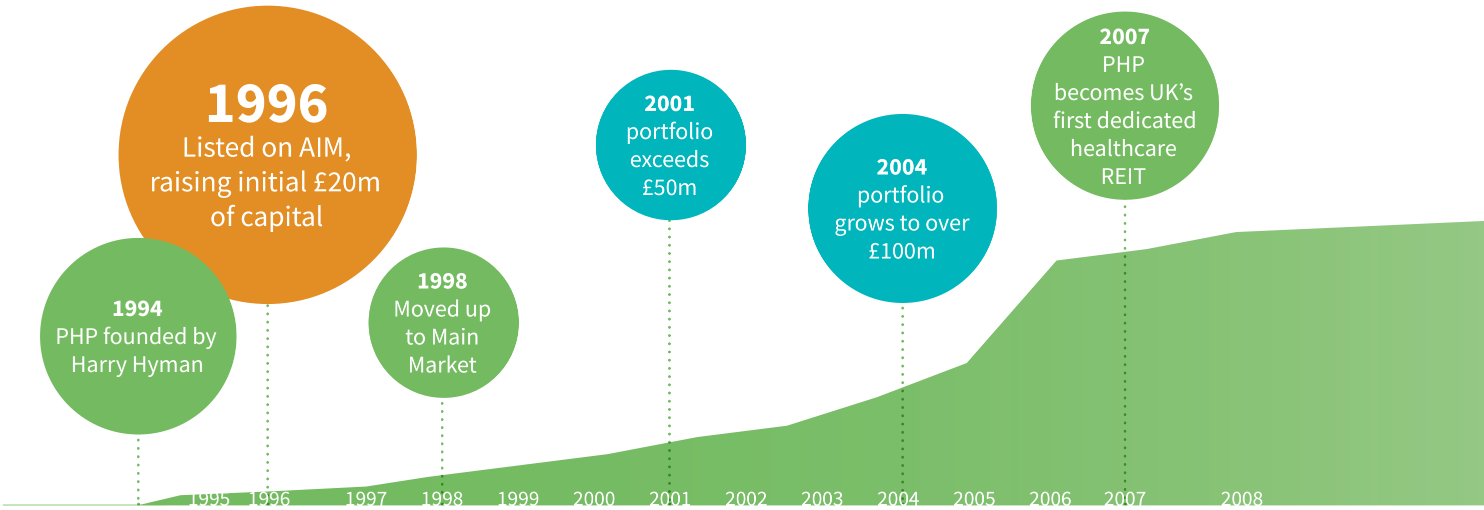
I am delighted to present PHP's Annual Report for 2016, another successful year in which the Group has continued to grow and reach several significant milestones.

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

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

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

Our journey so far...



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

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

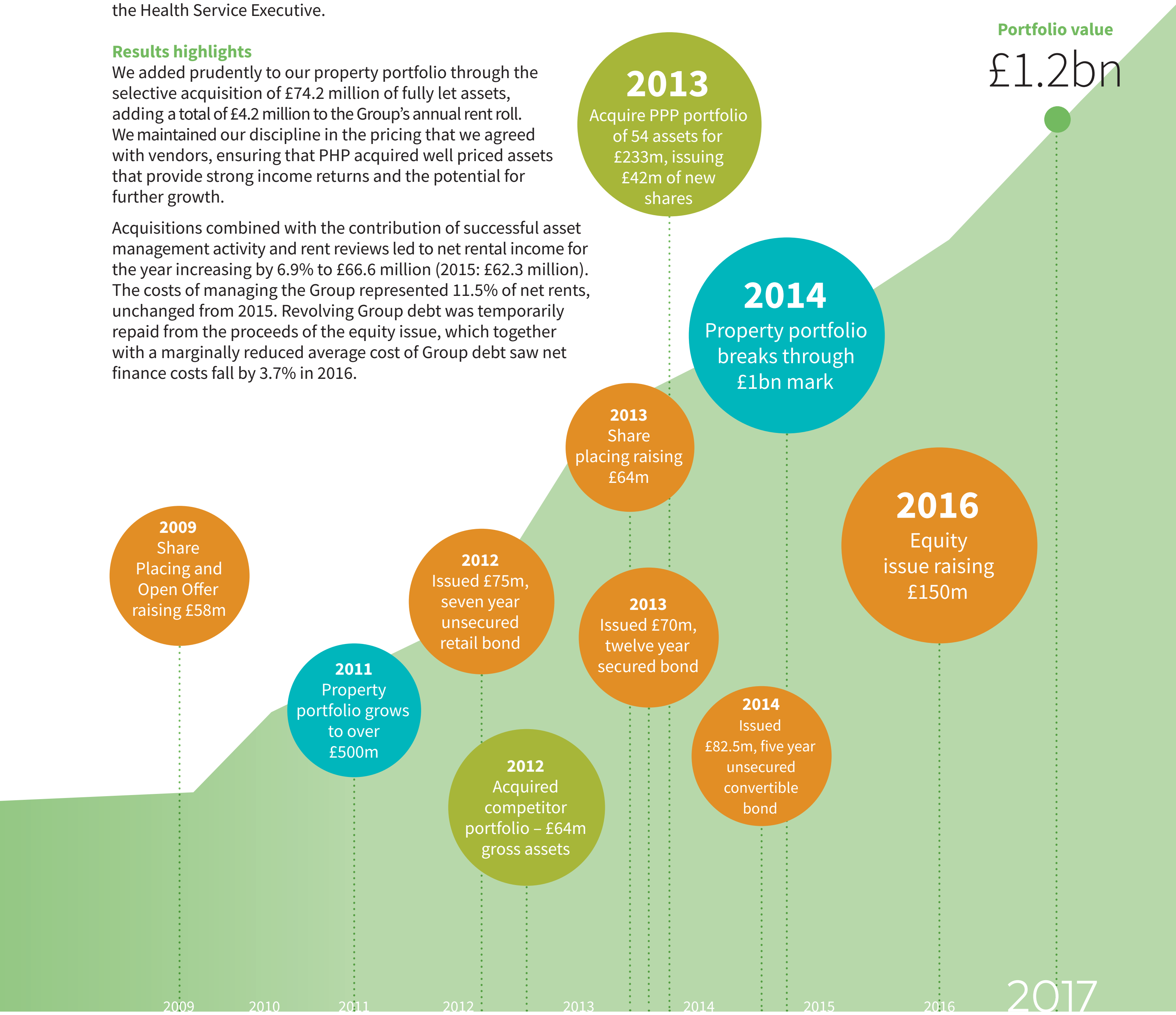
Results highlights

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

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

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

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



Chairman's statement continued

Earnings and dividends

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

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

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

Our markets

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

What is certain is that the demands that are being placed upon the NHS will continue to increase and a growing, ageing population and increased incidence of chronic conditions will bring more pressure to bear on the NHS budget. New models of care are being developed that recognise the ability of primary care settings to help ease the burden on hospitals and provide greater access to healthcare services located in the communities that they serve.

Tipperary Primary Care Centre

Leaving the EU will not change this and PHP will continue to move forward with its strategy unchanged.

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

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

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

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

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

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

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

New Alderley House, Macclesfield

New Alderley House, Macclesfield

Board membership

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

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

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

Outlook

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

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

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

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

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

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

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

Alun Jones
Chairman
15 February 2017

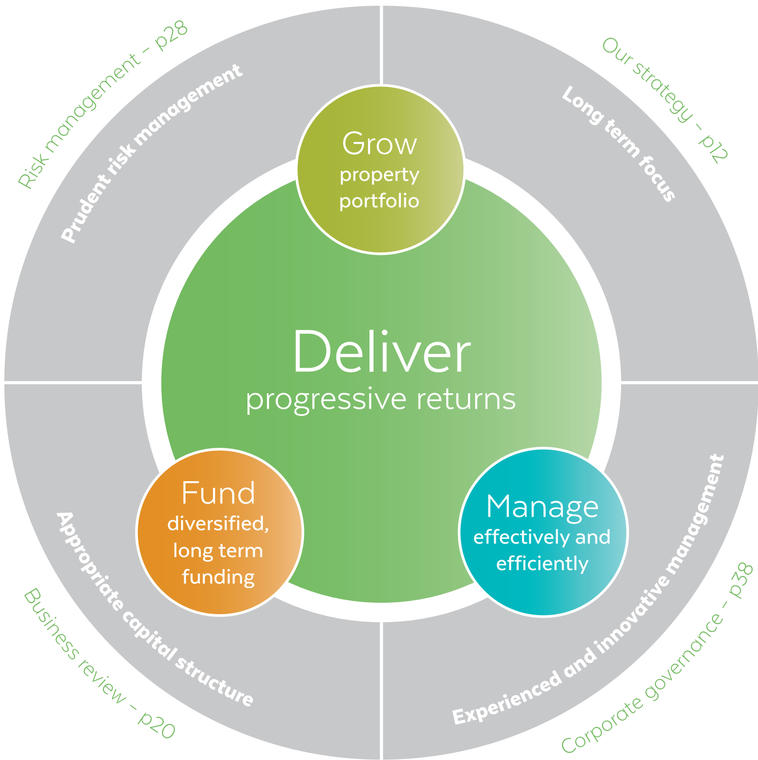
Creating long-term sustainable value

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

The Group widened its geographical scope in 2016 with its first property investment in the Republic of Ireland. The principal tenant in the series of new, modern primary care centres that PHP is targeting in Ireland will be the Health Service Executive ("HSE"), the executive agency of the Irish government's Department of Health. The HSE typically accounts for up to as much as 75% of the rental income at a centre, providing a similar low risk, high covenant income stream to the NHS in the UK.

Tenants will also include GPs but their rent will represent a smaller proportion of total income than in the UK and will not be funded by the HSE. Other occupiers in both territories will include other associated healthcare users, including on-site pharmacies.

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

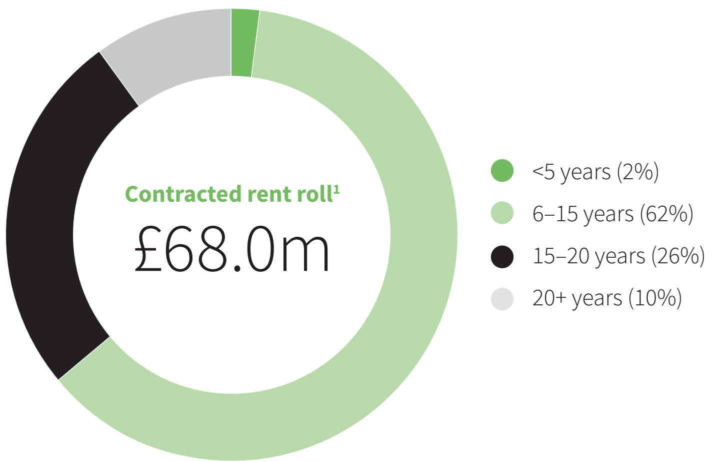
Initial lease terms in the UK are typically of 21 years or more, at effectively upward-only rentals. With the large majority of income received either from the NHS or from NHS funded GPs, this provides a secure, transparent income stream.

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

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 leases unexpired



[1] Including development commitments as complete.

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 locally with greater accessibility than 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.

Healthcare 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 and the HSE's expansion of primary care infrastructure.

>> Read more about Environment and social issues on page 33

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.

Well positioned for growth

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

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

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

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

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

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

United Kingdom

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

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

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

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

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

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

Republic of Ireland

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

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

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

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

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

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

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

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

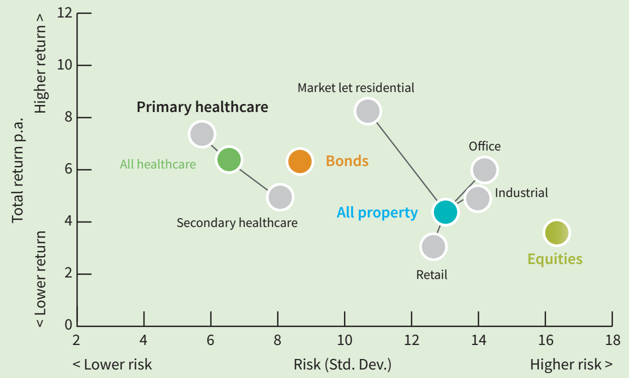
Stable, secure returns on investment

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

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

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

Total return on a risk-adjusted basis



Source: IPD – nine year risk adjusted total returns 2007–2015

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

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

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

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.

Making good strategic progress

Strategic objective		Activity in 2016	Looking forward
Deliver progressive returns	Generate progressive shareholder returns through a combination of earnings and valuation growth. >> See pages 20 and 21	• EPRA earnings per share 4.8 pence down 2% (2015: 4.9 pence). • Dividend per share increased by 2.5% to 5.125 pence. • Dividend fully covered. • Total NAV return of 9.7%.	• Investment in Ireland to secure enhanced returns. • Swap re-couponing in 2016 to reduce average interest cost effective 2017. • Continue to grow fully covered dividend.
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 21 to 23	• Acquired 24 assets in the year totalling £74.2 million. • Completed first acquisition in Republic of Ireland. • Total property return in the year of 7.9%.	• Sector fundamentals remain strong with continued demand for modern, purpose built premises. • Strong pipeline of further opportunities identified for 2017 across the UK and Ireland. • ETTF sanctions 200 new medical centres in England.
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 pages 24 and 25	• Seven asset management projects completed in the year, investing £1.8 million and generating £0.2 million of additional rent for an average of twelve years. • EPRA cost ratio unchanged at 11.5%.	• 18 further projects have received NHS approval which would see the group invest £10 million to secure £0.6 million of additional rental income. • STPs identify estate improvement as a key work stream providing opportunity for further enhancement of PHP. • Cost ratio will continue to fall due to reducing fee rates as portfolio grows.
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 pages 25 to 27	• The Company completed an equity issue in April 2016, raising £145.3 million net of costs. • Two existing swap contracts were re-couponed in 2016 at a cost of £14.5 million but saving £16.4 million over the period 2017–2021. • The Group has identified additional providers of funds that will provide longevity of facility maturity.	• The Group has secured agreement with RBS to renew its term loan for up to five years and this will be documented in 2017. • Over 90% of the Group’s debt is fixed or hedged protecting underlying earnings from potential interest rate rises that may result from recent and future political and economic change.

Link to risk:

1. Deliver progressive returns
2. Grow property portfolio
3. Manage effectively and efficiently
4. Diversified, long term funding

>> Read more about risk management on page 28

Key performance indicators

EPRA earnings per share

4.8p

2016	4.8p
2015	4.9p
2014	4.1p

Rationale
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.

Performance
EPRA earnings per share fell by 2% in the year due to the equity issue in April 2016 and the associated time lag of investing the proceeds. Actions taken in 2016 will benefit 2017.

Dividend cover

100%

2016	100%
2015	98%
2014	84%

Rationale
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.

Performance
Notwithstanding the issue of 150 million new shares in April 2016 and the 20th successive year of dividend growth by the Company, the total dividend paid was fully covered.

1 4

Total property portfolio

£1.2bn

2016	£1.2bn
2015	£1.1bn
2014	£1.0bn

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

Performance
The assets acquired in 2016 add £4.2 million to annual contracted rent roll and are accretive to earnings.

Total property return

7.9%

2016	7.9%
2015	9.7%
2014	8.9%

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

Performance
Rental growth on review averaged 0.9% per annum, contributing to overall rental returns of 5.65%. Capital growth achieved 2.28% reflecting the attractiveness of secure long term income streams.

2 3

Capital invested in asset management projects

£1.8m

2016	£1.8m
2015	£2.5m
2014	£4.4m

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

Performance
The Group has completed several asset management projects that maintain the longevity of the use of its properties and generate enhanced income and capital growth. A strong pipeline will continue to achieve this objective.

EPRA cost ratio

11.5%

2016	11.5%
2015	11.5%
2014	12.0%

Rationale
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.

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

1 3

Loan To Value

53.7%

2016	53.7%
2015	62.7%
2014	64.1%

Rationale
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.

Performance
The equity raise in 2016 significantly lowered the Group's aggregate LTV. The Board has also lowered its maximum operating LTV limit to 60% for the medium term.

Average cost of debt

4.65%

2016	4.65%
2015	4.67%
2014	5.15%

Rationale
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.

Performance
Notwithstanding the temporary repayment of cheaper, revolving credit facilities from the proceeds of the equity raise, average debt costs have been marginally reduced. The swap re-coupon will further reduce debt costs from 2017.

2 4

Our strategy in action

Growing
our portfolio

The Group's portfolio comprises 296 modern, flexible properties helping to modernise health services in the UK and Ireland.

Total contracted rent roll

£68.0m

+8.5%

St Catherine's Health Centre provides a wide range of primary care services to the metropolitan area of Birkenhead. Situated alongside St Catherine's Hospital, the centre houses a GP surgery and many community health services including diabetes care, heart support services, physiotherapy and speech and language therapy.

St Catherine's Health Centre, Birkenhead
Size: 4,614 sqm
Built: 2012
Tenants: Wirral Community NHS Trust, Medicx
WAULT: 26 years
Patient list size: 7,663

Our strategy in action

Managing
property effectively

As the first company to focus on the primary care real estate sector, PHP has a long standing track record of providing high quality, medical centres that form vital local health care infrastructure.

Invested in value add schemes in 2016
£1.8m

Leases extended by an average of
12 years

Additional rent secured
£0.2m

Our experienced and innovative management team regularly meet with tenants and stakeholders to understand the ever changing requirements of medical centre properties.

This enables the Group to support GPs and healthcare providers to meet the increasingly varied range of services and demands of patients by enhancing or extending premises, extending occupational leases and providing space for complementary services such as pharmacies.

This enables PHP to secure added value projects where continued investment allows us to capture additional income for longer lease periods which translate into improved earnings and capital growth and superior total property returns.

Hope Family Medical Centre, Wrexham

Size: 1,291 sqm

Built: 2016

Tenants: a five GP practice and a dental practice

WAULT: 20 years

Patient list size: 9,000

Our strategy in action

Funding
our opportunities

PHP follows a committed strategy of investing in health care property characterised by strong, long term cash flows predominantly funded by the UK and Irish governments.

Investment is funded with a prudent MH of shareholder equity, secured and unsecured debt.

2016
Group loan to value
53.7%

2016
Oversubscribed issue of new shares
£145.3m
net proceeds after issue costs

EPRA performance measures

Providing transparent information

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

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

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

EPRA Earnings per share

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

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

Definition
Earnings from operational activities

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

Calculation
See Note 8 to the financial statements.

EPRA NAV per share

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

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

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

Calculation
See Note 25 to financial statements.

EPRA net initial yield

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

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

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

Calculation

	2016 £m	2015 £m
Investment property (excluding those under construction)	**1,212.3**	1,091.9
Allowance for estimated purchaser's costs	**77.6**	63.3
Grossed up completed property portfolio valuation (B)	**1,289.9**	1,154.2
Annualised cash passing rental income	**67.5**	62.0
Property outgoings	**(0.8)**	(0.8)
Annualised net rents (A)	**66.7**	61.2
EPRA net initial yield (A/B)	**5.17%**	5.30%

EPRA vacancy rate

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

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

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

Calculation

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

EPRA Cost Ratio

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

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

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

Calculation
See page 25, Business review: managing effectively and efficiently.

Delivering progressive returns

EPRA earnings per share

4.8p -2.0%

>> Read more about KPIs on page 13

Dividend cover

100% (2015: 98%)

>> Read more about KPIs on page 13

EPRA NAV per share

91.1p +3.8%

Total EPRA NAV return

8.5p +9.7%

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

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

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

Earnings

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

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

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

> "The equity raise in April 2016 supported further investment and debt management that will feed into earnings growth."

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

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

Summarised results

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

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

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

Dividend cover

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

Shareholder value

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

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

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

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

EPRA Net Asset Value per share

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

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

Growing PHP's property portfolio

Total property portfolio

£1.2bn +10.9%

>> Read more about KPIs on page 13

Total property return

7.9% 2015: 9.7%

>> Read more about KPIs on page 13

Revaluation surplus

£20.7m 3.5p per share

Contracted rent roll

£68.0m +8.5%

WAULT

13.7 years 2015: 14.7 years

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

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

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

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

Business review continued

Growing PHP's property portfolio continued

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

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

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

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

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

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

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

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

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

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

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

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

Geographical analysis of the property portfolio – completed properties only

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

Business review continued

Managing effectively and efficiently

Capital projects

£1.8m invested

>> Read more about KPIs on page 13

£0.2m of additional rent. Average 12 years' additional WAULT

EPRA cost ratio

11.5% for the year

>> Read more about KPIs on page 13

Unchanged (2015: 11.5%)

Rental growth on review

0.9% per annum

£0.3m per annum of additional rent

Effective management

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

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

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

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

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

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

Winchcombe, Gloucestershire – Completed May 2016

An extension and refurbishment of a purpose built rural medical centre for a six GP practice. Provides a 235 sqm extension with a minor operations suite and additional consulting rooms. This will enable the GPs to provide a wider range of patient services and improve access due to significant local population growth.

The project cost £0.8 million and secured additional rent of £50,000 and a new 24 year lease term for the entire medical centre.

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

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

Efficient management

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

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

With other overhead costs being held constant at £1.5 million, total administrative costs rose by 7.3% to £7.3 million (31 December 2015: £6.8 million) as the Group's portfolio continued to grow. The efficiency of the Group's management model is evident, however, with its EPRA Cost Ratio unchanged at 11.5% (2015: 11.5 %), the lowest in the listed property sector.

EPRA Cost Ratio

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

Diversified, long term funding

Loan to value

53.7% (2015: 62.7%)

>> Read more about KPIs on page 13

Average cost of debt

4.65% (2015: 4.67%)

>> Read more about KPIs on page 13

Net debt

£655.7m (2015: £689.8m)

Weighted average facility maturity

5.1 years (2015: 5.9 years)

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

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

Capital raise

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

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

Business review continued

Diversified, long term funding continued

Debt facilities

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

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

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

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

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

Total debt

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

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

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

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

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

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

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

Hedging

Interest rate swap contracts

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

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

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

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

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

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

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

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

Currency exposure

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

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

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

Convertible bond

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

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

Outlook

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

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

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

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

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

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

Risk management and principal risks

Risk management overview

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

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

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

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

Approach to risk management

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

Principal risks and uncertainties

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

Risk	Inherent risk rating	Change to risk in 2016	Factors affecting risk in the year
Deliver progressive returns			
PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	**Medium** as likelihood is low but impact of occurrence may be very major.	Unchanged	UK and Irish governments continue to be committed to the development of primary care services and initiatives to develop new models of care increasingly focus on greater utilisation of primary care. The eventual outcome of EU exit negotiations is unknown but the demand for health services will continue regardless. Future funding levels in the UK may be impacted by any long term, material change to economic performance and the uncertainty caused by the referendum may lead to fluctuations in the value of the Group's assets, but no evidence of this can be seen at present. The attractiveness of the long term, secure and growing income streams that characterise the sector leads to stability of values.
Income and expenditure that will be derived from PHP's investment in the Republic of Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates impacting the Group's earnings and portfolio valuation.	**Medium** as likelihood of volatility is high but the potential impact at present is low due to the quantum of investment in Ireland.	Increased	The Group has completed its first acquisition of a primary care centre in Ireland. Asset values, funding and net income are denominated in Euros. The UK referendum vote to leave the EU has seen Sterling exchange rates fall sharply. Volatility will continue whilst the exit process is ongoing.

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

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

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

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

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

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

Mitigation	Residual risk rating
The commitment to primary care is a stated objective of both UK and Irish governments. Management engages directly with government and healthcare management in both the UK and in Ireland to promote the need for continued investment in modern premises. The attractiveness of long term, secure income streams that characterise the sector leads to stability of values. The Group has reduced its borrowing levels following its capital raise in April 2016, maintains headroom in its covenant tests and holds a pool of unfettered assets.	**Medium** Policy risk is out of the control of the Board, but proactive measures are taken to monitor developments and ensure prudent financing and continued availability of resources to the Group.
The Board has and will continue to fund its investments so as to create a natural hedge between asset values and liabilities in Ireland. Operating cash flows will be hedged wherever possible to limit exposure to exchange rate fluctuations. This will include the use of currency derivatives and matching Euro-denominated assets with Euro debt facilities.	**Low** Action has been taken to implement a hedging strategy so as to manage exchange rate risk.

Risk management and principal risks continued

Risk	Inherent risk rating	Change to risk in 2016	Factors affecting risk in the year
Grow property portfolio			
The emergence of new purchasers to the sector and the recent slowing in the level of approvals of new centres in the UK may restrict the ability of the Group to secure new investments.	**High** as likelihood is high and impact of occurrence could be major.	Unchanged	A flight to income is emerging post-referendum which has attracted property investors to the sector due to its long term, secure government cash flows. The sector continues to experience a low number of new development approvals in the UK. The Group has an identified pipeline of primary care real estate assets in the UK and Ireland, giving access to a pool of potential modern medical centre investments.
The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest.	**High** as likelihood of a restricted supply is medium and the potential impact of such a restriction could be major.	Reduced	The Company successfully raised £145.3 million (after costs) of equity capital in April 2016. Proceeds were initially used to pay down revolving credit facilities, but these funds remain available to be redrawn as needed by the Group. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term with significant overall headroom.
Manage effectively and efficiently			
The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit for purpose medical centres is key to delivering on the Group's strategic objectives.	**Medium** as likelihood of limited alternative use value is medium and the impact of such values could be serious.	Unchanged	The Group's property portfolio has grown by 24 assets in the period. Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.
The Group has no employees. The continuance of the Adviser contract is key for the efficient operation and management of the Group.	**Medium** as the likelihood of any unexpected change is low, but if that occurred, the impact could be significant.	Unchanged	None.
Diversified, long term funding			
Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.	**Medium** as the likelihood of insufficient facilities is medium and the impact of such an event would be serious.	Unchanged	Total Group borrowing has been decreased in the period and a short term (twelve months remaining) revolving credit facility has been cancelled. The Group was successful in extending the quantum and term of a facility with Barclays Bank plc and Allied Irish Banks plc in January 2016. The facility is for a total of £115 million for a new five-year term. Fully credit approved terms have been agreed with RBS to refinance the Group's Club facility that matures in August 2017 for a new term of up to five years.
Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	**High** as the likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.	Increased	Term interest rate markets experienced significant volatility across the year falling sharply following the result of the referendum but seeing spikes as information has come to market concerning the exit process and upon the election of a new US president. Over the year, term interest rates have fallen leading to an increase in the mark to market ("MtM") valuations of the Group's interest rate derivative portfolio.

Mitigation	Residual risk rating
The reputation and track record of the Group in the sector means it is able to source investment in existing standing investments from developers, investors and owner-occupiers. The Group has a number of formal pipeline agreements and longstanding development relationships that provide an increased opportunity to secure developments that come to market in the UK. The ETTF has approved several projects within PHP's portfolio which enhance or extend existing properties.	**Medium** The Group's position within the sector and commitment to and understanding of the asset class sees PHP being aware of a high proportion of transactions in the market. Active management of the property portfolio generates regular opportunity to increase income and enhance value.
Overall debt levels have been reduced in the period and the quantum of unfettered assets increased. Existing and new debt providers are keen to provide funds to the sector, attracted by the strength of its cash flows. The Board monitors its capital structure and maintains regular contact with existing and potential equity investors and debt funders.	**Medium** The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinance debt facilities in advance of their maturity.
The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. Ten projects procured in the period and ten bids successfully approved for ETTF funding. These all enhance income and extend occupational lease terms.	**Medium** The Adviser employs an active asset management programme and has a successful track record of securing enhancement projects, including lease extensions.
The Advisory Agreement with and performance of Nexus is regularly reviewed. Nexus' remuneration is linked to the performance of the Group to incentivise long term levels of performance. Nexus can be required to serve all or any part of its notice period should the Group decide to terminate providing protection for an efficient handover.	**Medium** The Adviser is aligned with the objectives of the Group and the composition of its team is monitored by the Board.
Existing lenders remain keen to finance PHP and new entrants to debt capital markets have increased available resource. Management constantly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds. The Adviser regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.	**Medium** The Board constantly monitors the facilities available to the Group and looks to refinance in advance of any maturity. The Group is subject to the changing conditions of debt capital markets.
The Group holds a proportion of its debt in long term, fixed rate loans and mitigates its exposure to interest rate movements on floating rate facilities mainly through the use of interest rate swaps. As at the balance sheet date 88% of drawn debt is fixed or hedged. MtM valuation movements do not impact on the Group's cash flows and are not included in any covenant test in the Group's debt facilities.	**Medium** The Group is currently well protected against the risk of interest rate rises but, due to its continued investment in new properties and the need to maintain available facilities, will be exposed to future interest rate levels.

Risk management and principal risks continued

Viability statement

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

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

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

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

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

Sensitivities applied are derived from the principal risks faced by the Group (see Risk Management on pages 28 to 31) that could affect solvency or liquidity. These include the rate of investment in new properties and the return achieved from those investments, the availability and cost of debt finance, any potential reasonable decline in asset valuations and the ability to meet debt facility covenants. Sensitivities also flex assumed rental growth rates.

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

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

Harry Hyman
Managing Director
15 February 2017

Bingham Health Centre, Nottingham
Size: 1,300 sqm
Built: 2013
Tenants: a seven GP practice
WAULT: 18 years
Patient list size: 3,850

Environmental and social issues

Raising standards

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, Savills, 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 2016 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.

Colwyn Bay, North Wales

Size: 2,554 sqm

Built: 2016

Tenants: two GP practices, (ten GPs), Health Board and Pharmacy

WAULT: 20 years

Patient list size: 17,275

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.

Board of Directors

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

Alun Jones
Non-executive Chairman

A N R E S

Election to the Board
Alun Jones was elected at the Company's Annual General Meeting in 2008 having been appointed to the Board in May 2007 and has served as Non-executive Chairman of the Company since April 2014.

Career
Alun graduated from Cambridge University and is a Fellow of the Institute of Chartered Accountants in England and Wales, and was, until he retired in 2006 a partner in PricewaterhouseCoopers LLP ("PwC"), 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.

Skills, competence and experience
Having held a number of senior positions within PwC and served as engagement partner to a number of property and financial services organisations, Alun brings a wealth of financial and accounting experience to the Board, as well as expertise in corporate governance matters.

Other external relationships
None

Independent Non-executive
Yes

Harry Hyman
Managing Director

S A

Election to the Board
Harry Hyman was the founder of the Company in 1996 and has served on the Board as Managing Director from that time and represents the Adviser, Nexus Tradeco Limited, on the Board.

Career
Harry Hyman graduated from Cambridge University and trained as a Chartered Accountant and corporate treasurer. From 1983 to 1994 he was finance director of Baltic PLC, a listed finance business. In 1994 he founded Nexus and in 1996 PHP was floated. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a corporate treasurer.

Skills, competence and experience
Harry Hyman has extensive experience in investing in the primary healthcare sector, having developed the Company's business from inception over 20 years ago to its current position with an investment portfolio of over £1.2 billion. He also brings entrepreneurial flair to the Board having established a number of successful private companies.

Other external relationships
Harry is the Managing Director of the Nexus Tradeco Limited and its subsidiary companies. He is also a director of several private companies as well as being the non-executive chairman of Summit Germany Limited and Derriston Capital PLC both listed on AIM, chairman of ORBIG, the Orderbook of Retail Bond Issuers Group, and a director of The Quoted Companies Alliance.

Independent Non-executive
Not applicable

Steven Owen
Non-executive Director and Senior Independent Director

A N R E S

Election to the Board
Steven Owen was elected at the Company's Annual General Meeting in 2014 having been appointed to the Board in December 2013. Following his election to the Board he took up the position as Chairman of the Audit Committee and Senior Independent Director.

Career
Steven embarked on his career with KPMG before moving into property with Brixton plc where he became finance director and subsequently deputy chief executive. He is currently CEO and founding partner of Wye Valley Partners LLP, a commercial real estate asset management business.

Skills, competence and experience
Steven combines his financial skills as a Chartered Accountant with extensive expertise of investment and development in commercial property in a listed company environment having spent 24 years at Brixton plc, then a listed FTSE 250 company which owned/managed over 18 million square feet of industrial and warehouse space in the UK until its acquisition by Segro in 2009. Steven is also a Fellow of the Association of Corporate Treasurers.

Other external relationships
In addition to his involvement with Wye Valley Partners LLP, Steven is also a non-executive director of the Milford Haven Port Authority, where he is chairman of the audit committee. He is also a director of Wales in London.

Independent Non-executive
Yes

Geraldine Kennell
Non-executive Director

A N R E

Election to the Board
Geraldine Kennell joined the Board on 5 April 2016 and on 7 June 2016 was appointed to chair the Remuneration Committee. Geraldine will be proposed for election to the board at the 2017 Annual General Meeting.

Career
After gaining a degree in economics from Bristol University, Geraldine joined the Midland Montagu Group as a graduate trainee, before taking up investment roles in 3i plc and subsequently at Silverfleet Capital LLP (formerly the private equity arm of Prudential plc) which specialises in mid-market buy-outs across Europe. She was a partner at Silverfleet until 2015, with responsibility for financial services investment strategy across the business. As a result, Geraldine has over 20 years' experience as an investment professional.

Skills, competence and experience
Geraldine brings skills and experience in complex business decision making across a broad range of sectors and is experienced in supporting businesses to accelerate growth and build strategic value. She also has a strong track record of originating, negotiating, and structuring transactions, including the negotiation of complex cash flow and asset backed debt facilities. At Silverfleet, she was a member of the Investment Committee for over ten years and served on the boards of several companies in which the fund was invested.

Other external relationships
None

Independent Non-executive
Yes

Mark Creedy
Non-executive Director

A N R E

Election to the Board
Mark Creedy was elected a Director at the 2009 Annual General Meeting having been appointed to the Board in November 2008.

Career
Mark graduated from Reading University and obtained a Master's degree in Urban Land Appraisal. Mark spent over ten years at Richard Ellis' London office, before progressing to a number of senior roles at various property companies. Mark was previously managing director of Chartwell Land PLC, a wholly owned subsidiary of Kingfisher PLC from 1994 to 2002, when he left to become managing director of the property fund management subsidiary of Legal & General Investment Management and then as a director of fund management at UNITE Group PLC up to 31 December 2015. He was a non-executive director of B&Q PLC from 1998 to 2002.

Skills, competence and experience
Mark qualified as a chartered surveyor and brings a wealth of experience in the property sector to the Board. Mark has an all-round blend of professional property investment and development experience in the UK commercial and retail sectors, reinforced by seven years in large scale property fund management with Legal & General, where he had experience in awarding and managing contracts for outsourcing of fund management and back office support operations.

Other external relationships
None

Independent Non-executive
Yes

Board of Directors continued

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

Dr Ian Rutter OBE
Non-executive Director

N R E

Election to the Board
Dr Ian Rutter was elected at the Company's Annual General Meeting in 2006 having been appointed to the Board in September 2005.

Career
Dr Rutter is a qualified doctor and worked as a GP in Shipley, Yorkshire, for 35 years until his retirement in 2015. His career encompassed spells as CEO of North Bradford and Airedale PCTs and 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 OBE for services to medicine in January 2000 in recognition of his contribution to general practice and numerous national organisations. He is a Fellow of IHI, the Institute of Healthcare Improvement, based in Boston, USA.

Skills, competence and experience
Dr Rutter has spent his whole career involved in the provision of primary care and this experience is invaluable to the Board. He has an intimate knowledge of the NHS and has a considerable understanding of the drivers of and process for the formation of health policy in the UK, particularly as to how this affects the primary care market.

Other external relationships
None

Independent Non-executive
No

Nick Wiles
Non-executive Director

A N R E

Election to the Board
Nick Wiles was appointed to the Board on 5 April 2016 and he is proposed for election at the 2017 Annual General Meeting. He was appointed to chair the Nomination Committee on 7 June 2016.

Career
Following a period at Sandhurst and a short service commission in the Army, Nick joined Mercury Asset Management as a fund manager and equity analyst. He subsequently worked for more than 20 years in investment banking at Cazenove & Co. where he was a partner prior to incorporation and a vice chairman of JP Morgan Cazenove. Nick retired as chairman of UK investment banking at Nomura in 2012. He was also a non-executive director of Strutt & Parker from 2003–2014.

Skills, competence and experience
Nick has considerable experience of investment banking and a deep understanding of equity markets and investor sentiment. He brings to the Board a combination of skills in banking and corporate finance, and an understanding of regulatory environment for listed companies in the UK and international financial services markets.

Other external relationships
Nick is currently non-executive chairman of PayPoint plc which is listed on the main market of the London Stock Exchange.

Independent Non-executive
Yes

Phil Holland
Finance Director and
Deputy Managing Director

A

Election to the Board
Phil Holland was elected to the Board at the 2015 Annual General Meeting having been appointed to the Board in February 2015 as an Adviser representative.

Phil will stand down from his position on the Board on 31 March 2017.

Career
After taking a degree in accounting and finance from Lancaster University, Phil qualified as a Chartered Accountant. He was in various finance roles, including eight years at Estates & General PLC, until being appointed 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. Phil joined Nexus in November 2010.

Skills, competence and experience
Phil has extensive finance experience, having previously held Board positions within public and private property investment, development and fund management companies operating across the UK and mainland Europe.

Other external relationships
Phil Holland is a Non-executive Director of Network Homes Group, a housing association.

Independent Non-executive
Not applicable

Adviser

Nexus Tradeco Limited ("Nexus")
The Company has appointed Nexus Tradeco Limited ("Nexus") to provide property advisory, management, administrative, accounting and company secretarial services to the PHP Group under an advisory agreement. Further information on the Advisory Agreement is on page 59.

The Nexus team has a wealth of knowledge and experience in the health sector, real estate, finance and in company secretarial matters and comprises a mix of property, finance and legal professionals. 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 and the Company Secretary.

The performance of Nexus is scrutinised by the Adviser Engagement Committee. To date Nexus has had an exemplary track record in providing advice and identification of investment opportunities.

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. Phil will leave Nexus at the end of March 2017 and Richard Howell, an experienced property sector finance professional, has been appointed to replace Phil, joining Nexus on 13 March 2017.

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 fifteen members of staff. It is headed by David Austin, an experienced qualified surveyor who joined Nexus in July 2016, having previously worked with Lasalle, Axa and Land Securities. David succeeds Tim Walker-Arnott, who had led the team since 2006 and continues to provide consultancy services to Nexus.

The property team, which is based in offices in Central London and in Stratford-upon-Avon, comprises professionals engaged in property acquisition, asset management and property management, and includes eleven qualified surveyors, two trainee surveyors and two administrative assistants. The property team has a combined 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 three 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 Paul Wright, an experienced company secretary who joined from Cambian Group plc in September 2016. Paul was previously Company Secretary and Legal Counsel at Playtech plc and Company Secretary and General Counsel at TNS plc.

Nexus' remuneration
Details of the fees payable to Nexus for its advisory services and the basis for their calculation can be found in the Directors' Report on page 59.

Corporate governance report

Letter from the Chairman

Dear shareholder,

Introduction

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. Governance at PHP is focused on managing the business in order to create long term sustainable value for the benefit of all of our shareholders and is treated as a core and vital discipline that complements our objective of growing returns to our shareholders. I hope that by reading our governance report and Committee reports you will gain a better understanding of our culture and the effectiveness of our Board.

Board changes

At the Annual General Meeting in April 2016, James Hambro and William Hemmings retired from the Board as they did not stand for re-election. Both had been long-serving Directors of the Company. Mr Hambro was a founder Director of the Company, having served since February 1996 and Mr Hemmings was appointed in June 2012 having been an alternate Director since 2000. The Board is very grateful to both James and William for their contribution to growing the business of PHP since it was first listed 20 years ago.

Shortly afterwards, we welcomed two new Non-executive Directors to our Board, Geraldine Kennell and Nick Wiles, who bring with them a wealth of experience in investment business and banking, and the Company will benefit from their expertise and fresh perspectives as it continues to grow. In conjunction with the Company Secretary, we provided a tailored induction programme designed to ensure that both Geraldine and Nick obtained a comprehensive picture of the Company's operations. They are both to be proposed for election by shareholders at the 2017 Annual General Meeting ('AGM') which is to be held on Wednesday 26 April 2016.

Phil Holland will stand down from his role as Finance Director on 31 March 2017 to pursue new business interests in the property sector. The Board would like to thank Phil for his contribution to the growth and success of PHP in the time that he has both been a member of the Board and a senior member of the Adviser's management team and we wish him every success in the future.

I am pleased to report that following a thorough recruitment process, Richard Howell, currently Finance Director, Joint Ventures at LondonMetric Properties PLC, has been selected to succeed Phil and is joining Nexus, the Adviser, on 13 March 2017. The Board has endorsed the recommendation of the Nomination Committee that he be appointed as Finance Director with effect from 31 March 2017. Richard, who has highly relevant qualifications and experience, will be put forward for election at the AGM in accordance with our articles of association.

Board independence and Committees

The independent role of our Non-executive Directors is extremely important to us. With the appointment of Geraldine and Nick to the Board, both independent Non-executive appointments, we took the opportunity to re-examine the composition and leadership of our Board Committees. Following this review, it was agreed to appoint Geraldine to be Chair of our Remuneration Committee and Nick to be Chair of our Nomination Committee. Both appointments were in place of Dr Ian Rutter, who given the length of his tenure as a Non-executive Director could no longer be considered independent for the purposes of the UK Corporate Governance Code (the "Code"). Nevertheless, the other members of the Board value Ian's knowledge of the Health Sector a great deal and his independence in practice is rated as exemplary.

Board performance in 2016

Non-executive site visits

As part of our Board strategy meeting held in September, the Non-executive Directors visited a number of the Company's properties in the Birmingham area and visited the Nexus office in Stratford-upon-Avon to meet with the Adviser's managers based at that site and monitor the important work they do.

Board evaluation

During the final quarter of the year, I led the annual Board evaluation process with the assistance of the Company Secretary. The evaluation took the form of a paper-based questionnaire and skills assessment form based on the process and questions outlined in the UK Corporate Governance Code (the "Code") concerning Board and Committee performance. This was circulated to all Directors for completion and then returned to me. After I had discussed with the Board the broad themes of the outcomes of the questionnaires, a series of one-to-one meetings between me as the Chairman and each Director were held. We discussed our evaluation of the range of skills present amongst the Board, our strengths and any areas for improvement. The outcome of the evaluation process was that the Board and its Committees were judged to be appropriately skilled and operating effectively. It was felt that communication both at formal Board meetings and between meetings, through frequent contact, is frank, informed and very good. It was felt that this could be further improved with some changes being made to the structure of meetings and by adding one formal meeting to our programme as a result of the continued growth of the business and the increased complexity of public reporting.

Steven Owen, the Senior Independent Director, led an evaluation of my performance as the Chairman, using a questionnaire tailored to specific responsibilities of a chairman of a listed company and skills assessment form. The findings of this survey were discussed by Steven Owen with the other Non-executive Directors and fed back to me.

Board experience

To achieve its governance objectives and in accordance with the Code, the Board comprises a majority of independent Non-executive Directors who have been selected to deliver an appropriate mix of diversity, skills and experience. The Board is led by an independent Chairman, who in turn is well supported by a Senior Independent Director.

New legislation

The Modern Slavery Act 2015 came into force in October 2015. The Group is committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. The Company's statement and policies concerning slavery and human trafficking can be found on the Company's website – www.phpgroup.co.uk.

The Directors have completed a review of the requirements and carried out a risk assessment. As a result of this, action is being taken to advise the Company's suppliers of its policies and include obligations with regard to these policies in any contracts for the supply of goods or services to the Group.

The Market Abuse Regulations ("MAR") came into effect on 2 July 2016. The Company has made appropriate changes to its internal processes and provided information and guidance to all relevant individuals in order for the Company to comply with the requirements of MAR.

Shareholder relations

During the year, I wrote to a number of our major shareholders to ensure that they were aware that I was available for meetings and to discuss any issues that they might have regarding the Company and would like to reiterate that I remain available to meet with shareholders at any time.

As always, I would encourage you to attend the Company's AGM to be held on 26 April 2017 at 10:30 a.m. at the offices of Nabarro LLP, 125 London Wall, London EC2Y 5AL and a notice setting out details of the business to be conducted at the meeting will be dispatched to shareholders shortly. This important event gives you the opportunity to meet with me, and the chairs of the other Board committees and other Directors.

Alun Jones
Chairman
15 February 2017

Corporate governance report continued

Statement of compliance with the UK Corporate Governance Code

In September 2014, the Financial Reporting Council published the 2014 edition of the UK Corporate Governance Code (the "Code") which contains broad principles and specific provisions to assist how boards operate. This Code applied to PHP during the financial year ended 31 December 2016.

Principle C.3.1 requires an audit committee to consist wholly of independent Non-executive Directors. For the period up to 29 November 2016, Dr Ian Rutter was a member of the Audit Committee but was not considered to be an independent Non-executive Director as he has served on the Board for more than nine year since his first election by shareholders.

With the exception of principle C.3.1 as detailed above, the Board considers that the Company has complied with the provisions of the Code throughout the year.

As a smaller company for the purposes of the Code, the Company is not required to comply with principle B.1.2, which requires that at least half of the members of larger company boards, excluding the Chairman, be independent Non-executive Directors as determined by the Board.

The Company however strives to meet the highest practicable standards of corporate governance and following the appointment in April 2016 of Geraldine Kennell and Nick Wiles as independent Non-executive Directors, the Company would also now comply with principle B.1.2. if it were required to.

The Board (excluding the Chairman) includes four Directors considered to be independent for the purposes of the Code and three Directors who cannot be regarded as independent, Dr Ian Rutter, as explained above, and Mr Hyman and Mr Holland due to their connection to the Adviser.

How we apply the main principles of the Code

Section A: Leadership

"Every company should be headed by an effective board which is collectively responsible for the long term success of the company."

The Board has collective responsibility for the management, direction and performance of the Company and provides leadership within a framework of prudent and effective controls which seeks to enable risk to be appropriately assessed and managed. Further information on the work undertaken by the Board and its Committees during the year is set out below and in the reports of the individual Committees.

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.

"There should be a clear divisions of responsibility between running of the Board and the executive responsibility for the running of the Company's business."

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 59 in the Advisory Agreement section of the Directors' Report.

In addition, the Board has established a Standing Committee, consisting of the Chairman, the Managing Director and any independent Non-executive Director, to implement any matters decided upon in principle at a Board meeting (such as the implementation of the Company's scrip dividend scheme) or to approve any routine matters of business that occur between scheduled Board meetings. Minutes of all meetings of the Standing Committee that may occur between scheduled Board meetings are tabled for consideration at the subsequent Board meeting for information.

"The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of the role. As part of their role as members of a unitary board, Non-executive Directors should constructively challenge."

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, and facilitates the effective contribution of Non-executive Directors in providing constructive challenge to the Executive Directors and to help develop proposals on strategy.

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 and the Board ensures that diversity is an important consideration and part of the selective criteria used to assess candidates to achieve a balanced Board. The Board will continue to ensure that this is taken into account when considering any new appointments.

Section B: Effectiveness

"The Board and its Committees should have an appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively."

The Board comprises the Chairman, the Managing Director, the Finance Director and five Non-executive Directors. The Chairman and four further Non-executive Directors are considered by the Board to be independent under the Code. Dr Rutter has served on the Board for more than nine years since his first election and cannot be considered independent for the purposes of the Code. Notwithstanding this, the Board considers 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 and will be recommending his re-appointment as a Non-executive Director at the Annual General Meeting of the Company in 2017 to be held on Wednesday 26 April 2017.

The biographical details of the Chairman, the Directors and their individual roles are shown on pages 34 to 37.

These details demonstrate a range of corporate, financial, property, banking, 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.

To safeguard their independence, a Director is not entitled to vote on any matter in which they have a material personal interest unless the rest of the Board unanimously decides otherwise. Where necessary, Directors are required to absent themselves from a meeting of the Board while such matters are being discussed, although no such situations arose in 2016. The Board has an annual process of formally reviewing conflicts disclosed, and the authorisations given (including such conditions as the Board may determine in each case). Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in a register of Directors' conflicts which is maintained by the Company Secretary.

"There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board."

Under the supervision of the Nomination Committee, the Company appointed Lomond Consulting, an independent search firm to identify candidates for appointment with the skill and experience identified by the Nomination Committee in order to maintain a balance of skills and diversity on the Board. Lomond presented the Company with a long-list of potential candidates from which a diverse selection were interviewed by members of the Nomination Committee. Following this the Nomination Committee made a recommendation of final suitable candidates, who then met with the other members of the Board before their appointment.

"All Directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively. All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge."

All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The Company provides the Non-executive Directors with appropriate support and facilities for the consideration of the Company's strategy and performance, and a dialogue with the Chairman is encouraged so that any issues regarding time pressures or conflicting commitments are addressed appropriately.

The letters of appointment for Non-executive Directors set out the time commitment expected to be necessary to perform their duties.

During the year, the Non-executive Directors received a number of presentations from the Executive Directors and senior management in relation to the business of the Company. There will be a continued focus during 2017 on ensuring that through a combination of presentations, teach-ins and site visits, the Non-executive Directors are provided with sufficient information for them to understand and address fully the challenges and opportunities facing the Company.

Before they joined the Board, Geraldine Kennell and Nick Wiles had an initial day's visit to some of the Company's facilities and when appointed to the Board, in conjunction with the Company Secretary, they were provided a tailored induction programme designed to ensure that they obtained a comprehensive picture of the Company's operations and Board processes. This was augmented by a series of meetings with the Adviser's senior management to gain an understanding of the property and financial management processes and controls used to manage the Group, and a visit associated with the Company's strategy day in September to a number of the Group's premises and to the Adviser's offices in London and Stratford-upon-Avon.

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. The suitability of external courses is kept under review by the Company Secretary who is charged with facilitating the induction of new Directors and with assisting in the ongoing training and development of all Directors. All Directors have access to the advice and services of the Company Secretary and a procedure is in place for them to take independent professional advice at the Company's expense should this be required.

Corporate governance report continued

How we apply the main principles of the Code continued

Section B: Effectiveness continued

"The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties."

The Company Secretary is responsible for ensuring good and timely information flows within the Board and its Committees and between the senior management and the Non-executive Directors.

The Board uses a web-based system which provides access to Board papers and materials. Prior to each Board meeting the Directors receive through this system the agenda and supporting papers to ensure that they have all the latest and relevant information in advance of the meeting. Packs include reports from the Managing Director and Finance Director that comment on market conditions, operational matters, acquisition proposals, shareholder interaction, financial results, projections and other transactions, and when applicable, circulars 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.

After each Board meeting, the Company Secretary operates a comprehensive follow-up procedure to ensure that actions are completed as agreed by the Board.

On the rare occasion 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.

"The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors."

As described in the introductory letter from the Chairman, the Board undertakes an annual Board evaluation. 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. Mark Creedy, Steven Owen, Geraldine Kennell and Nick Wiles also meet the independence criteria set out in the Code.

During the year, the Chairman and Non-executive Directors meet to discuss matters without the other Executive Directors being present.

"All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance."

In accordance with provision B.7.1 of the Code, each of the Directors will be submitted to shareholders for re-election at the 2017 Annual General Meeting. Following the Chairman's evaluation of their performance, each of the Directors are recommended for re-election, including the re-appointment of Dr Ian Rutter, whose expertise as a former clinician in primary care is much valued by the Board.

Section C: Accountability

"The Board should present a fair, balanced and understandable assessment of the company's position and prospects."

The Board has delegated the assessment of the presentation of PHP's position and prospects in the Annual Report to the Audit Committee. As stated on page 47 the Audit Committee found the report to be fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, position, business model and strategy.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

The approach of the Board to risk management is described in detail on pages 28 to 31 of this report. The Audit Committee reviewed the risk management and internal control systems on behalf of the Board and its conclusions are set out in the Audit Committee Report on page 45.

The Board should establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.

The Board has delegated these matters formally to the Audit Committee under its terms of reference. The Audit Committee consists of four independent Non-executive Directors, in addition to the Chairman. Steven Owen is the Chairman of the Audit Committee and is considered to have relevant and recent financial experience and through a combination of the experience of its members the Board believes the Audit Committee as a whole has competence relevant to the sector in which the Company operates.

Further detail on the work of the Audit Committee can be found on pages 45 to 48 of this report.

Section D: Remuneration

"Executive Directors' remuneration should be designed to promote the long term success of the company. Performance-related elements should be transparent, stretching and rigorously applied."

The Company has no employees and the Directors receive a fixed annual fee. Fees in relation to the Executive Directors who are employed by the Adviser are paid to the Adviser pursuant to the terms of the Advisory Agreement. Further details can be found in the Directors Remuneration Report on pages 52 to 55 of the Report.

"There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration."

The procedure for fixing the remuneration packages of individual Directors is set out in the Directors' Remuneration Report on pages 52 to 55 of this report.

Section E: Relations with shareholders

"There should be a dialogue with shareholders based on a mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place."

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 provides feedback from meetings with major shareholders and analysts. 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.

The major shareholders of the Company are listed on page 57.

"The Board should use general meetings to communicate with investors and to encourage their participation."

The Company's Annual General Meeting in 2017 is being held at the offices of Nabarro LLP, 125 London Wall, London EC4Y 5AL on Wednesday 26 April 2017 at 10.30 am. Formal notice of the meeting and details of and an explanation for the reasons for the resolutions to be put to shareholders, are contained in the separate notice of meeting that accompanies this report. The Board views the Annual General Meeting as an opportunity to communicate with investors. All Directors are expected to attend the Company's Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have ended. Voting at the Annual General Meeting will be on a poll which is now seen as best practice as it more effectively reflects the interests of shareholders.

Board composition

The current Board of Directors of the Company consists of Alun Jones, Non-executive Chairman, Steven Owen, Senior Independent Non-executive Director, Mark Creedy, independent Non-executive Director, Geraldine Kennell, independent Non-executive Director, Nick Wiles, independent Non-executive Director, Dr Ian Rutter, Non-executive Director, Harry Hyman, Managing Director and Phil Holland, Finance Director.

During the year, James Hambro and William Hemmings both served as Non-executive Directors until their retirement following the 2016 Annual General Meeting in April 2016. Phil Holland will stand down from the Board on 31 March 2017.

Further biographical information on each of our Directors can be found on pages 34 to 37, which shows the breadth of strategic and financial management insight brought to our Board. All of our independent Non-executive Directors have held senior executive or non-executive positions within listed companies or substantial private companies. These Non-executive Directors bring industry experience from a wide range of backgrounds including property finance, business services, investment management and the NHS.

How the Board functions

The Board meets regularly, with six scheduled meetings held in 2016, in February, April, June, July, September and November. At each of these meetings, a detailed report from the Adviser is presented, proposed additions to the portfolio considered and approvals given as required and the Finance Director's report containing the latest management accounts for the Group and an update of the Group's financing resources and requirements are considered and discussed. The Board regularly reviews the strategic investment and financing options available to the Group, as well as developments in Government policy towards the primary health sector generally, during the scheduled meetings held during the year.

In addition, six other meetings were held outside this schedule, three of which related to the consideration of proposals for and approval of documentation in connection with the placing, open offer and offer for subscription undertaken in the year to consider the impact, if any, on the Group of the referendum decision to leave the European Union in June and the others to consider acquisition opportunities.

During 2017, it is again intended that at least one of the meetings of the Board will be held away from the Company's registered office and devoted to consideration of the Group's strategy and of the primary health sector in general. During the year, members of the Board often met informally either before or after Board meeting and to some of which members of the executive management team of the Adviser or others were invited. These events provide a useful forum for additional debate between Directors and Executives on complex matters to be discussed at the scheduled meetings. This helps the Directors to fully understand the issues at hand and ensures that the process of the formal meetings is facilitated.

Corporate governance report continued

How the Board functions continued

In addition to the Board meetings held during the year, the Board is regularly in touch for consultation by electronic means.

During the year, the Adviser Engagement Committee meetings are an opportunity for the Chairman and the other Non-executives to discuss issues in the absence of the Executive Directors.

Meetings and attendance

The table below shows the attendance of Directors at meetings that were held during the period of the year in which they served as a Director.

Director	Scheduled meetings	Other meetings
Alun Jones	6/6	6/6
Mark Creedy	5/6	4/6
Harry Hyman	6/6	6/6
Dr Ian Rutter	6/6	5/6
Steven Owen	6/6	6/6
Phil Holland	6/6	6/6
Geraldine Kennell	4/4	2/2
Nick Wiles	4/4	2/2
James Hambro	1/1	1/1
William Hemmings	1/1	1/1

Board Committees

The Board has delegated a number of matters to Committees of the Board under written terms of reference to assist in the discharge of its duties. The following Committees have been established by the Board to consider certain aspects of the Group's affairs:

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

The Chairmen of the Committees report back to the Board at the next Board meeting following any Committee meeting. The minutes of each of these Committees are circulated to and reviewed by the Board. The Company Secretary is secretary to each of these Committees.

The composition of each of the Board Committees and the attendance record of each member of the Committee is set out in the reports from each Committee Chairman on pages 45 to 55. The terms of reference of each Committee are displayed on the Company's website – www.phpgroup.co.uk.

In addition, the Company has established a Standing Committee to implement decisions of the Board, as necessary, between Board meetings. The Standing Committee comprises the Chairman, Alun Jones, Managing Director, Harry Hyman (who may be represented by Phil Holland as his alternate) and any other Non-executive Director. Minutes of Standing Committee meetings are included within papers for Board meetings to formally record the actions that have been taken to implement Board decisions.

Audit Committee report

Members of the Audit Committee (the "Committee")

Member of the Committee	Number of meetings and attendance in period served
Steven Owen (Chairman)	3/3
Alun Jones	3/3
Mark Creedy	2/3
Geraldine Kennell – appointed June 2016	2/2
Nick Wiles – appointed June 2016	2/2
Dr Ian Rutter OBE – left the Committee November 2016	2/2

Additional attendees invited to attend meetings as appropriate

Harry Hyman – Managing Director

Phil Holland – Finance Director

Dr Ian Rutter (at November meeting)

Deloitte LLP

Andrew Herd – Chair of the Adviser's risk committee

Antoinette Bucknor – Group Financial Controller, Nexus

Dear shareholder,

I am pleased to present my report as Chairman of the Audit Committee. As part of our commitment to achieving the highest standards of governance that we can within the Company, the Committee has adopted the additional requirements of the Code as regards audit committees.

Relevant skills and experience

As Chairman, in conjunction with the Nomination Committee, I review on an annual basis the composition of the Committee to ensure that it is comprised of members with skills and competences relevant to the primary care real estate sector and recent and relevant financial experience.

Alun Jones and I are both Chartered Accountants and, as can be seen from our biographies on pages 34 and 35, both possess the recent and relevant commercial knowledge and experience to satisfy the provisions of the Code. Mark Creedy is a qualified surveyor and has many years' experience of managing property investment vehicles. Nick Wiles and Geraldine Kennell have a wealth of wider investment management and oversight experience.

Although Dr Ian Rutter is no longer a member of the Committee he brings an in depth experience of the health sector and particularly primary care and the Committee can call upon his knowledge and advice as necessary and invite him to attend meetings as appropriate.

As Nick Wiles and Geraldine Kennell were new appointments to the Committee during the year, within their induction to the Board, appropriate information and instruction were provided with regard to the role, responsibilities and workings of the Committee. This included meetings with Committee members, the Finance Director and the auditor.

The Committee may invite the Managing Director, the Finance Director, representatives of the Adviser and other 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 annual and interim financial statements, ensuring they are fair, balanced and understandable 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;
- reviewing the Going Concern and Viability Statements presented in the Annual Report and to report to the Board on its opinion on those statements;
- making recommendations to the Board on the appointment and dismissal of the external auditor and approving its remuneration and terms of engagement;
- monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements;
- annually considering the need for an internal audit function; and
- undertaking an evaluation of the performance of the Committee.

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.

Audit Committee report continued

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 2016 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 2016 financial statements, receiving and reviewing confirmations of auditor independence and approving the terms of engagement and proposed fees for 2016;
- considering the qualifications, expertise, resources and independence of the auditor through reviews of its reports and performance;
- recommending the re-appointment of the auditor for 2017 and approving their remuneration;
- the Committee Chairman meeting with the auditor and with staff of the Adviser in February, early August and November to review the audit plans and progress and 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;
- the Committee reviewing the Going Concern assumption and Viability Statement and supporting models and evidence;
- reviewing the Company's arrangements and those of the adviser for whistleblowing;
- considering the need for an internal audit function; and
- instigating a performance evaluation process for the Committee.

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 £1.22 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 auditor's comments thereon, and concluded that the valuation is 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 Committee is responsible for reviewing the adequacy and effectiveness of the Group's risk management processes and systems of internal control.

Following its own assessment 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 28 to 31.

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 ("IFRSs") 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.

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;
- 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.

Auditor independence

The Company's policy prohibits the external auditor from performing services where there may be perceived to be a conflict with its role as external auditor or which may compromise its 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. In addition, the Company will comply with the provisions included within the European Regulation (the "Regulation") on the provision of non-audit services to the Group as a public interest entity and apply the applicable cap on non-audit services obtained from the Company's external auditor. The Regulation also details a list of services that the external auditor is prohibited from providing the Group.

Subject to the overriding requirement to ensure independence and objectivity of the external auditor and compliance with the Regulation, the Adviser may procure certain 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 80.

The external auditor was engaged for five non-audit assignments during the year, relating to tax advisory work in the Republic of Ireland. Each engagement was for a fee less than £25,000. The services were deemed to be ancillary to other assurance services provided by the external auditor where using its knowledge of the facts under consideration was seen as being cost effective for the Group. Its engagement was not deemed to compromise its 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 will not be engaged for any tax services from 1 January 2017.

The external auditor's audit partner is Claire Faulkner who has been the audit partner since June 2013.

Audit Committee report continued

Effectiveness of external auditor

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 its assessment of these key risks. For 2016, the primary risks identified were in relation to the valuation of the property portfolio, investment properties under construction and the valuation of financial instruments.

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 assesses 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 its re-appointment.

Deloitte LLP has 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.

The Committee assesses the effectiveness of the external auditor on an annual basis. The Committee conducts a formal evaluation process involving the completion of a questionnaire and individual and group discussions, to obtain the views of the Committee and appropriate employees of the Adviser.

Following the completion of the 2016 year-end audit, the Committee conducted its review and considers that the audit was appropriately planned and scoped efficiently and effectively performed by Deloitte. The Committee is satisfied that Deloitte continued to perform effectively as the external auditor.

Audit tender policy

The Committee has an established 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, which 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.

Evaluation of the performance of the Audit Committee

The performance of the Committee was assessed by each member completing a questionnaire. The responses were collated into one document which was presented to and discussed by the Committee. The overall conclusion was that the Committee is performing as expected.

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
15 February 2017

Nomination Committee report

Members of the Nomination Committee (the "Committee")

Member of the Committee	Number of meetings and attendance in period served
Nick Wiles (Chairman) (appointed June 2016)	N/A
Alun Jones	2/2
Mark Creedy	2/2
Steven Owen	2/2
Geraldine Kennell (appointed June 2016)	N/A
Dr Ian Rutter OBE	2/2

Dear shareholder,

I am delighted to present the report of the Nomination Committee, to which I was appointed as Chairman in June 2016 to replace Ian Rutter who had served as the Chairman of the Committee for several years. The Nomination Committee meets at least once a year and on an as needed basis and the composition of the Committee and of members' attendance is set out in the table above. The Nomination Committee met twice in the year prior to my appointment.

The Board is required by the Code to establish a Nomination Committee which should lead the process for Board appointments and make recommendations for appointments to the Board. A majority of members of the Nomination Committee should be independent Non-executive Directors. The Nomination Committee's key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities.

Summary of responsibilities

The Nomination Committee reviews the structure, size and composition and membership of the Board and its Committees and makes recommendations with regard to any changes considered necessary.

It also acts as a forum to assess the roles of the existing Directors in office to ensure that there continues to be a balanced Board in terms of skills, knowledge, experience and diversity.

The Nomination Committee seeks to ensure that all Board appointments are made on merit and measured against objective criteria and with due regard for the benefits of diversity on the Board. The Board is committed to ensuring a broad mix of gender, age, nationality, experience and skills throughout the business. The composition of the Board itself is based on a range and balance of skills, knowledge, experience and merit and remains appropriate for a business of its size. The Nomination Committee ensures that diversity is an important consideration and part of the selective criteria used to assess candidates to achieve a balanced Board.

The terms of reference of the Committee are available on the Company's website at www.php.co.uk/about-us/corporate-governance.

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 re-election of Directors at the Annual General Meeting;
- considering and recommending replacement Directors to be appointed by the Company to replace Mr Hambro and Mr Hemmings, who retired following the conclusion of the Company's 2016 Annual General Meeting;
- reviewing the succession plan for the Board;
- discussing the results of the annual Directors' performance and skills evaluation exercise;
- considering the balance of skills, expertise, independence and knowledge of the Company on the Board; and
- reviewing its terms of reference.

Specifically, the Committee under the leadership of Dr Ian Rutter, who chaired the Committee at the time, engaged a specialist agent to lead the search for suitable candidates to replace Mr Hambro and Mr Hemmings. The Committee agreed the terms of appointment for the agent and the specification and required skills and experience that should be provided by the successful candidates. The Committee received a shortlist of potential candidates, met with a number of these and conducted interviews to assess the suitability of each of them. The Committee felt it appropriate that Geraldine Kennell and myself be recommended for appointment to the Board. As explained earlier in this Annual Report, members of the Committee have interviewed candidates for the role of Finance Director in succession to Phil Holland and recommended to the Board that Richard Howell be appointed to the Board from 31 March 2017.

Terms of Non-executive appointments

Non-executive Directors are appointed for an initial three-year term but no specific overall 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. The letters of appointment are available for inspection at the registered office and will be on display at the Annual General Meeting of the Company to be held on 26 April 2017.

Nick Wiles
Chairman of the Nomination Committee
15 February 2017

Adviser Engagement Committee report

Members of the Adviser Engagement Committee (the "Committee")

Member of the Committee	Number of meetings and attendance in period served
Mark Creedy (Chairman)	2/2
Alun Jones	2/2
Nick Wiles (appointed June 2016)	1/1
Steven Owen	2/2
Dr Ian Rutter OBE	2/2
Geraldine Kennell (appointed June 2016)	1/1

Dear shareholder,

I am delighted to present the report of the Adviser Engagement Committee of which I am Chairman. The Committee meets at least once a year and to review the terms of the Advisory Agreement and the performance of the Adviser. Directors who are not members of the Committee may be invited to attend meetings of the Committee as appropriate.

The Company is advised by Nexus Tradeco Limited ("Nexus"), which also provides property management and administration services to the Group. Nexus' appointment is governed by the terms of an advisory agreement dated 27 January 2014 (the "Advisory Agreement"). Nexus also provides the services of Harry Hyman as Managing Director and Phil Holland as Finance Director. For the purposes of Rule 11 of the Listing Rules published by the Financial Conduct Authority and applicable to all companies with a premium listing of its shares on the London Stock Exchange, Nexus is deemed to be a related party of PHP and its subsidiaries.

The Adviser Engagement Committee is charged with oversight of the terms and operation of the Advisory Agreement and to ensure that any proposed amendments to the Advisory Agreement are in the best interests of the Company and approved and implemented in compliance with Rule 11 of the Listing Rules.

Responsibilities

The main roles and responsibilities of the 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.

Attendance at meetings

The table above sets out attendance by Committee members at meetings held during the year. The Committee has also invited Harry Hyman (Managing Director) and Phil Holland (Finance Director) to attend appropriate segments of selected meetings.

Report on the Committee's activities during the year

The Committee met twice during the year to formally review the performance of the Adviser, to monitor compliance with the Advisory Agreement and to consider the continued appropriateness of the terms of the Advisory Agreement.

At each meeting of the Committee a schedule of the fees and expenses paid to the Adviser to that date was reviewed to ratify that they had been paid in accordance with the terms of the Advisory Agreement.

In addition, the Committee conducted a formal appraisal of the effectiveness of the services provided under the Advisory Agreement, with regard to property investment performance and management services, administrative services and company secretarial services. At the same meeting, the Committee also considered the Adviser's plans for succession planning in its staff and the potential risk (if any) associated with the departure of any key members of the Adviser's senior management team.

At its meeting in July, the Committee considered the appointment of David Austin as the new Property Director of the Adviser to replace Tim Walker-Arnott, and satisfied itself that David has the necessary qualifications and experience to fill this important role in the Adviser's team.

Mark Creedy
Chairman of the Adviser Engagement Committee
15 February 2017

Remuneration Committee report

Members of the Remuneration Committee (the "Committee")

Member of the Committee	Number of meetings and attendance in period served
Geraldine Kennell (Chairman) (appointed June 2016)	1/1
Alun Jones	3/3
Mark Creedy	2/3
Nick Wiles (appointed June 2016)	1/1
Steven Owen	3/3
Dr Ian Rutter OBE	3/3

Dear shareholder,

I am delighted following my appointment to chair the Remuneration Committee in succession to Ian Rutter, to present the Directors' Remuneration Report for the year to 31 December 2016 in accordance with the regulations governing the disclosure and approval of Directors' remuneration.

The report has been divided into two parts:

- **Part A:** the Directors' Remuneration Policy, which was last approved by shareholders at the 2014 AGM. The Company is required to put the Directors' Remuneration Policy to a vote of shareholders every three years; accordingly the Directors' Remuneration Policy as set out on pages 52 and 53 will be put to shareholders for their approval in a binding vote at the 2017 AGM. Having considered the terms of the Directors' Remuneration Policy the Remuneration Committee decided that, given the relative simplicity of the Company's remuneration arrangements, to make some small changes to the policy, which is described in more detail below; and
- **Part B:** 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 2017 AGM.

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

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 are remunerated by them and so the Committee does not determine Executive pay.

The Code requires that the Board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent Non-executive Directors. In addition the Company Chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as Chairman.

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.

Responsibilities of the Committee

The principal responsibilities of the Committee are:

- responsibility for setting the remuneration framework or policy for all Directors;
- review the ongoing appropriateness and relevance of the Company's Remuneration Policy;
- within the terms of the approved policy to determine the total individual remuneration package of each Director;
- agree policy on the recovery by the Directors of expenses incurred in performance of their duties; and
- reporting to shareholders on the implementation of the Company's Remuneration Policy in accordance with relevant statutory and corporate governance requirements.

Attendance at meetings

The table above sets out attendance by Committee members at meetings held during the year. The Committee has also invited Harry Hyman (Managing Director) and Phil Holland (Finance Director) to attend selected meetings.

Committee's activities during year

During 2016, the Committee met three times, in January, February and July.

The Committee considered the remuneration of the Non-executive Directors and the Chairman, considering external, publicly available survey information of Non-executive Directors' fees. Non-executive Directors' remuneration was discussed with Lomond Consulting, which was engaged to lead the process for recruiting new Non-executive Directors. Following this review, the Committee resolved to increase the level of the Chairman's remuneration and that of the Non-executive Directors with effect from 1 April 2016, in order to better reflect market rates so as to be able to attract, retain and motivate Directors of the highest calibre. The Chairman was excluded from the discussion of his remuneration.

The Committee also advises the Board on the level of Remuneration to be paid to new Non-executive members of the Board.

The Committee also considered and approved a revised policy on recovery of expenses by Non-executive Directors.

Geraldine Kennell
Chairman of the Remuneration Committee
15 February 2017

Directors’ remuneration report

Part A

Directors’ Remuneration Policy

Introduction

In accordance with the requirements of the Companies Act 2006 (as amended) the Directors’ Remuneration Policy (the “Policy”) as set out below will be put to shareholders for approval at the AGM on 26 April 2017 and, if approved, will apply for a period of three years from that date. The Policy, if approved, will replace the Directors’ Remuneration Policy approved by shareholders in 2014. There is little material difference in the substance of the Policy and that approved by shareholders in 2014.

Policy summary

The Committee determines the Policy for the Chairman, Non-executive and other Directors for current and future years and is reviewed on an annual basis. The Policy is designed to support the strategic objectives of the Company and reflects the strategy of delivering shareholders progressive returns, through (inter-alia) managing costs carefully through outsourcing all property acquisition and management, finance, company secretarial and other administrative services to a third-party adviser. The Company does not therefore have any employees.

In this context, the Policy is to ensure that remuneration of the Directors is set at a reasonable level commensurate with the duties and responsibilities of each Director and the time commitment required to carry out their duties effectively. Remuneration should be such that the Company is able to attract and retain Directors of appropriate experience and quality. The fees paid to Directors will reflect the experience of the Board as a whole, will be fair, and take account of the responsibilities attaching to each role given the nature of the Company’s business, as well as the level of fees paid by comparator real estate investment trusts and the FTSE as a whole.

Additional payments may be made to Directors for chairing committees. Directors will be reimbursed reasonable travel and subsistence expenses incurred in attending meetings or in carrying out any other duties incumbent on them as Directors of the Company, in accordance with the Company’s expense policy. No other benefits, taxable or otherwise are received by any Director. In the event that any such payments are regarded as taxable, the Company will meet the additional costs on behalf of the Directors to ensure that they do not suffer any net loss in carrying out their duties. The level of Directors’ fees will not exceed the limit of £500,000 set out in the Company’s articles of association.

Discretion

The Committee has the discretion to amend the Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee in the best interests of the Company, and disproportionate to seek or await shareholder approval.

Service contracts

No Director has a service contract nor are they appointed for a specific term. The services of the Managing Director, Finance Director or other Executive Directors are provided under the Advisory Agreement by the Adviser, Nexus Tradeco Limited. The adviser receives a fee equal to that paid to a Non-executive Director generally for providing the services of the Managing Director. No Director’s fee will be payable in respect of the services of any other Executive Director employed by the adviser who is appointed to the Board of Directors of the Company.

The Non-executive Directors each have specific letters of appointment, rather than service contracts. Non-executive Directors are appointed for an initial term of three years and, under normal circumstances would be expected to serve for additional three year terms, up to a maximum of nine years. subject to satisfactory performance. The Board shall have discretion to extend a term beyond nine years in order to retain specialist skills and experience which are hard to replace and provided always that the individual is considered to remain independent. The Company requires that all Directors are re-elected at each Annual General Meeting.

Policy table of Directors’ remuneration elements

Element	Purpose and Link to Strategy	Operation	Maximum	Performance measures
Non-Executive Directors Fee	To provide a competitive fee for the performance of NED duties, sufficient to attract high calibre individuals to the role.	Fees are set in conjunction with the duties undertaken. Only increased when an individual takes on additional duties or where benchmarking indicates fees require realignment. Additional fees may be payable for additional services, such as chairing committees or other significant additional responsibilities at the discretion of the Board.	Overall fees will not exceed maximum in articles.	Annual performance review.

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.

No appointment is for a specific term and all require no more than three months' notice of termination.

Loss of office

Directors do not have any entitlement of payment upon a loss of office over and above payment for any notice period and any fees or expenses due to them but unpaid at the time of termination.

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.

Scenarios

As there are no variable elements of Directors' fees linked to performance measures it is accordingly not considered appropriate to provide different remuneration scenarios for the Directors.

Recruitment policy

The Company's approach is that the remuneration of any newly recruited Non-executive Director will be assessed in line with the same principles as apply to the existing Non-executive Directors.

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.

Consideration of employment conditions elsewhere in the Company

The Company has no employees. Consequently, the Committee when setting the Policy was not required to take into consideration the pay and employment conditions through the Company as a whole.

Consideration of shareholder views

The Company is committed to engagement with shareholders and will seek major shareholders' views in advance of making significant changes to its remuneration policies. The Chair of the Committee will attend the annual general meeting to hear the views of shareholders on the Policy and to answer any questions in relation to remuneration.

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.

Legacy arrangements

For the avoidance of doubt, in approving the Policy, authority is given to the Directors to honour any commitments previously entered into with current or former Directors that have been disclosed previously to shareholders.

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

Part B

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 2017 AGM. The information on pages 54 and 55 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 in February 2016 with effect from 1 April 2016. The Committee considered external publicly available survey information of Directors' fees paid by companies similar to the Company, published by well-known remuneration consultants New Bridge Street, and discussed the matter with Lomond Consulting, which was engaged by the Nomination Committee to lead the process for recruiting new Non-executive Directors following the decision by James Hambro and William Hemmings not to stand for re-election at the Company's Annual General Meeting in 2016. The Committee was satisfied that any advice received from Lomond Consulting was objective and independent. Other than with regard to this engagement, Lomond had no connection with the Company and did not receive a fee for its views on the level of remuneration appropriate for the Non-executive Directors. Lomond received a fee solely for its successful executive search services.

The Company has not received any comment or views from shareholders with regard to the formulation of the Directors' Remuneration Policy. 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 2016. No fees are paid to the Adviser in respect of the Finance Director, in accordance with the terms of the advisory agreement.

Component	Director	Remuneration up to 31 March 2016	Remuneration since 1 April 2016
Annual fee	All Non-executive Directors	£35,000	£38,000
Additional fee	Chairman of the Board	£11,667	£22,000
Additional fee	Chairman of the Audit Committee	£7,000	£7,000

Directors' remuneration report continued

Part B continued

Annual Report on Remuneration continued

The set fee for each Non-executive Director and payable to the Adviser for the services of the Managing Director from 1 April 2016 was £38,000 per annum and a total of £60,000 per annum was payable to the Chairman and the Audit Committee Chairman received remuneration of £45,000 per annum.

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

Single total figure of remuneration (audited information)

	Year ended 31 December 2016	Year ended 31 December 2015
Alun Jones	**£56,667**	£45,000
Harry Hyman (Managing Director)[1]	**£37,250**	£33,750
James Hambro[2]	**£9,134**	£33,750
William Hemmings[2]	**£9,231**	£33,750
Dr Ian Rutter	**£37,250**	£33,750
Mark Creedy	**£37,250**	£33,750
Phil Holland[3]	**—**	—
Steven Owen[4]	**£44,250**	£40,500
Geraldine Kennell[5]	**£28,500**	n/a
Nick Wiles[5]	**£28,500**	n/a
Total	**£288,032**	£254,250

[1] 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.

[2] Mr Hambro and Mr Hemmings retired following the Annual General Meeting on 5 April 2016 and other than payment of their fees for the period from 1 January to that date received no other payments from the Company.

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

[4] Mrs Kennell and Mr Wiles were appointed to the Board on 5 April 2016 and received fees from that date.

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

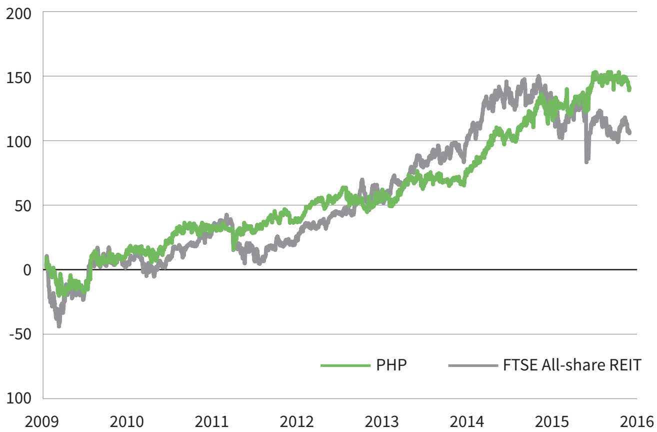
The Managing Director holds a Non-executive Director appointment outside of the Company. The Advisory Agreement does not require the services of the Managing Director on a full time basis and he is committed to working a minimum number of days a month for the Company. The Remuneration Committee is satisfied that the Company has received the appropriate time commitment from the Managing Director and that it would not be appropriate to require disclosure of the fee payable to the Managing Director in respect of his appointment outside of the Company.

Further details of the Advisory Agreement are given in the Directors' Report on page 59 and details of the amounts paid to the Adviser in Note 4 to the financial statements on page 80.

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 2016, the highest and lowest mid-market prices of the Company's Ordinary Shares were 114.0 pence and 101.5 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:

	2016	2015	Difference
Directors' fees[1]	**£288,032**	£254,250	14.1%
Management fee	**£5,806,000**	£5,296,000	9.3%
Dividends	**£26,752,607**	£22,265,243	20.2%

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

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.

Statement of Directors' shareholding and share interests

The interests of each person who served as a Director at any time during the financial year in the share capital of the Company (all of which are beneficial unless otherwise stated) and any interests of a person connected with such persons (within the meaning of Section 96B(2) of the Financial Services and Markets Act 2000) are audited and shown below:

	31 December 2016 Held outright	31 December 2016 Held by connected parties	31 December 2015 Held outright	31 December 2015 Held by connected parties
Mark Creedy	**52,800**	**2,540**	48,000	2,540
Harry Hyman	**376,192**	**12,736,465**[1]	287,153	16,032,853
Alun Jones	**99,000**	**51,000**	90,000	—
Phil Holland	**44,229**	**34,337**	12,936	20,912
Steven Owen	**33,672**	**20,830**	36,632	—
Dr Ian Rutter	**55,479**	**17,228**	40,320	—
Geraldine Kennell	**25,000**	**—**	n/a	n/a
Nick Wiles	**25,000**	**—**	n/a	n/a
James Hambro[2]	**195,428**	**—**	195,428	—
William Hemmings[2]	**28,514**	**—**	26,133	—

[1] Includes 12,324,709 shares held by Nexus Group Holdings Limited as at 31 December 2016.

[2] James Hambro and William Hemmings returned as Directors on 5 April 2016.

Save as disclosed below, no changes occurred between 31 December 2016 and the date of this report.

Mr and Mrs Hyman 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 Hyman held outright 376,371 shares, and connected parties to Mr Hyman 12,736,823 shares.

The change in the interests of parties connected to My Hyman arises principally as a consequence of a reorganisation of the capital of Nexus Investco Limited ("Nexus") in which 3,675,291 PHP shares held by Nexus were distributed to other shareholders in Nexus not including Mr Hyman or his family, resulting in Nexus' total shareholding reducing to 12,324,709 shares representing 2.06% of the current issued share capital of the Company, a reduction of 0.61%

There is no requirement or guidelines for any of the Directors to own shares in the Company, though it is encouraged.

Statement of implementation of the remuneration policy for the year ending 31 December 2017

The Committee will apply the new remuneration policy set out in Part A above, if approved by shareholders, with effect from the Annual General Meeting of the Company to be held on 26 April 2017 for the year ending 31 December 2017 and will apply the current remuneration policy up to that time. On 14 February 2017, following a recommendation from the Committee, the Board resolved to pay the following annual fees to the Non-executive Directors' from 1 April 2017.

Component	Director	Remuneration from 1 April 2017
Annual fee	All Non-executive Directors	£40,000
Additional fee	Chairman of the Board	£32,000
Additional fee	Chairman of the Audit Committee	£10,000
Additional fee	Chairman of Adviser Engagement Committee	£3,000

Payments to past Director or for loss of office

There have been no payments made to past Directors and no payments made for loss of office in the year.

Statement of shareholder voting

At the 2016 AGM, shareholder voting on the Remuneration Report was as follows:

	Number of shares	% of votes cast
Votes cast in favour	149,811,936	99.4
Votes cast against	154,158	0.1
Total votes cast	**150,696,482**	**100**
Abstentions	730,388	0.5

Approval

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

Signed on behalf of the Board of Directors by

Geraldine Kennell
Chairman of the Remuneration Committee
15 February 2017

Directors' report

The Directors present their Annual Report to shareholders for the year ended 31 December 2016.

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 33 which otherwise would be required to be disclosed in the Directors' Report. These include:

- future developments;
- post-balance sheet events;
- greenhouse gas emissions;
- 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.

The Company has no branch offices outside the United Kingdom.

Results and dividends

The results for the year are shown in the Group Statement of Comprehensive Income on page 69.

The Board resolved to pay quarterly interim dividends from 2016 onwards until further notice. Interim ordinary dividends totalling 5.125 pence per Ordinary Share were paid during the year (year ended 31 December 2015: 5.0 pence).

On 5 January 2017, the Board declared an interim dividend of 1.31 pence per Ordinary Share, payable on 24 February 2017, to shareholders on the register at 13 January 2017. Further information on dividends can be found in the Shareholder Information section on page 109.

Annual General Meeting

The Annual General Meeting of the Company ("AGM") will be held on 26 April 2017 at 10.30 a.m. The Notice convening the AGM 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.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint it will be put to shareholders at the AGM.

Directors

Biographical information for the current Directors can be found on pages 34 to 37.

The Directors who served during the year are as follows:

	Position held
Alun Jones	Non-executive Chairman
Harry Hyman	Managing Director
Phil Holland	Finance Director
Mark Creedy	Independent Non-executive Director
Steven Owen	Independent Non-executive Director
Geraldine Kennell	Independent Non-executive Director (Appointed 5 April 2016)
Nick Wiles	Independent Non-executive Director (Appointed 5 April 2016)
Dr Ian Rutter	Non-executive Director
James Hambro	Non-executive Director (resigned 5 April 2016)
William Hemmings	Non-executive Director (resigned 5 April 2016)

The Company's Articles of Association (the "Articles") 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.

Both Geraldine Kennell and Nick Wiles were appointed to the Board as Non-executive Directors on 5 April 2016 and in accordance with the Company's Articles will submit themselves for election at the Company's 2017 AGM to be held on 26 April 2017. Mr Holland will stand down from the Board on 31 March 2017 and will not therefore 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 AGM. 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 38. 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 52 to 55.

Appointment and removal of Directors

Unless and until otherwise determined by the Company by ordinary resolution, the number of Directors (other than any alternate Directors) shall not be less than two and there shall be no maximum number of Directors.

The Managing Director and Finance Director have service agreements with the Adviser and are not employees of the Company. Details of the service agreements of the Non-executive Directors (including the notice periods required to terminate the agreements) are shown in the Directors' Remuneration Report on page 52. Save in respect of any payments that may be made in lieu of notice on termination, there are no arrangements between the Company and the Directors or other employees for compensation for loss of office or employment that occurs because of a takeover bid.

Powers of Directors

Subject to the provisions of the Companies Act 2006, the memorandum and Articles of Association of the Company and any directions given by special resolution, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company.

The Directors were empowered by resolutions of the Company passed on 5 April 2016 to:

- allot equity securities (as defined by the Companies Act 2006) for cash (other than in connection with a pre-emptive offer to all shareholders) up to an aggregate nominal amount of £18,609,459 and to allot up to a further nominal amount of £18,609,459 in connection with a rights issue pre-emptive offer. A resolution authorising the Directors to allot shares will be sought from shareholders at the forthcoming AGM; and
- make market purchases of the Company's shares, up to a maximum aggregate number of 44,662,701 Ordinary Shares. It is proposed to seek renewal of this authority at the forthcoming Annual General Meeting.

Appointment of Directors

Subject to the Articles of Association, and without prejudice to the power of the Company to appoint any person to be a Director, the Board shall have power at any time to appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors shall not exceed any maximum number fixed in accordance with the Articles of Association.

Any Director so appointed shall hold office only until the next Annual General Meeting of the Company following such appointment and shall then be eligible for election.

Retirement of Directors

The Company has adopted the requirements of the UK Corporate Governance Code for FTSE 350 Companies in requiring the annual re-election of all Directors.

Removal of Directors

In addition to any powers of removal conferred by the Companies Act, the Company may by special resolution remove any Director before the expiration of his period of office and may (subject to the Articles) by ordinary resolution appoint another person to act in their place.

Indemnities

The Company's Articles of Association permit it to indemnify Directors of the Company (or of any associated company) in accordance with the Companies Act 2006. The Company may fund expenditure incurred by Directors in defending proceedings against them. The Company may indemnify any Director of the Company or of any associated company against any liability. However, the Company may not provide an indemnity against: (i) any liability incurred by the Director to the Company or to any associated company; or (ii) against any liability incurred by the Director to pay a criminal or regulatory penalty; or (iii) against any liability incurred by the Director in defending criminal proceedings in which they are convicted; or (iv) in defending any civil proceedings brought by the Company (or an associated company) in which judgement is given against them; or (v) in connection with certain court applications under the Companies Act 2006. No indemnity was provided and no payments were made pursuant to these provisions during the year.

The Company also 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 15 February 2017, 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	%
Blackrock	34,063,809	5.69
Investec Wealth & Investment	30,303,655	5.07
Charles Stanley	28,152,848	4.71
Unicorn Asset Management	25,838,364	4.32
Troy Asset Management	24,218,000	4.05
CCLA Investment Management	22,667,881	3.79

Directors' report continued

Share capital

At the date of this report, the Company has one class of share in issue, being 598,185,192 Ordinary Shares of 12.5 pence each and each carrying the right to one vote at general meetings of the Company and to participate in any dividends declared in accordance with the Articles of Association. No person has any special rights of control over the Company's share capital.

The authority under the Companies Act 2006 granted on 5 April 2016 at the Company's Annual General Meeting for the Directors to issue new shares for cash remains valid until the forthcoming AGM when it is intended that a resolution will be put forward to shareholders to renew the authority to issue shares for cash.

On 13 April 2016 the Company issued 150,000,000 new Ordinary Shares of 12.5 pence each at a price of 100 pence each in connection with a firm placing, placing, open offer and offer for subscription. These shares were issued to provide the Company with additional financing to deliver its long term strategy of growing its portfolio of primary care properties, whilst maintaining a prudent level of gearing. The Company did not purchase or acquire any of its Ordinary Shares during the year, nor did any nominee or third party with the Company's assistance acquire any shares on behalf of the Company. Save as above, the Company has not issued any shares for cash other than on a pre-emptive basis in any financial period since 31 December 2013.

Details of changes in share capital are set out in Note 19 of the financial statements.

Rights attaching to shares under the Articles of Association

The Company's articles of association do not contain any specific restrictions on the size of a shareholder's holding.

Voting rights

Subject to any special rights or restrictions as to voting attached to any shares by or in accordance with the Articles of Association, on a show of hands every member who is present in person or by proxy and entitled to vote has one vote and on a poll every member who is present in person or by proxy and entitled to vote has one vote for every share of which he is the holder.

Restrictions on voting

No member shall, unless the Board otherwise determines, be entitled to vote at a general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, in respect of any share held by him or to exercise any right as a member unless all calls or other sums presently payable by him in respect of that share have been paid to the Company. In addition, any member (or other person appearing to be interested in the shares (a "third party"), who having been served with a notice under Section 793 of the Companies Act 2006 by the Company requiring such member to disclose to the Board in writing within such reasonable period as may be specified in such notice, details of any past or present beneficial interest of such member or any such third party in the shares or any other interest of any kind whatsoever which a member or third party may have in the shares and the identity of the person having or having had any such interest, fails to do so may be disenfranchised by service of a notice by the Board.

Transfer

Any member may transfer all or any of his uncertificated shares by means of a relevant system in such manner provided for, and subject as provided, in the CREST Regulations and the rules of any relevant system. Subject to the Articles of Association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. Subject to the provisions of the Companies Act, the Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully paid share provided that where such a share is a member of a class of share admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis.

The Board may only decline to register a transfer of an uncertificated share in the circumstances set out in the CREST Regulations, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share unless the instrument of transfer is: (i) left at the registered office, or at such other place as the Board may decide, for registration and is accompanied by the certificate for the shares to be transferred and/or such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer; or (ii) (if stamp duty is generally chargeable on transfers of certificated shares) the instrument of transfer is duly stamped or adjudged or certified as not chargeable to stamp duty; or (iii) the instrument is in respect of only one class of share; and (iv) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

Amendment of the Company's Articles of Association

Any amendments to the Company's Articles of Association may be made in accordance with the provisions of the Companies Act 2006 by special resolution. There were no amendments made to the Company's Articles of Association in the year.

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 38 to 44.

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 on page 33.

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. Details of the transactions with the related party are set out in Note 27 to the financial statements on page 100.

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 is twelve 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 2016 or 2015 and there is a deficit of some £12.2 million (2015: £11.5 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 and 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, a takeover bid or otherwise.

Donations

The Group does not make any political or charitable donations.

Share service

The Shareholder Information section on page 109 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 important events occurring since the year end are given in Note 28 on page 100.

Going concern

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

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

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

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

As at 31 December 2016, the Group had £88.9 million of headroom on its debt facilities, with a further £4.9 million of cash. The Group has total commitments of £3.3 million outstanding to fund on properties under construction through the course of 2017 and acquired two further properties for a total of £7.2 million on 20 January 2017. Net headroom available to the Group, therefore amounts to £83.3 million.

The Group's consolidated loan to value ratio, including drawn, unsecured debt, was 53.8% as at 31 December 2016, with all banking covenants being met during the year and subsequent to the year end.

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

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

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

Regulatory disclosures

The information in the following tables is provided in compliance with the Listing Rules and the Disclosure and Transparency Rules ("DTRs"). The Disclosure and Transparency Rules also require certain information to be included in a corporate governance statement in the Directors' Report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance Report on pages 38 to 44 and is incorporated into this Directors' Report by reference.

Disclosure table pursuant to Listing Rule 9.8.4C

Listing Rule	Information required	Disclosure
9.8.4(1)	Interest capitalised by the Group	None
9.8.4(2)	Unaudited financial information	None
9.8.4(3)	Small related party transactions	None
9.8.4(4)	Long term incentive scheme only involving a Director	None
9.8.4(6)	Directors' waiver of emoluments	None
9.8.4(7)	Directors' waiver of future emoluments	None
9.8.4(8)	Non-pro-rata allotments for cash	See page 58
9.8.4(9)	Listed company is a subsidiary of another	n/a
9.8.4(10)	Contracts of significance involving a Director	See page 59 for details of the Advisory Agreement
9.8.4(11)	Contracts of significance involving a controlling shareholder	None
9.8.4(12)	Waiver of dividends	None
9.8.4(13)	Waiver of future dividends	None
9.8.4(14)	Agreement with a controlling shareholder	n/a

Regulatory disclosures continued

Additional information provided pursuant to Listing Rule 9.8.6

Listing Rule	Information required	Disclosure
9.8.6(1)	Interests of Directors (and their connected persons) in respect of transactions notifiable to the Company under article 19 of the Market Abuse Regulation at the year end and not more than one month prior to the date of the notice of AGM	See statement on page 55
9.8.6(2)	Interests in shares disclosed under DTR5 at the year end and at not more than one month prior to the date of the notice of AGM	See statement on page 57
9.8.6(3)	The going concern statement	See statement on page 60
9.8.6(4)(a)	Amount of the authority to purchase own shares available at the year end	
9.8.6(4)(b)	Off market purchases of own shares during the year	None
9.8.6(4)(c)	Off market purchases of own shares after the year end	None
9.8.6(4)(d)	Non-pro-rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with main principles of the UK Corporate Governance Code ("the Code")	See statement on pages 40 to 43
9.8.6(6)	Details of non-compliance with the Code	See statement on page 40

Directors' statement as to disclosure of information to auditor

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 44. Having made enquiries of fellow Directors and of the Company's auditor, each of the Directors confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

The Directors' report was approved by the Board on 15 February 2017 and is signed on its behalf.

By order of the Board

Nexus Management Services Limited
Company Secretary
15 February 2017

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

Registered in England Number: 3033634

Directors' responsibility statement

Statement of Directors' responsibilities in respect of the Group and Company financial statements

The Directors are responsible for preparing the Annual Report and the 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced disclosure framework.' Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report 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 they face; and
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 15 February 2017 and is signed on its behalf by:

Alun Jones
Chairman
15 February 2017

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 2016 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 (IFRSs) 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 that we have audited comprise:

- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Cash Flow Statement;
- the Group and Parent Company Statements of Changes in Equity;
- the Statement of Accounting Policies; and
- the related notes 1 to 28 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".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Valuation of the property portfolio • Valuation of complex financial instruments Our 2015 report included a risk for revenue recognition which is not included in our report this year as described below.
Materiality	The materiality that we used in the current year was £9.7 million which was determined on the basis of 2% of Net Assets. In addition to net assets, we considered EPRA Earnings to be a critical financial performance measure for the Group and we applied a lower threshold of £1.3 million for EPRA Earnings items.
Scoping	Consistent with 2015, we performed full scope audit procedures on all of the Group's subsidiaries.
Significant changes in our approach	Last year our report included an additional risk relating to the accounting for revenue recognition. After reconsidering our approach, we have determined this is no longer a key risk due to the impact of lease incentives and cut-off of property transactions being qualitatively and quantitatively immaterial and not a significant risk of material misstatement due to fraud.

Independent auditor's report continued

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 Note 2 and the Directors' report to the financial statements and the Directors' statement on the longer term viability of the Group contained within the Risk management and principal risks section of the Strategic report.

We are required to state whether we have anything material to add to or draw attention to in relation to:

- the directors' confirmation on page 28 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 28 to 31 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements 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; and
- the directors' explanation on page 32 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

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 confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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.

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.

Last year our report included an additional risk relating to the accounting for revenue recognition. After reconsidering our approach, we have determined this is no longer a key risk due to any lease incentives being qualitatively and quantitatively immaterial and not a significant risk of any material misstatement due to fraud.

Valuation of the property portfolio

Risk description	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 £1,220 million as at 31 December 2016. The valuation of the portfolio is a significant judgement area and is underpinned by a number of assumptions. 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 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 policy at page 74 and Note 10 to the financial statements. The consideration of this risk by the Audit Committee is described at page 46.
How the scope of our audit responded to the risk	• 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 performed audit procedures to assess the integrity of information provided to the independent valuer relating to rental income; • We assessed the forecast costs to complete on development properties by reviewing the commitment per the development agreement and verifying a sample of costs incurred in the year to supporting documentation; • We obtained the external valuation reports for all properties and evaluated whether 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 selection of properties. Our selection focused on the largest properties in the portfolio, 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, and a random selection from the portfolio; and • We discussed and challenged the valuation process with the external valuer and management including the performance of the portfolio and significant assumptions and critical judgement areas. Our challenge included benchmarking the portfolio yield to market competitors and the key assumptions for a selection of properties to comparable property transactions.
Key observations	We are satisfied that the key assumptions in calculating the property valuations are within an acceptable range. The testing performed in relation to the final property valuations proved satisfactory.

Independent auditor's report continued

Valuation of financial instruments

Risk description	The Group uses a portfolio of interest rate swaps to hedge the risk associated with variable rate debt facilities. The portfolio was valued at a liability of £33.3 million at 31 December 2016. 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 quarterly 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 contract. This gives rise to a significant audit risk due to the judgement required in determining the projected interest rates and the impact of small changes in the projected interest rates on the fair value of the liability recorded. Please see accounting policy at page 75 to 77 and note 18 to the financial statements. The consideration of this risk by the Audit Committee is described at page 46.
How the scope of our audit responded to the risk	• We assessed management's reviews of derivative valuations and hedge effectiveness documentation to test 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 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; and • We independently recalculated hedge effectiveness calculations and reviewed the hedge designation documentation for a sample of the hedged instruments to assess whether the appropriate hedge accounting has been reflected in the financial statements.
Key observations	The results of our audit testing showed that the valuations adopted were within an acceptable threshold and hedge accounting was applied appropriately. We are therefore satisfied with the accounting treatment adopted in relation to the Group's complex financial instruments.

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 would make 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£9.7 million (2015: £6.7 million) and a lower materiality of £1.3 million (2015: £1.0 million) for balances impacting EPRA earnings.
Basis for determining materiality	2% of net assets (2015: 2% of net assets) The lower materiality used for balances impacting EPRA earnings was determined using 5% (2015: 5%) of EPRA Earnings.
Rationale for the benchmark applied	The overall level of materiality was determined using net assets because this is the primary focus of investors in listed real estate businesses.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £260,000 (2015: £135,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. 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 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. This is with the exception of the books and records for the Group's investment in the Irish Collective Asset Management Vehicle ("ICAV"), which holds the property acquired in Tipperary during the year, which are held by a local Trust and are audited by Deloitte Ireland.

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 at the same time as the Group audit 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% (2015: 99%) of the Group's net assets.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

Independent auditor's report continued

Matters on which we are required to report by exception continued

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
15 February 2017

Group statement of comprehensive income
for the year ended 31 December 2016

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

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

The above relates wholly to continuing operations.

Group balance sheet
at 31 December 2016

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

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

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

Alun Jones
Chairman

Group cash flow statement
for the year ended 31 December 2016

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

1 Payment of liabilities acquired with subsidiaries

2 Acquisition of Thornaby property

3 Acquisition of White Horse, Westbury property

4 Exchange difference on Euro denominated loan used to hedge net investment in foreign operation, see Note 2.2 to the Financial Statements.

Group statement of changes in equity
for the year ended 31 December 2016

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

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

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

Notes to the financial statements

1. Corporate information

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

2. Accounting policies

2.1 Basis of preparation

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

The Group's financial statements are prepared on the going concern basis (see page 60 for further details) and presented in Sterling rounded to the nearest thousand.

Statement of compliance

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

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

2.2 Summary of significant accounting policies

Basis of consolidation

The Group's financial statements consolidate the financial statements of Primary Health Properties PLC and its 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 and Ireland leased principally to GPs, Government Healthcare organisations and other associated healthcare users.

Foreign currency transactions

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

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

Foreign operations

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

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

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

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

Notes to the financial statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Investment properties and investment properties under construction

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

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

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

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

Property acquisitions and business combinations

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

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

Net rental income

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

Interest income

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Bank loans and borrowings

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

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Borrowing costs

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

Convertible bond

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

Taxation

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

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

Financial instruments

Financial liabilities at fair value through profit or loss

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

Other loans and payables

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

Loans and receivables

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Notes to the financial statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

De-recognition of financial assets and liabilities continued

Financial liabilities

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

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

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

Fair value measurements

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

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

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

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

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

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

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

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

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

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

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

Hedge accounting

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

i) Derivative financial instruments (Derivatives)

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

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

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Hedge accounting continued

i) Derivative financial instruments (Derivatives) continued

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

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

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

ii) Hedging net investments in foreign entities

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

Leases – Group as a lessor

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

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

2.3 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

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

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

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

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

Fair value of derivatives

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

Notes to the financial statements continued

2. Accounting policies continued

2.3 Significant accounting estimates and judgements continued

b) Judgements

Leases

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

Hedge effectiveness

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

Property acquisitions during the year

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

2.4 Standards adopted during the year

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

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

2.5 Standards issued but not yet effective

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

• IFRS 9	Financial instruments
• IFRS 15	Revenue from contracts with customers
• IFRS 16	Leases
• IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
• Annual improvements to IFRSs: 2012–2014	Amendments to: IFRS 1 – First-time Adoption of International Financial Reporting Standards, IFRS 12 – Disclosure of Interests in Other Entities, IAS 28 – Investments in Associates and Joint Ventures

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 2017, but are not yet applicable to the Group and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following set out below:

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

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually 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 2018 and earlier application is permitted, subject to EU adoption. The Group is assessing the impact of IFRS 15 but it is not expected to be material.

IFRS 16 'Leases' establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard specifies how entities reporting in accordance with IFRS will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve 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
2016	**66,894**	**264,895**	**575,480**	**907,269**
2015	61,850	246,566	590,357	898,773

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

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

Notes to the financial statements continued

4. Group operating profit is stated after charging:

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

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

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

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

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

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

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

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

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

5. Finance income

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

6. Finance costs

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

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

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

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

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

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

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

Notes to the financial statements continued

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

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

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

b) Factors affecting the tax credit for the year

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

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

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

c) Basis of taxation

The Group elected to be treated as a UK-REIT with effect from 1 January 2007. The UK-REIT rules exempt the profits of the Group's property rental business from corporation tax. Gains on properties are also exempt from tax, provided they are not held for trading or sold in the three years post completion of development. The Group will otherwise be subject to corporation tax at 20% (2015: 20%).

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

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

To remain as a UK-REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activities and the balance of its business. The Group remains compliant as at 31 December 2016.

8. Earnings per share

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

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

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

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

Notes to the financial statements continued

9. Dividends

Amounts recognised as distributions to equity holders in the year:

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

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

10. Investment properties, investment properties under construction

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

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

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the Valuers are required to value development, property as if complete, deduct the costs remaining to be paid to complete the development and consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks and the impact they may have on fair value. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the Valuers have deemed that the residual risk to the group is minimal. As required by the red book, LSH has deducted the outstanding cost to the Group through to the completion of construction of £3.3 million (2015: £21.8 million) in arriving at the fair value to be included in the financial statements. A fair value increase of £0.8 million (2015: increase of £0.6 million) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on property portfolio in the year of £20.7 million (2015: gain of £39.8 million).

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
As at 1 January 2016	882,016	209,861	8,735	1,100,612
Property additions	70,335	9,000	18,033	97,368
Impact of lease incentive adjustment	657	832	—	1,489
Transfer from properties under construction	19,703	—	(19,703)	—
	972,711	219,693	7,065	1,199,469
Revaluations for the year	14,219	5,642	825	20,686
As at 31 December 2016	**986,930**	**225,335**	**7,890**	**1,220,155**
As at 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

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

Fair value hierarchy

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

Valuation techniques used to derive level 3 fair values

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

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

Valuation techniques: market comparable method

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

Unobservable input: estimated rental value ("ERV")

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

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

Unobservable input: equivalent yield

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

	2016	2015
True equivalent yield – range of the portfolio	**4.334%–7.753%**	4.580%–6.696%

Notes to the financial statements continued

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.

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

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

Subsidiaries held directly by the Company

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

Subsidiaries indirectly held by the Company

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

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

1 Subsidiary company registered in Jersey. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG.

2 An Irish collective asset-management vehicle ("ICAV") established in the Republic of Ireland.

3 Subsidiary company registered in the Republic of Ireland. Registered office: Riverside 1, Sir John Rogerson's Quay, Dublin 2.

4 Subsidiary company registered in Scotland. Registered office: 3rd Floor, 1 West Regent Street, Glasgow, Scotland G2 1RW.

12. Trade and other receivables

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

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

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

The Group's principal customers are invoiced and pay quarterly in advance, usually on English quarter days. There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants.

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

13. Cash and cash equivalents

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

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

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

14. Trade and other payables

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

Notes to the financial statements continued

15. Borrowings: term loans and overdrafts

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

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

Providers:

1 The Royal Bank of Scotland plc.

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

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

4 Aviva GPFC facility.

5 HSBC Bank facility.

6 Aviva facility.

7 Barclays/AIB facility.

8 Aviva facility.

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

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

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

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

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

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

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:

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

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

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

16. Borrowings: bonds

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

Secured bond

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

Retail bond

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

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

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

17. Derivatives and other financial instruments

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

	2016 £000	2015 £000
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 ("effective swaps")		
Non-current assets	**—**	9
Current liabilities	**(3,395)**	(1,403)
Non-current liabilities	**(29,311)**	(19,383)
	(32,706)	(20,777)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 ("ineffective swaps")		
Non-current assets	**—**	—
Current liabilities	**(400)**	(3,331)
Non-current liabilities	**(200)**	(11,170)
	(600)	(14,501)
Total fair value of interest rate swaps	**(33,306)**	(35,278)
Shown in the balance sheet as:		
Total non-current assets	**—**	9
Total current liabilities	**(3,795)**	(4,734)
Total non-current liabilities	**(29,511)**	(30,553)

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

17. Derivatives and other financial instruments continued

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

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

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

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

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

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

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

Details of the single interest rate cap held by the Group 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

Notes to the financial statements continued

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
2016				
London Interbank Offered Rate	Increase of 50 basis points	**9,382**	**1,982**	**11,364**
London Interbank Offered Rate	Decrease of 50 basis points	**(9,382)**	**(1,982)**	**(11,364)**
2015				
London Interbank Offered Rate	Increase of 50 basis points	9,922	2,326	12,248
London Interbank Offered Rate	Decrease of 50 basis points	(9,922)	(2,326)	(12,248)

b) Credit risk

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

18. Financial risk management continued

Financial risk factors continued

c) Liquidity risk

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

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

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

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

d) Market risk

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

Interest rate risk

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

Price risk

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

Notes to the financial statements continued

18. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair values

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

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

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

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

Fair value hierarchy

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

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

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

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

18. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair value hierarchy continued

Fair value measurements at 31 December 2016 are as follows:

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

Fair value measurements at 31 December 2015 are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

19. Share capital

Ordinary Shares issued and fully paid at 12.5 pence each

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

Issue of shares in 2016

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

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

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

20. Share premium

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

21. Capital reserve

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

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

Notes to the financial statements continued

22. Special reserve

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

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

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

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

23. Cash flow hedging reserve

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

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

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

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

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

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

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

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

24. Retained earnings

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

25. Net asset value per share

Net asset values have been calculated as follows:

	2016 £000	2015 £000
Net assets per Group Balance Sheet	**499,196**	345,360
Derivative interest rate swaps (net liability)	**33,306**	35,278
Convertible bond fair value movement	**12,456**	10,931
EPRA net asset value	**544,958**	391,569

	Number of shares	Number of shares
Ordinary Shares		
Issued share capital	**598,185,192**	446,281,348
Net asset value per share:		
Basic net asset value per share	**83.5p**	77.4p
EPRA NAV per share	**91.1p**	87.7p

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

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

Notes to the financial statements continued

26. Capital commitments

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

27. Related party transactions

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

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

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

28. Subsequent events

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

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

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

Company balance sheet
at 31 December 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Investment in subsidiaries	7	**283,754**	124,884
		283,754	124,884
Current assets			
Trade and other receivables	8	**363,045**	311,234
Cash at bank and in hand	9	**—**	10
		363,045	311,244
Total assets		**646,799**	436,128
Current liabilities			
Trade and other payables	10	**(144,362)**	(45,375)
		(144,362)	(45,375)
Non-current liabilities			
Borrowings	11	**(164,705)**	(164,065)
		(164,705)	(164,065)
Total liabilities		**(309,067)**	(209,440)
Net assets		**337,732**	226,688
Equity			
Share capital	13	**74,773**	55,785
Share premium		**59,102**	57,422
Capital reserve		**1,618**	1,618
Special reserve	14	**192,894**	93,063
Retained earnings		**9,345**	18,800
Total equity		**337,732**	226,688
Net asset value per share – basic	15	**56p**	51p

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

Alun Jones
Chairman

Company statement of changes in equity
for the year ended 31 December 2016

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
1 January 2016	55,785	57,422	1,618	93,063	18,800	226,688
Loss for the year	—	—	—	—	(9,455)	(9,455)
Other comprehensive income						
Total comprehensive loss	—	—	—	—	(9,455)	(9,455)
Share issue expenses	—	(101)	—	(4,667)	—	(4,768)
Shares issued as part of capital raise	18,750	—	—	131,250	—	150,000
Dividends paid:						
Dividends paid	—	—	—	(24,733)	—	(24,733)
Scrip dividend in lieu of cash	238	1,781	—	(2,019)	—	—
31 December 2016	**74,773**	**59,102**	**1,618**	**192,894**	**9,345**	**337,732**

	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:						
Dividends paid	—	—	—	(21,083)	—	(21,083)
Scrip dividend in lieu of cash	147	1,036	—	(1,183)	—	—
31 December 2015	55,785	57,422	1,618	93,063	18,800	226,688

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.

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, which 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.

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.

Notes to the Company financial statements continued

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. Foreign currencies

The functional and presentation currency of the company is Sterling. Transactions in currencies other than Sterling are recognised at the applicable exchange rate ruling on the transaction date. Exchange differences resulting from settling these transactions, or from re-translating monetary assets and liabilities denominated in foreign currencies are included in the Statement of Comprehensive Income

4. 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.

5. Taxation

	2016 £000	2015 £000
UK corporation tax	—	—

6. Dividends

Amounts recognised as distributions to equity holders in the year:

	2016 £000	2015 £000
Quarterly interim dividend paid 26 February 2016	5,357	—
Scrip dividend in lieu of quarterly cash dividend 26 February 2016	361	—
Quarterly interim dividend paid 27 May 2016	5,170	—
Scrip dividend in lieu of quarterly cash dividend 27 May 2016	552	—
Quarterly interim dividend paid 26 August 2016	6,832	—
Scrip dividend in lieu of quarterly cash dividend 26 August 2016	819	—
Quarterly interim dividend paid 25 November 2016	7,374	—
Scrip dividend in lieu of quarterly cash dividend 25 November 2016	287	—
Interim dividend 2.50p paid 1 April 2015	—	10,733
Scrip dividend in lieu of cash dividend 1 April 2015	—	395
Interim dividend 2.50p paid 30 October 2015	—	10,350
Scrip dividend in lieu of cash dividend 30 October 2015	—	788
Total dividends distributed in the year	26,752	22,266
Per share	5.125p	5.0p

7. Investment in subsidiaries

	£000
At 1 January 2016	**124,884**
Acquisition of Crestdown Limited	**11**
Investment in PHP ICAV	**427**
Release of intercompany receivable balances	**158,432**
At 31 December 2016	**283,754**
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

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

Subsidiaries held directly by the Company

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

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
PHP Healthcare Investments Limited
PHP St. Johns Limited
PHP Clinics Limited
PHIP (Stourbridge) Limited
PHP (Project Finance) Limited
PHP Medical Properties Limited
PHP Glen Spean Limited
Gracemount Medical Centre Limited[4]
PHP AssetCo (2011) Limited
PHP Primary Properties Limited

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

1 Subsidiary company registered in Jersey. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG.

2 An Irish collective asset-management venice established in the Republic of Ireland.

3 Subsidiary company registered in the Republic of Ireland. Registered office: Riverside 1, Sir John Rogerson's Quay, Dublin 2.

4 Subsidiary company registered in Scotland. Registered office: 3rd Floor, 1 West Regent Street, Glasgow, Scotland G2 1RW.

Notes to the Company financial statements continued

8. Trade and other receivables

	2016 £000	2015 £000
Amounts due from Group undertakings	**362,922**	310,725
Prepayments and accrued income	**44**	74
Other receivables	**79**	435
	363,045	311,234

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

9. Cash at bank and in hand

	2016 £000	2015 £000
Cash at bank and in hand	**—**	10

10. Trade and other payables

	2016 £000	2015 £000
Current		
Trade payables	**40**	34
Amounts owed to Group undertakings	**142,316**	43,227
Other payables	**35**	220
Accruals and deferred income	**1,971**	1,894
	144,362	45,375

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

11. Borrowings

	2016 £000	2015 £000
Retail bond July 2019	**75,000**	75,000
Unamortised issue costs	**(490)**	(680)
Intra-group loan with PHP Finance (Jersey) Limited (Note 11)	**79,899**	78,905
Option to convert (Note 11)	**10,296**	10,840
	164,705	164,065

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.

12. 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.

13. Share capital

Issued and fully paid at 12.5 pence each

	2016 Number	2016 £000	2015 Number	2015 £000
Balance at 1 January	**446,281,348**	**55,785**	445,106,648	55,638
Scrip issues in lieu of cash dividend	**1,903,844**	**238**	1,174,700	147
Shares issued in the period	**150,000,000**	**18,750**	—	—
Balance at 31 December	**598,185,192**	**74,773**	446,281,348	55,785

Issue of shares in 2016

	Date of issue	Number of shares	Issue price
Scrip issue in lieu of fourth quarterly cash dividend	25 November 2016	256,706	104.575p
Scrip issue in lieu of third quarterly cash dividend	26 August 2016	756,949	101.350p
Scrip issue in lieu of second quarterly cash dividend	27 May 2016	544,520	108.200p
Shares issued in the period	14 April 2016	150,000,000	100.000p
Scrip issue in lieu of first quarterly cash dividend	26 February 2016	345,669	111.750p

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

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

14. Special reserve

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

The special reserve has arisen on previous issues of the Company's shares. It represents the share premium on the issue of the shares, net of expenses, from issues effected by way of a cash box mechanism. The issue of shares on 14 April 2016, referred to in Note 12, was effected by way of a cash box.

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

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

Notes to the Company financial statements continued

15. Net asset value per Ordinary Share

	2016 pence	2015 pence
Basic and diluted	56	51

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £337.7 million (2015: £226.7 million) and on 598,185,192 (2015: 446,281,348 shares), being the number of shares in issue at the year end.

16. Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £3.3 million plus VAT (2015: £21.8 million plus VAT).

17. Related party transactions

Details of related party transactions are provided in the Directors' Report, the Directors' Remuneration Report and Note 27 to the Group Financial Statements on page 100. There are no employees other than the Directors, listed on pages 34 to 37.

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.

Shareholder information

Corporate calendar 2017

Annual General Meeting	26 April 2017
AGM statement	26 April 2017
Announcement of half year results	27 July 2017

Dividends

Starting in 2016 and until further notice, the Company intends to make quarterly dividend payments to shareholders. The proposed timetable for 2017 is:

Payment of quarterly dividend (record date 13 January 2017)	24 February 2017
Anticipated interim payments	May 2017 August 2017 November 2017

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 of 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 lodged 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 registrar free of charge on 0371 384 2030 (lines are open 8.30 a.m. to 5.30 p.m. 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 registrar 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 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 (8.00 a.m.–6.00 p.m. Monday to Friday) or access www.shareview.co.uk/dealing.

Advisers and bankers

Stockbrokers

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Peel Hunt Limited
Moor House
120 London Wall
London EC2Y 5ET

Solicitors

Nabarro LLP
125 London Wall
London EC2Y 5AL

Shepherd and Wedderburn LLP
191 West George Street
Glasgow G2 2LB

Gowling WLG (UK) LLP
4 More London Riverside
London SE1 2AU

Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Bankers

Allied Irish Bank PLC
St Helens
1 Undershaft
London EC3A 8AB

Aviva Commercial Finance Limited
Surrey Street
Norwich NR1 3NJ

Barclays Bank PLC
1 Churchill Place
London E14 5HP

HSBC
8 Canada Square
London E14 5HQ

The Royal Bank of Scotland Plc
280 Bishopsgate
London EC2M 3UR

Santander Corporate Banking
2 Triton Square
Regent's Place
London NW1 3AN

Environmental consultant

Savills
33 Margaret Street
London W1G 0JD

Property valuer

Lambert Smith Hampton Group Limited
Interchange Place
Edmund Street
Birmingham B3 2TA

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.

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

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

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

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

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

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

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

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

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

Glossary of terms continued

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.

MIX
Paper from
responsible sources
FSC® C014999

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.

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

Primary Health Properties

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

Registered in England Number:
3033634

Primary Health Properties PLC Annual Report 2016