Medical Properties Trust

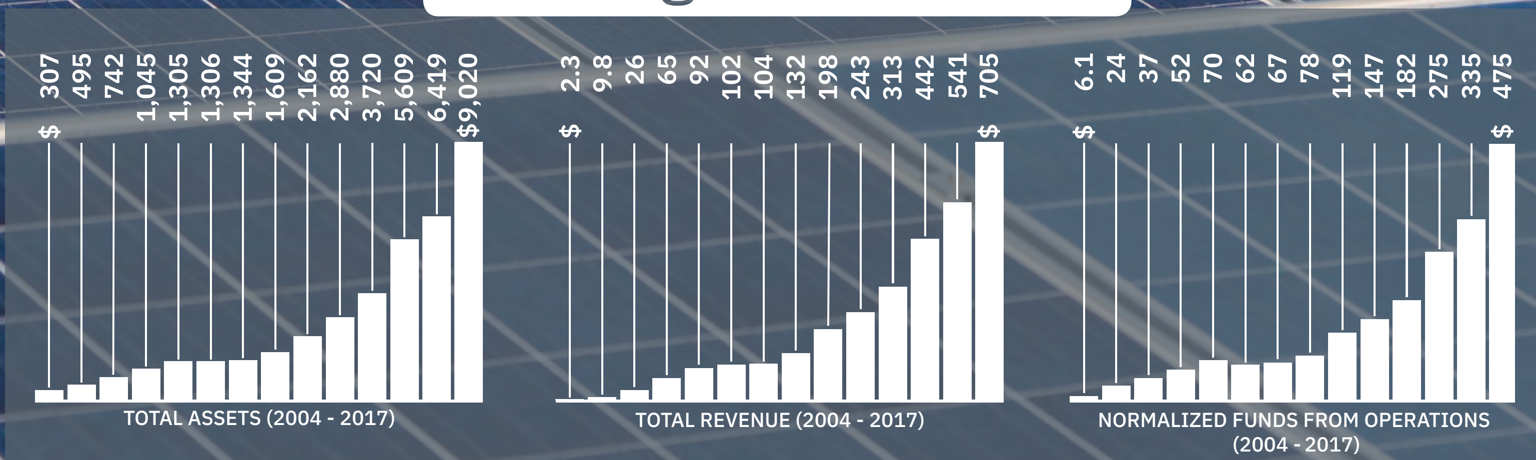
2017 Annual Report | Shining Light on the Future

Shining Light on the Future

On the cover: IMED Valencia, Medical Properties Trust's first hospital in Spain, welcomed its first patients in April 2017. Originally designed as an office building and only partially constructed, the structure was effectively recycled and repurposed as an ultra modern hospital. This required both partial demolition of the exterior and complete redesign of the interior, which proceeded at every step with sustainability in mind.

Pictured here: Solar panels that help power the hospital overlook an ancient church originally illuminated only by candlelight.

Glowing Performance



(Amounts in millions)

William Gilliard McKenzie
September 6, 1958 – August 15, 2017

Gil McKenzie (left) and Ed Aldag, celebrating the 10th Anniversary of MPT's listing on the New York Stock Exchange on July 8, 2015.

At the Very Heart of MPT

For a company built on hospital knowledge, Gil McKenzie was part of the deepest foundation. One of the original board members, he brought direct experience in operating hospitals, which he continued to apply long after Ed Aldag asked him to join the board.

Gil was there first as a friend, and he remained the best sort of friend for the rest of his life. When Ed conceived the original vision for the company, Gil was one of the first people he talked to – even before he had met Emmett McLean and Steve Hamner. Gil operated three hospitals and Ed wanted his advice.

"I drove to Evergreen, Alabama, to tell him about my plan," Aldag recalled. "Gil said, *'That's a fabulous plan'* and, because he had a servant's heart, he added, *'If there's anything I can do to help you, just let me know.'*"

"At one point, Gil's hospitals were going to be part of MPT's original portfolio," recalled Steve Hamner. "Although that didn't work out, he became a long-term contributor to the company's success," Hamner noted. "Gil was great to have in board meetings because he was the hospital operator in the room. He brought knowledge and compassion and a 'do the right thing' attitude."

"In the early days, Gil was in the office a fair amount and would share his understanding of the details of hospital operations with our people," Hamner said.

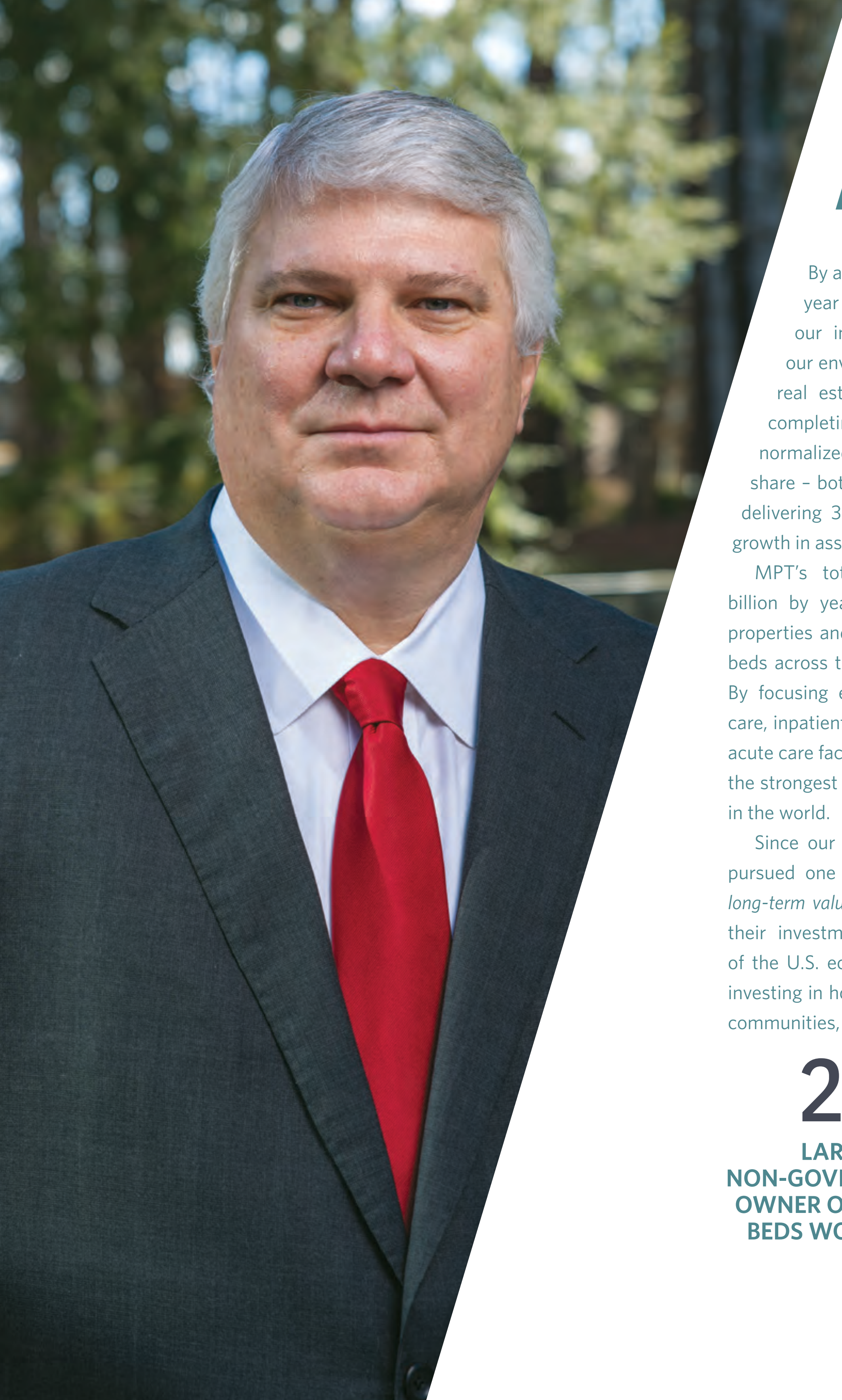
"He was a great friend. He was a great mentor, and he will be sorely missed..."

"Gil was so valuable to us," Emmett McLean recalled. "He understood the hospital business from 30-plus years of experience and he asked really good questions. Plus, he was always willing to pitch in and help us."

"On a personal level, he was simply a great guy and a great family man," McLean added. "I am so privileged to have known him."

"Gil had one of the most incredible hearts I have ever known and truly wanted to help people," Aldag reflected. "He was a great friend. He was a great mentor, and he will be sorely missed by this board and this company."

"MPT is forever indebted to him."



A MONUMENTAL YEAR

By all measures, 2017 proved to be a monumental year for Medical Properties Trust, far exceeding our initial acquisitions guidance and reinforcing our enviable position as the global leader in hospital real estate finance. We achieved record results, completing $2.3 billion in investments and increasing normalized funds from operations (FFO) to $1.35 per share – both single-year records – while delivering 33 percent compound annual growth in assets over the past five years.

MPT's total portfolio grew to $9.5 billion by year's end, encompassing 276 properties and more than 32,000 hospital beds across the U.S. and Western Europe. By focusing exclusively on general acute care, inpatient rehabilitation and long-term acute care facilities, we have created one of the strongest hospital real estate portfolios in the world.

Since our founding in 2003, MPT has pursued one primary objective: *to deliver long-term value to shareholders* by enabling their investment in the largest segment of the U.S. economy. Building on a long-term strategy of investing in hospitals that are critical to healthcare in their communities, we are proud to report that, in 2017, MPT's total shareholder return of more than 20 percent outperformed both the major REIT index and the benchmark healthcare REIT index by 15 percent and 20 percent, respectively.

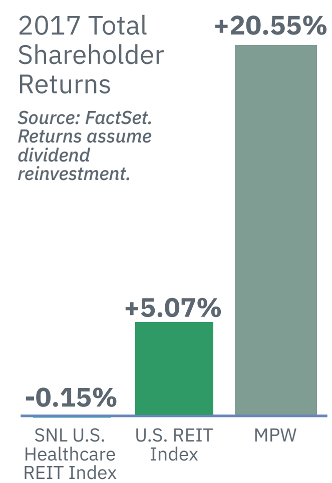
2nd

LARGEST NON-GOVERNMENTAL OWNER OF HOSPITAL BEDS WORLDWIDE

OUTPERFORMING BENCHMARKS

2017 Total Shareholder Returns

Source: FactSet. Returns assume dividend reinvestment.



Expanding Relationships, Driving Value

Each acquisition in 2017 was immediately accretive, demonstrating the company's commitment to creating shareholder value. MPT's ability to complete a growing number of highly valued transactions each year reflects our leadership position and the strength of our underwriting process.

276

PROPERTIES

With every acquisition, MPT strives to cultivate relationships with premier, industry-leading hospital operators. Our sustained success and ever-growing hospital expertise continue to attract preeminent healthcare institutions, with which we are proud to work.

In 2017, we welcomed to our portfolio two nationally recognized, not-for-profit, academic health systems – Ochsner Clinic Foundation in Louisiana and UCHealth in Colorado - both of which are investment-grade rated. MPT enters into such relationships with master lease or parent guaranty structures, expanded underwriting knowledge and industry foresight.

The year was also marked by a significant expansion of our relationship with Steward Health Care, now the largest private, for-profit hospital system in the U.S. and one of the country's most innovative and successful operators. In May, we announced the investment of $1.4 billion in 10 acute care hospitals and one behavioral health facility, all located in attractive high-growth markets and operated under Steward's integrated, forward-thinking model. The transaction was completed in September.

A Well-Balanced Approach

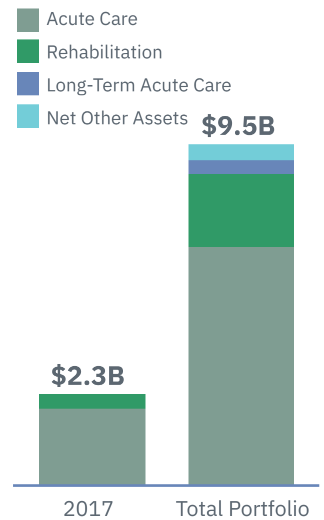
Over the past two years, we have significantly strengthened our balance sheet, which at the end of 2017, reflected limited near-term obligations, moderate leverage and multiple liquidity options. Simply put, we ended the year in a strong financial position.

Despite the record year for acquisitions, we managed the balance sheet pragmatically to ensure that our leverage ratio increased only modestly, to 5.8 times earnings before interest, taxes, depreciation and amortization. This is well within the range of prudence for long-term, predictable cash flows. Our solid execution in the capital markets included the completion of a very successful $1.4 billion bond issue at a historically low interest rate.

We remain focused on allocating capital thoughtfully across our portfolio, sustaining an appropriate balance of investing for growth, maintaining flexibility in our liquidity and achieving solid shareholder returns. Recently, we increased our cash dividend for the fourth consecutive year, reflecting our confidence in MPT's robust investment pipeline and proven ability to execute our strategy, as well as our unwavering commitment to shareholders.

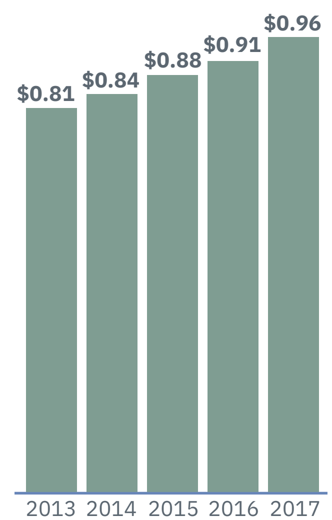
RECORD ACQUISITIONS

Properties by Type
(in billions)



DIVIDEND INCREASES

Dividends Declared
Per Common Share



On Track for the Future

Ultimately, we believe that hospitals will be the galvanizing force behind the U.S. health system's transformation to value-based care. Just as they always have, the most successful hospitals will adapt to changing industry norms through innovative strategies, enhanced analytics and collaborative partnerships to improve patient care and clinical outcomes. We are proud of the role MPT is playing to support and facilitate this dynamic and important transition.

In 2017, MPT's stellar performance produced historic records:

- *Record high normalized FFO per share;*
- *Record high acquisitions;*
- *Record low interest rates for U.S. and Euro-denominated debt.*

Although very pleased with these successes in 2017, we remain motivated to capitalize on the momentum we are now experiencing, and to drive the business to greater heights. Our strategic goals for 2018 include pursing joint venture arrangements with partners to further improve our balance sheet strength and tenant concentration, accessing new avenues of affordable capital and demonstrating the inherent value of our assets.

On behalf of the Board of Directors, the senior management team and all the dedicated employees of MPT, I want to thank you for your continued support. As we work diligently to create additional value for our shareholders, we look forward to keeping you updated on our progress.

Edward K. Aldag, Jr.
Chairman, President and Chief Executive Officer

Delivering Long-Term Value

By helping tenants grow, MPT celebrates a banner year.

Medical Properties Trust's investments in 2017 amounted to more than $2.3 billion – a company record. The important thing to remember is not the transactions, but the value and the nature of the assets. MPT focuses on hospitals because the company believes they are the irreplaceable core of every sustainable healthcare system.

As MPT's founder, chairman, president and CEO, Ed Aldag frequently says, "You can't paint a picture of healthcare without hospitals." How patients access them, how they deliver care on an inpatient or outpatient basis, and how they are reimbursed for their services are all constantly evolving as hospital operators work hard to find ways to drive quality up and costs down – and MPT views that as inherently positive.

MPT pioneered the hospital sale/leaseback model, first in the U.S. and then in Europe, opening a Luxembourg office in 2013. The company is thriving in both markets as it continues to underwrite each hospital individually from the ground up, making sure each facility is needed in the community and supported by local physicians and health systems, which is the foundation for long-term sustainability.

With more than 275 properties in MPT's portfolio valued at nearly $10 billion, the company's purchasing power keeps growing, and MPT sees an attractive pipeline of potential new transactions for the future.

MPT remains the unquestioned international leader in hospital real estate and its dedication to delivering long-term value to shareholders is paramount.

Mountain Point Medical Center
Lehi, Utah

Building on Existing Relationships

The ink was hardly dry on Medical Properties Trust's first sale/leaseback transaction with Steward Health Care, completed during the fourth quarter of 2016 for a then-record $1.25 billion, when a second Steward deal began moving through MPT's pipeline.

It was early 2017 and Steward was eager to take its vertically integrated healthcare delivery model into new markets around the country, using capital provided from MPT.

Eight acute care hospitals offered for sale by another hospital system in Florida, Ohio and Pennsylvania appeared to fit the bill. With capital provided by MPT through a second sale/leaseback agreement for $301 million, Steward moved aggressively to add those facilities to its network.

That acquisition was announced in February. Soon thereafter, Steward reached out to MPT again for a third round of financing – for 11 more facilities in high-growth markets in Utah, Arizona, Texas and Arkansas. Operated by IASIS Healthcare of Franklin, Tennessee, these included 10 acute care hospitals and one behavioral health center that IASIS had decided to sell.

Mountain Point Medical Center

Making Connections

MPT already owned four existing IASIS facilities and was fully aware of the quality of the IASIS assets. MPT's CEO, Ed Aldag, and IASIS' CEO, Carl Whitmer, knew each other well. In fact, Whitmer and Steward Chairman Ralph de la Torré had met each other at an event hosted by MPT a few months earlier.

"We started a conversation," de la Torre said, "and continued it from there."

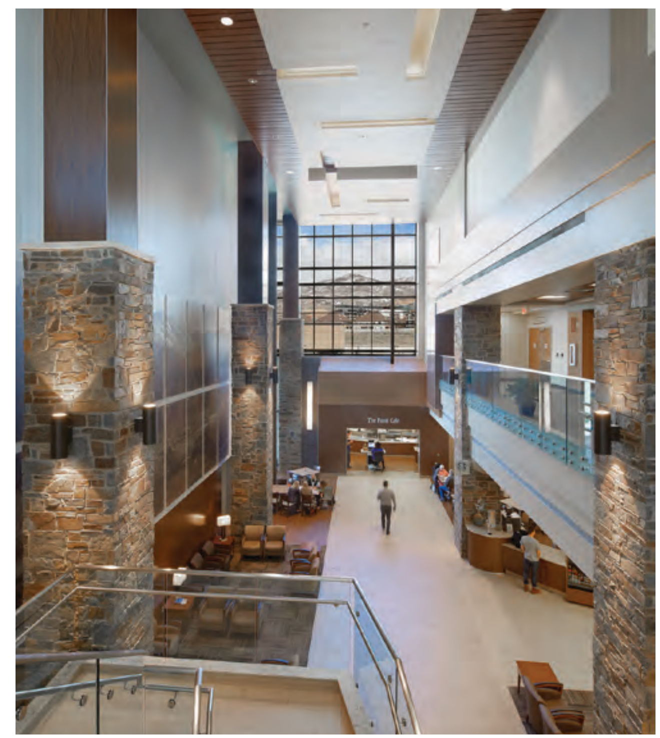
De la Torre and the Steward management team saw the IASIS facilities as a perfect fit for their growth plans – to continue building the Steward network with strong, community-based acute care hospitals at the core. Announced in May and completed in September, the real estate deal proved to be worth $1.4 billion – a new historical high for any single MPT transaction – with MPT becoming the landlord for the 11 additional facilities and Steward becoming the operator.

Steward has now become the largest private for-profit hospital operator in the U.S.

"We grew nearly 50 percent when we took on the first eight facilities and then doubled in size with the IASIS transaction," said John Polanowicz, formerly executive vice president of Steward's Hospital Services Group and now the corporate COO. "With the merger of IASIS into Steward, our footprint grew from four to 10 states, and our operations from 17 to 36 hospitals."

With these additions to its network, Steward has now become the largest private for-profit hospital operator in the U.S., with nearly 40,000 employees and more than 7,300 hospital beds under management in the U.S.

Charles Lambert, Steve Hamner and Alison Schmidt



Mountain Point Medical Center

Creating Opportunities for Growth

"We were quite fortunate in doing the deal with Medical Properties Trust and benefiting from its relationship with IASIS," Polanowicz noted. "Those are really fine facilities and they provide tremendous opportunities for staff across our organization as we expand the Steward network."

"The relationship with Medical Properties Trust has been essential to our growth," Dr. de la Torre said. "They understand healthcare and the nuances of what we are trying to do, and that's exactly what we need in our relationships."

"We trust MPT because they understand our business," he noted. "It's easy to talk to them about whether a particular deal makes sense – or not. With MPT, we always get an honest answer *and* a fair deal – and we get both quickly."

"With MPT, we always get an honest answer and a fair deal - and we get both quickly."

"I think MPT will continue to be our financing source in future hospital acquisitions."

"Steward is one of the best hospital operators in the country," said Edward K. Aldag, Jr., MPT's Chairman, President and CEO. "We made the decision to work with them years ago, when their network was small, because we believed in the management team."

"MPT is very proud to have financed Steward's growth into a major national player," Aldag said, "and we look forward to working with them as they continue to grow."

Willamette Valley Medical Center
Willamette Valley, Oregon

The [Regional] Evolution of Healthcare

How will hospitals of the future differ from those of today?

Marty Rash, Chairman and CEO of RCCH HealthCare Partners, believes hospitals will thrive because they provide "a broad array of procedures for the acuity of illness that can't be treated any other place."

Hospitals are the hub of every comprehensive health system, handling the most complex cases and representing the largest dollar expenditure in healthcare.

"Until we get to a level of technology like *Star Trek*, where we can wave a magic wand over your body and cure you, hospitals will remain the central core of the healthcare delivery system," Rash said.

MPT's Chairman and CEO Ed Aldag couldn't agree more. "I have known and admired Marty for as long as I can remember," Aldag said. "I have always found his insights about hospitals to be right on target."

RCCH operates 16 hospitals in 12 states, from the Pacific Northwest to the Southeast, where the company is based. Formerly known as RegionalCare Hospital Partners, the company merged with Capella Healthcare in 2016. The transaction was facilitated by Medical Properties Trust, which agreed to sell its interest in Capella's operations.

Exceeding Projected Cost Savings

According to Mike Browder, RCCH's Executive Vice President and CFO, the merger has gone well. "We have exceeded our target for synergies and savings

Emily Sawyer and Zac Riddle

Willamette Valley Medical Center

Brandi DiPiazza, Rob Moss and Amy McNeer

Katie Williams, Jason Mc Duffie, Porter Rivers, Will McCallum, Jason Frey, Allison Erwin, Chelsey Kent and Jeff Hamilton

Cassie Cates and Mary Anne Hokanson

Willamette Valley Medical Center

by nearly 10 percent," he said, "and are very pleased with where we are post-merger."

RCCH focuses on regional markets in non-urban communities across the country, such as Lewiston, Idaho, where RCCH's facility, St. Joseph Regional Medical Center, serves a population of 180,000 people.

As a full-service, 145-bed hospital, "St. Joe's" is the largest medical center in the region, providing advanced-level specialty care through a staff of more than 1,000, including 120 board-certified physicians.

"Think of this market as a series of concentric circles starting in Lewiston and then moving out to include the entire region between Boise, Idaho and Spokane, Washington," said Browder. "The goal is to become the regional hub for healthcare and a center of excellence, taking care of patients from all the surrounding communities *between* those major markets and providing them with a higher level of care."

"We believe hospitals will continue to exist because they are essential for emergencies, intensive care and higher-end procedures."

RCCH has the opportunity to grow such hospitals and help them become bigger economic engines in their communities by stemming the "out migration" of patients to the major markets.

Providing Essential Care

"We believe hospitals will continue to exist," Browder added, "because they are essential for emergencies, intensive care and higher-end procedures. Even though there are constant pressures from a public policy standpoint to reduce overall healthcare costs, we believe our hospitals can help achieve that goal because they are delivering care in lower-cost settings."

"If we think of the future as population health management, we have to make it easier for our critical public to access our system," Rash said. That means increasing access points through urgent care centers, ambulatory surgery centers, freestanding imaging centers and freestanding cancer centers.

"Healthcare is constantly changing and hospitals are extraordinarily complex," Rash observed, "and that's why it's critical to partner with someone like MPT. Ed Aldag and his team understand hospitals and I don't think that's true of most people in his industry. I think it's unique that they have actually worked in hospitals."

Understanding How Rapidly Things Change

"They get what goes on in a hospital, they understand how rapidly things change, and they understand how flexible you have to be to meet the needs of the community because you're the hub of healthcare," he concluded.

"Well before the Capella merger, Marty and I had taken the opportunity to spend an afternoon with Ed and the rest of the senior team talking about the possibilities in the hospital finance space," said Browder.

"We both had a real good feeling about the team at MPT and how they thought about the business," Browder noted, "although we elected not to pursue refinancing at that time."

"We felt like we had met the gold standard."

"We felt like we had met the gold standard," he explained. "So, when we did the Capella merger, it was sort of natural to do it with them because we already had that good relationship."

Willamette Valley Medical Center
Operated by RCCH HealthCare Partners

Emmett McLean, Luke Savage and Karen Marino

No More 'While You Were Sleeping'

Just being in the same time zone makes a world of difference.

At least that's what Luke Savage has been discovering since he moved to Luxembourg last June to head MPT's European office.

"Being in the same time zone takes away the barrier of people thinking you are asleep when they are awake, or that the U.S. is a remote culture," Savage explained. "Now, such obstacles – *real or imagined* – are gone, and people are much more accessible."

Their attitude is, "Oh yeah, let's talk or meet and do this," he said. And that's his primary goal every day – to go see people in their offices, grab a cup of coffee or lunch, and figure out their needs.

"As our CEO Ed Aldag says, it's mostly about building relationships," Savage said, "and that's helped create a number of active opportunities in our European pipeline, with more that may be active soon."

Since opening the European office in 2013, MPT has outsourced the accounting and administration of its European operations, relying on U.S.-based employees to source new acquisitions. Savage is the first MPT employee on site.

Seeds Planted Earlier Are Sprouting

Some of the opportunities Savage is now pursuing have grown from contacts he and other MPT representatives have made at various international conferences. About a month after a conference for real estate professionals last year, a broker called to connect him with an executive who wanted to talk about capital financing for his hospital.

"We're now working on that project, which includes some governmental involvement, so it's going to take some time," Savage said, "but it demostrates MPT's understanding of the multiple constituents of a major hospital. As the executive said to me, '*We love you guys because you know hospitals.*'"

"As the executive said to me, 'We love you guys because you know hospitals.'"

"His alternative financing source was a consortium of banks that asked a lot of questions, then asked them again, because they didn't understand hospitals," Savage explained. "MPT, in contrast, focuses exclusively on hospital properties – and that impressed him."

Recently, MPT's Executive Vice President and COO Emmett McLean joined Savage for a trade meeting along with Karen Marino from MPT's New York office.

Getting Our Name Out

"The conference was great for getting our name out," McLean noted. "Being there meant we could reach a lot of people quickly – from principals, brokers and financing sources to financial advisors and lawyers."

"It's kind of like 'speed dating,'" Savage observed. "You talk to someone for 15 minutes and then move on to the next person. We also were able to attend some lunch and dinner meetings and get to know people better."

Orthoparc
Cologne, Germany

Casa di Cura Città di Alessandria
Alessandria, Italy

"Most people were surprised MPT has 88 properties across four European countries – plus an office in Luxembourg," McLean noted. "When they learned that our assets in Europe exceed $1.5 billion, they were impressed. It was great to raise our visibility and to spend time with them face to face."

Hitting the Ground Running

"Being able to hop on a plane or get on a train and *go see people* in a matter of hours makes a world of difference," McLean added.

> **"I'm over there all the time, personally building relationships, because we are committed to growing our European portfolio."**

Since hitting the ground running when he arrived in Europe, Savage has felt strong support from MPT team members back home, including company executives who are flying over more and more frequently.

"I'm over there all the time, personally building relationships," said Ed Aldag, MPT's CEO, "because we are committed to growing our European portfolio."

"I see Ed at least once a month," said Savage, "plus he comes over whenever we need more *firepower* – for discussions that need to be at an executive level with the head of a company, the head of a family, or other property owners. Whenever Ed or our CFO

Clinica Salus
Alessandria, Italy

Clinica Santa Rita
Vercelli, Italy

Clinica Eporediese
Ivrea, Italy

Istituto Clinico Universitario
Verano Brianza, Italy

IMED Valencia
Valencia, Spain

Steve Hamner is present, people begin to really connect with our company, and they realize, 'Ah, MPT knows what's going on.'"

The European pipeline includes countries where MPT has been active, as well as new countries.

Understanding Healthcare in Each Country

"If we're already doing business in a country, other operators from that country are seeking us out. With new countries, we are doing our homework and examining the risks," said Savage, who has worked with MPT for 10-plus years.

"Every country runs its healthcare differently, so we talk to people and visit them to figure out how their healthcare system works."

"We also talk with groups that are running successful hospitals and would like to build more, but don't have the cash on hand or the debt capacity to move forward," Savage said. "They are coming to MPT saying, 'Help us grow and build more facilities.'"

"These aren't mom-and-pop enterprises," he noted. "They are operators running hospitals in communities where the facilities are needed and supported by the market – the same principles that have guided MPT's portfolio growth in the U.S."

"Every country runs its healthcare differently, so we talk to people and visit them to figure out how their healthcare system works."

IMED Valencia - Valencia, Spain

UCHealth and Ochsner Become Part of MPT's Expanding Portfolio

Flexibility and open communications create direct relationships with two investment-grade, not-for-profit tenants.

Medical Properties Trust added two nationally recognized academic health systems to its portfolio in 2017.

Denver-based UCHealth and New Orleans-based Ochsner Health System had established joint venture agreements with Adeptus Health, a national developer of freestanding emergency rooms, to provide new healthcare access points for patients. As a result, 11 freestanding ERs were established in Denver and Colorado Springs, and three were built in New Orleans.

UC Health Emergency Room
Thornton, Colorado

As the facilities opened – each well equipped with CT scanners, ultrasound and digital X-ray machines and staffed by board-certified emergency physicians – they achieved high marks from patients and staff, including Press-Ganey Associates' "*Guardian of Excellence*" awards.

Bringing Everything Together at the Right Time

During 2017, both systems independently elected to acquire 100 percent of their respective operating joint ventures previously shared with Adeptus. MPT owns all of the real estate and leases it to the joint ventures.

"We began our conversations with MPT around August," said Allen Staver, General Counsel for UCHealth. "We were negotiating our buyout of Adeptus' 50 percent interest at the same time that we were starting to negotiate with MPT, and we wanted those two lines to meet at the right time."

> **"MPT quickly grasped what we were trying to do and demonstrated tremendous knowledge of the healthcare industry and the current regulatory environment."**

"If you're not a transactional lawyer, it's hard to appreciate the complexity of 11 different leases and subleases, and getting all of those aligned under a short deadline," the general counsel explained. "Fortunately, George Carlis, Steve Hamner, Emmett McLean and all the others at MPT were great to deal with and they showed real flexibility in how we can use the facilities going forward."

The UCHealth system includes nine general acute hospitals ranging from 50 beds at its smaller facilities up to 670 beds at its anchor, the University of Colorado Hospital, which *U.S. News & World Report* ranked as the 15th best hospital in the United States. UCHealth wanted to align the freestanding emergency rooms with all the hospitals in the system, to be able to attach a particular facility to the license of one of its wholly owned hospitals, or to repurpose the usage to meet market demand.

"MPT quickly grasped what we were trying to do and demonstrated tremendous knowledge of the healthcare industry and the current regulatory environment," Staver said. "When questions arose about insurance requirements, they got their insurance folks on the line and we talked things through until we resolved everything."

"The dialogue was always good, the MPT folks were very easy to work with and they helped us facilitate what we needed," Staver said. "That's important because our footprint in the Denver Metro area was very small, other than the main campus. So these freestanding facilities allow us to have a presence in locations across the community where people can get the emergency care they need, whenever they need it, especially during rush hour – a presence for patients that we wouldn't have otherwise."


George Carlis

"MPT demonstrated a willingness to understand what we needed and helped us achieve it," he added. "We met our December 1st deadline and, since then, we've had a really good experience in dealing with our new landlord."

Jason Ruggles, Assistant Vice President of Corporate Real Estate for Ochsner Health System, one of the largest independent academic health systems in the U.S., had a similar experience with MPT.

"I reached out to Emmett McLean to help resolve some issues regarding the lease agreements for our freestanding ERs. We quickly realized there was value for both sides to work together and we had about two months to finalize the agreement."

"There was a discovery period where MPT had to learn more about our goals and what we were trying to accomplish, then review our credit assessment to help us amend the existing lease agreements," Ruggles explained.

Forging a Long-Term Relationship

"This was not just a two-party transaction and there was an extensive evaluation process that presented potential challenges," Ruggles observed. "At the end of the day, MPT saw an opportunity and was interested in forging a relationship with Ochsner for the long term."

Ochsner Health System is anchored by Ochsner Medical Center, the only Louisiana hospital recognized by *U.S. News & World Report* as a "Best Hospital" across four specialty categories. The system is also the largest not-for-profit healthcare provider in Louisiana, and MPT wanted to demonstrate its ability to meet the needs of not-for-profit tenants.

"Helping Ochsner work through this challenge just made sense," said Emmett McLean, MPT's Chief Operating Officer and a company founder. "We were able to attract a brand name, investment-grade tenant and extend the lease agreement. Plus, it was an absolute pleasure dealing with Jason and others at Ochsner."

"Everything has been an open book and we have been able to find common ground, thanks to MPT's transparency and flexibility."

Ruggles felt the same way. "I remember telling my team, 'I trust what MPT is saying, and I feel very comfortable with their recommendation,'" Ruggles related.

Finding Common Ground

"Even now, more than a year down the road, this remains a collaborative relationship. So I see every penny and there's never a 'This is ours and that's yours' mentality," he said. "Everything with MPT has been very transparent and flexible, which has resulted in our ability to easily find common ground, thanks to MPT's transparency and flexibility."

Ochsner Health System and Ochsner Clinic Foundation have developed a strong network of hospitals, he said, but they are continually trying to reach new markets – even in New Orleans and the surrounding areas.

"We saw the freestanding emergency room as an opportunity to serve more people," Ruggles noted. "They also are helping Ochsner build new patient relationships."

Ochsner Emergency Room
Marrero, Louisiana

Redefining Sustainability

It begins in the center of the mind – a thought, a sensitivity, a goal.

To deliver the epitome of efficiency in a functional building that lifts your spirit the moment you approach the entrance and walk inside.

To create an environment that puts you at ease, that tells you this is not a place to suffer and feel pain, but to be calm and gain confidence that you will be healed.

Less like a hospital. More like a boutique hotel. Where *you* are the center of everyone's attention.

This is the vision for Circle Birmingham, designed to be one of the most functional and efficient hospitals in all of Great Britain – and among the most attractive.

It is the second hospital in the U.K. owned by Medical Properties Trust, Inc. and operated by London-based Circle Health. And it's now under construction on a legacy site about a mile south of Birmingham, which is England's second largest city and the emerging hub of a national high-speed rail system that will help make the new facility an easily accessible healthcare destination.

Transforming the Site into a Medical Campus

The owner of the land is Calthorpe Estates, one of the U.K.'s most forward-thinking property management and development companies. Family owned since 1717, the company is transforming the site once occupied by the BBC's Pebble Mill Studios into a world-class medical campus that will encompass 180 medical organizations, 66 GP clinics and 23 training facilities, all within walking distance.

According to Paul O'Neill, director of Bryden Wood, the architectural firm Circle Health engaged to design the new hospital, the site is the prime location of the six-plot development. And the design is expected to become the flagship building for the entire estate.

"We want to put hospitality back into hospitals by creating an ambience of peace, tranquility and efficiency."

"Just as we did at the first Circle hospital in Bath, we want to put hospitality back into hospitals by creating an ambience of peace, tranquility and efficiency," said Paolo Pieri, Circle Health's Chief Executive Officer.

"We also want to create a high-quality, sustainable environment at Circle Birmingham, with fantastic engagement of clinicians and significant investments in IT and medical technology, to help advance patient care," Pieri said.

"The hospital will be seen as an anchor within the new healthcare community, and its entrance will be defined by a treasured oak tree being carefully preserved from the entrance to the former BBC Pebble Mill Studios. "

Creating a Low-Carbon Footprint

In addition to designing a beautiful hospital, Bryden Wood sought to create an environmentally sensitive building with a low-carbon footprint that would be "efficient to construct, maintain and run as a profitable business."

Building on their experience in designing Circle Reading hospital, which recently received a "Building Better Healthcare Award" for patient experience, the architects wanted to "future-proof" the new Birmingham facility so it could be expanded quickly and cost effectively to meet market demands.

Their creative solution was to create a nucleus of only 20 rooms along with three operating theaters and adjacent recovery areas. The design can be easily expanded as the patient base grows, or even during construction.

All clinical areas, including operating theatres and recovery rooms, were located on the ground floor to minimize staff circulation and elevator travel.

Ecology

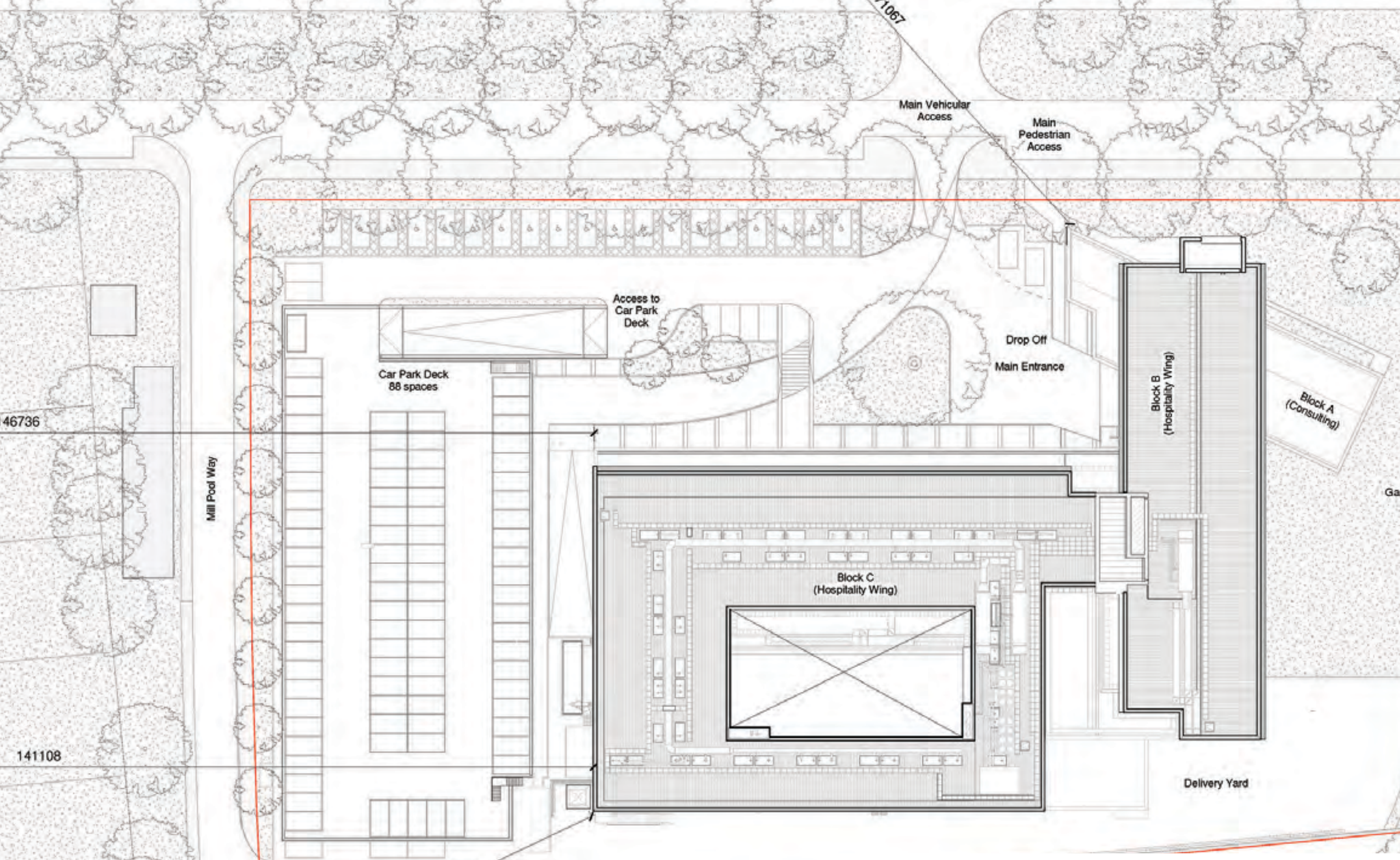
Bourne Brook on the South side of the site, mature trees along Pebble Mill Road and a treasured oak tree – all carefully preserved – form important visual features of the landscape at the new Circle Birmingham hospital.

Energy Efficiency

With all clinical activities located on a single floor, clinical operational efficiencies are enhanced and vertical circulation (via elevators) is minimized. Plus, lower-energy elevators are required.

Water Conservation

Swales will be subtly positioned within the landscape to facilitate sedimentation, filtration and the mitigation of storm water runoff while also providing aesthetic benefits and biodiversity to the site.



Administrative offices and patient rooms were situated above the reception area of the hospitality wing, overlooking a flowing stream and an allée of mature trees.

Physician offices were placed in a third wing, and all three wings can be extended independently. Most importantly, the architects laid out building services to maximize energy efficiency.

"We have created the shortest routes possible for all building services," O'Neill explained, "from the ducts that push the air around, to the cabling, to the pipework."

"If you imagine that you are pushing heated or cooled air over a long distance, the energy required and the running costs simply go up, so we minimized every single bend in the ducts and the pipework," he noted.

"You've really got to look at the design itself, *the core design*, from every angle and make it as environmentally sound as possible."

True Environmental Design

"For us, this is true environmental design," O'Neill said. "You've really got to look at the design itself, *the core design*, from every angle and make it as environmentally sound as possible."

The architects obtained permission from the Birmingham City Council for photovoltaic cells to be installed on the roof of the building. Although they will not be needed in the building's initial phase because the design is *already* so energy efficient, such solar cells may be the best way to maximize efficiency in a future addition.

Six months after construction began, the "future-proofing" approach was put to the test when Circle Health decided to add a 120-bed rehabilitation unit to the acute care facility.

Pieri and his team saw this as an opportunity to relieve some stress on acute care hospitals in the U.K., where an estimated two million patients days are lost to *"bed blockers"* – patients who don't need to be in an acute care facility but require more care than they can receive at home or in a community setting.

"What we are learning from MPT operations in the U.S. and Germany is that rehabilitation facilities can be a stepping stone for patients to get back into the community," Pieri said.

"Patients with fractured hips don't need to spend 22 days in acute care hospitals, which they do today in the U.K., when they could spend 19 of them in a rehabilitation facility," he observed.

Partnering with the NHS

In the last three years, Circle has expanded its involvement with the National Health Service (NHS) through partnerships in Greenwich and Bedfordshire. "We're effectively taking over managed healthcare systems for musculoskeletal care and that is a real innovation," Pieri added. "We're the first in the country to be running those, and we're looking at a number of other areas to do the same."

"It's groundbreaking and we have significantly improved the health outcomes for the patients. We've given significant value back to the NHS by guaranteeing them a price at which we can deliver that care," he said.

"We have significantly improved the health outcomes for the patients."

In March, the ***Health Service Journal***, the trade magazine for the British healthcare system, recognized Circle Health with the *"Best Partner to the NHS Award."*

Adding 120 Rooms for Rehab

Expanding the new Circle Birmingham hospital now under construction, to add 120 rooms for rehabilitation care, seemed not only logical, but wise.

And, thankfully, according to Paul O'Neill, "the expandable building was able to respond – and still hold strong."

Bourne Brook

Circle Birmingham
Birmingham, England

Primed and Ready

David Baker would go to Mars to make his hospitals more energy efficient.

As Corporate Energy Director for Prime Healthcare Services, one of the largest private health systems in the U.S., David Baker is entrusted with making 45 hospitals from coast to coast sustainable.

He takes the job very seriously because he knows the success of his efforts will be measured not just in years, but in decades. And he's willing to look at everything – or go anywhere – to find ways to increase energy efficiency and decrease the carbon footprint of Prime facilities.

He would even go to Mars. And, in a sense, he already has been there.

Thinking Creatively

Energy-saving projects at Prime Healthcare Services range from the more creative to simply routine, yet all are important. And David Baker tracks each one on elaborate spreadsheets. Here are a few examples:

Installed photovoltaic panels over a parking lot at Desert Valley Hospital in Victorville, California, providing 742 kilowatts of solar energy to power the facility and creating a shady carport for employee vehicles in the high desert environment, where temperatures can rise to 120 degrees. The solar panels effectively removed those kilowatts from the power grid, reducing carbon footprint. The project is achieving annual cost savings of almost $358,000, and has inspired Prime to move forward in 2018 with another solar carport – for its corporate headquarters in Ontario, California.

Added variable frequency drives, or VFDs, to water chillers and hot water heaters at six hospitals during 2017. These energy management devices enable the equipment to throttle down automatically to lower frequencies when power demand drops. Annualized cost savings from the VFDs and related economizing steps exceed $398,000.

Replaced high-pressure sodium lighting in the parking lot at Providence Medical Center in Kansas City, Missouri, with new energy-efficient LED lighting. This eliminated monthly rental fees for the old lights and tied the new lights into the hospital's power system, where the load can be tracked. Annualized cost savings exceed $96,000.

"Our primary goals are to 1) reduce energy usage and increase efficiency, 2) increase renewables and decrease grid reliance, 3) reduce costs and 4) improve operations," Baker said.

"When we do all that, we also achieve a fifth goal, which is to further enhance corporate social responsibility and brand recognition."

Under Baker's watch, Prime Healthcare has been installing combustion-free, solid-oxide fuel cells to take significant portions of Prime's energy usage off the power grid. It's a technology originally developed for a 2001 NASA mission to Mars. The idea was to use solar power to split water found on Mars into oxygen for astronauts to breathe, and hydrogen to power their Mars rover.

Creating Cleaner Power

Although the mission was canceled, the technology's developer decided to "reverse engineer" the process, using natural gas, water and oxygen, to create electricity through an electrochemical reaction. As a result, he was able to generate significantly cleaner power than that produced by coal-fired plants.*

The technology is now being deployed at hundreds of sites across the globe by leading technology firms, Fortune 500 companies, and governmental agencies.

Prime Healthcare Services installed its first fuel cell, capable of producing 600-kilowatts of energy, at Chino Valley Medical Center in Chino, California, in April 2014, followed a year later by a 250-kilowatt fuel cell for the data center at Centinela Hospital Medical Center in Inglewood, California. Annual savings: $360,000 at Chino and $122,000 at Centinela.

The current version of the technology is a wafer-thin ceramic plate about the size of a slice of bread, coated on both sides with chemicals and fired in kilns. These are then sandwiched between metal plates and fused together into solid-oxide fuel cells about half the size of a loaf of bread.

One fuel cell can power a single home. Packaged together in a metal box about the size of a refrigerator, an array of fuel cells can power an entire building. And the metal boxes can be easily configured in rows on the edge of a parking lot or on the roof of a facility.

Solar panels create energy and shaded parking at Desert Valley Hospital in Victorville, California.

"In 2017, at five California locations, Prime installed five additional fuel cells capable of producing a total of more than two megawatts of power," Baker said. "Fuel cells are pretty amazing and they generate big-dollar savings for the hospitals," he noted. "For these five co-generation projects, we negotiated 20-year power purchase agreements and the projected savings are expected to be significant over that period – nearly $26 million."

"Fuel cells are pretty amazing and they generate big-dollar savings for the hospitals."

"Fuel cells are also very good for the environment," he added. "According to estimates from our outside energy consultant, this next-generation energy technology is expected to reduce carbon dioxide emissions over the life of the contracts by a total of 51 million pounds."

This technology is enabling Prime Healthcare to reduce its carbon footprint, lower its electric bills and maintain more control of its energy supply – all of which, David Baker believes, would be worth going to Mars to achieve.

* A report from the EPA's Emissions & General Resource Integrated Database issued in November 2017 estimates that fuel cell power is 20 to 45 percent less carbon-intensive than power supplied by the electric grid.

Standing Tall

When Hurricanes Harvey and Irma struck back to back, these hospitals were prepared.

Hurricane Harvey swirled over Houston for two days in August, dropping 60 inches of rain that turned low ground into lakes and high ground into islands.

One of the new "islands" was the Medical Center of Southeast Texas, an MPT-owned IASIS facility in Port Arthur, which became a place of refuge and healing.

The Medical Center of Southeast Texas

"When you get a year's worth of rain in two days, it's devastating," said Chris McMahon, Director of Operations. "At night, our president, Richard Gonzalez, was here with several of us stacking sandbags while water was rising to within a foot of our loading dock."

"The next morning, everyone realized the medical center had been surrounded by water – there was no way in and no way out. The water was so deep along Medical Center Drive that you couldn't see the median in the boulevard – probably three or four feet deep," he recalled.

During those early hours, physicians and staff members were calling in or texting, trying to figure out how to get to the hospital. Fortunately, McMahon serves on the city council of nearby Port Neches and he was able to persuade the city manager to provide a dump truck since Port Arthur had lost most of its trucks and fire engines in the flood.

Shuttling Doctors by Dump Truck

Port Neches had become the high ground for the area, McMahon said, "so we started shuttling physicians, nurses, X-ray techs, whatever, to the hospital in the back of the dump truck."

Soon, the Coast Guard, the Border Patrol, private air ambulances and Blackhawk helicopters were bringing in patients. "Two or three helicopters would land, and two or three would take off," he said. "It was just crazy."

"Several people came in by boat and a woman who was 28 weeks pregnant was brought in on a jet ski. We also had two cardiac alerts and were able to perform two open-heart surgeries," he said.

The Medical Center gauges its cardiology procedures by performance metrics. "If a patient is having an active heart attack, we're supposed to achieve 'door to balloon time' (angioplasty) in less than 90 minutes," he explained.

Maintaining Standards of Care

"Normally, we meet that standard every day," McMahon said, "but imagine doing that in the middle of a hurricane, with all the flooding. We did it *twice* – and we got the patients into surgery and taken care of."

Richard Gonzalez, the president who was helping stack sandbags the night before, added, "Being able to do those surgeries for the cardiovascular patients, and having the physicians available and in house with anesthesia the day after the storm, is simply incredible. Other hospitals couldn't accommodate patients and here we were doing open-heart surgery."

Double Trouble: Fighting Two Storms

Following closely on the heels of Hurricane Harvey, Irma was declared a tropical storm on August 30th.

Five days later, it had strengthened to a Category 4 hurricane and was continuing a northwestward trek toward the Leeward Islands. Forecasters predicted a path along the Caribbean Islands and up into Florida – potentially into three Steward Health Care facilities along the east coast.

"When we saw the forecast for Irma, it became quite evident that 80 to 90 percent of the resources that were previously in Florida had already headed over to Texas to take care of that market," Bob Gendron, Steward's Senior Vice President of Corporate Real Estate and Facilities, explained. So the Steward emergency recovery team began to mobilize.

They reached out to several of their national partners and began to assemble a crew of about a dozen people to head down to Florida – including laborers, carpenters, electricians and mechanical project managers – because they knew that such skilled workers would be in short supply.

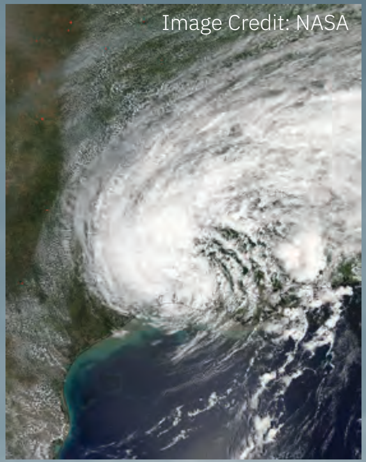


Image Credit: NASA

Mobilizing to Meet Needs Quickly

They also rented generators, purchased plywood and other supplies that would be needed but hard to find in storm devastated areas, then loaded everything into an RV and a fleet of rental trucks.

"We shipped them out on a 30-hour journey right before the storm hit Florida," Gendron said, "and they were able to drive from Boston through Georgia and arrive on-site, right at 'ground zero,' after Florida got hit."

"When the east coast of Florida lost power for a while, we were able to get our generators hooked up so our three facilities could stay open."

Steward's Melbourne Regional Medical Center had lost part of its roof and the crew was able to immediately secure that envelope, he said. "When the east coast of Florida lost power for a while, we were able to get our generators hooked up so our three facilities could stay open."

"Steward's entire facilities management team was involved in emergency preparations for Irma, and we stayed in contact with them several times each day and night," said Chrissy McCreary, Risk Manager in MPT's Asset Management and Underwriting Department.

Preparing for Rapid Recovery

"They were like a well-oiled machine, doing what they were trained to do," she said. "Not only were they ready for the storm itself, they were also prepared for the recovery – with supplies, insurance adjusters, engineers and contractors lined up and ready to begin the repairs and to restore utilities quickly."

"I think what's unique about Steward is our integrated healthcare model, which we apply not just to our patients, but also to our facilities," Gendron explained. "If there's an issue or if a part is needed in Florida, we can call one of our Massachusetts partners and see if they have it available."

"Hurricane Harvey was a unique situation, with historic flood levels and destruction equivalent to Katrina," he said, "but the situation with Irma was more challenging for us because our resources in Florida had already been transferred to help out Houston."

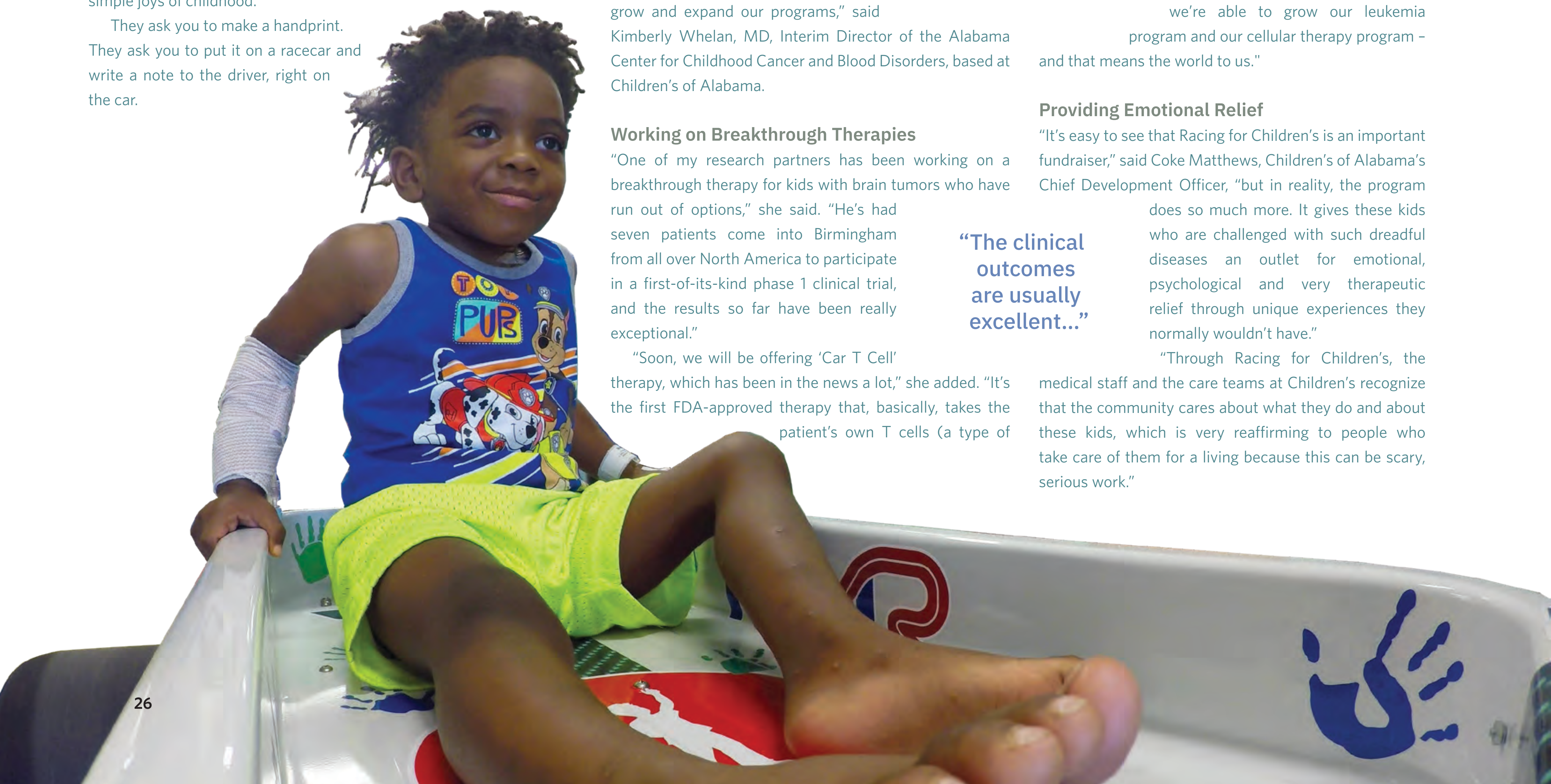
"When you have a Harvey-Irma situation back to back, that's where the real value of the integrated model starts coming to fruition."

Because Hope is Good Medicine

If you're a child with cancer, the last thing you want to think about is the cancer or the chemo.

Racing for Children's creates unique experiences to take your mind somewhere else – and restore the simple joys of childhood.

They ask you to make a handprint. They ask you to put it on a racecar and write a note to the driver, right on the car.



They take you to Barber Motorsports Park for "*hot laps*" around the world-class Barber racetrack – *at about a hundred miles an hour*.

And they're working to raise millions of dollars for research to cure your disease.

"The support that we've gotten through Racing for Children's and Medical Properties Trust over the past eight years has allowed us to grow and expand our programs," said Kimberly Whelan, MD, Interim Director of the Alabama Center for Childhood Cancer and Blood Disorders, based at Children's of Alabama.

Working on Breakthrough Therapies

"One of my research partners has been working on a breakthrough therapy for kids with brain tumors who have run out of options," she said. "He's had seven patients come into Birmingham from all over North America to participate in a first-of-its-kind phase 1 clinical trial, and the results so far have been really exceptional."

> "The clinical outcomes are usually excellent..."

"Soon, we will be offering 'Car T Cell' therapy, which has been in the news a lot," she added. "It's the first FDA-approved therapy that, basically, takes the patient's own T cells (a type of white blood cell) and engineers them to go in and attack the leukemia cells."

"In the past, we've had to send patients to Philadelphia or Seattle because there were very few sites for such treatments," noted Dr. Whelan, who has been with the pediatric cancer center for 15 years and involved with Racing for Children's from the beginning. "But now, through these fundraising efforts, we're able to grow our leukemia program and our cellular therapy program – and that means the world to us."

Providing Emotional Relief

"It's easy to see that Racing for Children's is an important fundraiser," said Coke Matthews, Children's of Alabama's Chief Development Officer, "but in reality, the program does so much more. It gives these kids who are challenged with such dreadful diseases an outlet for emotional, psychological and very therapeutic relief through unique experiences they normally wouldn't have."

"Through Racing for Children's, the medical staff and the care teams at Children's recognize that the community cares about what they do and about these kids, which is very reaffirming to people who take care of them for a living because this can be scary, serious work."

"The fears and the anxieties patients experience are painfully real," he observed, "and Racing for Children's helps address those. Fortunately, the clinical outcomes are usually excellent and the rewards are vast."

"Racing for Children's is exciting and uplifting, it provides a lot of hope – and hope is really good medicine."

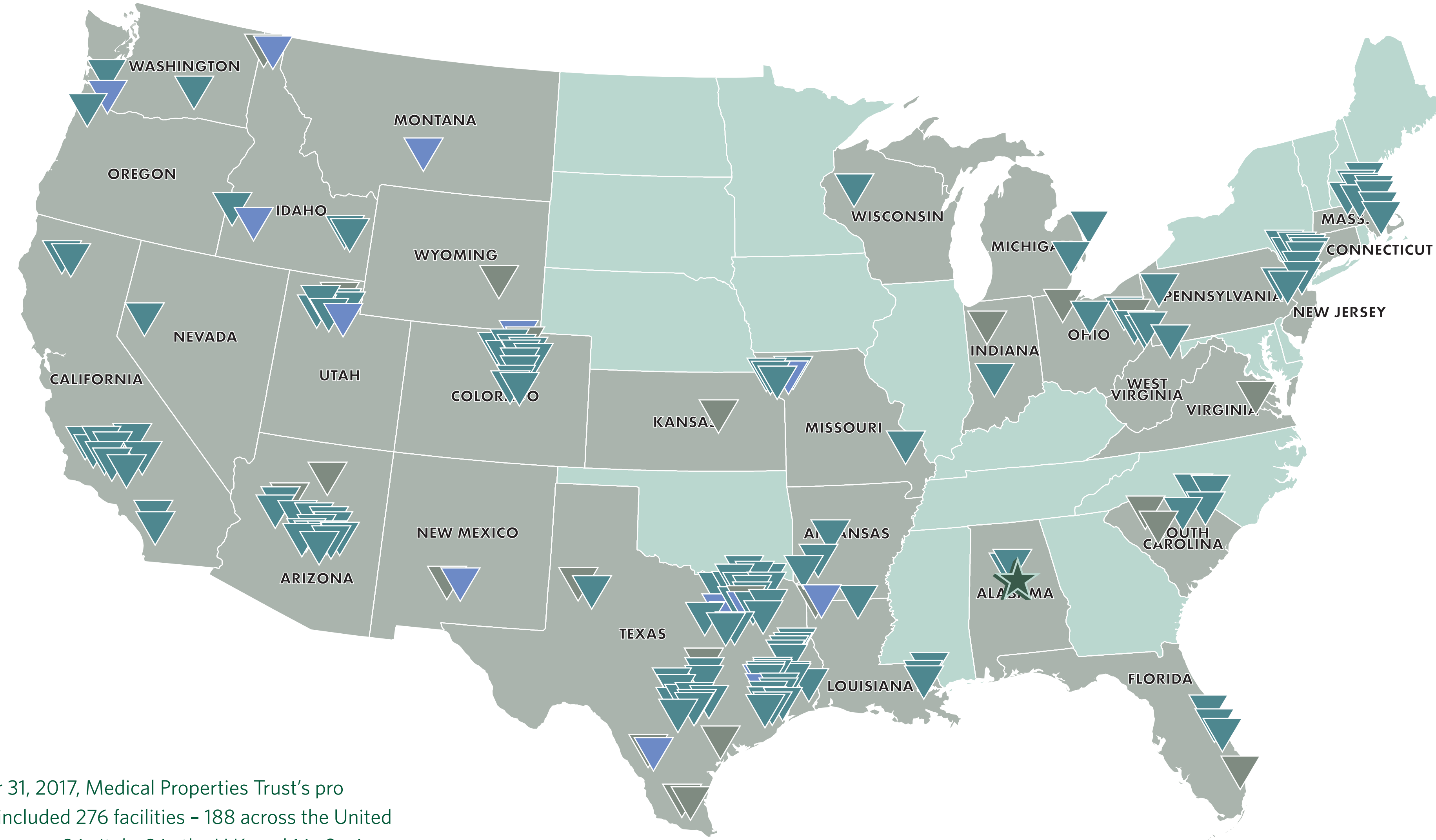
Championship Season

Driving the Racing for Children's Porsche 991.2 GT3 Cup car covered with handprints of young cancer patients from Children's of Alabama, Jake Eidson and the Kelly-Moss Road and Race team brought home the championship trophy in the 2017 IMSA Porsche GT3 Cup Challenge USA by Yokohama series (Platinum Class).

Standing proudly on the podium with Jake (center) were Honorary Crew Chiefs Rollins Wilkerson (to Jake's left) and Trevor Moultrie (to Jake's right) – both former Children's patients and cancer survivors.

Sponsored by Medical Properties Trust for the seventh consecutive year, Racing for Children's supports pediatric cancer research at the Alabama Center for Childhood Cancer and Blood Disorders, ranked by *U.S. News & World Report* as one of the nation's top childhood cancer programs.

PORTFOLIO



As of December 31, 2017, Medical Properties Trust's pro forma portfolio included 276 facilities – 188 across the United States, 77 in Germany, 8 in Italy, 2 in the U.K. and 1 in Spain – representing an investment of approximately $9.5 billion.

276 FACILITIES 29 STATES 5 COUNTRIES

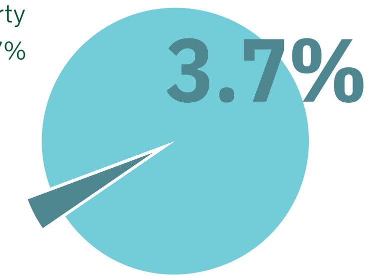
Pro forma portfolio statistics are as of December 31, 2017, and assume fully funded commitments.

Properties by Facility Type

Medical Properties Trust provides stockholders an opportunity to earn attractive returns from profitable hospital facilities in the U.S. and Europe.

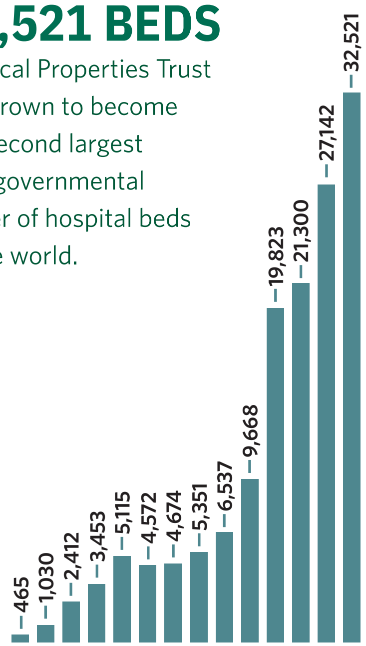
WELL DIVERSIFIED

No single hospital property represents more than 3.7% of MPT's portfolio.

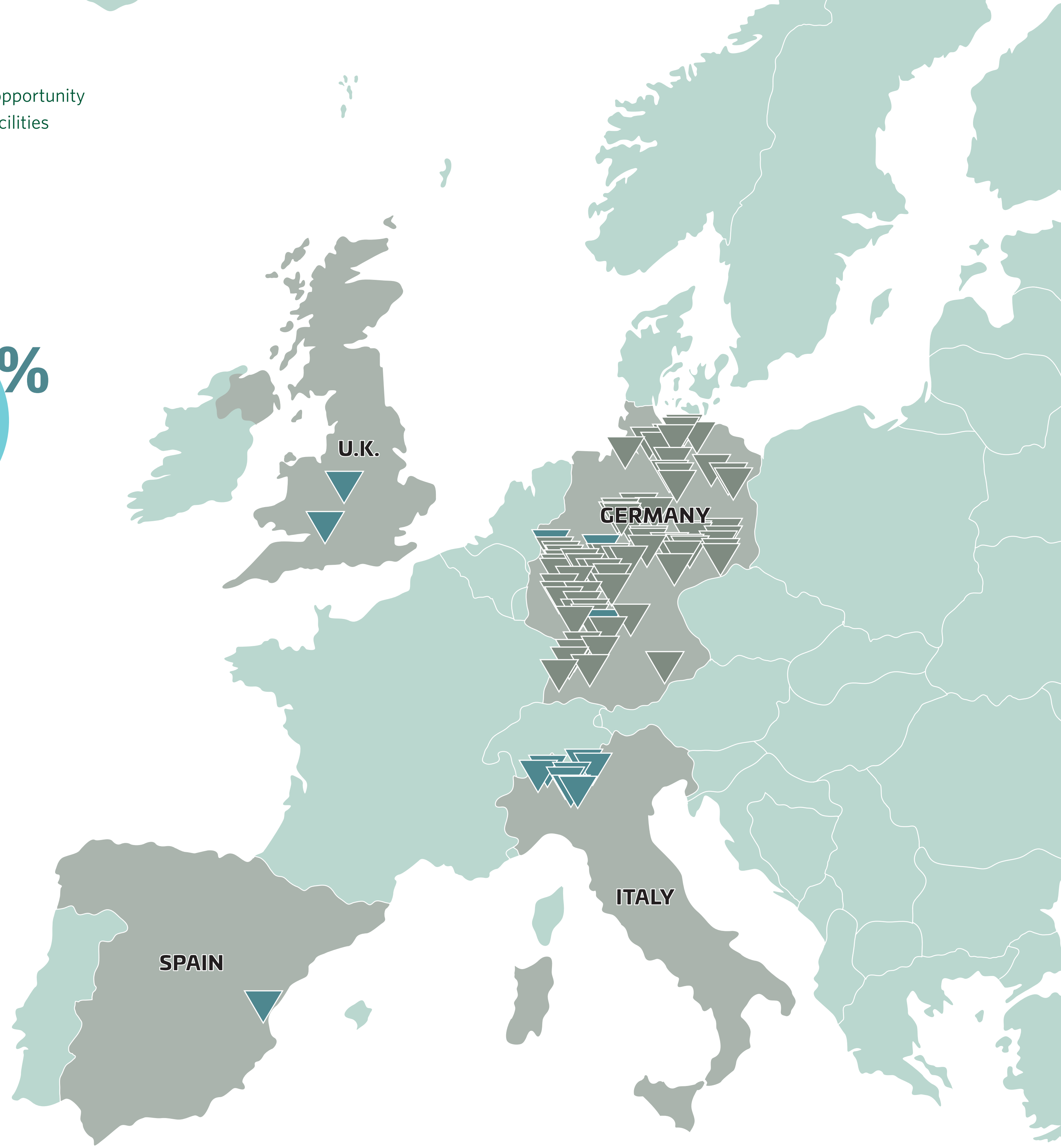


32,521 BEDS

Medical Properties Trust has grown to become the second largest non-governmental owner of hospital beds in the world.



HOSPITAL BEDS OWNED
(2004 - 2017)



SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information on a historical basis:

[In thousands, except per share amounts]	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
OPERATING DATA					
Total revenue	$ 704,745	$ 541,137	$ 441,878	$ 312,532	$ 242,523
Real estate depreciation and amortization expense	(125,106)	(94,374)	(69,867)	(53,938)	(36,978)
Property-related and general and administrative expenses	(64,410)	(51,623)	(47,431)	(39,125)	(32,513)
Acquisition expenses (2)	(29,645)	(46,273)	(61,342)	(26,389)	(19,494)
Impairment charges	–	(7,229)	–	(50,128)	–
Interest expense	(176,954)	(159,597)	(120,884)	(98,156)	(66,746)
Gain on sale of real estate and other asset dispositions, net	7,431	61,224	3,268	2,857	7,659
Unutilized financing fees/ debt refinancing costs	(32,574)	(22,539)	(4,367)	(1,698)	–
Other income (expense)	10,432	(1,618)	175	5,183	(4,424)
Income tax (expense) benefit (3)	(2,681)	6,830	(1,503)	(340)	(726)
Income from continuing operations	291,238	225,938	139,927	50,798	89,301
Income (loss) from discontinued operations	–	(1)	–	(2)	7,914
Net income	291,238	225,937	139,927	50,796	97,215
Net income attributable to non-controlling interests	(1,445)	(889)	(329)	(274)	(224)
Net income attributable to MPT common stockholders	$ 289,793	$ 225,048	$ 139,598	$ 50,522	$ 96,991
Income from continuing operations attributable to MPT common stockholders per diluted share	$ 0.82	$ 0.86	$ 0.63	$ 0.29	$ 0.58
Income from discontinued operations attributable to MPT common stockholders per diluted share	–	–	–	–	0.05
Net income attributable to MPT common stockholders per diluted share	$ 0.82	$ 0.86	$ 0.63	$ 0.29	$ 0.63
Weighted average number of common shares — diluted	350,441	261,072	218,304	170,540	152,598
OTHER DATA					
Dividends declared per common share	$ 0.96	$ 0.91	$ 0.88	$ 0.84	$ 0.81
FFO (1)	$ 408,512	$ 253,478	$ 205,168	$ 106,682	$ 126,289
Normalized FFO (1)	$ 474,879	$ 334,826	$ 274,805	$ 181,741	$ 147,240
Cash paid for acquisitions and other related investments	$ 2,246,788	$ 1,489,147	$ 1,833,018	$ 767,696	$ 654,922
BALANCE SHEET DATA	**December 31, 2017**	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**	**December 31, 2013**
Real estate assets — at cost	$ 6,642,947	$ 4,965,968	$ 3,924,701	$ 2,612,291	$ 2,296,479
Real estate accumulated depreciation/amortization	(455,712)	(325,125)	(257,928)	(202,627)	(159,776)
Mortgage and other loans	1,928,525	1,216,121	1,422,403	970,761	549,746
Cash and cash equivalents	171,472	83,240	195,541	144,541	45,979
Other assets	733,056	478,332	324,634	195,364	147,915
Total assets	$ 9,020,288	$ 6,418,536	$ 5,609,351	$ 3,720,330	$ 2,880,343
Debt, net	$ 4,898,667	$ 2,909,341	$ 3,322,541	$ 2,174,648	$ 1,397,329
Other liabilities	286,416	255,967	179,545	163,635	138,806
Total Medical Properties Trust, Inc. Stockholders' Equity	3,820,633	3,248,378	2,102,268	1,382,047	1,344,208
Non-controlling interests	14,572	4,850	4,997	–	–
Total equity	3,835,205	3,253,228	2,107,165	1,382,047	1,344,208
Total liabilities and equity	$ 9,020,288	$ 6,418,536	$ 5,609,351	$ 3,720,330	$ 2,880,343

Footnotes to Selected Financial Data:

(1) See section titled "Reconciliation of Non-GAAP Financial Measures" for an explanation of why these non-GAAP financial measures are useful along with a reconciliation to our GAAP earnings.

(2) Includes $17.4 million, $30.1 million, $37.0 million, $5.8 million, and $12.0 million in transfer and capital gains taxes in 2017, 2016, 2015, 2014, and 2013, respectively, related to our property acquisitions in foreign jurisdictions.

(3) The 2016 column includes a $9.1 million tax benefit generated from the reversal of foreign valuation allowances and acquisition expenses incurred by certain international subsidiaries.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following table presents a reconciliation of net income attributable to MPT common stockholders to FFO and normalized FFO for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 ($ amounts in thousands except per share data):

FFO information:	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
Net income attributable to MPT common stockholders	$ 289,793	$ 225,048	$ 139,598	$ 50,522	$ 96,991
Participating securities' share in earnings	(1,409)	(559)	(1,029)	(895)	(729)
Net income, less participating securities' share in earnings	$ 288,384	$ 224,489	$ 138,569	$ 49,627	$ 96,262
Depreciation and amortization:					
Continuing operations	127,559	96,157	69,867	53,938	36,978
Discontinued operations	—	—	—	—	708
Gain on sale of real estate	(7,431)	(67,168)	(3,268)	(2,857)	(7,659)
Real estate impairment charge	—	—	—	5,974	—
Funds from operations	$ 408,512	$ 253,478	$ 205,168	$ 106,682	$ 126,289
Write-off of straight line rent and other	5,340	3,063	3,928	2,818	1,457
Transaction costs from non-real estate dispositions	—	5,944	—	—	—
Acquisition expenses, net of tax benefit	28,453	46,529	61,342	26,389	19,494
Release of valuation allowance	—	(3,956)	—	—	—
Impairment charges	—	7,229	—	44,154	—
Unutilized financing fees/ debt refinancing costs	32,574	22,539	4,367	1,698	—
Normalized funds from operations attributable to MPT common stockholders	$ 474,879	$ 334,826	$ 274,805	$ 181,741	$ 147,240
Per diluted share data:					
Net income, less participating securities' share in earnings	$ 0.82	$ 0.86	$ 0.63	$ 0.29	$ 0.63
Depreciation and amortization	0.37	0.37	0.32	0.31	0.24
Gain on sale of real estate	(0.02)	(0.26)	(0.01)	(0.01)	(0.04)
Real estate impairment charge	—	—	—	0.04	—
Funds from operations	$ 1.17	$ 0.97	$ 0.94	$ 0.63	$ 0.83
Write-off of straight line rent and other	0.01	0.01	0.02	0.02	0.01
Transaction costs from non-real estate dispositions	—	0.02	—	—	—
Acquisition expenses, net of tax benefit	0.08	0.18	0.28	0.15	0.12
Release of valuation allowance	—	(0.02)	—	—	—
Impairment charges	—	0.03	—	0.26	—
Unutilized financing fees/debt refinancing costs	0.09	0.09	0.02	—	—
Normalized funds from operations attributable to MPT common stockholders	$ 1.35	$ 1.28	$ 1.26	$ 1.06	$ 0.96

Investors and analysts following the real estate industry utilize funds from operations, or FFO, as a supplemental performance measure. FFO, reflecting the assumption that real estate asset values rise or fall with market conditions, principally adjusts for the effects of GAAP depreciation and amortization of real estate assets, which assumes that the value of real estate diminishes predictably over time. We compute FFO in accordance with the definition provided by the National Association of Real Estate Investment Trusts, or NAREIT, which represents net income (loss) (computed in accordance with GAAP), excluding gains (losses) on sales of real estate and impairment charges on real estate assets, plus real estate depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose normalized FFO, which adjusts FFO for items that relate to unanticipated or non-core events or activities or accounting changes that, if not noted, would make comparison to prior period results and market expectations potentially less meaningful to investors and analysts.

We believe that the use of FFO, combined with the required GAAP presentations, improves the understanding of our operating results among investors and the use of normalized FFO makes comparisons of our operating results with prior periods and other companies more meaningful. While FFO and normalized FFO are relevant and widely used supplemental measures of operating and financial performance of REITs, they should not be viewed as a substitute measure of our operating performance since the measures do not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which can be significant economic costs that could materially impact our results of operations. FFO and normalized FFO should not be considered an alternative to net income (loss) (computed in accordance with GAAP) as indicators of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity.

Strength in Experience

Medical Properties Trust's leadership team includes the three company founders and three others who have worked with them side by side for eight years or more. Together, they have taken the company to unprecedented heights.

Edward K. Aldag, Jr., Founder, Chairman, President and CEO (third from left)
R. Steven Hamner, Founder, Executive Vice President and CFO (left)
Emmett E. McLean, Founder, Executive Vice President and COO (second from left)
J. Kevin Hanna, Vice President, Controller and Chief Accounting Officer (second from right)
Rosa H. Hooper, Vice President, Managing Director of Asset Management and Underwriting (third from right)
Charles R. Lambert, Treasurer and Managing Director of Capital Markets (right)

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FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Annual Report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business strategy;
- our projected operating results;
- our ability to acquire or develop additional facilities in the United States ("U.S.") or Europe;
- availability of suitable facilities to acquire or develop;
- our ability to enter into, and the terms of, our prospective leases and loans;
- our ability to raise additional funds through offerings of debt and equity securities, joint venture arrangements, and/or property disposals;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to pay, future distributions;
- our ability to service our debt and comply with all of our debt covenants;
- our ability to compete in the marketplace;
- lease rates and interest rates;
- market trends;
- projected capital expenditures; and
- the impact of technology on our facilities, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock and other securities, along with, among others, the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in the sections captioned "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business;" in our Form 10-K for the year ended December 31, 2017;
- U.S. (both national and local) and European (in particular Germany, the United Kingdom, Spain and Italy) political, economic, business, real estate, and other market conditions;
- the competitive environment in which we operate;
- the execution of our business plan;
- financing risks;
- the risk that a condition to closing under the agreements governing any or all of our outstanding transactions that have not closed as of the date hereof (including the RCCH Healthcare Partners ("RCCH") transaction described in Note 8 of this Annual Report) may not be satisfied;
- the possibility that the anticipated benefits from any or all of the transactions we enter into will take longer to realize than expected or will not be realized at all;
- acquisition and development risks;
- potential environmental contingencies and other liabilities;
- other factors affecting the real estate industry generally or the healthcare real estate industry in particular;
- our ability to maintain our status as a real estate investment trust, or REIT, for U.S. federal and state income tax purposes;
- our ability to attract and retain qualified personnel;
- changes in foreign currency exchange rates;
- U.S. (both federal and state) and European (in particular Germany, the United Kingdom, Spain and Italy) healthcare and other regulatory requirements; and
- U.S. national and local economic conditions, as well as conditions in Europe and any other foreign jurisdictions where we own or will own healthcare facilities, which may have a negative effect on the following, among other things:
    - the financial condition of our tenants, our lenders, or institutions that hold our cash balances, which may expose us to increased risks of default by these parties;
    - our ability to obtain equity or debt financing on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities, refinance existing debt and our future interest expense; and
    - the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

When we use the words "believe," "expect," "may," "potential," "anticipate," "estimate," "plan," "will," "could," "intend" or similar expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements contained in this Annual Report to reflect future events or developments.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Medical Properties Trust, Inc.:

OPINIONS ON THE FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the consolidated financial statements including the related notes, as listed in the appendix appearing under Item 15(a), and the financial statement schedules listed in the index appearing under Item 15(a), of Medical Properties Trust, Inc. and its subsidiaries (collectively known as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

BASIS FOR OPINIONS

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 66. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

DEFINITION AND LIMITATIONS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Birmingham, Alabama
March 1, 2018

We have served as the Company's auditor since 2008.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
	(Amounts in thousands, except for per share data)	
ASSETS		
Real estate assets		
Land	$ 639,626	$ 417,368
Buildings and improvements	4,667,150	3,550,674
Construction in progress and other	47,695	53,648
Intangible lease assets	443,134	296,176
Real estate held for sale	146,615	—
Net investment in direct financing leases	698,727	648,102
Mortgage loans	1,778,316	1,060,400
Gross investment in real estate assets	8,421,263	6,026,368
Accumulated depreciation	(406,855)	(292,786)
Accumulated amortization	(48,857)	(32,339)
Net investment in real estate assets	7,965,551	5,701,243
Cash and cash equivalents	171,472	83,240
Interest and rent receivables	78,970	57,698
Straight-line rent receivables	185,592	116,861
Other loans	150,209	155,721
Other assets	468,494	303,773
Total Assets	**$ 9,020,288**	**$ 6,418,536**
LIABILITIES AND EQUITY		
Liabilities		
Debt, net	$ 4,898,667	$ 2,909,341
Accounts payable and accrued expenses	211,188	207,711
Deferred revenue	18,178	19,933
Lease deposits and other obligations to tenants	57,050	28,323
Total Liabilities	5,185,083	3,165,308
Commitments and Contingencies		
Equity		
Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding	—	—
Common stock, $0.001 par value. Authorized 500,000 shares; issued and outstanding — 364,424 shares at December 31, 2017 and 320,514 shares at December 31, 2016	364	321
Additional paid-in capital	4,333,027	3,775,336
Distributions in excess of net income	(485,932)	(434,114)
Accumulated other comprehensive loss	(26,049)	(92,903)
Treasury shares, at cost	(777)	(262)
Total Medical Properties Trust, Inc. Stockholders' Equity	3,820,633	3,248,378
Non-controlling interests	14,572	4,850
Total Equity	3,835,205	3,253,228
Total Liabilities and Equity	**$ 9,020,288**	**$ 6,418,536**

See accompanying notes to consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME

	For the Years Ended December 31,		
	2017	2016	2015
	(Amounts in thousands, except for per share data)		
Revenues			
Rent billed	$ 435,782	$ 327,269	$ 247,604
Straight-line rent	65,468	41,067	23,375
Income from direct financing leases	74,495	64,307	58,715
Interest and fee income	129,000	108,494	112,184
Total revenues	704,745	541,137	441,878
Expenses			
Real estate depreciation and amortization	125,106	94,374	69,867
Impairment charges	—	7,229	—
Property-related	5,811	2,712	3,792
Acquisition expenses	29,645	46,273	61,342
General and administrative	58,599	48,911	43,639
Total operating expenses	219,161	199,499	178,640
Operating income	485,584	341,638	263,238
Other income (expense)			
Interest expense	(176,954)	(159,597)	(120,884)
Gain on sale of real estate and other asset dispositions, net	7,431	61,224	3,268
Earnings (losses) from equity and other interests	10,058	(1,116)	2,849
Unutilized financing fees/ debt refinancing costs	(32,574)	(22,539)	(4,367)
Other Income (expense)	374	(502)	(2,674)
Income tax (expense) benefit	(2,681)	6,830	(1,503)
Net other expenses	(194,346)	(115,700)	(123,311)
Income from continuing operations	291,238	225,938	139,927
Loss from discontinued operations	—	(1)	—
Net income	291,238	225,937	139,927
Net income attributable to non-controlling interests	(1,445)	(889)	(329)
Net income attributable to MPT common stockholders	**$ 289,793**	**$ 225,048**	**$ 139,598**
Earnings per share — basic			
Income from continuing operations attributable to MPT common stockholders	$ 0.82	$ 0.86	$ 0.64
Loss from discontinued operations attributable to MPT common stockholders	—	—	—
Net income attributable to MPT common stockholders	**$ 0.82**	**$ 0.86**	**$ 0.64**
Weighted average shares outstanding — basic	**349,902**	**260,414**	**217,997**
Earnings per share — diluted			
Income from continuing operations attributable to MPT common stockholders	$ 0.82	$ 0.86	$ 0.63
Loss from discontinued operations attributable to MPT common stockholders	—	—	—
Net income attributable to MPT common stockholders	**$ 0.82**	**$ 0.86**	**$ 0.63**
Weighted average shares outstanding — diluted	**350,441**	**261,072**	**218,304**

See accompanying notes to consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2017	2016	2015
	(Amounts in thousands)		
Net income	$ 291,238	$ 225,937	$ 139,927
Other comprehensive income (loss):			
Unrealized gain on interest rate swap	—	2,904	3,139
Foreign currency translation gain (loss)	66,854	(22,923)	(54,109)
Total comprehensive income	358,092	205,918	88,957
Comprehensive income attributable to non-controlling interests	(1,445)	(889)	(329)
Comprehensive income attributable to MPT common stockholders	$ 356,647	$ 205,029	$ 88,628

See accompanying notes to consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Preferred		Common		Additional	Distributions in Excess	Accumulated Other	Treasury	Non-Controlling	
	Shares	Par Value	Shares	Par Value	Paid-in Capital	of Net Income	Comprehensive Loss	Stock	Interests	Total Equity
	(Amounts in thousands, except for per share data)									
Balance at December 31, 2014	—	$ —	172,743	$ 172	$ 1,765,381	$ (361,330)	$ (21,914)	$ (262)	$ —	$ 1,382,047
Net income	—	—	—	—	—	139,598	—	—	329	139,927
Sale of non-controlling interests	—	—	—	—	—	—	—	—	5,000	5,000
Unrealized gain on interest rate swap	—	—	—	—	—	—	3,139	—	—	3,139
Foreign currency translation loss	—	—	—	—	—	—	(54,109)	—	—	(54,109)
Stock vesting and amortization of stock-based compensation	—	—	751	2	11,120	—	—	—	—	11,122
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(332)	(332)
Proceeds from offering (net of offering costs)	—	—	63,250	63	817,326	—	—	—	—	817,389
Dividends declared ($0.88 per common share)	—	—	—	—	—	(196,918)	—	—	—	(196,918)
Balance at December 31, 2015	—	$ —	236,744	$ 237	$ 2,593,827	$ (418,650)	$ (72,884)	$ (262)	$ 4,997	$ 2,107,265
Net income	—	—	—	—	—	225,048	—	—	889	225,937
Unrealized gain on interest rate swap	—	—	—	—	—	—	2,904	—	—	2,904
Foreign currency translation loss	—	—	—	—	—	—	(22,923)	—	—	(22,923)
Stock vesting and amortization of stock-based compensation	—	—	1,021	1	7,941	—	—	—	—	7,942
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(1,036)	(1,036)
Proceeds from offering (net of offering costs)	—	—	82,749	83	1,173,568	—	—	—	—	1,173,651
Dividends declared ($0.91 per common share)	—	—	—	—	—	(240,512)	—	—	—	(240,512)
Balance at December 31, 2016	—	$ —	320,514	$ 321	$ 3,775,336	$ (434,114)	$ (92,903)	$ (262)	$ 4,850	$ 3,253,228
Net income	—	—	—	—	—	289,793	—	—	1,445	291,238
Sale of non-controlling interests	—	—	—	—	—	—	—	—	10,000	10,000
Foreign currency translation gain	—	—	—	—	—	—	66,854	—	—	66,854
Stock vesting and amortization of stock-based compensation	—	—	785	—	9,949	—	—	—	—	9,949
Treasury stock acquired (41,270 shares)	—	—	—	—	—	—	—	(515)	—	(515)
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(1,723)	(1,723)
Proceeds from offering (net of offering costs)	—	—	43,125	43	547,742	—	—	—	—	547,785
Dividends declared ($0.96 per common share)	—	—	—	—	—	(341,611)	—	—	—	(341,611)
Balance at December 31, 2017	—	$ —	364,424	$ 364	$ 4,333,027	$ (485,932)	$ (26,049)	$ (777)	$ 14,572	$ 3,835,205

See accompanying notes to consolidated financial statements.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2017	2016	2015
	(Amounts in thousands)		
Operating activities			
Net income	$ 291,238	$ 225,937	$ 139,927
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	131,979	97,601	71,827
Amortization of deferred financing costs and debt discount	6,521	7,613	6,085
Direct financing lease interest accretion	(9,933)	(9,120)	(8,032)
Straight-line rent revenue	(70,808)	(41,567)	(26,187)
Share-based compensation	9,949	7,942	11,122
Gain from sale of real estate and other asset dispositions, net	(7,431)	(61,224)	(3,268)
Impairment charges	—	7,229	—
Straight-line rent and other write-off	5,340	3,063	2,812
Unutilized financing fees/ debt refinancing costs	32,574	22,539	4,367
Other adjustments	(1,204)	3,563	(6,334)
Decrease (increase) in:			
Interest and rent receivables	(21,116)	(13,247)	(5,599)
Other assets	(4,452)	(18,357)	(8,297)
Accounts payable and accrued expenses	2,494	41,583	26,540
Deferred revenue	(2,050)	(8,872)	2,033
Net cash provided by operating activities	363,101	264,683	206,996
Investing activities			
Cash paid for acquisitions and other related investments	(2,246,788)	(1,682,409)	(2,218,869)
Net proceeds from sale of real estate	64,362	198,767	19,175
Principal received on loans receivable	8,480	906,757	771,785
Investment in loans receivable	(19,338)	(109,027)	(354,001)
Construction in progress and other	(73,812)	(171,209)	(146,372)
Investment in unsecured senior notes	—	(50,000)	—
Proceeds from sale of unsecured senior notes	—	50,000	—
Other investments, net	(94,970)	(69,423)	(17,339)
Net cash used for investing activities	(2,362,066)	(926,544)	(1,945,621)

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the Years Ended December 31,		
	2017	2016	2015
	(Amounts in thousands)		
Financing activities			
Proceeds from term debt	2,355,280	1,000,000	681,000
Payments of term debt	(1,038,221)	(575,299)	(283)
Payment of deferred financing costs	(32,794)	(15,468)	(7,686)
Revolving credit facilities, net	550,415	(810,000)	509,415
Distributions paid	(326,729)	(218,393)	(182,980)
Lease deposits and other obligations to tenants	27,525	14,557	(10,839)
Proceeds from sale of common shares, net of offering costs	547,785	1,173,651	817,389
Other financing activities	(12,984)	(16,485)	(5,326)
Net cash provided by financing activities	2,070,277	552,563	1,800,690
Increase (decrease) in cash and cash equivalents for the year	71,312	(109,298)	62,065
Effect of exchange rate changes	16,920	(3,003)	(11,065)
Cash and cash equivalents at beginning of year	83,240	195,541	144,541
Cash and cash equivalents at end of year	$ 171,472	$ 83,240	$ 195,541
Interest paid, including capitalized interest of $840 in 2017, $2,320 in 2016, and $1,425 in 2015	$ 149,798	$ 138,770	$ 107,228
Supplemental schedule of non-cash investing activities:			
(Decrease) increase in development project construction costs incurred, not paid	$ (18,805)	$ 15,857	$ 2,684
Supplemental schedule of non-cash financing activities:			
Dividends declared, not paid	$ 89,403	$ 74,521	$ 52,402

See accompanying notes to consolidated financial statements.

1. ORGANIZATION

Medical Properties Trust, Inc., a Maryland corporation, was formed on August 27, 2003, under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in, owning, and leasing healthcare real estate. Our operating partnership subsidiary, MPT Operating Partnership, L.P., through which we conduct all of our operations, was formed in September 2003. Through another wholly-owned subsidiary, Medical Properties Trust, LLC, we are the sole general partner of the Operating Partnership. At present, we directly own substantially all of the limited partnership interests in the Operating Partnership and have elected to report our required disclosures and that of the Operating Partnership on a combined basis, except where material differences exist.

We have operated as a real estate investment trust ("REIT") since April 6, 2004, and accordingly, elected REIT status upon the filing in September 2005 of the calendar year 2004 federal income tax return. Accordingly, we will generally not be subject to United States ("U.S.") federal income tax, provided that we continue to qualify as a REIT and our distributions to our stockholders equal or exceed our taxable income.

Our primary business strategy is to acquire and develop real estate and improvements, primarily for long-term lease to providers of healthcare services such as operators of general acute care hospitals, inpatient physical rehabilitation hospitals, long-term acute care hospitals, surgery centers, centers for treatment of specific conditions such as cardiac, pulmonary, cancer, and neurological hospitals, and other healthcare-oriented facilities. We also make mortgage and other loans to operators of similar facilities. In addition, we may obtain profits or equity interests in our tenants, from time to time, in order to enhance our overall return. We manage our business as a single business segment. All of our properties are located in the U.S. and Europe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation: Property holding entities and other subsidiaries of which we own 100% of the equity or have a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which we own less than 100% of the equity interest, we consolidate the property if we have the direct or indirect ability to control the entities' activities based upon the terms of the respective entities' ownership agreements. For these entities, we record a non-controlling interest representing equity held by non-controlling interests.

We continually evaluate all of our transactions and investments to determine if they represent variable interests in a variable interest entity ("VIE"). If we determine that we have a variable interest in a VIE, we then evaluate if we are the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether we have the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. We consolidate each VIE in which we, by virtue of or transactions with our investments in the entity, are considered to be the primary beneficiary.

At December 31, 2017, we had loans and/or equity investments in certain VIEs, which are also tenants of our facilities. We have determined that we are not the primary beneficiary of these VIEs. The carrying value and classification of the related assets and maximum exposure to loss as a result of our involvement with these VIEs are presented below at December 31, 2017 (in thousands):

VIE Type	Maximum Loss Exposure(1)	Asset Type Classification	Carrying Amount(2)
Loans, net	$ 333,398	Mortgage and other loans	$ 234,386
Equity investments	$ 13,367	Other assets	$ —

(1) Our maximum loss exposure related to loans with VIEs represents our current aggregate gross carrying value of the loan plus accrued interest and any other related assets (such as rent receivables), less any liabilities. Our maximum loss exposure related to our equity investment in VIEs represent the current carrying values of such investment plus any other related assets (such as rent receivables) less any liabilities.

(2) Carrying amount reflects the net book value of our loan or equity interest only in the VIE.

For the VIE types above, we do not consolidate the VIE because we do not have the ability to control the activities (such as the day-to-day healthcare operations of our borrowers or investees) that most significantly impact the VIE's economic performance. As of December 31, 2017, we were not required to provide financial support through a liquidity arrangement or otherwise to our unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash short falls).

Typically, our loans are collateralized by assets of the borrower (some assets of which are on the premises of facilities owned by us) and further supported by limited guarantees made by certain principals of the borrower.

See Note 3 and 10 for additional description of the nature, purpose and activities of some of our VIEs (such as Ernest Health, Inc. ("Ernest")) and interests therein.

Investments in Unconsolidated Entities: Investments in entities in which we have the ability to significantly influence (but not control) are accounted for by the equity method. Under the equity method of accounting, our share of the investee's earnings or losses are included in our consolidated statements of net income, and we have elected to record our share of such investee's earnings or losses on a 90-day lag basis. The initial carrying value of investments in unconsolidated entities is based on the amount paid to purchase the interest in the investee entity. Subsequently, our investments are increased/ decreased by our share in the investees' earnings/losses and decreased by cash distributions from our investees. To the extent that our cost basis is different from the basis reflected at the investee entity level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in our share of equity in earnings of the investee.

Investments in entities in which we do not control nor do we have the ability to significantly influence (such as our investments in Steward Health Care System LLC ("Steward") and Median Kliniken S.á.r.l. ("MEDIAN") are accounted for using the cost method. The initial carrying value of such investments is based on the amount paid to purchase the interest in the investee entity. No income is recorded on our cost method investments until distributions are received.

We evaluate our equity and cost method investments for impairment based upon a comparison of the fair value of the equity method investment to its carrying value, when impairment indicators exist. If we determine a decline in the fair value of an investment in an unconsolidated investee entity below its carrying value is other-than-temporary, an impairment is recorded.

Cash and Cash Equivalents: Certificates of deposit, short-term investments with original maturities of three months or less and money-market mutual funds are considered cash equivalents. The majority of our cash and cash equivalents are held at major commercial banks, which at times may exceed the Federal Deposit Insurance Corporation limit. We have not experienced any losses to date on our invested cash. Cash and cash equivalents which have been restricted as to its use are recorded in other assets.

Revenue Recognition: We receive income from operating leases based on the fixed, minimum required rents (base rents) per the lease agreements. Rent revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent increases over the lease term. The straight-line method typically has the effect of recording more rent revenue from a lease than a tenant is required to pay early in the term of the lease. During the later parts of a lease term, this effect reverses with less rent revenue recorded than a tenant is required to pay. Rent revenue, as recorded on the straight-line method, in the consolidated statements of net income is presented as two amounts: rent billed and straight-line revenue. Rent billed revenue is the amount of base rent actually billed to our tenants each period as required by the lease. Straight-line rent revenue is the difference between rent revenue earned based on the straight-line method and the amount recorded as rent billed revenue. We record the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to straight-line rent receivable.

We also receive additional rent (contingent rent) under some leases based on increases in the consumer price index ("CPI") or when CPI exceeds the annual minimum percentage increase as stipulated in the lease. Contingent rents are recorded as rent billed revenue in the period earned. Rental payments received prior to their recognition as income are classified as deferred revenue.

We use direct financial lease ("DFL") accounting to record rent on certain leases deemed to be financing leases, per accounting rules, rather than operating leases. For leases accounted for as DFLs, the future minimum lease payments are recorded as a receivable. The difference between the future minimum lease payments and the estimated residual values less the cost of the properties is recorded as unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectability of the lease payments is reasonably assured. Investments in DFLs are presented net of unearned income.

We begin recording base rent income from our development projects when the lessee takes physical possession of the facility, which may be different from the stated start date of the lease. Also, during construction of our development projects, we may be entitled to accrue rent based on the cost paid during the construction period (construction period rent). We accrue construction period rent as a receivable with a corresponding offset to deferred revenue during the construction period. When the lessee takes physical possession of the facility, we begin recognizing the deferred construction period revenue on the straight-line method over the term of the lease.

We receive interest income from our tenants/borrowers on mortgage loans, working capital loans, and other long-term loans. Interest income from these loans is recognized as earned based upon the principal outstanding and terms of the loans.

Commitment fees received from lessees for development and leasing services are initially recorded as deferred revenue and recognized as income over the initial term of a lease to produce a constant effective yield on the lease (interest method). Commitment and origination fees from lending services are also recorded as deferred revenue initially and recognized as income over the life of the loan using the interest method.

Tenant payments for certain taxes, insurance, and other operating expenses related to our facilities (most of which are paid directly by our tenants to the government or appropriate third party vendor) are recorded net of the respective expense as generally our leases are "triple-net" leases, with terms requiring such expenses to be paid by our tenants. Failure on the part of our tenants to pay such expense or to pay late would result in a violation of the lease agreement, which could lead to an event of default, if not cured.

Acquired Real Estate Purchase Price Allocation: For properties acquired for leasing purposes, we currently account for such acquisitions based on business combination accounting rules. We allocate the purchase price of acquired properties to tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase prices of acquired real estate, we may utilize a number of sources, from time to time, including available real estate broker data, independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, internal data from previous acquisitions or developments, and other market data. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

We measure the aggregate value of lease intangible assets acquired based on the difference between (i) the property valued with new or in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in our analysis include an estimate of carrying costs during hypothetical expected lease-up periods, considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the intangible assets acquired. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to be about six months depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal costs, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

We record above-market and below-market in-place lease values, if any, for our facilities, which are based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any resulting capitalized above-market lease values as a reduction of rental income over the lease term. We amortize any resulting capitalized below-market lease values as an increase to rental income over the lease term.

Other intangible assets acquired may include customer relationship intangible values which are based on management's evaluation of the specific characteristics of each prospective tenant's lease and our overall relationship with that tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors.

We amortize the value of these intangible assets to expense over the term of the respective leases. If a lease is terminated early, the unamortized portion of the lease intangibles are charged to expense.

Goodwill: Goodwill, included in other assets on the balance sheet, is deemed to have an indefinite economic life and is not subject to amortization. Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. To test for impairment, we first assess qualitative factors, such as current macroeconomic conditions and our overall financial and operating performance, to determine the likelihood that the fair value of a reporting unit is less than its carrying amount. If we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we proceed with the two-step approach to evaluating impairment. First, we estimate the fair value of the reporting unit and compare it to the reporting unit's carrying value. If the carrying value exceeds fair value, we proceed with the second step, which requires us to assign the fair value of the reporting unit to all of the assets and liabilities of the reporting unit as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment. We recognize an impairment loss to the extent the carrying value of goodwill exceeds the implied value in the current period.

Real Estate and Depreciation: Real estate, consisting of land, buildings and improvements, are maintained at cost. Although typically paid by our tenants, any expenditure for ordinary maintenance and repairs that we pay are expensed to operations as incurred. Significant renovations and improvements which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful lives. We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets, including an estimated liquidation amount, during the expected holding periods are less than the carrying amounts of those assets. Impairment losses are measured as the difference between carrying value and fair value of the assets. For assets held for sale, we cease recording depreciation expense and adjust the assets' value to the lower of its carrying value or fair value, less cost of disposal. Fair value is based on estimated cash flows discounted at a risk-adjusted rate of interest. We classify real estate assets as held for sale when we have commenced an active program to sell the assets, and in the opinion of management, it is probable the asset will be sold within the next 12 months.

Construction in progress includes the cost of land, the cost of construction of buildings, improvements and fixed equipment, and costs for design and engineering. Other costs, such as interest, legal, property taxes and corporate project supervision, which can be directly associated with the project during construction, are also included in construction in progress. We commence capitalization of costs associated with a development project when the development of the future asset is probable and activities necessary to get the underlying property ready for its intended use have been initiated. We stop the capitalization of costs when the property is substantially complete and ready for its intended use.

Depreciation is calculated on the straight-line method over the estimated useful lives of the related real estate and other assets. Our weighted average useful lives at December 31, 2017 are as follows:

Buildings and improvements	39.1 years
Tenant lease intangibles	26.5 years
Leasehold improvements	18.2 years
Furniture, equipment and other	9.8 years

Losses from Rent Receivables: For all leases, we continuously monitor the performance of our existing tenants including, but not limited to: admission levels and surgery/procedure volumes by type; current operating margins; ratio of our tenants' operating margins both to facility rent and to facility rent plus other fixed costs; trends in cash collections; trends in revenue and patient mix; and the effect of evolving healthcare regulations on tenants' profitability and liquidity..

> *Losses from Operating Lease Receivables:* We utilize the information above along with the tenant's payment and default history in evaluating (on a property-by-property basis) whether or not a provision for losses on outstanding rent receivables is needed. A provision for losses on rent receivables (including straight-line rent receivables) is ultimately recorded when it becomes probable that the receivable will not be collected in full. The provision is an amount which reduces the receivable to its estimated net realizable value based on a determination of the eventual amounts to be collected either from the debtor or from existing collateral, if any.
>
> *Losses on DFL Receivables:* Allowances are established for DFLs based upon an estimate of probable losses on a property-by-property basis. DFLs are impaired when it is deemed probable that we will be unable to collect all amounts due in accordance with the contractual terms of the lease. Like operating lease receivables, the need for an allowance is based upon our assessment of the lessee's overall financial condition; economic resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including the expected future cash flows discounted at the DFL's effective interest rate, fair value of collateral, and other relevant factors, as appropriate. DFLs are placed on non-accrual status when we determine that the collectability of contractual amounts is not reasonably assured. If on non-accrual status, we generally account for the DFLs on a cash basis, in which income is recognized only upon receipt of cash.

Loans: Loans consist of mortgage loans, working capital loans and other long-term loans. Mortgage loans are collateralized by interests in real property. Working capital and other long-term loans are generally collateralized by interests in receivables and corporate and individual guarantees. We record loans at cost. We evaluate the collectability of both interest and principal on a loan-by-loan basis (using the same process as we do for assessing the collectability of rents) to determine whether they are impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the allowance is calculated by comparing the recorded investment to either the value determined by discounting the expected future cash flows using the loan's effective interest rate or to the fair value of the collateral, if the loan is collateral dependent. If a loan is deemed to be impaired, we generally place the loan on non-accrual status and record interest income only upon receipt of cash.

Earnings Per Share: Basic earnings per common share/unit is computed by dividing net income applicable to common shares/units by the weighted number of shares/units of common stock/units outstanding during the period. Diluted earnings per common share/units is calculated by including the effect of dilutive securities.

Our unvested restricted stock/unit awards contain non-forfeitable rights to dividends, and accordingly, these awards are deemed to be participating securities. These participating securities are included in the earnings allocation in computing both basic and diluted earnings per common share/unit.

Income Taxes: We conduct our business as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended ("the Code"). To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute to stockholders at least 90% of our REIT's ordinary taxable income. As a REIT, we generally pay little U.S. federal and state income tax because of the dividends paid deduction that we are allowed to take. If we fail to qualify as a REIT in any taxable year, we will then be subject to U.S. federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we intend to operate in such a manner so that we will remain qualified as a REIT for U.S. federal income tax purposes.

Our financial statements include the operations of taxable REIT subsidiaries ("TRS"), including MPT Development Services, Inc. ("MDS"), and with many other entities, which are single member LLCs that are disregarded for tax purposes and are reflected in the tax returns of MDS. Our TRS entities are not entitled to a dividends paid deduction and are subject to U.S. federal, state, and local income taxes. Our TRS entities are authorized to provide property development, leasing, and management services for third-party owned properties, and they may make loans to and/or investments in our lessees.

With the property acquisitions and investments in Europe, we are subject to income taxes internationally. However, we do not expect to incur any additional income taxes in the U.S. as such income from our international properties will flow through our REIT income tax returns. For our TRS and international subsidiaries, we determine deferred tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Any increase or decrease in our deferred tax receivables/liabilities that results from a change in circumstances and that causes us to change our judgment about expected future tax consequences of events, is reflected in our tax provision when such changes occur. Deferred income taxes also reflect the impact of operating loss carryforwards. A valuation allowance is provided if we believe it is more likely than not that all or some portion of our deferred tax assets will not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances, and that causes us to change our judgment about our ability to realize the related deferred tax asset, is reflected in our tax provision when such changes occur.

The calculation of our income taxes involve dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. An income tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of technical merits. However, if a more likely than not position cannot be reached, we record a liability as an off-set to the tax benefit and adjust the liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the uncertain tax position liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

Stock-Based Compensation: We adopted the 2013 Equity Incentive Plan (the "Equity Incentive Plan") during the second quarter of 2013. Awards of restricted stock, stock options and other equity-based awards with service conditions are amortized to compensation expense over the vesting periods (typically three years), using the straight-line method. Awards that contain market conditions are amortized to compensation expense over the derived vesting periods, which correspond to the periods over which we estimate the awards will be earned, which generally range from three to five years, using the straight-line method. Awards with performance conditions are amortized using the straight-line method over the service period in which the performance conditions are measured, adjusted for the probability of achieving the performance conditions. Forfeitures of stock-based awards are recognized as they occur..

Deferred Costs: Costs incurred that directly relate to the offerings of stock are deferred and netted against proceeds received from the offering. Leasing commissions and other leasing costs directly attributable to tenant leases are capitalized as deferred leasing costs and amortized on the straight-line method over the terms of the related lease agreements. Costs identifiable with loans made to borrowers are recognized as a reduction in interest income over the life of the loan.

Deferred Financing Costs: We generally capitalize financing costs incurred in connection with new financings and refinancings of debt. These costs are amortized over the lives of the related debt as an addition to interest expense. For debt with defined principal re-payment terms, the deferred costs are amortized to produce a constant effective yield on the debt (interest method) and are included within Debt, net on our consolidated balance sheets. For debt without defined principal repayment terms, such as revolving credit agreements, the deferred costs are amortized on the straight-line method over the term of the debt and are included as a component of Other Assets on our consolidated balance sheets.

Foreign Currency Translation and Transactions: Certain of our international subsidiaries' functional currencies are the local currencies of their respective countries. We translate the results of operations of our foreign subsidiaries into U.S. dollars using average rates of exchange in effect during the period, and we translate balance sheet accounts using exchange rates in effect at the end of the period. We record resulting currency translation adjustments in accumulated other comprehensive income (loss), a component of stockholders' equity on our consolidated balance sheets.

Certain of our U.S. subsidiaries will enter into short-term and long-term transactions denominated in a foreign currency from time to time. Gains or losses resulting from these foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses on our short-term transactions are included in other income in the consolidated statements of income, while the translation effects on our long-term investments are recorded in accumulated other comprehensive income (loss) on our consolidated balance sheets.

Derivative Financial Investments and Hedging Activities: During our normal course of business, we may use certain types of derivative instruments for the purpose of managing interest rate and/or foreign currency risk. We record our derivative and hedging instruments at fair value on the balance sheet. Changes in the estimated fair value of derivative instruments that are not designated as hedges or that do not meet the criteria for hedge accounting are recognized in earnings. For derivatives designated as cash flow hedges, the change in the estimated fair value of the effective portion of the derivative is recognized in accumulated other comprehensive income (loss) on our consolidated balance sheets, whereas the change in the estimated fair value of the ineffective portion is recognized in earnings. For derivatives designated as fair value hedges, the change in the estimated fair value of the effective portion of the derivatives offsets the change in the estimated fair value of the hedged item, whereas the change in the estimated fair value of the ineffective portion is recognized in earnings. There was no derivative or hedging activity in place during the year ended December 31, 2017.

To qualify for hedge accounting, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking the hedge prior to entering into a derivative transaction. This process includes specific identification of the hedging instrument and the hedge transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness in hedging the exposure to the hedged transaction's variability in cash flows attributable to the hedged risk will be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items. In addition, for cash flow hedges, we assess whether the underlying forecasted transaction will occur. We discontinue hedge accounting if a derivative is not determined to be highly effective as a hedge or that it is probable that the underlying forecasted transaction will not occur.

Fair Value Measurement: We measure and disclose the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 — quoted prices for *identical* instruments in active markets;

Level 2 — quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 — fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable.*

We measure fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at their estimated fair value on either a recurring or non-recurring basis. When available, we utilize quoted market prices from an independent third party source to determine fair value and classify such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, we apply the dealer (market maker) pricing estimate and classify the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads, market capitalization rates, etc. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by us include discounted cash flow and Monte Carlo valuation models. We also consider our counterparty's and own credit risk on derivatives and other liabilities measured at their estimated fair value..

Fair Value Option Election: For our equity interest in Ernest along with any related loans (as more fully described in Note 3 and 10), we have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other equity interests or loans that existed at December 31, 2017.

RECENT ACCOUNTING DEVELOPMENTS:

REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. This standard is effective for us beginning January 1, 2018, and we plan to adopt under the modified retrospective method. We do not expect this standard to have a significant impact on our financial results upon adoption, as a substantial portion of our revenue consists of rental income from leasing arrangements and interest income from loans, which are specifically excluded from ASU No. 2014-09. Under ASU No. 2014-09, we do expect more transactions to qualify as sales of real estate with gains on sales being recognized earlier than under current accounting guidance, as the new guidance is based on transfer of control versus whether or not the seller has continuing involvement. Thus, we expect to record an approximate $2 million adjustment to retained earnings upon adoption of ASU No. 2014-09 to fully recognize a gain on real estate sold in prior years that was required to be deferred under existing accounting guidance.

CLARIFYING THE DEFINITION OF A BUSINESS

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in ASU 2017-01 provide an initial screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, in which case, the transaction would be accounted for as an asset acquisition rather than as a business combination. In addition, ASU 2017-01 clarifies the requirements for a set of activities to be considered a business and narrows the definition of an output. We plan to adopt ASU 2017-01 on January 1, 2018 using the prospective method. Upon adoption, we expect to recognize a majority of our real estate acquisitions as asset transactions rather than business combinations, which will result in the capitalization of third party transaction costs that are directly related to an acquisition and significantly decrease acquisition expenses. Indirect and internal transaction costs will continue to be expensed, but we do not expect to include these costs as an adjustment in deriving normalized funds from operations in the future. We expect this change in accounting, once adopted, may decrease our normalized funds from operations by $1 million to $2 million per quarter.

LEASES

In February 2016, the FASB issued ASU 2016-02, "Leases", which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either financing or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

We expect to adopt this new standard on January 1, 2019. We are continuing to evaluate this standard and the impact to us from both a lessor and lessee perspective. We do have leases in which we are the lessee, including ground leases, on which certain of our facilities reside, along with corporate office and equipment leases, that will be required to be recorded on our balance sheet upon adoption of this standard. From a lessor perspective, we do expect certain non-lease components (including property taxes, insurance and other operating expenses that the tenants of our facilities are required to pay pursuant to our "triple-net" leases) to be recorded gross versus net of the respective expenses upon adoption of this standard in 2019 in accordance with ASU No. 2014-09.

3. REAL ESTATE AND LOANS RECEIVABLE

ACQUISITIONS

We acquired the following assets:

	2017	2016	2015
Assets Acquired	(Amounts in thousands)		
Land	$ 229,091	$ 91,071	$ 120,746
Building	1,027,154	655,324	741,935
Intangible lease assets – subject to amortization (weighted average useful life of 28.0 years in 2017, 28.5 years in 2016 and 30.0 years in 2015)	150,971	94,167	176,383
Net investments in direct financing leases	40,450	178,000	174,801
Mortgage loans	700,000	600,000	380,000
Other loans	–	–	523,605
Equity investments and other assets	100,000	70,166	101,716
Liabilities assumed	(878)	(6,319)	(317)
Total assets acquired	$ 2,246,788	$1,682,409	$2,218,869
Loans repaid(1)	–	(193,262)	(385,851)
Total net assets acquired	$ 2,246,788	$ 1,489,147	$ 1,833,018

(1) The 2016 column includes $93.3 million of loans advanced to Capella in 2015 and repaid in 2016 as a part of the Capella transaction, along with $100.0 million loans advanced to Prime in 2015 and repaid in 2016 as part of the sale leaseback conversion of four properties in New Jersey. The 2015 column includes $385.9 million of loans advanced to MEDIAN in 2014 and repaid in 2015 as a part of the MEDIAN transaction.

Purchase price allocations attributable to certain acquisitions made during 2017 are preliminary. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be adjusted to reflect new information obtained about the facts and circumstances that existed as of the respective acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates.

2017 ACTIVITY

STEWARD TRANSACTIONS

On September 29, 2017, we acquired, from IASIS Healthcare LLC ("IASIS"), a portfolio of ten acute care hospitals and one behavioral health facility, along with ancillary land and buildings, that are located in Arizona, Utah, Texas, and Arkansas. The portfolio is now operated by Steward which separately completed its acquisition of the operations of IASIS on September 29, 2017. Our investment in the portfolio includes the acquisition of eight acute care hospitals and one behavioral health facility for approximately $700 million, the making of $700 million in mortgage loans on two acute care hospitals, and a $100 million minority equity contribution in Steward, for a combined investment of approximately $1.5 billion.

On May 1, 2017, we acquired eight hospitals previously affiliated with Community Health Systems, Inc. in Florida, Ohio, and Pennsylvania for an aggregate purchase price of $301.3 million.

See "2016 Activity — Acquisition of Steward Portfolio" below for details of the master lease and mortgage loan terms.

MEDIAN TRANSACTIONS

On November 29, 2017, we acquired three rehabilitation hospitals in Germany for an aggregate purchase price of €80 million. The facilities are leased to affiliates of MEDIAN, pursuant to a new long-term master lease. The lease began on November 30, 2017, and the term is for 27 years (ending in November 2044). The lease provides for increases in rent at the greater of one percent or 70% of the change in German CPI.

During the third quarter of 2017, we acquired two rehabilitation hospitals in Germany for an aggregate purchase price of €39.2 million, in addition to 11 rehabilitation hospitals in Germany that we acquired in the second quarter of 2017 for an aggregate purchase price of €127 million. These 13 properties are leased to affiliates of MEDIAN, pursuant to a third master lease entered into in 2016. (See "2016 Activity" below for details of this master lease.) These acquisitions are the final properties of the portfolio of 20 properties in Germany that we agreed to acquire in July 2016 for €215.7 million, of which seven properties totaling €49.5 million closed in December 2016.

On June 22, 2017, we acquired an acute care hospital in Germany for a purchase price of €19.4 million, of which €18.6 million was paid upon closing with the remainder being paid over four years. This property is leased to affiliates of MEDIAN, pursuant to an existing master lease agreement that ends in December 2042 with annual escalators at the greater of one percent or 70% of the change in German CPI.

On January 30, 2017, we acquired an inpatient rehabilitation hospital in Germany for €8.4 million. This acquisition was the final property to close as part of the six hospital portfolio that we agreed to buy in September 2016 for an aggregate amount of €44.1 million. This property is leased to affiliates of MEDIAN pursuant to the original long-term master lease agreement reached with MEDIAN in 2015. (See "2015 Activity" below for further details of this master lease.)

OTHER TRANSACTIONS

On June 1, 2017, we acquired the real estate assets of Ohio Valley Medical Center, a 218-bed acute care hospital located in Wheeling, West Virginia, and the East Ohio Regional Hospital, a 139-bed acute care hospital in Martins Ferry, Ohio, from Ohio Valley Health Services, a not-for-profit entity in West Virginia, for an aggregate purchase price of approximately $40 million. We simultaneously leased the facilities to Alecto Healthcare Services LLC ("Alecto"), pursuant to a lease with a 15-year initial term with 2% annual minimum rent increases and three 5-year extension options. The facilities are cross-defaulted and cross-collateralized with our other hospitals currently operated by Alecto. We also agreed to provide up to $20.0 million in capital improvement funding on these two facilities — none of which has been funded to date. With these acquisitions, we also obtained a 20% interest in the operator of these facilities.

On May 1, 2017, we acquired the real estate of St. Joseph Regional Medical Center, a 145-bed acute care hospital in Lewiston, Idaho for $87.5 million. This facility is leased to RCCH Healthcare Partners ("RCCH"), pursuant to the existing long-term master lease entered into with RCCH in April 2016.

From the respective acquisition dates in 2017 through year-end, the properties acquired during the year ended December 31, 2017, contributed $72.9 million and $57.8 million of revenue and income (excluding related acquisition expenses), respectively, for the year ended December 31, 2017. In addition, we incurred $24.4 million of acquisition-related costs on the 2017 acquisitions for the year ended December 31, 2017.

2016 ACTIVITY

ACQUISITION OF STEWARD PORTFOLIO

On October 3, 2016, we closed on a portfolio of nine acute care hospitals in Massachusetts operated by Steward. Our investment in the portfolio included the acquisition of five hospitals for $600 million, the making of $600 million in mortgage loans on four facilities, and a $50 million minority equity contribution in Steward, for a combined investment of $1.25 billion. The five facilities acquired are being leased to Steward under a master lease agreement that has a 15-year term (ending October 31, 2031) with three 5-year extension options, plus annual inflation-based escalators. The terms of the mortgage loan are substantially similar to the master lease.

OTHER ACQUISITIONS

From October 27, 2016 to December 31, 2016, we acquired 12 rehabilitation hospitals in Germany for an aggregate purchase price to us of €85.2 million. Of these acquisitions, five properties (totaling €35.6 million) are leased to affiliates of MEDIAN, pursuant to a master lease agreement reached with MEDIAN in 2015. (See "2015 Activity" below for further details of this master lease). The remaining seven properties (totaling €49.5 million) are leased to affiliates of MEDIAN, pursuant to a third master lease that has terms similar to the original master lease in 2015 with a fixed 27-year lease term ending in August 2043.

On October 21, 2016, we acquired three general acute care hospitals and one free-standing emergency department and health center in New Jersey from Prime Healthcare Services, Inc. ("Prime") (as originally contemplated in the agreements) by reducing the $100 million mortgage loan made in September 2015 and advancing an additional $15 million. We are leasing these properties to Prime pursuant to a fifth master lease, which has a 15-year initial term (ending in May 2031) with three five-year extension options, plus consumer-price indexed increases.

On July 22, 2016, we acquired an acute care facility in Olympia, Washington in exchange for a $93.3 million loan and an additional $7 million in cash, as contemplated in the initial Capella Healthcare Inc. (“Capella”) acquisition transaction in 2015. The terms of the Olympia lease are substantially similar to those of the master lease with Capella post lease amendment. See the Capella Disposal Transaction under the subheading “Disposals” below for further details on the terms of the Capella leases.

On June 22, 2016, we closed on the final property of the initial MEDIAN transaction that began in 2014 for a purchase price of € 41.6 million. See “2015 Activity” for a description of the initial MEDIAN Transaction and related master lease terms.

On May 2, 2016, we acquired an acute care hospital in Newark, New Jersey for an aggregate purchase price of $63 million leased to Prime pursuant to the fifth master lease. Furthermore, we committed to advance an additional $30 million to Prime over a three-year period to be used solely for capital additions to the real estate; any such addition will be added to the basis upon which the lessee will pay us rents. None of the additional $30 million has been funded to date.

From the respective acquisition dates through the 2016 year-end, the properties acquired during 2016, contributed $37.4 million and $31.7 million of revenue and income (excluding related acquisition expense), respectively, for the year ended December 31, 2016. In addition, we incurred $12.1 million of acquisition-related costs on the 2016 acquisitions for the year ended December 31, 2016.

2015 ACTIVITY

ACQUISITION OF CAPELLA PORTFOLIO

In July 2015, we entered into definitive agreements to acquire a portfolio of seven acute care hospitals owned and operated by Capella for a combined purchase price and investment of approximately $900 million, adjusted for any cash on hand. The transaction included our investments in seven acute care hospitals (two of which were in the form of mortgage loans) for an aggregate investment of approximately $600 million, an acquisition loan for approximately $290 million and a 49% equity interest in the ongoing operator of the facilities.

On August 31, 2015, we closed on six of the seven Capella properties, two of which were in the form of mortgage loans. We closed on the seventh property on July 22, 2016 (as discussed above). We entered into a master lease, a stand-alone lease, and mortgage loans for the acquired properties providing for 15-year terms with four 5-year extension options, plus consumer price-indexed increases, limited to a 2% floor and a 4% ceiling annually. The acquisition loan had a 15-year term and carried a fixed interest rate of 8%.

On October 30, 2015, we acquired an additional acute hospital in Camden, South Carolina for an aggregate purchase price of $25.8 million. We leased this hospital to Capella pursuant to the 2015 master lease. In connection with the transaction, we funded an additional acquisition loan to Capella of $9.2 million.

See the Capella Disposal Transaction under the subheading “Disposals” below for an update to this transaction.

MEDIAN TRANSACTION

During early 2015, we made additional interim loans (as part of the initial MEDIAN transaction entered into in October 2014) of approximately €240 million on behalf of MEDIAN, to complete step one of a two-step process to acquire the healthcare real estate of MEDIAN. In addition, we entered into a series of definitive agreements with MEDIAN to complete step two, which involved the acquisition of the real estate assets of 32 hospitals owned by MEDIAN for an aggregate purchase price of approximately €688 million. Upon acquisition, each property became subject to a new master lease between us and MEDIAN providing for the leaseback of the property to MEDIAN. The master lease had an initial term of 27 years (ending in March 2042) and provided for annual escalations of rent at the greater of one percent or 70% of the change in German CPI.

At each closing, the purchase price for each facility was reduced and offset against the interim loans made to affiliates of MEDIAN and against the amount of any debt assumed or repaid by us in connection with the closing. As of December 31, 2015, we had closed on 31 of the 32 properties for an aggregate amount of € 646 million, and we had no loans outstanding to MEDIAN. The final property was acquired in June 2016 as noted above.

OTHER ACQUISITIONS

On December 3, 2015, we acquired a 266-bed outpatient rehabilitation clinic located in Hannover, Germany from MEDIAN for €18.7 million. Upon acquisition, the facility was leased back under the initial master lease entered into with MEDIAN in 2013, that provided for an initial term of 27 years (ending in November 2040) and annual rent increases of 2.0% in 2017 and 0.5% thereafter. On December 31, 2020 and every three years thereafter, rent will be further increased, if needed, to reflect 70% of cumulative increases in the German CPI.

On November 18, 2015, we acquired seven acute care hospitals and a freestanding clinic in northern Italy for an aggregate purchase price to us of approximately €90 million. The acquisition was effected through a joint venture between us and affiliates of AXA Real Estate, in which we own a 50% interest. The facilities are leased to an Italian acute care hospital operator, pursuant to a long-term master lease. We are accounting for our 50% interest in this joint venture under the equity method.

On September 30, 2015, we provided a $100 million mortgage financing to Prime for three general acute care hospitals and one free-standing emergency department and health center in New Jersey. The loan had a five-year term and provided for consumer-priced indexed interest increases, subject to a floor. As previously noted above, we acquired these facilities in October 2016 by reducing the mortgage loan and advancing an additional $15 million.

On September 9, 2015, we acquired the real estate of a general acute care hospital under development located in Valencia, Spain. The acquisition was effected through a joint venture between us and clients of AXA Real Estate, in which we own a 50% interest. Our share of the aggregate purchase and development price was approximately €21 million. See IMED Group under the subheading "Development Activities" for an update on this transaction along with additional details.

On August 31, 2015, we closed on a $30 million mortgage loan transaction with Prime for the acquisition of Lake Huron Medical Center, a 144-bed general acute care hospital located in Port Huron, Michigan. The loan provided for consumer-priced indexed interest increases, subject to a floor. The mortgage loan had a five-year term with conversion rights to our standard sale leaseback agreement, which we exercised on December 31, 2015, when we acquired the real estate of Lake Huron Medical Center for $20 million, which reduced the mortgage loan accordingly. The facility is being leased to Prime under our master lease agreement.

On June 16, 2015, we acquired the real estate of two facilities in Lubbock, Texas, a 60-bed inpatient rehabilitation hospital and a 37-bed long-term acute care hospital ("LTACH"), for an aggregate purchase price of $31.5 million. We entered into a 20-year lease (ending in June 2035) with Ernest for the rehabilitation hospital, which provides for three five-year extension options, and separately entered into a lease with Ernest for the long-term acute care hospital that has a final term ending December 31, 2034. In connection with the transaction, we funded an acquisition loan to Ernest of approximately $12.0 million. Ernest operates the rehabilitation hospital in a joint venture with Covenant Health System. Effective July 18, 2016, we amended the lease of the rehabilitation hospital to include the long-term acute care hospital. Ernest converted the long-term acute care facility into a rehabilitation facility in the second quarter of 2017.

On February 27, 2015, we acquired an inpatient rehabilitation hospital in Weslaco, Texas for $10.7 million. We have leased this hospital to Ernest pursuant to the 2012 master lease, which had an initial 20-year fixed term (ending in February 2032) and three extension options of five years each. This lease provides for consumer-priced-indexed annual rent increases, subject to a floor and a cap. In addition, we funded an acquisition loan in the amount of $5 million.

On February 13, 2015, we acquired two general acute care hospitals in the Kansas City area for $110 million. Prime is the tenant and operator pursuant to a new master lease that has similar terms and security enhancements as the other master lease agreements entered into in 2013. This master lease has a 10-year initial fixed term (ending in February 2025) with two extension options of five years each. The lease provides for consumer-price-indexed annual rent increases, subject to a specified floor. In addition, we funded a mortgage loan in the amount of $40 million, which has a 10-year term.

From the respective acquisition dates in 2015 through that year end, the properties and mortgage loans acquired in 2015 contributed $102.7 million and $87.7 million of revenue and income (excluding related acquisition expenses), respectively, for the year ended December 31, 2015. In addition, we incurred $58 million of acquisition related costs on the 2015 acquisitions for the year ended December 31, 2015.

PRO FORMA INFORMATION

The following unaudited supplemental pro forma operating data is presented below as if each acquisition was completed on January 1, 2016 and January 1, 2015 for the year ended December 31, 2017 and 2016, respectively. The unaudited supplemental pro forma operating data is not necessarily indicative of what actuals would have been assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods (in thousands, except per share/unit amounts).

	For the Year Ended December 31, (unaudited)	
	2017	2016
Total revenues	$ 839,568	$ 836,211
Net income	418,811	427,295
Net income per share - diluted	$ 1.14	$ 1.17

DEVELOPMENT ACTIVITIES

2017 ACTIVITY

During 2017, we completed construction and began recording rental income on the following facilities:

- Adeptus Health, Inc. ("Adeptus Health") — We completed four acute care facilities for this tenant during 2017 totaling approximately $68 million in development costs. These facilities are leased pursuant to an existing long-term master lease.

- IMED Group ("IMED") — Our general acute facility located in Valencia, Spain opened on March 31, 2017, and is being leased to IMED pursuant to a 30-year lease that provides for quarterly fixed rent payments that started on October 1, 2017 with annual increases of 1% beginning April 1, 2020. Our ownership in this facility is effected through a joint venture between us and clients of AXA Real Estate, in which we own a 50% interest. Our share of the aggregate purchase and development cost of this facility is approximately €21 million.

In April 2017, we completed the acquisition of the long leasehold interest of a development site in Birmingham, England from the Circle Health Group ("Circle") (the tenant of our existing site in Bath, England) for a purchase price of £2.7 million. Simultaneously with the acquisition, we entered into contracts with the property landlord and Circle committing us to construct an acute care hospital on the site. Our total development costs are anticipated to be approximately £30 million. Circle is contracted to enter into a lease of the hospital following completion of construction for an initial 15-year term with rent to be calculated based on our total development costs.

On December 19, 2017, we entered into an agreement to finance the development of and lease an acute care hospital in Idaho Falls, Idaho, for $113.5 million. This facility will be leased to Surgery Partners, Inc. ("Surgery Partners") pursuant to a long-term lease and is expected to be completed in the first quarter of 2020.

2016 ACTIVITY

During 2016, we completed construction and began recording rental income on the following facilities:

- Adeptus Health — We completed 19 acute care facilities for this tenant during 2016 totaling $136.6 million. These facilities are leased pursuant to an existing long-term master lease.

- Ernest Toledo — This $18.4 million inpatient rehabilitation facility located in Toledo, Ohio opened on April 1, 2016 and is being leased to Ernest pursuant to the original 2012 master lease.

On August 23, 2016, we entered into an agreement to finance the development of and lease an inpatient rehabilitation facility in Flagstaff, Arizona, for $28.1 million, which will be leased to Ernest pursuant to a stand-alone lease, with terms generally similar to the original master lease.

2015 ACTIVITY

During 2015, we completed construction and began recording rental income on the following facilities:

- Adeptus Health — We completed 17 acute care facilities for this tenant during 2015 totaling $102.6 million. These properties are leased pursuant to a master lease that generally has a 15-year initial term with three extension options of five years each that provide for annual rent increases based on changes in CPI with a 2% minimum.

- UAB Medical West — This $8.6 million acute care facility and medical office building located in Birmingham, Alabama is leased to Medical West, an affiliate of The University of Alabama at Birmingham, for 15 years and contains four renewal options of five years each. The rent increases 2% annually.

See table below for a status summary of our current development projects (in thousands):

Property	Commitment	Costs Incurred as of December 31, 2017	Estimated Completion Date
Ernest (Flagstaff, Arizona)	$ 28,067	$ 21,794	1Q 2018
Circle (Birmingham, England)	43,592	14,694	1Q 2019
Surgery Partners (Idaho Falls, Idaho)	113,468	11,207	1Q 2020
	$ 185,127	$ 47,695	

DISPOSALS

2017 ACTIVITY

On March 31, 2017, we sold the EASTAR Health System real estate located in Muskogee, Oklahoma, which was leased to RCCH. Total proceeds from this transaction were approximately $64 million resulting in a gain of $7.4 million, partially offset by a $0.6 million non-cash charge to revenue to write-off related straight-line rent receivables on this property.

The sale of Muskogee facility was not a strategic shift in our operations and therefore the results of the Muskogee operations were not reclassified to discontinued operations.

2016 ACTIVITY

CAPELLA DISPOSAL TRANSACTION

Effective April 30, 2016, our investment in the operator of Capella merged with RegionalCare Hospital Partners, Inc. ("RegionalCare"), an affiliate of certain funds managed by affiliates of Apollo Global Management, LLC ("Apollo"), to form RCCH. As part of the transaction, we received net proceeds of approximately $550 million including approximately $492 million for our equity investment and loans made as part of the original Capella acquisition that closed on August 31, 2015. In addition, we received $210 million in prepayment of two mortgage loans for hospitals in Russellville, Arkansas, and Lawton, Oklahoma that we made in connection with the original Capella transaction. We made a new $93.3 million loan for a hospital property in Olympia, Washington that was subsequently converted to real estate on July 22, 2016 as previously disclosed. Additionally, we and an Apollo affiliate invested $50 million each in unsecured senior notes issued by RegionalCare, which we sold to a large institution on June 20, 2016 at par. The proceeds from this transaction represented the recoverability of our investment in full, except for transaction costs incurred of $6.3 million.

We maintained our ownership of five hospitals in Hot Springs, Arkansas; Camden, South Carolina; Hartsville, South Carolina; Muskogee, Oklahoma; and McMinnville, Oregon. Pursuant to the transaction described above, the underlying leases, one of which is a master lease covering all but one property was amended to shorten the initial fixed lease term (to 13.5 years for the master lease and 11.5 years for the other stand-alone lease) , increase the security deposit, and eliminate the lessees' purchase option provisions. Due to this lease amendment, we reclassified the lease of the properties under the master lease from a DFL to an operating lease. This reclassification resulted in a write-off of $2.6 million of unbilled DFL rent receivables in 2016.

POST ACUTE TRANSACTION

On May 23, 2016, we sold five properties (three of which were in Texas and two in Louisiana) that were leased and operated by Post Acute Medical. As part of this transaction, our outstanding loans of $4 million were paid in full, and we recovered our investment in the operations. Total proceeds from this transaction were $71 million, resulting in a net gain of approximately $15 million.

CORINTH TRANSACTION

On June 17, 2016, we sold the Atrium Medical Center real estate located in Corinth, Texas, which was leased and operated by Corinth Investor Holdings. Total proceeds from the transaction were $28 million, resulting in a gain on the sale of real estate of approximately $8 million. This gain on real estate was offset by approximately $9 million of non-cash charges that included the write-off of our investment in the operations of the facility, straight-line rent receivables, and a lease intangible.

HEALTHSOUTH TRANSACTION

On July 20, 2016, we sold three inpatient rehabilitation hospitals located in Texas and operated by HealthSouth Corporation for $111.5 million, resulting in a net gain of approximately $45 million.

SUMMARY OF OPERATIONS FOR DISPOSED ASSETS IN 2016

The properties sold during 2016 did not meet the definition of discontinued operations. However, the following represents the operating results (excluding gain on sale, transaction costs, and impairment or other non-cash charges) from these properties (excluding loans repaid in the Capella Disposal Transaction) for the periods presented (in thousands):

	For the Year Ended December 31, 2016	2015
Revenues	$ 7,851	$ 18,112
Real estate depreciation and amortization	(1,754)	(3,795)
Property-related expenses	(114)	(121)
Other income (expense)	(23)	1,079
Income from real estate dispositions, net	$ 5,960	$ 15,275

2015 ACTIVITY

On July 30, 2015, we sold a long-term acute care facility in Luling, Texas for approximately $9.7 million, resulting in a gain of $1.5 million. Due to this sale, we wrote off $0.9 million of straight-line rent receivables. On August 5, 2015, we sold six wellness centers in the U.S. for total proceeds of approximately $9.5 million (of which $1.5 million was in the form of a promissory note), resulting in a gain of $1.7 million. Due to this sale, we wrote off $0.9 million of billed rent receivables. With these disposals, we accelerated the amortization of the related lease intangible assets resulting in approximately $0.7 million of additional expense.

The sale of the Luling facility and the six wellness centers were not strategic shifts in our operations, and therefore the results of operations related to these facilities were not reclassified as discontinued operations.

INTANGIBLE ASSETS

At December 31, 2017 and 2016, our intangible lease assets were $443 million ($394 million, net of accumulated amortization) and $296 million ($264 million, net of accumulated amortization), respectively.

We recorded amortization expense related to intangible lease assets of $15.8 million, $13.4 million, and $9.1 million in 2017, 2016, and 2015, respectively, and expect to recognize amortization expense from existing lease intangible assets as follows (amounts in thousands):

For the Year Ended December 31:	
2018	$ 17,707
2019	17,654
2020	17,440
2021	17,373
2022	17,359

As of December 31, 2017, capitalized lease intangibles have a weighted average remaining life of 24.3 years.

LEASING OPERATIONS

At December 31, 2017, leases on two Alecto facilities, 15 Ernest facilities and ten Prime facilities are accounted for as DFLs. The components of our net investment in DFLs consisted of the following (in thousands):

	As of December 31, 2017	As of December 31, 2016
Minimum lease payments receivable	$ 2,294,081	$ 2,207,625
Estimated residual values	448,339	407,647
Less unearned income	(2,043,693)	(1,967,170)
Net investment in direct financing leases	$ 698,727	$ 648,102

Minimum rental payments due to us in future periods under operating leases and DFLs, which have non-cancelable terms extending beyond one year at December 31, 2017, are as follows (amounts in thousands):

	Total Under Operating Leases	Total Under DFLs	Total
2018	$ 496,379	$ 67,436	$ 563,815
2019	499,417	68,784	568,201
2020	502,309	70,160	572,469
2021	509,991	71,563	581,554
2022	503,679	72,994	576,673
Thereafter	10,472,481	1,734,085	12,206,566
	$ 12,984,256	$ 2,085,022	$ 15,069,278

ADEPTUS HEALTH

On April 4, 2017, we announced that we had agreed in principle with Deerfield Management Company, L.P. ("Deerfield"), a healthcare-only investment firm, to the restructuring in bankruptcy of Adeptus Health. In furtherance of the restructuring, Adeptus Health and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code on April 19, 2017. Funds advised by Deerfield acquired Adeptus Health's outstanding bank debt, and Deerfield agreed to provide additional financing, along with operational and managerial support, to Adeptus Health as part of the restructuring.

On September 29, 2017, the U.S. Bankruptcy Court for the Northern District of Texas, Dallas Division, entered an order confirming the Debtors' Third Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (the "Plan"). The Plan became effective on October 2, 2017 (the "Confirmation Effective Date"). In connection with the confirmation of the Plan, Deerfield agreed that it would assume all of the master leases and related agreements between us and Adeptus Health, cure all defaults that had arisen prior to the commencement of the bankruptcy proceedings with respect to all properties, and continue to pay rent with respect to all but 16 of the 56 Adeptus Health properties according to the terms of the master leases and related agreements. Rent will remain the same, and a previously disclosed rent concession was removed from the terms. We plan to re-lease or sell the remaining 16 properties, and Adeptus Health will continue to pay rent with respect to those 16 properties until the earlier of (a) transition to a new operator is complete, (b) two years following the Confirmation Effective Date (for one facility), (c) one year following the Confirmation Effective Date (for seven facilities), (d) six months following the Confirmation Effective Date (for three facilities), and (e) three months following the Confirmation Effective Date (for five facilities). As part of the Plan, our lease with Adeptus Health was amended to shorten the lease term of the 16 transition properties resulting in an acceleration of straight-line rent receivable amortization of $4.2 million in the 2017 fourth quarter. Although no assurances can be made that we will not recognize a loss in the future, we believe at December 31, 2017 that the sale or re-leasing of the assets related to these 16 transition facilities will not result in any material loss or impairment.

On December 7, 2017, we announced that UCHealth Partners LLC ("UCHealth"), an affiliate of University of Colorado Hospital, had acquired all of Adeptus Health's Colorado joint venture interests, assuming the existing master lease of 11 of our free standing emergency facilities. The 11 facilities that are now master leased to UCHealth affiliates represent a gross investment of $58.6 million. The master lease was amended to provide a new 15-year initial term effective January 1, 2018 with three five-year renewal options, while retaining annual escalation provisions of the increase in the CPI with a 2% minimum.

On April 4, 2017, we announced that our Louisiana freestanding emergency facilities then-operated by Adeptus Health (with a total budgeted investment of approximately $24.5 million) had been re-leased to Ochsner Clinic Foundation ("Ochsner"), a health care system in the New Orleans area. We incurred a non-cash charge of $0.5 million to write-off the straight-line rent receivables associated with the previous Adeptus Health lease on these properties. On October 18, 2017, Ochsner agreed to an amended and restated lease that provided for initial terms of 15 years with a 9.2% average minimum lease rate based on our total development and construction cost, as well as the addition of three five-year renewal options.

TWELVE OAKS FACILITY

In the third quarter of 2015, we sent notice of termination of the lease to the tenant at our Twelve Oaks facility. As a result of the lease terminating, we recorded a charge of $1.9 million to reserve against the straight-line rent receivables. In addition, we accelerated the amortization of the related lease intangible asset resulting in $0.5 million of additional expense during 2015. During the third quarter of 2016, the former tenant paid us approximately $2.5 million representing substantially all amounts owed to us at that time. The former tenant has continued to occupy the facility and is current on its obligations through December 31, 2017. However, we expect this tenant will vacate the facility by mid-year 2018, at which time we will re-lease the facility. Although no assurances can be made that we will not have any impairment charges in the future, we believe our real estate investment in Twelve Oaks at December 31, 2017 is fully recoverable.

LOANS

The following is a summary of our loans ($ amounts in thousands):

	As of December 31, 2017		As of December 31, 2016	
	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
Mortgage loans	$ 1,778,316	8.3%	$ 1,060,400	8.8%
Acquisition loans	118,448	13.8%	121,464	13.7%
Working capital and other loans	31,760	7.6%	34,257	9.0%
	$ 1,928,524		$ 1,216,121	

Our mortgage loans cover 14 of our properties with four operators. The increase in mortgage loans relates to the loans made to Steward totaling $700 million for two properties on September 29, 2017, as part of the Steward Transaction.

Other loans typically consist of loans to our tenants for acquisitions and working capital purposes. At December 31, 2017, acquisition loans include $114 million loaned to Ernest.

CONCENTRATION OF CREDIT RISKS

REVENUE BY OPERATOR

($ amounts in thousands)

	For the Years Ended December 31,			
	2017		2016	
Operators	Total Revenue	Percentage of Total Revenue	Total Revenue	Percentage of Total Revenue
Steward(1)	$ 190,172	27.0%	$ 54,068	10.0%
Prime	126,269	17.9%	120,558	22.3%
MEDIAN	100,531	14.3%	93,425	17.3%
Ernest	70,665	10.0%	67,742	12.5%
RCCH	41,890	5.9%	52,720	9.7%
Other Operators	175,218	24.9%	152,624	28.2%
Total	$ 704,745	100.0%	$ 541,137	100.0%

(1) Includes revenue from IASIS prior to being acquired by Steward on September 29, 2017.

REVENUE BY U.S. STATE AND COUNTRY

($ amounts in thousands)

	For the Years Ended December 31,			
	2017		2016	
U.S. States and Other Countries	Total Revenue	Percentage of Total Revenue	Total Revenue	Percentage of Total Revenue
Massachusetts	$ 107,195	15.2%	$ 26,098	4.8%
Texas	102,926	14.6%	96,992	17.9%
California	66,241	9.4%	66,197	12.2%
Arizona	36,393	5.2%	23,798	4.4%
Utah	28,831	4.1%	9,942	1.8%
Other States	235,545	33.4%	216,505	40.1%
Total U.S.	$ 577,131	81.9%	$ 439,532	81.2%
Germany	$ 123,453	17.5%	$ 97,382	18.0%
United Kingdom, Italy and Spain	4,161	0.6%	4,223	0.8%
Total International	$ 127,614	18.1%	$ 101,605	18.8%
Total	$ 704,745	100.0%	$ 541,137	100.0%

From an asset perspective, approximately 80% of our total assets are in the U.S., while 20% reside in Europe (primarily Germany) as of December 31, 2017, consistent with December 31, 2016.

RELATED PARTY TRANSACTIONS

Lease and interest revenue earned from tenants in which we have an equity interest in were $422.4 million, $282.9 million and $215.4 million in 2017, 2016 and 2015, respectively.

4. DEBT

The following is a summary of debt ($ amounts in thousands):

	As of December 31, 2017	As of December 31, 2016
Revolving credit facility(A)	$ 840,810	$ 290,000
Term loans	200,000	263,101
6.375% Senior Unsecured Notes due 2022:		
Principal amount	—	350,000
Unamortized premium	—	1,814
	—	351,814
5.750% Senior Unsecured Notes due 2020(B)	—	210,340
4.000% Senior Unsecured Notes due 2022(B)	600,250	525,850
5.500% Senior Unsecured Notes due 2024	300,000	300,000
6.375% Senior Unsecured Notes due 2024	500,000	500,000
3.325% Senior Unsecured Notes due 2025(B)	600,250	—
5.250% Senior Unsecured Notes due 2026	500,000	500,000
5.000% Senior Unsecured Notes due 2027	1,400,000	—
	$ 4,941,310	$ 2,941,105
Debt issue costs, net	(42,643)	(31,764)
	$ 4,898,667	$ 2,909,341

(A) The 2017 column includes £8 million of GBP-denominated borrowings that reflect the exchange rate at December 31, 2017.
(B) These notes are Euro-denominated and reflect the exchange rate at December 31, 2017 and December 31, 2016, respectively.

As of December 31, 2017, principal payments due on our debt (which exclude the effects of any discounts, premiums, or debt issue costs recorded) are as follows ($ amounts in thousands):

2018	$ —
2019	—
2020	—
2021	840,810
2022	800,250
Thereafter	3,300,250
Total	$ 4,941,310

CREDIT FACILITY

On February 1, 2017, we replaced our previous unsecured credit facility (which we had entered into in 2014 and amended in 2015) with a new revolving credit and term loan agreement (the "Credit Facility"). The new agreement includes a $1.3 billion unsecured revolving loan facility (same amount as the previous revolving loan facility), a $200 million unsecured term loan facility ($50 million lower than the previous term loan facility), and a new €200 million unsecured term loan facility. The new unsecured revolving loan facility matures in February 2021 and can be extended for an additional 12 months at our option. The $200 million unsecured term loan facility matures on February 1, 2022, and the €200 million unsecured term loan facility had a maturity date of January 31, 2020; however, it was paid off on March 30, 2017 — see below. The term loan and/or revolving loan commitments may be increased in an aggregate amount not to exceed $500 million.

At our election, loans under the Credit Facility may be made as either ABR Loans or Eurodollar Loans. The applicable margin for term loans that are ABR Loans is adjustable on a sliding scale from 0.00% to 0.95% based on our current credit rating. The applicable margin for term loans that are Eurodollar Loans is adjustable on a sliding scale from 0.90% to 1.95% based on our current credit rating. The applicable margin for revolving loans that are ABR Loans is adjustable on a sliding scale from 0.00% to 0.65% based on our current credit rating. The applicable margin for revolving loans that are Eurodollar Loans is adjustable on a sliding scale from 0.875% to 1.65% based on our current credit rating. The commitment fee is adjustable on a sliding scale from 0.125% to 0.30% based on our current credit rating and is payable on the revolving loan facility.

At December 31, 2017 and 2016, we had $840.8 million and $290 million, respectively, outstanding on the revolving credit facility. At December 31, 2017, our availability under our revolving credit facility was $0.5 billion. The weighted average interest rate on this facility was 2.4% and 2.0% for 2017 and 2016, respectively.

At December 31, 2017 and 2016, the interest rate in effect on our term loan was 2.98% and 2.36%, respectively.

TERM LOAN — NORTHLAND MORTGAGE

In connection with our acquisition of the Northland LTACH Hospital on February 14, 2011, we assumed a $14.6 million mortgage. The Northland mortgage loan required monthly principal and interest payments based on a 30-year amortization period. The Northland mortgage loan had a fixed interest rate of 6.2%, a maturity date of January 1, 2018 and could be prepaid, without penalty within 120 days of the term of the loan. On September 29, 2017, we prepaid the principal amount of this mortgage loan at par in the amount of $12.9 million.

6.375% SENIOR UNSECURED NOTES DUE 2022

On February 17, 2012, we completed a $200 million offering of senior unsecured notes ("6.375% Senior Unsecured Notes due 2022"), and on August 20, 2013, we completed a $150 million tack on to the notes. These 6.375% Senior Unsecured Notes due 2022 accrued interest at a fixed rate of 6.375% per year and had a maturity date of February 15, 2022. The 2013 tack on offering, was issued at a premium (price of 102%), resulting in an effective rate of 5.998%. Interest on these notes was payable semi-annually on February 15 and August 15 of each year, and offered a redemption option to redeem some or all of the notes at a premium that decreased over time, plus accrued and unpaid interest to, but not including, the redemption date.

On October 7, 2017, we redeemed these notes and incurred an $11.2 million redemption premium.

5.750% SENIOR UNSECURED NOTES DUE 2020

On October 10, 2013, we completed a €200 million offering of senior unsecured notes ("5.750% Senior Unsecured Notes due 2020"). Interest on the notes was payable semi-annually on April 1 and October 1 of each year. The 5.750% Senior Unsecured Notes due 2020 paid interest in cash at a rate of 5.750% per year. The notes had a maturity date of October 1, 2020, and offered a redemption option to redeem some or all of the notes at any time at a "make-whole" redemption price that decreased over time.

On March 4, 2017, we redeemed the €200 million aggregate principal amount of our 5.750% Senior Unsecured Notes due 2020 and incurred a redemption premium of approximately $9 million.

4.000% SENIOR UNSECURED NOTES DUE 2022

On August 19, 2015, we completed a €500 million senior unsecured notes offering ("4.000% Senior Unsecured Notes due 2022"). Interest on the notes is payable annually on August 19 of each year. The notes pay interest in cash at a rate of 4.000% per year. The notes mature on August 19, 2022. We may redeem some or all of the 4.000% Senior Unsecured Notes due 2022 at any time. If the notes are redeemed prior to 90 days before maturity, the redemption price will be 100% of their principal amount, plus a make-whole premium, plus accrued and unpaid interest to, but excluding, the applicable redemption date. Within the period beginning on or after 90 days before maturity, the notes may be redeemed, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the applicable redemption date. The 4.000% Senior Unsecured Notes due 2022 are fully and unconditionally guaranteed on an unsecured basis by us. In the event of a change of control, each holder of the notes may require us to repurchase some or all of our notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of the purchase.

5.500% SENIOR UNSECURED NOTES DUE 2024

On April 17, 2014, we completed a $300 million senior unsecured notes offering ("5.500% Senior Unsecured Notes due 2024"). Interest on the notes is payable semi-annually on May 1 and November 1 of each year. The notes pay interest in cash at a rate of 5.500% per year. The notes mature on May 1, 2024. We may redeem some or all of the notes at any time prior to May 1, 2019 at a "make-whole" redemption price. On or after May 1, 2019, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to May 1, 2017, we may redeem up to 35% of the aggregate principal amount of the notes using the proceeds of one or more equity offerings. In the event of a change of control, each holder of the notes may require us to repurchase some or all of our notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

6.375% SENIOR UNSECURED NOTES DUE 2024

On February 22, 2016, we completed a $500 million senior unsecured notes offering ("6.375% Senior Unsecured Notes due 2024"). Interest on the notes is payable on March 1 and September 1 of each year. Interest on the notes is paid in cash at a rate of 6.375% per year. The notes mature on March 1, 2024. We may redeem some or all of the notes at any time prior to March 1, 2019 at a "make whole" redemption price. On or after March 1, 2019, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to March 1, 2019, we may redeem up to 35% of the notes at a redemption price equal to 106.375% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

3.325% SENIOR UNSECURED NOTES DUE 2025

On March 24, 2017, we completed a €500 million senior unsecured notes offering ("3.325% Senior Unsecured Notes due 2025"). Interest on the notes is payable annually on March 24 of each year. The notes pay interest in cash at a rate of 3.325% per year. The notes mature on March 24, 2025. We may redeem some or all of the 3.325% Senior Unsecured Notes due 2025 at any time. If the notes are redeemed prior to 90 days before maturity, the redemption price will be equal to 100% of their principal amount, plus a make-whole premium, plus accrued and unpaid interest up to, but excluding, the applicable redemption date. Within the period beginning on or after 90 days before maturity, the notes may be redeemed, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the applicable redemption date. The 3.325% Senior Unsecured Notes due 2025 are fully and unconditionally guaranteed on a senior unsecured basis by us. In the event of a change of control, each holder of the notes may require us to repurchase some or all of our notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest up to, but excluding, the date of the purchase.

5.250% SENIOR UNSECURED NOTES DUE 2026

On July 22, 2016, we completed a $500 million senior unsecured notes offering ("5.250% Senior Unsecured Notes due 2026"). Interest on the notes is payable on February 1 and August 1 of each year. Interest on the notes is to be paid in cash at a rate of 5.250% per year. The notes mature on August 1, 2026. We may redeem some or all of the notes at any time prior to August 1, 2021 at a "make whole" redemption price. On or after August 1, 2021, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to August 1, 2019, we may redeem up to 35% of the notes at a redemption price equal to 105.250% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

5.000% SENIOR UNSECURED NOTES DUE 2027

On September 7, 2017, we completed a $1.4 billion senior unsecured notes offering ("5.000% Senior Unsecured Notes due 2027"). Interest on the notes is payable annually on April 15 and October 15 of each year, commencing on April 15, 2018. The notes pay interest in cash at a rate of 5.000% per year. The notes mature on October 15, 2027. We may redeem some or all of the notes at any time prior to October 15, 2022, at a "make whole" redemption price. On or after October 15, 2022, we may redeem some or all of the notes at a premium that will decrease over time. In addition, at any time prior to October 15, 2020, we may redeem up to 40% of the notes at a redemption price equal to 105% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, using proceeds from one or more equity offerings. In the event of a change in control, each holder of the notes may require us to repurchase some or all of the notes at a repurchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase.

With the completion of the 5.000% Senior Unsecured Notes due 2027 offering, we canceled a $1.0 billion term loan facility commitment from J.P. Morgan Chase Bank, N.A. that we received to assist in funding the September 2017 Steward Transaction.

UNUTILIZED FINANCING FEES/DEBT REFINANCING COSTS

2017

With the replacement of our previous credit facility, the early redemption of the 5.750% Senior Unsecured Notes due 2020 and the 6.375% Senior Unsecured Notes due 2022, the payoff of our €200 million euro term loan, the cancellation of the $1.0 billion term loan facility commitment, and the payment of our $12.9 million mortgage loan, we incurred a charge of $32.6 million (including redemption premiums and accelerated amortization of deferred debt issuance cost and commitment fees) during the year ended December 31, 2017.

2016

On July 22, 2016, we used the net proceeds from the 5.250% Senior Unsecured Notes due 2026 offering to redeem $450 million of senior unsecured notes that had an original maturity date in 2021. This redemption resulted in a $22.5 million debt refinancing charge, consisting of a $15.5 million redemption premium and the write-off of deferred debt issuance costs.

2015

In 2015, we incurred $4.4 million of debt related charges, of which $3.9 million related to structuring and underwriting fees associated with a $1.0 billion senior unsecured bridge loan facility entered into (but not used) to fund the acquisition of Capella.

COVENANTS

Our debt facilities impose certain restrictions on us, including restrictions on our ability to: incur debts; create or incur liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; dispose of real estate or other assets; and change our business. In addition, the credit agreements governing our Credit Facility limit the amount of dividends we can pay as a percentage of normalized adjusted funds from operations ("NAFFO"), as defined in the agreements, on a rolling four quarter basis. Through 2017, the dividend restriction was 95% of NAFFO. The indentures governing our senior unsecured notes also limit the amount of dividends we can pay based on the sum of 95% of NAFFO, proceeds of equity issuances and certain other net cash proceeds. Finally, our senior unsecured notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness.

In addition to these restrictions, the Credit Facility contains customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, secured leverage ratio, consolidated adjusted net worth, unsecured leverage ratio, and unsecured interest coverage ratio. This Credit Facility also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with our covenants. If an event of default occurs and is continuing under the Credit Facility, the entire outstanding balance may become immediately due and payable. At December 31, 2017, we were in compliance with all such financial and operating covenants.

5. INCOME TAXES

We have maintained and intend to maintain our election as a REIT under the Code, including the recently enacted Tax Reform law, H.R. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable income to our stockholders. As a REIT, we generally will not be subject to U.S. federal income tax if we distribute 100% of our taxable income to our stockholders and satisfy certain other requirements. Income tax is paid directly by our stockholders on the dividends distributed to them. If our taxable income exceeds our dividends in a tax year, REIT tax rules allow us to designate dividends from the subsequent tax year in order to avoid current taxation on undistributed income. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income taxes at regular corporate rates, including any applicable alternative minimum tax (eliminated for 2018 and future tax years). Taxable income from non-REIT activities managed through our TRS is subject to applicable U.S. federal, state and local income taxes. Our international subsidiaries are also subject to income taxes in the jurisdictions in which they operate.

From our TRSs and our foreign operations, income tax expense (benefit) were as follows (in thousands):

	For the Years Ended December 31,		
	2017	2016	2015
Current income tax (benefit) expense:			
Domestic	$ (41)	$ 42	$ 147
Foreign	3,062	1,856	1,614
	3,021	1,898	1,761
Deferred income tax (benefit) expense:			
Domestic	(233)	147	(360)
Foreign	(107)	(8,875)	102
	(340)	(8,728)	(258)
Income tax expense (benefit)	$ 2,681	$ (6,830)	$ 1,503

A reconciliation of the income tax expense (benefit) at the statutory income tax rate and the effective tax rate for income from continuing operations before income taxes for the years ended December 31, 2017, 2016, and 2015 is as follows (in thousands):

	2017	2016	2015
Income from continuing operations (before-tax)	$ 293,919	$ 219,108	$ 141,430
Income tax at the US statutory federal rate (35%)	102,872	76,688	49,501
Increase (decrease) resulting from:			
Foreign rate differential	(2,326)	1,434	5,047
State income taxes, net of federal benefit	—	66	(601)
Dividends paid deduction	(98,026)	(84,927)	(57,109)
Equity investments	3,293	4,297	—
Change in valuation allowance	(5,391)	(6,104)	6,174
Other items, net	2,259	1,716	(1,509)
Total income tax expense (benefit)	$ 2,681	$ (6,830)	$ 1,503

The foreign income tax provision is based on foreign losses before income taxes of $0.1 million in 2017, $23.5 million in 2016, and $29.4 million in 2015.

The domestic income tax provision is based on income before income taxes of $13.9 million in 2017, a loss before income taxes of $1.4 million in 2016, and income before income taxes of $7.1 million in 2015 from our TRS.

At December 31, 2017 and 2016, components of our deferred tax assets and liabilities were as follows (in thousands):

	2017	2016
Deferred tax liabilities:		
Property and equipment	$ (4,336)	$ (3,781)
Unbilled rent	(8,953)	(7,045)
Partnership investments	(2,099)	(5,103)
Other	(6,702)	(6,757)
Total deferred tax liabilities	$ (22,090)	$ (22,686)
Deferred tax assets:		
Operating loss and interest deduction carry forwards	$ 24,580	$ 28,289
Other	8,726	10,085
Total deferred tax assets	33,306	38,374
Valuation allowance	(11,101)	(15,975)
Total net deferred tax assets	$ 22,205	$ 22,399
Net deferred tax (liability)	$ 115	$ (287)

At December 31, 2017, our U.S. net operating losses ("NOLs") consisted of $68.2 million of federal NOLs and $51.4 million of state NOLs available as offsets to future years' taxable income. We have federal and state capital loss carryforwards of $9.5 million. The NOLs primarily expire between 2021 and 2035 and the capital loss carryforward expires in 2022. We have alternative minimum tax credits of $0.3 million as of December 31, 2017. To the extent these alternative minimum tax credits exceed regular tax liability in tax years 2018 through 2020, 50% of the excess credit will be refunded. Any remaining alternative minimum tax credit will be refunded in 2021. At December 31, 2017, we had foreign NOLs of $23 million that may be carried forward indefinitely.

VALUATION ALLOWANCE

In the evaluation of the need for a valuation allowance on the U.S. deferred income tax assets, we considered all available positive and negative evidence, including scheduled reversals of deferred income tax liabilities, carryback of future period losses to prior periods, projected future taxable income, tax planning strategies and recent financial performance. Based on our review of all positive and negative evidence, including a three year U.S. cumulative pre-tax loss, we concluded that a valuation allowance (approximately $6.8 million) should remain against those deferred income tax assets that are not expected to be realized through future sources of taxable income generated from scheduled reversals of deferred income tax liabilities. As a result, a valuation allowance continues to be recorded to reflect the portion of the U.S. federal and state deferred income tax assets that are not likely to be realized based upon all available evidence. If we later determine that we will more likely than not realize all, or a portion, of the deferred income tax assets, we will reverse the valuation allowance in a future period. All future reversals of the valuation allowance would result in a tax benefit in the period recognized.

In 2016, we released $4 million of valuation allowances on our foreign deferred income tax assets due to a strong positive trend in foreign earnings and forecasted foreign income projections on the majority of our foreign entities. However, at December 31, 2016, there were still 11 foreign entities that did not have sufficient objective positive evidence to support a similar release in valuation allowances; thus, we continued to reserve against $2.2 million of related foreign deferred tax assets. For these 11 foreign entities and seven new entities formed in 2017, we evaluated the need for a valuation allowance on our foreign deferred income tax assets at December 31, 2017. In doing so, we considered all available evidence to determine whether it is more likely than not that the foreign deferred income tax assets will be realized. Based on our review of all positive and negative evidence, we concluded that a valuation allowance of $4.3 million should remain against certain foreign deferred income tax assets that are not expected to be realized through future sources of taxable income generated from scheduled reversals of deferred income tax liabilities and forecasted taxable income from operating activity.

We have no material uncertain tax position liabilities and related interest or penalties recorded at December 31, 2017.

REIT STATUS

We have met the annual REIT distribution requirements by payment of at least 90% of our estimated taxable income in 2017, 2016, and 2015. Earnings and profits, which determine the taxability of such distributions, will differ from net income reported for financial reporting purposes due primarily to differences in cost basis, differences in the estimated useful lives used to compute depreciation, and differences between the allocation of our net income and loss for financial reporting purposes and for tax reporting purposes.

A schedule of per share distributions we paid and reported to our stockholders is set forth in the following:

	For the Years Ended December 31,		
	2017	2016	2015
Common share distribution	$ 0.950000	$ 0.900000	$ 0.870000
Ordinary income	0.655535	0.619368	0.769535
Capital gains(1)	0.021022	0.102552	–
Unrecaptured Sec. 1250 gain	0.004647	0.045432	–
Return of capital	0.273443	0.178080	0.100465

(1) Capital gains include unrecaptured Sec. 1250 gains.

6. EARNINGS PER SHARE

Our earnings per share were calculated based on the following (amounts in thousands):

	For the Years Ended December 31,		
	2017	2016	2015
Numerator:			
Income from continuing operations	$ 291,238	$ 225,938	$ 139,927
Non-controlling interests' share in continuing operations	(1,445)	(889)	(329)
Participating securities' share in earnings	(1,409)	(559)	(1,029)
Income from continuing operations, less participating securities' share in earnings	288,384	224,490	138,569
Loss from discontinued operations	–	(1)	–
Net income, less participating securities' share in earnings	$ 288,384	$ 224,489	$ 138,569
Denominator:			
Basic weighted-average common shares	349,902	260,414	217,997
Dilutive potential common shares	539	658	307
Diluted weighted-average common shares	350,441	261,072	218,304

7. STOCK AWARDS

STOCK AWARDS

Our Equity Incentive Plan authorizes the issuance of common stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance units and awards of interests in our Operating Partnership. Our Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. We have reserved 8,196,770 shares of common stock for awards under the Equity Incentive Plan and 3,676,000 shares remain available for future stock awards as of December 31, 2017. The Equity Incentive Plan contains a limit of 5,000,000 shares as the maximum number of shares of common stock that may be awarded to an individual in any fiscal year. Awards under the Equity Incentive Plan are subject to forfeiture due to termination of employment prior to vesting. In the event of a change in control, outstanding and unvested options will immediately vest, unless otherwise provided in the participant's award or employment agreement, and restricted stock, restricted stock units, deferred stock units and other stock-based awards will vest if so provided in the participant's award agreement. The term of the awards is set by the Compensation Committee, though Incentive Stock Options may not have terms of more than ten years. Forfeited awards are returned to the Equity Incentive Plan and are then available to be re-issued as future awards.

The following awards have been granted pursuant to our Equity Incentive Plan (and its predecessor plan):

RESTRICTED EQUITY AWARDS

These stock-based awards are in the form of service-based awards and performance awards based on either company-specific performance hurdles or certain market conditions.

Service-Based Awards

The service-based awards vest as the employee provides the required service (typically three years). Service based awards are valued at the average price per share of common stock on the date of grant. Dividends are generally paid on these awards prior to vesting. See table below for a summary of activity involving service-based awards.

Performance-Based Awards

In 2017, 2016, and 2015, the Compensation Committee granted performance-based awards to employees. Generally, dividends are not paid on performance awards until the award is earned. See below for details of such performance award grants:

2017 performance awards — The 2017 performance awards were granted in three parts:

1) Certain 2017 performance awards (target number) were granted based on the achievement of specific performance thresholds as set by our compensation committee for the one-year performance period of 2017. However, more or less shares than the target number of shares were allowed to be earned based on our performance. The pre-established performance thresholds for 2017 were as follows:

a) Approximately 42% of the target shares were earned based on the achievement of a one-year total shareholder return as compared to the SNL U.S. REIT Healthcare Index ("SNL Index") over the period from January 1, 2017 through December 31, 2017. If the shareholder return was equal to the SNL Index minus 3% for the one-year period, 50% of these shares would be earned; while, if shareholder return was greater than or equal to the SNL Index plus 3%, 200% of these target shares would be earned. The fair value of this award was estimated on the grant date using a Monte Carlo valuation model that assumed the following: risk free interest rates of 1%; expected volatility of 25%; expected dividend yield of 6.9%; and expected service period of three years.

b) Approximately 47% of the target shares were earned based on our return on equity ("ROE"), as defined by our compensation committee, over the period from January 1, 2017 through December 31, 2017. If our ROE was at least equal to 12.5% for the one-year period, 50% of these shares would be earned; and, if our ROE was greater than or equal to 13.5%, 200% of these shares would be earned. The fair value of this award was based on the average price per share of common stock on the date of grant with the number of shares adjusted as needed based on the probability of such performance hurdles being met. For this performance hurdle, 200% of the target shares was earned.

c) Approximately 11% of the target shares were earned based on general and administrative expenses ("G&A") as a percentage of revenue, as defined by our compensation committee, over the period from January 1, 2017 through December 31, 2017. If our G&A as a percentage of revenue was no more than 10% for the one-year period, 50% of these shares would be earned; while, if our G&A as a percentage of revenue was 9% or less, 200% of these shares would be earned. The fair value of this award was based on the average price per share of common stock on the date of grant with the number of shares adjusted as needed based on the probability of such performance hurdles being met. For this performance hurdle, 200% of the target shares was earned.

At the end of the one-year performance period, all earned shares will vest in equal annual amounts on January 1, 2018, 2019, and 2020.

2) Certain other 2017 performance awards were based on the achievement of a multi-year cumulative total shareholder return as compared to pre-established returns set by our compensation committee. If the cumulative shareholder return from January 1, 2017 through December 31, 2019 is 27% or greater, then 30% of these shares will be earned ("2019 award"). If the cumulative shareholder return from January 1, 2017 through December 31, 2020 is 36% or greater, then 30% of these shares may be earned ("2020 award"). However, the maximum percentage cumulatively earned in connection with both the 2019 award and the 2020 award shall not exceed 30% of the total award. If the cumulative shareholder return from January 1, 2017 through December 31, 2021 is 45% or greater, then all remaining shares will be earned. At the end of each of the performance periods, any earned shares during such period will vest on January 1 of the following calendar year. The fair value of this award was estimated on the grant date using a Monte Carlo valuation model that assumed the following: risk free interest rates of 1.9%; expected volatility of 25%; expected dividend yield of 6.9%; and expected service period of 5 years.

3) The final portion of our 2017 performance awards will be earned if our total shareholder return outpaces that of the SNL Index over the cumulative period from January 1, 2017 to December 31, 2019. Our total shareholder return must be within 3% of the SNL Index to earn the minimum number of shares under this award; while, it must exceed the SNL Index by 3% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2020, 2021, and 2022. The fair value of this award was estimated on the grant date using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.5%; expected volatility of 25%; expected dividend yield of 6.9%; and expected service period of 3 years.

In 2017, 596,472 shares were earned but not vested, and 14,000 performance awards were forfeited. At December 31, 2017, we have 1,130,531 of 2017 performance awards remaining to be earned.

2016 performance awards — The 2016 performance awards were granted in two parts:

1) One-half of the 2016 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2016 to December 31, 2018. The minimum total shareholder return needed to earn a portion of this award is 27.0% with 100% of the award earned if our total shareholder return reaches 35.0%. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2019, 2020, and 2021. The fair value of this award was estimated on the dates of grant using a Monte Carlo valuation model that assumed the following: risk free interest rates of 1.0%; expected volatility of 24.4%; expected dividend yield of 7.0%; and expected service period of 5 years.

2) The remainder of the 2016 performance awards will be earned if our total shareholder return outpaces that of the MSCI U.S. REIT Index ("MSCI Index") over the cumulative period from January 1, 2016 to December 31, 2018. Our total shareholder return must be within 3% of the MSCI Index to earn the minimum number of shares under this award, while it must exceed the MSCI Index by 3% to earn 100% of the award. If any shares are earned from this award, the shares will vest in equal annual amounts on January 1, 2019, 2020, and 2021. The fair value of this award was estimated on the dates of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.0%; expected volatility of 24.4%; expected dividend yield of 7.0%; and expected service period of 5 years.

In 2017 and 2016, no shares were earned and vested, while 16,000 and 2,400 performance awards were forfeited in 2017 and 2016, respectively. At December 31, 2017, we have 781,404 of 2016 performance awards remaining to be earned.

2015 performance awards — The 2015 performance awards were granted in three parts:

1) Approximately 40% of the 2015 performance awards were based on us achieving a simple 9.0% annual total shareholder return. For the three-year period from January 1, 2015 through December 31, 2017, one-third of the awards was earned annually (until the award is fully earned) if a 9.0% total shareholder return was achieved. If total shareholder return did not reach 9.0% in a particular year,

shares for that year were earned in a future period (during the three-year period) if the cumulative total shareholder return was equal to or greater than a 9.0% annual return for such cumulative period. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.1%; expected volatility of 20%; expected dividend yield of 7.2%; and expected service period of 3 years.

2) Approximately 30% of the 2015 performance awards were based on us achieving a cumulative total shareholder return from January 1, 2015 to December 31, 2017. The minimum total shareholder return needed to earn a portion of this award was 27.0% with 100% of the award earned if our total shareholder return reached 35.0%. If any shares were earned from this award, the shares were to be vested in equal annual amounts on December 31, 2017, 2018, and 2019. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.1%; expected volatility of 20%; expected dividend yield of 7.2%; and expected service period of 5 years.

3) The remainder of the 2015 performance awards were earned if our total shareholder return outpaced the MSCI Index over the cumulative period from January 1, 2015 to December 31, 2017. Our total shareholder return must have exceeded that of the MSCI Index to earn the minimum number of shares under this award, while it must have exceeded the MSCI Index by 6% to earn 100% of the award. If any shares were earned from this award, the shares were to be vested in equal annual amounts on December 31, 2017, 2018, and 2019. The fair value of this award was estimated on the date of grant using a Monte Carlo valuation model that assumed the following: risk free interest rate of 1.1%; expected volatility of 20%; expected dividend yield of 7.2%; and expected service period of 5 years.

In 2017 and 2016, 348,966 and 98,526 shares were earned, respectively. No 2015 performance awards were earned and vested in 2015. In 2017, 2016, and 2015, 353,104, 66,792, and 4,500 performance awards, respectively, were forfeited. At December 31, 2017, we have no 2015 performance awards remaining to be earned and 168,348 performance awards remaining to vest in 2018 and 2019.

The following summarizes restricted equity award activity in 2017 and 2016 (which includes awards granted in 2017, 2016, 2015, and any applicable prior years), respectively:

For the Year Ended December 31, 2017:

	Vesting Based on Service		Vesting Based on Market/ Performance Conditions	
	Shares	Weighted Average Value at Award Date	Shares	Weighted Average Value at Award Date
Nonvested awards at beginning of the year	347,128	$ 13.35	1,811,675	$ 6.78
Awarded	249,841	$ 12.40	1,741,003	$ 8.21
Vested	(304,613)	$ 12.86	(491,071)	$ 6.84
Forfeited	(16,076)	$ 12.75	(384,852)	$ 5.65
Nonvested awards at end of year	276,280	$ 12.68	2,676,755	$ 7.86

For the Year Ended December 31, 2016:

	Vesting Based on Service		Vesting Based on Market/ Performance Conditions	
	Shares	Weighted Average Value at Award Date	Shares	Weighted Average Value at Award Date
Nonvested awards at beginning of the year	509,634	$ 13.25	2,331,152	$ 6.38
Awarded	254,574	$ 13.07	799,804	$ 7.30
Vested	(349,356)	$ 13.07	(671,983)	$ 6.50
Forfeited	(67,724)	$ 13.06	(647,298)	$ 6.28
Nonvested awards at end of year	347,128	$ 13.35	1,811,675	$ 6.78

The value of stock-based awards is charged to compensation expense over the service periods. In the years ended December 31, 2017, 2016, and 2015, we recorded $9.9 million, $7.9 million, and $11.1 million, respectively, of non-cash compensation expense. The remaining unrecognized cost from restricted equity awards at December 31, 2017, is $17.7 million, which will be recognized over a weighted average period of 2.98 years. Restricted equity awards that vested in 2017, 2016, and 2015 had a value of $10.4 million, $12.7 million, and $10.2 million, respectively.

8. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

On September 28, 2016, we entered into definitive agreements to acquire an acute care hospital in Washington for a purchase price of $17.5 million. Upon closing, the facility will be leased to RCCH, pursuant to the current master lease. Closing of this transaction, which is now expected to be completed in the first half of 2018 is subject to customary real estate, regulatory and other closing conditions.

Operating leases, in which we are the lessee, primarily consist of ground leases on which certain of our facilities or other related property reside along with corporate office and equipment leases. The ground leases are long-term leases (almost all having terms of 30 years or more), some of which contain escalation provisions and one contains a purchase option. Properties subject to these ground leases are subleased to our tenants. Lease and rental expense (which is recorded on the straight-line method) for 2017, 2016, and 2015 was $9.8 million, $6.8 million, and $4.6 million, respectively, which was offset by sublease rental income of $6.6 million, $4.2 million, and $2.3 million for 2017, 2016, and 2015, respectively.

Fixed minimum payments due under operating leases with non-cancelable terms of more than one year and amounts to be received in the future from non-cancelable subleases at December 31, 2017 are as follows (amounts in thousands):

	Fixed minimum payments	Amounts to be received from subleases	Net payments
2018	$ 8,210	$ (4,386)	$ 3,824
2019	8,753	(3,946)	4,807
2020	8,967	(4,097)	4,870
2021	8,063	(4,175)	3,888
2022	8,121	(4,118)	4,003
Thereafter	191,457	(96,028)	95,429[1]
	$ 233,571	$ (116,750)	$ 116,821

(1) Reflects certain ground leases, in which we are the lessee, that have longer initial fixed terms than our existing sublease to our tenants. However, we would expect to either renew the related sublease, enter into a lease with a new tenant or early terminate the ground lease to reduce or avoid any significant impact from such ground leases.

CONTINGENCIES

We are a party to various legal proceedings incidental to our business. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, with respect to these proceedings is not presently expected to materially affect our financial position, results of operations or cash flows.

9. COMMON STOCK

2017 ACTIVITY

On May 1, 2017, we completed an underwritten public offering of 43.1 million shares (including the exercise of the underwriters' 30-day option to purchase an additional 5.6 million shares) of our common stock, resulting in net proceeds of approximately $548 million, after deducting offering expenses.

On November 13, 2017, we entered into a new at-the-market equity offering program, which gives us the ability to sell up to $750 million of stock with a commission rate up to 2.0%. During 2017, we did not sell any shares of our common stock under this program.

2016 ACTIVITY

On October 7, 2016, we sold 10.3 million shares of common stock in a private placement to an affiliate of Cerberus, the controlling member of Steward, and certain members of Steward management. We sold these shares at a price per share of $14.50, equal to the public offering price of our September 2016 equity offering, generating total proceeds of $150 million.

On September 30, 2016, we completed an underwritten public offering of 57.5 million shares (including the exercise of the underwriters' 30-day option to purchase an additional 7.5 million shares) of our common stock, resulting in net proceeds of $799.5 million, after deducting estimated offering expenses.

During 2016, we sold approximately 15 million shares of our common stock under a previously existing at-the-market equity offering program (that ended in 2016), resulting in net proceeds of approximately $224 million, after deducting approximately $2.8 million of commissions.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

We have various assets and liabilities that are considered financial instruments. We estimate that the carrying value of cash and cash equivalents, and accounts payable and accrued expenses approximate their fair values. We estimate the fair value of our interest and rent receivables using Level 2 inputs such as discounting the estimated future cash flows using the current rates at which similar receivables would be made to others with similar credit ratings and for the same remaining maturities. The fair value of our mortgage and working capital loans are estimated by using Level 2 inputs such as discounting the estimated future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. We determine the fair value of our senior unsecured notes, using Level 2 inputs such as quotes from securities dealers and market makers. We estimate the fair value of our revolving credit facility and term loans using Level 2 inputs based on the present value of future payments, discounted at a rate which we consider appropriate for such debt.

Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of significant judgment. Settlement of such fair value amounts may not be possible and may not be a prudent management decision. The following table summarizes fair value estimates for our financial instruments (in thousands):

	December 31, 2017		December 31, 2016	
Asset (Liability)	Book Value	Fair Value	Book Value	Fair Value
Interest and rent receivables	$ 78,970	$ 78,028	$ 57,698	$ 57,707
Loans(1)	1,698,471	1,722,101	986,987	1,017,428
Debt, net	(4,898,667)	(5,073,707)	(2,909,341)	(2,966,759)

(1) Excludes loans related to Ernest since they are recorded at fair value as discussed below.

ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Our equity interest in Ernest and related loans, as discussed in Note 2, are being measured at fair value on a recurring basis as we elected to account for these investments using the fair value option method. We have elected to account for these investments at fair value due to the size of the investments and because we believe this method is more reflective of current values. We have not made a similar election for other equity interests or loans existing at December 31, 2017.

At December 31, 2017, the amounts recorded under the fair value option method were as follows (in thousands):

Asset (Liability)	Fair Value	Original Cost	Asset Type Classification
Mortgage loan	$ 115,000	$ 115,000	Mortgage loans
Equity investment and other loans	114,554	118,354	Other assets/other loans
	$ 229,554	$ 233,354	

At December 31, 2016, the amounts recorded under the fair value option method were as follows (in thousands):

Asset (Liability)	Fair Value	Original Cost	Asset Type Classification
Mortgage loan	$ 112,836	$ 112,836	Mortgage loans
Equity investment and other loans	119,598	119,598	Other assets/other loans
	$ 232,434	$ 232,434	

Our mortgage and other loans with Ernest are recorded at fair value based on Level 2 inputs by discounting the estimated cash flows using the market rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Our equity investments in Ernest are recorded at fair value based on Level 3 inputs, by using a discounted cash flow model, which requires significant estimates of our investee such as projected revenue and expenses and appropriate consideration of the underlying risk profile of the forecasted assumptions associated with the investee. We classify the equity investments as Level 3, as we use certain unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices. For these cash flow models, our observable inputs include use of a capitalization rate, discount rate (which is based on a weighted average cost of capital), and market interest rates, and our unobservable input includes an adjustment for a marketability discount ("DLOM") on our equity investment of 40% at December 31, 2017.

In regards to the underlying projection of revenues and expenses used in the discounted cash flow model, such projections are provided by Ernest. However, we will modify such projections (including underlying assumptions used) as needed based on our review and analysis of their historical results, meetings with key members of management, and our understanding of trends and developments within the healthcare industry.

In arriving at the DLOM, we started with a DLOM range based on the results of studies supporting valuation discounts for other transactions or structures without a public market. To select the appropriate DLOM within the range, we then considered many qualitative factors including the percent of control, the nature of the underlying investee's business along with our rights as an investor pursuant to the operating agreement, the size of investment, expected holding period, number of shareholders, access to capital marketplace, etc. To illustrate the effect of movements in the DLOM, we performed a sensitivity analysis below by using basis point variations (dollars in thousands):

Basis Point Change in Marketability Discount	Estimated Increase (Decrease) In Fair Value
+100 basis points	$ (5)
-100 basis points	5

Because the fair value of Ernest investments noted above is below our original cost, we recognized an unrealized loss during 2017. We did not recognize any unrealized gains/losses on the Ernest investments in 2016 or 2015. To date, we have not received any distribution payments from our equity investment in Ernest.

11. OTHER ASSETS

The following is a summary of our other assets (in thousands):

	At December 31, 2017	At December 31, 2016
Debt issue costs, net(1)	$ 7,093	$ 4,478
Equity investments	288,398	177,430
Other corporate assets	117,827	77,580
Prepaids and other assets	55,176	44,285
Total other assets	$ 468,494	$ 303,773

(1) Relates to revolving credit facility

Equity investments have increased over the prior year primarily due to our new investment in Steward — see Note 3 for further details. Other corporate assets include leasehold improvements associated with our corporate office space, furniture and fixtures, equipment, software, deposits, etc. Included in prepaids and other assets is prepaid insurance, prepaid taxes, goodwill, deferred income tax assets (net of valuation allowances, if any), and lease inducements made to tenants, among other items.

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2017 and 2016: (amounts in thousands, except for per share data)

	For the Three Month Periods in 2017 Ended			
	March 31	June 30	September 30	December 31
Revenues	$ 156,397	$ 166,807	$ 176,580	$ 204,961
Income from continuing operations	68,185	73,796	76,881	72,376
Net income	68,185	73,796	76,881	72,376
Net income attributable to MPT common stockholders	67,970	73,415	76,464	71,944
Net income attributable to MPT common stockholders per share — basic	$ 0.21	$ 0.21	$ 0.21	$ 0.19
Weighted average shares outstanding — basic	321,057	349,856	364,315	364,382
Net income attributable to MPT common stockholders per share — diluted	$ 0.21	$ 0.21	$ 0.21	$ 0.19
Weighted average shares outstanding — diluted	321,423	350,319	365,046	364,977

	For the Three Month Periods in 2016 Ended			
	March 31	June 30	September 30	December 31
Revenues	$ 134,999	$ 126,300	$ 126,555	$ 153,283
Income from continuing operations	58,226	53,924	70,543	43,245
Net income	58,225	53,924	70,543	43,245
Net income attributable to MPT common stockholders	57,927	53,724	70,358	43,039
Net income attributable to MPT common stockholders per share — basic	$ 0.24	$ 0.23	$ 0.29	$ 0.13
Weighted average shares outstanding — basic	237,510	238,082	246,230	319,833
Net income attributable to MPT common stockholders per share — diluted	$ 0.24	$ 0.22	$ 0.28	$ 0.13
Weighted average shares outstanding — diluted	237,819	239,008	247,468	319,994

13. SUBSEQUENT EVENTS

ST. JOSEPH'S TRANSACTION

On March 1, 2018, we sold the real estate of St. Joseph Medical Center in Houston, Texas, at our original cost to Steward with the purchase price of which is evidenced by a promissory note, with such note secured in the mortgage on the underlying real estate. The mortgage loan has terms consistent with the other mortgage loans in the Steward portfolio. At December 31, 2017, this facility was designated as held for sale.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As required by Rule 13a-15(b), under the Securities Exchange Act of 1934, as amended, we have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Medical Properties Trust, Inc. has prepared the consolidated financial statements and other information in our Annual Report in accordance with accounting principles generally accepted in the United States of America and is responsible for its accuracy and completeness. The financial statements necessarily include amounts that are based on management's best estimates and judgments. In meeting its responsibility, management relies on internal accounting and related control systems. The internal control systems are designed to ensure that transactions are properly authorized and recorded in our financial records and to safeguard our assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management of Medical Properties Trust, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2017. The assessment was based upon the framework described in the "Integrated Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") based on criteria established in *Internal Control — Integrated Framework* (2013). Management's assessment included an evaluation of the design of internal control over financial reporting and testing of the operational effectiveness of internal control over financial reporting. We have reviewed the results of the assessment with the Audit Committee of our Board of Directors.

Based on our assessment under the criteria set forth in COSO, management has concluded that, as of December 31, 2017, Medical Properties Trust, Inc. maintained effective internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

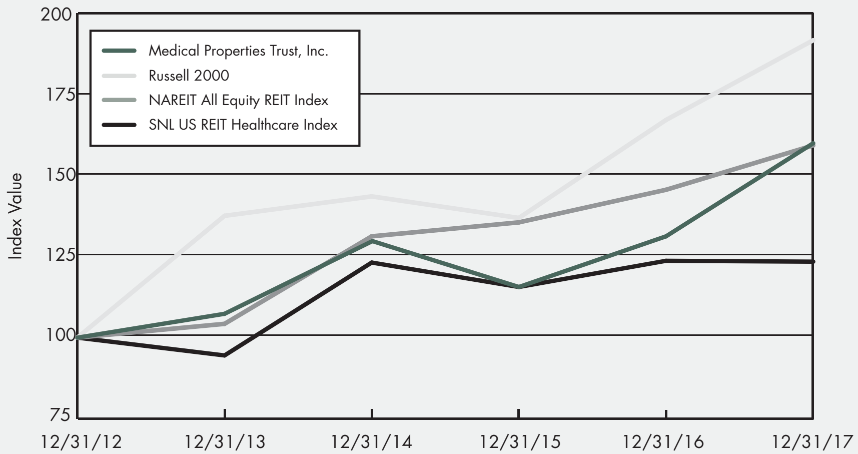
CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There has been no change in Medical Properties Trust, Inc.'s internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PERFORMANCE GRAPH

The following graph provides comparison of cumulative total stockholder return for the period from December 31, 2012 through December 31, 2017, among us, the Russell 2000 Index, NAREIT All Equity REIT Index, and SNL US REIT Healthcare Index. The stock performance graph assumes an investment of $100 in us and the three indices, and the reinvestment of dividends. The historical information below is not indicative of future performance.

TOTAL RETURN PERFORMANCE



	Period Ending					
Index	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Medical Properties Trust, Inc.	100.00	108.39	130.22	116.83	133.77	161.26
Russell 2000	100.00	138.82	145.62	139.19	168.85	193.58
NAREIT All Equity REIT Index	100.00	102.86	132.68	135.40	147.09	159.85
SNL US REIT Healthcare	100.00	93.72	124.81	115.74	124.32	124.14

MPT

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CORPORATE AND SHAREHOLDER INFORMATION

OFFICERS

Edward K. Aldag, Jr. – Chairman, President and Chief Executive Officer
R. Steven Hamner – Executive Vice President and Chief Financial Officer
Emmett E. McLean – Executive Vice President, Chief Operating Officer and Secretary
J. Kevin Hanna – Vice President, Controller and Chief Accounting Officer
Rosa H. Hooper – Vice President, Managing Director of Asset Management and Underwriting
Charles R. Lambert – Treasurer and Managing Director of Capital Markets

DIRECTORS

Edward K. Aldag, Jr. – Chairman, President and Chief Executive Officer
G. Steven Dawson – Private Investor
R. Steven Hamner – Executive Vice President and Chief Financial Officer
Elizabeth N. Pitman, JD, CHPC – Attorney at Waller Lansden Dortch & Davis, LLP
D. Paul Sparks, Jr. – Retired Senior Vice President, Energen Corporation
Michael G. Stewart – Private Investor
C. Reynolds Thompson, III – Chairman and Chief Investment Officer of Select Strategies Realty

LEGAL COUNSEL

Baker, Donelson, Bearman, Caldwell & Berkowitz, PC – Birmingham, AL
Goodwin Procter, LLP – New York, NY

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP – Birmingham, AL

ANNUAL MEETING

The Annual Meeting of Shareholders of Medical Properties Trust, Inc. is scheduled for May 24, 2018 at 10:30 am CDT at City Club Birmingham, 1901 Sixth Avenue North, Suite 3100, Birmingham, AL 35203.

CERTIFICATIONS

Medical Properties Trust, Inc.'s Chief Executive Officer and Chief Financial Officer have filed their certifications required by the SEC regarding the quality of the company's public disclosure (these are included in the 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission). Further, the company's Chief Executive Officer has certified to the NYSE that he is not aware of any violation by Medical Properties Trust, Inc. of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE listing standards.

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company, LLC
6201 15th Avenue, Brooklyn, NY 11219
(800) 937-5449 info@amstock.com
www.amstock.com
TTY: (Teletypewriter for the hearing impaired)
(718) 921-8386 or (866) 703-9077

CORPORATE OFFICE

Medical Properties Trust, Inc.
1000 Urban Center Drive, Suite 501
Birmingham, AL 35242
(205) 969-3755 (205) 969-3756 fax
www.medicalpropertiestrust.com

MPW LISTED NYSE

On the back cover: An urban garden of native trees and natural gravel at IMED Valencia's entrance requires low maintenance and very little water.

Medical Properties Trust

Medical Properties Trust, Inc.
1000 Urban Center Drive, Suite 501
Birmingham, AL 35242
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www.medicalpropertiestrust.com