Primary Health Properties

Primary Health Properties PLC

Audited results for the year ended 31 December 2017

Strong performance delivering earnings, net asset value and dividend growth

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), a leading investor in modern primary health facilities, announces its audited preliminary results for the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS

- EPRA earnings[1, 3] increased by 15.7% to £31.0m (2016: £26.8m)
- EPRA earnings[1, 3] per share increased by 8.3% to 5.2p (2016: 4.8p)
- Net rental income increased by 7.1% to £71.3m (2016: £66.6m)
- IFRS profit before tax increased by 110.3% to £91.9m (2016: £43.7m)
- IFRS earnings[1] per share increased by 96.2% to 15.3p (2016: 7.8p)
- EPRA net asset value ('NAV') per share[2, 3] increased by 10.5% to 100.7p (2016: 91.1p)
- IFRS net asset value per share[2] increased by 13.4% to 94.7p (2016: 83.5p)
- Increase in EPRA net assets and dividends paid in the year is equivalent to 14.9p per share, an increase of 16.4% (2016: 8.5p up 9.7%)
- Total dividends of 5.25p per share distributed in the period (2016: 5.125p), an increase of 2.4% and the 21st successive year of dividend growth
- First 2018 quarterly dividend of 1.35p per share, payable on 23 February 2018, equivalent to 5.4p on an annualised basis and a 2.9% increase over dividends distributed in 2017

OPERATIONAL HIGHLIGHTS

- Surplus on property valuation of £64.5m (2016: £20.7m), growth of 5.0% (2016: 1.7%); portfolio net initial valuation yield of 4.91% (2016: 5.17%)
- Total portfolio valued at £1.362bn as at 31 December 2017 (2016: £1.220bn)
- Ten properties acquired in year for £71.9m, with a large average lot size of £7.2m and average patient size of c.14,000, adding £3.7m to the contracted rent roll
- Strong pipeline of targeted acquisitions of approximately £150m
- Average annualised uplift of 1.1% on rent reviews agreed in the period, resulting in an uplift in rent of £0.5m p.a. (2016: 0.9% with an uplift of £0.3m)
- 99.7% of portfolio let with 13.2 years weighted average unexpired lease term (2016: 13.7 years) and only 0.6% of rent due to expire in the next three years
- Group's average cost of debt reduced by 56bps to 4.09% (2016: 4.65%)
- Group's weighted average maturity of debt facilities extended to 6.3 years (2016: 5.1 years)
- Loan to value ratio reduced to 52.9% (2016: 53.7%)

1 See note 8, earnings per share, to the financial statements.
2 See note 25, net asset value, to the financial statements.
3 The Company uses a number of alternative performance measures in the Preliminary Results. See Business Review.

Harry Hyman, Managing Director of PHP, commented:
"I am delighted to report that PHP once again increased its total dividend, its 21st successive year of dividend growth. Increasing our income and dividends is key to our strategy as a modern healthcare REIT. Importantly, we have continued our progressive dividend policy into 2018 by increasing the first quarterly payment, which on an annualised basis reflects a return of 5.4p per share. PHP is providing capital for the modernisation of the primary healthcare estate both in the UK and Ireland. Our well-financed and disciplined approach to investment and active asset management is delivering for shareholders. This is reflected in the strong performance of all of key indicators across the Company. PHP is very active in its marketplace and has a strong targeted pipeline that meets our criteria. This bodes well for 2018 and beyond. We look forward to the future with confidence."

Presentation and webcast:
A presentation for analysts will be held on 15 February 2017 at 9.30am at the offices of Buchanan, 107 Cheapside, London EC2V 6DN. The presentation will also be accessible via a live conference call:

UK toll-free dial in: +44 (0) 808 237 0040
International dial in numbers:
http://events.arkadin.com/ev/docs/FEL_Events_International_Access_List.pdf
Participant PIN code: 19783886#

There will also be a replay available for one month following the presentation:
UK Toll-Free number 0808 237 0026
Conference reference number: 694471#

For further information contact:

Harry Hyman Primary Health Properties PLC T +44 (0) 20 7451 7050 harry.hyman@nexusgroup.co.uk	Richard Howell Primary Health Properties PLC T +44 (0) 20 7104 2004 richard.howell@nexusgroup.co.uk
David Rydell/Stephanie Watson/Tilly Abraham Buchanan T +44 (0) 20 7466 5000	

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2017 (audited)	Year ended 31 December 2016 (audited)
Investment portfolio	**£1.362bn**	£1.220bn
Net rental income	**£71.3m**	£66.6m
Weighted average unexpired lease term ("WAULT")	**13.2 years**	13.7 years
Contracted rent roll (annualised)	**£72.3m**	£68.0m
EPRA results		
EPRA earnings	**£31.0m**	£26.8m
EPRA earnings per share	**5.2p**	4.8p
EPRA NAV	**£623.6m**	£545.0m
EPRA NAV per share	**100.7p**	91.1p
Dividends		
Dividend per share[1]	**5.25p**	5.125p
Dividend cover	**99%**	100%
Dividend cover excluding Performance Incentive Fee	**100%**	100%
Debt		
Average cost of debt	**4.09%**	4.65%
Weighted average debt maturity	**6.3 years**	5.1 years
Total undrawn loan facilities	**£101.0m**	£90.5m
Reported results		
IFRS profit for the period	**£91.9m**	£43.7m
IFRS earnings per share	**15.3p**	7.8p
Total equity	**£586.8m**	£499.2m
IFRS NAV per share	**94.7p**	83.5p

1 See note 9, dividends, to the financial statements.

Performance

	Year ended 31 December 2017	Year ended 31 December 2016
Increase in EPRA NAV plus dividends paid	16.4%	9.7%
Income return	5.5%	5.6%
Capital return	5.3%	2.3%
Total property return	10.8%	7.9%
IPD UK Quarterly Property Index, All Assets return[1]	10.3%	3.6%
Outperformance over IPD	0.5%	4.3%

1 IPD UK Quarterly Property Index, All Assets calendar year performance for 2017.

Chairman's statement

I am delighted to present PHP's preliminary results 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 £1.36bn, 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

PHP Primary Health Properties

growth of 2.4% and a total NAV return of 14.9p, an increase of 16.4% (2016: 8.5p, 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 in hospitals becomes even more acute.

Consequently, the Company's acquisition policy has been to focus on 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 £7.2m 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 £4.5m (2016: £4.1m). In February 2018, we will complete the acquisition of Mallow, County Cork for £17.8m (€20.0m). The centre is one of the largest modern primary care facilities 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 and 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 £71.3m (2016: £66.6m) and have delivered a strong set of results in 2017, with EPRA earnings up 15.7% to £31.0m (2016: £26.8m) and EPRA earnings per share up 8.3% to 5.2p (2016: 4.8p). The Group's portfolio was valued at the year end at just over £1.36bn, which generated a revaluation surplus of £64.5m, an increase of 5.0% (2016: £20.7m, 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 offset by a loss on the mark-to-market valuation of our derivative portfolio and convertible bond of £3.6m resulted in an IFRS profit of £91.9m (2016: £43.7m), an increase of 110.3% and equivalent to IFRS earnings per share of 15.3p (2016: 7.8p).

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 £0.6m 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.

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 £0.5m (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 £64.5m (2016: £20.7m) is equivalent to 10.4p per share and was the main factor for the increase in the EPRA NAV by 9.6p or 10.5% to 100.7p (2016: 91.1p) 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 5.25p per share in the year to 31 December 2017, an increase of 2.4% over the 2016 total of 5.125p 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 £31.4m (2016: £26.8m) and were substantially covered by EPRA earnings. Dividends totalling £1.7m were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.35p per share was declared on 3 January 2018, equivalent to 5.4p on an annualised basis which 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 0.85p and an ordinary dividend of 0.5p 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 111.5p per share and closed on 31 December 2017 at 117.0p, 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.

Stephen 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, Stephen 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 developments, while funding for 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 through both acquiring assets and funding 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 our 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.

Primary Health Properties

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

Market update

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 for the 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 £6.3bn including £3.5bn for capital investment for the NHS in England by 2022-23. These sums are in addition to the £10.0bn 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 health care 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 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.

Business review

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

PHP Primary Health Properties

services.

The portfolio's average lot size is the largest in the sector at £4.5m (2016: £4.1m) and we have only two assets valued at less than £1.0m. 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 £71.9m in the year ended 31 December 2017 (2016: 24 assets for £74.2m).

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**

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

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 £7.2m. 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 £6.4m (€7.3m). The centre comprises 2,985m^2 and is fully let for 25 years with over three quarters of the rent roll 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 £5.0m. 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 local 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 £1.36bn 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 £10.0m.

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.

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

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.

Investment pipeline

Contracts for the acquisition of Mallow Primary Health Centre, Mallow, County Cork in Ireland for £17.7m (€20.0m) were exchanged in December 2017 and completion is due at the end of February 2018. The purchase will be 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 £150m 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 £12.6m, adding £0.5m 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 £0.1m 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 cost 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 uplift (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 £35.3m 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 £4.4m and will generate £0.2m 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 £0.6m 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 £72.3m, an increase of 6.3% in the period (2016: £68.0m). 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 benefits 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 £0.4m or 0.6% of our rental income expires over the next three years and £50.5m 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 £2.3m 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 or 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 £1.362bn (2016: £1.220bn). The strong investment market, together with our sector-leading portfolio metrics and asset management initiatives, resulted in a valuation surplus of £64.5m or 5.0% (2016: £20.7m 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 26bps 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 50bps.

	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

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

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

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 £4.7m to £71.3m (2016: £66.6m). Acquisitions in 2016 and 2017 contributed £3.4m to this increase, with developments completed in both years adding a further £1.0m. Completed rent reviews and asset management projects contributed a further £0.7m. Property expenses increased by £0.4m 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 £8.2m (2016: £7.3m), reflecting the increased size of the portfolio and £0.3m 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 £31.6m (2016: £32.5m). 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 £1.5bn, previously 0.3%, has been reduced to 0.275% for gross assets between £1.5bn and £1.75bn and 0.25% for gross assets between £1.75bn and £2.0bn.

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 £2.0m. 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 £12.1m 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 £64.5m in the year ended 31 December 2017, equivalent to 10.4p 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 £20.0m, effective until July 2027, was cancelled for a one-off payment of £6.2m equivalent to 1.0p per share on an EPRA NAV basis. This payment was largely

already provided for through the 2016 year-end mark to market adjustment.

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

Financing

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

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 facilities agreed and being documented adding a further £30.5m to give a revised undrawn balance of £131.5m.

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 £64.6m in the year due to the cost of acquisitions and capital expenditure and the conversion of £19.3m 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 £100m 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 £115m 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 £50m 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 £100m 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 £75m 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 £0.7m p.a.

Additionally in December 2017, a new £30m 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 £30.5m 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 £20m, effective until July 2027, was cancelled for a one-off payment of £6.2m, equivalent to 1.0p per share on an EPRA net asset value basis. The cancellation results in total interest savings of £0.8m 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 £6.0m.

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 £2.6m (2016: increase of £12.5m) 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 £24.5m (2016: £33.3m) 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 m commencing January 2018 and £75 m commencing January 2019.

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

Post-year end, a further £1.1m of convertible bonds have converted into 1.1m ordinary shares taking the total bonds converted to £20.4m and 20.9m new ordinary shares being issued. The conversions will result in future interest savings of £0.9m 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 97.5p.

The conversion of the remaining £63.2m 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 64.8m new ordinary shares.

Currency exposure
The Group owned two Euro-denominated assets as at 31 December 2017 valued at €15.4m or £13.7m (2016: €7.1m/£6.0m) 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 the financial statements within this preliminary statement. The APMs used by the Group are consistent with those used in the 2017 Annual Report and the reasons for the Group's use of these APMs are set out therein. 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.

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.

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	Mitigation	Residual risk rating
Delivering 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,	***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 increasingly focus on greater utilisation of primary care. The eventual outcome of Brexit negotiations remains	The commitment to primary care is a stated objective of both UK and Irish Governments. Management engages directly with government and healthcare	***Medium*** Policy risk is out of the control of the Board, but proactive measures are taken to monitor developments and ensure prudent financing and

economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.			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, however, no evidence of this can be seen at present.	management in both the UK and 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.	continued availability of resources to the Group.
Foreign exchange 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 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.
Grow Property Portfolio					
Competition The emergence of new purchasers to the sector and recent slowing in the level of approvals of new centres in the UK and Ireland may restrict the Group's ability to secure new investments.	***High*** as likelihood is high and impact of occurrence could be major.	Unchanged	The flight to income continues post-referendum, attracting property investors to the sector due to its long term, secure, government cash flows. The sector continues to experience a low number of new development approvals in the UK.	The 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	***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.

				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.	
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.	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 to refinance debt facilities in advance of their maturity.
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 10 assets in the year. Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.	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 program and has a successful track record of securing enhancement projects and serving new long-term leases.
PHP and Nexus relationship The Group has no employees. The	***Medium*** the likelihood of any unexpected change is low, but if that	Unchanged	None.	The Advisory Agreement with and performance of Nexus is regularly reviewed. Nexus	***Medium*** the Adviser is aligned with the objectives of the

continuance of the Adviser contract is a key for the efficient operation and management of the Group.	occurred, the impact could be significant.			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.	Group and the composition of its team is monitored by the Board.
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*** 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.	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.
Interest rates Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	***Medium*** 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 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.	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	***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.

Primary Health Properties

and are not included in any covenant test in the Group's debt facilities.

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 above) 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

Primary Health Properties

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

Primary Health Properties

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

Primary Health Properties

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

Primary Health Properties

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 note 30 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.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in February 2018.

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

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

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

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

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

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

Exchange differences are recognised in a separate component of equity reserves and recognised in the 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).

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

PHP Primary Health Properties

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

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

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

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

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

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

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

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.

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 re-measured at fair value. The fair values of the Group's interest rate swaps are calculated by J.C. Rathbone Associates Limited, an independent specialist which provides treasury management services to the Group.

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

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

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.

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

Primary Health Properties

- 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', 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.

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.

Primary Health Properties

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

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.

Primary Health Properties

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).

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 £63.2m 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

Primary Health Properties

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)	**-**	-

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 - millions)	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.

Primary Health Properties

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).

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.

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
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 held indirectly 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.

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.

Primary Health Properties

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%.

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 million).

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 220 bps 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.

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 £63.2m (2016: £82.5 million) nominal of Convertible Bonds outstanding.

	2017 £m	2016 £m
As at 1 January	**95.0**	93.4
Bond conversions	**(22.8)**	-
Fair value movement in convertible Bond	**3.3**	1.6
As 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 swap 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).

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.

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.

Primary Health Properties

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.

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)

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.

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 as 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 as 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 as 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 as 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 as 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 as 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).

24. Retained earnings

	2017 £m	2016 £m
Balance as at 1 January	**203.6**	159.9
Retained profit for the year	**91.9**	43.7
Balance as 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 remaining cost to complete the acquisition of Mallow Primary Health Centre, Ireland was £17.3 million.

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 onsite.

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.

29. Annual Report
The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered in due course. The Auditor has reported on those accounts and their reports were (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2017 will be published on the Group's website at www.phpgroup.co.uk and will be posted to shareholders on 1 March 2018.

Copies of this announcement can be obtained from the Company Secretary of Primary Health Properties PLC, 5th Floor, Greener House, 66-68 Haymarket, London SW1Y 4RF.

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

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

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

The proceeds of the issue have been partially applied to refinance PHP's £115m 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 £50m 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 £100m 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 £75m 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, bore interest at a fixed rate of 4.0% and the renewal results in interest savings of £0.7m p.a.

Additionally in December 2017, a new £30m 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.

As at 31 December 2017, the Group had £120.2 million of headroom on its debt facilities, with a further £3.8 million of cash. The Group has total commitments of £23.0 million outstanding to fund for the acquisition of properties or for properties under construction through the course of 2018, resulting in net headroom available to the Group, of £101.0 million.

The Group's consolidated loan to value ratio, including drawn, unsecured debt, was 52.9% as at 31 December 2017, with all banking covenants being met during the year and subsequent to the year end.

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

Further opportunities are being pursued by the Group in wider debt capital markets which may result in additional term debt facilities being secured during the course of 2018.

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

Directors' 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

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 purchaser's costs).

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

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

Parity value is calculated based on dividing the convertible bond value by the Exchange Price.

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

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

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

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

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

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

RICS is the Royal Institution of Chartered Surveyors.

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

Special reserve is a distributable reserve.

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

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

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

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

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

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

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

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