Primary Health Properties PLC

Audited annual results for the year ended 31 December 2018

Strengthened balance sheet and high-quality portfolio driving strong performance

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), a leading investor in modern primary health facilities, announces its audited annual results for the year ended 31 December 2018.

Harry Hyman, Managing Director of PHP, commented:
"We have selectively and successfully invested the proceeds from the over-subscribed equity raise in April 2018 and further strengthened the balance sheet. PHP's high-quality portfolio and capital base has helped to deliver another year of strong performance and our 22nd year of unabated dividend growth. Continuing improvements to the rental growth outlook and further reductions in the cost of finance will help to maintain our strategy of paying a progressive dividend to our shareholders which is fully covered by earnings.

We have recently announced the proposed all share merger with MedicX bringing together two highly complementary portfolios in the UK and Ireland and the combined business will represent a stronger platform for the future. Combining the two businesses in this transformational deal is expected to create significant value for the shareholders of the enlarged group and importantly, the potential to deliver significant operating and financial savings. We are excited by the opportunities that will be created. The merger represents another significant and important step in our strategy of selectively growing the portfolio, focusing on large hub primary care centres which are reducing pressures on the NHS, and it significantly extends the scale of the business and asset value."

OPERATIONAL AND FINANCIAL HIGHLIGHTS

	Year ended 31 December 2018 (audited)	Year ended 31 December 2017 (audited)	Change
Key highlights			
EPRA earnings	**£36.8m**	£31.0m	+18.7%
EPRA earnings per share[2]	**5.2p**	5.2p	Unchanged
EPRA NAV per share[1,3]	**105.1p**	100.7p	+4.4%
Dividend per share[6]	**5.40p**	5.25p	+2.9%
Property portfolio			
Investment portfolio valuation[4]	**£1.503bn**	£1.362bn	+2.5%
Net initial yield ("NIY")	**4.85%**	4.91%	
Contracted rent roll (annualised)	**£79.4m**	£72.3m	+9.8%
Weighted average unexpired lease term ("WAULT")	**13.1 years**	13.2 years	
Occupancy	**99.8%**	99.7%	.
Rent-roll funded by government bodies	**91%**	90%	
Net rental income[1]	**£76.4m**	£71.3m	+7.2%
Reported IFRS results			
IFRS profit for the year	**£74.3m**	£91.9m	-19.2%
IFRS earnings per share[2]	**10.5p**	15.3p	-31.4%
IFRS NAV per share[1,3]	**102.5p**	94.7p	+8.2%
Dividends			
Dividends paid[6]	**£36.6m**	£31.4m	+16.6%
Dividend cover	**101%**	99%	
Debt			
Average cost of debt	**3.90%**	4.09%	
Loan to value ratio[1]	**44.8%**	52.9%	
Weighted average debt maturity	**5.4 years**	6.3 years	
Total undrawn loan facilities[7]	**£190.6m**	£101.0m	

[1] Definitions for net rental income, loan to value ("LTV") and net asset value ("NAV") are set out in the Glossary of Terms.
[2] See note 8, earnings per share, to the financial statements.
[3] See note 25, net asset value per share, to the financial statements.
[4] Percentage valuation movement during the year based on the difference between opening and closing valuations of properties after allowing for acquisition costs and capital expenditure
[5] The Company uses a number of alternative performance measures in this annual results statement. See note 32.
[6] See note 9, dividends, to the financial statements.
[7] After deducting the remaining cost to complete contracted acquisitions, properties under development and asset management projects.

DELIVERING EARNINGS AND DIVIDEND GROWTH

- Eight income accretive properties selectively acquired in the year for £106.2m, with a large average lot size of £13.3m
- Average annualised uplift of 1.4% on rent reviews agreed in the period, resulting in an uplift in rent of £1.1m p.a. (2017: 1.1% with an uplift of £0.5m)
- First 2019 quarterly dividend of 1.40p per share, payable on 22 February 2019, equivalent to 5.6p on an annualised basis and a 3.7% increase over dividend per share in 2018 and will represent the Company's 23rd consecutive year of dividend growth

DELIVERING FINANCIAL MANAGEMENT

- Successful, over-subscribed equity issue completed in April 2018, raising £115.0m (£111.2m net of expenses) at a 7% premium to EPRA NAV at 31 December 2017
- £45.8m (€51.0m) senior secured euro-denominated loan notes issued in the year with a blended rate of 2.4973% and weighted average maturity of 10.4 years
- £40.0m of convertible bond conversions in the year with a further £6.2m converted post period end leaving just £17.0m in issue
- LTV reduced to 44.8% (2017: 52.9%)
- Average cost of debt reduced by 19bp to 3.90% (2017: 4.09%)

DELIVERING NET ASSET VALUE GROWTH

- Property valuation surplus and profit on sales of £36.1m (2017: £64.5m), growth of 2.5% (2017: 5.0%); portfolio net initial valuation yield of 4.85% (2017: 4.91%)
- Like-for-like rental growth of £1.3m or 1.8% (2017: £0.5m or 0.7%) accounting for approximately 60% (2017: 10%) of the revaluation surplus created in the year with contraction of the net initial yield ("NIY") accounting for the balance
- Portfolio in Ireland now comprises eight assets, valued at €92.3m, and including the forward funded development at Bray as complete, the value increases to around €110m
- Strong pipeline of targeted acquisitions of approximately £190m of which £30m currently in legal due diligence
- 16 asset management projects completed investing £4.4m (2017: £4.4m), creating an additional £0.2m p.a. (2017: £0.2m p.a.) of rental income, and strong pipeline of five approved projects due to commence imminently and a further 36 potential projects being progressed
- Only £1.2m or 1.5% of annualised rent roll expiring in the next three years of which £0.4m or 33% is subject to a planned asset management initiative or terms have been agreed to renew the lease

DELIVERING STRONG TOTAL RETURNS

	Year ended 31 December 2018	Year ended 31 December 2017
Total EPRA NAV return	9.7%	16.4%
Income return	5.3%	5.5%
Capital return	2.7%	5.3%
Total property return	8.0%	10.8%
MSCI All Property return[1]	7.3%	11.0%
Outperformance over MSCI	0.7%	(0.2%)

1 MSCI UK Monthly Property Index.

Presentation and webcast:

A presentation for analysts will be held on 31 January 2019 at 9.30am at the offices of Buchanan, 107 Cheapside, London EC2V 6DN.

For further information contact:

Harry Hyman Primary Health Properties PLC T +44 (0) 20 7451 7050 harry.hyman@nexusgroup.co.uk	Richard Howell Primary Health Properties PLC T +44 (0) 20 7104 2004 richard.howell@nexusgroup.co.uk
David Rydell/Steph Watson/Tilly Abraham Buchanan T +44 (0) 20 7466 5066	

Chairman's statement

Following my appointment as Chairman of PHP in April, I am delighted to present my first annual results for 2018, which has been another successful and transformative period in the Company's history. Our strategy of selective and disciplined investment and asset management activity underpinned by a strong, well-financed balance sheet has enabled us to deliver the 22nd successive year of dividend per share growth of 2.9% and a total NAV return of 9.8p, an increase of 9.7%.

In the first half of the year the Group strengthened its balance sheet with an oversubscribed capital raise, generating £115.0m of equity capital (£111.2m net of expenses) from a combination of both new and existing investors. We have now deployed the proceeds of this equity raise by selectively acquiring eight properties in the UK and Ireland, including a forward funded development, for a total of £106.2m and investing a further £4.4m in 16 asset management projects to create additional value into the portfolio. The result of this activity is that as at 31 December 2018 the portfolio comprised 313 assets valued at just over £1.5bn.

The Group passed another significant milestone following the equity raise and entered the FTSE 250 Index on the London Stock Exchange in April 2018.

PHP was also announced as the winner of the "Highest 10 Year Risk Adjusted Absolute Return" award by MSCI Investment Property Forum in March 2018.

Proposed merger with MedicX Fund Limited ("MedicX")

On 24 January 2019 the Boards of PHP and MedicX jointly announced a proposed all-share merger to create one of the largest healthcare REITs in the UK with a portfolio of over 470 assets valued at £2.3bn. The merger is subject to the approval of both PHP and MedicX shareholders; subject to those approvals, we expect the merger to complete in late March. The full announcement, presentation and webcast regarding the proposed merger are available on our website and provide further information.

The merger brings together two highly complementary portfolios in both the UK and Ireland and the combined business will represent a stronger platform for further acquisitions and forward funded developments. Combining the two businesses is expected to create significant value for the shareholders of the enlarged Group and we are excited by the opportunities that will be created. The merger represents another significant and important step in our strategy of selectively growing the portfolio, focusing on large hub primary care centres, and it significantly extends the scale of the business and asset value.

Results highlights

The property acquisitions in both 2017 and 2018, together with continued and increasing organic rental growth, helped to deliver another set of strong results in the year with EPRA earnings up 18.7% to £36.8m (2017: £31.0m up 15.7%) and EPRA earnings per share unchanged at 5.2p (2017: 5.2p) reflecting the dilution from the equity raise in April 2018. The Group's portfolio was valued at just over £1.5bn which generated a revaluation surplus, including the profit on sales, of £36.1m (2017: £64.5m) after allowing for costs associated with acquisitions and capital expenditure.

The EPRA earnings, revaluation surplus and a gain on the mark to market valuation of our derivative portfolio and convertible bond of £1.4m resulted in an IFRS profit of £74.3m (2017: £91.9m), a decrease of 19.2% due principally to a lower revaluation surplus in 2018 compared with 2017.

Rent reviews and asset management projects completed in the year added £1.3m or 1.8% (2017: £0.7m or 1.0%) to the contracted rent roll and the continued positive momentum on rent reviews has seen annualised rental growth improve to 1.4% compared to 1.1% and 0.9% achieved in 2017 and 2016 respectively.

Rent reviews and asset management projects accounted for approximately 60% of the revaluation surplus generated in the year. Continued, albeit slowing, yield compression in the sector resulted in the portfolio's net initial yield contracting by 6bp to 4.85% (31 December 2017: 4.91%) which accounted for the balance of the revaluation surplus.

The revaluation surplus and profit on sales in the year of £36.1m (2017: £64.5m) is equivalent to 4.7p per share and was the main factor for the increase in the EPRA NAV by 4.4p or 4.4% to 105.1p (2017: 100.7p) which when added to the dividends paid produced a total NAV return for the year of 9.8p (2017: 14.9p).

The portfolio's average lot size continues to grow and is now £4.8m (31 December 2017: £4.5m) and we continue to maintain our very strong metrics, with a long weighted average unexpired lease term ("WAULT") of 13.1 years, high occupancy at 99.8% and only 1.5% of our rent due to expire in the next three years. The WAULT of 13.1 years for 2018 compares very favourably with the WAULT of 13.2 years for 2017 which, given the effluxion of time, would be expected to decrease by one year for each year that passes. The maintaining of the WAULT is testament to our acquisition and asset management capabilities.

Dividends

The Company distributed a total of 5.4p per share in the year to 31 December 2018, an increase of 2.9% over the 2017 total of 5.25p per share, and marked the Company's 22nd successive year of dividend growth. The total cost of dividends distributed in the year increased by 16.6% to £36.6m (2017: £31.4m) which was fully covered by EPRA earnings. Dividends totalling £1.9m were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.4p per share was declared on 3 January 2019, equivalent to 5.6p on an annualised basis, which represents an increase of 3.7% over the dividend distributed per share in 2018. The dividend will be paid to shareholders on 22 February 2019 who were on the register at the close of business on 11 January 2019. The dividend will comprise a Property Income Distribution ("PID") of 0.75p and an ordinary dividend of 0.65p per share. Further dividend payments are planned to be made on a quarterly basis.

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

The Company's share price started the year at 117.0p per share and closed on 31 December 2018 at 111.0p, a decrease of 5.1%. Including dividends, those shareholders who held the Company's shares throughout the year achieved a total shareholder return ("TSR") of -0.5% (2017: 9.6%). This compares to the total return delivered by the EPRA UK Index of -13.0% and the wider UK equity sector (FTSE All-Share Index: -9.5%) in the year.

Board changes

As previously reported, Alun Jones retired as Chairman at the Annual General Meeting ("AGM") on 18 April 2018 and was replaced by Steven Owen, previously Senior Independent Director and the Chairman of the Audit Committee. Non-Executive Directors Dr Ian Rutter and Mark Creedy also retired at the AGM.

Three new Non-Executive Directors, Ian Krieger, Dr Stephen Kell OBE, and Peter Cole were appointed during the first half of 2018.

Nick Wiles took over from Mark Creedy as Chairman of the Adviser Engagement Committee at the end of January 2018 and replaced Steven Owen as the Senior Independent Director at the AGM. Ian Krieger was appointed as Chairman of the Audit Committee, replacing Steven Owen at the AGM.

As separately announced, following completion of the merger with MedicX, which is subject to shareholder approval, Helen Mahy will join the Board as Deputy Chairman and Senior Independent Director and Laure Duhot will join the Board as a Non-executive Director and Chairman of the Adviser Engagement Committee. In order to maintain an appropriate size and balance between the Company and MedicX directors, post the merger, Nick Wiles and Geraldine Kennell will step down from the Board.

Helen Mahy CBE is Chairman of The Renewables Infrastructure Group Limited, a FTSE 250 investment company, and is a Non-Executive Director of SSE plc and Bonheur ASA, a company listed on the Oslo Stock Exchange. She was formerly Company Secretary and General Counsel of National Grid plc until she retired in 2013 and is also an Equality and Human Rights Commissioner.

Laure Duhot acts for a number of property firms and investors across Europe, providing strategic advice and transaction support, with a focus on alternative real estate assets and is currently a Non-Executive Director of InLand Homes plc, MIC Limited and The Guinness Partnership. Until the end of 2016 she was also a Managing Director at Grainger plc, where she was responsible for fund management and corporate finance for a number of fund vehicles operating in the UK and Germany.

I look forward to working with Helen and Laure and I am confident that our Board will have the skill, diversity and culture to drive the merged business forward. I am also very grateful to my colleagues Nick and Geraldine for their commitment and dedication to the Company over the past three years, and their contribution to and support for the Merger.

Market update and outlook
We consider the wider, macro-economic consequence of Brexit in the risk management section but whatever the final outcome and consequences of Brexit for the UK it is unlikely to have a direct impact on the primary health centres we invest in, which perform a vital role in the provision of healthcare across the UK and Ireland. Demand for our properties is driven by demographics and in particular populations that are growing, ageing and suffering from more instances of chronic illness.

Despite the continued volatility in the economic and political environment and the prolonged era of low, albeit increasing, interest rates, there continues to be an unrelenting search for income yield across most sectors. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary. The UK market for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector and we have continued to see yields compress further during 2018 although at a slower rate than that witnessed in 2017.

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

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

We welcome recent announcements made this year by the Government to increase funding for the NHS and how the £20.5bn budget settlement, announced on its 70th anniversary, will be spent over the next five years. The new NHS Long Term Plan, announced in January 2019, sets out how the NHS plans to improve the quality of patient care and health outcomes. The plan also includes measures to improve out-of-hospital care, supporting primary medical and community health services, and investment in these services will grow faster than the overall NHS budget, worth an extra £4.5bn a year in real terms by 2023/24 with the aim of reducing pressure on emergency hospital services. These additional resources may in time lead to increased activity in the building of new facilities and the modernisation of existing primary care premises and we look forward to helping deliver the modernisation of the estate by actively pursuing attractive investment opportunities of both existing assets and developments.

We believe that our activities benefit not only our shareholders but also our other stakeholders, including our occupiers, patients, the NHS and HSE, suppliers, lenders and the wider communities in both the UK and Ireland.

The Company is in a strong position to continue to deliver long term value to shareholders and the Board looks forward with confidence to the forthcoming year.

Steven Owen
Chairman
30 January 2019

Business review

The Chairman's Statement sets out the continued strong progress made in the year to ensure PHP's portfolio is aligned to the structural needs and challenges that face both the NHS in the UK and the HSE in Ireland.

In April 2018, the Company completed an over-subscribed equity issue raising £115.0 million of new share capital. Despite the competitive investment market these funds have been successfully invested over the course of the year in a selective and disciplined way in acquisitions and asset management projects. In particular, we have made good progress in Ireland, increasing the portfolio to eight carefully selected assets valued at over €100 million, valuing developments as complete.

The Group has continued to focus its activities on large hub primary care facilities both in the UK and Ireland and together with asset management activity this resulted in the portfolio's average lot size increasing to £4.8 million at the end of 2018 (2017: £4.5 million). We now only have one investment property valued at less than £1.0 million, which will be subject to a future asset management project, and continue to maintain our very strong metrics, with a long WAULT of 13.1 years (31 December 2017: 13.2 years), high occupancy at 99.8% and only 1.5% of our rent due to expire in the next three years.

Investment activity

We have continued to maintain a strict selection criteria and pricing methodology to ensure investments are high quality, accretive to net earnings and offer the opportunity for future growth. This has resulted in the acquisition of just eight assets, two in the UK and six in Ireland, for £106.2 million during 2018 (2017: £71.9 million).

Asset		Area (Sqm)	Acquisition price	WAULT (years)	Key tenants
Mallow, County Cork, Ireland	Investment	6,500	£17.7m (€20.0m)	21.9	GP practices x 4 + HSE + pharmacy + dentist + optician + physio
Moredon, Swindon, UK	Investment	1,446	£6.1m	27.5	GP practice + pharmacy
Bray, County Wicklow, Ireland	Development	4,805	£20.0m (€22.5m)	24.8	GP practice + HSE + pharmacy + coffee shop
Navan Road, Dublin, Ireland	Investment	3,110	£10.9m (€12.2m)	21.9	GP practice + HSE + pharmacy + coffee shop
Celbridge, County Kildare, Ireland	Investment	3,480	£11.6m (€13.0m)	23.9	GP practice + HSE + pharmacy + Tulsa*
Newbridge, County Kildare, Ireland	Investment	3,090	£12.0m (€13.4m)	20.3	GP practice + HSE + pharmacy + KWETB*
Maple & Elm Court, Ashington, UK	Investment	2,750	£22.8m	29.5	Northumbria Healthcare NHS Foundation Trust
Mountmellick, County Laois, Ireland	Investment	1,850	£5.1m (€5.8m)	17.7	GP practice + HSE + pharmacy
Total		**27,031**	**£106.2m**	**23.5**	

* Irish Government covenant.

Mallow Primary Health Centre, Mallow, County Cork is one of Ireland's largest primary healthcare facilities and comprises 6,500m^2 and was acquired in February 2018. The Irish Government's Health Service Executive ("HSE") has signed a new 25-year lease, accounting for 65% of the rent roll, with the remainder derived from four separate GP practices, a dentist, an optician and a physiotherapist. The property also benefits from a pharmacy and has considerable unused land for future expansion.

Moredon Medical Centre, Swindon, was acquired in June 2018 and comprises 1,446m^2 and is fully let to a GP practice and pharmacy with a patient list of over 11,500 and a long WAULT of 27.5 years.

Three primary healthcare centres at Navan Road in Dublin and at Newbridge and Celbridge, two commuter towns just outside Dublin in County Kildare, were acquired in September 2018 for a cost of £34.5 million (€38.6 million). The properties are fully let to the HSE and other government bodies including Child and Family Agency ("Tulsa") and the Kildare Wicklow Education Training Board ("KWETB") which account for 63% of the total rent roll at the properties which have a combined unexpired lease term of approximately 21 years. The balance of income is from Centric Health, a leading UK and Irish general practice primary healthcare provider, and pharmacies.

Maple & Elm Court, Ashington, a modern keyworker accommodation facility located next to Wansbeck General Hospital, was acquired in September 2018 for £22.8 million. The property comprises 2,750m^2, and benefits from a long WAULT of 29.5 years and is fully let to the Northumbria Healthcare NHS Foundation Trust with fixed rental uplifts of just over 3% per annum.

Mountmellick Primary Healthcare Centre, County Laois, Ireland, was acquired in November 2018 for £5.1 million (€5.8 million). The property comprises 1,850m^2, a long WAULT of 17.7 years and is fully let to the HSE, a GP practice and a pharmacy.

During the year, an investment property at Bicester was sold for £1.0 million, at book value, as was a small piece of land surplus to requirements and as part of the Company's focus to increase the average lot size of the portfolio.

Investment pipeline

PHP continues to have a strong pipeline of potential acquisitions both in the UK and Ireland totalling over £190.0 million.

Developments

A forward funded development was acquired in July 2018 at Bray, County Wicklow in Ireland, with a net development cost of £20.0 million (€22.5 million) and is currently under construction and is expected to complete on schedule in the autumn of 2019.

Asset	Anticipated PC date	Area (Sqm)	Net development cost	Costs to complete
Bray, County Wicklow, Ireland	Q4 2019	4,805	£20.0m (€22.5m)	£16.0m (€17.8m)

The forward funded development at Churchdown, Gloucestershire, acquired in 2017, successfully completed on time and within budget, opening to patients in March 2018. The asset is a purpose-built healthcare centre and comprises 1,184m^2 of space fully let to a GP practice and pharmacy both for 20 years.

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

Asset management

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

Rent reviews

During 2018, PHP concluded and documented 187 rent reviews with a combined rental value of £23.6 million, resulting in an uplift of £1.1 million or 4.7% which equates to 1.4% per annum, continuing the positive trend in rental growth over the last two years (2017: 1.1% per annum with an uplift of £0.5 million; 2016: 0.9% per annum with an uplift of £0.3 million).

In 2018, 0.4% per annum was achieved on open market reviews (1.3% per annum excluding nil increases), 2.7% per annum on RPI-based reviews and 2.6% per annum on fixed uplift reviews. In addition, a further 29 open market reviews were agreed in principle, which will add another £0.1 million to the contracted rent roll when concluded and represent an uplift of 1.0% per annum.

69% of our rents are reviewed on an open market basis, typically every three years, and are impacted by land and construction inflation. Over recent years, there have been significant increases in these costs which are expected to result in further rental growth in the future. The balance of the PHP portfolio has either RPI (23%) or fixed uplift (8%) based reviews which also provide an element of certainty to future rental growth within the portfolio.

At 31 December 2018, the rent at 303 tenancies, representing £39.3 million of passing rent (2017: 265 tenancies/ £35.3 million), was under negotiation and the increase in the year reflects the improving environment for rental growth across both the portfolio and sector. However, the large number of outstanding reviews also reflects the requirement for all awards to be agreed with the District Valuer. A great deal of evidence to support open market reviews comes from the completion of reviews at comparable properties in nearby areas along with the delivery of new properties into the sector. As the volume of both of these continues to improve this should have a positive impact on future rental growth for the rest of the portfolio.

Asset management projects

We have continued to make strong progress in the year to 31 December 2018 to enhance and extend existing assets within the portfolio with 16 projects completed following investment of £4.4 million, generating an additional £0.2 million of rental income and extending the WAULT on those premises to an average of just under 20 years. A further five projects are approved and due to commence shortly, requiring the investment of £0.9 million and will generate £0.1 million of additional rental income but, just as importantly, will extend the WAULT on those premises back to an average of just over 20 years.

PHP continues to work closely with its tenants, has a strong pipeline of 36 potential projects and will continue to invest capital in a range of physical extensions or refurbishments.

Asset management projects help to avoid obsolescence and are key to maintaining the longevity and security of our income through long term tenant retention, increased rental income and extended occupational lease terms, adding to both earnings and capital values.

High quality portfolio metrics

Including development properties as completed, the portfolio's annualised contracted rent roll at 31 December 2018 was £79.4 million, an increase of 9.8% in the year (31 December 2017: £72.3 million). The security and longevity of our income are important drivers of our secure, long term, predictable income stream and enable our progressive dividend policy.

Security: PHP continues to benefit from secure, long term cash flows with 91% of its rent roll funded directly or indirectly by the NHS in the UK and HSE or government-funded bodies in Ireland. The portfolio also benefits from an occupancy rate of 99.8%.

Longevity: The portfolio's WAULT at 31 December 2018 was 13.1 years (31 December 2017: 13.2 years). Only £1.2 million or 1.5% of our income expires over the next three years and £51.9 million or 65.4% expires in over ten years. The table below sets out the current lease expiry profile of our income:

Income subject to expiry	£m	%
<3 years	1.2	1.5%
4–5 years	4.1	5.2%
5–10 years	22.2	28.0%
10–15 years	26.0	32.7%
15–20 years	14.3	18.0%
>20 years	11.6	14.6%
Total	**79.4**	**100.0%**

Valuation and returns

At 31 December 2018, the portfolio comprised 313 assets independently valued at £1.503 billion (2017: £1.362 billion). The strong investment market together with our sector leading portfolio metrics and asset management initiatives resulted in a valuation surplus and profit on sale of land of £36.1 million or 2.5%, after allowing for capital expenditure, in the year to 31 December 2018 (2017: £64.5 million or 5.0%). The net initial yield ("NIY") contracted by 6bps in the year to 4.85% (2017: 4.91%) with the true equivalent yield reducing to 4.99% (2017: 5.09%). Importantly, the improving environment for rental growth from rent reviews and asset management projects accounted for approximately 60% of the surplus whilst the contraction in the NIY accounted for the balance. In 2017, rental growth and yield compression accounted for 10% and 90% of the surplus respectively.

The portfolio in Ireland now comprises eight assets, including the development at Bray, valued at £83.0 million or €92.3 million (2017: two assets/£13.7 million) and represents 6% of the total portfolio (2017: 1%). The costs to complete the development at Bray are £16.0 million (€17.8 million) which have been deducted from the valuation as at 31 December 2018. Once complete the assets in Ireland will be valued at around £99 million (€110 million) with a large average lot size of £12.4 million (€13.8 million).

The portfolio's average lot size continues to grow at £4.8 million (2017: £4.5 million) and 82% of the portfolio is valued at over £3.0 million.

	Number of properties	Valuation £m	%	Average lot size (£m)
>£10m	27	419.1	27.9	15.5
£5m–£10m	61	419.9	27.9	6.9
£3m–£5m	103	398.5	26.5	3.9
£1m–£3m	121	262.8	17.5	2.2
<£1m (including land, £1.6m)	1	2.6	0.2	1.0
Total	**313**	**1,502.9**	**100.0**	**4.8**

The valuation uplift, combined with the portfolio's growing income, helped to deliver a total property return of 8.0% in the year to 31 December 2018 (2017: 10.8%), outperforming the MSCI UK Monthly Property Index by 70bps.

	Year ended 31 December 2018	Year ended 31 December 2017
Income return	**5.3%**	5.5%
Capital return	**2.7%**	5.3%
Total return	**8.0%**	10.8%

Financial review

The equity issue in April 2018, raising £115.0 million of new capital (£111.2 million net of expenses), has enabled us to strengthen the balance sheet significantly, reduce the level of gearing and provide additional resource for future investment. The strong asset management activity in the year along with the acquisitions made in 2017 and 2018 have enabled us to continue to deliver earnings growth.

Recurring EPRA earnings increased by £5.8 million, or 18.7%, to £36.8 million in the year to 2018 (2017: £31.0 million) which, using the weighted average number of shares in issue in the year, equates to EPRA earnings per share of 5.2 pence (2017: 5.2 pence), the nil increase reflecting the dilution from the equity raise in April 2018.

A revaluation surplus and profit on sales of £36.1 million (2017: £64.5 million) and a gain on the fair value of interest rate derivatives and convertible bond of £1.4 million (2017: loss of £3.6 million) contributed to the profit as reported under IFRS of £74.3 million (2017: £91.9 million).

Summarised results

The financial results for the Group are summarised as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Net rental income	**76.4**	71.3
Administrative expenses	**(8.6)**	(8.2)
Performance incentive fee (“PIF”)	**(1.3)**	(0.5)
Operating profit before revaluation gain and net financing costs	**66.5**	62.6
Net financing costs	**(29.7)**	(31.6)
EPRA earnings	**36.8**	31.0
Revaluation surplus on property portfolio	**36.0**	64.5
Profit on sales	**0.1**	—
Fair value loss on interest rate derivatives	**(1.8)**	(0.3)
Fair value gain/(loss) on convertible bond	**3.2**	(3.3)
IFRS profit before tax	**74.3**	91.9

Net rental income receivable in the year to 31 December 2018 increased by £5.1 million or 7.2% to £76.4 million (2017: £71.3 million). Acquisitions in 2017 and 2018 contributed £3.7 million to this increase, with developments completed in 2017 and 2018 adding £0.7 million. Rent reviews and asset management projects contributed a further £0.7 million.

Operational costs have continued to be managed closely and effectively. Overall administrative costs, excluding the PIF, have risen by £0.4 million or 4.9% (2017: £8.2 million) reflecting the increased size of the portfolio and additional regulatory costs. The Group’s EPRA cost ratio continues to be amongst the lowest in the sector at 14.3% for the year, a slight increase over the 13.2% incurred during the 2017 financial year which reflects the additional PIF payable in the year.

EPRA cost ratio	**Year ended 31 December 2018 £m**	Year ended 31 December 2017 £m
Gross rent less ground rent and service charge income	**77.6**	72.1
Direct property expense	**3.2**	1.2
Administrative expenses	**8.6**	8.2
Performance incentive fee (“PIF”)	**1.3**	0.5
Less: service charge costs	**(1.7)**	—
Less: ground rent	**(0.1)**	(0.1)
Less: other operating income	**(0.2)**	(0.3)
EPRA costs (including direct vacancy costs)	**11.1**	9.5
EPRA cost ratio	**14.3%**	13.2%
EPRA cost ratio excluding PIF	**12.6%**	12.5%
Administrative expenses as a percentage of gross asset value	**0.6%**	0.6%

Net finance costs decreased by £1.9 million in the year to £29.7 million (2017: £31.6 million) due to the lower cost of debt secured in 2017 and 2018 from various refinancing initiatives, the conversion of convertible bonds during both years and the application of the equity issue proceeds received in April to repay the Group’s revolving credit facilities. The effect of these activities increased interest cover to 2.6 times for 2018 compared with 2.25 times for 2017.

Performance incentive fee ("PIF")

The strong performance in both 2017 and 2018 resulted in a PIF being earned by the Adviser for the year as a whole and consequently a £1.3 million provision has been provided in the year (2017: £0.5 million).

Nexus is entitled to 11.25% of the "total return" above a hurdle rate of 8.0%, based on the change in EPRA net asset value ("NAV") plus dividends paid less equity raised which is credited to a notional cumulative account. If the hurdle is not achieved a sum equal to 11.25% of the underperformance is deducted from the notional cumulative account.

Controls are in place so that the PIF eligible for payment in respect of any year is restricted to the lower of:

- half of the fee earned in respect of that year, unless it is a shortfall, in which case the full amount is applied, together with the notional cumulative account balance (both positive and negative) on the earned but unpaid PIF brought forward from previous years;
- 20% of the property management fee paid to Nexus in the year; and
- £2.0 million.

Half of any PIF payable is deferred to the following year in the notional cumulative account, with performance against the hurdle rate calculated each year and any payment subject to the account being in a surplus position.

Furthermore, for the three years from 1 January 2017, the PIF is restricted if it would otherwise cause PHP's dividend cover to fall below 98%.

A PIF of £0.5 million was paid to Nexus in the year in respect of 2017 and at 31 December 2018 the balance on the notional cumulative PIF account is £6.9 million (2017: £5.2 million) of which £1.1 million (2017: £0.5 million) will become payable on approval of the Annual Report by the Board. The balance is conditional on performance in future years and the restrictions noted above.

Equity raise

In April 2018, the Company completed an over-subscribed equity issue, successfully raising £115.0 million of new share capital (£111.2 million net of expenses). New shares were issued to existing and new shareholders at 108 pence each, a premium of 7.2% to EPRA NAV as at 31 December 2017.

The net proceeds from the equity raise were used to repay the Group's revolving credit facilities which are available to be redrawn to fund investment opportunities and capital commitments.

Shareholder value

The table below sets out the movements in EPRA net asset value per share over the year under review.

EPRA net asset value per share	**31 December 2018 pence per share**	31 December 2017 pence per share
Opening EPRA NAV per share	**100.7**	91.1
EPRA earnings for the year	**5.2**	5.2
Dividends paid	**(5.2)**	(5.2)
Revaluation surplus on property portfolio	**4.7**	10.4
Shares issued	**0.4**	0.2
Interest rate derivative cancellation	**(0.7)**	(1.0)
Closing EPRA NAV per share	**105.1**	100.7

The revaluation surplus and profit on sale of land of £36.1 million in the year to 31 December 2018 is the main reason for the increase in EPRA NAV per share. Dividends distributed in the year were fully covered by recurring EPRA earnings with no material impact on EPRA NAV. The £4.0 million premium over EPRA NAV, net of expenses, from the equity raise and the impact of the conversion of £40.0 million convertible bonds in the year added a further 0.4 pence.

In July 2018 we selectively used the premium over NAV on the equity issue in April 2018 to cancel for two years effective until July 2020, various fixed rate swaps with a nominal value of £70.0m and a blended rate of 4.52%, for a one-off payment of £5.0 million equivalent to 0.7 pence per share on an EPRA net asset value basis. The cancellation results in total interest savings of £2.5 million per annum over two years from July 2018. The mark to market ("MtM") of the cancelled derivatives were reflected in the financial statements as at 31 December 2017.

The 4.4 pence or 4.4% increase in EPRA NAV per share to 105.1 pence (31 December 2017: 100.7 pence per share) together with the dividends distributed in the year resulted in a total NAV return per share of 9.8 pence per share or 9.7% in the year ended 31 December 2018 (2017: 14.9 pence or 16.4%).

Financing
As at 31 December 2018, total available loan facilities were £879.9 million (2017: £844.3 million) of which £679.1 million (2017: £724.2 million) had been drawn. Cash balances of £5.9 million (2017: £3.8 million) resulted in Group net debt of £673.2 million (2017: £720.3 million). Contracted capital commitments at the balance sheet date totalled £16.1 million (2017: £23.0 million) and result in headroom available to the Group of £190.6 million (2017: £101.0 million).

Capital commitments comprise forward funded development at Bray of £16.0 million and asset management projects of £0.1 million.

Debt metrics	**31 December 2018**	31 December 2017
Average cost of debt	**3.90%**	4.09%
Loan to value	**44.8%**	52.9%
Loan to value excluding the convertible bond	**43.2%**	48.2%
Interest cover	**2.6 times**	2.25 times
Weighted average debt maturity	**5.4 years**	6.3 years
Total drawn secured debt	**£580.9m**	£585.9m
Total drawn unsecured debt	**£98.2m**	£138.2m
Total undrawn facilities available to the Group[1]	**£190.6m**	£101.0m

1 After deducting the remaining cost to complete properties under development and asset management projects.

The equity raise in April 2018, the conversion of the convertible bond and the growth in the valuation of the portfolio during the year has seen the loan to value ratio fall to 44.8% (2017: 52.9%).

New long-term financing
In December 2018, the Company issued its first euro-denominated senior secured loan notes for €51 million (£45.8 million) at a blended rate of 2.4973% with a weighted average maturity of 10.4 years. The secured notes were placed with UK and Irish institutional investors in two tranches:

- €40 million 2.46% senior notes due December 2028; and
- €11 million 2.633% senior notes due December 2030.

The use of euro-denominated debt also provides a natural hedge against movements in exchange rates for its portfolio of assets in Ireland.

In July 2018, a £30.6 million secured revolving credit facility was entered into with Santander for an initial three-year term and will be used to fund acquisitions in the UK.

Post period end a £50 million unsecured revolving credit facility was entered into with HSBC, for an 18-month period, conditional and commencing on completion of the merger with MedicX.

Interest rate swap contracts
Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. During the year to 31 December 2018 there was a gain of £2.2 million (2017: gain of £2.6 million) on the fair value movement of the Group's interest rate derivatives due primarily to increases in interest rates assumed in the forward yield curves used to value the interest rate swaps. This reduced the MtM liability of the swap portfolio to £17.3 million (2017: £24.5 million).

Convertible bonds
During 2018, convertible bonds with a nominal value of £40.0 million (2017: £19.3 million) were, at the holders' option, converted resulting in 41.5 million (2017: 19.8 million) of new Ordinary Shares being issued. The nominal value of the convertible bonds outstanding at 31 December 2018 was £23.2 million (2017: £63.2 million).

On 11 October 2018 the conversion price was adjusted from 97.5 pence to 96.16 pence in accordance with the dividend protection provisions as set out in accordance with the conditions of issue of the convertible bond.

The conversion of the remaining £23.2 million convertible bonds into Ordinary Shares would reduce the Group's loan to value ratio by 1.5%, from 44.8% to 43.2%, on a pro-forma basis as at 31 December 2018, and result in the issue of 24.1 million new Ordinary Shares. A further £6.2 million of convertible bonds have been converted post the year end.

Average cost of debt
The various financing initiatives noted above have allowed us to make good progress in reducing the Group's average cost of debt by a further 19bps during the year to 3.90% (31 December 2017: 4.09%). We expect the average cost of debt will continue to fall during 2019 following the conversion and/or repayment of the remaining convertible and retail bonds which mature in May and July 2019 respectively.

Interest rate and currency exposure

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 31 December 2018 is as follows:

	Facilities		Drawn	
	£m	%	£m	%
Fixed rate debt	479.3	54.5%	479.3	70.6%
Hedged by fixed rate interest rate swaps	188.0	21.4%	188.0	27.7%
Floating rate debt – unhedged	212.6	24.1%	11.8	1.7%
Total	**879.9**	**100.0%**	**679.1**	**100.0%**

The above analysis excludes the impact of a £70 million forward starting swap commencing in June and July 2020.

The Group's drawn loan facilities are over 98% fixed or hedged and there is little exposure to future possible increases in interest rates.

The Group now owns €92.3 million (£83.0 million) (2017: €15.4 million/£13.7 million) of euro-denominated assets in Ireland as at 31 December 2018 and the value of these assets and rental income represented just 6% of the Group's total portfolio. In order to hedge the risk associated with exchange rates, the Group has chosen to fund its investment in Irish assets through the use of euro-denominated debt, providing a natural asset to liability hedge, within the overall Group loan to value limits set by the Board.

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

Risk management and principal risks

Risk management overview
Effective risk management is a key element of the Board's operational processes. Risk is inherent in any business, and the Board has determined the Group's risk appetite, which is reviewed on an annual basis. Group operations have been structured in order to accept risks within the Group's overall risk appetite, and to oversee the management of these risks to minimise exposure and optimise the returns generated for the accepted risk. The Group aims to operate in a low risk environment, appropriate for its strategic objective of generating progressive returns for shareholders. Key elements of maintaining this low risk approach are:

- investment focuses on the primary health real estate sector which is traditionally much less cyclical than other real estate sectors;
- the majority of the Group's rental income is received directly or indirectly from government bodies in the UK and Ireland;
- the Group benefits from long initial lease terms, largely with upwards-only review terms, providing clear visibility of income;
- the Group is not a direct developer of real estate, which means that the Group is not exposed to risks that are inherent in property development;
- the Board funds its operations so as to maintain an appropriate mix of debt and equity; and
- debt funding is procured from a range of providers, maintaining a spread of maturities and a mix of terms so as to fix or hedge the majority of interest costs.

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

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

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

The Adviser assists the Board in its assessment and monitoring of operational and financial risks and the Adviser has in place robust systems and procedures to ensure risk management is embedded in its approach to managing the Group's portfolio and operations. The Adviser has established a Risk Committee that is formed of members of its senior management team.
The Chairman of the Adviser's Risk Committee is independent of both the Adviser and the Group and experienced in the operation and oversight of risk management processes. The Audit Committee reviews the Group's systems of risk management and their effectiveness on behalf of the Board. These systems and processes have been in place for the year under review and remained in place up to the date of approval of the Annual Report and Accounts.

The Adviser has implemented a wide-ranging system of internal controls and operational procedures that are designed to manage risk as effectively as possible, but it is recognised that risk cannot be totally eliminated. Staff employed by the Adviser are intrinsically involved in the identification and management of risk. Strategic risks are recorded in a Risk Register and are assessed and rated within a defined scoring system.

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

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

Brexit
The external environment remains difficult, and the Board is continuing to monitor the potential risks associated with the UK leaving the European Union ("Brexit"). As exit negotiations are ongoing, the final outcome remains unclear and it is too early to understand fully the impact Brexit will have on our business and our sector. The main impact of Brexit is the potential negative impact on the macro-economic environment, potentially leading to political uncertainty and volatility in interest and exchange rates, but it could also impact our investment and occupier market, our ability to execute our investment strategy and our income sustainability in the long term.

Emerging risks
The Board has also considered emerging risks and their potential impact on the Group. In this regard, the Board has recently added climate change and environmental issues to the Risk Register. Whilst it is not yet regarded as a principal risk and uncertainty and therefore is not included in the tables that follow, the Group's approach to the subject matter is considered in more detail in the Responsible Business section of the Annual Report.

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

Risk	Inherent risk rating	Change to risk in 2018	Commentary on risk in the year	Mitigation	Residual risk rating
Deliver progressive returns					
Potential over-reliance on the NHS and HSE PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	**Medium** Likelihood is low but impact of occurrence may be major.	Unchanged	The UK and Irish governments continue to be committed to the development of primary care services and initiatives to develop new models of care that increasingly focus on greater utilisation of primary care. Despite the UK's likely exit from the European Union, the demand for health services will continue to grow regardless, driven by demographics. Whilst the uncertainty surrounding the exit may lead to fluctuations in the value of the Group's assets, there is no evidence of this at present. Future government funding levels in the UK may be impacted by any long term, material change to economic performance as a consequence of Brexit. A fundamental change in government policy could impact how the private sector regards its investment in this asset class and its willingness to further deploy private sector resources to improve the quality of primary care facilities.	The commitment to primary care is a stated objective of both the UK and Irish governments and on a cross-party basis. Management engages directly with government and healthcare providers in both the UK and in Ireland to promote the need for continued investment in modern premises. The attractiveness of long term, secure income streams that characterise the sector leads to stability of values.	**Medium** Policy risk and general economic conditions are out of the control of the Board, but proactive measures are taken to monitor developments and consider their possible implications for the Group.

Foreign exchange risk Income and expenditure that will be derived from PHP's investments in Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates, impacting the Group's earnings and portfolio valuation.	**Medium** Likelihood of volatility is high but the potential impact at present is relatively low due to the quantum of investment in Ireland, albeit this quantum is increasing.	Increased	The Group has completed its eighth acquisition in Ireland. Asset values, funding and net income are denominated in Euros. The UK's decision to leave the European Union continues to cause exchange rate volatility whilst the exit process is ongoing.	The Board has and will continue to fund its investments in Euros so as to create a natural hedge between asset values and liabilities in Ireland.	**Low** PHP has implemented a hedging strategy in the form of a natural hedge so as to manage exchange rate risk.
Grow property portfolio					
Competition The emergence of new purchasers in the sector and the recent slowing in the level of approvals of new centres in the UK may restrict the ability of the Group to secure new investments at a price that delivers an appropriate return to shareholders.	**High** Likelihood is high and impact of occurrence could be major.	Unchanged	In terms of values, the Group has benefited from a flight to income as a consequence of the current wider economic uncertainty – investors have been attracted to the sector due to its long term, secure, government-backed cash flows. Lack of supply, as a consequence of the low number of new development approvals in the UK, has also contributed to the increase in values. However, the same increase in demand and lack of supply has meant that the Group is facing increased competition for viable opportunities.	The reputation and track record of the Group in the sector means it is able to source forward funded developments and existing standing investments from developers, investors and owner-occupiers. The Group has a number of formal pipeline agreements and long standing development relationships that provide an increased opportunity to secure developments that come to market in the UK and Ireland. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.	**Medium** The Group's position within the sector and commitment to and understanding of the asset class mean PHP is aware of a high proportion of transactions in the market and potential opportunities coming to market. Active management of the property portfolio generates regular opportunities to increase income and lease terms and enhance value.
Financing The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest. Furthermore, a more general lack of equity or debt available to the sector could reduce demand for healthcare assets and therefore impact values.	**High** Likelihood of a restricted supply is moderate and the potential impact of such a restriction could be major.	Unchanged	The Company successfully completed an over-subscribed equity issue in April 2018, raising £115.0 million (£111.2 millon net of expenses) at a 7% premium to EPRA NAV as at 31 December 2017. In addition, the Group secured a new three-year £30.6 million revolving credit facility with Santander in July 2018 and in December 2018 the Group secured a €51 million 10.4-year private placement secured against its investment properties held in Ireland.	Existing and new debt providers are keen to provide funds to the sector and specifically to the Group, attracted by the strength of its cash flows. The Board monitors its capital structure and maintains regular contact with existing and potential equity investors and debt funders.	**Medium** The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinances debt facilities in advance of their maturity.

			The Group's undrawn facilities mean it currently has headroom of £190.6 million. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term.		
Manage effectively and efficiently					
Lease expiry management The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit-for-purpose medical centres is key to delivering the Group's strategic objectives.	**Medium** Likelihood of limited alternative use value is moderate but the impact of such values could be serious.	Unchanged	The Group's property portfolio has grown by eight assets in the period. Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.	The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. 16 projects either completed or started on site in the period, enhancing income and extending occupational lease terms. In addition, there is a strong pipeline of over 40 projects that will be progressed in 2019. Only 6.7% of the Group's income expires in the next five years and management is actively managing these leases expiries.	**Medium** The Adviser employs an active asset management programme and has a successful track record of securing enhancement projects and securing new long term leases.
PHP and Nexus relationship The Group has no employees. The continuance of the Adviser contract is key for the efficient operation and management of the Group.	**Medium** The likelihood of any unexpected change is low but, if that occurred, the impact could be significant.	Unchanged	As well as management fees, the Adviser has earned a performance incentive fee during the period, some of which is only payable in future periods and is dependent on continued out performance of hurdle rates.	The advisory agreement with and performance of the Adviser is regularly reviewed. Nexus' remuneration is linked to the performance of the Group to incentivise long term levels of performance. Nexus can be required to serve all or any part of its notice period should the Group decide to terminate providing protection for an efficient handover.	**Medium** The interests of the Adviser are aligned with the objectives of the Group and the composition of its team is monitored by the Board.
Diversified, long term funding					
Debt financing Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or	**Medium** The likelihood of insufficient facilities is moderate but the impact of such an event would be serious.	Unchanged	Total Group borrowing has increased in the period but negotiations with lenders have confirmed that at the current time and off the back of the successful equity raise in April 2018, the Group enjoys the	Existing lenders remain keen to finance PHP and new entrants to debt capital markets have increased available resource.	**Medium** The Board constantly monitors the facilities available to the Group and looks to refinance in advance of any maturity. The Group is

repay or refinance debt facilities as they become due.			confidence of the lending markets both in terms of the traditional high street lenders, as well as the bond markets. The Group secured a new £30.6 million revolving credit facility with Santander in July 2018 and in December 2018 the Group secured a €51 million private placement secured against its investment properties held in Ireland.	Management constantly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds. The Adviser regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.	subject to the changing conditions of debt capital markets.
Interest rates Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows, and could impact property valuations.	**Medium** The likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.	Unchanged	Term interest rate markets remained volatile during the period and this volatility is likely to continue in the near future. Over the year, term interest rates have risen which has impacted the mark to market ("MtM") valuations of the Group's interest rate derivative portfolio, reducing its "out of the money" status.	The Group holds a proportion of its debt in long term, fixed rate loans and mitigates its exposure to interest rate movements on floating rate facilities through the use of interest rate swaps. As at the balance sheet date 98% of drawn debt is fixed or hedged. MtM valuation movements do not impact on the Group's cash flows and are not included in any covenant test in the Group's debt facilities.	**Low** The Group is currently well protected against the risk of interest rate rises, but, due to its continued investment in new properties and the need to maintain available facilities, will be exposed to future interest rate levels.

Viability Statement

The Directors confirm that, as part of their strategic planning and risk management processes, they have undertaken an assessment of the viability of the Group, considering the current position and the potential impact of the principal risks and prospects over a three-year time horizon. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021. Although individually the Group's assets may have relatively long unexpired lease terms and will all have a defined asset management strategy, the Board has undertaken its detailed financial review over a three-year period because:

- the Group's financial review and budgetary processes cover a three-year look forward period; and
- occupational leases within the Group's property portfolio typically have a three-yearly rent review pattern and so modelling over this period allows the Group's financial projections to include a full cycle of reversion, arising from open market, fixed and index-linked rent reviews.

The Group's financial review and budgetary processes are based on an integrated model that projects performance, cash flows, position and other key performance indicators including earnings per share, leverage rates, net asset values per share and REIT compliance over the review period. In addition, the forecast model looks at the funding of the Group's activities and its compliance with the financial covenant requirements of its debt facilities. The model uses a number of key parameters in generating its forecasts that reflect the Group's strategy, operating processes and the Board's expectation of market developments in the review period. In undertaking its financial review, these parameters have been flexed to reflect severe, but realistic, scenarios both individually and collectively. Sensitivities applied are derived from the principal risks faced by the Group (see Risk Management) that could affect solvency or liquidity. These include the rate of investment in new properties and the return achieved from those investments, the availability and cost of debt finance, any potential reasonable decline in asset valuations and the ability to meet debt facility covenants. Sensitivities also flex assumed rental growth rates. In making its assessment, the Board has made a number of specific assumptions that overlay the financial parameters used in the Group's models. The Board has assumed that there is little or no change to healthcare policies or reduction in the levels of funding for primary care. In addition to the specific impact of the new debt facilities, the Board has reflected its reasonable confidence that the Group will be able to refinance or replace other debt facilities that mature within the review period in advance of their maturity and on terms similar to those at present.
Harry Hyman
Managing Director
30 January 2019

Group statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Rental income		**79.6**	72.5
Direct property expenses		**(3.2)**	(1.2)
Net rental income	3	**76.4**	71.3
Administrative expenses	4	**(9.9)**	(8.7)
Net result on property portfolio	10	**36.0**	64.5
Operating profit		**102.5**	127.1
Finance income	5	**0.1**	0.3
Finance costs	6a	**(29.8)**	(31.9)
Profit on sale of land and property		**0.1**	—
Fair value loss on derivative interest rate swaps and amortisation of hedging reserve	6b	**(1.8)**	(0.3)
Fair value gain/(loss) on convertible bond	6c	**3.2**	(3.3)
Profit before taxation		**74.3**	91.9
Taxation charge	7	**—**	—
Profit for the year[1]		**74.3**	91.9
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss			
Fair value gain on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve	23	**4.1**	2.8
Other comprehensive income for the year net of tax[1]		**4.1**	2.8
Total comprehensive income for the year net of tax[1]		**78.4**	94.7
Earnings per share			
Basic	8	**10.5p**	15.3p
Diluted	8	**9.8p**	14.7p
EPRA earnings per share			
Basic	8	**5.2p**	5.2p
Diluted	8	**5.2p**	5.1p

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

The above relates wholly to continuing operations.

Group balance sheet
at 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investment properties	10	**1,502.9**	1,361.9
Derivative interest rate swaps	17	**0.6**	—
		1,503.5	1,361.9
Current assets			
Derivative interest rate swaps	17	**—**	0.3
Trade and other receivables	12	**4.6**	6.4
Cash and cash equivalents	13	**5.9**	3.8
		10.5	10.5
Total assets		**1,514.0**	1,372.4
Current liabilities			
Derivative interest rate swaps	17	**—**	(2.7)
Deferred rental income		**(16.0)**	(15.0)
Trade and other payables	14	**(16.1)**	(15.4)
Borrowings: term loans and overdraft	15	**(0.9)**	(0.8)
Borrowings: bonds	16	**(101.5)**	—
		(134.5)	(33.9)
Non-current liabilities			
Borrowings: term loans and overdraft	15	**(360.5)**	(411.5)
Borrowings: bonds	16	**(213.2)**	(318.1)
Derivative interest rate swaps	17	**(17.8)**	(22.1)
		(591.5)	(751.7)
Total liabilities		**(726.0)**	(785.6)
Net assets		**788.0**	586.8
Equity			
Share capital	19	**96.1**	77.5
Share premium	20	**220.6**	80.7
Other reserve	21	**2.5**	1.6
Special reserve	22	**124.8**	161.4
Hedging reserve	23	**(25.8)**	(29.9)
Retained earnings	24	**369.8**	295.5
Total equity[1]		**788.0**	586.8
Net asset value per share – basic and diluted	25	**102.5p**	94.7p
EPRA net asset value per share	25	**105.1p**	100.7p

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

These financial statements were approved by the Board of Directors on 30 January 2019 and signed on its behalf by:

Steven Owen
Chairman

Registered in England Number: 3033634

Group cash flow statement

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Operating activities			
Profit on ordinary activities before tax		**74.3**	91.9
Finance income	5	**(0.1)**	(0.3)
Finance costs	6a	**29.8**	31.9
Profit on sale of land and property		**(0.1)**	—
Fair value loss on derivatives	6b	**1.8**	0.3
Fair value loss on convertible bond	6c	**(3.2)**	3.3
Operating profit before financing costs		**102.5**	127.1
Adjustments to reconcile Group operating profit before financing to net cash flows from operating activities:			
Revaluation gain on property portfolio	10	**(36.0)**	(64.5)
Fixed rent uplift		**(1.6)**	(1.4)
Decrease/(increase) in trade and other receivables		**2.2**	(3.1)
Increase in trade and other payables		**1.4**	2.0
Cash generated from operations		**68.5**	60.1
Net cash flow from operating activities		**68.5**	60.1
Investing activities			
Payments to acquire and improve investment properties		**(101.9)**	(75.4)
Interest received on development loans		**—**	0.3
Net cash flow used in investing activities		**(101.9)**	(75.1)
Financing activities			
Proceeds from issue of shares		**115.0**	—
Cost of share issues		**(4.0)**	(0.1)
Term bank loan drawdowns	15	**123.0**	137.8
Term bank loan repayments	15	**(174.0)**	(155.5)
Proceeds from bond issue		**45.4**	100.0
Bond issue costs		**(0.8)**	(1.1)
Termination of derivative financial instruments		**(5.0)**	(6.2)
Swap interest paid		**(2.4)**	(3.5)
Non-utilisation fees		**(1.2)**	(0.5)
Loan arrangement fees		**(1.3)**	(1.8)
Interest paid		**(25.2)**	(26.1)
Equity dividends paid net of scrip dividend	9	**(34.7)**	(29.8)
Net cash flow from financing activities		**34.8**	13.2
Increase/(decrease) in cash and cash equivalents for the year		**1.4**	(1.8)
Effect of exchange rate fluctuations on Euro-denominated loans and cash equivalents		**0.7**	0.5
Cash and cash equivalents at start of year		**3.8**	5.1
Cash and cash equivalents at end of year	13	**5.9**	3.8

1 Payment of liabilities acquired with subsidiaries.

Group statement of changes in equity

for the year ended 31 December 2018

	Share capital £m	Share premium £m	Other reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2018	77.5	80.7	1.6	161.4	(29.9)	295.5	586.8
Profit for the year	—	—	—	—	—	74.3	74.3
Other comprehensive income							
Fair value movement on interest rate swaps	—	—	—	—	2.6	—	2.6
Reclassification to profit and loss – amortisation of hedging reserve	—	—	—	—	1.5	—	1.5
Total comprehensive income	—	—	—	—	4.1	74.3	78.4
Shares issued on conversion of convertible bonds	5.1	40.5	—	—	—	—	45.6
Shares issued as part of capital raise	13.3	101.7	—	—	—	—	115.0
Share issue expenses	—	(4.0)	—	—	—	—	(4.0)
Dividends paid	—	—	—	(34.7)	—	—	(34.7)
Scrip dividend in lieu of cash	0.2	1.7	—	(1.9)	—	—	—
Exchange gain on translation of foreign balances	—	—	0.9	—	—	—	0.9
31 December 2018	**96.1**	**220.6**	**2.5**	**124.8**	**(25.8)**	**369.8**	**788.0**

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

Notes to the financial statements

1. Corporate information
The Group's financial statements for the year ended 31 December 2018 were approved by the Board of Directors on 30 January 2019 and the Group Balance Sheet was signed on the Board's behalf by the Chairman, Steven Owen. Primary Health Properties PLC is a public limited company incorporated in England and Wales and domiciled in the United Kingdom. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Conduct Authority, and traded on the London Stock Exchange.

2. Accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared on the historical cost basis, except for investment properties, including investment properties under construction and land and derivative financial instruments that have been measured at fair value. The Group's financial statements are prepared on the going concern basis (see note 31 for further details) and presented in Sterling rounded to the nearest million.

Statement of compliance

The consolidated financial statements for the Group have been prepared under International Financial Reporting Standards ("IFRSs") as adopted by the European Union and applied in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

2.2 Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for the Group as of 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Annual improvements to IFRSs 2014–2016. Amendments to: IFRS 1 First-time adoption of International Financial Reporting Standards, and IAS 28 Investments in associates and joint ventures
- Amendments to IAS 40 Investment property
- IFRS 15 Revenue from contracts with customers
- IFRIC 22 Foreign currency transactions and advanced consideration

IFRS 9 Financial instruments

The Group has applied IFRS 9 from 1 January 2018, but will not restate comparatives on initial application.

Directors of the Group have reviewed its financial assets and liabilities and the impact from the adoption of the new standard is as follows:

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through profit and loss and fair value through other comprehensive income.

The Group's financial assets at 31 December 2018 consist primarily of trade receivables which will continue to be reflected at amortised cost. Trade receivables are classified as amortised cost as they meet the test of Solely Payments of Principal and Interest ("SPPI test") as the Group's model is to collect the contracted cash flows due from tenants.

There was no impact in respect of classification and measurement of financial liabilities under IFRS 9.

(ii) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only on incurred losses as was the case under IAS 39. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

IFRS 9 requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses ("ECLs") for trade receivables without a significant financing component.

The main area of focus to the Group is considered to be impairment provisioning of trade receivables.

Gross trade receivables held at 31 December 2018 were £3.0 million (2017: £2.3 million) with an impairment provision recognised under IAS 39 of £nil (2017: £0.1 million). The credit risk associated with unpaid rent is deemed low.

We have performed an assessment of the impact of impairment losses recognised for trade receivables under IFRS 9 at 31 December 2018 through estimating the expected credit loss based on actual credit loss experienced over the past three years and taking into consideration future expected losses. Based on this assessment, there was no material impact of impairment losses recognised under IFRS 9.

The impact of non-substantial debt modifications has been reviewed and there is no material impact on the financial statements at transition.

(iii) Hedge accounting

On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group will continue to apply the hedge accounting requirements of IAS 39.

IFRS 15 Revenue from contracts with customers

The Group has applied IFRS 15 from 1 January 2018 and will adopt the modified retrospective approach without restatement of comparatives.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The majority of the Group's income is from tenant leases and there is no material impact on rental income as a result of adopting the new standard.

The main impact of IFRS 15 has been to show service charge income gross within rental income and service charge expense gross within direct property expenses. The cumulative effect before initial application of the standard is £nil.

2.3 Summary of significant accounting policies

Basis of consolidation

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

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

Segmental reporting

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

Foreign currency transactions

Each Group company presents its individual financial statements in its functional currency. The functional currency of all UK subsidiaries (with the exception of PHP Euro Private Placement Limited which is Euro) is Sterling and the functional currency of Primary Health Properties ICAV and its Irish domiciled subsidiaries is Euro.

Transactions in currencies other than an individual entity's functional currency (foreign currencies) are recognised at the applicable exchange rate ruling on the transaction date. Exchange differences resulting from settling these transactions, or from retranslating monetary assets and liabilities denominated in foreign currencies, are included in the Group Statement of Comprehensive Income.

Foreign operations

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

The exchange rates used to translate foreign currency amounts in 2018 are as follows:

Group Balance Sheet: £1 = €1.1126 (2017: €1.1262). Group Statement of Comprehensive Income: £1 = €1.1301 (2017: €1.1413).

Investment properties and investment properties under construction

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

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

Investment properties are recognised on acquisition upon completion of contract, which is when control of the asset passes to the Group. Investment properties cease to be recognised when control of the property passes to the purchaser, which is upon completion of the sales contract. Any gains and losses arising are recognised in the Group Statement of Comprehensive Income in the year of disposal.

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

Property acquisitions and business combinations

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

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

Gains on sale of properties

Gains on sale of properties are recognised on the completion of the contract, and are calculated by reference to the carrying value at the end of the previous reporting period, adjusted for subsequent capital expenditure and sale costs.

Net rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. Such adjustments are accrued at 100% (2017: 100%) of the additional rental income that is expected to result from the review. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Net rental income is the rental income receivable in the period after payment of direct property costs.

The Group has applied IFRS 15 Revenue from contracts with customers from 1 January 2018.

The main impact of IFRS 15 has been to show service charge income gross within rental income and service charge expense gross within direct property expenses. The comparatives have not been restated as the transitional provisions within the standard have been used to retrospectively apply the cumulative £nil effect before initial application of the standard being recognised at the date of initial application.

Interest income

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

Financial instruments under IFRS 9

Trade receivables

Trade receivables are recognised and carried at amortised cost as the Group’s business model is to collect the contractual cash flows due from tenants. Provision is made based on the expected credit loss model which reflects on the Group’s historical credit loss experience over the past three years but also reflects the lifetime expected credit loss.

Cash and cash equivalents

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

Trade and other payables

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

Bank loans and borrowings

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

The interest due within the next twelve months is accrued at the end of the year and presented as a current liability within trade and other payables.

Borrowing costs

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

Convertible bond

The convertible bond is designated as “at fair value through profit or loss” and so is presented on the Group Balance Sheet at fair value with all gains and losses, including the write-off of issuance costs, recognised in the Group Statement of Comprehensive Income. The fair value of the convertible bond is assessed in accordance with level 1 valuation techniques as set out within “Fair value measurements” within these accounting policies. The interest charge in respect of the coupon rate on the bond has been recognised within the underlying component of net financing costs on an accruals basis. Refer to Note 16 for further details. The amount of the change in fair value of the financial liability designated at fair value through profit or loss that is attributable to changes in credit risk will be recognised in other comprehensive income. This is different to IAS 39 accounting treatment where the entire change in fair value of the financial liability is recognised in the Group Statement of Comprehensive Income.

Financial instruments under IAS 39

Financial liabilities at fair value through profit or loss

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

Other loans and payables

Other loans and payables are non-derivative financial liabilities. Such liabilities are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group Statement of Comprehensive Income when the loans and payables are de-recognised or impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Group Statement of Comprehensive Income when the loans and receivables are de-recognised or impaired.

De-recognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

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

Tax

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

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

Fair value measurements

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

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

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

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

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

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

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

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

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

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

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

Hedge accounting

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

i) Derivative financial instruments ("derivatives")

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

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

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

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

For swaps that have been cancelled which previously qualified for hedge accounting, the remaining value within the cash flow hedging reserve at the date of cancellation is recycled to the Group Statement of Comprehensive Income on a straight line basis from the date of cancellation to the original swap expiry date where the hedged transaction is still expected to occur. If the swaps have been cancelled and the hedged transaction is no longer expected to occur, the amount accumulated in the hedging reserve is reclassified to profit and loss immediately.

Leases – Group as a lessor

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

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

2.4 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

Investment properties include (i) completed investment properties, and (ii) investment properties under construction. Completed investment properties comprise real estate held by the Group or leased by the Group under a finance lease in order to earn rental income or for capital appreciation, or both.

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

In accordance with RICS Appraisal and Valuation Standards, factors taken into account are current market conditions, annual rentals, state of repair, ground stability, contamination issues and fire, health and safety legislation. Refer to Note 10 of the financial statements which includes further information on the fair value assumptions and sensitivities.

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

Fair value of derivatives

In accordance with IFRS 9, the Group values its derivative financial instruments at fair value. Fair value is estimated by JCRA on behalf of the Group, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid-price of the yield curve prevailing on 31 December 2018. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. Refer to Note 18 of the financial statements.

b) Judgements

Hedge effectiveness

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

Property acquisitions during the year

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

2.5 Standards issued but not yet effective

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

- IFRS 16 Leases
- Annual improvements to IFRSs 2015–2017 cycle
- Long term interests in associates and joint ventures

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, but are not yet applicable to the Group and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following set out below:

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

3. Rental and related income

Revenue comprises rental income receivable on property investments in the UK and Ireland, which is exclusive of VAT. Revenue is derived from one reportable operating segment and £73.7 million and £5.7 million of annualised rental income is derived from the UK and Ireland respectively. Details of the lease income are given below.

Group as a lessor

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

	Less than one year £m	One to five years £m	More than five years £m	Total £m
2018	**78.1**	**307.1**	**627.6**	**1,012.8**
2017	72.1	286.5	593.3	951.9

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

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

4. Group operating profit is stated after charging:

	2018 £m	2017 £m
Administrative expenses including:		
Advisory fees (Note 4a)	**6.6**	6.2
Performance incentive fees (Note 4b)	**1.3**	0.5
Directors' fees (Note 4c)	**0.4**	0.3
Audit fees		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.3**	0.3
Total audit and assurance services	**0.3**	0.3
Non-audit fees		
Advisory services	**0.2**	—
Total non-audit fees	**0.2**	—
Total fees	**0.5**	0.3

a) Advisory fees

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

	2018 £m	2017 £m
Nexus Tradeco Limited ("Nexus")	**6.6**	6.2

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

As at 31 December 2018 £0.6 million was payable to Nexus (2017: £0.5 million).

Further fees paid to Nexus in accordance with the Advisory Agreement of £0.2 million (2017: £0.2 million) in respect of capital projects were capitalised in the year.

Service charge management fees paid to Nexus in the year in connection with the Group's properties totalled £0.2 million (2017: £0.3 million).

b) Performance incentive fee ("PIF")

Information about the performance incentive fee is provided in the Corporate Governance section of the Strategic Review in the Annual Report.

A PIF of £0.5 million was paid to Nexus in the period in respect of 2017 and at 31 December 2018 the balance on the notional cumulative PIF account was £6.9 million (2017: £5.2 million) of which £1.1 million (2017: £0.5 million) will become payable on approval of the Annual Report by the Board. The balance is conditional on performance in future years and the restrictions noted in the Financial Review.

c) Remuneration of Directors

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

5. Finance income

	2018 £m	2017 £m
Interest income on financial assets		
Development loan interest	**0.1**	0.3
	0.1	0.3

6. Finance costs

	2018 £m	2017 £m
Interest expense and similar charges on financial liabilities		
a) Interest		
Bank loan interest	**13.8**	14.6
Swap interest	**1.9**	3.4
Bond interest	**11.0**	11.6
Bank facility non-utilisation fees	**1.3**	0.5
Bank charges and loan commitment fees	**1.8**	1.8
	29.8	31.9

	2018 £m	2017 £m
b) Derivatives		
Net fair value (loss)/gain on interest rate swaps	**(0.3)**	0.7
Amortisation of cash flow hedging reserve	**(1.5)**	(1.0)
	(1.8)	(0.3)

The fair value gain on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A fair value gain on derivatives which do meet the hedge effectiveness criteria under IAS 39 of £2.6 million (2017: £2.6 million) is accounted for directly in equity. An amount of £1.5 million (2017: £0.2 million) has been amortised from the cash flow hedging reserve in the year resulting from early termination of effective swap contracts (see Note 23).

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

	2018 £m	2017 £m
c) Convertible bond		
Fair value gain/(loss) on convertible bond	**3.2**	(3.3)

During the year, 41,457,272 (2017: 19,794,870) new Ordinary Shares of 12.5 pence were issued on the conversion of £40.0 million (2017: £19.3 million) nominal of convertible bonds. Following the conversion of the bonds there were £23.2 million (2017: £63.2 million) nominal of convertible bonds outstanding (see Note 29 for details of bond conversions after the Balance Sheet date).

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

	2018 £m	2017 £m
Net finance costs		
Finance income (Note 5)	**(0.1)**	(0.3)
Finance costs (as per above)	**29.8**	31.9
	29.7	31.6

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2018 £m	2017 £m
Current tax		
UK corporation tax (Note 7b)	**—**	—

The UK corporation tax rate of 19% (2017: 19.25%) has been applied in the measurement of the Group's tax liability at 31 December 2018.

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017. Accordingly, these rates have been applied in the measurement of the Group's tax liability at 31 December 2018.

b) Factors affecting the tax credit for the year

The tax assessed for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
Profit on ordinary activities before taxation	**74.3**	91.9
Theoretical tax at UK corporation tax rate of 19% (2017: 19.25%)	**14.1**	17.7
REIT exempt income	**(16.6)**	(8.5)
Transfer pricing adjustments	**3.3**	4.0
Non-taxable items	**(0.8)**	(12.0)
Losses brought forward utilised	**—**	(1.2)
Taxation charge (Note 7a)	**—**	—

The UK REIT rules exempt the profits of the Group's property rental business from corporation tax.

c) Basis of taxation

The Group elected to be treated as a UK REIT with effect from 1 January 2007. The UK REIT rules exempt the profits of the Group's property rental business from corporation tax. Gains on properties are also exempt from tax, provided they are not held for trading or sold in the three years post completion of development. The Group will otherwise be subject to corporation tax at 19% (2017: 19.25%).

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

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

To remain as a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activities and the balance of its business. The Group remains compliant as at 31 December 2018.

8. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £m	Weighted average Ordinary Shares (number – million)	Per share (pence)
2018			
Basic and diluted earnings			
Basic earnings	**74.3**	**708.6**	**10.5**
Dilutive effect of convertible bond	**(2.2)**	**24.1**	
Diluted earnings	**72.1**	**732.7**	**9.8**
EPRA basic and diluted earnings			
Basic earnings	**74.3**		
Adjustments to remove:			
Net result on property (Note 10)	**(36.0)**		
Profit on sale of land	**(0.1)**		
Fair value loss on derivatives	**1.8**		
Fair value movement on convertible bond	**(3.2)**		
EPRA basic earnings	**36.8**	**708.6**	**5.2**
Dilutive effect of convertible bond	**1.0**	**24.1**	
EPRA diluted earnings	**37.8**	**732.7**	**5.2**
2017			
Basic and diluted earnings			
Basic earnings	91.9	600.7	15.3
Dilutive effect of convertible bond	5.9	64.8	
Diluted earnings	97.8	665.5	14.7
EPRA basic and diluted earnings			
Basic earnings	91.9		
Adjustments to remove:			
Net result on property (Note 10)	(64.5)		
Fair value loss on derivatives	0.3		
Fair value movement on convertible bond	3.3		
EPRA basic earnings	31.0	600.7	5.2
Dilutive effect of convertible bond	2.7	64.8	
EPRA diluted earnings	33.7	665.5	5.1

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

The dilutive impact to basic EPS of convertible bonds is represented by the accrued bond coupon which has been included in the results of the year ended 31 December 2018. The number of dilutive shares is calculated as if the contingently issuable shares within the convertible bond had been in issue for the period from issuance of the bonds to 31 December 2018.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2018 £m	2017 £m
Quarterly interim dividend paid 23 February 2018	**8.1**	—
Scrip dividend in lieu of quarterly cash dividend 23 February 2018	**0.3**	—
Quarterly interim dividend paid 25 May 2018	**7.7**	—
Scrip dividend in lieu of quarterly cash dividend 25 May 2018	**0.7**	—
Quarterly interim dividend paid 24 August 2018	**9.6**	—
Scrip dividend in lieu of quarterly cash dividend 24 August 2018	**0.3**	—
Quarterly interim dividend paid 23 November 2018	**9.3**	—
Scrip dividend in lieu of quarterly cash dividend 23 November 2018	**0.6**	—
Quarterly interim dividend paid 24 February 2017	**—**	7.7
Scrip dividend in lieu of quarterly cash dividend 24 February 2017	**—**	0.1
Quarterly interim dividend paid 26 May 2017	**—**	7.2
Scrip dividend in lieu of quarterly cash dividend 26 May 2017	**—**	0.7
Quarterly interim dividend paid 25 August 2017	**—**	7.1
Scrip dividend in lieu of quarterly cash dividend 25 August 2017	**—**	0.7
Quarterly interim dividend paid 24 November 2017	**—**	7.8
Scrip dividend in lieu of quarterly cash dividend 24 November 2017	**—**	0.1
Total dividends distributed in the year	**36.6**	31.4
Per share	**5.40p**	5.25p

On 3 January 2019, the Board declared an interim dividend of 1.4 pence per Ordinary Share with regard to the year ended 31 December 2018, payable on 22 February 2019. This dividend will comprise a Property Income Distribution ("PID") of 0.75 pence and ordinary dividend of 0.65 pence per share.

10. Investment properties and investment properties under construction

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

The properties are 99.8% let (2017: 99.7%). The valuations reflected a 4.85% net initial yield (2017: 4.91%) and a 4.99% (2017: 5.09%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the valuer.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the valuer is required to value development property as if complete, deduct the costs remaining to be paid to complete the development and consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks and the impact they may have on fair value. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the valuer has deemed that the residual risk to the Group is minimal. As required by the Red Book, LSH has deducted the outstanding cost to the Group through to the completion of construction of £16.0 million (2017: £5.7 million) in arriving at the fair value to be included in the financial statements. A fair value increase of £nil (2017: £0.4 million) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on property portfolio in the year of £36.0 million (2017: £64.5 million).

Of the £1,502.9 million valuation, £1,419.9 million (94%) relates to investment properties in the UK and £83.0 million (6%) relates to investment properties in Ireland.

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

	Investment properties freehold[1] £m	Investment properties long leasehold £m	Investment properties under construction £m	Total £m
As at 1 January 2018	1,104.9	255.9	1.1	1,361.9
Property additions	81.4	12.9	10.1	104.4
Property disposals	(1.0)	—	—	(1.0)
Impact of lease incentive adjustment	0.9	0.7	—	1.6
Transfer from properties under construction	—	5.2	(5.2)	—
	1,186.2	274.7	6.0	1,466.9
Revaluations for the year	26.3	9.7	—	36.0
As at 31 December 2018	**1,212.5**	**284.4**	**6.0**	**1,502.9**
As at 1 January 2017	987.1	225.7	7.4	1,220.2
Property additions	64.0	0.3	11.5	75.8
Impact of lease incentive adjustment	0.6	0.8	—	1.4
Transfer from properties under construction	—	18.2	(18.2)	—
	1,051.7	245.0	0.7	1,297.4
Revaluations for the year	53.2	10.9	0.4	64.5
As at 31 December 2017	1,104.9	255.9	1.1	1,361.9

1 Includes development land held at £1.0 million (31 December 2017: £0.9 million).

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £1,434 million (2017: £1,260 million).

Fair value hierarchy

All of the Group's properties are level 3, as defined by IFRS 13, in the fair value hierarchy as at 31 December 2018 and 31 December 2017. There were no transfers between levels during the year or during 2017. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Valuation techniques used to derive level 3 fair values

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

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

Valuation techniques: market comparable method

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

Unobservable input: estimated rental value ("ERV")

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

	2018	2017
ERV – range of the portfolio	**£32,307–£1,273,630 per annum**	£32,307–£1,225,071 per annum

Unobservable input: equivalent yield

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

	2018	2017
True equivalent yield – range of the portfolio	**3.84%–7.54%**	4.31%–7.61%

Unobservable input: physical condition of the property

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

Unobservable input: rental growth

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

Sensitivity of measurement of significant unobservable inputs

- A decrease in the estimated annual rent will decrease the fair value.
- A decrease in the equivalent yield will increase the fair value.
- A deterioration in the physical condition of the property will decrease the fair value.
- An increase in the rental growth will increase the fair value.

11. Group entities

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

Subsidiaries held directly by the Company

Primary Health Investment Properties Limited	PHP Bond Finance PLC
Primary Health Investment Properties (No. 2) Limited	PHP Primary Properties (Haymarket) Limited
Primary Health Investment Properties (No. 3) Limited	PHP Medical Investments Limited
PHP Healthcare (Holdings) Limited	PHP (FRMC) Limited
Primary Health Investment Properties (No. 4) Limited	Primary Health Properties ICAV[2,3]
White Horse Centre Limited	PHIP (Milton Keynes) Limited
PHIP (5) Limited	Carden Medical Investments Limited[4]
Primary Health Investment Properties (No. 7) Limited	Wincanton Healthcare Limited
Primary Health Investment Properties (No. 8) Limited	PHP SB Limited
Primary Health Investment Properties (No. 9) Limited	Chelmsley Associates Limited
Primary Health Investment Properties (Sutton) Limited	PHP STL Limited
PHP Finance (Jersey) Limited[1]	HMC Estates Holdings Limited[1]
PHP 2013 Holdings Limited	PHP Euro Private Placement Limited
Primary Health Investment Properties (No. 10) Limited	

Subsidiaries indirectly held by the Company

PHP Bingham Limited	PHP Investments No.2 Limited
PHIP (Chester) Limited	Motorstep Limited
Anchor Meadow Limited	Leighton Health Limited
PHP (Ipswich) Limited	PHP Healthcare Investments Limited
PHP Healthcare Investments (Holdings) Limited	PHP St. Johns Limited
PHP Investments No.1 Limited	PHP Clinics Limited
PHP (Project Finance) Limited	PHIP (Stourbridge) Limited
PHP Medical Properties Limited	Gracemount Medical Centre Limited[4]
PHP Glen Spean Limited	PHP AssetCo (2011) Limited
PHP Empire Holdings Limited	PHP Primary Properties Limited
Health Investments Limited	Crestdown Limited
PatientFirst Partnerships Limited	Primary Health Investment Properties (No. 6) Limited
PatientFirst (Hinckley) Limited	Jellia Holdings Limited[3]
PatientFirst (Burnley) Limited	PHPI Newbridge Limited[3]
PHP Investments (2011) Limited	PHPI Navan Road Limited[3]
PHP Ashington Limited (previously HMC Estates Limited)	PHPI Celbridge Limited[3]

1 Subsidiary company registered in Jersey. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG.
2 An Irish collective asset management vehicle established in Ireland.
3 Subsidiary company registered in Ireland. Registered office: Riverside 1, Sir John Rogerson's Quay, Dublin 2, Ireland.
4 Subsidiary company registered in Scotland. Registered office: 3rd Floor, 1 West Regent Street, Glasgow, Scotland G2 1RW.

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

12. Trade and other receivables

	2018 £m	2017 £m
Trade receivables (net of provision for doubtful debts)	**3.0**	2.2
Prepayments and accrued income	**1.6**	2.1
Other debtors	**—**	2.1
	4.6	6.4

The expected credit losses are estimated using a provision matrix by reference to past default experience and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has therefore not recognised a loss allowance because historical experience has indicated that the risk profile of trade receivables is deemed low.

At 31 December 2017, the analysis of trade receivables, some of which were past due or impaired, is set out below:

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

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

13. Cash and cash equivalents

	2018 £m	2017 £m
Cash held at bank	**5.9**	3.8
	5.9	3.8

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

14. Trade and other payables

	2018 £m	2017 £m
Trade payables	**1.6**	1.3
Bank and bond loan interest accrual	**4.6**	4.4
Other payables	**4.7**	5.5
VAT	**3.3**	3.1
Accruals	**1.9**	1.1
	16.1	15.4

15. Borrowings: term loans and overdrafts

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

	Facility		Amounts drawn		Undrawn	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Current						
Overdraft facility[1]	**5.0**	5.0	**—**	—	**5.0**	5.0
Fixed rate term loan[2]	**0.9**	0.8	**0.9**	0.8	**—**	—
	5.9	5.8	**0.9**	0.8	**5.0**	5.0
Non-current						
Fixed rate term loan[2]	**21.4**	22.3	**21.4**	22.3	**—**	—
Term loan to March 2021[1]	**100.0**	100.0	**65.9**	52.5	**34.1**	47.5
Fixed rate term loan to December 2022[3]	**25.0**	25.0	**25.0**	25.0	**—**	—
Term loan to July 2020[4]	**50.0**	50.0	**—**	21.5	**50.0**	28.5
Fixed rate term loan to November 2028[5]	**75.0**	75.0	**75.0**	75.0	**—**	—
Term loan to January 2021[6]	**115.0**	115.0	**55.0**	105.9	**60.0**	9.1
Fixed rate term loan to August 2024[7]	**50.0**	50.0	**50.0**	50.0	**—**	—
Fixed rate term loan to August 2029[7]	**63.0**	63.0	**63.0**	63.0	**—**	—
Term loan to December 2021[8]	**30.0**	30.0	**—**	—	**30.0**	30.0
Term loan to July 2021[9]	**30.6**	—	**8.9**	—	**21.7**	—
	560.0	530.3	**364.2**	415.2	**195.8**	115.1
	565.9	536.1	**365.1**	416.0	**200.8**	120.1

Providers:

1 The Royal Bank of Scotland plc.
2 Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032.
3 Aviva GPFC facility.
4 HSBC Bank facility.
5 Aviva facility.
6 Barclays/AIB facility.
7 Aviva facility.
8 Lloyds facility.
9 Santander facility.

	2018 £m	2017 £m
Balance as at 1 January	412.3	430.2
Changes from financing cash flows		
Term bank loan drawdowns	123.0	137.8
New loan facilities drawn	**123.0**	137.8
Repayments of mortgages principal	(0.9)	(0.8)
Repayments of term bank loans	(173.1)	(154.7)
Repayments of term loan borrowings	**(174.0)**	(155.5)
Loan issue costs for new facilities/ refinancing	**1.3**	1.1
Total changes from financing cash flows	**(49.7)**	(16.6)
Other non-cash changes		
Amortisation of loan issue costs	(1.2)	(1.3)
Total other changes	**(1.2)**	(1.3)
Balance as at 31 December	**361.4**	412.3

At 31 December 2018, total facilities of £879.9 million (2017: £844.3 million) were available to the Group. This included a £75 million unsecured retail bond, a £70 million secured bond, a £100 million secured bond, a £23.2 million fair value convertible bond, a £45.8 million Euro-denominated bond and a £5 million overdraft facility. Of these facilities, as at 31 December 2018, £679.1 million was drawn (2017: £724.2 million).

On 8 May 2018, the Aviva HIL (£22.3 million) and Aviva GPFC (£25.0 million) loan facilities were amended with the amendments having no material impact on the terms of the facilities.

On 27 July 2018, a new £30.6 million facility was successfully completed with Santander. The new loan can be drawn in Sterling, and has a variable interest rate of LIBOR plus 170bps. The new loan facility expires in July 2021.

Costs associated with the arrangement and extension of the facilities, including legal advice and loan arrangement fees, are amortised using the effective interest rate.

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

	2018 £m	2017 £m
Term loans drawn: due within one year	**0.9**	0.8
Term loans drawn: due in greater than one year	**364.2**	415.2
Total terms loans drawn	**365.1**	416.0
Less: unamortised borrowing costs	**(3.7)**	(3.7)
Total term loans per the Group Balance Sheet	**361.4**	412.3

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

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

16. Borrowings: bonds

	2018 £m	2017 £m
Unsecured:		
Retail bond July 2019	**75.0**	75.0
Convertible bond May 2019	**26.6**	75.5
Less: unamortised costs	**(0.1)**	(0.3)
Total unsecured bonds	**101.5**	150.2
Secured:		
Secured bond December 2025	**70.0**	70.0
Secured bond March 2027	**100.0**	100.0
Secured bond (Euro private placement)	**45.8**	—
Less: unamortised issue costs	**(2.6)**	(2.1)
Total secured bonds	**213.2**	167.9
Total bonds	**314.7**	318.1

The fair value of the bonds that converted during the year was £45.7 million (2017: £22.8 million).

Secured bonds

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

On 21 March 2017, a new £100 million Secured Bond was issued for a ten-year term at a fixed coupon of 2.83% that matures on 21 March 2027. Interest is paid semi-annually in arrears.

On 20 December 2018, new senior secured notes for a total of €51 million (£45.8 million) were issued at a blended fixed rate of 2.4793% and a weighted average maturity of 10.4 years. Interest is paid semi-annually in arrears. The notes represent PHP's first Euro-denominated transaction in the private placement market. The secured notes were placed with UK and Irish institutional investors in two tranches:

€40 million 2.46% senior notes due December 2028

€11 million 2.633% senior notes due December 2030.

Retail bond

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a retail bond following the issue of a £75 million, unsecured, seven-year bond to retail investors with an annual interest rate of 5.375% paid semi-annually in arrears. The retail bond issue costs are amortised using the effective interest rate method. The retail bond matures on 31 July 2019.

Convertible bond

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

Subject to certain conditions, the Bonds are convertible into preference shares of the Issuer which will be automatically and mandatorily exchangeable into fully paid Ordinary Shares of the Company (the "Shares"). The initial conversion price was set at 390 pence per Share (the "Exchange Price"), which has subsequently been revised to 97.5 pence following the Company's four-for-one Share sub-division undertaken in November 2015. In October 2018, the conversion price was adjusted to 96.16 pence. The adjustment is in accordance with the dividend protection provisions set out in condition 6(b)(iii)(B) of the conditions of the Bonds and is triggered by the Ordinary Shares trading ex-dividend. The adjusted exchange price shall be applied in respect of all conversion notices in respect of the Bonds from 11 October 2018. Under the terms of the Bonds, the Company will have the right to settle any conversion rights entirely in Shares, in cash or with a combination of Shares and cash.

During the year, 41,457,272 (2017: 19,794,870) new Ordinary Shares of 12.5 pence were issued on the conversion of £40.0 million (2017: £19.3 million) nominal of convertible bonds. Following the conversion of the Bonds there were £23.2 million (2017: £63.2 million) nominal of convertible bonds outstanding.

	2018 £m	2017 £m
Balance at 1 January	**75.5**	95.0
Bond conversions	**(45.7)**	(22.8)
Fair value movement in convertible bond	**(3.2)**	3.3
Balance at 31 December	**26.6**	75.5

The fair value of the convertible bond at 31 December 2018 and 31 December 2017 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NAV.

17. Derivatives and other financial instruments

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

	2018 £m	2017 £m
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 ("effective swaps")		
Current liabilities	**—**	(2.5)
Non-current liabilities	**(6.2)**	(22.1)
	(6.2)	(24.6)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 ("ineffective swaps")		
Current assets	**—**	0.3
Current liabilities	**—**	(0.2)
Non-current assets	**0.6**	—
Non-current liabilities	**(11.6)**	—
	(11.0)	0.1
Total fair value of interest rate swaps	**(17.2)**	(24.5)
Shown in the balance sheet as:		
Total current assets	**—**	0.3
Total non-current assets	**0.6**	—
Total current liabilities	**—**	(2.7)
Total non-current liabilities	**(17.8)**	(22.1)

Changes in the fair value of the contracts that do not meet the strict IAS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IAS 39 criteria and are designated as "effective" cash flow hedges, the change in fair value of the contract is recognised in the Group Statement of Changes in Equity through the cash flow hedging reserve. The result recognised in the Group Statement of Comprehensive Income on "effective" cash flow hedges in 2018 was a £4.1 million gain (2017: £2.8 million gain), including the amortisation of the cash flow hedging reserve of £1.5 million (2017: £0.2 million).

Floating to fixed interest rate swaps with a contract value of £183 million (2017: £158.0 million) were in effect at 31 December 2018. Details of all floating to fixed rate interest rate swap contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2018			
£50.0 million	August 2007	August 2021	0.870
£38.0 million	August 2007	August 2021	0.870
£10.0 million	June 2020	June 2026	4.810
£10.0 million	June 2020	June 2026	4.510
£10.0 million	July 2020	July 2026	4.400
£10.0 million	July 2020	July 2026	4.475
£10.0 million	July 2020	July 2026	4.455
£20.0 million	July 2020	July 2026	4.479
£25.0 million	January 2018	January 2023	2.470
£183.0 million			
2017			
£50.0 million	August 2007	August 2021	0.870
£38.0 million	August 2007	August 2021	0.870
£10.0 million	June 2006	June 2026	4.810
£10.0 million	June 2016	June 2026	4.510
£10.0 million	July 2016	July 2026	4.400
£10.0 million	July 2016	July 2026	4.475
£10.0 million	July 2016	July 2026	4.455
£20.0 million	July 2016	July 2026	4.479
£158.0 million			

Contracts not yet in effect	Start date	Maturity	Fixed interest per annum %
£75.0 million	January 2019	January 2024	2.650

On 17 July 2018, six 4.52% (blended) fixed rate swaps with a total nominal value of £70.0 million, effective until July 2026, were cancelled for the next two years for a one-off payment of £5.0 million equivalent to 0.7 pence per share on an EPRA net asset value basis. The balance within the cash flow hedge reserve relating to these swaps has been amortised through the Group Statement of Comprehensive Income over the remainder of the original contract period to July 2026 (see Note 6b).

18. Financial risk management

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

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

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

Financial risk factors

a) Interest rate risk

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

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

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

		Effect on fair value of financial instruments £m	Effect on profit before taxation £m	Effect on equity £m
2018				
London Interbank Offered Rate	Increase of 50 basis points	**5.5**	**3.0**	**8.0**
London Interbank Offered Rate	Decrease of 50 basis points	**(5.5)**	**(3.0)**	**(8.0)**
2017				
London Interbank Offered Rate	Increase of 50 basis points	7.3	1.0	8.3
London Interbank Offered Rate	Decrease of 50 basis points	(7.3)	(1.0)	(8.3)

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under financial instruments or customer contracts, leading to a financial loss. The Group is exposed to credit risk from its principal financial assets being cash and cash equivalents, and trade and other receivables (see Note 12).

Trade receivables

Trade receivables, primarily tenant rentals, are recognised and carried at amortised cost and presented in the balance sheet net of allowances for doubtful receivables and are monitored on a case-by-case basis. Impairment losses are recognised through the expected credit loss model. Credit risk is primarily managed by requiring tenants to pay rentals in advance.

The Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, but the Group does not monitor the credit quality of receivables on an ongoing basis.

Banks and financial institutions

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

c) Liquidity risk

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

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

	On demand £m	Less than three months £m	Three to twelve months £m	One to five years £m	More than five years £m	Total £m
2018						
Interest-bearing loans and borrowings	**—**	**5.5**	**18.7**	**311.6**	**425.9**	**761.7**
Interest rate swaps (net)	**—**	**0.4**	**1.3**	**18.1**	**7.6**	**27.4**
Trade and other payables	**0.8**	**13.9**	**0.4**	**0.4**	**0.1**	**15.6**
	0.8	**19.8**	**20.4**	**330.1**	**433.6**	**804.7**
2017						
Interest-bearing loans and borrowings	—	5.8	20.7	599.1	237.3	862.9
Interest rate swaps (net)	—	1.1	5.8	23.5	11.5	41.9
Trade and other payables	1.1	12.5	0.6	0.8	—	15.0
	1.1	19.4	27.1	623.4	248.8	919.8

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given below under (e) Capital risk management and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2017: none).

d) Market risk

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

Interest rate risk

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

Price risk

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

Fair values

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

	Book value 2018 £m	**Fair value 2018 £m**	Book value 2017 £m	Fair value 2017 £m
Financial assets				
Trade and other receivables	**4.3**	**4.3**	4.8	4.8
Effective interest rate swaps	**—**	**—**	0.3	0.3
Ineffective interest rate swaps	**0.6**	**0.6**	—	—
Cash and short term deposits	**5.9**	**5.9**	3.8	3.8
Financial liabilities				
Interest-bearing loans and borrowings	**679.1**	**707.2**	(724.2)	(772.0)
Effective interest rate swaps	**(6.2)**	**(6.2)**	(24.6)	(24.6)
Ineffective interest rate swaps (net)	**(11.6)**	**(11.6)**	(0.2)	(0.2)
Trade and other payables	**(16.1)**	**(16.1)**	(15.0)	(15.0)

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

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

Fair value hierarchy

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

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

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

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

Fair value measurements at 31 December 2018 are as follows:

Recurring fair value measurements	**Level 1** [1] **£m**	**Level 2** [2] **£m**	**Level 3** [3] **£m**	**Total £m**
Financial assets				
Derivative interest rate swaps	**—**	**0.6**	**—**	**0.6**
Financial liabilities				
Derivative interest rate swaps	**—**	**(17.8)**	**—**	**(17.8)**
Convertible bond	**(26.6)**	**—**	**—**	**(26.6)**
Fixed rate debt	**—**	**(480.8)**	**—**	**(480.8)**

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
3 Valuation is based on inputs that are not based on observable market data.

Fair value measurements at 31 December 2017 are as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	—	0.3	—	0.3
Financial liabilities				
Derivative interest rate swaps	—	(24.8)	—	(24.8)
Convertible bond	(75.5)	—	—	(75.5)
Fixed rate debt	—	(450.1)	—	(450.1)

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
3 Valuation is based on inputs that are not based on observable market data.

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

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

e) Capital risk management

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

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

Under several of its debt facilities, the Group is subject to a covenant whereby consolidated Group rental income must exceed Group borrowing costs by the ratio 1.3:1 (2017: 1.3:1). No debt facility has a Group loan to value covenant.

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

- interest cover: 1.0 to 1.75:1 (2017: 1.0 to 1.7:1); and
- loan to value: 50% to 75% (2017: 50% to 75%).

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

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

Group loan to value ratio	**2018 £m**	2017 £m
Fair value of completed investment properties	**1,496.9**	1,360.8
Fair value of development properties	**6.0**	1.1
	1,502.9	1,361.9
Interest-bearing loans and borrowings (with convertible bond at nominal value)	**672.6**	718.1
Unamortised borrowing costs	**6.5**	6.1
Less cash held	**(5.9)**	(3.8)
Nominal amount of interest-bearing loans and borrowings	**673.2**	720.4
Group loan to value ratio	**44.8%**	52.9%

19. Share capital

Ordinary Shares issued and fully paid at 12.5 pence each

	2018 Number – millions	**2018 £m**	2017 Number – millions	2017 £m
Balance at 1 January	**619.4**	**77.5**	598.2	74.8
Scrip issues in lieu of cash dividends	**1.7**	**0.2**	1.4	0.2
Share issue 19 April 2018	**106.5**	**13.3**	—	—
Shares issued on bond conversions	**41.5**	**5.1**	19.8	2.5
Balance at 31 December	**769.1**	**96.1**	619.4	77.5

Issue of shares in 2018

	Date of issue	Number of shares – millions	Issue price
Scrip issue in lieu of cash dividend	23 February 2018	0.2	114.00p
Share issue	19 April 2018	106.5	108.00p
Scrip issue in lieu of cash dividend	25 May 2018	0.6	109.50p
Scrip issue in lieu of cash dividend	24 August 2018	0.3	115.96p
Scrip issue in lieu of cash dividend	23 November 2018	0.6	109.52p

20. Share premium

	2018 £m	2017 £m
Balance at 1 January	**80.7**	59.1
Scrip issue in lieu of cash dividend	**1.7**	1.4
Share issue 19 April 2018	**101.7**	—
Shares issued on bond conversions	**40.5**	20.3
Share issue expense	**(4.0)**	(0.1)
Balance at 31 December	**220.6**	80.7

21. Other reserve

The other reserve is made up of the capital reserve which is held to finance any proposed repurchases of Ordinary Shares, following approval of the High Court in 1998 and the foreign exchange translation reserve.

	2018 £m	2017 £m
Capital reserve		
Balance at 1 January and 31 December	**1.6**	1.6
Foreign exchange translation reserve		
Balance at 1 January	**—**	—
Exchange differences on translating the net assets of foreign operations	**0.9**	—
Balance at 31 December	**0.9**	—
Balance of other reserve at 31 December	**2.5**	1.6

22. Special reserve

	2018 £m	2017 £m
Balance at 1 January	**161.4**	192.8
Dividends paid	**(34.7)**	(29.8)
Scrip issue in lieu of cash dividend	**(1.9)**	(1.6)
Balance at 31 December	**124.8**	161.4

The special reserve has arisen on previous issues of the Company's shares. It represents the share premium on the issue of the shares, net of expenses, from issues effected by way of a cash box mechanism.

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

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

23. Cash flow hedging reserve

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

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

	2018 £m	2017 £m
Balance at 1 January	**(29.9)**	(32.7)
Fair value movement on cash flow hedges	**0.8**	0.4
Amortisation of cash flow hedging reserve	**1.5**	0.2
Reclassification of swap between ineffective and effective	**1.8**	2.2
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	**4.1**	2.8
Balance at 31 December	**(25.8)**	(29.9)

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

On 17 July 2018, six 4.52% (blended) fixed rate swaps with a total nominal value of £70.0 million, effective until July 2026, were cancelled for the next two years for a one-off payment of £5.0 million equivalent to 0.7 pence per share on an EPRA net asset value basis (see Note 6b).

24. Retained earnings

	2018 £m	2017 £m
Balance at 1 January	**295.5**	203.6
Retained profit for the year	**74.3**	91.9
Balance at 31 December	**369.8**	295.5

25. Net asset value per share

Net asset values have been calculated as follows:

	2018 £m	2017 £m
Net assets per Group Balance Sheet	**788.0**	586.8
Derivative interest rate swaps (net liability)	**17.2**	24.5
Convertible bond fair value movement	**3.4**	12.3
EPRA net asset value	**808.6**	623.6

	Number of shares – million	Number of shares – million
Ordinary Shares		
Issued share capital	**769.1**	619.4
Net asset value per share		
Basic net asset value per share	**102.5p**	94.7p
EPRA NAV per share	**105.1p**	100.7p

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

As detailed in Note 8, the Company assesses the dilutive impact of the unsecured convertible bond on its net asset value per share. With an initial conversion price of 97.5 pence (390 pence upon issue, restated to reflect the Company's four-for-one share sub-division undertaken in November 2015 and in October 2018 restated in accordance with the dividend protection rules and triggered by the Ordinary Shares trading ex-dividend), the unsecured convertible bond issued by the Group on 20 May 2014 is anti-dilutive to all measures of net asset value per share.

26. Capital commitments

As at 31 December 2018, the Group has entered into a forward funding development agreement with a third party for the development of a primary healthcare development in Ireland. The Group has acquired the land and advances funds to the developer as the construction progresses. Total consideration of £16.0 million plus VAT remains to be funded with regard to this property.

At 31 December 2017 the Group had entered into a development agreement with a third party for the purchase of a primary healthcare development. At 31 December 2017, total consideration of £4.2 million plus VAT remained to be funded with regard to this property.

As at 31 December 2018, the Group has capital commitments totalling £nil (2017: £1.5 million plus VAT) being the cost to complete asset management projects on site.

27. Contingent liabilities

An independent expert has been appointed to adjudicate on whether an adjustment to the conversion price of the convertible bond should have been made in respect of the open offer element of the equity raises in both 2016 and 2018. If the independent expert determines an adjustment should have been made then approximately 450,000 additional ordinary shares of 12.5p may need to be issued to bond holders who have converted to date and a further 140,000 could potentially be issued over and above current bondholders' entitlement, at the holders' option to convert. The results of the independent expert's findings are due to be received shortly.

28. Related party transactions

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

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

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

29. Subsequent events

0n 24 January 2019 the Boards of the Company and MedicX jointly announced a proposed all share merger to create a leading primary healthcare REIT in the UK with a portfolio of over 470 assets valued at £2.3 billion. The merger is subject to the approval of both the Company and MedicX shareholders; subject to these approvals the merger is expected to complete in late March.

Conditional on the completion of the merger with MedicX, the group will enter into a £50 million unsecured revolving credit facility with HSBC Bank for an 18-month period.

In January 2019, convertible bonds with a nominal value of £6.2 million converted into 6,447,584 new ordinary shares of 12.5 pence each. Following the cancellation of the bonds the nominal value of the remaining convertible bonds was £17.0 million.

30. Annual Report

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered in due course. The Auditor has reported on those accounts and their reports were (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2018 will be published on the Group's website at www.phpgroup.co.uk and will be posted to shareholders in February 2019.

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

31. Going concern

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

The Group's property portfolio is 99.8% occupied with 91% of its income funded directly or indirectly by the Government bodies in the UK and Republic of Ireland. The nature of the Group's tenant base and long term lease agreements, provides secure, transparent cash flows that are collected promptly. A strategy of maintaining a prudent level of hedging combined with stable and predictable administrative costs enables the Board to have great visibility on the Group's liquidity.

In April 2018, the Company completed an over-subscribed equity issue, successfully raising £115.0 million of new share capital (£111.2 million net of expenses). New shares were issued to existing and new shareholders at 108 pence each, a premium of 7.2% to EPRA NAV as at 31 December 2017.

The net proceeds from the equity raise were used to repay the Group's revolving credit facilities which are available to be redrawn to fund investment opportunities and capital commitments.

In December 2018, the Company issued its first euro-denominated senior secured loan notes for €51 million (£45.8 million) at a blended rate of 2.4973% with a weighted average maturity of 10.4 years. The secured notes were placed with UK and Irish institutional investors in two tranches:

- €40 million 2.46% senior notes due December 2028; and
- €11 million 2.633% senior notes due December 2030.

The use of euro-denominated debt also provides a natural hedge against movements in exchange rates for its portfolio of assets in Ireland.

In July 2018, a £30.6 million secured revolving credit facility was entered into with Santander for an initial three-year term and will be used to fund acquisitions in the UK.

Post period end a £50m unsecured revolving credit facility was entered into with HSBC, for an 18-month period, conditional and commencing on completion of merger with MedicX.

Further opportunities are being pursued by the Group in wider debt capital markets which may result in additional term debt facilities being secured during the course of 2019.

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

32. Alternative Performance Measures ("APMs")

PHP uses EPRA earnings and EPRA net assets as APMs which are widely used by public real estate companies to highlight the underlying and recurring performance of the property portfolio. The APMs are in addition to the statutory measures from the condensed financial statements. The measures are defined and reconciled to amounts presented in the financial statements within this annual results statement at notes 8 and 25. The APMs used by the Company are consistent with those used in the 2018 Annual Report and the reasons for the Company's use of these APMs are set out therein.

Directors’ responsibility statement

Statement of Directors’ responsibilities in respect of the Group and Company financial statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and
- make an assessment of the Company’s ability to continue as a going concern.

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

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

Responsibility statement
We confirm that to the best of our knowledge:
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 30 January 2019 and is signed on its behalf by:

For and on behalf of the Board

Steven Owen
Chairman
30 January 2019

Glossary of terms

Adviser is Nexus Tradeco Limited.

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

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

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

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

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

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

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

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

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

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

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

EPRA NAV per share is the balance sheet net assets excluding own shares held, the MtM value of derivative financial instruments and the convertible bond fair value movement, divided by the number of shares in issue at the balance sheet date.

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

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

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

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

Gross rental income is the gross accounting rent receivable.

Group is Primary Health Properties PLC ("PHP") and its subsidiaries.

HSE or **the Health Service Executive** is the executive agency of the Irish government responsible for health and social services for people living in Ireland.

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

IFRS or Basic net asset value per share ("IFRS NAV") are the balance sheet net assets, excluding own shares held, divided by the number of shares in issue at the balance sheet date.

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

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

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

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

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

JCRA is J.C. Rathbone Associates Limited.

London Interbank Offered Rate ("LIBOR") is the interest rate charged by one bank to another for lending money.

Loan to Value ("LTV") is the ratio of net debt to the total value of property and assets.

Mark to Market ("MTM") is the difference between the book value of an asset or liability and its market value.

Net initial yield is the annualised rents generated by an asset, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the asset valuation (after notional purchasers' costs).

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

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

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

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

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

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

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

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

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

RICS is the Royal Institution of Chartered Surveyors.

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

Special reserve is a distributable reserve.

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

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

	£m's
Net rental income	76.4
Revaluation surplus and profit on sales	36.1
	112.5
Opening property assets	1,361.9
Weighted additions in the period	45.5
	1,407.4
Total property return	8.0%

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

	NAV
At 31 December 2017	100.70
At 31 December 2018	105.10
Increase/(decrease)	**4.40**
Add: Dividends paid	
23/02/2018 Q1 interim	1.35
25/05/2018 Q2 interim	1.35
24/08/2018 Q3 interim	1.35
24/11/2018 Q4 interim	1.35

Total shareholder return	**9.80**

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

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

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

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

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