PHP Primary Health Properties

Primary Health Properties PLC
Annual Report 2017

A leading investor in modern primary healthcare premises

A leading investor in modern healthcare properties in the UK & Ireland.

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.

The Group funds its portfolio with a diversified mix of equity and debt.

Read more on Page 18

Growing our property portfolio for the future.

Read more on Page 14

Managing our property portfolio effectively and efficiently.

Read more on Page 16

Front cover and below: Low Grange Health Village, Middlesbrough

Highlights

Strategic report

Corporate governance

Financial statements

Further information

The Company uses a number of alternative performance measures in these Financial Statements, see page 19 and page 27.

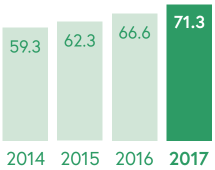
1 See Note 8 to the financial statements.

2 See Note 25 to the financial statements.

Visit our new website
www.phpgroup.co.uk

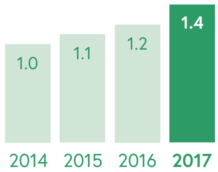
Net rental income (£m)

£71.3m +7.1%



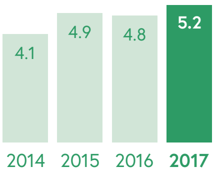
Total property portfolio (£bn)

£1.4bn +16.6%



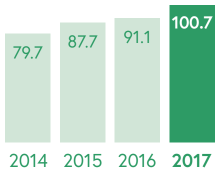
EPRA earnings per share[1] (p)

5.2p +8.3%



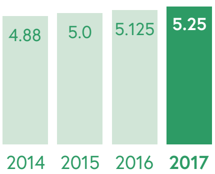
EPRA NAV per share[2] (p)

100.7p +10.5%



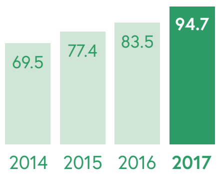
Dividend per share (p)

5.25p +2.4%



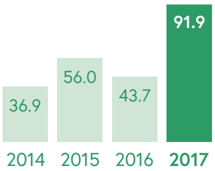
IFRS NAV per share (p)

94.7p +13.4%



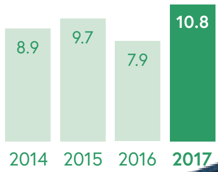
IFRS profit for the year (£m)

£91.9m +110.3%



Total property return (%)

10.8% +36.7%



At a glance

The Group's portfolio comprises over 300 primary healthcare facilities.

The majority of our healthcare facilities are GP surgeries, with other properties let to NHS organisations, pharmacies and dentists. PHP endeavours to provide high quality buildings for its tenants and to provide the highest quality assets for its shareholders.

PHP's business model is to invest solely in the freehold or long leasehold of modern purpose-built healthcare facilities in the UK or Ireland, which the Group holds for long-term investment.

The Group's portfolio comprises over three hundred primary healthcare facilities 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 distribution by capital value of building*

			Properties
£10m+	2017	£316.9	20
	2016	£265.8	18
£5–10m	2017	£380.6	55
	2016	£304.9	45
£3–5m	2017	£376.3	98
	2016	£344.7	90
£1–3m	2017	£285.2	131
	2016	£303.0	141
£0–1m	2017	£1.6	2
	2016	£1.3	2

* Excludes land valued at £1.3m (2016: £0.5m).

Key facts

Portfolio value
£1.36bn

Properties
306

Rent roll
£72.3m

Registered patients
3.5m

Occupancy
99.7%

Rent roll funded by government
90%

Tenancies
640

Business activity in 2017

Investment activity

- £71.9 million across ten investments

Asset management activity

Rent reviews

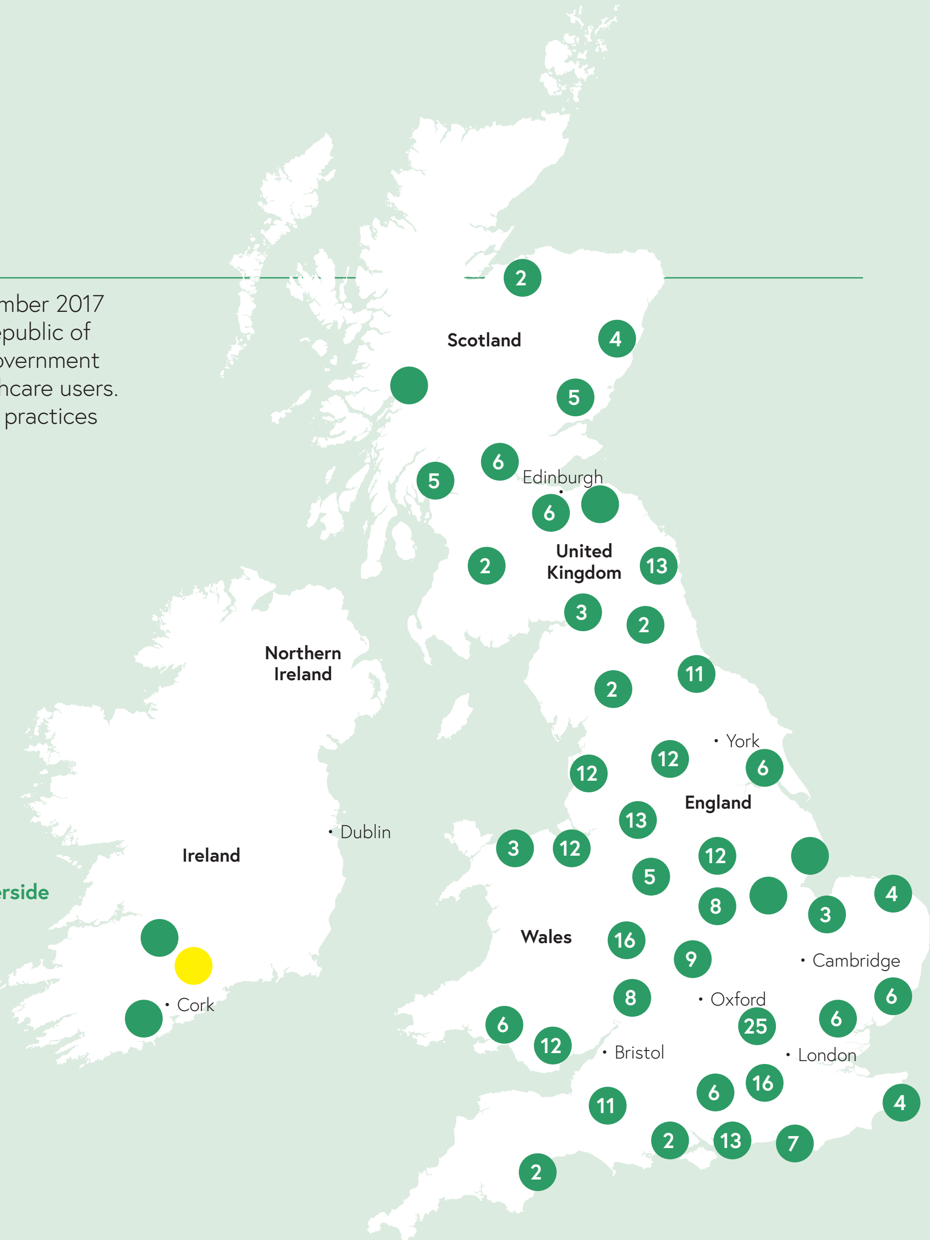
- 108 reviews completed
- £0.5 million additional rental income
- rental uplift equivalent to 1.1% per annum

Asset management projects

- nine projects committed; four completed and five on site
- seven further projects approved
- £4.4 million invested

Key

- completed investments
- committed investments



Our property portfolio

The Group's completed properties at 31 December 2017 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 3.5 million patients are registered to GP practices at our properties in the UK.

Scotland

Capital value: £169.8m
Properties: 31
Rent roll: £8.8m
Tenancies: 55

South East

Capital value: £228.5m
Properties: 64
Rent roll: £12.6m
Tenancies: 129

Republic of Ireland

Capital value: £13.7m
Properties: 2
Rent roll: £0.9m
Tenancies: 6

North

Capital value: £104.4m
Properties: 27
Rent roll: £5.6m
Tenancies: 54

West Midlands

Capital value: £141.9m
Properties: 31
Rent roll: £8.0m
Tenancies: 71

Yorkshire and Humberside

Capital value: £83.5m
Properties: 18
Rent roll: £4.6m
Tenancies: 35

Wales

Capital value: £152.7m
Properties: 26
Rent roll: £8.0m
Tenancies: 88

North West

Capital value: £154.2m
Properties: 29
Rent roll: £7.7m
Tenancies: 63

South West

Capital value: £59.4m
Properties: 16
Rent roll: £3.0m
Tenancies: 24

East Midlands

Capital value: £139.8m
Properties: 32
Rent roll: £7.1m
Tenancies: 68

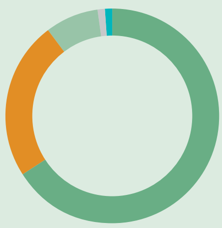
East Anglia

Capital value: £38.7m
Properties: 11
Rent roll: £2.1m
Tenancies: 20

London

Capital value: £75.3m
Properties: 19
Rent roll: £3.9m
Tenancies: 26

Covenant analysis by annual rent



- GPs (66.1%)
- NHS/HSE (23.8%)
- Pharmacy (7.9%)
- Other (1.3%)
- Govt bodies (0.9%)

Chairman's statement

2017 has been another successful year delivering earnings, net asset value and dividend growth.

Highlights

- EPRA earnings increased by 15.7% to £31.0 million
- IFRS profit before tax increased by 110.3% to £91.9 million
- Dividends per share of 5.25 pence, +2.4%; 21 years of continued dividend growth
- EPRA NAV per share 100.7 pence, up 10.5%
- IFRS NAV per share 94.7 pence, up 13.4%
- Portfolio passes landmark with over 300 properties
- Average lot size increased to £4.5 million (2016: £4.1 million)
- Ten acquisitions in the year with a large average lot size of £7.2 million

"I am delighted to present PHP's Annual Report for 2017, another successful year in which the Group has continued to grow and reach several significant milestones."

I am delighted to present PHP's Annual Report for 2017, which has been another successful year delivering earnings, net asset value and dividend growth. We have continued to make disciplined progress in growing the portfolio to 306 primary health properties, valued at over £1.36 billion, and have a strong and deliverable pipeline of opportunities both in the UK and Ireland. We have maintained both earnings and net asset value growth, strengthened the balance sheet, reduced the cost of debt and extended the maturity profile of our loan facilities.

The continued strong progress in the year has allowed us to deliver value to shareholders with our 21st successive year of dividend growth of 2.4% and a total NAV return of 14.9 pence, an increase of 16.4% (2016: 8.5 pence, an increase of 9.7%).

Structural challenges impacting future healthcare requirements

A key part of our strategy is to ensure the primary healthcare centres in our portfolio will continue to remain fit for purpose facilities, form an important part of the local healthcare provision and can be easily adapted to meet the changing needs of both the NHS and local communities. The trend to create Accountable Care Organisations ("ACOs"), super practices and moves to more collaborative working with locally integrated health systems encompassing primary, secondary and social care will see patient numbers re-located within fewer practices. Consequently, the emergence of larger practices providing an out-of-hours, integrated healthcare offering, resulting in better patient outcomes, will become more pronounced in the future, especially as the continuing pressures on secondary healthcare becomes more acute.

Consequently, the Company's acquisition policy has been to focus on the hub primary healthcare centres within each local area which typically have a large lot size and patient list, relative to the local population, space to expand and typically offer a variety of healthcare services including a pharmacy.

The ten assets acquired in the year, including our second acquisition in Ireland, met these criteria with a large average lot size of £7.2 million and a substantial average patient list of some 14,000. The acquisitions in the year have helped increase the average lot size in the portfolio to £4.5 million (2016: £4.1 million). In February 2018, we will complete the acquisition of Mallow, County Cork for £17.8 million (€20.0 million); one of the largest primary healthcare centres in the country and PHP's third asset in Ireland.

We continue to work closely with the GPs, NHS, Irish Health Service Executive ("HSE") and pharmacy operators who occupy our properties to provide an integrated and long-term solution to their property needs, identifying asset management initiatives to expand or improve their facilities or provide on-going maintenance over the life of their lease. PHP's ability to invest, develop and manage our assets will ensure they remain a fundamental part of the local healthcare economy in the future.

Results highlights

The acquisitions both in 2016 and 2017 together with organic rental growth have helped to increase our net rental income by 7.1% to £71.3 million (2016: £66.6 million) and have delivered a strong set of results in 2017, with EPRA earnings up 15.7% to £31.0 million (2016: £26.8 million) and EPRA earnings per share up 8.3% to 5.2 pence (2016: 4.8 pence). The Group's portfolio was valued at the year end at just over £1.36 billion, which generated a revaluation surplus of £64.5 million, an increase of 5.0% (2016: £20.7 million, an increase of 1.7%) after allowing for costs associated with acquisitions and capital expenditure. The revaluation surplus was due mainly to the portfolio's valuation average net initial yield which tightened by 26bps in the year to 4.91% (2016: 5.17%), together with strong asset management activity.

The EPRA earnings and revaluation surplus was offset by a loss on the Mark-to-Market ("MtM") valuation of our derivative portfolio and convertible bond of £3.6 million resulted in an IFRS profit of £91.9 million (2016: £43.7 million), an increase of 110.3% and equivalent to IFRS earnings per share of 15.3 pence (2016: 7.8 pence).

Asset management activity, including annualised rental growth of 1.1% achieved on rent reviews (2016: 0.9%), and further asset management projects have helped to create additional value, adding £0.6 million to the annualised rent roll. Achieving rental growth continues to be challenging, due primarily to the lack of new development schemes to act as benchmarks, but we are beginning to see positive signs of upwards pressure on rents.

Community Health Centre, Rotherham

Results highlights continued

We continue to invest time and resource to initiate quality asset management projects and the Group has completed four during the year, with another five currently on site. Encouragingly, a further seven more projects have been approved and are due to commence in 2018. In addition, a strong pipeline of 16 potential asset management projects has been identified and these will be progressed during 2018. We devote considerable time to discussing our tenants' requirements and identifying new opportunities.

The strong performance in the year resulted in a Performance Incentive Fee ("PIF") being earned by the Adviser, Nexus Tradeco Limited, of £0.5 million (2016: £nil).

The strong earnings growth achieved in the year allowed us to maintain a substantially covered, increased dividend.

The revaluation surplus in the year of £64.5 million (2016: £20.7 million) is the equivalent to 10.4 pence per share and was the main factor for the increase in the EPRA NAV by 9.6 pence or 10.5% to 100.7 pence (2016: 91.1 pence) which when added to the dividends paid produced a total NAV return for the year of 16.4% (2016: 9.7%).

Dividends

The Company distributed a total of 5.25 pence per share in the year ended 31 December 2017, an increase of 2.4% over 2016's 5.125 pence per share and represented the Company's 21st successive year of dividend growth. The total value of dividends distributed in the year increased by 17.2% to £31.4 million (2016: £26.8 million) and were substantially covered by EPRA earnings. Dividends totalling £1.7 million were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.35 pence per share was declared on 3 January 2018, equivalent to 5.4 pence on an annualised basis and represents an increase of 2.9% over the dividend distributed per share in 2017. The dividend will be paid to shareholders on 23 February 2018 who were on the register at the close of business on 12 January 2018. The dividend will comprise a Property Income Distribution ("PID") of 0.85 pence and an ordinary dividend of 0.5 pence per share. Further dividend payments are planned to be made on a quarterly basis.

The Company intends to maintain its strategy of paying a progressive dividend that is covered by earnings in each financial year.

The Company's share price started the year at 111.5 pence per share and closed on 31 December 2017 at 117.0 pence, an increase of 4.9%. Including dividends, those shareholders who held the Company's shares throughout the year achieved a Total Shareholder Return ("TSR") of 9.6% (2016: 7.3%).

Board changes

As separately announced, with effect from the Annual General Meeting ("AGM"), on 18 April 2018 the following changes to the Board will be made.

I am approaching a landmark birthday and have served on the Board since 2007 and therefore believe it is a good time for a change. I will therefore be retiring at the AGM and the Board has decided that my replacement will be Steven Owen, currently Senior Independent Director and the Chairman of the Audit Committee. Steven is an experienced company director and I am very happy to be handing over the Company to such a capable pair of hands.

Non-executive Directors Dr Ian Rutter and Mark Creedy, who have similarly given long and valued service on the Board, will also be retiring at the AGM.

The Board has expressed its gratitude to Ian and Mark for their invaluable guidance and expertise during a period when there has been considerable change and uncertainty in our market and the economy and they have made a substantial contribution to the growth and continuing success of the Company.

Nick Wiles took over as Chairman of the Adviser Engagement Committee from Mark Creedy at the end of January 2018 and will replace Steven Owen as the Senior Independent Director at the AGM. As separately announced with these results two new Directors, Ian Kreiger and Stephen Kell, OBE, have been appointed and will stand for election by shareholders at the forthcoming AGM.

Ian Kreiger was a Senior Partner and Vice Chairman at Deloitte until his retirement in 2012 and is currently Senior Independent Non-Executive Director and Chairman of the Audit Committee at Safestore Holdings plc and Premier Foods plc. He is also a Non-Executive Director at Capital & Regional plc, where he also chairs the Audit Committee. He is also Chair of Anthony Nolan, a major blood cancer charity and Trustee and Chairman of the finance committee of the Nuffield Trust. Ian will be appointed as Chairman of the Audit Committee, replacing Steven Owen.

PHP has a strong pipeline of opportunities in both the UK and Republic of Ireland."

Progressive dividend policy
21 consecutive years of dividend growth

Steven Kell, OBE is a General Practitioner and Managing Partner of a large medical practice in Worksop, Nottinghamshire with 14 partners, 32,000 patients and which operates across five sites. Until 2016, Steven was also Chair of the Bassetlaw Clinical Commissioning Group, Vice-Chair of the Nottinghamshire Health and Wellbeing Board and Co-Chair of NHS Clinical Commissioners. Consequently, he has an in-depth understanding of healthcare commissioning and has helped to establish a national membership organisation with significant political and NHS influence.

The Board looks forward to welcoming the new Directors who will bring an extensive knowledge of property, primary healthcare, the NHS and finance to the company. A detailed induction programme has been planned for them.

As previously reported, Richard Howell replaced Phil Holland as Finance Director at the end of March 2017 and joined us from his position as Finance Director, Joint Ventures with LondonMetric Property Plc.

Outlook

Whilst continued political and economic uncertainty has been a significant distraction to markets during the last year, the attraction of secure, low risk income will continue as an alternative to low yielding government bonds. The primary health property sector benefits from strong fundamentals of a population that is growing, ageing, suffering from increased occurrence of chronic conditions and well publicised pressures on both GPs and the NHS. The future demand for healthcare is driven by demographics and the NHS is supported on a cross-party basis.

Whilst the NHS adapts, albeit slowly, to meet these increased pressures, PHP is well placed and stands ready to assist. We have strengthened our balance sheet and have significant headroom to selectively invest further in both the UK and Ireland. We look forward to helping deliver the modernisation of the primary care estate by actively pursuing attractive investment opportunities of both assets and developments. In addition, we are committed to managing our existing assets to ensure they meet the future healthcare requirements of the local communities they serve.

PHP's sector-leading metrics have been maintained thanks to the disciplined approach to acquisitions and strong asset management activity in the year. With occupancy at 99.7%, a weighted average unexpired lease term of 13.2 years and only 0.6% of our income due to expire in the next three years, the majority of which is in advanced negotiations to renew. Over 90% of PHP's drawn debt is either fixed or hedged with fixed interest rate swaps and the recent rises in interest rates are not expected to have a material impact on future earnings. We are well placed to continue growing dividends in the future, covered by earnings.

This is my last Chairman's Statement and I would like to thank all those who have contributed to the success of PHP during my tenure including members of the Board, the staff of our Adviser, Nexus and our external advisers. I am happy to be handing over the reins with the Company in good shape, confident the Company will continue to maintain its record of growth. I wish the Group and our shareholders every success.

Alun Jones
Chairman
14 February 2018

Clydach Primary Care Centre, Swansea, Wales

Our business model

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 90% of UK income is funded directly or indirectly by the NHS, providing a low risk, high covenant income stream.

In 2017, the Group has continued to widen its geographical scope completing its second acquisition and committing to acquire a third asset in 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.

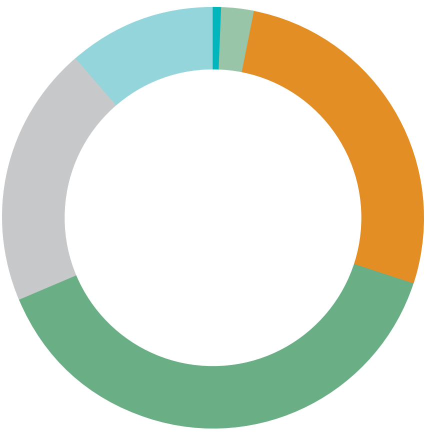
Initial lease terms in the UK are typically of 20 years or more, at effectively upward-only rentals. With the large majority of income received either from the NHS or from NHS funded GPs, this provides a secure, transparent income stream.

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 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



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.

Our markets

PHP will continue to remain disciplined in its approach to investment; maintaining a strict selection criteria.

The pro-longed era of low interest rates, together with the uncertain and volatile economic and political environment, has created an unrelenting search for income yield across most sectors. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary. The UK market for primary healthcare property investment continues to be highly competitive with very strong yields and prices being paid by investors for assets in the sector.

Primary healthcare provides a critical function, forming a key part of the NHS's Five Year Forward View ("FYFV"), operating as most patients' first point of call when unwell. The primary care estate has faced underinvestment over the last decade, with approximately 50% of the 8,000 GP surgeries in England and Wales now considered by medical professionals to be unfit for purpose. Building on the FYFV, the follow-up "Next Steps on the Five Year Forward View", published in March 2017, reiterated that shift, setting out targets for growth in the primary care workforce, expansion of access to general practice and the need for improved primary care premises.

In March 2017, the independent report on NHS Property and Estates by Sir Robert Naylor was published, highlighting the importance of primary care premises and making a number of recommendations. The report highlights the importance of the recently created NHS Property Board in supporting the visions of the FYFV and Sustainability and Transformation Plans ("STPs"), which have been developed 44 areas in England, in helping to create affordable and efficient estates and the importance of the private sector in delivering these objectives.

The government's Spring and Autumn 2017 Budgets both announced that additional funding is to be given to the NHS to support the 15 strongest STPs, increase funding on frontline NHS services and upgrades to NHS buildings and facilities with a further £6.3 billion including £3.5 billion for capital investment for the NHS in England by 2022-23. These sums are in addition to the £10.0 billion per annum already pledged for the NHS by 2020-21.

In January 2018, the Government published a response to the Naylor Review which acknowledged the importance of land and property to the transformation of the health system and how the NHS will be able to supplement public capital with other sources of finance from the private sector. The response also confirms that the use of private finance has been particularly effective as a source of investment and innovation in primary and community care in the past and will still be used in the future where it represents good value for money.

PHP continues to actively engage with GPs, key stakeholders and influencers within the NHS, HSE in Ireland and Governments in both countries, on a cross-party basis, demonstrating the benefits of PHP's third-party development ("3PD") model and the key differences with Private Finance Initiatives ("PFI"). In particular, PHP continues to engage in discussions on how new or improved primary healthcare premises can deliver not only value for money, cost savings and better patient outcomes but, just as importantly, also reduce the burden on and frequency of visits to secondary care, particularly accident and emergency departments.

PHP's specialist sector knowledge as an investor, manager and forward funder of primary health properties means we are well placed to assist in the delivery of these plans and deliver mutually beneficial opportunities with tenants to develop new facilities or enlarge, modernise and update the specification of their existing properties.

The market fundamentals supporting the primary healthcare sector have translated into continued investor demand and limited supply resulting in further yield compression during 2017. Given the continued lack of new supply in the short to medium term and continued demand, we believe yields may continue to compress further in 2018. However, PHP will continue to remain disciplined in its approach to investment by maintaining strict selection criteria and a carefully evaluated pricing approach to ensure additions are high quality, accretive to net earnings and offer the opportunity for future growth.

Primary Care Centre, Carrigaline, County Cork, Ireland

Strong performance delivering strategic objectives.

Strategic objective		Activity in 2017	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 5.2 pence up 8.3% (2016: 4.8 pence). • Dividend per share increased by 2.4% to 5.25 pence. • Total NAV return of 16.4%.	• Strong investment pipeline both in UK and Ireland. • Average cost of debt reduced to 4.09%. • Strategy of paying a progressive dividend that is covered by earnings in each financial year.
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 14 and 15	• Acquired ten assets in the year totalling £71.9 million. • Portfolio grown to over 300 properties including two assets in Ireland. • Total property return in the year of 10.8%.	• Sector fundamentals of long leases and government backed income continue to drive demand in the sector. • Strong pipeline of opportunities across the UK and Ireland.
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 16 and 17	• Nine projects committed in the year of which four have completed and five are on on site, investing £4.4 million and generating £0.2 million of additional income. • EPRA cost ratio increased to 13.2% reflecting the impact of the performance incentive fee and additional costs due to the increase in the size of the portfolio and "one-off" costs relating to Ireland.	• Seven asset management projects approved and pipeline of 16 potential projects being progressed. • Continued discussions with occupiers to discuss requirements and identify new opportunities. • Cost ratio should fall in the future due to reducing fee rates as the portfolio grows and set-up of costs relating to Ireland fall away.
Fund diversified, long term funding	Fund activities through a appropriate mix of shareholder equity and debt, from a diverse range of sources with varied maturities. >> See page 18	• The Group completed its first transaction in the private placement market raising £100 million at a fixed coupon of 2.83% • £75 million loan with Aviva was refinanced for just under eleven years at a fixed rate of 3.1% saving £0.7 million p.a. • £130 million of new loan facilities completed with RBS and Lloyds. • £19.3 million of 4.25% convertible bonds converted into equity and a further £1.1 million has converted post period end saving £0.9 million p.a.	• Refinancing completed in 2017 and reduction in average cost of debt will lead to significant interest cost savings in 2018 and beyond. • New loan facilities and refinancing provide significant firepower to secure new investment opportunities. • 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 economic and political change.

Key performance indicators

EPRA earnings per share

5.2p

2017	5.2p
2016	4.8p
2015	4.9p

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 increased by 8.3% in the year and actions taken in 2017 will benefit 2018.

Dividend cover

99%

2017	99%
2016	100%
2015	98%

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

Dividends paid in 2017 were substantially covered by EPRA earnings and we intend to maintain a strategy of paying a progressive dividend that is covered by earnings in each financial year.

1 4

Total property portfolio

£1.4bn

2017	£1.4bn
2016	£1.2bn
2015	£1.1bn

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 2017 add £3.4 million to annual contracted rent roll and are accretive to earnings.

Total property return

10.8%

2017	10.8%
2016	7.9%
2015	9.7%

Rationale

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

Performance

Strong earnings and capital growth in the year delivered a total property return of 10.8% split 5.5% income growth and 5.3% capital growth.

2 3

Capital invested in asset management projects

£4.4m

2017	£4.4m
2016	£1.8m
2015	£2.5m

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

13.2%

2017	13.2%
2016	11.5%
2015	11.5%

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 EPRA cost ratio reflects the impact of the performance incentive fee and set-up costs relating the the portfolio in Ireland.

1 3

Loan To Value

52.9%

2017	52.9%
2016	53.7%
2015	62.7%

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 strong capital growth in the year and convertible bond conversions have resulted in the Group's LTV falling to 52.9% despite the total net debt increasing by £64.6 million to £720.3 million.

Average cost of debt

4.09%

2017	4.09%
2016	4.65%
2015	4.67%

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 to the longer term availability of debt facilities.

Performance

The average cost of debt has been reduced by 56bp in the year to 4.09% as a result of the refinancing and swap cancellation completed in the year.

2 4

Growing our portfolio

The Group's portfolio comprises 306 modern, flexible properties helping to modernise health services in the UK and Ireland.

Total contracted rent roll
£72.3 million +6.3%

10 properties acquired in 2017
£71.9m

1. Mallow Primary Health Centre, County Cork, Ireland
2. Carrigaline, County Cork, Ireland
3. Croft Medical Centre, Birmingham
4. Syston Medical Centre, Leicestershire
5. Wincanton Medical Centre, Somerset
6. Stenhousemuir, Scotland

The Company's acquisition policy has been to focus on the hub primary healthcare centres within each local area which typically have a large lot size and patient list."

Managing property effectively

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

Invested in value add schemes in 2017

£4.4m

Prospect House, Kettering, Northamptonshire

Leases extended back to average

20 years

Additional rent sourced from rent reviews and projects

£0.6m

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 mix of shareholder equity, secured and unsecured debt.

Victoria Central Health Centre, Wallasey, Liverpool

2017 Group loan to value
52.9%

2017 weighted average debt maturity
6.3 years

2017 average cost of debt
4.09%

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 underlying recurring 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 – 5.2 pence, up 8.3% (2016: 4.8 pence).

Diluted EPRA EPS – 5.1 pence, up 8.5% (2016: 4.7 pence).

Definition

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.

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 – 100.7 pence, up 10.5% (2016: 91.1 pence).

Definition

EPRA net assets ("EPRA NAV") are the balance sheet net assets excluding own shares held, the MtM value of derivative financial instruments and the convertible bond fair value movement.

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 the financial statements.

EPRA net initial yield

EPRA NIY – 4.91%, down 26bps (2016: 5.17%).

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 for themselves, how the valuation of the Group's portfolio compares with others.

Calculation

	2017 £m	2016 £m
Investment property (excluding those under construction)	**1,360.8**	1,212.3
Allowance for estimated purchaser's costs	**86.7**	77.6
Grossed up completed property portfolio valuation (B)	**1,447.5**	1,289.9
Annualised cash passing rental income	**72.0**	67.5
Property outgoings	**(1.0)**	(0.8)
Annualised net rents (A)	**71.0**	66.7
EPRA net initial yield (A/B)	**4.91%**	5.17%

EPRA vacancy rate

EPRA Vacancy Rate – 0.3%, no change (2016: 0.3%).

Definition

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.

Purpose

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

Calculation

	2017 £m	2016 £m
ERV of vacant space	**0.2**	0.2
ERV of completed property portfolio	**71.6**	67.7
EPRA Vacancy Rate	**0.3%**	0.3%

EPRA Cost Ratio

EPRA Cost Ratio – 13.2%, increased due to performance incentive fee and set-up costs relating to assets in Ireland (including and excluding costs of direct vacancy) (2016: 11.5%).

Definition

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.

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.

Highlights

IFRS profit before tax
£91.9m, +110.3%
(2016: £43.7m, -22.0%)

IFRS earnings per share
15.3p, +96.2%
(2016: 7.8p, -38.1%)

IFRS NAV per share
94.7p, +13.4%
(2016: 83.5p, +7.9%)

EPRA earnings per share
5.2p, +8.3%
(2016: 4.8p, -2.0%)

EPRA NAV per share
100.7p, +10.5%
(2016: 91.1p, +3.8%)

Total EPRA NAV return
14.9p, +16.4%
(2016: 8.5p, +9.7%)

Disciplined acquisitions with structural support

The Chairman's Statement and Market Overview set out the importance of ensuring PHP's portfolio is aligned towards the future structural needs and challenges that face both the NHS in the UK and HSE in Ireland, if we are to maintain and grow shareholder value. The unrelenting future demand for healthcare, together with technical advances and innovation, will result in the continued trend of GP practices being co-located in larger, fit-for-purpose facilities, offering a varied, diverse and joined-up range of related services.

The portfolio's average lot size is the largest in the sector at £4.5 million (2016: £4.1 million) and we have only two assets valued at less than £1.0 million. We continue to maintain our very strong metrics, with a long average lease length of 13.2 years, high occupancy at 99.7% and with only 0.6% of our rent due to expire in the next three years.

We have continued to make good progress in Ireland, completing our second acquisition and contracting to acquire one of the country's largest primary healthcare facilities, Mallow, County Cork in December 2017, which is due to complete at the end of February 2018.

Investment activity

In this environment, PHP has maintained its disciplined approach to investment with the acquisition of ten assets for £71.9 million in the year ended 31 December 2017 (2016: 24 assets for £74.2 million).

The acquisitions enhanced the quality of our portfolio and added £3.7 million or 5.4% to the contracted rent roll at 31 December 2017.

Asset		Area (Sqm)	Acquisition price	WAULT (years)	GP patient list and key tenants
Cove Bay, Aberdeen	Investment	983	£4.6m	15.3	12,500
Pitmedden, Aberdeen	Investment	710	£2.6m	13.0	5,300
Carrigaline, County Cork, Ireland	Development	2,985	£6.4m (€7.3m)	25.0	20,000 + HSE + pharmacy
Churchdown, Gloucestershire	Development	1,184	£5.0m	20.0	13,500 + pharmacy
Low Grange, Middlesbrough	Investment	5,800	£25.4m	17.3	22,000 + NHS + pharmacy + optician
Evenwood, Bishop Auckland	Investment	465	£1.7m	13.0	2,500
Syston Medical Centre, Leicestershire	Investment	2,575	£8.4m	16.1	23,000 + NHS + pharmacy
Croft Medical Centre, Birmingham	Investment	1,175	£4.7m	23.5	11,000
Stenhousemuir Medical Centre, Falkirk	Investment	2,450	£8.7m	17.5	19,000
Wincanton Medical Centre, Somerset	Investment	983	£4.4m	19.5	8,800 + pharmacy
Total		**19,310**	**£71.9m**	**18.0**	
Average		**1,931**	**£7.2m**		**13,760**

Cove Bay Medical Centre and Pitmedden Medical Centre, two modern, purpose-built healthcare facilities located close to Aberdeen, were acquired in January 2017 for a total consideration of £7.2 million. The properties benefit from long unexpired terms of 15.3 years and 13.0 years respectively.

Carrigaline, County Cork was PHP's second acquisition in Ireland, contracting to provide development funding for the construction of a new primary care centre for a total cost of £6.4 million (€7.3 million). The centre comprises 2,985m^2 and fully let for 25 years with over three quarters of the rent roll is contracted to the Irish Government's HSE, with the remainder derived from a group of GPs and a pharmacy operator. The development completed on time in August 2017 and opened to patients in September 2017.

Churchdown, Gloucestershire was acquired in May 2017 with PHP contracting to provide development funding for the construction of the property for a total cost of £5.0 million. The property will comprise an area of 1,184m^2 to be fully let for 20 years from completion to a GP surgery with a patient list of over 13,500, in addition to a pharmacy. The development is currently on site and scheduled to complete in March 2018.

Low Grange Health Village, Middleborough was acquired in July 2017 and is let to a combination of tenants with the majority of income generated by two GP practices and NHS Property Services. The property comprises circa 5,800m^2 and benefits from a long unexpired lease term of 17.3 years with 96% of the income benefiting from three-yearly fixed increases of 3% per annum.

Evenwood Medical Centre, Bishop Auckland was acquired in July 2017 and is let to NHS Property Services for a 20-year term with three-yearly, upwards only RPI rent reviews with 13.0 years unexpired. This asset was acquired at the same time as Low Grange Health Village as a combination.

Syston Medical Centre, Leicestershire was acquired in July 2017 and is fully let to two GP practices, the Leicestershire Partnership NHS Trust who provide integrated mental health, learning disability and community health services from the facility, and a pharmacy. The property comprises circa 2,575m^2 and benefits from a long unexpired lease term of 16.1 years.

Croft Medical Centre, Birmingham was acquired in September 2017 and is a modern and high-quality centre having been completed in 2015. The property is fully let to a GP practice and benefits from a long unexpired lease term of 23.5 years. It is the largest healthcare centre within the local health economy, comprising 1,175m^2.

Stenhousemuir Medical Centre, Falkirk was acquired in October 2017 and comprises 2,450m^2 which is let entirely to the Scottish Minister, with a long unexpired lease of 17.5 years, and is substantially the largest in the area.

Wincanton Medical Centre, Somerset was acquired in November 2017 and is fully let to a GP practice and a pharmacy. The property comprises circa 983m^2 and benefits from a long unexpired lease term of 19.5 years.

Despite the very strong yields and resulting high prices being paid by competitors in the market, PHP will continue to remain disciplined in its approach to investment; maintaining a strict selection criteria and pricing approach to ensure additions are high quality, accretive to net earnings and offer the opportunity for future growth. The completed acquisitions increased PHP's portfolio to 306 assets, valued at £1.36 billion at 31 December 2017, including one development currently on site.

Developments

The development at Swindon, acquired in 2016, successfully completed on time and within budget, opening to patients in May 2017. The asset is a purpose-built healthcare centre, developed in the town centre of Swindon, and comprises 2,454m^2 of space fully let to NHS Property Services Limited for 20 years. The property serves over 20,000 patients, with an onsite pharmacy. In addition, a number of additional services are being relocated to the centre including same day urgent clinics, dental, podiatry, diabetic, dietician and sexual health services. The property was acquired for a net consideration of £10.0 million.

As noted above, during the year a two further forward-funded developments were acquired. Firstly, Carrigaline, County Cork, which completed on time in August 2017 and opened to patients in September 2017; and, secondly, Churchdown, Gloucestershire.

In a competitive investment market, development opportunities present an attractive alternative to acquiring new, long, WAULT, purpose-built primary care facilities. PHP will continue to work with experienced development partners, healthcare bodies and professionals to procure assets that meet our strict criteria of pre-let, de-risked and short cycle developments. PHP will not undertake any developments on a speculative basis.

Asset under development	Anticipated Practical Completion date	Area (Sqm)	Net development cost	Spent to date	Future costs
Churchdown, Gloucestershire	March 2018	1,184	£5.0m	£0.8m	£4.2m

Investment pipeline

Contracts for the acquisition of Mallow Primary Health Centre, Mallow, County Cork in Ireland for £17.7 million (€20.0 million) were exchanged in December 2017 and completion is due at the end of February 2018. The purchase will accounted for in 2018 because the Group's accounting policy is to recognise acquisitions upon completion.

The property is one of Ireland's largest primary healthcare facilities and comprises 6,500m^2. The Irish Government's HSE has signed a new 25-year lease, accounting for 65% of the rent roll, with the remainder derived from four separate GP practices, a dentist, an optician and a physiotherapist. The property also benefits from a pharmacy and has considerable unused land for future expansion.

Asset		Area (Sqm)	Acquisition price	WAULT (years)	GP patient list and key tenants
Mallow, County Cork, Ireland	Investment	6,500	£17.7m (€20.0m)	21.9	30,000 + HSE + pharmacy + dentist + optician + physiotherapist

PHP continues to have a strong pipeline of targeted acquisitions of approximately £150 million both in the UK and Ireland.

Asset management

PHP's sector-leading metrics continue to remain strong and we remain focused on the organic rental growth that can be derived from our existing assets. This growth arises mainly from rent reviews and asset management projects (extensions, refurbishments and lease re-gears) which provide an important opportunity to increase income, extend lease terms and avoid obsolescence, whilst ensuring that our premises meet the communities' needs.

Rent reviews

During 2017, PHP concluded and documented 101 rent reviews with a combined rental value of £12.6 million, adding £0.5 million to our contracted rent roll or an overall uplift of 4.1%, equating to 2.1% per annum. However, there are a number of open market reviews where no uplift is anticipated and if included the overall increase falls to 1.1% per annum. The rental growth achieved represents an increase over the 0.9% per annum achieved in 2016.

Of these reviews, 0.3% per annum was achieved on open market reviews (1.3% per annum excluding nil increases), 2.3% per annum on RPI-based reviews and 5.0% per annum on fixed uplift reviews. In addition, a further 10 open market reviews were agreed in principle, which will add another £0.1 million to the contracted rent roll and represent an uplift of 1.4% per annum.

74% of our rent reviews are on an open market basis, reviewed typically every three years, and are impacted by land and construction costs inflation. Over recent years, there have been significant increases in these costs, which will eventually result in further rental growth in the future. The balance of the PHP portfolio has either RPI (19%) or fixed (7%) based reviews which also provide an element of certainty to future rental growth within the portfolio.

At 31 December 2017, the rent at 265 tenancies, representing £35.3 million of passing rent, was under negotiation and the large number of outstanding reviews reflects the requirement for all awards to be agreed with the District Valuer. A great deal of evidence to support open market reviews comes from the delivery of new properties into the sector. Whilst underlying land and construction costs have increased in recent years, the lower number of new schemes approved by the NHS has restricted the ability to capture the growth in new rental values. However, the demand for new, purpose built premises continues and is now being supported by NHS initiatives to modernise the primary care estate.

Asset management projects

Work has continued to enhance and extend existing assets within the portfolio and a further nine projects were committed to in the year, of which four have been completed and five are currently on site. These projects require the investment of £4.4 million and will generate £0.2 million of additional rental income but, just as importantly, will extend the WAULT on those premises back to a weighted average of 19.5 years.

PHP continues to work closely with its tenants and has another seven projects that have been approved by the NHS and are either being documented or currently in the process of obtaining planning permission. PHP will invest a further £0.6 million in these projects, once contracted, extending the WAULT on these premises to 14.8 years and generating £11,000 of additional rental income. There is a strong pipeline of 16 further potential projects which will be progressed during the course of 2018 in addition to the continual task of discussing requirements with tenants and identifying new opportunities.

Asset management projects are key to maintaining the longevity and security of our income through long-term tenant retention extended occupational lease terms, and increased rental income adding to both earnings and capital values. Consequently, we will continue to invest capital in a range of physical extensions and refurbishments.

PHP has also supported its tenants to obtain funding from the NHS Estates and Technology Transformation Fund ("ETTF") and eight of these projects have received approval. We continue to work closely with both the tenants and the relevant Clinical Commissioning Groups ("CCG") to progress these projects further but access to the funds is proving to be frustratingly slow.

Sector-leading portfolio metrics

Including development properties as complete, the portfolio's annualised contracted rent roll at 31 December 2017 was £72.3 million, an increase of 6.3% in the period (2016: £68.0 million). The security and longevity of our income are important drivers of our secure, long-term predictable income stream and enable our progressive dividend policy.

Security: PHP continues to benefit from secure, long-term cash flows, with 90% of its rent roll funded directly or indirectly by the NHS in the UK or HSE in Ireland. The portfolio also from an occupancy rate of 99.7% (2016: 99.7%).

Longevity: The portfolio's WAULT at 31 December 2017 was 13.2 years (2016: 13.7 years). Leases representing only £0.4 million or 0.6% of our rental income expires over the next three years and £50.5 million or 70% expire in over ten years. The table below sets out the current lease expiry profile of our income:

Income subject to expiry	£m	%
< 3 years	0.4	0.6%
4 – 5 years	1.9	2.6%
5 – 10 years	19.5	27.0%
10 – 15 years	27.9	38.6%
15 – 20 years	14.4	19.9%
> 20 years	8.2	11.3%
Total	**72.3**	**100.0%**

The £2.3 million of income falling due within the next five years represents predominantly twelve properties of which the majority forms part of either an asset management project where we are in positive discussions to renew.

Valuation and returns

Despite the continued political and economic uncertainty, primary healthcare is increasingly being seen as a highly desirable real estate sector, as evidenced by the increasing competition for investment opportunities, strong yields and prices currently being paid. Demand for strong yield and covenant assets continues to out-strip supply, with new property funds and family offices now willing to consider new sectors such as primary healthcare in addition to the well-known acquisitive investors in the sector.

At 31 December 2017, the portfolio comprised of 306 assets, including one development, independently valued at £1.362 billion (2016: £1.220 billion). The strong investment market, together with our sector-leading portfolio metrics and asset management initiatives, resulted in a valuation surplus of £64.5 million or 5.0% (2016: £20.7 million or 1.7%), after allowing for the cost of acquisitions and capital expenditure in the year to 31 December 2017. The surplus was generated predominantly by a 26 bps reduction in the net initial yield ("NIY") to 4.91% (2016: 5.17%), with the true equivalent yield reducing to 5.09% (2016: 5.38%). The contraction in the NIY accounted for approximately 90% of the surplus, whilst rent reviews and asset management projects added a further 10%.

The portfolio was independently valued at 31 December 2017 in the UK and Ireland by Lambert Smith Hampton and CBRE respectively, as follows:

	Number of Properties	UK £m	Ireland £m	Total £m
Investments	305	1,347.1	13.7	1,360.8
Developments	1	1.1	—	1.1
Total	**306**	**1,348.2**	**13.7**	**1,361.9**

The valuation uplift, combined with the portfolio's growing income, helped to deliver a total property return of 10.8% in the year ended 31 December 2017 (2016: 7.9%) out-performing the IPD UK Quarterly Property Index, All Assets by 50 bps.

	Year ended 31 December 2017	Year ended 31 December 2016
Income return	**5.5%**	5.6%
Capital return	**5.3%**	2.3%
Total return	**10.8%**	7.9%

Cladding

Following the tragic fire at Grenfell Tower in London, a detailed review of the Group's entire portfolio has been undertaken and there are no properties that have cladding considered to be a significant safety risk. Nevertheless, we are committed to ensuring that there is no potential safety risk and we have written to tenants reminding them of their health and safety responsibilities, especially in regard to fire risk. The portfolio is insured for full reinstatement, loss of rent and property owner's liability.

Website

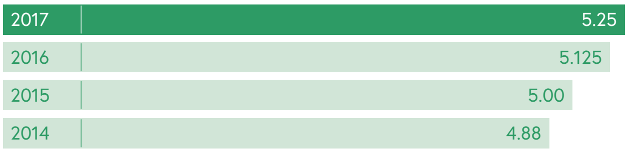
We have recently launched an updated website which is available at www.phpgroup.co.uk.

FINANCIAL REVIEW

Highlights

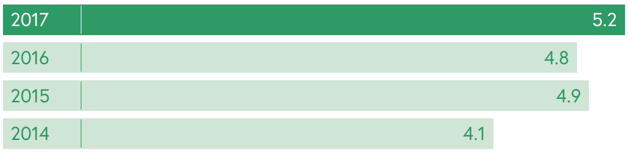
Dividend per share (pence)

5.25p +2.4%



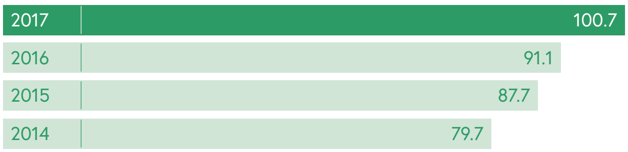
EPRA earnings per share (pence)

5.2p +8.3%



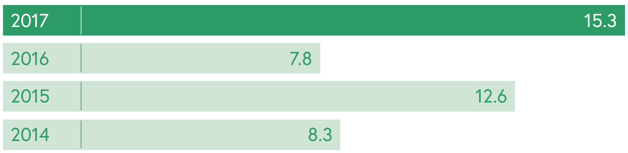
EPRA NAV per share (pence)

100.7p +10.5%



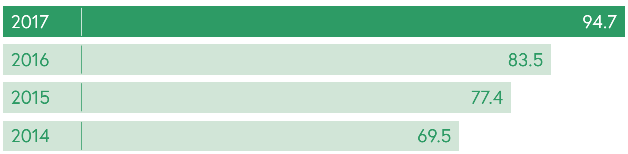
IFRS earnings per share (pence)

15.3p +96.2%



IFRS NAV per share (pence)

94.7p +13.4%



Management's actions both in 2016 and 2017 have continued to deliver earnings and net asset value growth and we have significantly strengthened and diversified our sources of finance.

Recurring EPRA earnings increased by £4.2 million or 15.7% to £31.0 million (2016: £26.8 million) which, using the weighted average number of shares in issue in the period, equates to EPRA earnings per share of 5.2 pence (2016: 4.8 pence), an increase of 8.3%.

A revaluation surplus of £64.5 million (2016: £20.7 million) less a net loss on the fair value of interest rate derivatives and convertible bond of £3.6 million (2016: loss of £3.8 million), contributed to an increase in the profit as reported under IFRS by 110.3% to £91.9 million (2016: £43.7 million) equivalent to IFRS earnings per share of 15.3 pence (2016: 7.8 pence).

The financial results for the Group are summarised as follows:

Summarised results

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Net rental income	**71.3**	66.6
Administrative expenses	**(8.2)**	(7.3)
Performance incentive fee ("PIF")	**(0.5)**	—
Operating profit before revaluation gain and net financing costs	**62.6**	59.3
Net financing costs	**(31.6)**	(32.5)
EPRA earnings	**31.0**	26.8
Net result on property portfolio	**64.5**	20.7
Fair value loss on interest rate derivatives	**(0.3)**	(2.2)
Fair value loss on convertible bond	**(3.3)**	(1.6)
IFRS profit before tax	**91.9**	43.7

Net rental income receivable in the year ended 31 December 2017 increased by 7.1% or £4.7 million to £71.3 million (2016: £66.6 million). Acquisitions in 2016 and 2017 contributed £3.4 million to this increase, with developments completed in both years adding a further £1.0 million. Completed rent reviews and asset management projects contributed a further £0.7 million. Property expenses increased by £0.4 million reflecting the increased size of the portfolio and professional fees relating to rent reviews and asset management initiatives.

Administrative costs, excluding the PIF, increased by 12.3% to £8.2 million (2016: £7.3 million), reflecting the increased size of the portfolio and £0.3 million of fixed and "one-off" set-up costs relating to the Irish portfolio. As we grow the Irish portfolio the fixed element of these costs will fall proportionately.

The Group's administrative expenses continue to be closely monitored and managed and, excluding the PIF, they only represent a charge of 60bps (2016: 60bps) as a percentage of the portfolio's gross asset value. Excluding the PIF, the Group's EPRA cost ratio continues to be amongst the lowest in the sector at 12.5% for the year despite the increase over the 11.5% incurred during 2016.

The strong performance in the year resulted in a PIF being earned by the Adviser.

EPRA cost ratio	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Gross rent less ground rent	**72.1**	66.9
Direct property expense	**1.2**	0.9
Administrative expenses	**8.2**	7.3
Performance Incentive Fee ("PIF")	**0.5**	—
Less: ground rent	**(0.1)**	(0.1)
Less: other operating income	**(0.3)**	(0.4)
EPRA costs (including direct vacancy costs)	**9.5**	7.7
EPRA cost ratio	**13.2%**	11.5%
EPRA cost ratio excluding PIF	**12.5%**	11.5%
Administrative expenses as a percentage of gross asset value	**0.6%**	0.6%

Net finance costs decreased in the period by 2.8% to £31.6 million (2016: £32.5 million). This is primarily as a result of the application of the proceeds of the equity issue in 2016 less debt drawn to finance acquisitions, but also due to the lower cost of debt secured from both the swap restructuring, undertaken in 2016 and 2017, together with various refinancings completed during the year. The average cost of debt fell further in the year to 4.09% at 31 December 2017 (2016: 4.65%).

Revised Advisory Agreement terms

In April 2017, revised terms to the Advisory Agreement between PHP and the property adviser, Nexus Tradeco Limited ("Nexus") were agreed. The fee payable for the management of PHP's property portfolio has been amended to incorporate additional lower fee increments as PHP continues to add scale. The fee payable for gross assets above £1.5 billion, previously 0.3%, has been reduced to 0.275% for gross assets between £1.5 billion and £1.75 billion and 0.25% for gross assets between £1.75 billion and £2.0 billion.

In addition, the terms under which Nexus is entitled to a Performance Incentive Fee ("PIF") have been amended. Nexus continues to be entitled to 11.25% of the "total return" above a hurdle rate of 8.0%, but this will now be based on the change in EPRA Net Asset Value ("NAV") plus dividends paid, rather than the change in IFRS NAV plus dividends paid. Changes in IFRS NAV include the impact of changes in the MtM valuation of the Group's derivatives and convertible bonds, which do not reflect the performance of the underlying property portfolio.

New controls on the PIF have been introduced. The PIF in respect of any year is now capped at the lower of 20% of the management fee payable to Nexus in that year and £2.0 million. Furthermore, for the three years from 1 January 2017, the payment of any PIF is restricted if it would otherwise cause PHP's dividend cover to fall below 98%. Half of any PIF earned is deferred to the following year in a notional cumulative account, with performance against the hurdle rate (both positive and negative) calculated each year and any payment subject to the account being in a surplus position. The Nexus team working on PHP's account, other than Harry Hyman, will receive 25% of any PIF paid, to aid staff motivation and retention. No PIF has been due to Nexus since 2007 to 2016 and the notional cumulative PIF deficit of £12.1 million at the end of 2016, entirely attributable to the aforementioned IFRS MtM adjustments was eliminated.

Shareholder value

The table below sets out the movements in EPRA NAV per share during the year under review:

EPRA NAV per share	**31 December 2017 p per share**	31 December 2016 p per share
Opening EPRA NAV per share	**91.1**	87.7
EPRA earnings for the period	**5.2**	4.8
Dividend paid	**(5.2)**	(4.8)
Net result on property portfolio	**10.4**	3.5
Shares issued	**0.2**	2.2
Interest rate derivative cancellation/ rate re-coupon	**(1.0)**	(2.3)
Closing EPRA NAV per share	**100.7**	91.1

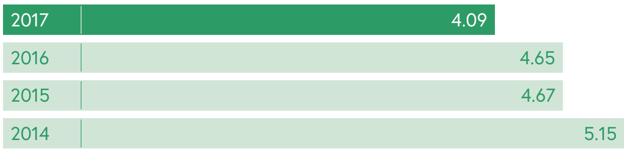
The revaluation surplus of £64.5 million in the year ended 31 December 2017, equivalent to 10.4 pence per share, is the main reason for the increase in EPRA NAV per share. Dividends distributed in the period were substantially covered by recurring EPRA earnings with no impact on EPRA (NAV) per share. In July 2017, a 4.76% fixed rate swap with a nominal value of £20.0 million, effective until July 2027, was cancelled for a one-off payment of £6.2 million equivalent to 1.0 pence per share on an EPRA NAV. This payment was largely already provided for through the 2016 year-end mark to market adjustment.

The 9.6 pence or 10.5% increase in EPRA NAV per share to 100.7 pence (2016: 91.1 pence per share) together with the dividends distributed in the period, resulted in a total NAV return per share of 14.9 pence or 16.4% in the year ended 31 December 2017 (2016: 8.5 pence or 9.7%).

FINANCING

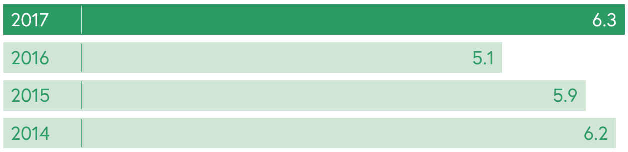
Average cost of debt

4.09% (-56 bps)



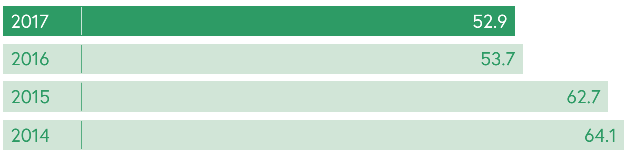
Debt maturity

6.3 years +1.2 years



Loan to value ratio

52.9% (-80bps)



As at 31 December 2017, total available loan facilities were £844.3 million (2016: £749.4 million) of which £724.1 million (2016: £660.8 million) had been drawn. Cash balances of £3.8 million (2016: £5.1 million) resulted in Group net debt of £720.3 million (2016: £655.7 million). Contracted capital commitments at the balance sheet date totalled £23.0 million (2016: £3.3 million) and result in headroom of £101.0 million (2016: £90.5 million) from existing facilities available to the Group. Capital commitments comprise acquisitions of £17.3 million, developments of £4.2 million and asset management projects on site of £1.5 million.

Debt metrics	31 December 2017	31 December 2016
Average cost of debt	**4.09%**	4.65%
Loan to value	**52.9%**	53.7%
Interest cover	**2.25 times**	2.05 times
Weighted average debt maturity	**6.3 years**	5.1 years
Total drawn secured debt	**£585.9m**	£503.3m
Total drawn unsecured debt	**£138.2m**	£157.5m
Total undrawn facilities available to the Group[1,2]	**£101.0m**	£90.5m

1 After deducting the remaining cost of contracted acquisitions, properties under development and asset management projects.

2 Excludes new facility agreed and being documented adding a further £30.5 million to give a revised undrawn balance of £131.5 million.

The strong growth in the valuation of the portfolio has seen the loan to value ratio fall to 52.9% (2016: 53.7%) despite the total level of net debt rising by £64.6 million in the year due to the cost of acquisitions and capital expenditure and the conversion of £19.3 million convertible bonds in the year.

New long-term financing

2017 has been an active year securing debt from a broad and diversified range of new, existing and alternative providers at attractive rates. The Group's average cost of debt has been reduced by 56bps to 4.09% (2016: 4.65%) and the weighted average maturity of debt facilities has been extended to 6.3 years (2016: 5.1 years).

In March 2017, a new, senior, secured ten-year £100 million bond was issued at a fixed coupon of 2.83%. The issuance to a range of insurance companies represented PHP's first transaction in the private placement market.

The proceeds of the issue have been partially applied to refinance PHP's £115 million club facility with The Royal Bank of Scotland plc ("RBS") and Santander Corporate Banking. The club facility, which was due to mature in August 2017, was replaced by a new £50 million bilateral term loan with RBS for an initial four-year term. In November 2017, the option to increase the loan facility to a maximum total of £100 million was exercised and in February 2018 the term was extended by a further year until March 2022.

In December 2017, Aviva agreed to renew a £75 million secured loan facility for just under eleven years to November 2028 at a fixed interest rate of 3.1%. The existing facility, due to mature in November 2018, bears interest at a fixed rate of 4.0% and the renewal results in interest savings of £0.7 million p.a.

Additionally in December 2017, a new £30 million secured revolving credit facility with Lloyds Bank plc was entered into for an initial three-year period, with the option to extend by a further two years, at rates ranging from 1.55% to 1.75% over LIBOR depending upon utilisation. The facility may be drawn in either Sterling or Euros and will be used to fund further acquisitions both in the UK and Ireland.

Terms have also been agreed with Santander for a new £30.5 million secured, three-year term loan. The new facility is currently being documented and is expected to be signed shortly.

Interest rate swap contracts

In July 2017, a 4.76% fixed rate swap with a nominal value of £20 million, effective until July 2027, was cancelled for a one-off payment of £6.2 million equivalent to 1.0 pence per share on an EPRA net asset value basis. The cancellation results in total interest savings of £0.8 million p.a. and helped to reduce the Group's average cost of debt, noted above, by 13bps. The ("MtM") of the cancelled derivative was reflected in the financial statements as at 31 December 2016 with a value of £6.0 million.

Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. During the year ended 31 December 2017, there was a net decrease of £2.6 million (2016: increase of £12.5 million) on the fair value liability arising from the Group's interest rate derivatives, due primarily to increases in interest rates assumed in the forward yield curves used to value the interest rate swaps. The reduction in the MtM liability of the swap portfolio to £24.5 million (2016: £33.3 million) is due to the swap cancellation, noted above, together with the fair-value gain on the Group's derivative portfolio.

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 31 December 2017 is as follows:

	Facilities		Drawn	
	£m	%	£m	%
Fixed rate debt	474.3	56.2	474.3	65.5
Hedged by fixed-rate interest rate swaps	158.0	18.7	158.0	21.8
Floating rate debt – unhedged	212.0	25.1	91.8	12.7
Total	**844.3**	**100.0**	**724.1**	**100.0**

The above analysis excludes the impact of two forward starting swaps: £25 million commencing January 2018 and £75 million commencing January 2019.

Convertible bonds

In November and December 2017, convertible bonds with a nominal value of £19.3 million (2016: £nil) were, at the holders' option, converted at a conversion price of 97.5 pence, resulting in 19.8 million (2016: nil) of new ordinary shares being issued. The nominal value of the convertible bonds outstanding at 31 December 2017 were £63.2 million (2016: £82.5 million).

Post-year end, a further £1.1 million of convertible bonds have converted into 1.1 million ordinary shares taking the total bonds converted to £20.4 million and 20.9 million new ordinary shares being issued. The conversions will result in future interest savings of £0.9 million p.a.

The impact of dividends paid in the year was within the maximum dilution parameters and so no adjustment to the conversion price was required in the year and it remains at 97.5 pence.

The conversion of the remaining £63.2 million convertible bonds into ordinary shares would reduce the Group's loan to value ratio by 4.7%, from 52.9% to 48.2%, on a pro-forma basis as at 31 December 2017, and result in the issue of 64.8 million new ordinary shares.

Currency exposure

The Group owned two Euro-denominated assets as at 31 December 2017 valued at €15.4 million or £13.7 million (2016: €7.1 million/£6.0 million) in Ireland and the value of these assets and the rental income represented just 1.2% 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, providing a natural asset to liability hedge, within the overall Group loan to value limits set by the Board.

To date, this debt has been sourced from Euro-denominated tranches within Sterling-collateralised revolving credit facilities. As further assets are acquired in Ireland, direct Euro debt facilities will be procured.

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

Alternative Performance Measures ("APMs")

PHP uses EPRA Performance Measures as APMs, which are widely used by public real estate companies to highlight the underlying and recurring performance of the property portfolio. The APMs are in addition to the statutory measures from the financial statements. The measures are defined and reconciled to amounts presented in these financial statements. Further information on EPRA performance measures are set out on page 19. A reconciliation of EPRA earnings and EPRA net assets are provided in Notes 8 and 25 respectively to the financial statements.

Risk management and principal risks

Risk management overview

Effective risk management is a key element of the Board's operational processes. Risk is inherent in any business, and the Board has determined the Group's risk appetite, which is reviewed on an annual basis. Group operations have been structured in order to accept risks within the Group's overall risk appetite, and to ensure that these risks are managed to minimise exposure and ensure that appropriate returns are generated for the accepted risk.

The Group aims to operate in a 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, largely with upwards-only review terms, providing clear visibility of income;
- The Group is not a direct developer of real estate, which, 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 its longer term viability. These include external factors that may arise from the markets in which the Group operates, government and fiscal policy and general economic conditions, and internal risks that arise from how the Group is managed and chooses to structure its operations.

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 Board engaged external consultants during the period to assist in reviewing and enhancing the risk assessment process. The Group's 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 2017	Commentary on risk in the year
Deliver progressive returns			
Potential over-reliance on the NHS 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 remains unknown however, 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 government policy, while the uncertainty caused by Brexit may lead to fluctuations in the value of the Group's assets, but no evidence of this can be seen at present.
Foreign exchange risk 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.	Unchanged	The Group has completed its second acquisition in Ireland, and exchanged contracts to acquire a third asset, due to complete in February 2018. Asset values, funding and net income is denominated in Euros. The UK decision to leave the European Union continues to cause exchange rate volatility whilst the exit process remains 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. The Chairman of the Adviser's Risk Committee is independent of both the Adviser and the Group and experienced in the operation and oversight of risk management processes.

The Adviser 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 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) 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 maintains sufficient undrawn 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** PHP has implemented a hedging strategy so as to manage exchange rate risk.

Risk management and principal risks continued

Risk	Inherent risk rating	Change to risk in 2017	Commentary on risk in the year
Grow property portfolio			
Competition 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.
Financing 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 issued a new £100 million Secured Bond in March 2017. In addition, the Company successfully extended the Aviva £75 million fixed rate debt facility for a further 11 years, and completed £130 million of new revolving credit facilities with RBS and Lloyds. These have provided undrawn headroom of £120.1 million. 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			
Lease expiry management 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 ten 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.
PHP and Nexus relationship 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			
Financing 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 increased in the period. The Group successfully issued a new £100 million Secured Bond in March 2017. In addition, the Company successfully extended the Aviva £75 million fixed rate debt facility for a further 11 years, and completed £130 million of new revolving credit facilities with RBS and Lloyds.
Interest rates Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	**Medium** as the likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.	Reduced	Term interest rate markets experienced remained volatile during the period. Over the year, term interest rates have risen leading to a decrease in the Mark to Market ("MtM") valuations of the Group's interest rate derivative portfolio.

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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 long standing development relationships that provide an increased opportunity to secure developments that come to market in the UK. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.	**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.
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. Nine projects either completed or on-site in the period enhancing income and extending occupational lease terms. In addition, there is a strong pipeline of over 16 projects that will be progressed in 2018.	**Medium** The Adviser employs an active asset management programme and has a successful track record of securing enhancement projects, and serving new long-term leases.
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 over 90% 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.	**Low** 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

The Directors confirm that, as part of their strategic planning and risk management processes, they have undertaken an assessment of the viability of the Group, taking into account current position and the potential impact of the principal risks and prospects over a three-year time horizon.

Based on the assessment, 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 period to 31 December 2020.

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 occupational leases within the Group's property portfolio typically have a three-yearly rent review pattern. Modelling over this period allows the Group's financial projections to include a full cycle of reversion, arising from open market, fixed and indexed increase rent reviews.

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 new debt facilities, 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.

Harry Hyman
Managing Director
14 February 2018

Environmental and social issues

Environmental considerations

Properties in the sector are required 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 2017 held an EPC with a rating of B or better.

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

PHP is committed to the principles of continuous improvement in managing environmental issues, including the proper management and monitoring of waste, the reduction of pollution and emissions, and compliance with environmental legislation and codes of practice. PHP works with its development partners, tenants and other stakeholders to develop ways in which to monitor and improve the management of such issues.

Social impact

PHP's aim is to modernise and improve the ability to provide efficient and effective healthcare in the UK and Ireland 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 and Irish population to access better health services in their local area. This is central to the organisation's strategic objectives and business planning processes.

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

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

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

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

Harry Hyman
Managing Director
14 February 2018

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

Alun Jones
Independent 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 2014.

Career
Alun graduated from Cambridge University and is a Fellow of the Institute of Chartered Accountants in England & Wales. He 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

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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. After a number of finance related roles in the City of London, he established the Company in 1996. He is a Fellow of the Institute of Chartered Accountants in England & Wales.

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 £1.3 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 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, an AIM listed German commercial real estate company, and Derriston Capital Group PLC, which is also AIM listed and invests in the global medical technology industry. In addition, Harry is a non-executive director of Biopharma Credit PLC, which invests in the fast growing science industry.

Independent Non-executive
Not applicable

Steven Owen
Independent 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 director of ICE Campus Ventures Ltd, and of Wales in London Ltd. He was until November 2017 a non-executive director of the Milford Haven Port Authority and chairman of the audit committee.

Independent Non-executive
Yes

Mark Creedy
Independent 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's 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 and practised 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 out-sourcing of fund management and back office support operations.

Other external relationships
None

Independent Non-executive
Yes

Richard Howell
Finance Director

S

Appointment to the Board
Richard Howell was appointed to the Board from 31 March 2017, having joined Nexus on 13 March 2017 and following his appointment, elected a Director at the 2017 Annual General Meeting on 26 April 2017.

Career
Richard is a chartered accountant and has over 20 years' experience working with London-listed commercial property companies, gained principally with LondonMetric Property plc and Brixton plc. Richard was part of the senior management team that led the merger of Metric Property Investments plc and London & Stamford Property Plc in 2013 to create LondonMetric Property plc with a combined property portfolio of £1.4 billion.

Skills, competence and experience
Richard has extensive finance experience, having previously held senior accounting positions within listed property companies operating across the UK. Whilst working for LondonMetric and Brixton, he has been involved in over £4 billion of property transactions.

Other external relationships
None

Independent Non-executive
Not applicable

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

Geraldine Kennell
Independent Non-executive Director

A N R E

Election to the Board
Geraldine Kennell was elected a Director at the 2016 Annual General Meeting and joined the Board on 5 April 2016. On 7 June 2016, Geraldine was appointed to chair the Remuneration Committee.

Career
After gaining a degree in economics from Bristol University, Geraldine joined The Midland Montagu Group as a graduate trainee, before taking up roles first at 3i and subsequently at Silverfleet Capital LLP, formerly the private equity arm of Prudential plc, where she became a partner, specialising in mid-market buy-outs across Europe.

Skills, competence and experience
Geraldine brings skills and experience in complex business decision making across a broad range of sectors, monitoring and supporting investments and extensive experience and strength in 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 a number of companies in which the fund was invested.

Other external relationships
None

Independent Non-executive
Yes

Dr Ian Rutter OBE
Non-executive Director

N R E

Appointment 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, particular as to how this affects the primary care market.

Other external relationships
None

Independent Non-executive
No

Nick Wiles
Independent Non-executive Director

A N E R

Election to the Board

Nick Wiles was elected at the Company's Annual General Meeting in 2016, and was appointed to the Board on 5 April 2016. On 7 April 2016, Nick was appointed to chair the Nomination Committee.

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, 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 a UK listed provider of cash dispensing and payment services.

Independent Non-executive

Yes

Adviser

Nexus Tradeco Limited ("Nexus")

The Company has appointed Nexus to provide property advisory, management, administrative and accounting service 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 have a wealth of knowledge and experience in 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, the Company Secretary and also administrative and accounting services to the Group.

The performance of Nexus is evaluated and scrutinised by the Advisers Engagement Committee, which consists entirely of Non-executive Directors led by Mark Creedy. To date Nexus has had an exemplary track record in providing advice and identification of investment opportunities delivering solid yields and enabling the Company to enjoy over 21 years of continuous dividend growth.

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 Richard Howell, Finance Director. Harry Hyman is an experienced adviser to and manager of listed property groups and has many years' experience in PHP's sector of focus. Richard, who joined in March 2017, is an experienced chartered accountant with extensive experience within the commercial property sector.

Nexus has provided property advisory and management services since its appointment in March 1996. The Nexus property team has grown with PHP's business and currently comprises of 18 members of staff, 12 of whom are qualified chartered surveyors. It is headed by David Austin, a qualified surveyor who joined Nexus in July 2016 with over 20 years' experience in the sector, having previously worked with Lasalle, Axa and Land Securities and he is supported by David Bateman, who has been with Nexus since 2014 and leads the team focusing on potential investment opportunities.

The property team, which is based in offices in central London and in Stratford-upon-Avon, comprises professionals engaged in property acquisition, portfolio management, asset and property management, and includes a further two trainee surveyors and four 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 two finance assistants under the management of Richard Howell, the Finance Director. 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, a qualified solicitor, with over 15 years' experience as a company secretary to listed companies. Paul was previously Company Secretary and Legal Counsel at Cambian Group plc, 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 pages 57 to 61.

Corporate governance report
Letter from the Chairman

Dear shareholder,

Introduction

Throughout the year we have continued to ensure that our governance structures at Board and Committee levels continue to be appropriate and support our business to deliver on our strategy in an ever-changing regulatory environment. Corporate governance at PHP is about running the business in the right way in order to create long-term sustainable value for the benefit of all of our stakeholders and is treated as a core and vital discipline that complements our need to improve the performance of the business on behalf of our shareholders. In the next few pages we provide details of our Board members, the role of the Board and its Committees and its performance and oversight functions. I hope these will help you gain a better understanding of the effectiveness of our Board and how we apply the main principles of the April 2016 UK Corporate Governance Code (the "Code"), issued by the Financial Reporting Council ("FRC").

Board changes

Following consideration of and an evaluation of the skills and experience of the individual Directors, the Board determined that no changes were required to the composition of the Board during 2017, but recognised that following discussions about the Board's composition, length of service, experience and skills, a succession process led by the Nomination Committee would need to be planned to introduce a number of changes in 2018. As previously announced, in January, Mark Creedy, Dr Ian Rutter OBE and I will all retire from the Board and we will not stand for re-election at the forthcoming Annual General Meeting in April 2018. Both Ian and Mark have been long-serving Directors of the Company, and each has brought special skills to the Board: Ian as a medical doctor and former practising general practitioner, who has also worked with the Department of Health and Mark as an experienced property investment and development professional. The Board are very grateful to both Ian and Mark for their contribution to growing the business of PHP successfully during their period on the Board.

We have today announced the appointment of two new Non-executive Directors to our Board, Ian Krieger and Dr Stephen Kell OBE. In conjunction with the Company Secretary, they will be given a tailored induction programme designed to ensure that they obtain a comprehensive picture of the Company's operations and the sector in which we operate. They are both to be proposed for election by shareholders at the 2018 Annual General Meeting which is to be held on Wednesday 18th April, 2018.

Board performance in 2017

Site visits

We do not believe the Non-executive Directors can develop a complete picture of how the Group operates by simply reviewing Board papers and attending Board and Committee meetings. Accordingly, a number of visits to a variety of properties, both recently completed and under development, were undertaken during the year. Our June Board meeting took place in Swindon and afterwards the Board visited the recently opened Swindon Health Centre, followed by a visit to properties at Winchcombe, which had recently been expanded, a development project at Churchdown and the Leap Medical Centre in north Bristol. One of our Board strategy discussions was held in Ireland in September, to allow the Non-executive Directors to better understand the opportunities and challenges of expansion into the Irish market, and the opportunity was taken to visit the Company's investments in Ireland at Carrigaline, in County Cork and at Tipperary, in County Tipperary.

Board evaluation

During the final quarter of the year, I led the annual Board evaluation process with the assistance of the Company Secretary. As in previous years, the evaluation took the form of a paper-based questionnaire based on the process and questions outlined in the Code concerning Board and Committee performance against the specific objectives of the Code. This was circulated to all Directors for completion and then returned to the Company Secretary for collation and review with me. After I had discussed with the Board the broad themes emerging and the outcomes for 2017 and highlighted strengths and any areas of weakness, a series of one to one meetings between myself as the Chairman and each Director were held. Overall, the outcome of the evaluation process was that the Board and its Committees were judged to be operating effectively. It was felt by the Board that the annual strategy meeting was particularly useful, and that there would be more regular focus on follow up discussions during the year.

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. The findings of this survey were discussed by Steven Owen with the other Directors and fed back to me.

Board effectiveness

As your Chairman, it is my role to provide leadership to ensure the operation of an effective Board, that provides constructive challenge and helps develop proposals on strategy. In that role I have been well-supported by Steven Owen, the Senior Independent Director. To achieve this objective and in accordance with the Code, the Board comprises eight Directors, including myself. A majority of the Board consists of independent Non-executive Directors who have been selected to deliver an appropriate mix of diversity, skills and experience. In relation to gender diversity we now have one female Director. Your Directors, have always recognised the importance of boardroom diversity, providing a wide range of perspectives, and its policy is to seek to ensure that a range of suitable candidates of different genders and backgrounds is considered whenever we seek to make changes to the Board. The priority of the Board is to ensure that the Group continues to have the most effective Board possible and all appointments to the Board are made on merit against objective criteria.

Shareholder relations

We welcome feedback from shareholders. Your feedback helps us shape our governance structures and the way we do business. As always, I would encourage you to attend the Company's Annual General Meeting to be held on 18 April 2018 at 10.30 a.m. at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF, 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
14 February 2018

Corporate governance report
Our governance structure

The Board

Responsible for long term success of the Company
Development of strategy
Determines nature and extent of significant risks
Approves investments and capital transactions

Advisers Engagement Committee

Oversees and reviews performance of Adviser
Approves fees paid to Adviser
Approves any changes to Adviser contract

Audit Committee

Oversees quality of financial & narrative reporting
Provide assurance on internal controls, risk management and audit processes
Reviews performance of auditors

Nomination Committee

Leads process for Board appointments
Ensures appropriate balance of skills and experience on Board

Standing Committee

Approves routine business matters between Board meetings
Approves dividend payments

Remuneration Committee

Sets remuneration policy for NED's and Chairman
Approves level of Non-executive Chairman's fees

Each of the above Board Committees report on their activities to the Board.

In addition, the Adviser has the following Committees that report as appropriate to the Board and/or its Committees.

Risk Committee

Activities

- Reviews strategic and operational risks in achieving delivery of PHP's strategic goals
- Reviews operational risk management processes
- Recommends appropriate risk appetite levels and monitors risk exposure
- Reports to the Audit Committee at each of its meetings

Members

Andrew Herd (Chairman), Harry Hyman, Richard Howell, David Austin, Paul Wright, Antoinette Bucknor (Group Financial Controller)

Advisers Management Committee

Activities

- Considers investment opportunities
- Reviews performance of PHP's assets and proposals for asset management
- Reviews day-to-day management of the PHP portfolio
- Reports to the Board at each meeting

Members

Harry Hyman, Richard Howell, David Austin, David Bateman

Andrew Herd, who chairs the PHP/Nexus Risk Committee is a non-executive director of Nexus Tradeco Holdings Limited, the parent of the Adviser, and is the Managing Director of Lancashire Court Capital Limited, a London based investment and consulting business. Andrew is a non-executive director and the Audit Committee Chair at United Trust Bank.

Corporate governance report continued

Statement of compliance with the UK Corporate Governance Code

In April 2016, the Financial Reporting Council published the 2016 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 2017.

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, that requires that at least half of the members of larger company boards, excluding the chairman, to be independent Non-executive Directors as determined by the Board. Three of the Directors cannot be regarded as independent under the Code, in the case of Dr Ian Rutter because he has now served more than nine years his first election by shareholders, and in the case of Mr Hyman and Mr Howell because they are connected to the Adviser. In addition, Mark Creedy, having also now served more than nine years on the Board, is no longer considered independent for the purposes of the Code, though considered independent by the Board. He and Dr Rutter are standing down as Directors at the forthcoming Annual General Meeting of the Company on 18 April 2018. They are to be replaced by Directors who meet the independence criteria of the Code.

The following section of the Annual Report outlines how we have applied the Code's principles and complied with the provisions throughout the year. A copy of the Code is available at www.frc.org.uk.

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 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 Board has delegated certain operational and management activities to the Adviser as described on page 59 in the Advisory Agreement section of the Directors' Report. The Managing Director is accountable to the Board in his capacity as the Managing Director of the Adviser for the day to day management of the Group and the Finance Director is responsible for the preparation of the financial statements and the provision of quarterly management account information.

In addition, the Board has established a Standing Committee, consisting of the Chairman (or the Senior Independent Director in his absence), the Managing Director (or the Finance Director in his absence) 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 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 Board comprises individuals with considerable experience in finance, accounting, property investment and management, the delivery of primary healthcare and investment banking, which are considered an appropriate blend of expertise to enable the Board to discharge its duties effectively. 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 considered that Dr Rutter is objective and professional and brings particularly hard to find specialist expertise of clinical and NHS matters to the Board which would be hard to replace. Having reviewed his appointment at the end of 2016, the Board was happy that he continued to be independent in character and judgement and that there were no relationships or circumstances which are likely to affect, or could appear to affect, his judgement during the year under review. Following a review of the Board's composition, Dr Rutter will be standing down as a Non-executive Director after twelve years of valuable service to the Board. In addition, having now both served for over nine years on the Board, Mark Creedy and Alun Jones will be stepping down as Non-executive Directors at the Annual General Meeting of the Company in 2018 to be held on Wednesday 18 April 2018.

Details of the Chairman, the Directors and their individual roles are shown on pages 34 to 37. Their biographical details demonstrate a range of 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.

The Board has adopted a formal procedure under which Directors must notify the Chairman of any potential conflicts The Chairman then decides whether a conflict exists and recommends its authorisation by the Board, where appropriate. The Company Secretary maintains a register of approved conflicts of interest through this process. In certain circumstances the conflicted Directors may be required to absent themselves while such matters are being discussed. No such situations arose in 2017. 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 the register referred to above.

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

In November 2016 it was announced that Phil Holland was to resign as Finance Director of the Company. Following this announcement, under the supervision of the Nomination Committee, the Adviser ran a recruitment process led by Ferguson Partners to appoint a successor. Following an interview process involving members of the Board, Richard Howell was appointed and joined Nexus on 13 March 2017, and was appointed to the Board with effect from 31 March 2017.

As described in the Nomination Committee report on page 49 we followed a formal, rigorous and transparent procedure to recruit Ian Krieger and Dr Steve Kell to the Board in 2018.

"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."

The letters of appointment for Non-executive Directors set out the time commitment expected to be necessary to perform their duties. All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. Directors must notify the Chairman when they take on any additional responsibilities or external appointments, and it is their responsibility to ensure that such appointments will not prevent them meeting their time commitments discussed above. 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.

During the year, the Non-executive Directors participated in a series of site visits in the south west of the UK and in Ireland, which provided an opportunity to visit health centres and meet with practice managers and better understand the demand for modern, high-quality and flexible facilities for the delivery of primary care in our communities. There will be a continued focus during 2018 on ensuring that the Non-executive Directors are provided with sufficient information for them to understand fully the challenges and opportunities facing the Company.

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 ready 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. During the year the Executive Directors and the Company Secretary have worked on improving the clarity and focus of papers in the Board papers, to reduce the overall volume of the Board papers and to make them easier for Directors to monitor progress against key strategic objectives and to form a more useful tool for discussion and decision making. The papers 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 rare occasions that a Director is unable to attend a meeting due to unavoidable business interests, separate discussions are 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.

The Chairman and Non-executive Directors met before the Board meeting in July to discuss matters without the 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 (other than the Chairman Alun Jones, Dr Ian Rutter and Mark Creedy) will be submitted to shareholders for re-election at the 2018 Annual General Meeting. Following the Chairman's evaluation of their performance, the Board is recommending that each of the Directors standing for re-election at the Annual General Meeting are re-appointed.

Section C: Accountability

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

The Board has delegated this assessment of the presentation of PHP's position and prospects in the Annual Report to the Audit Committee. As stated on page 45 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 32 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 pages 45 to 48 below.

"The board should establish formal and transparent arrangements for considering how they 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 three 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. The Adviser receives a fixed annual fee for the services of the Managing Director and no fee is paid to the Adviser with regard to the services of the Finance Director. He is remunerated by the Adviser.

"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 Director's Remuneration Report on pages 54 to 56 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, the Managing Director and Finance Director have regular meetings 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 58.

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

The Company's Annual General Meeting in 2018 is being held at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AT on Wednesday 18 April 2018 at 10:30 a.m. Formal notice of the meeting and details of and an explanation for the reasons for the resolutions to be put to shareholders will be circulated to shareholders shortly. 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.

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, 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 Richard Howell, Finance Director, who replaced Phil Holland who resigned 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 finance, business services, investment management and the NHS.

Since the end of the financial year, we have announced that Ian Kreiger and Dr Stephen Kell OBE will join the Board and further biographical information regarding the new Non-executive Directors will be found in the Notice of Annual General Meeting.

How the Board functions

The Board meets regularly, with six scheduled meetings held in 2017, 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 and the Group's acquisition and development pipeline are considered and approvals given as required. The Finance Director also reports on the latest quarterly management accounts for the Group and provides an update of the Group's financing resources and requirements for consideration and discussion. 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.

Key areas considered by the Board during the year were:

- the Group's strategy and progress towards agreed objectives;
- updates on the portfolio, including possible acquisitions, disposals and asset management projects;
- updates on rent reviews and property management issues;
- consideration of construction and cladding materials in the portfolio and of the tenants' responsibilities for fire safety;
- reports on financing and capital structure, including guaranteeing the new senior secured ten year notes for a total of £100 million issued by a wholly owned subsidiary, the entry into new facilities with Lloyds Bank plc and refinancing the RBS and Aviva loans;
- the results of the Adviser Engagement Committee's review of the performance of the Adviser, the Advisory Agreement and the Performance Incentive Fee;
- reports from the activities of the Board's Audit, Nomination and Remuneration Committees;
- updates on discussions with key stakeholders;
- updates on the business and economic environment, including matters relating to the NHS;
- approval of overall dividend policy;
- approval of the year end and half-year financial results, the Annual Report and Notice of Annual General Meeting;
- results of the Board performance evaluation, Non-executive Directors' independence, tenure, experience profile, and recommendations for successful election or re-election;
- conflicts of interest; and
- the potential impact of Brexit.

Corporate governance report continued

How the Board functions continued

During 2018, 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 developments of policy and technology in the primary healthcare sector in general.

In addition to the Board meetings held during the year, the members of the Board are regularly in touch for consultation between meetings by electronic means or by telephone.

During the year, the Chairman and the other non-executives meet periodically in the Advisers Engagement Committee and otherwise to discuss issues in the absence of the Executive Directors.

Details of the attendance of each of the Directors who served during the year are set out below:

Director	Board (total in year – 6)	Audit Committee (total in year – 3)	Nomination Committee (total in year – 1)	Adviser Engagement Committee (total in year – 2)	Remuneration Committee (total in year – 2)
Alun Jones	6	3	1	2	2
Mark Creedy	6	3	1	2	2
Harry Hyman	6	n/a	n/a	n/a	n/a
Dr Ian Rutter	6	n/a	1	2	2
Steven Owen	6	3	1	2	2
Richard Howell	5	n/a	n/a	n/a	n/a
Geraldine Kennell	6	3	1	2	2
Nick Wiles	6	3	1	2	2
Phil Holland[1]	1	n/a	n/a	n/a	n/a

1 Phil Holland resigned as a Director from 31 March 2017 and only attended the February meeting to approve the preliminary announcement of results.

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 is set out in the reports from each Committee Chairman on pages 45 to 53. 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, approve routine matters that require approval between Board meetings, and to approve the four interim dividend payments made in the year. The Standing Committee comprises the Chairman, Alun Jones (or in his absence, the Senior Independent Director), Managing Director, Harry Hyman (who may be represented by Richard Howell 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
Steven Owen (Chairman)	3/3
Alun Jones	3/3
Mark Creedy	3/3
Geraldine Kennell	3/3
Nick Wiles	3/3

Additional attendees invited to attend meetings as appropriate

Harry Hyman – Managing Director

Richard Howell – Finance Director

Deloitte LLP

Dr Ian Rutter – Non-executive Director

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 Nominations 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. The members of the Committee also evaluate the performance of the Committee during the year.

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.

The Committee may invite the Managing Director, 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 their 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.

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 2017 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;
- considering the report of the Adviser's Risk Committee on the principal risk and uncertainties facing the Group and an amended Risk Register and reporting framework adopted during the year;
- reviewing the continuing appropriateness of the Group's accounting policies;
- considering the potential implications of forthcoming changes in accounting standards for the Group;
- reviewing the auditor's plan and subsequent report on the audit of the Group's 2017 financial statements, receiving and reviewing confirmations of auditor independence and approving the terms of engagement and proposed fees for 2017;
- considering the qualifications, expertise, resources and independence of the auditor through reviews of their reports and performance;

Audit Committee report continued

Report on the Committee's activities during the year continued

- recommending the re-appointment of the auditor for 2017 and the suitability of the new audit partner following rotation of that role;
- the Committee Chairman meeting with the auditor and with staff of the Adviser in February, July and November to review the audit plans and progress, accounting processes and to discuss emerging points and early drafts of the financial reports;
- the Committee receiving presentations from the Adviser on the subject of risk, its identification, management and control, accounting and control and property portfolio management and performing a robust and rigorous review of risk management procedures;
- the Committee reviewing the Going Concern assumption and Viability Statement and supporting models and evidence;
- considering the need for an internal audit function; and
- undertaking 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 key judgement in the financial statements relates to the valuation of the property portfolio.

The Group has property assets of £1.4 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.

Revenue recognition

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

Financing and valuation of financial instruments

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

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

Review of risk management and internal control processes

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

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 and 32.

Key features of the system of internal control include a comprehensive system of budgeting, financial reporting and business planning, formal documentation procedures and the close involvement of the Managing Director and Finance Director in all aspects of the day-to-day operations. The scope and quality of the Adviser's systems of internal controls are monitored and reviewed by the Adviser's Risk Committee and regular monitoring reports are provided to the Board. The Committee believes that, although robust, the Group's and Adviser's systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives. Therefore, the system can provide only reasonable and not absolute assurance against material misstatement or loss.

In reviewing the periodic financial reports of the Group, the Committee is reliant on the policies and procedures followed by the Adviser to ensure that the records accurately reflect transactions so as to facilitate the production of consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and other applicable reporting standards. The integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by the Audit Committee and the Board.

At the time of reviewing the half-yearly and annual financial reports, the Audit Committee also receives a comfort letter from the Adviser to assist the Board in assessing the policies and procedures and making the disclosures. No significant deficiencies in internal control have been identified.

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 their role as external auditor or which may compromise their independence or objectivity.

There is not an automatic ban in place on the external auditor undertaking non-audit work and each possible appointment is reviewed on a case-by-case basis. 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 79.

The external auditor was engaged for two non-audit assignments during the year, relating to the fees paid to the Adviser. The work was for a fee of less than £25,000 in total. The services were deemed to be ancillary to other assurance services provided by the external auditor where using their knowledge of the facts under consideration was seen as being cost effective for the Group. Their engagement was not deemed to compromise their objectivity and independence as sufficient safeguards were in place.

Our current audit partner, Claire Faulkner has now completed five audits and accordingly, in accordance with the requirements of the Auditing Practices Board, she will be retiring from the end of the audit of the 2017 financial statements. Claire will be replaced by Sara Tubridy, an audit partner with extensive experience in real estate.

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 their assessment of these key risks. For 2017, the primary risks identified were in relation to the valuation of the property portfolio.

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

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

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 2017 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 Committee report continued

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. A review of the performance of the external auditor will accordingly be undertaken during the course of next year. 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 developed by external consultants for audit committees to evaluate their effectiveness. The Chairman considered each response and presented the findings in a report to the Committee. The overall conclusion was that the Committee remained effective at meeting its objectives.

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
14 February 2018

Nomination Committee report

Members of the Nomination Committee (the "Committee")

Member of the Committee	Number of meetings and attendance
Nick Wiles (Chairman)	2/2
Alun Jones	2/2
Mark Creedy	2/2
Steven Owen	2/2
Dr Ian Rutter OBE	2/2
Geraldine Kennell	2/2

Dear shareholder,

I am delighted to present the report of the Nomination Committee, to shareholders. 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 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 of the Board and its Committees and makes recommendations with regard to any changes considered necessary in the identification and nomination of new Directors, the re-appointment of existing Directors and appointment of members to the Board's Committees.

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 a replacement Director to be appointed by the Company to replace the Finance Director;
- reviewing the succession planning for the Board to ensure that the composition of the Board evolves smoothly over time;
- 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 supervised the recruitment process led by Ferguson Partners to appoint Richard Howell as successor to Phil Holland as Finance Director. This lead to the appointment of Richard Howell in March 2017.

The Committee has worked with Lomond Consulting, a specialist agent with no other connection to the Company to support the Committee in the search for suitable candidates to replace Alun Jones, Dr Ian Rutter and Mark Creedy. The Committee has agreed terms of appointment for the agent and the specification and required skills and experience that should be provided by the successful candidates. Following this process, a shortlist of potential candidates was produced, who were interviewed by Alun Jones, Steven Owen, Geraldine Kennell, Harry Hyman and myself. It was agreed to nominate Dr Stephen Kell and Ian Krieger, as they were considered to be independent and able to bring a wealth of relevant experience to discussion at the Board. In particular, it was felt the Company will benefit from Steve's experience as a front line GP and his understanding of the NHS and from Ian's extensive expertise in the finance and property sectors and he will succeed Steven Owen as Chairman of the Audit Committee.

Terms of Non-executive appointments

Non-executive Directors are appointed for an initial three-year term and are subject to annual re-election by shareholders and to three months' notice from the Company or the Director. Each Director, on appointment, is provided with a letter setting out the terms of appointment, the fees to be paid and the time commitment expected. 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 18 April 2018.

Nick Wiles
Chairman of the Nomination Committee
14 February 2018

Adviser Engagement Committee report

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

Member of the Committee	Number of meetings and attendance
Mark Creedy (Chairman)	2/2
Alun Jones	2/2
Nick Wiles	2/2
Steven Owen	2/2
Dr Ian Rutter OBE	2/2
Geraldine Kennell	2/2

Dear shareholder,

I am delighted to present the report of the Adviser Engagement Committee of which I was Chairman during the year under review. This will be the last report of the Committee which I shall present to shareholders as I will be standing down from the Board at the 2018 Annual General Meeting. I am delighted that Nick Wiles has been appointed to chair the Committee.

The Committee meets at least twice a year 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") who also provide property management and administration services to the Group. The appointment of Nexus 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 Richard Howell 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 Advisory 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:

- regular review and approval of remuneration paid to the Adviser;
- annual review and evaluation of the performance of the Adviser;
- annual review of the terms of the Advisory Agreement;
- consideration and discussion of any amendments to be made to the Advisory Agreement; 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 Richard Howell (Finance Director) to attend selected meetings or parts thereof.

Report on the Committee's activities during the year

The Committee met twice during the year.

The main activity of the Committee in the year was to negotiate and approve an amendment to the terms of the Advisory Agreement. As announced on 20 April 2017, it was agreed to further reduce the incremental cost of advisory services, as the assets under management continue to grow, and additionally to change the terms of the incentive arrangements for the Adviser and its key employees so as to deliver superior returns going forward and to assist with staff retention and recruitment.

The fee payable for the management of PHP's property portfolio has been amended to incorporate additional lower fee increments as PHP continues to add scale. The fee payable for gross assets above £1.5 billion, previously 0.3%, has been reduced to 0.275% for gross assets between £1.5 billion and £1.75 billion and to 0.25% for gross assets between £1.75 billion and £2.0 billion.

In addition, the terms under which Nexus is entitled to a performance incentive fee ("PIF") have been amended from 1 January 2017. Nexus will continue to be entitled to 11.25% of the 'total return' above a hurdle rate of 8.0%, but this will now be based on the change in EPRA net asset value ("NAV") plus dividends paid, rather than based on the change in IFRS NAV plus dividends paid. Changes in IFRS NAV include the impact of changes in the mark to market valuation of the Company's derivatives and convertible bonds, which do not reflect the performance of the underlying property portfolio, and so did not provide the most suitable performance measure.

New controls on the PIF have been introduced. The PIF in respect of any year is now capped at the lower of 20% of the management fee payable to Nexus in that year and £2.0 million. Half of any PIF payment will be deferred to the following year, with performance against the hurdle rate (both positive and negative) carried forward in a notional cumulative account with any future payment subject to the account being in a surplus position. Furthermore, for the three years from 1 January 2017, the payment of any PIF is restricted if it would otherwise cause PHP's dividend cover to fall below 98%. The Nexus team working on PHP's account, other than Harry Hyman, will receive 25% of any PIF paid, to aid staff motivation and retention. No PIF has been paid to Nexus since 2007 and the notional cumulative PIF deficit of £12.1 million at the end of 2016, entirely attributable to the aforementioned IFRS mark to market adjustments, has been eliminated.

During the negotiation process, the Committee took advice from the Company's brokers who confirmed that the changes to the Advisory Agreement fell within Listing Rule 11.1.10 R, and they provided written confirmation that the terms of the proposed transaction or arrangement with the Adviser were fair and reasonable as far as shareholders were concerned.

Subsequently, the Committee also agreed an amendment on 26 July 2017 to clarify the terms for the calculation of the fee payable to the Adviser for certain ancillary services, relating (inter alia) to the management of extension and developments at existing properties.

In addition, during the year, the Committee met:

- to formally review the performance of the Adviser, monitor compliance with the Advisory Agreement and to consider the continued appropriateness of the terms of the Advisory Agreement.
- undertook a review at each meeting of the Committee of a schedule of the fees and expenses paid to the Adviser to that date to confirm 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.

This is my last statement as Chair of the Committee. As announced on 29 January 2018, I am handing over the Chair of the Committee to Nick Wiles and as I will be stepping down as Non-executive Director following the 2018 AGM. I would therefore like to thank my colleagues on the Board for their support during my tenure and wish the Company every success in the future.

Mark Creedy
Chairman of the Adviser Engagement Committee in 2017
14 February 2018

Remuneration Committee report

Members of the Remuneration Committee (the "Committee")

Member of the Committee	Number of meetings and attendance
Geraldine Kennell (Chairman)	2/2
Alun Jones	2/2
Nick Wiles	2/2
Steven Owen	2/2
Mark Creedy	2/2
Dr Ian Rutter OBE	2/2

Dear shareholder,

I am delighted to present the Directors' Remuneration Report for the year to 31 December 2017 in accordance with the regulations governing the disclosure and approval of Directors' remuneration.

At the 2017 Annual General Meeting ("AGM"), the shareholders voted by a majority of over 99% of the votes cast to approve the Directors' remuneration policy as set out in the Directors' Remuneration Report contained in the PHP 2016 Annual Report and Accounts. The Policy as approved on 26 April 2017 can be found in the 2016 Annual Report (http://www.phpgroup.co.uk/investors/reports-and-presentations/2017). As there are no proposed changes to the Directors' remuneration policy, there is no requirement for a shareholder vote on this part of the Directors' Remuneration Report at the 2018 AGM. All arrangements operated by the Company during the year were in line with the policy.

The Company has no employees and therefore pay and employment considerations cannot be taken into account in determining Directors' fees. The same applies to the fixed fee paid under the Advisory Agreement in respect of the Managing Director which is set in line with the basic fee paid to Non-executive Directors from time to time. Both the Managing Director and the Finance Director are employed by the Adviser and remunerated by them for their executive roles. Hence the Remuneration Committee does not determine executive directors' pay.

The UK Corporate 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 of PHP comprises four independent Non-executive directors, the Chairman of the board and Dr Ian Rutter who has served on the Board for more than nine years.

Responsibilities of the Committee

The principal responsibilities of the Committee are:

- setting the remuneration framework for Directors;
- reviewing the ongoing appropriateness and relevance of the Company's remuneration policy;
- within the terms of the approved policy determining the Chairman's remuneration;
- appointing and setting out the terms of reference for any remuneration consultants to advise the Committee;
- agreeing the policy on Director expenses incurred in performance of their duties; and
- drafting the Directors' Remuneration Report 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) to attend selected meetings.

The Remuneration Committee's activities during year

During 2017, the Committee met twice, in February and November.

At its meeting in February the Committee considered and approved the adoption of a new remuneration policy for approval by shareholders at the AGM, the Directors' Report on Remuneration set out in the Annual Report for 2016 and the remuneration of the Chairman and the non-executive Directors. The Committee considered external, publicly-available survey information published by well-known remuneration consultants on directors' fees in companies similar to PHP by reference to market capitalisation, as well as the level of fees paid by its nearest listed competitors.

This review indicated that the levels of basic fee payable to the Non-executive Directors and the Chairman and committee chairs were generally below the median for companies in the FTSE Small Cap Index. Accordingly, the Committee recommended and the board resolved, to increase the level of the Chairman's fee level, that of the chairs of the Audit and Adviser Engagement Committee and that of the non-executive directors with effect from 1 April 2017, as set out in that report. The Chairman and each of the relevant committee chairmen were excluded from the discussion of their own remuneration. The increases determined in respect of the Chairman and the non-executive directors result in fee levels which remain below the median for similar roles in the FTSE Small Cap.

Conclusion

The report that follows consists of two sections:

- an 'At a glance' summary of the Directors' remuneration policy on pages 54 to 56; and
- an Annual Report on Remuneration, detailing how our Directors were paid during 2017 and how the remuneration policy will be applied in 2018, on page 56.

We take our responsibilities as directors seriously and take an active interest in your views and hope to receive your support again at the AGM, where I will be available to respond to any questions which shareholders may have on this report or in relation to any of the Committee's activities.

Geraldine Kennell
Chair of the Remuneration Committee
14 February 2018

Directors' remuneration report

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved on 26 April 2017, at the Annual General Meeting and can be found at www.phpgroup.couk/investors/reports-and-presentations/2017.

In summary, the Company's policy is to pay each Director a fixed fee per annum commensurate with the level of commitment required and prevailing rates informed by external consultants and comparable organisations. Additional responsibility, such as that of the Chairman, is rewarded by a fixed additional sum. No other benefits, taxable or otherwise, are received by any Director, however, expenses incurred in connection with the Company's business are reimbursed.

Recruitment and remuneration policies

- The Chairman and the non-executive Directors are not 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 the policy.
- The remuneration package for any new Chairman or Non-executive Director will be in line with our approved policy. The fees and entitlement to reclaim reasonable expenses is set out in the Directors' letters of appointment.
- There is no provision for the recovery of sums paid to a Director or the withholding of the payment of any sum due to a Director.
- The Company will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay fees to search and selection consultants in connection with the appointment of any Non-executive Director.
- The Committee determines the policy in respect of the remuneration for all Directors' fees, subject to the overall limit as set out in the Articles of Association of £500,000.

Service contracts

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

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

There are letters of appointment in place for the other Directors, including the Chairman. These provide, subject to the appointment and any re-appointment being in accordance with the terms of the Articles of Association and to retirement by rotation, that Directors appointments can be terminated upon either party giving not less than three months' prior written notice. These letters of appointment are available for inspection at the Registered Office and on display at the Annual General Meeting.

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

Loss of office

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

Scenarios

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

Statement of consideration of conditions elsewhere in the Company

As the Company has no employees, the setting of the Remuneration Policy cannot be determined in the context of employees' pay and conditions or internal comparison measurements and the question of employee consultation is not relevant.

Other items

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

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

The Company has not received any comment or views from shareholders with regard to the formulation of the Directors' remuneration policy.

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) (Amendment) Regulations 2013, and relevant sections of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2018 AGM. The information on pages 55 to 56 has been audited where required under the regulations and indicated as audited information where applicable.

The set fee for each Non-executive Director and payable to the Adviser for the services of the Managing Director from 1 April 2017 was £40,000 per annum and £72,000 per annum for the Chairman. The Audit Committee Chairman received an additional £10,000 per annum, making his total remuneration £50,000 and the Chair of the Adviser Engagement Committee received an additional £3,000 making his total remuneration £43,000.

During the year, the fees of the Chairman and the non-executive directors were reviewed and increased. The annual fee for all Non-executive directors was increased by £2,000 per annum and the additional fee for the Chairman of the board was increased by £10,000. The fee for chairing the Audit Committee was increased by £3,000 and a new fee for chairing the Adviser Engagement Committee was introduced to reflect the additional time commitment required of this position given the important governance role played by the Adviser Engagement Committee in reviewing the performance of the Adviser and the terms of Adviser's engagement.

The table below shows the annual rates of fees paid to Non-executive Directors and to the Adviser, with regard to the Managing Director, during the year ending 31 December 2017. No fees are paid to the Adviser in respect of the Finance Director.

Component	Director	Remuneration since 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 the Adviser Engagement Committee	£3,000

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

Single total figure of remuneration (audited information)

	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Alun Jones	**69,000**	56,667
Harry Hyman (Managing Director)[1]	**39,500**	37,250
Richard Howell (Finance Director)[2]	**nil**	n/a
Dr Ian Rutter	**39,500**	37,250
Mark Creedy	**41,750**	37,250
Nick Wiles	**39,500**	28,500
Steven Owen	**48,750**	44,250
Geraldine Kennell	**39,500**	28,500
Phil Holland[3]	**nil**	nil
Total	**317,500**	269,667

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

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

3 Mr Holland resigned as a Director with effect from 31 March 2017 and his appointment was as a representative of the Adviser and no separate fee is payable to either him or the Adviser.

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.

Richard Howell is, and Phil Holland was, employed by Nexus, the Adviser to the Group. No additional fees are paid to Nexus in respect of the services of Richard Howell, or while he was a Director, Phil Holland.

The Managing Director holds Non-executive Director appointments 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.

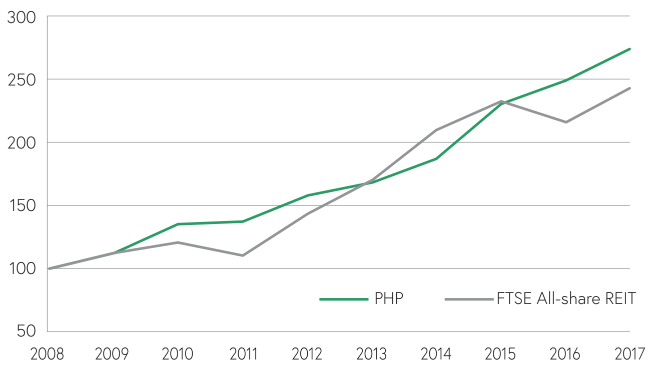
Further details of the Advisory Agreement are given in the Directors' Report on page 59 and details of the amounts paid to the Adviser in Note 4 to the financial statements on page 79.

During the year the Remuneration Committee, after a competitive tendering process, appointed FIT Remuneration Consultations LLP to provide advice on directors' remuneration policy and governance. FIT has no connection with the company and is a signatory to the voluntary code of conduct in relation to executive remuneration consulting. The Committee is therefore satisfied that their advice is independent. Their fees for their services provided in the financial year since appointment were £3,301.

Company's performance

The following graph compares, over an eight-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 2017, the highest and lowest mid-market prices of the Company's Ordinary Shares were 123.5 pence and 105.5 pence respectively.



Relative importance of spend on pay (audited information)

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

	2017	2016	Difference
Directors' fees[1]	**317,500**	288,032[2]	10.2%
Management fee	**6,334,132**	5,806,000	9.1%
Dividends	**31,429,561**	26,752,607	17.5%

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

2 Prior year Directors fee include fees paid to James Hambro and William Hemmings who retired on 5 April 2016.

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.

Company's performance continued

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 2017 Held outright	31 December 2017 Held by connected parties	31 December 2016 Held outright	31 December 2016 Held by connected parties
Mark Creedy	**32,800**	**22,540**	52,800	2,540
Harry Hyman[1]	**384,391**	**12,362,913[1]**	376,192	12,360,273[1]
Richard Howell	**13,964**	**36,036**	nil	nil
Alun Jones	**99,000**	**51,000**	99,000	51,000
Phil Holland[2]	**44,229**	**35,875**	44,229	34,337
Steven Owen	**35,226**	**21,790**	33,672	20,830
Dr Ian Rutter	**65,205**	**38,046**	55,479	17,228
Geraldine Kennell	**25,000**	**—**	25,000	—
Nick Wiles	**25,000**	**—**	25,000	—

1 Includes 12,324,709 shares held by Nexus Group Holdings Limited.

2 Phil Holland resigned as a Director with effect from 31 March 2017.

Save as disclosed below, no changes occurred between 31 December 2017 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 384,561 shares, and connected parties to Mr Hyman 12,363,083 shares.

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

Statement of shareholder voting

At the 2017 AGM, shareholder voting on the Remuneration Report was as follows:

	Number of shares	% of votes cast
Votes cast in favour	221,497,224	99.87
Votes cast against	279,793	0.13
Total votes cast	**221,777,017**	**100**
Abstentions	121,681	0.05

At the 2017 AGM, shareholder voting on the Directors' Remuneration Policy was as follows:

	Number of shares	% of votes cast
Votes cast in favour	221,478,616	99.87
Votes cast against	298,301	0.13
Total votes cast	**221,776,917**	**100**
Abstentions	121,781	0.05

Statement of implementation of the remuneration policy for the year ending 31 December 2018

The Committee will continue to apply the current approved remuneration policy for the year ending 31 December 2018. The Committee decided at its meeting on 13 February 2018 to increase the level of the Chairman's total remuneration broadly in line with inflation by £2,500 from 1 April 2018. On the recommendation of the Managing Director and the Chairman, the Board agreed an increase of £1,500 in the level of basic fee payable to the Non-executive Directors on the same date. The Remuneration Committee has made minor changes to its terms of reference which can be found at www.phpgroup.co.uk/investors/corporategovernance and has reviewed its decision making processes to ensure that the highest standards of corporate governance continue to be met.

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.

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
14 February 2018

Directors' report

The Directors present their Annual Report to shareholders for the year ended 31 December 2017.

The Group's Strategic Report on pages 1 to 33 includes matters that would otherwise be required to be disclosed in this report including on the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, an indication of future likely developments in the Company and details of important events since the year ended 31 December 2017. The purpose of the Annual Report is to provide information to the members of the Company, as a body. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Nothing in this Annual Report should be construed as a profit forecast.

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 Ireland.

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

Results and dividends

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

The Board resolved in 2017 to pay quarterly interim dividends. In line with this policy, interim ordinary dividends totalling 5.25 pence per Ordinary Share of 12.5 pence each ("Ordinary Share") were paid during the year (year ended 31 December 2016: 5.125 pence). The last two quarterly dividends were split into elements comprising a property income distribution ("PID") and an ordinary dividend.

On 3 January 2018, the Board declared an interim dividend of 1.35 pence per Ordinary Share. The dividend will comprise a Property Income Distribution ("PID") of 0.85 pence per share and an ordinary dividend of 0.5 pence per share, payable on 23 February 2018, to shareholders on the register at 12 January 2018, being the first quarterly dividend in 2018. Further information on dividends can be found in the Shareholder Information section on page 105.

Directors

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

Details of the Directors who served during the year and their interests in the Company's Ordinary Shares can be found in the Directors' Remuneration Report on page 55.

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.

Mr Creedy, Dr Rutter and Mr Jones will stand down from the Board following the Annual General Meeting to be held on 18 April 2018 ("2018 AGM") 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 2018 AGM. A proposal to re-elect such Directors will be included within the Notice calling the 2018 AGM. The Chairman confirms to shareholders that, following formal performance evaluation, all the Directors standing for re-election continue to be effective and their contribution is valuable and they demonstrate full commitment to and independence in their roles.

Information on the performance evaluation of the Board is shown in the Corporate Governance Report on pages 38 to 44.

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 54. 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 to 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. In exercising the powers conferred on them, the Directors are mindful of their duties under section 172 Companies Act 2006.

The Directors were empowered by resolutions of the Company passed on 26 April 2017 to allot equity securities (as defined by the Companies Act 2006) for cash and to make market purchases of the Company's shares, up to a maximum aggregate number of 59,833,626 Ordinary Shares. It is proposed to seek renewal of these authorities at the forthcoming 2018 AGM.

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

Under the Articles of Association at each Annual General Meeting any Director who shall have been a Director at each of the two preceding Annual General Meetings is required to stand for re-election as a Director. However, the Company has, however, adopted the requirements of the UK Corporate Governance Code 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 14 February 2018, 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	41,867,771	6.76%
Investec Wealth & Investment	37,515,946	6.06%
Charles Stanley	29,427,576	4.75%
Unicorn Asset Management	24,977,327	4.03%
Troy Asset Management	24,308,000	3.92%
Hargreaves Lansdown	23,241,490	3.75%
CCLA Investment Management	22,899,675	3.70%

Share capital

At 31 December 2017, the Company has one class of share in issue, being 619,448,578 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 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. The Company had 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 such member or to exercise any right as a member unless all calls or other sums presently payable by such member 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 in the Strategic Report on page 33.

Annual General Meeting

The Annual General Meeting of PHP (the "AGM") will be held on 18 April 2018 at 10:30 a.m. The Notice convening the Annual General Meeting and explanatory notes for the resolutions sought will be sent to shareholders separately from this document.

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

Auditor

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

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 96.

Advisory Agreement

Pursuant to an advisory agreement between the Company and the Adviser (Nexus) (the "Advisory Agreement"), last updated on 20 April 2017, 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%
Between £1.25 billion and £1.5 billion	0.300%
Between £1.5 billion and £1.75 billion	0.275%
Above £1.75 billion	0.250%

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 an annual fee of £958,170 from 1 May 2017.

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 is subject to a notice period to terminate such services of 12 months given by either Nexus or the Company.

(c) Performance Incentive Fee ("PIF")

Nexus is entitled to a PIF equal to 11.25% of any performance in excess of an 8% per annum increase in the Group's EPRA Net Asset Value, plus dividends paid subject to an overall cap at the lower of 20% of the Management Fee payable to Nexus in that year and £2.0 million.

Half of any PIF payment is deferred to the following year, with performance against the hurdle rate (both positive and negative) carried forward in a notional cumulative account with any future payment subject to the account being in a surplus position. Furthermore, for the three years from 1 January 2017, the payment of any PIF is restricted if it would otherwise cause PHP's dividend cover to fall below 98%. The Nexus team working on PHP's account, other than Harry Hyman, will receive a minimum of 25% of any PIF paid, to aid staff motivation and retention, of which 50% may be satisfied in PHP shares, subject to a three-year holding period.

Employees

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

Donations

The Group does not make any political or charitable donations.

Share service

- The Shareholder Information section on page 105 provides details of the share services available.

Financial instruments

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

Post balance sheet events

Details of events occurring since the year end are given in Note 28 on page 96.

Going concern

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

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

As at 31 December 2017, the Group had £120.1 million of headroom on its debt facilities, with a further £3.8 million of cash. The Group has total commitments of £4.1 million outstanding to fund on properties under construction through the course of 2018. The Group's consolidated loan to value ratio, including drawn, unsecured debt, is 52.9%, with all banking covenants being met during the year and subsequent to the year end.

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

Regulatory disclosures

The following disclosures are made in compliance with Listing Rule 9.8.4 and the Disclosure and Transparency Rules ("DTRs"). Details of the Directors' (and their connected persons) interest in the shares of the Company and of interest disclosed under DTR5 at the year end and not more than one month prior to the date of the Notice of Annual General Meeting are set out in the Directors Remuneration Report on page 56, and the going concern statement on Page 60. Details of the financial instruments used by the Group are set out in Notes 17 forming part of the Group financial statements on pages 89 to 90, which are incorporated into this Report of the Directors by reference. No interest was capitalised by the Group in the financial year to 31 December 2017. All other sub-sections of LR 9.8(4) are not applicable. Information that fulfils the requirements of LR 9.8.6(5) and 9.8.6(6) can be found in the Corporate Governance Report on pages 38 to 44 and is incorporated into this Directors' Report by reference.

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 pages 34 to 37. 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 S418 of the Companies Act 2006.

By order of the Board

Nexus Management Services Limited
Company Secretary
14 February 2018

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 the 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, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 14 February 2018 and is signed on its behalf by:

For and on behalf of the Board

Alun Jones
Chairman
14 February 2018

Independent auditor's report
to the members of Primary Health Properties PLC

Report on the audit of the financial statements

Opinion

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 2017 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 and IFRSs as issued by the International Accounting Standards Board ("IASB");
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 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.

We have audited the financial statements of Primary Health Properties PLC (the "Parent Company") and its subsidiaries (the "Group") which 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 18 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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of property portfolio
Materiality	The materiality that we used in the current year was £10.6 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 £1.6 million for items affecting EPRA earnings.
Scoping	Consistent with 2016, we performed full scope audit procedures on all of the Group's subsidiaries. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	In the prior year, we identified a key audit matter in relation to the valuation of financial instruments. We have not considered this area to be a key audit matter in the current year, due to the straightforward nature of recent financing transactions and the limited judgement involved in the related accounting.

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed the directors' statement in note 2.1 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 28 to 32 that describe the principal risks and explain how they are being managed or mitigated;
- 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; or
- 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; or

we are also required to report whether the Directors' statement relating to going concern and the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Valuation of the property portfolio

Key audit matter 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 £1,361.9 million as at 31 December 2017 (2016: £1,220.2 million).

The valuation of the portfolio is a significant judgement area and is underpinned by a number of assumptions. Given the high level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. Additionally, the inherent existence of estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the Statement of Comprehensive Income Statement of Financial Position, warrants specific audit focus in this area.

The Group uses professionally qualified external valuers to fair value the Group's portfolio at six-monthly intervals. The valuers are engaged by the Directors and perform their work in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards. The valuers used by the Group have 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 on page 74 and note 10 to the financial statements. The consideration of this risk by the Audit Committee is described on page 46.

How the scope of our audit responded to the key audit matter

- We assessed the design and implementation of management's process for reviewing and assessing the work of the external valuer.
- We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or might have imposed scope limitations on their work.
- We performed audit procedures to sample test the integrity of information provided to the independent valuers 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 valuers 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.
- 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 concluded that the assumptions applied in arriving at the fair value of the Group's property portfolio by the external valuers were appropriate.

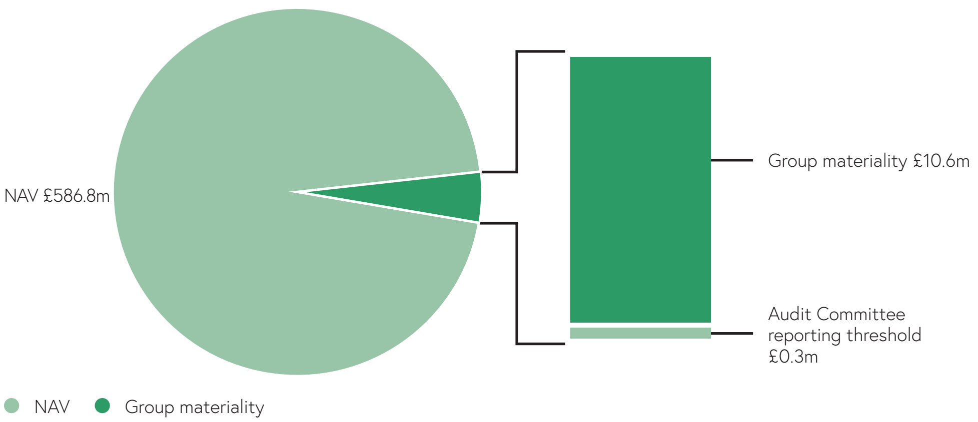
Independent auditor's report continued

Our application of materiality

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

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

Group materiality	£10.6 million (2016: £9.7 million) and a lower materiality of £1.6 million (2016: £1.3 million) for balances impacting EPRA earnings.
Basis for determining materiality	2% of net assets (2016: 2% of net assets). The lower materiality used for balances impacting EPRA earnings was determined using 5% (2016: 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.



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 £1.6 million for EPRA earnings items.

Materiality for the parent company has been determined as £6.0 million (2016: £2.5 million), based on 2% of total assets excluding intercompany balances.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £321,000 (2016: £260,000) for the Group and for the parent company, 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 properties acquired in Ireland, 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 (ranging from £0.03 million to £1.6 million). This results in full scope audit procedures performed on 100% (2016: 99%) of the Group's net assets.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, including the Strategic Report, Audit Committee Report, Nomination Committee Report, Adviser Engagement Committee Report, Remuneration Committee Report, Directors' Remuneration Report, Directors' Report and Directors' Responsibility Statements other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider 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 Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit;
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Independent auditor's report continued

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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 light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or 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 in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Primary Health Properties on 1 June 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and re-appointments of the firm is five years, covering the years ending 31 December 2013 to 31 December 2017.

Consistency of the Auditor's Report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Claire Faulkner, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 February 2018

Group statement of comprehensive income
for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Rental income		**72.5**	67.4
Direct property expenses		**(1.2)**	(0.8)
Net rental income	3	**71.3**	66.6
Administrative expenses	4	**(8.7)**	(7.3)
Net result on property portfolio	10	**64.5**	20.7
Operating profit		**127.1**	80.0
Finance income	5	**0.3**	0.5
Finance costs	6a	**(31.9)**	(33.0)
Fair value loss on derivative interest rate swaps and amortisation of hedging reserve	6b	**(0.3)**	(2.2)
Fair value loss on convertible bond	6c	**(3.3)**	(1.6)
Profit before taxation		**91.9**	43.7
Taxation charge	7	**—**	—
Profit for the year[1]		**91.9**	43.7
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss			
Fair value gain/(loss) on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve	23	**2.8**	(10.4)
Other comprehensive gain/(loss) for the year net of tax[1]		**2.8**	(10.4)
Total comprehensive income for the year net of tax[1]		**94.7**	33.3
Earnings per share			
Basic	8	**15.3p**	7.8p
Diluted	8	**14.7p**	7.3p
EPRA earnings per share			
Basic	8	**5.2p**	4.8p
Diluted	8	**5.1p**	4.7p

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

The above relates wholly to continuing operations.

Group balance sheet
at 31 December 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment properties	10	**1,361.9**	1,220.2
		1,361.9	1,220.2
Current assets			
Derivative interest rate swaps	17	**0.3**	—
Trade and other receivables	12	**6.4**	3.3
Cash and cash equivalents	13	**3.8**	5.1
		10.5	8.4
Total assets		**1,372.4**	1,228.6
Current liabilities			
Derivative interest rate swaps	17	**(2.7)**	(3.8)
Deferred rental income		**(15.0)**	(14.1)
Trade and other payables	14	**(15.4)**	(13.6)
Borrowings: term loans and overdraft	15	**(0.8)**	(0.8)
		(33.9)	(32.3)
Non-current liabilities			
Borrowings: term loans and overdraft	15	**(411.5)**	(429.4)
Borrowings: bonds	16	**(318.1)**	(238.2)
Derivative interest rate swaps	17	**(22.1)**	(29.5)
		(751.7)	(697.1)
Total liabilities		**(785.6)**	(729.4)
Net assets		**586.8**	499.2
Equity			
Share capital	19	**77.5**	74.8
Share premium account	20	**80.7**	59.1
Capital reserve	21	**1.6**	1.6
Special reserve	22	**161.4**	192.8
Hedging reserve	23	**(29.9)**	(32.7)
Retained earnings	24	**295.5**	203.6
Total equity[1]		**586.8**	499.2
Net asset value per share – basic	25	**94.7p**	83.5p
EPRA net asset value per share – basic	25	**100.7p**	91.1p

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

These financial statements were approved by the Board of Directors on 14 February 2018 and signed on its behalf by:

Alun Jones
Chairman

Registered in England Number: 3033634

Group cash flow statement
for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Operating activities			
Profit on ordinary activities before tax		**91.9**	43.7
Finance income	5	**(0.3)**	(0.5)
Finance costs	6a	**31.9**	33.0
Fair value loss on derivatives	6b	**0.3**	2.2
Fair value loss on convertible bond	6c	**3.3**	1.6
Operating profit before financing costs		**127.1**	80.0
Adjustments to reconcile Group operating profit before financing to net cash flows from operating activities:			
Revaluation gain on property portfolio	10	**(64.5)**	(20.7)
Fixed rent uplift		**(1.4)**	(1.5)
(Increase)/decrease in trade and other receivables		**(3.1)**	0.6
Increase/(decrease) in trade and other payables		**2.0**	(1.5)
Cash generated from operations		**60.1**	56.9
Taxation paid[1]		**—**	(0.1)
Net cash flow from operating activities		**60.1**	56.8
Investing activities			
Payments to acquire and improve investment properties		**(75.4)**	(97.4)
Interest received on development loans		**0.3**	0.6
Bank interest received		**—**	0.1
Net cash flow used in investing activities		**(75.1)**	(96.7)
Financing activities			
Proceeds from issue of shares		**—**	150.0
Cost of share issues and sub-division		**(0.1)**	(4.8)
Term bank loan drawdowns		**137.8**	68.5
Term bank loan repayments		**(155.5)**	(100.3)
Proceeds from bond issue		**100.0**	—
Bond issue costs		**(1.1)**	—
Termination of derivative financial instruments		**(6.2)**	(14.5)
Swap interest paid		**(3.5)**	(5.0)
Non-utilisation fees		**(0.5)**	(0.9)
Loan arrangement fees		**(1.8)**	(0.9)
Interest paid		**(26.1)**	(25.3)
Equity dividends paid net of scrip dividend	9	**(29.8)**	(24.7)
Net cash flow from financing activities		**13.2**	42.1
(Decrease)/increase in cash and cash equivalents for the year		**(1.8)**	2.2
Effect of exchange rate fluctuations on Euro denominated loans and cash equivalents[2]		**0.5**	—
Cash and cash equivalents at start of year		**5.1**	2.9
Cash and cash equivalents at end of year	13	**3.8**	5.1

1 Payment of liabilities acquired with subsidiaries.

2 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 2017

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2017	74.8	59.1	1.6	192.8	(32.7)	203.6	499.2
Profit for the year	—	—	—	—	—	91.9	91.9
Other comprehensive income							
Fair value movement on interest rate swaps	—	—	—	—	2.6	—	2.6
Amortisation of hedging reserve	—	—	—	—	0.2	—	0.2
Total comprehensive income	—	—	—	—	2.8	91.9	94.7
Shares issued on conversion of convertible bonds	2.5	20.3	—	—	—	—	22.8
Share issue expenses	—	(0.1)	—	—	—	—	(0.1)
Dividends paid:							
Dividends paid	—	—	—	(29.8)	—	—	(29.8)
Scrip dividend in lieu of cash	0.2	1.4	—	(1.6)	—	—	—
31 December 2017	**77.5**	**80.7**	**1.6**	**161.4**	**(29.9)**	**295.5**	**586.8**

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2016	55.8	57.4	1.6	93.0	(22.3)	159.9	345.4
Profit for the year	—	—	—	—	—	43.7	43.7
Other comprehensive income							
Fair value movement on interest rate swaps	—	—	—	—	(12.0)	—	(12.0)
Amortisation of hedging reserve	—	—	—	—	1.6	—	1.6
Total comprehensive income	—	—	—	—	(10.4)	43.7	33.3
Shares issued as part of capital raise	18.7	—	—	131.3	—	—	150.0
Share issue expenses	—	(0.1)	—	(4.7)	—	—	(4.8)
Dividends paid:							
Dividends paid	—	—	—	(24.7)	—	—	(24.7)
Scrip dividend in lieu of cash	0.3	1.8	—	(2.1)	—	—	—
31 December 2016	74.8	59.1	1.6	192.8	(32.7)	203.6	499.2

Notes to the financial statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2017 were approved by the Board of Directors on 14 February 2018 and the Group Balance Sheet was signed on the Board's behalf by the Chairman, Alun Jones. Primary Health Properties PLC is a public limited company incorporated in Great Britain and domiciled in the United Kingdom. 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 million.

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.

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 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 Group Statement of Comprehensive Income on disposal of a foreign entity.

The only exchange rates used to translate foreign currency amounts in 2017 are as follows:

Group Balance Sheet: £1 = €1.1262 (2016: €1.1722). Group Statement of Comprehensive Income: £1 = €1.1413 (2016: €1.1843).

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. 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 100% (2016: 90%) of the additional rental income that is expected to result from the review. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Interest income

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Bank loans and borrowings

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

Borrowing costs

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

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Convertible bond

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

Taxation

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

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

Financial instruments

Financial liabilities at fair value through profit or loss

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

Other loans and payables

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

Loans and receivables

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

De-recognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

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

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

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.

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; and
- 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.

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Hedge accounting continued

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 Group 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 valuer 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 2017. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

b) Judgements

Leases

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

Hedge effectiveness

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

2. Accounting policies continued

2.3 Significant accounting estimates and judgements continued

b) Judgements continued

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 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

• Annual improvements to IFRSs: 2012–2014	
• IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture

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
• 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' and IAS 28 'Investments in associates and joint ventures'
• IAS 40	Investment property (amendment)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, 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 have any material impact.

2. Accounting policies continued

2.5 Standards issued but not yet effective continued

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.

IAS 40 'Investment property' clarifies when assets are transferred to, or from, investment property. The amendment confirms that to transfer to, or from, investment properties there must be a change in use. Consequently, if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. Further, the amended standard confirms that a change in intention, in isolation, is not enough to support a transfer. The Group is assessing the impact of IAS 40 but it is not expected to have any material impact.

3. Rental and related income

Revenue comprises rental income receivable on property investments in the UK and Ireland, 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 £m	One to five years £m	More than five years £m	Total £m
2017	**72.1**	**286.5**	**593.3**	**951.9**
2016	66.9	264.9	575.5	907.3

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, the HSE in Ireland, and other healthcare users, typically on long term occupational leases which provide for regular reviews of rent on an effectively upwards-only basis.

4. Group operating profit is stated after charging:

	2017 £m	2016 £m
Administrative expenses including:		
Advisory fees (Note 4a)	**6.2**	5.8
Performance incentive fees (Note 4b)	**0.5**	—
Directors' fees (Note 4c)	**0.3**	0.3
Audit fees		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.3**	0.3
Total audit and assurance services	**0.3**	0.3
Non-audit fees		
Tax compliance services	**—**	—
Tax advisory services	**—**	—
Total non-audit fees	**—**	—
Total fees	**0.3**	0.3

4. Group operating profit is stated after charging: continued

a) Advisory fees

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

	2017 £m	2016 £m
Nexus	**6.2**	5.8

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 2017 £0.5 million was payable to Nexus (2016: £0.5 million).

Further fees paid to Nexus Tradeco Limited ("Nexus") in accordance with the Advisory Agreement of £0.2 million (2016: £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 £0.3 million (2016: £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.

A performance incentive fee of £0.5 million is payable to Nexus in accordance with the revised Advisory Agreement terms dated 19 April 2017 and effective 1 January 2017 (2016: £nil).

c) Remuneration of Directors

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

5. Finance income

	2017 £m	2016 £m
Interest income on financial assets		
Bank interest	**—**	0.1
Development loan interest	**0.3**	0.4
	0.3	0.5

6. Finance costs

	2017 £m	2016 £m
Interest expense and similar charges on financial liabilities		
a) Interest		
Bank loan interest	**14.6**	15.6
Swap interest	**3.4**	5.1
Bond interest	**11.6**	9.6
Bank facility non-utilisation fees	**0.5**	0.9
Bank charges and loan commitment fees	**1.8**	1.8
	31.9	33.0

	2017 £m	2016 £m
b) Derivatives		
Net fair value gain/(loss) on interest rate swaps	**0.7**	(0.6)
Amortisation of cash flow hedging reserve	**(1.0)**	(1.6)
	(0.3)	(2.2)

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 gain on derivatives which do meet the hedge effectiveness criteria under IAS 39 of £2.6 million (2016: loss £12.0 million) is accounted for directly in equity. An amount of £0.2 million (2016: £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).

6. Finance costs continued

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.

	2017 £m	2016 £m
c) Convertible bond		
Fair value loss on convertible bond	**(3.3)**	(1.6)

During the year, 19,794,870 new Ordinary Shares of 12.5 pence were issued on the conversion of £19.3 million nominal of convertible bonds. Following the conversion of the bonds there were £63.2 million nominal of convertible bonds outstanding.

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.

	2017 £m	2016 £m
Net finance costs		
Finance income (Note 5)	**(0.3)**	(0.5)
Finance costs (as per above)	**31.9**	33.0
	31.6	32.5

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2017 £m	2016 £m
Current tax		
UK corporation tax (Note 7b)	**—**	—

The UK corporation tax rate of 19.25% (2016: 20%) has been applied in the measurement of the Group's tax liability at 31 December 2017.

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017. Accordingly, these rates have been applied in the measurement of the Group's tax liability at 31 December 2017.

b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Profit on ordinary activities before taxation	**91.9**	43.7
Theoretical tax at UK corporation tax rate of 19.25% (2016: 20.0%)	**17.7**	8.7
REIT exempt income	**(8.5)**	(9.0)
Transfer pricing adjustments	**4.0**	4.1
Non-taxable items	**(12.0)**	(3.6)
Losses brought forward utilised	**(1.2)**	(0.2)
Taxation charge (Note 7a)	**—**	—

7. Taxation continued

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 19% (2016: 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 2017.

8. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £m	Weighted average Ordinary Shares (number – million)	Per share (pence)
2017			
Basic and diluted earnings			
Basic earnings	**91.9**	**600.7**	**15.3**
Dilutive effect of convertible bond	**5.9**	**64.8**	
Diluted earnings	**97.8**	**665.5**	**14.7**
EPRA basic and diluted earnings			
Basic earnings	**91.9**		
Adjustments to remove:			
Net result on property (Note 10)	**(64.5)**		
Fair value loss on derivatives	**0.3**		
Fair value movement on convertible bond	**3.3**		
EPRA basic earnings	**31.0**	**600.7**	**5.2**
Dilutive effect of convertible bond	**2.7**	**64.8**	
EPRA diluted earnings	**33.7**	**665.5**	**5.1**
2016			
Basic and diluted earnings			
Basic earnings	43.7	560.0	7.8
Dilutive effect of convertible bond	3.5	84.6	
Diluted earnings	47.2	644.6	7.3
EPRA basic and diluted earnings			
Basic earnings	43.7		
Adjustments to remove:			
Net result on property (Note 10)	(20.7)		
Fair value loss on derivatives	2.2		
Fair value movement on convertible bond	1.6		
EPRA basic earnings	26.8	560.0	4.8
Dilutive effect of convertible bond	3.5	84.6	
EPRA diluted earnings	30.3	644.6	4.7

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 2017. 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 2017.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2017 £m	2016 £m
Quarterly interim dividend paid 24 February 2017	**7.7**	—
Scrip dividend in lieu of quarterly cash dividend 24 February 2017	**0.1**	—
Quarterly interim dividend paid 26 May 2017	**7.2**	—
Scrip dividend in lieu of quarterly cash dividend 26 May 2017	**0.7**	—
Quarterly interim dividend paid 25 August 2017	**7.1**	—
Scrip dividend in lieu of quarterly cash dividend 25 August 2017	**0.7**	—
Quarterly interim dividend paid 24 November 2017	**7.8**	—
Scrip dividend in lieu of quarterly cash dividend 24 November 2017	**0.1**	—
Quarterly interim dividend paid 26 February 2016	**—**	5.4
Scrip dividend in lieu of quarterly cash dividend 26 February 2016	**—**	0.4
Quarterly interim dividend paid 27 May 2016	**—**	5.1
Scrip dividend in lieu of quarterly cash dividend 27 May 2016	**—**	0.6
Quarterly interim dividend paid 26 August 2016	**—**	6.8
Scrip dividend in lieu of quarterly cash dividend 26 August 2016	**—**	0.8
Quarterly interim dividend paid 25 November 2016	**—**	7.4
Scrip dividend in lieu of quarterly cash dividend 25 November 2016	**—**	0.3
Total dividends distributed in the year	**31.4**	26.8
Per share	**5.25p**	5.125p

On 3 January 2018, the Board declared an interim dividend of 1.35 pence per Ordinary Share with regard to the year ended 31 December 2017, payable on 23 February 2018. This dividend will comprise a Property Income Distribution ("PID") of 0.85 pence and ordinary dividend of 0.5 pence per share.

10. Investment properties and investment properties under construction

Properties have been independently valued at fair value by Lambert Smith Hampton UK ("LSH"), and CBRE Ireland ("CBRE") Chartered Surveyors and Valuers, as at the balance sheet date in accordance with IAS 40 'Investment property'. LSH and CBRE 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 valuer is 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 (2016: 99.7%). The valuations reflected a 4.91% net initial yield (2016: 5.17%) and a 5.09% (2016: 5.38%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the valuer.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the valuer is required to 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 valuer has 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 £5.7 million (2016: £3.3 million) in arriving at the fair value to be included in the financial statements. A fair value increase of £0.4 million (2016: £0.8 million) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on property portfolio in the year of £64.5 million (2016: £20.7 million).

Notes to the financial statements continued

10. Investment properties, investment properties under construction continued

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

	Investment properties freehold[1] £m	Investment properties long leasehold £m	Investment properties under construction £m	Total £m
As at 1 January 2017	987.1	225.7	7.4	1,220.2
Property additions	64.0	0.3	11.5	75.8
Impact of lease incentive adjustment	0.6	0.8	—	1.4
Transfer from properties under construction	—	18.2	(18.2)	—
	1,051.7	245.0	0.7	1,297.4
Revaluations for the year	53.2	10.9	0.4	64.5
As at 31 December 2017	**1,104.9**	**255.9**	**1.1**	**1,361.9**
As at 1 January 2016	882.0	209.9	8.7	1,100.6
Property additions	70.5	9.3	17.6	97.4
Impact of lease incentive adjustment	0.7	0.8	—	1.5
Transfer from properties under construction	19.7	—	(19.7)	—
	972.9	220.0	6.6	1,199.5
Revaluations for the year	14.2	5.7	0.8	20.7
As at 31 December 2016	987.1	225.7	7.4	1,220.2

1 Includes development land held at £0.9 million (31 December 2016: £0.5 million).

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £1,260 million (2016: £1,069 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 2017 and 31 December 2016. There were no transfers between levels during the year or during 2016. 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.

	2017	2016
ERV – range of the portfolio	**£32,307–£1,225,071 per annum**	£57,722–£1,183,453 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.

	2017	2016
True equivalent yield – range of the portfolio	**4.31%–7.61%**	4.33%–7.75%

Unobservable input: physical condition of the property

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

10. Investment properties, investment properties under construction continued

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

Primary Health Investment Properties Limited	PHP Finance (Jersey) Limited[1]
Primary Health Investment Properties (No. 2) Limited	PHP Investments (2011) Limited
Primary Health Investment Properties (No. 3) Limited	PHP 2013 Holdings Limited
PHP Healthcare (Holdings) Limited	PHP Bond Finance PLC
Health Investments Limited	PHP Primary Properties (Haymarket) Limited
Primary Health Investment Properties (No. 4) Limited	PHP Medical Investments Limited
White Horse Centre Limited	PHP (FRMC) Limited
Crestdown Limited	Primary Health Properties ICAV[2,3]
PHIP (5) Limited	PHIP (Milton Keynes) Limited
PatientFirst Partnerships Limited	Carden Medical Investments Limited[4]
PatientFirst (Hinckley) Limited	Wincanton Health Limited
PatientFirst (Burnley) Limited	PHP SB Limited
Primary Health Investment Properties (No.6) Limited	Ettrick Health Limited[1]
Primary Health Investment Properties (No. 7) Limited	Chelmsley Associates Limited
Primary Health Investment Properties (Sutton) Limited	

Subsidiaries indirectly held by the Company

PHP Bingham Limited (previously PHP (Basingstoke) Limited)	PHP Investments No.2 Limited
PHIP (Chester) Limited (previously PHIP (Gorse Stacks) Limited)	Motorstep Limited
Anchor Meadow Limited	Leighton Health Limited
PHP (Ipswich) Limited (previously Apollo (Ipswich) Limited)	PHP Healthcare Investments Limited
PHP Healthcare Investments (Holdings) Limited	PHP St. Johns Limited
PHP Investments No.1 Limited	PHP Clinics Limited
PHP (Project Finance) Limited	PHIP (Stourbridge) Limited
PHP Medical Properties Limited	Gracemount Medical Centre Limited[4]
PHP Glen Spean Limited	PHP AssetCo (2011) Limited
PHP Empire Holdings Limited	PHP Primary Properties Limited

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

2 An Irish collective asset management vehicle established in Ireland.

3 Subsidiary company registered in 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.

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

12. Trade and other receivables

	2017 £m	2016 £m
Trade receivables (net of provision for doubtful debts)	**2.2**	1.3
Prepayments and accrued income	**2.1**	1.4
Other debtors	**2.1**	0.6
	6.4	3.3

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

	2017 £m	2016 £m
Neither past due nor impaired:		
<30 days	**1.0**	0.5
Past due but not impaired:		
30–60 days	**0.9**	0.5
60–90 days	**0.1**	0.1
90–120 days	**0.1**	0.1
>120 days	**0.1**	0.1
	2.2	1.3

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.

13. Cash and cash equivalents

	2017 £m	2016 £m
Cash held at bank	**3.8**	4.9
Restricted cash	**—**	0.2
	3.8	5.1

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

	2017 £m	2016 £m
Trade payables	**1.3**	0.2
Bank and bond loan interest accrual	**4.4**	4.3
Other payables	**5.5**	5.7
VAT	**3.1**	2.5
Accruals	**1.1**	0.9
	15.4	13.6

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	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Current						
Overdraft facility[1]	**5.0**	5.0	**—**	—	**5.0**	5.0
Fixed rate term loan[3]	**0.8**	0.8	**0.8**	0.8	**—**	—
	5.8	5.8	**0.8**	0.8	**5.0**	5.0
Non-current						
Term loan to March 2021[2]	**100.0**	115.0	**52.5**	115.0	**47.5**	—
Fixed rate term loan[3]	**22.3**	23.1	**22.3**	23.1	**—**	—
Fixed rate term loan to December 2022[4]	**25.0**	25.0	**25.0**	25.0	**—**	—
Term loan to July 2020[5]	**50.0**	50.0	**21.5**	6.4	**28.5**	43.6
Fixed rate term loan to November 2028[6]	**75.0**	75.0	**75.0**	75.0	**—**	—
Term loan to January 2021[7]	**115.0**	115.0	**105.9**	75.0	**9.1**	40.0
Fixed rate term loan to August 2024[8]	**50.0**	50.0	**50.0**	50.0	**—**	—
Fixed rate term loan to August 2029[8]	**63.0**	63.0	**63.0**	63.0	**—**	—
Term loan to December 2020[9]	**30.0**	—	**—**	—	**30.0**	—
	530.3	516.1	**415.2**	432.5	**115.1**	83.6
	536.1	521.9	**416.0**	433.3	**120.1**	88.6

Providers:

1 The Royal Bank of Scotland plc.

2 The Royal Bank of Scotland plc ("RBS").

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.

9 Lloyds facility.

At 31 December 2017, total facilities of £844.3 million (2016: £749.4 million) were available to the Group. This included a £75 million unsecured retail bond, a £70 million secured bond, a £100 million secured bond, a £63.2 million convertible bond and a £5 million overdraft facility. Of these facilities, as at 31 December 2017, £724.2 million was drawn (2016: £660.8 million).

On 21 March 2017, a new £100 million secured bond was issued for a ten-year term at a fixed coupon of 2.83%. £65 million of the proceeds have been used to refinance the RBS/Santander club facility solely with RBS, reducing the available facility from £115 million to £50 million. The remaining £35 million was used to pay down the Barclays/AIB revolving facility and remains available for PHP to draw when needed.

On 27 November 2017, the RBS facility was successfully extended to £100 million. The additional £50 million is a revolving credit facility ("RCF"), and there is an option to draw part of the RCF in Euros, up to a maximum of €20 million.

On 29 December 2017, a new £30 million revolving credit facility was successfully completed with Lloyds. The new loan may be drawn in either Sterling or Euros, and has a variable interest rate of LIBOR plus rates ranging from 155bps to 175bps depending upon level of utilisation. The new loan facility expires in December 2020, and includes two extension options, each to extend the loan facility by one further year.

On 29 December 2017, the Aviva £75 million facility was refinanced for just under eleven years to November 2028 at a fixed interest rate of 3.1%.

Notes to the financial statements continued

15. Borrowings: term loans and overdrafts continued

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

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

	2017 £m	2016 £m
Term loans drawn: due within one year	**0.8**	0.8
Term loans drawn: due in greater than one year	**415.2**	432.5
Total terms loans drawn	**416.0**	433.3
Less: unamortised borrowing costs	**(3.7)**	(3.1)
Total term loans per the Group Balance Sheet	**412.3**	430.2

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

	2017 £m	2016 £m
Secured		
Secured bond December 2025	**70.0**	70.0
Secured bond March 2027	**100.0**	—
Unsecured		
Retail bond July 2019	**75.0**	75.0
Convertible bond May 2019	**75.5**	95.0
Unamortised issue costs	**(2.4)**	(1.8)
	318.1	238.2

The fair value of the bonds that converted during the year was £22.8 million (2016: £nil).

Secured bonds

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 220bps above six-month LIBOR, payable semi-annually in arrears.

On 21 March 2017, a new £100 million secured bond was issued for a ten-year term at a fixed coupon of 2.83% that matures on 21 March 2027. Interest is paid 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.

16. Borrowings: bonds continued

Convertible bond continued

During the year, 19,794,870 new Ordinary Shares of 12.5 pence were issued on the conversion of £19.3 million nominal of convertible bonds. Following the conversion of the Bonds there were £63.2 million (2016: £82.5 million) nominal of convertible bonds outstanding.

	2017 £m	2016 £m
Balance at 1 January	**95.0**	93.4
Bond conversions	**(22.8)**	—
Fair value movement in convertible Bond	**3.3**	1.6
Balance at 31 December	**75.5**	95.0

The fair value of the convertible bond at 31 December 2017 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.

	2017 £m	2016 £m
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 ("effective swaps")		
Current liabilities	**(2.5)**	(3.4)
Non-current liabilities	**(22.1)**	(29.3)
	(24.6)	(32.7)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 ("ineffective swaps")		
Current assets	**0.3**	—
Current liabilities	**(0.2)**	(0.4)
Non-current liabilities	**—**	(0.2)
	0.1	(0.6)
Total fair value of interest rate swaps	**(24.5)**	(33.3)
Shown in the balance sheet as:		
Total current assets	**0.3**	—
Total current liabilities	**(2.7)**	(3.8)
Total non-current liabilities	**(22.1)**	(29.5)

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 2017 was a £2.8 million gain (2016: loss £10.4 million), including the amortisation of the cash flow hedging reserve of £0.2 million (2016: £1.6 million).

17. Derivatives and other financial instruments continued

Floating to fixed interest rate swaps with a contract value of £158.0 million (2016: £186.0 million) were in effect at 31 December 2017. Details of all floating to fixed rate interest rate swap contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2017			
£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
£158.0 million			
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			

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
£100.0 million			

On 4 July 2017, a 4.76% fixed interest rate swap for a notional amount of £20 million was terminated early. The termination cost totalled £6.2 million, and the cash flow hedge reserve has been amortised through the Group Statement of Comprehensive Income over the remainder of what was its contract period through to 24 July 2027 (see Note 6b).

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.

18. Financial risk management continued

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 £m	Effect on profit before taxation £m	Effect on equity £m
2017				
London Interbank Offered Rate	Increase of 50 basis points	**7.3**	**1.0**	**8.3**
London Interbank Offered Rate	Decrease of 50 basis points	**(7.3)**	**(1.0)**	**(8.3)**
2016				
London Interbank Offered Rate	Increase of 50 basis points	9.4	2.0	11.4
London Interbank Offered Rate	Decrease of 50 basis points	(9.4)	(2.0)	(11.4)

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.

Banks 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, which 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 Nexus.

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

	On demand £m	Less than three months £m	Three to twelve months £m	One to five years £m	More than five years £m	Total £m
2017						
Interest-bearing loans and borrowings	**—**	**5.8**	**20.7**	**599.1**	**237.3**	**862.9**
Interest rate swaps (net)	**—**	**1.1**	**5.8**	**23.5**	**11.5**	**41.9**
Trade and other payables	**1.1**	**12.5**	**0.6**	**0.8**	**—**	**15.0**
	1.1	**19.4**	**27.1**	**623.4**	**248.8**	**919.8**
2016						
Interest-bearing loans and borrowings	—	6.0	133.7	386.5	273.6	799.8
Interest rate swaps (net)	—	0.9	3.0	24.3	21.4	49.6
Trade and other payables	1.2	10.3	0.5	1.0	0.1	13.1
	1.2	17.2	137.2	411.8	295.1	862.5

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 (2016: none).

d) Market risk

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

Interest rate risk

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

Price risk

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

Fair values

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

	Book value 2017 £m	**Fair value 2017 £m**	Book value 2016 £m	Fair value 2016 £m
Financial assets				
Trade and other receivables	**4.8**	**4.8**	2.0	2.0
Effective interest rate swaps	**0.3**	**0.3**	—	—
Ineffective interest rate swaps	**—**	**—**	—	—
Cash and short term deposits	**3.8**	**3.8**	5.1	5.1
Financial liabilities				
Interest-bearing loans and borrowings	**(724.2)**	**(772.0)**	(660.8)	(708.5)
Effective interest rate swaps	**(24.6)**	**(24.6)**	(32.7)	(32.7)
Ineffective interest rate swaps (net)	**(0.2)**	**(0.2)**	(0.6)	(0.6)
Trade and other payables	**(15.0)**	**(15.0)**	(13.1)	(13.1)

18. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair values continued

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

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

Fair value hierarchy

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

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

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

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

Fair value measurements at 31 December 2017 are as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	**—**	**0.3**	**—**	**0.3**
Financial liabilities				
Derivative interest rate swaps	**—**	**(24.8)**	**—**	**(24.8)**
Convertible bond	**(75.5)**	**—**	**—**	**(75.5)**

Fair value measurements at 31 December 2016 are as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	—	—	—	—
Financial liabilities				
Derivative interest rate swaps	—	(33.3)	—	(33.3)
Convertible bond	(95.0)	—	—	(95.0)

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 Group 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 (2016: 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 1.7:1 (2016: 1:0 to 1.5:1); and
- loan to value: 50% to 75% (2016: 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	**2017 £m**	2016 £m
Fair value of completed investment properties	**1,360.8**	1,212.8
Fair value of development properties	**1.1**	7.4
	1,361.9	1,220.2
Carrying value of interest-bearing loans and borrowings	**718.1**	655.9
Unamortised borrowing costs	**6.1**	4.9
Less cash held	**(3.8)**	(5.1)
Nominal amount of interest-bearing loans and borrowings	**720.4**	655.7
Group loan to value ratio	**52.9%**	53.7%

19. Share capital

Ordinary Shares issued and fully paid at 12.5 pence each

	2017 Number – millions	**2017 £m**	2016 Number – millions	2016 £m
Balance at 1 January	**598.2**	**74.8**	446.3	55.8
Scrip issues in lieu of cash dividends	**1.4**	**0.2**	1.9	0.2
Share issue 14 April 2016	**—**	**—**	150.0	18.8
Shares issued on bond conversions	**19.8**	**2.5**	—	—
Balance at 31 December	**619.4**	**77.5**	598.2	74.8

Issue of shares in 2017

	Date of issue	Number of shares – millions	Issue price
Scrip issue in lieu of cash dividend	24 February 2017	0.2	108.75p
Scrip issue in lieu of cash dividend	26 May 2017	0.6	112.20p
Scrip issue in lieu of cash dividend	25 August 2017	0.5	113.25p
Scrip issue in lieu of cash dividend	24 November 2017	0.1	119.70p

20. Share premium

	2017 £m	2016 £m
Balance at 1 January	**59.1**	57.4
Scrip issue in lieu of cash dividend	**1.4**	1.8
Shares issued on bond conversions	**20.3**	—
Share issue expense	**(0.1)**	(0.1)
Balance As at 31 December	**80.7**	59.1

21. Capital reserve

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

	2017 £m	2016 £m
Balance at 1 January and 31 December	**1.6**	1.6

22. Special reserve

	2017 £m	2016 £m
Balance at 1 January	**192.8**	93.0
Share issue 14 April 2016	**—**	131.3
Share issue expenses	**—**	(4.7)
Dividends paid	**(29.8)**	(24.7)
Scrip issue in lieu of cash dividend	**(1.6)**	(2.1)
Balance at 31 December	**161.4**	192.8

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, 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 distributed 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:

	2017 £m	2016 £m
Balance at 1 January	**(32.7)**	(22.3)
Fair value movement on cash flow hedges	**0.4**	(12.0)
Amortisation of cash flow hedging reserve	**0.2**	1.6
Reclassification of swap from ineffective to effective	**2.2**	—
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	**2.8**	(10.4)
Balance at 31 December	**(29.9)**	(32.7)

On 4 July 2017, an interest rate swap for a notional amount of £20 million was terminated early. The termination cost totalled £6.2 million, and the cash flow hedge reserve has been amortised through the Group Statement of Comprehensive Income over the remainder of what was its contract period through to 24 July 2027 (see Note 6b).

Notes to the financial statements continued

24. Retained earnings

	2017 £m	2016 £m
Balance at 1 January	**203.6**	159.9
Retained profit for the year	**91.9**	43.7
Balance at 31 December	**295.5**	203.6

25. Net asset value per share

Net asset values have been calculated as follows:

	2017 £m	2016 £m
Net assets per Group Balance Sheet	**586.8**	499.2
Derivative interest rate swaps (net liability)	**24.5**	33.3
Convertible bond fair value adjustment	**12.3**	12.5
EPRA net asset value	**623.6**	545.0

	Number of shares – million	Number of shares – million
Ordinary Shares		
Issued share capital	**619.4**	598.2
Net asset value per share:		
Basic net asset value per share	**94.7p**	83.5p
EPRA NAV per share	**100.7p**	91.1p

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

26. Capital commitments

As at 31 December 2017, the Group has entered into a development agreement with a third party for the purchase of a primary healthcare 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 £4.2 million plus VAT (2016: £3.3 million plus VAT) remains to be funded with regard to this property.

As at 31 December 2017, the Group has capital commitments totalling £1.5 million plus VAT (2016: £nil plus VAT) being the cost to complete five asset management projects on site.

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 15 January 2018 and 18 January 2018 convertible bonds with a nominal value of £0.7 million and £0.4 million respectively converted into 1,128,204 new Ordinary Shares of 12.5 pence each. Following the cancellation of the bonds the nominal value of the remaining convertible bonds was £62.1 million.

Company balance sheet
at 31 December 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment in subsidiaries	7	**302.6**	283.8
		302.6	283.8
Current assets			
Trade and other receivables	8	**521.6**	363.0
Cash at bank and in hand	9	**—**	—
		521.6	363.0
Total assets		**824.2**	646.8
Current liabilities			
Trade and other payables	10	**(271.8)**	(144.4)
		(271.8)	(144.4)
Non-current liabilities			
Borrowings	11	**(147.8)**	(164.7)
		(147.8)	(164.7)
Total liabilities		**(419.6)**	(309.1)
Net assets		**404.6**	337.7
Equity			
Share capital	13	**77.5**	74.8
Share premium		**80.7**	59.1
Capital reserve		**1.6**	1.6
Special reserve	14	**161.4**	192.8
Retained earnings		**83.4**	9.4
Total equity		**404.6**	337.7
Net asset value per share – basic	15	**65p**	56p

These financial statements were approved by the Board of Directors on 14 February 2018 and signed on its behalf by:

Alun Jones
Chairman

Registered in England Number: 3033634

Company statement of changes in equity
for the year ended 31 December 2017

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2017	74.8	59.1	1.6	192.8	9.4	337.7
Profit for the year	—	—	—	—	74.0	74.0
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	74.0	74.0
Shares issued on conversion of convertible bonds	2.5	20.3	—	—	—	22.8
Share issue expenses	—	(0.1)	—	—	—	(0.1)
Dividends paid:						
Dividends paid	—	—	—	(29.8)	—	(29.8)
Scrip dividend in lieu of cash	0.2	1.4	—	(1.6)	—	—
31 December 2017	**77.5**	**80.7**	**1.6**	**161.4**	**83.4**	**404.6**

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2016	55.8	57.4	1.6	93.0	18.8	226.6
Loss for the year	—	—	—	—	(9.4)	(9.4)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	(9.4)	(9.4)
Share issue expenses	—	(0.1)	—	(4.7)	—	(4.8)
Shares issued as part of capital raise	18.7	—	—	131.3	—	150.0
Dividends paid:						
Dividends paid	—	—	—	(24.7)	—	(24.7)
Scrip dividend in lieu of cash	0.3	1.8	—	(2.1)	—	—
31 December 2016	74.8	59.1	1.6	192.8	9.4	337.7

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 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.

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 retranslating monetary assets and liabilities denominated in foreign currencies are included in the Group 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 and the Republic of Ireland.

5. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2017 £m	2016 £m
UK corporation tax	**—**	—

The UK corporation tax rate of 19.25% (2016: 20%) has been applied in the measurement of the tax liability at 31 December 2017.

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017. Accordingly, these rates have been applied in the measurement of the Company's tax liability at 31 December 2017.

b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Profit on ordinary activities before taxation	**74.0**	(9.4)
Theoretical tax at UK corporation tax rate of 19.25% (2016: 20.0%)	**14.2**	(1.9)
Transfer pricing adjustments	**3.4**	3.1
Non-taxable items	**(17.2)**	(0.2)
Losses brought forward utilised	**(0.5)**	(1.0)
Taxation charge (Note 5a)	**—**	—

6. Dividends

Amounts recognised as distributions to equity holders in the year:

	2017 £m	2016 £m
Quarterly interim dividend paid 24 February 2017	**7.7**	—
Scrip dividend in lieu of quarterly cash dividend 24 February 2017	**0.1**	—
Quarterly interim dividend paid 26 May 2017	**7.2**	—
Scrip dividend in lieu of quarterly cash dividend 26 May 2017	**0.7**	—
Quarterly interim dividend paid 25 August 2017	**7.1**	—
Scrip dividend in lieu of quarterly cash dividend 25 August 2017	**0.7**	—
Quarterly interim dividend paid 24 November 2017	**7.8**	—
Scrip dividend in lieu of quarterly cash dividend 24 November 2017	**0.1**	—
Quarterly interim dividend paid 26 February 2016	**—**	5.4
Scrip dividend in lieu of quarterly cash dividend 26 February 2016	**—**	0.4
Quarterly interim dividend paid 27 May 2016	**—**	5.1
Scrip dividend in lieu of quarterly cash dividend 27 May 2016	**—**	0.6
Quarterly interim dividend paid 26 August 2016	**—**	6.8
Scrip dividend in lieu of quarterly cash dividend 26 August 2016	**—**	0.8
Quarterly interim dividend paid 25 November 2016	**—**	7.4
Scrip dividend in lieu of quarterly cash dividend 25 November 2016	**—**	0.3
Total dividends distributed in the year	**31.4**	26.8
Per share	**5.25p**	5.125p

7. Investment in subsidiaries

	£m
As at 1 January 2017	**283.8**
Acquisition of Carden Medical Investments Limited	**3.1**
Acquisition of Ettrick Health Limited	**10.6**
Acquisition of Chelmsley Associates Limited	**1.3**
Acquisition of Wincanton Health Limited	**2.4**
Transfer of Patient First Partnerships Limited from subsidiary	**1.1**
Transfer of PHIP (5) Limited from subsidiary	**0.3**
As at 31 December 2017	**302.6**
As at 1 January 2016	124.9
Issue in PHP ICAV	0.4
Release of intercompany balances	158.5
As at 31 December 2016	283.8

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.

Notes to the Company financial statements continued

7. Investment in subsidiaries continued

Subsidiaries held directly by the Company

Primary Health Investment Properties Limited
Primary Health Investment Properties (No. 2) Limited
Primary Health Investment Properties (No. 3) Limited
PHP Healthcare (Holdings) Limited
Health Investments Limited
Primary Health Investment Properties (No. 4) Limited
White Horse Centre Limited
Crestdown Limited
PHIP (5) Limited
PatientFirst Partnerships Limited
PatientFirst (Hinckley) Limited
PatientFirst (Burnley) Limited
Primary Health Investment Properties (No.6) Limited
Primary Health Investment Properties (No.7) Limited
Primary Health Investment Properties (Sutton) Limited
PHP Finance (Jersey) Limited[1]
PHP Investments (2011) Limited
PHP 2013 Holdings Limited
PHP Bond Finance PLC
PHP Primary Properties (Haymarket) Limited
PHP Medical Investments Limited
PHP (FRMC) Limited
Primary Health Properties ICAV[2,3]
PHIP (Milton Keynes) Limited
Carden Medical Investments Limited[4]
Wincanton Health Limited
PHP SB Limited
Ettrick Health Limited[1]
Chelmsley Associates Limited

Subsidiaries indirectly held by the Company

PHP Bingham Limited (previously PHP (Basingstoke) Limited)
PHIP (Chester) Limited (previously PHIP (Gorse Stacks) Limited)
Anchor Meadow Limited
PHP (Ipswich) Limited (previously Apollo (Ipswich) Limited)
PHP Healthcare Investments (Holdings) Limited
PHP Investments No.1 Limited
PHP (Project Finance) Limited
PHP Medical Properties Limited
PHP Glen Spean Limited
PHP Empire Holdings 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
Gracemount Medical Centre Limited[4]
PHP AssetCo (2011) Limited
PHP Primary Properties Limited

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

2 An Irish collective asset management vehicle established in Ireland.

3 Subsidiary company registered in 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.

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

8. Trade and other receivables

	2017 £m	2016 £m
Amounts due from Group undertakings	**521.5**	362.9
Other receivables	**0.1**	0.1
	521.6	363.0

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

9. Cash at bank and in hand

	2017 £m	2016 £m
Cash at bank and in hand	**—**	—

10. Trade and other payables

	2017 £m	2016 £m
Current		
Amounts owed to Group undertakings	**269.2**	142.3
Trade and other payables	**0.1**	0.1
Accruals and deferred income	**2.5**	2.0
	271.8	144.4

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

11. Borrowings

	2017 £m	2016 £m
Retail bond July 2019	**75.0**	75.0
Unamortised issue costs	**(0.3)**	(0.5)
Intra-group loan with PHP Finance (Jersey) Limited (Note 12)	**62.0**	79.9
Option to convert (Note 12)	**11.1**	10.3
	147.8	164.7

On 23 July 2012, PHP issued 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.

In November and December 2017 convertible bonds with a nominal value of £19.3 million (2016: £nil) converted into ordinary shares at a conversion price of 97.5 pence resulting in 19.8 million (2016: nil) new ordinary shares being issued. The convertible bond outstanding at 31 December 2017 was £63.2 million (2016: £82.5 million).

Post year-end a further £1.1 million of convertible bonds have converted into 1.1 million ordinary shares taking the total bonds converted to £20.4 million and 20.9 million new ordinary shares being issued. The conversions will result in future interest savings of £0.9 million p.a.

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

	2017 Number – million	2017 £m	2016 Number – million	2016 £m
As at 1 January	**598.2**	**74.8**	446.3	55.8
Scrip issues in lieu of cash dividend	**1.4**	**0.2**	1.9	0.3
Shares issued in the period	**—**	**—**	150.0	18.7
Shares issued on bond conversion	**19.8**	**2.5**	—	—
As at 31 December	**619.4**	**77.5**	598.2	74.8

Notes to the Company financial statements continued

13. Share capital continued

Issue of shares in 2017

	Date of issue	Number of shares – million	Issue price
Scrip issue in lieu of first quarterly cash dividend	24 February 2017	0.2	108.75p
Scrip issue in lieu of second quarterly cash dividend	26 May 2017	0.6	112.20p
Scrip issue in lieu of third quarterly cash dividend	25 August 2017	0.5	113.25p
Scrip issue in lieu of fourth quarterly cash dividend	24 November 2017	0.1	119.70p

14. Special reserve

	2017 £m	2016 £m
As at 1 January	**192.8**	93.0
Share issue 14 April 2016	—	131.3
Dividends paid	**(29.8)**	(24.7)
Scrip issues in lieu of cash dividends	**(1.6)**	(2.1)
Share issue expenses	—	(4.7)
As at 31 December	**161.4**	192.8

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

15. Net asset value per Ordinary Share

	2017 pence	2016 pence
Basic and diluted	**65**	56

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £404.6 million (2016: £337.7 million) and on 619.4 million shares (2016: 598.2 million 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 £4.2 million plus VAT (2016: £3.3 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 96. 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.

18. Subsequent events

On 15 January 2018 and 18 January 2018 convertible bonds with a nominal value of £0.7 million and £0.4 million respectively converted into 1,128,204 new ordinary shares of 12.5 pence each. Following the conversion of the bonds the nominal value of the outstanding convertible bond was £62.1 million.

Shareholder information

Corporate calendar 2018

Annual General Meeting	18 April 2018
AGM statement	18 April 2018
Announcement of half year results	26 July 2018

Dividends

The Company intends to make quarterly dividend payments to shareholders. The proposed timetable for the first quarterly dividend in 2018 is:

Payment of quarterly dividend (record date 12 January 2018)	23 February 2018

Distributions from the Company may comprise PIDs (see below), ordinary cash dividends or a combination of the two. Two 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 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 0345 300 0430 (8.00 a.m. to 6.00 p.m. Monday to Friday) or access www.shareview.co.uk/dealing.

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Glossary of terms

Adviser is Nexus Tradeco Limited.

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

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

Company and/or **Parent** is Primary Health Properties PLC ("PHP").

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 year.

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, the MtM value of derivative financial instruments and the convertible bond fair value movement.

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 valuer's 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 ("PHP") 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 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 purchasers' costs).

Net rental income is the rental income receivable in the period after payment of direct property costs. Net rental income is quoted on an accounting basis.

NHSPS is NHS Property Services Limited, the company wholly owned and funded by the Department of Health, which, as of 1 April 2013, has taken on all property obligations formerly borne by Primary Care Trusts.

Parity value is calculated based on dividing the convertible bond value by the exchange price.

Property Income Distribution ("PID") is the required distribution of income as dividends under the REIT regime. It is calculated as 90% of exempted net income.

Real Estate Investment Trust ("REIT") is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK profits, arising from property rental income and gains on investment property disposals, from corporation tax, but which has a number of specific requirements.

Rent reviews take place at intervals agreed in the lease and their purpose is usually to adjust the rent to the current market level at the review date.

Rent roll is the passing rent being the total of all the contracted rents reserved under the leases.

Reversionary yield is the anticipated yield which the initial yield will rise to once the rent reaches the ERV and when the property is fully let. It is calculated by dividing the ERV by the valuation.

Retail Price Index ("RPI") is the official measure of the general level of inflation as reflected in the retail price of a basket of goods and services such as energy, food, petrol, housing, household goods, travelling fare, etc. RPI is commonly computed on a monthly and annual basis.

RICS is the Royal Institution of Chartered Surveyors.

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

Special reserve is a distributable reserve.

Total expense ratio ("TER") is calculated as total administrative costs for the year divided by the average total asset value during the year.

Total property return is the overall return generated by properties on a debt-free basis. It is calculated as the net rental income generated by the portfolio plus the change in market values, divided by opening property assets plus additions.

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

Total shareholder return is calculated as the movement in the share price for the period plus the dividends paid, divided by the opening share price.

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

Weighted average unexpired lease term ("WAULT") is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

Yield on cost is the estimated annual rent of a completed development divided by the total cost of development, including site value and finance costs expressed as a percentage return.

Yield shift is a movement (usually expressed in basis points) in the yield of a property asset, or like-for-like portfolio over a given period. Yield compression is a commonly used term for a reduction in yields.

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