

# INVESTING FOR THE FUTURE

Primary Health Properties PLC  
Annual Report 2021



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Baile Ath  
Athy  
Primary



  **MCCAULEY**

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# LEADING INVESTOR IN FLEXIBLE, MODERN PRIMARY HEALTHCARE ACCOMMODATION ACROSS THE UK AND IRELAND

## Strategic report

- 1 Highlights
- 2 At a glance
- 4 Our portfolio
- 6 Investment case
- 8 Chairman's statement
- 12 Business model
- 14 Our strategy
- 16 Key performance indicators
- 18 Business review
- 23 Financial review
- 28 EPRA performance measures
- 30 Responsible business
- 50 Risk management and principal risks
- 56 Viability statement

## Governance

- 58 Chairman's introduction to governance
- 60 Board of Directors
- 64 Senior leadership team
- 66 Corporate governance report
- 74 Audit Committee report
- 79 Nomination Committee report
- 81 Remuneration Committee report
- 86 Directors' remuneration report
- 100 Directors' report
- 104 Directors' responsibility statement

## Financial statements

- 105 Independent auditor's report
- 114 Group statement of comprehensive income
- 115 Group balance sheet
- 116 Group cash flow statement
- 117 Group statement of changes in equity
- 118 Notes to the financial statements
- 146 Company balance sheet
- 147 Company statement of changes in equity
- 148 Notes to the Company financial statements

## Further information

- 156 Shareholder information
- 157 Advisers and bankers
- 158 Glossary of terms



Discover more at [phgroup.co.uk](http://phgroup.co.uk)



Read more about our responsible business report at [phgroup.co.uk](http://phgroup.co.uk)



Net rental income <sup>Δ</sup>

£136.7m

+4.2%

2021	£136.7m
2020	£131.2m
2019	£115.7m
2018	£76.4m
2017	£71.3m

Adjusted earnings <sup>Δ</sup>

£83.2m

+13.8%

2021	£83.2m
2020	£73.1m
2019	£59.7m
2018	£36.8m
2017	£31.0m

Adjusted earnings per share <sup>Δ</sup>

6.2p

+6.9%

2021	6.2p
2020	5.8p
2019	5.5p
2018	5.2p
2017	5.2p

Dividend per share

6.2p

+5.1%

2021	6.2p
2020	5.9p
2019	5.6p
2018	5.4p
2017	5.25p

Total property portfolio

£2.8bn

+4.1%

2021	£2.8bn
2020	£2.6bn
2019	£2.4bn
2018	£1.5bn
2017	£1.4bn

Adjusted NTA per share <sup>Δ</sup>

116.7p

+3.4%

2021	116.7p
2020	112.9p
2019	107.9p
2018	105.1p
2017	100.7p

Total NTA return <sup>Δ</sup>

8.9%

-120bp

2021	8.9%
2020	10.1%
2019	8.0%
2018	9.7%
2017	16.4%

Total property return <sup>Δ</sup>

9.5%

+210bp

2021	9.5%
2020	7.4%
2019	7.7%
2018	8.0%
2017	10.8%

IFRS profit/(loss) after tax

£140.1m

+25.1%

2021	£140.1m
2020	£112.0m
(£71.3m)	2019
2018	£74.3m
2017	£91.9m

IFRS profit/(loss) after tax per share\*

10.5p

+19.3%

2021	10.5p
2020	8.8p
(6.5p)	2019
2018	10.5p
2017	15.3p

IFRS NTA per share

112.5p

+4.7%

2021	112.5p
2020	107.5p
2019	101.0p
2018	102.5p
2017	94.7p

Average cost of debt

2.9%

-60bp

2021	2.9%
2020	3.5%
2019	3.5%
2018	3.9%
2017	4.1%

\* The IFRS profit after tax per share as set out in the summarised results table on page 24.

Δ Alternative performance measures ("APMs"): Measures with this symbol Δ are APMs defined in the Glossary section on pages 158 to 160, and presented throughout this Annual Report. All measures reported on a continuing operations and 52-week comparable basis.

# WHO WE ARE

We invest in flexible, modern properties for local primary healthcare, let on long term leases with a property portfolio of 521 assets in the UK and Ireland valued at £2.8 billion.



Property portfolio

521

(2020: 513)



Property value

£2.8bn

(2020: £2.6bn)



## GEOGRAPHICAL SPREAD BY VALUATION



Locations	Value	% Value
● Midlands and East Anglia	£619m	22%
● North East, Yorkshire and Humberside	£419m	15%
● North West	£391m	13%
● South East	£375m	13%
● Wales	£216m	8%
● Scotland	£215m	8%
● Republic of Ireland	£213m	8%
● London	£211m	8%
● South West	£132m	5%
	<b>£2,791m</b>	<b>100%</b>



Development cost  
**£20.1m**

### COMPLETED DEVELOPMENTS

The Group completed four forward funded developments in the year, all located in the UK, with a development cost of £20.1 million.



Development cost  
**£25.7m**

### DEVELOPMENTS ON SITE

The Group currently has two forward funded developments on site in Ireland with a development cost of £25.7 million.

# A GROWING PORTFOLIO

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

## KEY FACTORS AFFECTING OUR MARKET

PHP's mission is to support the NHS, HSE and other healthcare providers, by being a leading investor in modern, primary care, premises. Never has this been more important as the NHS seeks to work through the backlog of procedures created by the COVID-19 pandemic and as the Government delivers its Levelling Up agenda.

### Demographics

As part of the ageing demographics, our asset management and investment teams actively engage with tenants to further enhance assets in response to the NHS Long Term Plan.

### Ageing stock

The majority of existing primary care assets in the UK and Ireland are not fit for modern healthcare, requiring substantial investment.

### Evolution of health system

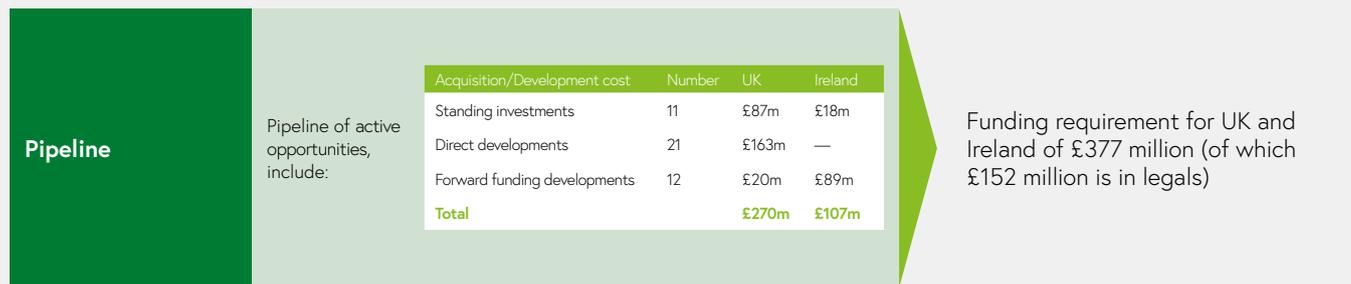
Primary care will continue to take on non-urgent and periphery procedures in order to alleviate pressures on the NHS.

### Ireland

The Irish Department of Health identified over 300 locations that require dedicated primary care centres, compared with less than 100 existing centres.

## FOUNDATIONS FOR FUTURE GROWTH

Total funding requirement of c. £444 million over the next 2-3 years to fund a mix of future acquisition pipeline, developments and asset management projects.



Further medium term pipeline opportunities



## PORTFOLIO DISTRIBUTION BY CAPITAL VALUE ANALYSIS\*



● 2021 ● 2020

\* Excluding land and residential units valued at £1.5 million (2020: £1.5 million).

## COVENANT ANALYSIS



## ANALYSIS OF LEASES UNEXPIRED – WAULT 11.6 YEARS



## BUSINESS ACTIVITY IN 2021

Investment activity

**£86.6m**

Across 9 properties

Like-for-like rental growth

**£2.4m** or 1.8% growth

Additional annualised rental income from rent reviews and asset management projects completed in the year

Asset management projects

**£15.0m**

Invested in 39 projects either completed or on site



## NET ZERO CARBON ("NZC") DIRECT DEVELOPMENTS

PHP's first two NZC developments scheduled to commence construction in the first quarter of 2022, in Lincolnshire and West Sussex.

**£10.7m** development cost

**90%**

of income funded by government bodies (GPs, NHS or HSE)

**99.7%**

Occupancy rate

**42.9%**

Loan to value ("LTV") ratio at the lower end of target range of 40% to 50%

# INVESTING IN PHP

PHP is a strong business creating progressive\* returns for shareholders by investing in healthcare real estate let on long term leases, backed by a secure underlying covenant where the majority of rental income is funded directly or indirectly by a government body.



Rent roll funded by government bodies

# 90%

(2020: 90%)

## LOW RISK, LONG TERM AND NON-CYCLICAL MARKET

- Development opportunities emerging in the UK
- Opportunities in Ireland, priced attractively
- Majority of rents in both jurisdictions funded by government for long lease terms
- WAULT of 11.6 years (2020: 12.1 years)

\* Progressive is where it is expected to continue to rise each year, as defined in the Glossary section on pages 158 to 160.



### STRONG, HIGH QUALITY AND GROWING CASH FLOW

- Effectively upward-only or indexed rent reviews
- Positive rental growth outlook
- Positive yield gap between acquisition yield and funding costs
- Efficient cost structure enhances earnings



### EFFICIENT FINANCIAL MANAGEMENT

- EPRA cost ratio now the lowest in the sector
- Internalisation of Group's management structure in 2021, saving approximately £4.0 million p.a.
- Refinancing in 2021, saving approximately £5.0 million of interest p.a.
- Low, average marginal cost of debt of 1.8%



### STABLE, INCREASING RETURNS

- Growing shareholder return through dividend and capital appreciation
- Dividend fully covered by earnings
- Strong yield characteristics and low volatility
- 25 consecutive years of dividend growth



### SECTOR DEMAND FACTORS DICTATE CONTINUED DEVELOPMENT OF HEALTHCARE PREMISES

- Demand from population growth, ageing and suffering from more instances of chronic illness
- Unwavering political support in the UK and Ireland and promotion of integrated primary care and NHS Long Term Plans to effectively manage patient needs
- COVID-19 increasing the burden being placed on healthcare systems

# A CLEAR FOCUS FOR THE YEAR AHEAD



"Having successfully delivered 25 years of secure and reliable growth for our shareholders, we have firmly established ourselves as a sector leader and the Board looks forward to delivering further earnings and dividend growth in 2022 and remains confident in PHP's future outlook."

**Steven Owen**

Independent Non-executive Chairman

Despite the uncertainty and volatility in the economic environment over the last two years we have continued to deliver a strong and robust operational and financial performance and the Group's portfolio has continued to demonstrate strong resilience throughout this period. The security and longevity of our income are important drivers of our predictable income stream and underpin our progressive dividend policy and we have now entered our 26th year of continued dividend growth.

Thankfully, the speed and effectiveness of the COVID-19 vaccine rollout has allowed us to return to some semblance of normality after the latest lockdown and we must offer our heartfelt thanks to the brilliant people who devised, mass produced and administered vast numbers of vaccines and boosters.

Since the start of the COVID-19 pandemic, we have seen a significant increase in the digitalisation and adaptation of triage in both the UK and Ireland with many initial consultations being carried out online. However, we have not seen and do not expect to see, any reduction in space requirements across our portfolio. This is because of the increasing burden being placed on healthcare systems in both the UK and Ireland as a consequence of the ongoing COVID-19 pandemic, along with the long-term demographic trends of populations that are growing, ageing and suffering from more instances of chronic illness. Many services are now expected to move away from hospitals and into primary care facilities which will undoubtedly require substantial investment in the future to enable non-urgent and periphery procedures to be dealt with in such facilities.

PHP has continued to actively work with the NHS in the UK, HSE in Ireland, and its GP partners in both markets to help them better utilise the Group's properties for deployment in the ongoing global health crisis. Many of our primary care facilities and occupiers have been and will be required to deliver COVID-19 vaccines and boosters for many years to come and to deal with the backlog of procedures missed over the last two years. We continue to maintain close relationships with our key stakeholders and GP partners to ensure we are best placed to help the NHS, HSE, and in particular primary care, evolve and deal with the pressures placed on them as the 'new normal' is established.

We recognise that the success of the Group depends on our people and I would again like to warmly thank the Board and all of our employees for their continued commitment, dedication and professionalism in ongoing difficult circumstances.



### Acquisition of Nexus and management internalisation

On 5 January 2021, the Group successfully completed the internalisation of its management structure with shareholders representing 99.95% of the votes cast voting in favour of the internalisation which resulted in annual cost savings of approximately £4.0 million, equivalent to 0.3 pence per share, compared to the position if the business were still externally managed. The assumption of Nexus's existing management and overhead costs has resulted in lower ongoing administrative costs to the Group and the EPRA cost ratio has fallen further to 9.3% (2020: 11.9%) in the year and is now the lowest in the UK REIT sector by some margin.

### Overview of results

PHP's recurring Adjusted earnings increased by £10.1 million or 13.8% to £83.2m (2020: £73.1 million) and the increase in the year was driven by cost savings arising from the internalisation of the management structure, the refinancing of a number of legacy loans with Aviva together with rental growth from our investment, rent review and asset management activities.

A revaluation surplus and profit on sales of £110.5 million (2020: £51.4 million) was generated in the year from the portfolio, equivalent to 8.3 pence per share. The valuation surplus was driven by net initial yield ("NIY") compression in the UK together with rental growth from rent reviews and asset management projects.

The acquisition of Nexus and the refinancing of a number of legacy loans with Aviva resulted in exceptional costs of £37.0 million and £24.6 million respectively being expensed in the year.

A gain on the fair value of interest rate derivatives and convertible bonds together with the amortisation of the fair value adjustment on the MedicX fixed rate debt at acquisition of £9.5 million (2020: loss of £12.1 million) resulted in a profit before tax as reported under IFRS of £141.6 million (2020: £112.4 million).

The Group has continued to selectively grow its portfolio in the year, adding nine assets for £86.6 million and selling one for £2.3 million. Rent reviews and asset management projects completed in the year, or currently on-site, added £2.4 million or 1.8% (2020: £2.0 million or 1.6%) to the contracted rent.

The Group's balance sheet remains robust with a loan to value ratio of 42.9% (2020: 41.0%), which is at the lower end of the targeted range of 40% to 50%, and has significant liquidity headroom with cash and collateralised undrawn loan facilities totalling £321.2 million (2020: £361.5 million).



Continued investment in UK and Ireland

**+£86.6 million**

Annualised cost savings achieved in the year

**-£9.0 million**

Adjusted earnings growth

**+13.8%**

Dividend per share growth

**+5.1%**

## Dividends

The Company distributed a total of 6.2 pence per share in 2021, an increase of 5.1% over 2020 of 5.9 pence per share. The total value of dividends distributed in the year increased by 12.4% to £82.4 million (2020: £73.3 million), which were covered by Adjusted earnings. Dividends totalling £8.0 million were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.625 pence per share was declared on 6 January 2022, equivalent to 6.5 pence on an annualised basis, which represents an increase of 4.8% over the dividend distributed per share in 2021. The dividend will be paid to shareholders on 25 February 2022 who were on the register at the close of business on 13 January 2022. The dividend will comprise entirely of a normal dividend of 1.625 pence.

The Company intends to maintain its strategy of paying a progressive dividend, which the Company pays in equal quarterly instalments, that is covered by underlying earnings in each financial year. Further dividend payments are planned to be made on a quarterly basis in May, August and November 2022 which are expected to comprise a mixture of both property income distribution and normal dividend.

## Total shareholder returns

The Company's share price started the year at 152.8 pence per share and closed on 31 December 2021 at 151.4 pence, a decrease of 0.9%. Including dividends, those shareholders who held the Company's shares throughout the year achieved a Total Shareholder Return of 3.1% (2020: -0.8%).

Over the three years since our merger with MedicX in 2019 we have delivered a total shareholder return of 50.2%. This compares to the total return delivered by UK real estate equities (FTSE EPRA Nareit UK Index) of 28.5% and the wider UK equity sector (FTSE All-Share Index) of 13.2% over the same period.



Read more about our responsible business report at [phpgroup.co.uk](http://phpgroup.co.uk)

## Environmental, Social and Governance ("ESG")

PHP has a strong commitment to responsible business and ESG matters which are at the forefront of the Board's and our various stakeholders' considerations and the Group has committed to transitioning to net zero carbon ("NZC"). We are about to start construction of PHP's first two NZC developments in the first quarter of 2022 and have published with these results, for the first time, a NZC Framework with the five key steps we are taking to achieve an ambitious target of being NZC by 2030 for all of PHP's operational, development and asset management activities and to help our occupiers achieve NZC by 2040, five years ahead of the NHS's target of becoming the world's first net zero carbon national health system by 2045 and 10 years ahead of the UK and Irish Governments' targets of 2050. Further details on our approach to responsible business can be found in the Annual Report and website.

## Board changes

In December 2021, following a review of the composition and diversity of the Board, it was announced that Ivonne Cantú would be appointed as an independent Non-executive director of the Company with effect from 1 January 2022.

The Company also announced that Peter Cole, Non-executive director and Chair of the Remuneration Committee, will not stand for re-election at the Company's Annual General Meeting ("AGM") scheduled for April 2022 and will accordingly retire from the Board at that time. It is intended that Ivonne Cantú will take over as Chair of the Remuneration Committee following the AGM.

The Board is grateful to Peter for his commitment and dedication to the Company and for chairing the Remuneration Committee, particularly during the process of internalising the management in 2020 and the transition period in 2021.



## Eastbourne, East Sussex

The property provides modern facilities for three merged GP practices delivering primary care and several ancillary services for a patient list of over 18,000. The building achieved a BREEAM 'Excellent' rating, comprising an area of 1,976m<sup>2</sup> fully let for 25 years to the GP practice.

→ Read more about our strategy on pages 14 and 15.

### Market update and outlook

PHP's mission is to support the NHS, HSE and other healthcare providers, by being a leading investor in modern, primary care premises. Never has this been more important as the NHS seeks to work through the backlog of procedures created by the COVID-19 pandemic and the Government delivers its Levelling Up agenda. In the longer term, the ageing demographic of western populations means that health services will also be called upon to address more ongoing, complex, chronic co-morbidities. PHP stands ready to play its part in delivering the real estate infrastructure required to meet this need in the community.

We will continue to actively engage with government bodies, the NHS, HSE in Ireland and other key stakeholders to establish, enact (where we can), support and help alleviate increased pressures and burdens currently being placed on healthcare networks.

In July 2021, the UK Government published a draft Health and Social Care Bill setting out a number of reforms in order to implement the commitments of the NHS England Long Term Plan. This included the introduction of regional Integrated Care Boards and Partnerships tasked with co-ordinating NHS partners with local government services and budgets such as social care and mental health, in a geographic area, for the first time; the idea being that services are then pushed to the most efficient, cost-effective part of the system (whether primary care, hospital or care home) for the best patient outcomes. We welcome these reforms and are hopeful they will lead to better outcomes for patients and to further development opportunities in primary care in the medium to long-term.

Despite the continued volatility in the economic and political environment and the prolonged era of low interest rates, there continues to be an unrelenting search for secure, long and reliable income. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary of this trend. The UK and Irish markets for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector throughout 2021.

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

We look forward to 2022 with confidence in our ability to create further stakeholder value.

### Steven Owen

Chairman

15 February 2022

# CREATING LONG TERM SUSTAINABLE VALUE

## OUR KEY STRENGTHS

**Prudent risk management:**

PHP aims to operate in a relatively low risk environment to generate progressive returns to shareholders through investment in the primary healthcare real estate sector, which is less cyclical than other real estate sectors.

**Long term focus:**

By providing additional space facilitating the provision of additional services or extending the term of underlying leases, PHP can increase and lengthen its income streams and create the opportunity to add capital value.

**Experienced and innovative management:**

PHP's portfolio is managed by an experienced team within an efficient management structure, where operating costs are tightly controlled.

**Appropriate capital structure:**

PHP funds its portfolio with a diversified mix of equity and debt, in order to optimise risk-adjusted returns to shareholders.

## KEY CHARACTERISTICS OF THE PORTFOLIO





We invest in flexible, modern properties for local primary healthcare. The overall objective of the Group is to create progressive returns to shareholders through a combination of earnings growth and capital appreciation. To achieve this, PHP has invested in healthcare real estate let on long term leases, backed by a secure underlying covenant where the majority of rental income is funded directly or indirectly by a government body.

## OUR STRATEGY

→ [Read more about our strategy on pages 14 and 15](#)

# 1

### GROW

The Group looks to selectively grow its property portfolio by funding and acquiring high quality developments, newly developed facilities and investing in already completed, let properties.

# 2

### MANAGE

PHP manages its portfolio effectively and efficiently, managing the risks faced by its business in order to achieve its strategic objectives.

# 3

### FUND

The Group funds its portfolio with a diversified mix of equity and debt on a secured and unsecured basis, in order to optimise risk-adjusted returns to shareholders.

# 4

### DELIVER

Positive yield gap between acquisition and funding with continued improvements in rental growth.

## WIDER OUTCOMES

### Social impact

PHP aims to provide modern premises located within residential communities to enable better access to an increasing range of services being delivered locally with greater accessibility than from hospitals.

### Environmental impact

Environmental impact is an integral consideration in the development, design and construction of new PHP properties. Developing new premises, PHP and its development partners seek to achieve the highest BREEAM standards in the UK or nZEB (nearly zero energy buildings) in Ireland, as well as highest energy ratings.

# 100%

all developments completed in the year to BREEAM rating of Excellent or Very Good and all asset management projects completed met EPC of B or above

# £300 million

of sustainability linked loan facilities with Aviva and NatWest raised in the year

# £0.2 million

distributed from the Community Impact Programme to charities and groups focused on social prescribing and wellbeing linked to the patients and communities served by PHP's properties

### Healthcare targets

The modern, flexible premises that PHP provides facilitate the provision of more wide ranging and integrated care services helping to realise the NHS target of 24/7 access to GP services and the HSE's expansion of primary care infrastructure.

### Investors

Over the three years since our merger with MedicX in 2019 we have delivered a total shareholder return of 50.2%.

### Values

We employ sustainable design to develop, refurbish and upgrade our buildings to modern medical and environmental standards.

### NHS/Primary healthcare

Our flexible, modern properties benefit not only our shareholders but also our occupiers, patients, the NHS and HSE, suppliers and the wider communities in both the UK and Ireland.

### Patients

PHP's portfolio serves 6.0 million patients, which is expected to further increase as primary healthcare demands increase as a result of the backlog caused by the COVID-19 pandemic, and with the ageing and growing population.

### Communities

We support initiatives that further the health, wellbeing and education of our local communities.

### People

Conducting our business with integrity and investing in human capital. Full Time Employees ("FTEs") of 62 employed, investing and supporting 13 employees in their professional development studies.

# DELIVERING OUR STRATEGIC PRIORITIES



1

## GROW

The Group looks to selectively grow its property portfolio by funding and acquiring high quality developments, newly developed facilities and investing in already completed, let healthcare real estate.

### Activity in 2021

- Selectively acquired nine standing assets in the year investing £86.6 million, with £11.7 million in Ireland
- Portfolio increased to 521, including 20 in Ireland
- Total property return in the year of 9.5%
- Acquired in-house development expertise following the internalisation of management structure

### Looking forward

- Sector fundamentals of long leases and government backed income continue to drive demand in sector
- Strong pipeline of opportunities across the UK and Ireland totalling £444 million, with £152 million in legals
- Development pipeline increased by £83 million to £163 million since internalisation, with two carbon neutral developments scheduled to commence on site in the first quarter of 2022

[Link to KPIs](#)



2

## MANAGE

PHP manages its portfolio effectively and efficiently, managing the risks faced by its business in order to achieve its strategic objectives.

### Activity in 2021

- £2.4 million, or 1.8% additional income from rent reviews and asset management projects
- 39 asset management projects completed or on site in the year, investing £15 million and generating £0.4 million of additional income. All asset management projects completed met EPC target of B or above
- EPRA cost ratio reduced to 9.3% reflecting immediate benefit of the internalisation

### Looking forward

- Strong pipeline of over 100 potential asset management projects being progressed
- Continued discussions with occupiers to discuss requirements and identify new opportunities

[Link to KPIs](#)





## 3

### FUND

The Group funds its portfolio with a diversified mix of equity and debt on a secured and unsecured basis, in order to optimise risk-adjusted returns to shareholders.

#### Activity in 2021

- Successful refinancing of a number of legacy loan facilities with Aviva Investors reducing average cost of debt to 2.9% and saving annualised interest of £5.0 million
- £100 million sustainability linked loan facility renewed with NatWest
- Significant liquidity headroom with cash and collateralised undrawn loan facilities totalling £321.2 million (2020: £361.5 million) after capital commitments

#### Looking forward

- £50 million three-year revolving credit facility renewed with Santander in January 2022
- €75 million private placement for twelve years at an all in rate of 1.64% completed in February 2022
- Constantly reviewing debt portfolio for any possible effective cost reductions

#### Link to KPIs



## 4

### DELIVER

Positive yield gap between acquisition and funding with continued improvements in rental growth, delivering progressive shareholder returns.

#### Activity in 2021

- Adjusted earnings per share 6.2 pence increased by 6.9% (2020: 5.8 pence)
- Dividend per share increased by 5.1% to 6.2 pence
- Total Adjusted NTA return of 8.9%
- £5.0 million per annum cost saving from refinancing legacy debt and new interest rate swaps
- Internalisation of management structure saving £4.0 million per annum, equivalent to 0.3 pence per share

#### Looking forward

- New loan facilities and equity raise provide significant firepower to secure new investment opportunities
- 100% of the Group's drawn debt is fixed or hedged protecting underlying earnings from potential interest rate rises that may result from recent and future economic and potential change

#### Link to KPIs



# OUR PERFORMANCE IS MEASURED AGAINST KPIS ACROSS EACH OF OUR FOUR STRATEGIC PILLARS

Adjusted earnings per share <sup>△</sup> **A**

**6.2p**  
+6.9%

**Rationale**  
Adjusted earnings per share is a key measure of the Group's operational performance as it excludes all elements not relevant to the underlying net income performance of the properties.

**Performance**  
Adjusted earnings per share increased in the year reflecting the lower cost of finance, standing investments and rental growth.

2021	6.2p
2020	5.8p
2019	5.5p

Link to strategy **1 4**

Dividend cover <sup>△</sup> **B**

**101%**  
+100bp

**Rationale**  
The Group looks to maintain a progressive dividend policy which it aims to cover from its operational performance. Dividend cover looks at the proportion of dividends paid in the year that are funded by Adjusted earnings.

**Performance**  
Dividends paid in 2021 were covered by Adjusted earnings and we intend to maintain a strategy of paying a progressive dividend that is covered by earnings in each financial year.

2021	101%
2020	100%
2019	101%

Link to strategy **1 4**

Total property portfolio **C**

**£2.8bn**  
+4.1%

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

**Performance**  
The assets acquired in 2021 add £4.1 million to annual contracted rent roll and are accretive to earnings.

2021	£2.8bn
2020	£2.6bn
2019	£2.4bn

Link to strategy **2 3**

Total property return <sup>△</sup> **D**

**9.5%**  
+210bp

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

**Performance**  
Strong earnings and capital growth in the year delivered a total property return of 9.5% split 5.2% income growth and 4.3% capital growth.

2021	9.5%
2020	7.4%
2019	7.7%

Link to strategy **2 3**



## Maximising shareholder returns

We continued to deliver progressive shareholder returns through both earnings and valuation growth.

→ [Read more about our strategy on pages 14 and 15](#)

Post MedicX merger total shareholder return

# +50.2%

Capital invested in asset management projects

**E**

## £15.0m

+85%

2021	£15.0m
2020	£8.1m
2019	£3.1m

[Link to strategy](#) **1 3**

### Rationale

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

### Performance

The Group has completed or on site 39 asset management projects that maintain the longevity of the use of its properties and generate enhanced income and capital growth. A strong pipeline will continue to achieve this objective.

EPRA cost ratio <sup>Δ</sup>

**F**

## 9.3%

-260bp

2021	9.3%
2020	11.9%
2019	12.0%

[Link to strategy](#) **1 3**

### Rationale

The EPRA cost ratio is used to provide an indicator of the efficiency of the management of the Group looking at total administrative costs as a proportion of net rental income.

### Performance

The EPRA cost ratio reflects the £4.0 million p.a. of cost-saving synergies arising from the internalisation of management, as well as the lower cost of finance.

Loan to value <sup>Δ</sup>

**G**

## 42.9%

+190bp

2021	42.9%
2020	41.0%
2019	44.2%

[Link to strategy](#) **1 3**

### Rationale

The Board seeks to maintain an appropriate balance between the use of external debt facilities and shareholder equity in order to enhance shareholder returns whilst managing the risks associated with debt funding.

### Performance

Additional low coupon debt and acquisitions in the year have resulted in the Group's LTV increasing to 42.9%.

Average cost of debt

**H**

## 2.9%

-60bp

2021	2.9%
2020	3.5%
2019	3.5%

[Link to strategy](#) **2 4**

### Rationale

The combination of a range of maturities and tenors of debt is key to the Group achieving the lowest blended cost of debt.

### Performance

The £200 million refinancing with Aviva, as well as various interest rate swaps, helped reduce the average cost of debt in the year. Taking into account current available debt financing, this reduces to 2.7% assuming fully drawn.

<sup>Δ</sup> Alternative performance measures ("APMs"): Measures with this symbol <sup>Δ</sup> are APMs defined in the Glossary section on pages 158 to 160, and presented throughout this Annual Report. All measures reported on a continuing operations and 52-week comparable basis.

# FOUNDATIONS FOR FUTURE GROWTH



"2021 has been another strong year of progress for PHP, having successfully completed the internalisation of our management structure and refinanced a number of legacy loan facilities which have delivered substantial annual cost savings. In addition, we have a strong targeted pipeline and continue to see good organic rental growth from rent reviews and asset management projects with record levels of activity during the year."

**Harry Hyman**  
Chief Executive Officer

## Investment and pipeline

During 2021, the market was characterised by a lack of suitable product, strong pricing and a very competitive market. However, we continued to make strong progress in the second half of the year selectively acquiring nine assets in 2021 for £86.6 million (2020: 27 assets, £93.0 million) and selling one asset for £2.3 million.

Including standing investments, direct and forward funded developments and asset management projects, we have continued to generate and grow a strong pipeline totalling approximately £337 million in the UK and £107 million (€127 million) in Ireland of which £72 million and £80 million (€95 million) is in legal due diligence in both countries.

Pipeline	Number	UK	Ireland
Investments	11	£87m	£18m (€22m)
Direct development	21	£163m	—
Forward funded development	12	£20m	£89m (€105m)
Asset management	100+	£67m	—
<b>Total pipeline</b>	<b>143+</b>	<b>£337m</b>	<b>£107m (€127m)</b>

## Net Zero Carbon ("NZC") direct developments

The acquisition of Nexus in January 2021, enabled PHP to acquire the development expertise of Nexus Developments which at the time of completion had a pipeline of approximately £80 million of direct development opportunities at varying stages of progression.

Over the course of 2021 the Group has continued to make good progress, increase the number of live projects and is on schedule to commence construction of PHP's first NZC developments in Lincolnshire and West Sussex in the first quarter of 2022. The two projects have an estimated capital value of £11 million and are expected to generate a profit on cost of approximately 11%.

In addition to the above, the Group has a significantly advanced pipeline of £42 million across five projects of direct developments which will be progressed over the course of 2022 together with a wider medium-term pipeline at various stages of progress across 14 projects with an estimated capital value of £110 million.

PHP expects that all future direct developments will be constructed to NZC standards.



### Forward funded developments

During the year, four UK forward funded developments at Mountain Ash, Wales, Llanbradach, Wales, Epsom, Surrey and at Eastbourne, East Sussex were completed on time and on budget with a net development cost of £20.1 million.

The Group now has two forward funded developments currently on site at Arklow, County Wicklow (£15.1 million/€18.0 million) and Enniscorthy, County Wexford (£10.6 million/€12.6 million) which continue to progress on schedule, remain on site and are due to reach practical completion in Q1 2022 as previously indicated.

### Rental growth

PHP's sector leading metrics remain good and we continue to focus on delivering 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, avoid obsolescence and improve the environmental performance of our assets whilst ensuring that they continue to meet the communities' healthcare needs.

### Rent reviews

During 2021, the Group concluded and documented 375 rent reviews, including 74 reviews where no uplift was achieved, in the UK with a combined rental value of £49.5 million resulting in an uplift of £2.0 million (2020: £1.7 million) per annum or 4.0% (2020: 4.3%) which equates to 1.7% (2020: 1.8%) per annum. The positive rate of rental growth is broadly in line with the rate of growth experienced in the last couple of years.

In the year, an aggregate 1.5% per annum uplift (2020: 1.3%) was achieved on 159 open market reviews. Uplifts of 2.8% (2020: 2.3%) per annum were achieved on RPI-based reviews and 2.7% (2020: 2.9%) per annum on fixed uplift reviews. In addition, a further 236 open market reviews have been agreed in principle, which will add another £1.7 million to the contracted rent roll when concluded and represents an uplift of 1.6% per annum.



### ST. STEPHEN'S GATE MEDICAL CENTRE, NORWICH

Internal refurbishment and creation of new additional level 3 treatment suite.

#### Completed February 2022

Eight GP doctors serving

**18,766 patients**

St Stephens Gate is a purpose-built 2 storey surgery located in Norwich city centre a mile away from the station and easily accessible by both public and private transport with underground parking. The Practice operates a community based surgical service, offering procedures including carpal tunnel, cataract and hernia repair surgery for their patients and other NHS patients in Norfolk. The practice is a training practice for qualified doctors training to become GPs.

PHP designed, funded and delivered the refurbishment with the doctors, input throughout, gaining NHS and other approvals. After securing agreement of additional rent reimbursement and a new long lease, LED lighting was installed together with a new energy efficient boiler to improve the building's energy rating. The works significantly modernised and enhanced the clinical capacity of the building, reconfiguring the existing surgery at both ground and first floor levels, which provided 2 new fully compliant consulting rooms, a new enhanced treatment suite offering the ability to host additional services, GP virtual consulting accommodation and improved back-office facilities for staff.

- The building's energy rating was improved to an EPC rating of B.
- The GP's committed to a new 20-year lease.
- Substantial increase in capacity offering enhanced clinical services and ability to train medical students.

→ Read more about our strategy on pages 14 and 15



## WATERSIDE MEDICAL CENTRE, LEAMINGTON SPA

345 sqm

building extension

Completion due June 2022

Six GP partners serving

13,000 patients

Waterside Medical Centre is a purpose-built hub surgery located in the centre of Leamington Spa, 0.4 miles from the train station and is fully let to the largest GP practice in the locality. The CCG estate strategy had identified Waterside Medical Centre as a key priority in expanding the services provided in a primary care setting. Taking into account the requirements of the wider community, PHP sympathetically designed a two-storey extension to both the front and rear of the building, with a thorough remodelling of the existing surgery, creating an additional 10 clinical rooms, further administration space and a new e-consult space for patient self-assessment. This significantly enhances the flexibility of the building, whilst also reducing staff workload. PHP also worked with the practice to produce a travel plan which promotes sustainable transport to the site, including the provision of new staff showers and cycle storage, as well as specific car parking bays for car sharing and EV charging points. Other measures to improve the environmental performance of the building have been taken into account, including the installation of roof mounted photovoltaic ("PV") panels and installation of LED lighting throughout. Works began after securing additional rent reimbursement and a new long lease and are due to complete in 2022.

### Highlights

- On completion of the works, the buildings energy rating is expected to improve to an EPC rating of B and we are targeting BREEAM "very good".
- The GPs committed to a new 24-year lease.
- PHP facilitated expansion of the largest GP practice in South Leamington and provided better patient access to a more diverse range of services in a town centre location.
- To reduce staff workload by creating more efficient and flexible accommodation.

→ [Read more about our strategy 14 and 15](#)



"30 asset management projects have been completed in the year and a further nine are currently on site which will increase rental income by a further £0.4 million per annum."

### Rent reviews continued

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 is expected to result in further rental growth in the future. The balance of the PHP portfolio has either indexed/RPI (25%) or fixed uplift (6%) based reviews which also provide an element of certainty to future rental growth within the portfolio. In Ireland all rents are linked to the Irish Consumer Price Index.

At 31 December 2021 the rent at 635 tenancies, representing £84.9 million of passing rent (2020: 669 tenancies/£90.4 million of passing rent), was under negotiation and the large number of outstanding reviews reflects the requirement for all awards to be agreed with the District Valuer. A great deal of evidence to support open market reviews comes from the completion of historic rent reviews, delivery of new properties into the sector and we continue to see positive momentum in the demand, commencement and delivery for new, purpose-built premises which are being supported by NHS initiatives to modernise the primary care estate.

In Ireland, we concluded 12 indexed based reviews adding a further £0.1 million (€0.1 million) equivalent to 0.8% per annum to the contracted rent roll.

### Asset management projects

30 asset management projects have been completed in the year and a further nine are currently on site which will increase rental income by a further £0.4 million per annum, investing £15.0 million to enhance and extend existing assets within PHP's portfolio.

PHP continues to work closely with its occupiers and has a strong pipeline of over 100 similar projects which are being progressed to further increase rental income and extend unexpired occupational lease terms. The asset management pipeline will require the investment of approximately £67 million, generating an additional £1.3 million of rental income and extending the WAULT on those premises back to an average of over 20 years.

The Company will continue to invest capital in a range of physical extensions or refurbishments through asset management projects which help avoid obsolescence and are key to maintaining the longevity and security of our income through long-term occupier retention, increased rental income and extended occupational lease terms, adding to both earnings and capital values.

### Sector leading portfolio metrics

The portfolio's annualised contracted rent roll at 31 December 2021 was £140.7 million, an increase of £5.5 million or 4.1% in the year (31 December 2020: £135.2 million) driven predominantly by acquisitions in the UK and Ireland that contributed £4.1 million. Organic rental growth from rent reviews and asset management projects added a further £2.4 million although these gains were offset slightly by foreign exchange movements since the start of the year.

The security and longevity of our income are important drivers of our predictable income stream and underpin our progressive dividend policy.

**Security:** PHP continues to benefit from secure, long term cash flows with 90% of its rent roll funded directly or indirectly by the NHS in the UK or HSE in Ireland. The portfolio also benefits from an occupancy rate of 99.7% (2020: 99.6%).

**Rental collections:** continue to remain robust and as at 15 February 2022 97% had been collected in both the UK and Ireland for the first quarter of 2022. This is in-line with collection rates experienced in both 2021 and 2020 which now stand at over 99% for both countries. The balance of rent due for the first quarter of 2022 is expected to be received shortly.

## BUSINESS REVIEW CONTINUED

### Sector leading portfolio metrics *continued*

**Longevity:** The portfolio's WAULT at 31 December 2021 was 11.6 years (31 December 2020: 12.1 years). Only £8.9 million or 6.3% of our income expires over the next three years of which c. 70% is either subject to a planned asset management initiative or terms have been agreed to renew the lease. £73.1 million or 52.0% 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	8.9	6.3
4 – 5 years	9.3	6.6
5 – 10 years	49.4	35.1
10 – 15 years	39.2	27.9
15 – 20 years	17.3	12.3
> 20 years	16.6	11.8
<b>Total</b>	<b>140.7</b>	<b>100.0</b>

### Valuation and returns

At 31 December 2021, the Group's portfolio comprised 521 assets independently valued at £2.796 billion (31 December 2020: £2.576 billion). After allowing for acquisition costs and capital expenditure on forward funded developments and asset management projects, the portfolio generated a valuation surplus of £110.2 million or 4.1% (2020: £51.4 million or 2.0%). One asset was sold in the year generating a profit on sale of £0.3 million. The valuation surplus was driven mainly by NIY compression in the UK for government backed, long-dated income together with rental growth from rent reviews and asset management projects.

During the year the Group's portfolio NIY has contracted by 17bps to 4.64% (31 December 2020: 4.81%) and the true equivalent yield reduced to 4.74% at 31 December 2021 (31 December 2020: 4.84%).

At 31 December 2021, the portfolio in Ireland comprised 20 assets, including two assets currently under development, valued at £213.0 million or €253.4 million (31 December 2020: 18 assets/£197.7 million or €221.1 million). The costs to complete the developments are £9.0 million (€10.7 million) and once complete the assets in Ireland will be valued at approximately £222.1 million (€264.2 million).

The portfolio's average lot size has increased to £5.4 million (31 December 2020: £5.0 million) and 86.6% of the portfolio is valued at over £3.0 million. The Group only has five assets valued at less than £1.0 million.

	Number of properties	Valuation £m	%	Average lot size (£m)
> £10m	59	892.6	32.0	15.1
£5m – £10m	131	909.7	32.6	6.9
£3m – £5m	155	615.3	22.0	4.0
£1m – £3m	171	368.9	13.2	2.2
< £1m (including land £1.5m)	5	4.9	0.2	0.7
<b>Total<sup>1</sup></b>	<b>521</b>	<b>2,791.4</b>	<b>100.0</b>	<b>5.4</b>

<sup>1</sup> Excludes the £4.5 million impact of IFRS 16 Leases with ground rents recognised as finance leases.

The underlying valuation uplift and profit on sales of £110.5 million, combined with the portfolio's growing income, helped to deliver a total property return of 9.5% in the year (2020: 7.4%).

	Year ended 31 December 2021	Year ended 31 December 2020
Income return	<b>5.2%</b>	5.2%
Capital return	<b>4.3%</b>	2.2%
<b>Total return</b>	<b>9.5%</b>	7.4%

# FOUNDATIONS FOR FUTURE GROWTH



"PHP's Adjusted earnings increased by £10.1 million or 13.8% to £83.2 million in 2021 (2020: £73.1 million)."

**Richard Howell**  
Chief Financial Officer

PHP's Adjusted earnings increased by £10.1 million or 13.8% to £83.2 million in 2021 (2020: £73.1 million). The increase reflects twelve months of cost saving synergies arising from the acquisition of Nexus and internalisation of the management structure at the start of the year, good organic rental growth from rent reviews and asset management projects together with interest cost savings arising from the reduction in the Group's cost of finance following the refinancing of a number of legacy loan facilities with Aviva.

Using the weighted average number of shares in issue in the year the Adjusted earnings per share increased to 6.2 pence (2020: 5.8 pence), an increase of 6.9%.

A revaluation surplus and profit on sales of £110.5 million (2020: £51.4 million) was generated in the year from the portfolio driven by yield compression in the UK for government backed income together with rental growth from rent reviews and asset management projects.

The acquisition of Nexus at the start of the year resulted in an exceptional termination payment and impairment of goodwill totalling £35.3 million and represents the fair value of the consideration paid of £34.1 million plus the fair value of the net liabilities acquired of £1.2 million. In addition, acquisition costs totalling £1.7 million have been expensed.

The refinancing of a number of legacy loan facilities with Aviva Investors, with a new sustainability linked £200 million facility for a 15-year term at a fixed rate of 2.52% resulted in an exceptional early termination cost of £24.6 million.

A gain on the fair value of interest rate derivatives and convertible bonds together with the amortisation of the fair value adjustment on the MedicX fixed rate debt at acquisition of £9.5 million (2020: loss £12.1 million) contributed to the profit before tax as reported under IFRS of £141.6 million (2020: £112.4 million).

## FINANCIAL REVIEW CONTINUED

The financial results for the Group are summarised as follows:

### Summarised results

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Net rental income	136.7	131.2
Administrative expenses	(10.5)	(13.2)
<b>Operating profit before revaluation gain and net financing costs</b>	<b>126.2</b>	118.0
Net financing costs	(43.0)	(44.9)
<b>Adjusted earnings</b>	<b>83.2</b>	73.1
Revaluation surplus on property portfolio and profit on sales	110.5	51.4
Termination payment and impairment of goodwill on acquisition of Nexus	(35.3)	—
Nexus acquisition costs	(1.7)	—
Exceptional item – early termination cost on refinancing of Aviva debt	(24.6)	—
Fair value gain/(loss) on interest rate derivatives and convertible bond	1.6	(15.2)
Amortisation of MedicX debt MtM at acquisition	7.9	3.1
<b>IFRS profit before tax</b>	<b>141.6</b>	112.4
Corporation tax	(0.1)	(0.1)
Deferred tax provision	(1.4)	(0.3)
<b>IFRS profit after tax</b>	<b>140.1</b>	112.0

Net rental income receivable in the year increased by 4.2% or £5.5 million to £136.7 million (2020: £131.2 million).

Following the internalisation of the management structure, operational costs have continued to be managed closely and effectively. Overall property and administrative costs, excluding service charge costs recoverable, have fallen by £3.1 million or 18.6% to £13.6 million (2020: £16.7 million). The Group's EPRA cost ratio is now the lowest in the sector at 9.3%, a decrease against the 11.9% incurred during the 2020 financial year reflecting the cost savings of approximately £4.0 million per annum, arising from the internalisation of the management structure partially offset by larger performance related pay, due to the strong performance in the year, additional staff and cost inflation on administrative costs.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
EPRA cost ratio		
<b>Gross rent less ground rent, service charge and other income</b>	<b>139.6</b>	134.6
Direct property expense	8.9	7.8
Less: service charge costs recovered	(5.8)	(4.3)
Non-recoverable property costs	3.1	3.5
Administrative expenses	10.5	13.2
Less: ground rent	(0.2)	(0.2)
Less: other operating income	(0.4)	(0.4)
<b>EPRA costs (including direct vacancy costs)</b>	<b>13.0</b>	16.1
<b>EPRA cost ratio</b>	<b>9.3%</b>	11.9%
<b>Total expense ratio (administrative expenses as a percentage of gross asset value)</b>	<b>0.4%</b>	0.5%

Despite net debt increasing in the year by £143.8 million as a result of continued investment, net finance costs in the year decreased to £43.0 million (2020: £44.9 million) reflecting the reductions in the average cost of debt achieved from various refinancing initiatives in both 2021 and 2020.



### Shareholder value and total accounting return

The Adjusted Net Tangible Assets ("NTA"), per share increased by 3.8 pence or 3.4% to 116.7 pence (31 December 2020: 112.9 pence per share) during the year with the revaluation surplus and profit on sales of £110.5 million or 8.3 pence per share being the main reason for the increase although this was partially offset by the £37.0 million or 2.4 pence per share cost of the Nexus acquisition and internalisation of the management structure and £24.6 million or 1.9 pence per share early termination cost on refinancing a number of Aviva legacy loans. Dividends distributed in the year were covered by recurring Adjusted earnings with no impact on NTA.

The total adjusted NTA (NAV) return per share, including dividends distributed, in the year was 10.0 pence or 8.9% (2020: 10.9 pence or 10.1%). Over the three years since our merger with MedicX in 2019 we have delivered a total NAV return of 27.9%.

The table below sets out the movements in the Adjusted NTA and EPRA Net Disposal Value (NDV) per share over the year under review.

	<b>31 December 2021 pence per share</b>	31 December 2020 pence per share
<b>Adjusted Net Tangible Asset ("NTA") per share</b>		
<b>Opening Adjusted NTA per share</b>	<b>112.9</b>	107.9
Adjusted earnings for the year	<b>6.2</b>	5.8
Dividends paid	<b>(6.2)</b>	(5.9)
Revaluation of property portfolio	<b>8.3</b>	3.9
Net impact of Nexus acquisition	<b>(2.4)</b>	—
Net impact of Aviva refinancing	<b>(1.9)</b>	—
Shares issued	<b>0.2</b>	2.7
Foreign exchange movements	<b>(0.3)</b>	—
Interest rate derivative transactions	<b>(0.1)</b>	(1.5)
<b>Closing Adjusted NTA per share</b>	<b>116.7</b>	112.9
Fixed rate debt and swap mark-to-market value	<b>(4.1)</b>	(9.9)
Convertible bond fair value adjustment	<b>(1.6)</b>	(1.9)
Deferred tax	<b>(0.3)</b>	(0.3)
<b>Closing EPRA NDV per share</b>	<b>110.7</b>	100.8

## FINANCIAL REVIEW CONTINUED

### Financing

In October 2021, the Group refinanced a number of legacy loan facilities with Aviva Investors with a new £200 million facility for a 15-year term at a fixed rate of 2.52% and renewed its existing £100 million facility with NatWest. Sustainability KPIs have been incorporated into both facilities based around PHP's existing environment targets and the Group will benefit from a margin reduction, conditional on achieving these targets.

Post year-end, the Group issued a new €75 million (£63 million) secured private placement loan note to MetLife for a 12-year term at a fixed rate of 1.64%. The loan notes have the option to be increased by a further €75 million to €150 million over the next three years at the lender's discretion. The proceeds will be used to finance the Group's continued investment in Ireland.

Post year-end, the Group also renewed its existing revolving credit facility with Santander (£50 million) for an initial three-year term with options to extend by a further year at both the first and second anniversaries of the facility.

Including the facilities secured post year-end, the Group has £1,550.5 million (31 December 2020: £1,456.8 million) of debt facilities available to it, of which £1,232.9 million (31 December 2020: £1,159.3 million) had been drawn.

Cash balances of £33.4 million (31 December 2020: £103.6 million) resulted in Group net debt of £1,199.5 million (31 December 2020: £1,055.7 million). Contracted capital commitments at the balance sheet date totalled £29.8 million (31 December 2020: £39.6 million) and result in headroom available to the Group of £321.2 million (31 December 2020: £361.5 million).

Capital commitments comprise investment expenditure of £10.7 million, forward funded development expenditure of £9.0 million and asset management projects on site of £10.1 million.

The Group's key debt metrics are summarised in the table below:

	<b>31 December 2021</b>	31 December 2020
Debt metrics <sup>1</sup>		
Average cost of debt – fully drawn <sup>1</sup>	<b>2.7%</b>	3.1%
Average cost of debt – drawn <sup>1</sup>	<b>2.9%</b>	3.5%
Loan to value	<b>42.9%</b>	41.0%
Loan to value – excluding convertible bond	<b>37.5%</b>	35.2%
Net rental income to net interest cover	<b>3.2 times</b>	2.9 times
Weighted average debt maturity – all facilities <sup>1</sup>	<b>7.3 years</b>	7.6 years
Weighted average debt maturity – drawn facilities <sup>1</sup>	<b>8.2 years</b>	6.5 years
Total drawn secured debt	<b>£1,082.9m</b>	£1,009.3m
Total drawn unsecured debt	<b>£150.0m</b>	£150.0m
Total undrawn facilities and available to the Group <sup>1,2</sup>	<b>£321.2m</b>	£361.5m
Unfettered assets <sup>1</sup>	<b>£104.9m</b>	£88.4m

1 Pro-forma including debt facilities secured post year end.

2 After deducting capital commitments.

### Average cost of debt

The Group's marginal cost of debt on its revolving credit facilities is just 1.8% following the refinancing's noted above. As these facilities are drawn the Group's average cost of drawn debt will continue to fall from the current 2.9% to 2.7%, assuming fully drawn.

The Group still has £386 million of legacy loans, acquired with the merger of MedicX in 2019, at a blended fixed rate of 4.2% and a weighted average maturity of 9.7 years. Excluding these facilities, the Group's average cost of debt is 2.3% and we continue to look at further opportunities to reduce the Group's average cost of debt and deliver further finance cost-saving synergies.



## Interest rate exposure

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 31 December 2021 is as follows:

	Facilities <sup>1</sup>		Drawn	
	£m	%	£m	%
Fixed rate debt <sup>1</sup>	1,075.5	69.4	1,075.5	87.2
Hedged by fixed rate interest rate swaps	188.0	12.1	188.0	15.3
Hedged by fixed to floating rate interest rate swaps	(200.0)	(12.9)	(200.0)	(16.2)
Total fixed rate debt	1,063.5	68.6	1,063.5	86.3
Hedged by interest rate caps	200.0	12.9	200.0	16.2
Floating rate debt – unhedged	287.0	18.5	(30.6)	(2.5)
<b>Total</b>	<b>1,550.5</b>	<b>100.0</b>	<b>1,232.9</b>	<b>100.0</b>

1 Pro-forma including debt facilities secured post year end.

## Interest rate swap contracts

Following the refinancing of a number of legacy loan facilities with Aviva Investors with a new £200 million facility the Group swapped the 2.52% fixed rate back to variable rate, 3-month SONIA plus a spread of 160bps, for a limited three-year period to take advantage of the shorter dated variable interest rates and to offset the short-term over-hedged position regarding fixed rate debt. To mitigate the risk of further interest rate rises we purchased 1.25% caps with a nominal value of £200 million to cover the same period at a cost of £1.8 million or 0.1 pence per share.

Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. During the year there was a gain of £2.7 million (2020: loss £8.5million) 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. As at 31 December 2021 the mark-to-market ("MtM") value of the swap and cap portfolio was an asset of £4.4 million (31 December 2020: liability of £0.1 million).

## Currency exposure

The Group now owns €253.4 million or £213.0 million (31 December 2020: €221.1 million / £197.7 million) of Euro denominated assets in Ireland as at 31 December 2021 and the value of these assets and rental income represented just 8% 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. At 31 December 2021 the Group had €186.5 million (31 December 2020: €163.6 million) of drawn euro denominated debt.

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

## Fixed rate debt mark-to-market ("MtM")

The MtM of the Group's fixed rate debt as at 31 December 2021 was £58.9 million (31 December 2020: £130.3 million) equivalent to 4.4 pence per share (31 December 2020: 9.9 pence). The large decrease in the MtM during the year is due to the refinancing of various legacy loans with Aviva Investors and increases in interest rates assumed in the forward yield curves used to value the debt during the year. The MtM valuation is sensitive to movements in interest rates assumed in forward yield curves.

## Convertible bonds

In July 2019, the Group issued for a six-year term new unsecured convertible bonds with a nominal value of £150 million and a coupon of 2.875% per annum. Subject to certain conditions, the new bonds will be convertible into fully paid Ordinary Shares of the Company and the initial exchange price was set at 153.25 pence per Ordinary Share. The exchange price is subject to adjustment if dividends paid per share exceed 2.8 pence per annum and in accordance with the dividend protection provisions the conversion price has been adjusted to 142.29 pence per Ordinary Share.

The conversion of the £150 million convertible bond into new Ordinary Shares would reduce the Group's loan to value ratio by 5.4% from 42.9% to 37.5% and result in the issue of 105.4 million new Ordinary Shares.

# PROVIDING TRANSPARENT INFORMATION

## Adjusted earnings per share $\Delta$

6.2 pence, up 6.9% (2020: 5.8 pence).

### Definition

Adjusted earnings is EPRA earnings excluding the exceptional MtM adjustments for fixed rate debt acquired with the merger with MedicX in 2019, divided by the weighted average number of shares in issue during the year.

### Purpose

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

### Calculation

See Note 9 to the financial statements.

## EPRA earnings per share $\Delta$

4.7 pence, down 21.7% (2020: 6.0 pence).

### Definition

EPRA earnings is the profit after taxation excluding investment and development property revaluations, gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation and exceptional termination payments divided by the weighted average number of shares in issue during the year.

### Purpose

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

### Calculation

See Note 9 to the financial statements.

## Adjusted Net Tangible Assets ("NTA") per share $\Delta$

116.7 pence, up 3.4% (2020: 112.9 pence).

### Definition

Adjusted net tangible assets are the EPRA net tangible assets excluding the MtM adjustment of the fixed rate debt, net of amortisation, acquired on the merger with MedicX, divided by the number of shares in issue at the balance sheet date.

### Purpose

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

### Calculation

See Note 9 to the financial statements.

## EPRA NTA per share $\Delta$

114.1 pence, up 4.0% (2020: 109.7 pence).

### Definition

EPRA net tangible assets are the balance sheet net assets, excluding the MtM value of derivative financial instruments and the convertible bond fair value movement, and deferred taxes divided by the number of shares in issue at the balance sheet date.

### Purpose

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

### Calculation

See Note 9 to the financial statements.



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

We use EPRA measures to illustrate PHP's underlying recurring performance and to enable stakeholders to benchmark the Group against other property investment companies. Set out below is a description of each measure and how PHP performed.

#### EPRA cost ratio $\Delta$

9.3%, decrease of 260bp (2020: 11.9%).

##### Definition

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

##### Purpose

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

##### Calculation

See page 24, Financial Review.

#### EPRA vacancy rate $\Delta$

0.3%, down 10bp (2020: 0.4%).

##### Definition

EPRA vacancy rate is, as a percentage, the Estimated Rental Value ("ERV") of vacant space in the Group's property portfolio divided by ERV of the whole portfolio.

##### Purpose

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

##### Calculation

	2021 £m	2020 £m
ERV of vacant space	0.5	0.6
ERV of completed property portfolio	140.7	135.2
<b>EPRA vacancy rate</b>	<b>0.3%</b>	0.4%

#### EPRA net initial yield $\Delta$

4.64%, down 17bp (2020: 4.81%).

##### Definition

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

##### Purpose

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

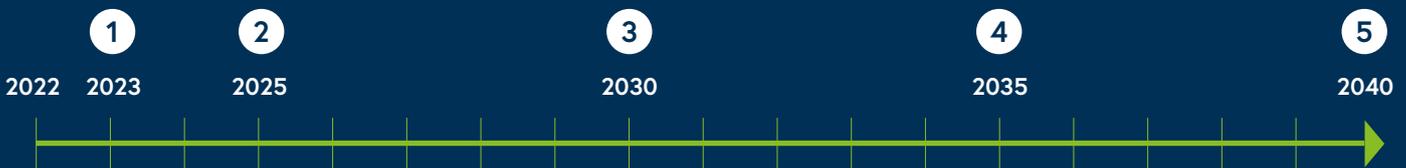
##### Calculation

	2021 £m	2020 £m
Investment property (excluding those under construction)	2,777.5	2,557.3
Allowance for estimated purchaser's costs and capital commitments	197.4	180.7
<b>Grossed-up completed property portfolio valuation (B)</b>	<b>2,974.9</b>	2,738.0
Annualised cash passing rental income	139.2	132.9
Property outgoings	(1.1)	(1.0)
<b>Annualised net rents (A)</b>	<b>138.1</b>	131.9
<b>EPRA net initial yield (A/B)</b>	<b>4.64%</b>	4.81%

The Group does not have any rent free periods and therefore the EPRA "Topped-up" NIY is the same as the EPRA net initial yield.

# PHP'S NET ZERO CARBON FRAMEWORK

As one of the leading investors and developers of flexible, modern primary healthcare accommodation across the UK and Ireland, PHP is committed to transitioning to NZC across its operations and property portfolio. We have set out below the five key steps to achieve an ambitious target of being NZC by 2030 for all of PHP's operational, development and asset management activities and to help our occupiers achieve NZC by 2040 five years ahead of the NHS's target of becoming the world's first net zero carbon national health system by 2045 and ten years ahead of the UK and Irish Governments' targets of 2050.



- 1**
- Operations to be net zero by 2023**
- Assets where we have control and management will be NZC by 2023 with all residual carbon offset through carefully selected projects which actively take carbon out of the atmosphere.
  - Procuring 100% renewable electricity where available and PHP controls the supply.
  - Continued reductions in the carbon footprint of all management and head office activities with residual emissions offset annually.

- 3**
- All properties to have an EPC rating of B or better and target improved energy performance**
- Across the portfolio all properties to have an EPC rating of B or better or are capable of achieving this when next refurbished.
  - Through our asset and property management activities, review and continually reduce energy use intensity (kWh/m<sup>2</sup>) of our buildings through upgrades to building fabric and systems replacing and improving energy consuming features with technologies exhibiting high energy performance credentials.
  - Offset the remaining carbon from our asset management activities including embodied carbon of materials and fossil fuel energy consumed during construction.
  - Collect and communicate energy performance data for all our occupiers, including Display Energy Certificates ("DEC"), and help them to transition to renewable electricity supplies and operate our buildings in the most energy efficient way.

- 2**
- All new developments to be net zero by 2025**
- Reduce carbon emissions associated with our development activities.
  - Benchmark embodied carbon and undertake whole life carbon assessment for all new developments.
  - Align developments to supply chains that target minimising embodied carbon and provide low carbon materials.
  - Offset the remaining carbon from our development activities including embodied carbon of materials and fossil fuel energy consumed during construction.
  - Continually review and embed NZC aligned operational and embodied carbon performance targets in future designs.

- 4**
- All buildings to have achieved an 80% reduction in carbon footprint**
- Continued energy demand reduction through upgrade and refurbishment.
  - Increase the amount of renewable electricity we generate on our sites such as solar and other renewables.
  - For existing properties that have gas heating we will replace these systems with electric, heat pumps or other renewable alternatives.

- 5**
- All buildings to be net zero by 2040**
- Help occupiers to lease and operate our buildings to achieve a NZC footprint in operation.
  - Offset any remaining occupier residual carbon from 2040 for all properties where the lease was signed or renewed after 2035.
  - NZC achieved five years ahead of the NHS's target of 2045 and ten years ahead of the UK and Irish Governments' targets of 2050.



# RESPONSIBLE BUSINESS AND ESG REVIEW

## PREMISES, HEALTH AND PEOPLE: INVESTING IN THE HEALTH AND WELLBEING OF OUR COMMUNITIES



**Laure Duhot**

Chair of the Environmental, Social and Governance Committee

### Dear shareholder,

I am pleased to present my second report as Chair of the PHP Environmental, Social and Governance ("ESG") Committee. The Board agreed to create the Committee as a full Board Committee in October 2020 to drive forward the Group's ESG agenda. These are important topics and it is believed that having a Committee dedicated to consider these matters will give greater impetus to our initiatives in this area, some of which are described on the following pages of this report.

### Members of the ESG Committee during the year (the "Committee")

Member	Number of meetings and attendance while in post
Laure Duhot (Chair)	3 (3)
Peter Cole	3 (3)
Harry Hyman	3 (3)
Richard Howell	3 (3)
Ian Krieger	3 (3)
Steven Owen	3 (3)
Chris Santer	3 (3)

Bracketed numbers indicate the number of meetings the member was eligible to attend in 2021.

The Company Secretary acts as the secretary to the Committee and attends all the meetings.

Members of the senior leadership team, including Michelle Whitfield – Director: Operations & Sustainability, David Austin – Director: Asset Management, David Bateman, Director: Investment, Tony Coke – Director: Developments, and James Young – Director: Property Management are invited to attend meetings as appropriate.

I am pleased that we have published for the first time our Net Zero Carbon ("NZC") Framework and the five key steps we are taking to achieve this, which are set out in more detail on page 30.

As part of this important priority area Jesse Putzel has recently joined the Company as Director, ESG to help lead the ESG agenda, develop and implement a comprehensive strategy with all our stakeholders in mind, and launch new initiatives. We also engaged the Carbon Trust during the year to benchmark our ESG activities, reporting and assist with our Task Force on Climate-related Financial Disclosures, set out on page 46.

I am delighted that we have launched the pilot for PHP's social impact initiative which focusses on social prescribing, an area where much can be achieved to improve health and wellbeing in the community and compliment primary care provided in our properties.

I trust you find this report of the Committee helpful and informative. I would be delighted to receive any feedback or comments you may have on our approach.

**Laure Duhot**

Chair of the ESG Committee

15 February 2022

# BEING RESPONSIBLE



"PHP's Net Zero Carbon ("NZC") Framework demonstrates the Group's commitment to ensuring Responsible Business and sustainability are at the heart of our investment, development, asset management and corporate activities while making it easier for GP, HS and HSE occupiers to deliver effective services and to meet their own NZC targets."

## INTRODUCTION

PHP invests in flexible, modern properties for the delivery of primary healthcare to the communities they are located in. The buildings are let on long term leases where the NHS, HSE, GPs and other healthcare operators are our principal occupiers. As at 31 December 2021, the Group owned 521 properties valued at £2.8 billion which are located across the UK and Ireland.

Responsible Business reflects PHP's strong commitment to ESG matters and addresses the key areas of the ESG issues that are embedded into our investment, asset management, development and corporate activities. We are committed to acting responsibly, having a positive impact on our communities, improving our Responsible Business disclosures, mitigating sustainability risks and capturing environmental opportunities for the benefit of our stakeholders.

We realise the importance of our assets for the local healthcare community, making it easier for our GP, NHS and HSE occupiers to deliver effective services. We are committed to creating great primary care centres by focusing on the future needs of our occupiers and thereby ensuring we are creating long term sustainable buildings.

In October 2020, the NHS adopted a multi-year plan to become the world's first net zero carbon national health system by 2045 and with an ambition for an interim 80% reduction by 2036-2039. PHP is committed to helping the NHS achieve this target and has now set out its own Net Zero Carbon Framework, a five-stage plan that will transition the Company's portfolio to net zero on or before this deadline and ahead of the UK and Irish Governments net zero target date of 2050. PHP will continue to pro-actively engage and work with our various healthcare occupiers to also help them achieve this.

This ESG Report sets out our commitment and approach to Responsible Business, it is reviewed annually, approved by the Board and sets the framework for establishing objectives and targets against which we monitor and report publicly on our performance.



## OUR APPROACH

PHP's approach is based around our core activities of investment, asset and property management and development supported by our corporate activities.

PHP supports the 17 UN Sustainable Development Goals ("SDGs") adopted by all United Nation member states in 2015. The SDGs constitute the most pressing ESG challenges that the world needs to solve.

At PHP we focus our efforts on a number of main SDGs and seek to align our overall ESG goals and policies with them.

To achieve this, PHP's ESG Policies are based around three core pillars that run through our activities focused on Premises, Health and People. These are:

### Premises, Health and People

Approach	Purpose	Aims	Focus
<b>Premises – Built Environment</b>			
Investing in and developing sustainable buildings	To employ sustainable design to develop, refurbish and upgrade our buildings to modern medical and environmental standards	Building a more resilient portfolio for the long term	<p>Reducing risk by building purpose-built new developments and making quality acquisitions</p> <p>Working with occupiers to improve the energy efficiency of our properties and integrate more sustainable features</p> <p>Have a preference for reusing existing buildings, upgrading them in an energy and resource efficient way, reducing reliance on new resources</p> <p>Source responsibly and design for future re-use of assets and materials</p> <p>All new developments to be NZC by 2025</p>
 			
		Reducing our carbon footprint	Working with our stakeholders to improve the energy efficiency of our properties and integrate more sustainable features with a long term ambition of the whole portfolio, including occupier's operations, being NZC by 2040
		Governing an ethical business	Being transparent and compliant in all our operations
<b>Health – Community Impact</b>			
Engaging and enhancing the right stakeholders to drive effective decision making	To support initiatives that further the health, wellbeing and education of our local communities	Meeting the healthcare needs of communities	Engaging in effective communications with our occupiers
 			
		Creating social value	Working with partners to enhance wellbeing and inclusivity through initiatives that contribute to the creation of healthy, supportive and thriving communities
<b>People – Responsible Business</b>			
Conducting our business with integrity and investing in human capital	To create opportunities and maximise the potential of the stakeholders we work with	Providing a good place to work	<p>Ensuring effective investment in the professional development of the Group's employees</p> <p>Maintaining a culture of empowerment, inclusion, development, openness and teamwork for our people</p>
 			
		Governing an ethical business	Being transparent and compliant in all our operations

# PREMISES – BUILT ENVIRONMENT



Lambgates Health Centre

## RESPONSIBLE INVESTMENT

Environmental and sustainability performance are integral elements of PHP's approach to the acquisition and funding of new medical centres. PHP undertakes a detailed assessment of each location, looking at building efficiency and performance, enhanced service provision for the community and support for wider healthcare infrastructure.

As awareness of climate change risks increase, we are continually reviewing our approach to environmental due diligence and undertake detailed environmental and building surveys to assess environmental risks for each investment, including flooding, to ensure the risk is avoided or appropriate prevention measures are developed and deployed over time.

Energy efficiency is also considered through the due diligence process and all new acquisitions are now required to have an EPC of C or better, or be capable of remedial action to achieve the required rating in due course in which case costs involved are now integrated into the appraisal.





### Responsible asset and property management

We are committed to creating best-in-class primary care centres by focusing on the future needs of our occupiers and thereby ensuring we are creating sustainable buildings for the long term. Our asset and property management policy is to invest in the portfolio of properties to generate enduring occupier and patient appeal, which provide opportunities to improve rental values, the security and longevity of income, including limited risk short-cycle projects to improve the quality of assets. Through these asset and property management initiatives, we also aim to deliver energy efficiencies and source cleaner energy for our occupiers and their patients.

Due to the wide range of lease arrangements across the portfolio, PHP is responsible for energy supply to a limited number of properties. Where PHP is responsible for energy supply for use by occupiers, we are committed to procure only 100% renewable electricity by 2023.

Our newly launched Net Zero Carbon Framework (outlined on page 30) builds on this commitment, setting out our pathway to a net zero carbon portfolio by 2040. Asset and property management will play a key role in achieving this, with interim commitments for all properties to have an EPC rating of at least B and net zero carbon asset management by 2030. An overall 80% reduction in carbon emissions by 2035 will then lead to all assets operating with Net Zero emissions by 2040, ahead of the NHS's commitment of 2045.

This will be achieved through a policy of replacing existing features with technology exhibiting high energy conservation credentials and by assessing, minimising and offsetting residual embodied carbon from asset management projects.



We will also increase the amount of renewable electricity we generate on sites such as solar, heat pumps and other proven technologies. For existing properties that have gas heating we will replace these systems with electric or other renewable alternatives by 2035.

As we work through the portfolio over the coming years, refurbishing properties, it is our goal for every asset that is refurbished to have an EPC of at least B or have been raised by at least two grades and to achieve a BREEAM rating of Very Good (for extensions, conversions and fit outs).

Finally, we will engage, encourage and work with the NHS, HSE and our healthcare occupiers, collecting energy consumption data, including Display Energy Certificates ("DEC") to help them transition to renewable electricity supplies and operate our buildings in the most efficient way. During 2021, we started this process and introduced a Green Memorandum of Understanding to help identify and prioritise the reduction of GHG emissions across the portfolio. We will continue to work with our occupiers regarding their ongoing environmental responsibilities and aim for all new leases entered into to include ESG requirements as standard.

### Responsible development

PHP together with its development partners are committed to promote the highest possible standards of environmental and social sustainability when designing and constructing new assets. As a minimum, it is our commitment that all new build developments in the UK must have a BREEAM rating of at least Excellent and Very Good for fit outs, refurbishments and rural or remote areas.

In Ireland, all new developments are built to a Building Energy Rating of A3, or better, and in accordance with nZEB (nearly Zero Energy Buildings) standards. Requirements are also in place for our development partners and contractors to ensure the implementation of responsible property development practices.

We are about to commence construction of PHP's first two NZC developments in the first quarter of 2022.

As outlined in our new NZC Framework, we're committed to ensuring by 2025, all new developments are net zero carbon. Operational energy and carbon will be minimised as far as possible, alongside on and offsite renewable energy provision.

Embodied carbon will be assessed and minimised and we will work with supply partners who are reducing their carbon impacts and providing low carbon products and materials. Residual carbon impacts will then be offset, via high quality carbon offsets.



**Spilsby Case Study**

In common with most parts of the UK and Ireland, patient demand in Spilsby is at an all-time high for both physical, telephone and video appointments. Nationally and locally the NHS is implementing a strategic move of transferring services away from hospital settings to primary care. Combined these drivers mean that NHS Commissioners' and Clinicians' requirement for modern purpose-built space is and will remain very high.

PHP was commissioned to provide a new Primary Healthcare Centre for Spilsby and surrounding the community in Lincolnshire. The existing premises having been deemed as inadequate for the current population which is expected to grow by approximately one-third in the coming years, alongside the increasing demand for services in the area which have been affecting service provision, patient care and outcomes.

The new building will be PHP's first Net Zero Carbon building and one of the first healthcare buildings to achieve this in the UK. This has been achieved by measuring, minimising and offsetting embodied carbon from materials as well as enabling occupiers to operate the building with net zero carbon emissions. The building will also target BREEAM Excellent standards, with high levels of health and wellbeing, low waste and water, responsibly sourced and sustainable materials, bring enhanced ecological features and it will be flexible over its lifetime.

The new centre is being constructed as part of a major residential development and is being let for a 25-year term to both the local NHS Trust and GP partnership allowing patients and the wider Primary Care Network to access a wide range of health and care services from the building including:

- General practice.
- Physiotherapy.
- Mental health assessments and practitioners.
- Occupational therapy.
- Social prescribing.
- Care co-ordination.
- Clinical pharmacy.
- Training for GPs, nurses and paramedics.

**BUILT ENVIRONMENT: TARGETS, ACHIEVEMENTS AND KEY WORKSTREAMS FOR 2022**

**2021 targets**

Deliver the first net zero carbon PHP building within five years in the UK and explore the possibility in Ireland.

**Headline achievements from 2021**

Designed and due to start on site in first quarter of 2022, PHP's first net zero developments at Lincolnshire and West Sussex.

**Key workstreams for 2022**

Build on the experience of first two NZC developments to improve our approach to net zero developments, targeting a further project to commence during 2022.

Develop an action plan and roadmap to achieving the commitments set out in our Net Zero Carbon Framework.

**2021 targets**

All UK forward funded developments to have a BREEAM rating of Excellent.

In Ireland, all new developments to be built to a Building Energy Rating of A3, or better, in accordance with NZEB standards.

**Headline achievements from 2021**

In the UK, 100% of developments completed to BREEAM Excellent standards.

In Ireland, 100% of developments completed to a Building Energy Rating of A3.

**Key workstreams for 2022**

Strong future pipeline of forward funded developments in the UK and Ireland all being designed to BREEAM Excellent in the UK and NZEB standards in Ireland.

**2021 targets**

Refurbished assets to have an EPC of at least B or have been raised by at least two grades.

**Headline achievements from 2021**

In 2021, 8 asset management projects were live and on site all being delivered to a minimum standard of BREEAM Very Good, EPC B and incorporating new LED lighting as a minimum energy improvement requirement.

**Key workstreams for 2022**

Strong future pipeline of projects which will improve the current proportion of A-B assets to 31% in 2022.



### 2021 targets

Reduce Scope 1 and 2 GHG emissions by 25% in absolute terms and 40% in intensity terms by 2030.

All buildings to have achieved an 80% reduction in carbon footprint by 2035.

Launch green procurement programme on behalf of our occupiers and set ESG standards for our suppliers and developers.

### Headline achievements from 2021

The 2021 target has been replaced with a target to be net zero carbon for our direct operations by the end of 2023. This will include reducing carbon intensity and offsetting residual emissions.

During 2021, emissions increased compared with 2020 due to a return to travel and office working. However, the switch to 100% renewable electricity supplies is well under way and on course for all to be renewable by the end of 2023.

Green memorandum of understanding ("MOU") issued to a targeted set of tenants, representing 21% of occupiers. The MOU requested sharing of energy data and agreement to ongoing collaboration to improve performance and reduce carbon.

Improved data collection and visibility of energy and carbon performance for the portfolio. Energy and carbon are now reported for properties where PHP supplies energy and a programme of collating and interrogating Display Energy Certificate ("DEC") data has been launched, generating operational energy ratings for 61% of the portfolio.

£300 million of new sustainability linked loan facilities put in place rewarding the Group as we implement ESG initiatives.

### Key workstreams for 2022

Continue to switch electricity supply contracts to 100% renewable energy.

Carbon footprint of assets where we control the supply, management and head office activities to be offset.

Provide guidance and encourage behaviour change amongst our occupiers, developers and suppliers.

Energy audits to be completed before asset management projects are planned in order to identify and fully integrate in each project energy saving opportunities and energy-efficient technology.

Continue to develop our approach to green leases and roll-out of our Green MOU, supported by ongoing engagement by the property management team during inspections and reviews.

Improve visibility of energy and carbon performance across the portfolio, utilising analysis of DEC data and scoping a portfolio wide solution to capture, track and analyse building performance.

### 2021 targets

All acquisitions to have an EPC of no less than C or have a visible route to achieving this when next refurbished.

### Headline achievements from 2021

All acquisitions completed in the year had a minimum EPC rating of C except one which will be capable of being improved when next refurbished with costs involved reflected in under writing.

### Key workstreams for 2022

Target future acquisitions that have strong ESG credentials.

PHP will continue to work with its development partners, occupiers and other stakeholders to develop ways in which to monitor and improve the management of environmental and sustainability issues.

The estate has a high occupancy rate and is largely let on long leases, which means improving building energy performance ratings, in an efficient and cost-effective way, is challenging. In addition, the day-to-day control of energy usage, is the responsibility of our occupiers. However, the portfolio is well designed to mitigate its impact on the environment with 82% of the buildings having an Energy Performance Certificate ("EPC") rating across the portfolio of C or better. In addition, when we develop an asset or refurbish it, we do so to BREEAM Excellent or Very good, further improving the sustainability of the portfolio.

### EPC ratings across the portfolio

EPC rating	2021	2020
A	7%	6%
B	22%	23%
C	53%	52%
D	15%	15%
E	3%	4%
F	0%	0%
G	0%	0%

During 2021 we continued to renew EPCs and to deliver asset management and improvement projects. In some cases, EPC renewals lead to a drop in ratings, due to the changes to the assessment methodologies since the original assessments were carried out. We expect to show continued improvement to EPC ratings through 2022 and beyond.

### Sustainable building certifications across the portfolio

	2021
Proportion of portfolio relevant for BREEAM rating	13%
BREEAM Excellent & Very Good ratings	100%
nZEB standard (Ireland only)	100%
Proportion of portfolio with DEC rating	72%
DEC rating A-C (better than typical energy use)**	68%

\*\* Ratings made up of annual and ten-year renewal DEC's.

## RESPONSIBLE BUSINESS CONTINUED

### SECR disclosures

PHP measures its emissions in line with the Green House Gas Protocol and takes an operational control approach. Emissions are based on verified data currently reviewed by a third party, Inenco. Data is based on metered energy use and estimates and miles driven by employees. Scope 1 and 2 emissions are normalised by revenue and full time employees as these relate to our direct operations and by kWh/m<sup>2</sup> for tenant occupied buildings.

PHP's direct operations result in very limited greenhouse gas emissions. The table below shows the Scope 1 and 2 emissions directly within the operational control of the Group. Scope 1 relates to gas used in permanent offices and business travel by car and Scope 2 relates to grid electricity used at PHP's offices. For the first time, we are also reporting Scope 3 emissions from the properties where PHP supplies energy to occupiers, which they hold operational control over.

100% of total Scope 1, 2 and 3 kWh emissions in the year were based in the UK.

Source	2021		2020	
	tCO <sub>2</sub> e	kWh	tCO <sub>2</sub> e	kWh
<b>Scope 1</b>				
Business travel (car)	28.4	115,568	15.9	64,408
Gas	3.9	21,099	2.7	14,484
<b>Scope 2</b>				
Electricity (market based) <sup>1</sup>	5.4	25,528	5.3	20,775
<b>Total Scope 1 &amp; 2</b>	<b>37.7</b>	<b>162,195</b>	<b>23.9</b>	<b>99,667</b>
<b>Scope 3</b>				
Landlord supplied electricity (market based) <sup>1</sup>	1,058 (922)	4,984,324 —	1,219 n/a	5,230,579 —
Landlord supplied gas	1,058	5,774,465	1,223	6,650,630
<b>Total Scope 3</b>	<b>2,116</b>	<b>10,758,790</b>	<b>2,442</b>	<b>11,881,209</b>
(market based) <sup>1</sup>	(1,979)	—	n/a	—
<b>Total</b>	<b>2,154</b>	<b>10,920,985</b>	<b>2,466</b>	<b>11,980,876</b>
Scope 1 & 2 per full time employee	0.6	—	0.4	—
Scope 1 & 2 per £m revenue	0.3	—	0.2	—
Scope 3 kg CO <sub>2</sub> per m <sup>2</sup>	16.4	92	20.1	98
(market based) <sup>1</sup>	15.3			

<sup>1</sup> Market based reporting reflects the emissions from the electricity being purchased, whereas location based uses national grid average emissions for the reporting year.

For 2021 we have updated our reporting and this has resulted in an update to our 2020 disclosure. Against the new baseline for 2020, absolute scope 1 & 2 emissions have increased by 69% and intensity by 61%.

Increases to Scope 1 and 2 emissions are due to increased business travel following previous COVID-19 restrictions being lifted and a return to regular property visits and an increased use of offices following employees returning on a part-time basis. Therefore this does not reflect the direction of travel to improve energy efficiency and reduce our direct operational emissions.

We have committed to our direct operations being net zero carbon by 2023. In 2020, we established an ESG committee and we commenced work on identifying opportunities. In 2021, we secured a new head office which is a modern and more energy efficient space. Employees are encouraged to use public transport in place of cars for business travel and a new employee benefit has been introduced to support take up and use of electric and hybrid vehicles. We will continue to reduce energy demand from our offices and emissions from transport, however our wider portfolio is where we aim to focus our attention going forward, as this is where the largest source of emissions lies.

As shown in the table above, Scope 3 emissions from landlord supplied energy have reduced during 2021 and energy use intensity has also reduced. We intend to build on this going forward, through tenant engagement and asset management activities.

### Wider portfolio energy and carbon performance

For a small proportion of the portfolio, PHP procures the energy which is used by tenants, and we began transferring these to 100% renewable electricity supplies in 2021 with all energy being renewable by 2023. We are now working with these occupiers to minimise their energy consumption over time.

We are also working to expand the coverage of energy and carbon reporting across the whole portfolio, including occupier controlled supplies, and have started to collect energy consumption data from occupiers which will help us to engage with them to meet ours and their net zero carbon commitments.



# HEALTH – COMMUNITY IMPACT

## SOCIAL – HEALTH

PHP seeks to have a positive impact on the health and wellbeing of the communities where its assets are located and has set policies and targets to achieve this through a Community Impact Program and further details are set out below.

PHP is committed to supporting both the NHS and HSE in tackling the major under investment in primary care facilities in both the UK and Ireland. PHP's aim is to modernise and improve the ability to provide efficient and effective healthcare through the provision of modern, purpose-built properties, let to the NHS, HSE, GPs and other healthcare operators. The facilities are predominantly located within residential communities and enable the UK and Irish population to access better health services in their local area. This is central to the Group's purpose, strategic objectives and business planning processes.

PHP's portfolio serves around 6.0 million patients or 8.9% of the UK population and our portfolio is their first point of contact with the NHS when they start their patient journey. Our interventions, when we acquire, refurbish or develop new health care facilities, have a significant positive social impact, whether through enhancement of experience for people using our facilities, expansion of health care provision locally or making health care more accessible to those that need it most. Our active management of the property portfolio seeks to maintain the centres as fit for purpose and systems have been established to ensure that PHP is properly monitoring its social impact and identifying and managing opportunities and risks associated with the provision of its properties. We conduct an annual survey of our occupiers to review and consider awareness and overall satisfaction with our activities including social initiatives.

## Occupier survey

In 2021, as with previous years, PHP conducted a survey of our UK based GP tenants. We received 25% more responses than 2020 and there were a number of positive findings. The majority of respondents believe that their building meets their current needs, were satisfied with the level of communication and interaction they have with us and nearly 80% were happy to share energy usage data and support our overall ESG strategy.

Our overall Net Promoter Score declined in 2021 and while there were no major negative findings, issues surrounding maintenance and functionality of space were highlighted which have been addressed through our proactive property and asset management activities which are ongoing.

PHP is committed to ensuring that the properties it develops and owns continue to meet our GP, NHS and HSE occupiers' requirements in their local community and also provide flexibility for future change, update and expansion. Our dedicated teams of asset and property managers look after our occupiers' requirements, with a policy of regular communication and a supportive approach to property management. It is crucial that we continually update our understanding of what issues matter to our occupiers and how the NHS and HSE are changing to meet the increasing demands on the healthcare system in both countries. We will continue to engage and consider the views of our occupiers including an annual survey.

The COVID-19 pandemic highlighted the ongoing need for purpose-built, primary care premises to provide modern healthcare to an ageing population that will live for longer with more incidence of chronic illness. This further reinforces our objectives to continue to invest in our existing and new premises for the benefit of all our stakeholders.

Our occupier survey also asked occupiers to name initiatives that they felt would benefit the health and wellbeing of their patients and communities they serve and are not currently provided for them elsewhere. The responses received are currently being reviewed with a view to helping to target the Community Impact Program in 2022 and beyond.

# RESPONSIBLE BUSINESS CONTINUED

## Community Impact Fund

PHP has committed £0.25 million per annum to fund social and charitable activities and services linked to the patients and communities of our occupiers which cannot be readily accessed elsewhere. In 2021, we distributed £0.2 million across a wide range of projects supporting our GPs, understanding their views with a view to implementing a further programme of activities in 2022 and beyond.



- PHP are delighted to be working with the UK Community Foundations to offer grants to charities and community groups that are focused on social prescribing and community wellbeing that serve our properties.
- Grants totalling £150,000 were awarded to projects in Scotland and Lincolnshire that cover a wide range of innovative approaches to improving health and wellbeing via social prescribing, including the use of art, sport, outdoor, nature-based and specialist activities to improve the physical and mental health of a wide variety of groups and good causes addressing a number of important areas, such as:
  - Children with long term chronic conditions
  - Equine therapy, assisted learning and outdoor activities
  - Mental health and wellbeing
  - Dementia
  - Young family support
  - Men's health



## BREATHE

- PHP is proud to be a supporter of ENO Breathe – a breathing and wellbeing programme for people recovering from the effects of COVID-19.
- ENO Breathe is a social prescribing programme developed by the English National Opera to help tackle the effects of Long COVID.



- PHP has committed to play a key role in the UK's Levelling Up agenda by partnering on the work by the Purpose Coalition around the development of a set of levelling up goals focused around good health and wellbeing.



- As part of the Community Impact Programme PHP was proud to support a number of charities during 2021 and introduced a scheme to match funds raised by staff up to a maximum amount of £2,000.
- During the year we made donations to a number of charities including Variety, the Children's Charity; RFU Injured Players Foundation; Cancer Research; The Felix Project; Bliss; and KidsOut.



# PEOPLE – RESPONSIBLE BUSINESS

## PEOPLE

PHP recognises the importance of the welfare of the employees who work on behalf of the Group and are critical to its success. Their experience and contribution to the business is essential to the delivery of our business strategy and ESG commitments.

During 2021, the management structure was internalised and we successfully retained a loyal team with a low staff turnover rate of 19% which we believe reflects PHP's Board commitment to maintaining and promoting the highest levels of ethics, conduct and promoting a workplace culture of:

- inclusion;
- modern, flexible working practices;
- fair remuneration;
- diversity and equal opportunity;
- employee development and training; and
- health and safety.

Laure Duhot is the designated workforce Non-executive Director. In the year she considered the results of the staff survey and held one meeting with a select number of employees from different areas of the Company to discuss their feedback from the survey and thoughts in more depth which were reported back to the Board. Overall morale was considered to be good and that bi-weekly team meetings were welcomed and further improved communications. However, there appeared to be a good culture of openness.

In addition to fair remuneration which is aligned to personal

and Company performance and as part of our ongoing commitment to supporting employees, attracting and retaining talent, the Remuneration Committee undertook a full review of benefits offered, and subsequently decided to implement the following effective from 1 January 2022:

- Enhanced Company pension contributions of 6% of salary up to a maximum contribution of £10,000.
- Additional day of annual leave for each year of continuous service up to a maximum of five days.
- A green car salary sacrifice benefit to help individuals move to low carbon electric and hybrid personal vehicles.
- Introduction of a share save plan.
- Enhancements to sick pay.
- Life assurance given to all employees at four times salary.
- Cycle to work and season ticket loan schemes.

A Long Term Incentive Plan ("LTIP") was approved by shareholders at the Annual General Meeting in May 2021 and awards were granted to the senior leadership team that replicate arrangements for the Executive Directors to maximise returns to shareholders by successfully delivering the Company's objectives over the long term in a sustainable manner. Further details on the LTIP can be found in the Directors' Remuneration Report on pages 86 to 99. In addition, all employees are eligible to participate in the PHP Sharesave plan that was approved by shareholders at the 2021 AGM.

# RESPONSIBLE BUSINESS CONTINUED

## COVID-19

During 2021, we have continued to support our people during the ongoing pandemic through ongoing remote working during lockdown and as we returned to the office more flexible working arrangements, with employees allowed to spend up to half the week working from home and half in the office or on site.

Following the easing of restrictions in April 2021, we undertook a staff survey, to gauge the views of all employees on their working practices and environment. Whilst many noted advantages of more flexible working, many expressed a desire to return to in person, collaborative working. Creating space and time for social interactions and team working were seen as beneficial.

As the team in London has continued to grow over the last two years it became clear the current office accommodation was no longer sufficient for the Company's purposes. Consequently, more modern, open plan office accommodation has been secured and the team moved in at the start of 2022, with continued flexible working provision and infrastructure in the new offices.

## Employee development

PHP's Human Capital is essential to success of the business and delivery of outstanding services to our occupiers in the healthcare sector. Attracting, retaining and developing employees is therefore a key commitment for the business.

During 2021, we continued to focus on personal and professional training and development. Appraisals are undertaken for all employees twice a year including setting goals and targets as well as considering performance against those previously set.

Personalised training plans were also delivered to target leadership and management training for new managers. We ran self-awareness workshops, based on MBTI personality types to help colleagues to collaborate and enhance team effectiveness.

A range of additional personal development workshops were held for all staff, to enhance performance in key areas including communication, presentation skills, assertiveness and time management.

A total of 730 personal development training hours have been delivered across the Group during 2021.

During 2021, PHP invested a total of £37,500 or an average £680 per employee on professional development. This includes:

- Support, funding and facilitation of professional qualifications for 13 employees and continued professional development for all employees.
- Recruited seven graduates to grow talent for the future.

## Diversity & equal opportunity

We promote diversity across knowledge, experience, gender, age and ethnicity with a published diversity and inclusion policy in place. Whilst overall female employee representation is good, we recognised that we needed to specifically promote greater gender diversity. Following the appointment of Ivonne Cantú, effective from 1 January 2022, we have further increased female and ethnic Board representation.

Recognising the significant diversity imbalance in the real estate sector, we continue to support the Real Estate Balance group to further promote diversity both internally and externally.

### Employee gender diversity at 31 December 2021:

	Male	Female <sup>1</sup>
Board of Directors	5	2
Senior management and direct reports	18	17
Employees	12	13
<b>All employees (including NEDs)</b>	<b>35</b>	<b>32</b>

<sup>1</sup> Includes Ivonne Cantú appointed effective 1 January 2022.

## Health and safety

Health and safety remains central to the execution of PHP's business strategy and we take our responsibilities very seriously and are committed to continued improvement but have an excellent record. The Board is responsible for ensuring appropriate health and safety procedures are in place and during 2021 we maintained a regime of inspections utilising both third-party agents, including two risk management solutions providers and in-house resources to support the portfolio.

Where risks need to be assessed under a specific duty or regulation, we ensure that an assessment is carried out and that all necessary actions are implemented. The key health and safety risk areas PHP faces are:

1. Managed properties – where there are multiple occupiers in the same property, a combination of third-party agents and internal resources are used to carry out a health and safety assessment and audits relating to the common parts.
2. Developments and forward funded developments – all our development partners are required to uphold our high standards. Procedures and processes have been developed to ensure compliance with current legislation and requirements. A Project Monitor is also appointed to oversee, manage and monitor health and safety.
3. Employees are required to uphold our high standards and separate procedures and processes in place to ensure compliance with current legislation and requirements.

During 2021 there were no reported major accidents nor any health and safety prosecutions or enforcements (2020: no incidents). Our Board approved Health and Safety policy is available on the Company's website.



## PEOPLE: TARGETS, ACHIEVEMENTS AND KEY WORKSTREAMS FOR 2022

### 2021 targets

Publish the Chief Executive Officer's commitment to Real Estate Balance promoting employee diversity challenging mindsets on bias and discrimination.

### Headline achievements from 2021

Commitment published at the start of year and available on the Group's website.

Senior leadership team attended Inclusive Leadership workshop to explore the significance of conduct, culture and respect at work and to understand the tone from the top and implications of unconscious bias.

All staff invited to attend regular seminars on a variety of topics to promote diversity and inclusion across the business.

### Key workstreams for 2022

Continue to promote PHP's culture and commitment to maintaining and promoting the highest levels of ethics and a workplace culture of inclusion, diversity and equal opportunity.

### 2021 targets

Publish and report transparent information regarding employees.

### Headline achievements from 2021

See page 68 for further details.

We have implemented a new HR self-reporting system to capture and improve the accuracy of our workforce diversity data.

We conducted a staff survey in order to inform working practices following the year of tightening and easing of restrictions.

All employees participated and offered their views.

Whilst many noted the advantages of time saved not commuting to an office and a different work life balance, many also noted despite the technology available, they still felt isolated working from home, missing social interactions and finding team working more challenging than when meeting in person.

### Key workstreams for 2022

Conduct an annual staff survey to ascertain levels of employee satisfaction and help ascertain areas for continued improvement.

Continue to review approaches to diversity and inclusion performance.

Invested in a new, modern office for employees in London.

### 2021 targets

Set ESG targets as part of employees' appraisal and personal performance objectives.

Employee training plans to be developed to include at least 10% ESG content.

### Headline achievements from 2021

Personalised training plans delivered for all staff broken down into four key areas to enhance self-awareness, gain an understanding of leadership styles, motivation and coaching skills.

13 people are currently studying for professional qualifications across the team.

### Key workstreams for 2022

We continue to support all staff with individual training plans, semi-annual appraisals including and reviewing personal performance objectives which include ESG content.

## OTHER STAKEHOLDERS

While our investment, asset management and development activities focus on the sustainability risks and opportunities that are most material to our business there are a number of additional issues that are of lower material impact but are of interest to specific stakeholder groups:

- We are transparent and all our policies are available on our website and we expect our principal advisers, suppliers and occupiers to follow them.
- We expect organisations we employ to meet the standards we set ourselves.
- We engage with stakeholders to ensure we are aware of, and are able to respond to, their expectations.



## RESPONSIBLE BUSINESS CONTINUED

### Contractors and suppliers

Delivering developments, forward funded developments, asset management projects and property services on time, on budget and in adherence with our high standards is a key priority. Our supply chain is checked (accredited by the SafeContractor scheme) to ensure it is high quality, robust, has a proven track record and applies appropriate standards on areas such as labour and human rights, health and safety, modern slavery and human trafficking. For developments, contractors are expected to demonstrate adherence to these requirements and our development monitoring surveyor stays close to our contractors and monitors all elements of projects as they progress. Our Modern Slavery Act Statement is available on our website and no human rights concerns arose within the year.

We have approximately 1,200 suppliers across the Group ranging from small local businesses to large multi-national companies. We also acknowledge the importance of our suppliers, who are often small businesses and sole traders, especially those involved with the upkeep and maintenance of our assets. We aim to pay all invoices and amounts due promptly and well within stated payment terms in an effort to preserve the cash flows of these small businesses.

### Tax

The Group is committed to complying with tax laws in a responsible manner and has open and constructive relationships with the UK and Irish tax authorities. Whilst the Group enjoys REIT status and therefore is not directly assessable for corporation or capital gains tax on property investments, the dividends that the Group pays are assessed for income tax when they reach investors. Moreover, during 2021 the Group has directly paid £28.7 million (2020: £28.7 million) of taxes in the form of VAT, income tax, stamp duty land tax, stamp duty and national insurance contributions to the UK and Irish Governments. The Group has not and does not intend to take advantage of any UK or Irish Government incentives, loans or tax deferrals made available to it as a result of the COVID-19 pandemic.

The Company has also published a Tax Strategy which is available on our website.

### Investors and lenders

The support of our shareholders, banking partners and lenders is crucial to sustaining our investment in the health infrastructure of the UK and Ireland. At the start of 2021 we successfully completed the acquisition of Nexus with 99.95% of shareholders voting in favour of the transaction. We continue to enjoy strong relationships with our investor, banking and lending partners.

Despite the pandemic, we have successfully continued to value existing and potential relationships with our investors with over 200 meetings during the course of 2021. Shareholders and analysts are regularly updated about our performance and are given the opportunity to meet management throughout the year and attend presentations, physical and virtual, and site visits to gain a better understanding of our business strategy.

### Governance

We conduct our business with integrity and require that our Directors, employees and other businesses engaged by us, including developers, contractors, suppliers and agents, do the same.

We believe that good governance practices are essential to a successful and sustainable business and therefore we ensure that they are integral to us. We are compliant with the provisions of the UK Corporate Governance Code 2018 insofar as it is applicable to PHP. We believe in transparency of our business to stakeholders ensuring we report comprehensively and fairly in our Annual and Interim Reports and engage with our stakeholders throughout the year.

We will:

- be honest, open, transparent, helpful and polite;
- obey all relevant laws and regulations;
- be prepared to admit and correct mistakes without delay and facilitate "whistleblowing" by employees and other stakeholders;
- declare any potential conflicts of interest which may compromise our business dealings;
- not give or receive illegal or inappropriate inducements in order to retain or bestow business or financial advantages; and
- at all times promote the ethical conduct of business.

These principles are supported by policies which address anti-bribery and corruption, whistleblowing, money laundering, prompt payment and management of the supply chain.



### Enhanced disclosure and benchmarking

We have published for the first time the Task Force on Climate-related Financial Disclosures ("TCFD") which are set out on page 46.



During 2021, PHP completed its second submission to The Global ESG Benchmark for Real Assets ("GRESb") and achieved a score of 52%, ranking PHP 1st in the Healthcare comparator group. The score is a significant improvement on the 39% score in 2020, but below the GRESb average score of 72% and we aim to make further improvements for future submissions.



Our MSCI rating improved on the previous year to BB and we expect improvements made and reported for 2021 and planned during 2022, to further improve our rating. We will engage with MSCI to ensure our rating best reflects the actions we are taking and to inform how we improve further.

### Anti-corruption and anti-bribery

The Group's policy is to conduct all of its business in an honest and ethical manner. The Group takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships wherever it operates and implements and enforces effective systems to counter bribery. There were no reported incidents of non-compliance during 2021 (2020: no incidents).

### Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the Strategic Report. This can be found as follows:

The Group's business model is on pages 12 and 13.

Information regarding the following matters, including policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:

- environmental matters on pages 34 to 38;
- social matters on page 40;
- health and safety matter on page 42;
- respect for human rights on page 43; and
- anti-corruption and anti-bribery matters on page 45.

Responsible Business and ESG matters have been identified as a principal risk and further details can be found on pages 54 to 55.

All key performance indicators of the Group are on pages 16 to 17.

The Business Review section on pages 18 to 22 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

### Laure Duhot

Chair of the Environmental, Social and Governance Committee

### Primary Health Properties PLC

15 February 2022

# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Below, we have set out for the first time disclosures against the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD").

We are committed to implementing the relevant recommendations of the TCFD, providing our stakeholders and investors with insight into the key climate-related risks and opportunities that are relevant to our business, and how these are identified and managed. We report against the majority of the eleven recommendations of the TCFD in this year's disclosures. Of the recommendations, we believe we meet the recommended disclosure requirements in the Governance, Risk Management and Metrics & Targets sections. However, like many other organisations, we are evaluating how best to meet the recommendations in the Strategy section, specifically scenario analysis, and will conduct a review and commission climate-related scenario analysis over the course of 2022.

## Governance

The Board is responsible for the Group's risk management framework, including the consideration of climate related risks and opportunities as part of its wider oversight for Responsible Business including ESG matters. The Board reviews climate related risks and opportunities within our existing reporting and governance structure which are typically within relevant update papers presented to the Board at each meeting from the relevant members of the Executive Committee, through the ESG Committee and the Risk Committee reporting into the Audit Committee.

The monitoring of progress on Responsible Business matters is delegated to the ESG Committee. Implementation of Responsible Business is delegated to the Executive Committee with its members leading the Responsible Business working group; other members consist of Director, ESG along with a representative from each of the investment, asset management, property management and development teams. The Responsible Business working group meet at least monthly to consider progress and next steps and the Executive Committee ensures that Responsible Business and ESG targets are delivered and leads engagement and training across the Group on Responsible

Business and ESG matters, including climate related risks, helped by our sustainability advisers Carbon Trust and GEP Environmental.

## Strategy

During the year we set out a Net Zero Carbon Framework, see page 30, which details the five key steps we are taking to achieve an ambitious target of being NZC by 2030 for all of PHP's operational, development and asset management activities and to help our occupiers achieve NZC by 2040 five years ahead of the NHS's target of becoming the world's first net zero carbon national health system by 2045 and ten years ahead of the UK and Irish Governments' targets of 2050.

We have also completed a detailed review of climate related risks and opportunities including the creation of an ESG risk and opportunities register considering risks over the short (<1-year), medium (1-5 years) and long term (>5-years) time horizons.

The Group has identified the following key climate related risks that could impact the portfolio:

1. the desirability of its assets to occupiers such that buildings are no longer fit for purpose from a location, design or operational perspective;
2. its ability to sell assets as a result of a greater focus by investors on climate related risks; and
3. its access to capital and impacting on reputation due to concerns over how well its buildings are adapted for climate change and how well the NHS and its GP occupiers are positioned for a low carbon economy.

The Group has identified the following key climate related opportunities that could impact the portfolio:

1. Pre-empting and satisfying future occupier requirements, including legislation, enhances PHP's reputation with our occupiers ensuring they want to occupy the properties in our portfolio and results in further rental growth.
2. PHP's pro-active approach to ESG matters means we continue to be attractive to existing and potential stakeholders including investors and lenders.



The Group's continued focus on flexible, modern primary care properties that generally have low energy requirements means that the overall carbon footprint of the portfolio is kept to a minimum. In addition, the Group's continued investment in asset and property management initiatives means that its typically slightly older and less energy efficient assets are being upgraded to the latest energy efficient, environmental performance standards achievable for these buildings.

We are also improving and adapting our assets to be more resilient to climate change through maintenance, energy efficiency upgrades and the provision of renewable energy supplies for the Group's occupiers. Furthermore, whilst development is only a small part of our activities, we are focusing on enhancing the sustainability features of our development projects and work is about to commence on the Group's first net zero carbon developments and we are aiming for all developments to be net zero by 2025.

During our investment process, we are careful to review the locational and flood risks, the building fabric and the energy efficiency of potential acquisitions and current assets to understand the climate and carbon related risks and costs involved in mitigating those risks.

These actions will help to future proof our buildings and allow us to take advantage of opportunities with the NHS, and our other occupiers, as they shift to a low carbon environment with its multi-year plan to become the world's first carbon net zero national health system by 2045 and with an ambition for an interim 80% reduction by 2036-2039.

By improving occupier contentment, we will enhance the desirability and value of our assets together with our reputation with the NHS and GP occupiers.

In line with the requirement for full reporting against TCFD for the 2022 Annual Report, we will conduct a review and commission climate related scenario analysis over the coming year to assess the resilience of the Company's portfolio and our strategy.

### Risk management

Climate related risks are considered by the Board who recognise that climate change is an increasingly important priority. The Responsible Business working group update the ESG Committee on climate related risks as well as opportunities. The Group is increasing its understanding and assessing the potential impact of physical changes, such as extreme weather and longer term shifts in climate patterns. The transitional changes are also being examined in terms of emissions pricing, costs from adopting lower emission technology, regulation of products, legislative, occupier and consumer behaviour.

During the year, we established a detailed climate related risks and opportunities register which is reviewed by both the Risk Committee reporting to the Audit Committee and ESG Committee as detailed on pages 54 and 55. The register is regularly updated to keep track of the changing nature of these risks, quantify the estimated financial impact and further progress our analysis of which acute and chronic physical climate risks are most likely to affect our assets, specifically on flooding which we see as the highest risk area.

Following the desktop flood analysis carried out across the portfolio, by Locktons, we analysed the results of that study

and undertook more detailed site-specific analysis where appropriate. This work has identified the number of assets classified as high risk to just 34 out of a portfolio of 521 assets and represent just 7% by value. We continue to extend this analysis as we look to regularly monitor changes in flooding risk in the future. Further work will be undertaken to consider the impact of other climate change related risks and we will look at how modelling of short, medium and long term horizons for increases in global temperatures could help us in better understanding the risks to our portfolio.

Over the year, we further increased our focus on the transitional risks that impact our business with particular scrutiny of potential Minimum Energy Efficiency Standards ("MEES") legislative changes, which would require a high level of energy efficiency at each asset by the end of the decade. We are about to start construction of our first Net Zero Carbon developments at Lincolnshire and West Sussex which are due to complete in 2023. In addition, we continued to refine and improve the ESG targets set by the Group and pages 36 to 43 set out our approach more widely.

As the NHS looks to deliver its multi-year plan to become the world's first carbon net zero national health system by 2045 and with an ambition for an interim 80% reduction by 2036-2039, we have set out PHP's framework to help our occupiers achieve the NHS's targets and ahead of the UK and Irish Governments' targets of being net zero by 2050.

For more details on the Company's overall approach to risk management, including management of climate related risks, refer to principal risks and uncertainties on pages 50 to 55.

### Targets and metrics

Details of PHP's target to achieve NZC across operational, development and asset management activities by 2030 and to help our occupiers achieve NZC by 2040 are set out on page 30.

Relevant material energy and carbon metrics include EPC ratings for our standing assets which are tracked and are reported within the "Responsible Business and ESG Review" section of this report on page 37 along with BREEAM Excellent certification on developments in the UK and Building Energy Rating of A3, in accordance with nZEB (nearly Zero Energy Buildings), in Ireland.

We report our GRESB benchmark performance score and aim to report against EPRA Best Practice Recommendations on Sustainability Reporting over time and the results are included in our Responsible Business and ESG Report 2021 which is available on our website. We also disclose Scope 1, Scope 2 and Scope 3 (which relate to landlord supplied electricity and gas) greenhouse gas ("GHG") emissions in our carbon reporting table on page 38. Our absolute landlord-controlled carbon footprint has decreased over the last few years as a result of our initiatives particularly due to the continuing shift towards 100% renewable electricity supplies across our portfolio.

Performance against our historic Responsible Business annual targets is provided in our full Responsible Business and ESG Report which is also available on our website and updated annually.

## COMPANIES ACT 2006 SECTION 172 STATEMENT

### How does the Board consider the interests of key stakeholders?

Our responsibility to stakeholders, together with consideration of the long term consequences of our decisions and maintaining high standards of business conduct, is integral to the way the Board operates.

The Board of Directors, both individually and collectively, are required by law under Section 172 of the Companies Act 2006 to act in the way that they consider, in their good faith judgement, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and in doing so need to take into account a number of factors, including the views of the Group's key stakeholders and describe in the Annual Report how their interests have been considered in Board discussions and decision making. The Board considers that throughout the year, it has acted in a way and made decisions that would most likely promote the success of the Group for the benefit of its members as a whole, with particular regard to:

Section 172 matter	How the matter is brought into Board decision making	Read more
a) The likely consequences of any decision in the long term	<p>The very nature of our business model means that the Board has to have the long term consequences of its investment decisions in mind.</p> <p>The leases which we grant on primary care medical centres are generally over 20 years in length as these facilities form a key component in the delivery of healthcare in a locality. The practice(s) operating from these premises need modern, flexible premises from which to operate and the security of a long term commitment from the landlord to deliver their crucial front-line health services.</p> <p>We seek to improve and enhance existing premises so they remain fit for purpose, incorporate new technologies and meet the latest environmental standards.</p> <p>We strive to build lasting relationships with our occupiers and build a partnership with them.</p> <p>The Board undertook a comprehensive review and update of the business's long term strategy during the year.</p>	<p><b>Our business model (page 12)</b></p> <p><b>Financial Review (page 23)</b></p> <p><b>Responsible Business (page 30)</b></p> <p><b>Corporate Governance Report (page 66)</b></p>
b) The interests of the Company's employees	<p>The Group's employees are at the heart of the business and our people strategy focuses on delivering a culture of empowerment, inclusion, development, openness and teamwork.</p> <p>During 2021 the management structure was internalised and we successfully retained a loyal team with a low staff turnover rate. The small number of staff allows for a flexible and individual approach.</p> <p>Laure Duhot is the Non-executive Director representative for workforce engagement and attended a staff meeting during the year.</p>	<p><b>Stakeholders and people (pages 41 and 42)</b></p>
c) The need to foster the Company's business relationships with suppliers, customers and others	<p>The relationships with our occupiers, suppliers and key partners are critical to our ability to maintain our high quality, resilient rental income. Strong relationships with occupiers supports retention and we treat our suppliers fairly ensuring prompt settlement of their invoices.</p>	<p><b>Stakeholders (page 43)</b></p> <p><b>Directors' Report (page 100)</b></p> <p><b>Corporate Governance Report (page 66)</b></p>
d) The impact of the Company's operations on the community and the environment	<p>We have continued to support our tenants during the year in adapting their premises, where necessary, to provide COVID-19 secure facilities to their local communities.</p> <p>This year we have also further enhanced our ESG activities setting out a framework to enable the Group's operational, development and asset management activities to transition to Net Zero Carbon by 2030 and help our occupiers achieve NZC by 2040.</p>	<p><b>Responsible Business (page 30)</b></p> <p><b>Corporate Governance Report (page 66)</b></p>
e) The desirability of the Company maintaining a reputation for high standards of business conduct	<p>We have a clear purpose to create outstanding spaces for primary healthcare services in our communities.</p> <p>We adhere to the highest standards of good governance and business conduct in interaction with all our stakeholders and seek to comply with all legal and regulatory standards.</p>	<p><b>Responsible Business (page 30)</b></p> <p><b>Corporate Governance Report (page 66)</b></p>
f) The need to act fairly as between members of the Company	<p>The Board embraces open dialogue with shareholders and engages with them through a range of channels and has communicated with them on the most important corporate events through the year, including the internalisation project, interim and full year results to understand their views.</p>	<p><b>Stakeholders – Investors and lenders (page 44)</b></p> <p><b>Corporate Governance Report (page 66)</b></p>

Examples of how we have exercised our Section 172 duties in practice are set out in the case studies on pages 19, 20 and 36.



# HOW PHP ASSESSES ITS PROSPECTS



The achievement of our KPIs is influenced by the identification and management of risks which might otherwise prevent our strategic priorities.

The Board believes the Group has strong long term prospects, being well positioned to address the need for better primary healthcare buildings in the UK and Ireland.

## 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 has a very small (£0.7 million) exposure as a direct developer of real estate, which means that the Group is not materially 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.
- Debt funding is procured from a range of providers, maintaining a spread of maturities, currencies and a mix of terms so as to fix or hedge the majority of interest costs.



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

#### Approach to risk management

Risk is considered at every level of the Group's operations and 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 and the management 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 management team assists the Board in its assessment and monitoring of operational and financial risks and PHP has in place robust systems and procedures to ensure risk management is embedded in its approach to managing the Group's portfolio and operations. PHP has established a Risk Committee that is formed of members of its senior management team and chaired by the CFO who is experienced in the operation and oversight of risk management processes, with independent standing invitees attending throughout the year.

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.

PHP 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 PHP 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 Risk Committee reports its processes of risk management and rating of identified risks to the Audit Committee. The risk register is reviewed and updated twice annually by the secretary assisted by members of the Risk Committee, and assesses inherent risks the business faces, as well as the residual risk after specific safeguards, mitigation and/or management actions have been overlaid. The risk register forms an appendix to the report which details risks that have (i) an initial high inherent risk rating, and (ii) higher residual risk ratings. The Audit Committee in turn agrees those risks that will be managed by management 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.

# RISK MANAGEMENT AND PRINCIPAL RISKS CONTINUED

## Principal risks and uncertainties

The Board has undertaken a robust assessment of the emerging and 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. A result of this assessment was to remove COVID-19 as a principal risk in the year as a result of the impact being less material than envisaged, and to introduce a new principal risk, Responsible Business. The new principal risk is a direct result of the greater scrutiny by both regulators and investors, as well as recent political agendas that are expected to impose that further environmental initiatives be mandated. These are set out below:

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year
<b>Grow property portfolio</b>			
<p><b>Competition</b></p> <p>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.</p>	<p><b>High</b></p> <p>Likelihood is high and impact of occurrence could be major.</p>	<p>Unchanged</p> <p>↔</p>	<p>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.</p> <p>However, the same increase in demand and lack of supply have meant that the Group is facing increased competition for viable opportunities.</p>
<p><b>Financing</b></p> <p>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.</p> <p>Furthermore, a more general lack of equity or debt available to the sector could reduce demand for healthcare assets and therefore impact values.</p>	<p><b>High</b></p> <p>Likelihood of a restricted supply is moderate but the potential impact of such a restriction could be major.</p>	<p>Unchanged</p> <p>↔</p>	<p>The Company successfully completed two debt refinances during the year, entering into one new revolving credit facility of £100 million with NatWest, as well as refinancing £200 million of legacy debt with Aviva. The Company entered into a new £50 million revolving credit facility with Santander and €75 million Euro private placement immediately post year end.</p> <p>The Group's undrawn facilities mean it currently has headroom of £321 million, after taking into account the debt financings completed in the first quarter of 2022.</p> <p>All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term.</p>
<b>Manage effectively and efficiently</b>			
<p><b>Lease expiry management</b></p> <p>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.</p>	<p><b>Medium</b></p> <p>Likelihood of limited alternative use value is moderate but the impact of such values could be serious.</p>	<p>Unchanged</p> <p>↔</p>	<p>Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.</p>
<p><b>People</b></p> <p>The inability to attract, retain and develop our people to ensure we have the appropriate skill base in place in order for us to implement our strategy.</p>	<p><b>Medium</b></p> <p>Likelihood and potential impact could be medium.</p>	<p>Unchanged</p> <p>↔</p>	<p>As the country's post COVID-19 economic recovery continues, and with inflation of 5% in the year, the risk of staff retention has increased in a very competitive market.</p>

**Mitigation**

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.

As a result, 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.

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. Management also closely monitors debt markets to formulate its most appropriate funding structure.

The terms of the completed revolving credit facilities are three years with the option to extend for a further two years at the lender's discretion. The Aviva refinancing was completed for a 15-year term and Euro private placement was executed for a 12-year term, further increasing PHP's average debt profile to 7.3 years.

Management meets with occupiers on an ongoing basis to discuss the specific property and the tenant's aspirations and needs for their future occupation.

39 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 100 projects that will be progressed in 2022 and coming years.

Only 12.9% of the Group's income expires in the next five years and management is actively managing these lease expiries.

Succession planning is in place for all key positions, and will be reviewed regularly by the Nomination Committee.

Remuneration incentives are in place such as bonuses and the LTIP for Executive Directors and senior management to incentivise and motivate the team.

Notice periods are in place for key employees.

PHP continues to outsource a PHP HR professional that has historically looked after the Nexus employees and has familiarity with contracts and procedures in place.

**Residual risk rating****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.

**Medium**

The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinance debt facilities in advance of their maturity.

**Medium**

Management employs an active asset management programme and has a successful track record of securing enhancement projects and securing new long term leases.

**Medium**

The Remuneration Committee has reviewed and updated policies to ensure retention and motivation of the management team.

## RISK MANAGEMENT AND PRINCIPAL RISKS CONTINUED

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year
<p><b>Responsible Business</b></p> <p>Due to the far greater scrutiny by regulators, debt providers and investors over the last twelve months, should this rate continue there is a risk we do not meet their criteria in the short term.</p>	<p><b>High</b></p> <p>Likelihood is high and impact of occurrence could be major.</p>	<p>New</p> <p>2021</p>	<p>All debt and equity investors now prioritise ESG as a standard agenda item, with a notable increase in its occurrence noted during the year, and is expected to continue.</p> <p>There is a risk that we may not meet the hurdles sought by debt and equity investors should PHP not focus enough on these ESG agenda items, potentially impacting the funding of the business significantly.</p> <p>Additionally, political and regulatory changes to the energy efficiency and net carbon neutral targets of corporates are expected to be mandated in the short term, notably in light of COP26.</p>
<p><b>Diversified, long term funding</b></p>			
<p><b>Debt financing</b></p> <p>Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.</p>	<p><b>Medium</b></p> <p>The likelihood of insufficient facilities is moderate but the impact of such an event would be serious.</p>	<p>Unchanged</p> <p>↔</p>	<p>Negotiations with lenders have confirmed that the Group enjoys the confidence of the lending markets both in terms of the traditional high street lenders and the bond markets.</p> <p>The Company successfully completed two debt refinances during the year, entering into one new revolving credit facility of £100 million with Natwest, as well as refinancing £200 million of legacy debt with Aviva. The Company entered into a new £50 million revolving credit facility with Santander and €75 million Euro private placement immediately post year end.</p>
<p><b>Interest rates</b></p> <p>Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows and could impact property valuations.</p>	<p><b>Medium</b></p> <p>The likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.</p>	<p>Unchanged</p> <p>↔</p>	<p>Term interest rate markets remained volatile during the period and this volatility is likely to continue in the near future.</p> <p>Over the year, term interest rates have reduced which has impacted the MtM valuations of the Group's debt.</p> <p>In October 2021 the Group entered into £200 million of interest rate hedges, swapping fixed rate for three-month floating rate for a three-year period, as well as mitigating downside risk by capping variable exposure.</p>
<p><b>Deliver progressive returns</b></p>			
<p><b>Potential over-reliance on the NHS and HSE</b></p> <p>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.</p>	<p><b>Medium</b></p> <p>Likelihood is low but impact of occurrence may be major.</p>	<p>Unchanged</p> <p>↔</p>	<p>The UK and Irish Governments continue to be committed to the development of primary care services and initiatives to develop new models of care increasingly focusing on greater utilisation of primary care.</p> <p>Despite the UK's exit from the European Union and COVID-19 pandemic, we expect the demand for health services will continue to grow, driven by demographics. However, future government funding levels in the UK and Ireland may be impacted by any long term, material change to economic performance.</p> <p>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.</p>
<p><b>Foreign exchange risk</b></p> <p>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.</p>	<p><b>Medium</b></p> <p>Likelihood of volatility high but the potential impact at present is relatively low due to quantum of investment in Ireland, albeit this is increasing.</p>	<p>Unchanged</p> <p>↔</p>	<p>The Group now has 20 investments in Ireland. Asset values, funding and net income are denominated in Euros.</p> <p>The continued impact of COVID-19 throughout the European Union continues to cause exchange rate volatility.</p>

**Mitigation**

Over the last 18 months PHP has focused on its ESG credentials, implementing and putting in place the following to ensure we continue to meet investor expectations:

- put in place an ESG policy, set up an ESG Committee that reviews the ESG Risk Dashboard, as well as employed a new ESG Director as part of its management team.
- Engaged external experts GRESB and Carbon Trust to review our current ESG agenda and appropriateness for a listed REIT.
- Sustainability targets and hurdles are monitored to ensure acquired assets or asset management schemes meet specific ESG criteria, with these same criteria aligned to investors and debt providers.
- Constant communication with debt and equity providers, resulting in £300 million of sustainability linked financing for the two debt refinances in the year.
- Community Impact Fund introduced in the year.
- EPC rating benchmarks are set to ensure compliance with Minimum Energy Efficiency Standards ("MEES") that could otherwise impact the quality and desirability of our assets leading to higher voids, lost income and reduced liquidity; we consider environmental and climate change risk relating to our assets and commission reports.

We work with our occupiers to improve the resilience of our assets to climate change as well as with contractors who are required to conform to our responsible development requirements.

**Residual risk rating****Low**

The Group is committed to meeting its obligations in line with its Responsible Business Framework and feels it has introduced sufficient mitigants to continue to deliver its objectives.

Existing lenders remain keen to finance PHP and new entrants to debt capital markets have increased available resource.

Management regularly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds.

Management regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.

**Medium**

The Board regularly monitors the facilities available to the Group and looks to refinance in advance of any maturity. The Group is subject to the changing conditions of debt capital markets.

The Group holds a proportion of its debt in long term, fixed rate loans and mitigates its exposure to interest rate movements on floating rate facilities through the use of interest rate swaps.

As at the balance sheet date 100% 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.

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 Ireland to promote the need for continued investment in modern premises.

This continued investment provides attractive 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 pro-active measures are taken to monitor developments and to consider their possible implications for the Group.

The Board has funded and will continue to fund its investments in Ireland with Euros so as to create a natural hedge between asset values and liabilities in Ireland.

Management closely monitors the Euro to GBP currency rates with its banks to formulate a formal hedging strategy against Irish net cash flows.

**Low**

PHP has implemented a hedging strategy in the form of a natural hedge so as to manage exchange rate risk.

# VIABILITY STATEMENT

In accordance with the 2018 UK Corporate Governance Code, the Board has assessed the prospects of the Group over the longer term, taking account of the Group's current position, business strategy, principal risks and outlook.

The Board believes the Company has strong long term prospects, being well positioned to address the need for better primary care health centres in the UK and Ireland.

## Emerging risks

In completing this assessment the Board continues to monitor emerging risks and their potential impact on the Group. Development delivery risk was added to the Risk Register during 2020, and continues to be monitored, however the Board still believe the current exposure to this risk is not yet considered a principal risk and is therefore not included in the table above.

The Board also considered, at its annual strategy day, emerging risks affecting the current primary care delivery model, in particular the impact of digital technologies. As part of the outcome of the Board's evaluation process it was agreed to include a formal emerging risk review in conjunction with the annual strategy review.

With respect to Brexit, the Board continues to monitor the situation but, as disclosed in the Annual Report, does not consider Brexit, in itself, to constitute a significant risk to the business. With respect to COVID-19, whilst the Board also continues to monitor the situation, it no longer feels that it in itself constitutes a significant risk to the business, and so it has been removed from the principal risks.

## 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 2024. 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 and 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 that could affect solvency or liquidity and are as follows:

- declining attractiveness of the Group's assets or extenuating economic circumstances impact investment values – valuation parameter stress tested to provide for a one-off 10% / £283 million fall in June 2022;
- 15% tenant default rate;
- rental growth assumptions amended to see nil uplifts on open market reviews;
- variable rate interest rates rise by an immediate 2% effective from 1 January 2022; and
- tightly controlled NHS scheme approval restricts investment opportunity – investment quantum flexed to remove non-committed transactions.

We have assessed the impact of these assumptions on the Group's key financial metrics over the assessment period including profitability, net debt, loan to value ratios and available financial headroom which are as follows:

Key metrics 31 December 2024	31 December 2021	Viability scenario
Loan to value ratio	42.9%	49.2%
Net debt	£1,200m	£1,343m
Adjusted net assets	£1,556m	£1,337m
Available financial headroom*	£321m	£203m

\*The above analysis takes into account the two debt facilities completed immediately post year end.

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, in addition to the specific impact of new debt facilities, 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

Chief Executive Officer  
15 February 2022



"Based on the results of their assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2024."



# MAINTAINING A HIGH LEVEL OF CORPORATE GOVERNANCE



"The Board plays a vital role in the way we do business."

**Steven Owen**

Independent Non-executive Chairman

## DEAR SHAREHOLDER

### Introduction

I am pleased to report to shareholders on how our governance has developed in the first year following the acquisition of Nexus Tradeco Holdings Limited on 5 January 2021. This transaction has internalised the management functions of the Group and ended a period, since the Company listed on AIM in 1996, during which the Company has been externally managed.

### Implementing the 2018 Code (the "Code")

In the Corporate Governance Report over the next few pages we describe how the Board and its Committees worked on behalf of shareholders and other stakeholders, driving the culture necessary for PHP to achieve its strategic goals, and how we discharged our statutory duties and oversight functions. I hope this section of the report will help you gain a better understanding of the effectiveness of our Board and how we apply the main principles of the July 2018 UK Corporate Governance Code (the "Code"), issued by the Financial Reporting Council ("FRC").

In accordance with the Listing Rules, I am very pleased to confirm that throughout the year ended 31 December 2021, the Company was compliant with all the relevant provisions as set out in the Code.

Operationally, the principal change for our governance focus has been that the Board now has a more direct responsibility for reward and retention of our senior employees and consideration for our workforce, who previously were all employees of Nexus. This has resulted in an expanded role for the Remuneration Committee and the report of the Committee on pages 81 to 85 explains in more detail the work that they have undertaken in the year under the chairmanship of Peter Cole. We also appointed Laure Duhot as the Designated Non-executive Director to act as the point of contact between the Board and the wider employee base to ensure that we are able to engage with the workforce and to incorporate any concerns or feedback they provide into our discussions at the Board. You can read more on their interactions on pages 41 and 68 to 69.

Your Board remains committed to leading by example and upholding the highest standards of governance that we have set in the past. The Board provides leadership and direction to the business, establishes and fosters the culture, values and ethics, and independently oversees the execution of strategy within an acceptable risk management and internal control framework.

### Culture

We recognise that, as guardian of our culture, the Board plays a vital role in defining the way in which we do business and sets the tone for the Company. Its attitude and mindset to do what is right shapes the environment within which the executive team works and the way it behaves towards its stakeholders. It is my role to provide leadership to ensure the operation of an effective Board, based on a culture of openness and mutual respect. Such a culture allows the Board to provide constructive scrutiny of proposed investments and help develop proposals on strategy. The Board understands the importance of its role in setting the tone for the culture of PHP and the importance of boardroom diversity as providing a wide range of perspectives to avoid a narrow approach in thinking.

Our strong culture supports our strategic priority of partnering with the NHS in the UK and the HSE in Ireland in the modernisation of the primary care estate and promotes employee engagement, retention and productivity. We are genuine and passionate about what we do, working collaboratively and using our expertise to find high quality solutions for our occupiers and improve the experience of the people who use our buildings.

### Stakeholders and sustainability

As stewards of the Company, we are responsible to our shareholders, customers, employees and other stakeholders for its long term success.



### Stakeholders and sustainability continued

The Board is very conscious that our business model touches on a number of stakeholders, and engagement with them remains an important priority for PHP. Our stakeholders' views are a key consideration when making decisions which may affect them.

Our ESG Committee continued to drive forward our environmental, social and governance agenda. In addition to setting challenging but realistic environmental goals for the business, the ESG Committee oversaw the launch of the Community Impact Fund, which has distributed funds to a wide range of charitable activities linked to the patients and communities of our tenant GP practices in Scotland and Lincolnshire on a pilot basis. The fund forms part of the Group's "Premises, Health and People" strategy which has formalised its dedication to Responsible Business and we hope to grow this initiative following its successful launch over the coming years. We provide further details on our initiatives to engage with all our stakeholders on pages 68 to 70 and how we discharge our duties under Section 172 of the Companies Act 2006 on page 48.

### COVID-19

The first part of the year continued to be impacted by the coronavirus pandemic, which placed huge demands on the primary care sector and I am pleased that a number of our buildings were able to host vaccination centres during the successful roll-out of the immunisation programme in the year. The pandemic also affected the work of the Board, whose meetings until July had to all be held by video-conference. Also affected were our employees, who continued to have to work remotely for part of the year while continuing to ensure that maintenance issues did not affect the ability of our buildings to deliver vital healthcare services in the pandemic.

Although both the Board and staff showed considerable resilience and adaptability in making remote ways of meeting work effectively, it was, nevertheless, better to be able to resume face-to-face meetings during most of the second half of the year and to allow the Board to engage fully with employees who present Board papers and to accompany them on the site visit we undertook on our strategy day in October.

### Diversity

The Board is committed to having a balanced Board, recognising the benefits of diversity in its broadest sense. We have in place policies to ensure that the Group is free from discrimination and rewards and promotes staff on the basis of merit and we are a member of Real Estate Balance, which works to improve diversity and inclusion in the real estate industry.

I have previously stated the Board's support for the targets of the Hampton-Alexander Review and the Parker Review for gender and ethnic diversity, and committed in my letter to shareholders at the time of the 2021 Annual General Meeting to ensuring that this was delivered. I am therefore pleased to be able to write that, following the appointment of Ivonne Cantú, our Board now meets the recommendation of the Parker Review on ethnic diversity and that, following the Annual General Meeting, women will represent one-third of the Board.

The priority of the Board is to ensure that the Group continues to have the most effective Board possible and all appointments

to the Board are made on merit against objective criteria. We will continue to work to promote diversity, in all its forms, including gender, ethnicity and religion. More information on diversity is given in the Nomination Committee Report on pages 79 and 80.

### Evaluation

The annual Board evaluation process is an important part of our governance process as it provides an opportunity for reflection on aspects of the Board's work that went well and considers areas for further improvement.

This year, Gould Consulting, which has no other involvement with the Company or Board members, carried out an external evaluation in line with the recommendations of the Code. I am pleased that the feedback confirms my view that the Board works effectively, is of an appropriate size and possesses an excellent balance of skills and experience to challenge, motivate and support the business. Details of the evaluation and the main findings of the process are set out on page 72.

### AGM

We will be holding our Annual General Meeting on 27 April 2022. It is hoped that this year it will be possible to hold a physical meeting at which shareholders can attend in person, but following the adoption of new Articles of Association we have more flexibility in how we hold meetings, should this be required. The Board will keep the format of the meeting under review and we will be communicating with shareholders if circumstances alter. In whatever form the meeting takes, I hope that as many as possible of our shareholders are able to attend.

I am pleased to report that following an evaluation of the performance of the Directors and their other commitments, each of the Directors standing for re-election at the Annual General Meeting on 27 April 2022 have been recommended by the Board for re-election. As stated when we announced the appointment of Ivonne Cantú to the Board, Peter Cole will not stand for re-election at the Annual General Meeting. The Board has benefited from his significant experience in corporate, development and investment activities, and we are also grateful for his chairing of the Remuneration Committee during the process of internalising the management in 2020 and the transition period in 2021.

### Looking ahead

With the successful completion of the internalisation of our management team we have secured the continuity of a well-regarded and experienced team, led by Harry Hyman and Richard Howell, to run the day-to-day management of the business. Competition is intensifying, the demands of our stakeholders are increasing and the need to transition to a low carbon economy is becoming more urgent. With a focused and experienced Board, an energetic senior management team and an enthusiastic workforce I am satisfied that our governance structures remain effective to drive forward the development of our business and delivery of our successful strategy.

### Steven Owen

Chairman  
15 February 2022

# A PROVEN LEADERSHIP

The Board provides leadership and direction to the business as a whole, having due regard to the views and interests of its stakeholders and the environment within which it operates.



**1 Steven Owen**  
Independent Non-executive Chairman

**Election to the Board**

Steven Owen was elected at the Company's Annual General Meeting in 2014 having been appointed to the Board in January 2014, and following his election to the Board he took up the position as Chairman of the Audit Committee and Senior Independent Director. Steven was appointed Chairman in April 2018 and also took over as Chairman of the Nomination Committee.

**Career**

Steven embarked on his career with KPMG before moving into property with Brixton plc where he became Finance Director and subsequently Deputy Chief Executive. He is currently the Independent Non-executive Chairman of Palace Capital plc, a UK REIT that owns and manages a diversified portfolio of UK regional commercial property, and was CEO and Founding Partner of Wye Valley Partners LLP, a commercial real estate asset management business.

**Skills, competence and experience**

Steven combines his financial skills as a Chartered Accountant with extensive experience of investment and development in commercial property in a listed company environment, having spent 24 years at Brixton plc, then a listed FTSE 250 company. Steven is also a Fellow of the Association of Corporate Treasurers.

**Other listed directorships**

Non-executive Chairman of Palace Capital plc.

**Independent Non-executive**

Yes



**2 Harry Hyman**  
Chief Executive Officer

**Election to the Board**

Harry Hyman founded the Company in 1996 and has served on the Board as Managing Director from that time and represented the former Adviser to the Company, Nexus Tradeco Limited ("Nexus"), on the Board. On completion of the internalisation on 5 January 2021, Harry Hyman was appointed as Chief Executive Officer.

**Career**

Harry graduated from Cambridge University and trained as a Chartered Accountant and Corporate Treasurer. He established the Company in 1996 and was the Managing Director of Nexus Tradeco Limited, which until 5 January 2021 was the Adviser to PHP.

He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Association of Corporate Treasurers and a Fellow of the Royal Institute of Chartered Surveyors.

**Skills, competence and experience**

Harry has extensive experience in investing in the primary healthcare sector, having developed the Company's business from inception over 20 years ago to its current position with an investment portfolio of over £2.6 billion. He also brings entrepreneurial flair to the Board having established a number of successful private companies.

**Other listed directorships**

Non-executive Chairman of Biopharma Credit Plc, an investment trust which invests in the fast-growing science industry, and of TMT Acquisition PLC, an acquisition shell company, both of which are listed on the London Stock Exchange.

**Independent Non-executive**

Not applicable



**3 Richard Howell**  
Chief Financial Officer

**Election to the Board**

Richard Howell was appointed to the Board from 31 March 2017, having joined Nexus on 13 March 2017, and following completion of the internalisation of the advisory and management functions previously carried out by Nexus, he was appointed Chief Financial Officer.

**Career**

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

**Skills, competence and experience**

Richard has extensive finance experience, having previously held senior accounting positions within listed property companies operating across the UK. Whilst working for LondonMetric Property plc and Brixton plc, he has been involved in over £5 billion of property transactions.

**Other listed directorships**

None.

**Independent Non-executive**

Not applicable



**4 Peter Cole**  
Independent Non-executive Director

**Election to the Board**

Peter Cole was appointed to the Board on 1 May 2018 and is Chairman of the Remuneration Committee.

**Career**

Peter is a Chartered Surveyor and was the Chief Investment Officer of Hammerson PLC, the FTSE-listed owner, manager and developer of real estate in the UK, Ireland and Continental Europe, until his retirement in May 2019. He held overall responsibility for developments, acquisitions and joint ventures. He was a main Board Director of Hammerson from October 1999 to 31 December 2018, and has subsequently been appointed as a Director of Hermes CMK General Partner and LabTech International.

**Skills, competence and experience**

Peter has considerable experience of property investment and a deep understanding of the real estate market and investor sentiment. He brings to the Board a combination of skills in property investment and development in the UK and Europe and an understanding of the regulatory environment and governance for listed companies in the UK.

**Other listed directorships**

None.

**Independent Non-executive**

Yes



**5 Laure Duhot**  
Non-executive Director  
**Election to the Board**

Laure Duhot was appointed to the Board from 14 March 2019 following completion of the merger with MedicX Fund Limited. She is Chair of the recently formed ESG Committee.

**Career**

Laure started her career in the investment banking sector and has developed a focus on the property sector. She has held senior roles at Lehman Brothers, Macquarie Capital Partners, Sunrise Senior Living Inc., Grainger plc and Lendlease. She is a Non-executive Director of Safestore Holdings plc and was also a Non-executive Director of InLand Homes plc until July 2020.

**Skills, competence and experience**

Laure brings over 30 years of senior executive level experience in the investment banking and property sectors, specialising in alternative real estate assets, and has been a Non-executive Director at a number of funds and property companies.

**Other listed directorships**

Non-executive Director of Safestore Holdings plc and NB Global Monthly Income Fund Limited.

**Independent Non-executive**

Yes



**6 Ian Krieger**  
Senior Independent Non-executive Director  
**Election to the Board**

Ian Krieger was elected a Director at the 2018 Annual General Meeting, having been appointed to the Board in February 2018, and is Chairman of the Audit Committee.

**Career**

Ian is a Chartered Accountant and was a Partner and Vice-Chair at Deloitte until his retirement in 2012. He is currently Senior Independent Non-executive Director and Chairman of the audit committee at Safestore Holdings plc and he is Senior Independent Non-executive Director at Capital & Regional plc, where he is also the Chairman of the audit committee.

**Skills, competence and experience**

Ian qualified as and practised as a Chartered Accountant and brings a wealth of recent financial experience to the Board as well as his experience as Chairman of the audit committees of two other UK-listed companies in the property sector.

**Other listed directorships**

Safestore Holdings plc and Capital & Regional plc.

**Independent Non-executive**

Yes



**7 Ivonne Cantú**  
Independent Non-executive Director  
**Election to the Board**

Ivonne was appointed to the Board from 1 January 2022.

**Career**

Ivonne has significant public company experience having spent over 20 years advising listed businesses. She is currently the Director of Investor Relations, Communications and Sustainability as well as a member of the executive management team and the sustainability committee of Benchmark Holdings Limited, a biotechnology aquaculture company. She is also a Non-executive Director and Chair of the remuneration committee at Creo Medical Group plc and a Trustee of two non-profit charitable organisations, La Vida and Info Latinos and TEH Advisory Board.

**Skills, competence and experience**

Prior to taking up her position at Benchmark Holdings Limited, Ivonne spent 13 years as a Senior Corporate Finance Adviser at Cenkos Securities plc, and prior to that seven years as an Investment Banker at Merrill Lynch. She has a degree in Engineering from the Universidad Panamericana in Mexico City and an MBA from the Wharton School of Business at the University of Pennsylvania.

**Other listed directorships**

Creo Medical Group plc.

**Independent Non-executive**

Yes

**Key to Committee membership**

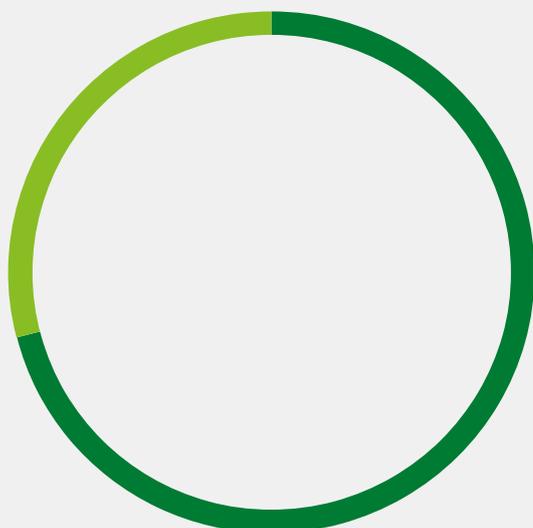
- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- E** ESG Committee
- S** Standing Committee
- Indicates Chair of Committee

## BALANCE OF THE BOARD



- 1 Chairman
- 2 Executive
- 4 Non-executive

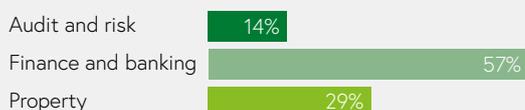
## GENDER



- 5 Male
- 2 Female

## COMPOSITION OF THE BOARD

### Board skills and experience



## BOARD ACTIVITIES DURING THE YEAR

### January

In January a duly constituted committee consisting of Non-executive Directors approved the execution of the share purchase agreement and other documentation agreed to be entered into on completion of the acquisition of Nexus and the formal appointment of Harry Hyman as Chief Executive Officer, Richard Howell as Chief Financial Officer and Paul Wright as Company Secretary.

### May

The Board considered the potential impact of the COVID-19 pandemic on the delivery of primary care and face-to-face patient consultations and the consequent impact on the Group's strategy in general as well as the effect of the pandemic on employee matters. In particular, the Board considered the results of a staff survey on returning to work in the Company's offices and took the decision to approve the adoption of a hybrid working pattern as restrictions on returning to office working were relaxed.

### October

The annual strategy meeting was held, followed by the regular Board meeting, to approve the 2022 Budget and the refinancing of certain term loans from Aviva and a new revolving credit facility from NatWest to reduce the overall cost of debt for the Group to below 3.0%. Following presentations by the management team at the strategy meeting, it was agreed in principle to undertake a small-scale diversification of the portfolio by limited investment into high quality health related adjacencies, such as diagnostics facilities, or mental health rehabilitation centres, where the tenant covenant was considered to be strong.

### February

The Board reviewed the year-end property valuations and preliminary announcement of results and agreed to establish a Community Impact Fund to support health related activities in the locality of PHP's properties. The Board approved the 2020 Annual Report and concluded it was fair, reasonable and balanced. The meeting also agreed that the most appropriate approach for workforce engagement would be to appoint a Non-executive Director to gather the views of the workforce so that these views can be taken into consideration in Board discussions and decision making. It was also agreed to propose the adoption of a long term incentive plan and an all-employee share incentive plan to enhance employee engagement through the grant of options to acquire new Ordinary Shares in PHP. This proposal was approved by shareholders at the AGM in 2021 and the opportunity to participate in the all-employee share incentive taken up by over half the eligible workforce, which was a very pleasing result.

### July

The meeting considered the results of the interim valuation and approved the interim results. The Board agreed to investigate opportunities for diversification of the portfolio into adjacent health related areas and asked for the management team to undertake a detailed review of the opportunities. The Board approved the heads of terms for a new office at Burdett House, 15-16 Buckingham Street, London WC2 to provide modern, flexible accommodation for staff based in London suitable for hybrid working.

### December

The meeting undertook a top-down consideration of the principal risks facing the business, including environmental risks identified through the work of the ESG Committee. Following completion of the annual Board evaluation assessment the meeting agreed enhancements of the Board's procedures due to recommendations from the Nomination Committee.



## EXECUTIVE TEAM AT PHP

### Executive and senior leadership teams

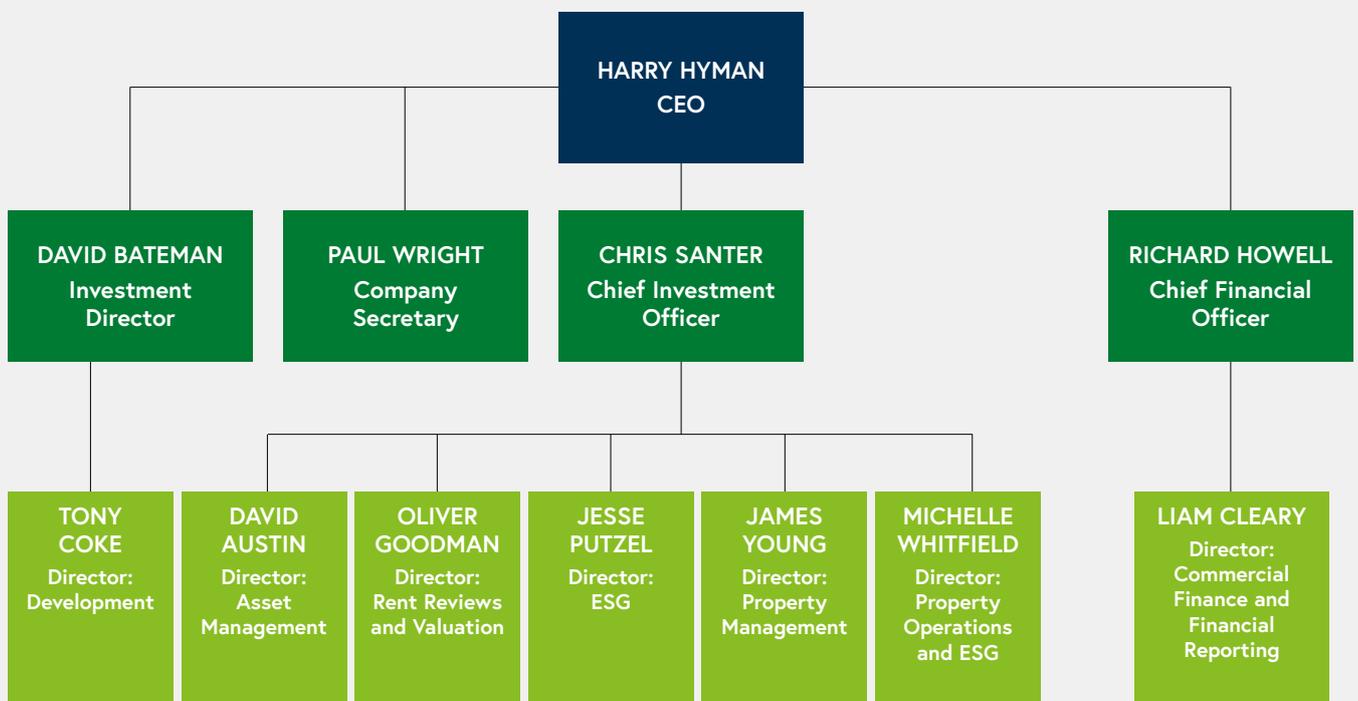
Set out below is a chart showing the structure of the Executive and senior leadership teams which managed the day-to-day operations of the business, during the year. Further details of the team are set out on pages 64 and 65.

The Executive team operates under the direction and leadership of the Chief Executive to deliver the approved strategic objectives and manage the day-to-day running of the business. The senior leadership team comprises departmental heads from all key business functions with a diverse range of skills and experience and this team has been strengthened from the start of 2022 by the recruitment of a Director dedicated to driving forward PHP's ESG agenda.

The Executive team meets weekly, which during the disruption caused by the COVID-19 pandemic was on a remote basis in the first half of the year.

When the lockdown restrictions were lifted in the summer, the offices in London and Stratford-upon-Avon were opened following the completion of a risk assessment and the introduction of revised working patterns to allow for social distancing, which allowed teams from each department to work for a limited number of days each week in the office.

Despite the disruption to operations caused by the pandemic in the first half of the year, the team continued to operate effectively while working from home for all or part of each week.



# SENIOR LEADERSHIP TEAM

## EXECUTIVE COMMITTEE

The team are listed opposite, along with the dates they joined the business.



**HARRY HYMAN**  
Chief Executive Officer  
Full biography on page 60.



**RICHARD HOWELL**  
Chief Financial Officer  
Full biography on page 60.



**CHRIS SANTER**  
Chief Investment Officer

Chris joined the business in October 2017 from PGIM Real Estate, the asset management arm of Prudential Financial Inc, and he has over 20 years' real estate investment and development experience in the UK and Continental Europe.

Chris has been responsible for a number of funds investing in or managing real estate assets with a value of over £2 billion. Chris has an MBA from Warwick Business School and is a Member of the Royal Institute of Chartered Surveyors.



**DAVID BATEMAN**  
Investment Director  
David was appointed Investment Director in December 2016 and subsequently promoted to the Executive team in 2021. David is responsible for managing the investment team with significant input across investor presentations, strategy and development. Over the last 20 years David has worked across all property sectors but with an increasing focus on operational-led property and with substantial expertise in sale and leaseback, development-led transactions and investments.



**PAUL WRIGHT**  
Company Secretary  
Paul joined the business in September 2016 and provided company secretary and Group legal services through Nexus, until completion of the internalisation when he was appointed as Company Secretary. Paul is a solicitor with over 30 years' experience gained in private practice and in house. Paul has previously been Company Secretary & General Counsel at Taylor Nelson Sofres PLC (now part of WPP PLC), Playtech PLC and Cambian Group PLC.



## SENIOR MANAGEMENT



### DAVID AUSTIN

**Director: Asset Management**

David has worked in the PHP business since August 2016 and was appointed to head up the asset management team in 2019 following the merger with the MedicX Fund. David is a Chartered Surveyor with over 20 years' post qualified experience with Jones Lang LaSalle, Axa, LandSec and MWB.



### TONY COKE

**Director: Development**

Tony is a Chartered Surveyor with 15 years' experience in primary care development. Tony's teams have delivered some 30 new premises across the South of the UK, with a particular focus on the South East and Greater London. Tony is conversant with all aspects of primary care premises development from the initial project brief right through to achieving practical completion on the premises.



### OLIVER GOODMAN

**Director: Rent Reviews and Valuation**

Oliver joined following the merger with the MedicX Fund in 2019, and heads up the team responsible across the portfolio for negotiating and securing rent reviews, both when provided for under the terms of the lease and on asset management projects when the lease is re-gearred. Oliver is a Chartered Surveyor and he has an in-depth understanding of the process of agreeing rent reviews with District Valuers in accordance with the detailed regulations that govern the reimbursement of rents on GP surgeries.



### MICHELLE WHITFIELD

**Director: Operations and Sustainability**

Michelle joined the business in February 2014 following the acquisition of the Prime portfolio. She has previously worked in national property and asset management for NFU Mutual Insurance Society Ltd and Halfords. She moved to specialist healthcare developer and investor Prime PLC in 1999, managing its portfolio of primary care centres. Michelle is based in the Stratford-upon-Avon office and oversees the delivery of the Group's training programme and manages the relationship with the UK Community Foundations to offer grants to charities and community groups that are focused on social prescribing and community wellbeing projects.



### LIAM CLEARY

**Director: Commercial Finance and Financial Reporting**

Liam joined following the merger with the MedicX Fund in 2019, and is now responsible for commercial finance and financial reporting. Liam is a Chartered Accountant who has over twelve years' experience working in private and public companies. Before working on the MedicX Fund he worked at both PwC and Deloitte Touche Tohmatsu in the UK and Australia on capital market and merger & acquisition transactions.



### JAMES YOUNG

**Director: Property Management**

James joined PHP from the MedicX Fund in 2019, where he was Head of Asset and Property Management. Following the merger, James was appointed to be responsible for property and facilities management across the enlarged portfolio in the UK. James manages a team of surveyors, who are primarily based in the Stratford-upon-Avon office. James is a Chartered Surveyor with some 20 years' experience having worked as a Property and Asset Manager for the likes of CBRE, GVA Grimley and Herring Baker Harris.



### JESSE PUTZEL

**Director: ESG**

Jesse joined PHP in January 2022 and has over 18 years' experience in environment and sustainability field within public and private sector. Prior to joining PHP, Jesse was Head of Sustainability at BAM, a large European construction and property services enterprise. At BAM, Jesse spearheaded industry leading initiatives, helping the group to become one of the leading sustainable construction and property services businesses in Europe and has worked with leading clients to help deliver some of the most sustainable buildings in the UK. Jesse is a member of the Institute for Environmental Management and Assessment, Fellow of Royal Society of Arts and Cambridge Sustainable Finance course assessor.

## OUR GOVERNANCE STRUCTURE

### Board of Directors

Chairman: Steven Owen

- Collectively responsible for the long term success of the business taking into account the views of shareholders and other stakeholders. It sets the Group's strategic aims, ensuring that the necessary resources are available for the Group to meet its objectives, and oversees the execution of the strategy within an acceptable risk management framework. The Board also established and fosters the Group's values and standards
- Biographies – see pages 60 and 61
- Activities – see page 62

### Audit Committee

Chairman: Ian Krieger

- Oversees the quality of financial and narrative reporting
- Scrutinises significant judgements made by management
- Reviews the robustness of internal controls, risk management and audit processes
- Evaluates the performance of the external auditor
- Obtains assurance regarding the objectivity of the valuers

Membership: Ian Krieger, Peter Cole, Ivonne Cantú and Laure Duhot

### Remuneration Committee

Chairman: Peter Cole

- Determines and implements Remuneration Policy
- Sets remuneration packages and incentives for the Executive Directors and senior management team
- Approves annual bonus and LTIP targets and outcomes for the senior management team
- Oversees the operation of the PHP Sharesave plan and approves the grant of options under the plan
- Has oversight of workforce remuneration arrangements and alignment of these with the Group's strategy

Membership: Peter Cole, Steven Owen, Ivonne Cantú, Laure Duhot and Ian Krieger

### Nomination Committee

Chairman: Steven Owen

- Leads process for Board appointments
- Considers Board composition and succession
- Reviews balance of skills and diversity on the Board
- Oversees the annual Board evaluation process

Membership: Steven Owen, Ian Krieger, Peter Cole, Ivonne Cantú and Laure Duhot

### ESG Committee

Chair: Laure Duhot

- Assists in the development of ESG strategy
- Develops and monitors policies on ESG matters
- Develops and monitors social impact initiatives
- Considers opportunities for environmental initiatives in the portfolio

Membership: Laure Duhot, Peter Cole, Ivonne Cantú, Steven Owen, Ian Krieger, Harry Hyman, Richard Howell and Chris Santer

### Standing Committee

Chairman: Steven Owen

- Approves dividend announcements, the offering of a scrip alternative and the allotment and issue of new shares in connection with the scrip alternative
- Approves other formal matters that require the approval of the Board or a duly authorised committee between scheduled meetings of the Board

Membership: Steven Owen, Ian Krieger, Richard Howell and Harry Hyman

## OTHER NON-BOARD COMMITTEES

### PHP Risk Committee\*

Chairman: Richard Howell

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

Membership: Richard Howell, Ian Krieger, Harry Hyman, Chris Santer, Paul Wright, Liam Cleary and James Young

### Executive Committee\*

Chairman: Harry Hyman

- Reviews investment opportunities for consideration by the Board and approves any investment decision of less than £5 million
- Reviews operational performance of the business and approves proposals for asset management projects involving capital expenditure of less than £2 million
- Undertakes day-to-day management of the PHP portfolio
- Reports to the Board at each meeting through formally reporting from the CEO, CFO and CIO

Membership: Harry Hyman, Richard Howell, Chris Santer, David Bateman and Paul Wright

\* These PHP Committees were newly established post internalisation of management.



## HOW GOVERNANCE SUPPORTS OUR STRATEGY

Board's governance role	Board decisions and actions in the year	Links
<b>Setting strategy</b>	<p>The annual strategy discussion was held in October led by the Executive Directors and involving all the members of the senior leadership team. There was debate as to whether any changes to strategy were required in light of changes in the market and emerging risks. In particular, potential diversification of the portfolio by investment into other health related markets was discussed and the risks and opportunities afforded by this proposed strategy was debated in detail.</p> <p>The debate also covered the Group's financial strategy, including the appropriate balance between secured and unsecured debt financing and the optimum level of gearing for the Group. The session also discussed the outlook for the property and healthcare markets, the UK economic landscape, in particular the potential impact of rising levels of inflation and supply chain issues.</p>	Page 71
<b>Investment decisions</b>	<p>The Board reviewed and tested management's assumptions supporting investment in the development of four projects in the UK with a gross development value of over £20 million. Further, in line with the Board's delegated authority matrix, all decisions for acquisitions of over £5 million were subjected to similar scrutiny by the Board before approval was given to proceed.</p> <p>After detailed consideration of management's investment appraisals, the Board agreed capital expenditure totalling £15.0 million on over 39 asset management projects in the year, to enhance the capital value of the existing portfolio.</p>	Pages 19 and 21
<b>Financial performance</b>	<p>After scrutiny by the Audit Committee, and following its recommendation, the annual and interim financial statements and results presentations were considered and approved.</p> <p>The Board undertook an in-depth scrutiny of the annual and interim property valuations, with, at the request of the Board, the valuers attending the relevant Board meetings.</p> <p>The internal control framework and risk register were reviewed with specific consideration given to COVID-19, IT and cyber security issues and environmental risks.</p> <p>Following the strategy session in October, at a subsequent meeting the Board considered the three-year rolling financial forecasts in the light of the Company's strategic objectives. The Board undertook a review of the assumptions underlying the going concern and viability statements for the Group and adopted these statements following discussion with the CFO.</p>	Pages 75 to 77
<b>Income and dividend progression</b>	<p>The Group's dividend policy for the year and the level of quarterly interim dividends was considered and, following a review of the Group's forecast income from existing properties, acquisitions and rent reviews, was considered an appropriate return to shareholders in the light of longer term requirements of the business.</p>	Page 100
<b>Capital allocation</b>	<p>In order to retire some existing term loans from Aviva Investors, the Board approved a new £200 million facility for a 15-year term at a fixed rate of 2.52% and the renewal of its existing £100 million facility with NatWest, with the inclusion of sustainability KPIs based around PHP's existing built environment targets which will benefit the Group with a margin reduction, conditional on achieving these targets.</p>	Pages 26 and 27
<b>Stakeholder engagement</b>	<p>Feedback was discussed following shareholder meetings, roadshows and results presentations.</p> <p>The Board commissioned management to undertake a tenant survey and the results were considered and proposals for continued improvement of our property management activity in the light of the results approved.</p> <p>We continued to ensure that our suppliers received prompt payments for their services and further information is available on page 102.</p>	Pages 40 to 45
<b>Workforce engagement</b>	<p>The Board determined to understand the views of the workforce by asking Laure Duhot to act as the Designated NED for workforce engagement. Details of how she has engaged with the workforce and the Board have reflected on the results of her engagement to date are set out on pages 41 to 42 and 68 to 69.</p>	Pages 41 and 68
<b>ESG</b>	<p>The Board approved ESG targets proposed by the ESG Committee to drive forward our sustainability initiatives, details of which are set out in the Responsible Business section on pages 30 to 45, and decided to launch the PHP Community Impact Fund as part of PHP's wider ESG initiatives.</p>	Pages 30 to 45

## PART A: BOARD LEADERSHIP AND COMPANY PURPOSE

### Purpose

The Board has determined that the Company's purpose is to improve the delivery of healthcare in the United Kingdom and Ireland. It seeks to achieve this purpose by being a leading investor in flexible, modern primary healthcare facilities in those countries.

The Board has well-developed investment criteria to ensure we invest in or develop modern, purpose-built health centres that serve as key healthcare assets in the local community, where they deliver a wide range of primary care and other services to the local population. Our buildings now serve a total patient list of over 6 million people. We also continually invest in our estate through asset management projects designed to improve the quality of the buildings better to serve the evolving and expanding health needs of our communities by:

- increasing the number of consulting rooms;
- providing facilities for delivering wider healthcare services, and
- making the buildings more energy efficient.

The Board believes that by rigorous focus on its purpose the Group has grown a portfolio of properties that offers long term and sustainable sources of rental income to underpin the over 25 years of continued dividend growth that we have delivered to shareholders.

### Leadership

The Board, supported by an expert management team, continues to maximise the competitive advantage of the Company by utilising the team's deep knowledge of the primary care sector to create sustainable value for shareholders.

Your Board is collectively responsible for assessing the basis on which the Company generates and delivers long term, sustainable returns to shareholders, having due regard to its purpose, and the views and interests of its stakeholders and of the communities within which it operates.

### Culture and values

The Board establishes the culture, values and ethics of the organisation, sets and implements strategy and provides leadership and direction within a sound framework of risk management and internal control.

The Board considers that the Company's culture can be defined by the following principles:

- we aim to make a positive impact in all our activities for our stakeholders;
- we conduct our operations with honesty, integrity and respect for the many people, organisations and localities that our business interacts with;
- we believe that a working environment characterised by openness, respect, trust and fairness is an indispensable requirement for excellent work results;
- we encourage our employees to assume responsibility and to make decisions on their own within a trusted framework;
- we are close to our customers and/or tenants; we listen to them, co-operate and work together with them; and

- the organisation is a meritocracy irrespective of gender, race, religion and sexual orientation.

The Board continues to monitor the culture of the Company through indicators which serve as a temperature check. It considers:

- staff survey results, particularly to monitor staff wellbeing during periods of lockdown;
- the results of workforce engagement meetings with Laure Duhot;
- feedback from office visits by the Board as a whole;
- data on employee turnover;
- health and safety incident statistics; and
- whistleblowing incidents.

The maintenance of the culture of the business was one of the main challenges faced through periods when we were all encouraged to work from home as much as possible. During the year, the senior management team continued the practice of holding regular "town hall" meetings and the more informal after work sessions with all staff by video-conference that had begun during the lockdown in 2020, to ensure that the PHP ethos was not diluted through lack of interaction.

We believe that the feedback from these meetings, together with the results of the workforce engagement sessions and the results of the staff survey, indicate that our culture remains strong and was not materially affected by the disruption of the pandemic.

### Stakeholders

Stakeholder engagement is integral to delivering modern, state-of-the-art medical centres. In working on the development of new facilities, or in planning asset management projects, we engage deeply with the NHS in the UK and the HSE in Ireland, as well as with local GPs and other healthcare professionals.

Opportunities for the Directors to engage with our tenants were limited in the year, but as part of the Board strategy day, the Directors were able to visit the recently opened Eastbourne Medical Centre, that houses three merged GP practices delivering primary care services for a patient list of over 18,000. The learnings from the visit in terms of the evolving needs of our stakeholders is more fully described on page 71.

Engagement with our tenants is particularly important and the results of the tenant survey conducted at the end of 2020 were reviewed by the Board and the structure of the survey conducted in November 2021 approved. The survey is one of the key mechanisms that ensure effective stakeholder engagement shapes decisions in the boardroom. Further information on stakeholder engagement can be found on page 41.

Our staff are a key stakeholder group and following completion of the internalisation, in common with many listed companies, we appointed Laure Duhot as the designated Non-executive Director for workforce engagement. Her remit covers all individuals working for PHP, whether they are engaged under contracts of employment or otherwise.

In this capacity, she has held a number of informal discussion sessions with groups of employees in the latter part of the year, when COVID-19 restrictions permitted.

**Stakeholders** continued

She reported to the Board that these sessions highlighted the importance of the virtual bi-weekly workforce meetings that have been held in the year in continuing to strengthen links between our various teams.

She also reported that she had found a culture of openness and that overall morale was strong and that the improved Company-wide training programme introduced in the year was valued, both in improving skills and in drawing members of various teams together. Comments were made with regard to the level of benefits available to staff, which reinforced the decision of the Board, on the recommendation of the Remuneration Committee, to approve the uplift in the Group's benefit package referred to on page 85.

**Shareholders**

Regular communication with investors continues to be a top priority for the Board, which believes that understanding the views of shareholders is an important contributor to the Company's strategic direction and success. We held meetings with nearly 200 investors during the year. In addition, Peter Cole, as Chairman of the Remuneration Committee sought the views of major shareholders on the new Directors' remuneration policy ahead of the 2021 AGM.

PHP was unable to hold a physical Annual General Meeting once again in 2021, but as we had adopted new Articles of Association in January, we were able to host a hybrid meeting that allowed shareholders the chance of engagement through watching a live video-broadcast of the proceedings, an ability

to raise questions through a chat function and the opportunity to vote on the resolutions.

The Board works with its brokers, Numis and Peel Hunt, to ensure that an appropriate level of communication is facilitated through a series of investor relations activities around the issue of our full year and interim results. The feedback received by the brokers from these meetings is fed back to the Board for its review.

Harry Hyman, the CEO, and Richard Howell, the CFO, are the Company's principal representatives at meetings with investors and along with Chris Santer, the CIO, hold meetings throughout the year to communicate the Company's strategy and performance.

Topics discussed with shareholders include the development and implementation of strategy, financial and operational performance, ESG matters, the strength of the Company's income, the debt structure and the real estate market in general.

**Shareholder communications**

Shareholders are kept informed of the Company's progress through results statements and other announcements released through the London Stock Exchange. Company announcements are made available on the website affording all shareholders full access to material information. The website is an important source of information for shareholders and includes a comprehensive investor relations section containing all RNS announcements, share price information, investor presentations, half year results and Annual Reports available for downloading.

Role	Responsibilities
<b>Chairman</b> Steven Owen	<ul style="list-style-type: none"> <li>Leads the Board and ensures it runs effectively</li> <li>Sets Board culture to promote boardroom debate</li> <li>Regularly meets with the CEO to stay informed</li> <li>Monitors progress against strategy and performance</li> <li>Ensures all stakeholders' views are considered</li> </ul>
<b>Senior Independent Director</b> Ian Krieger	<ul style="list-style-type: none"> <li>Provides a sounding board for the Chairman</li> <li>Leads performance evaluation of the Chairman</li> <li>Is available to respond to shareholders' concerns when contact through the normal channels is not appropriate</li> </ul>
<b>Non-executive Directors</b> Peter Cole Laure Duhot Ivonne Cantú	<ul style="list-style-type: none"> <li>Scrutinise and constructively challenge the performance of executive management</li> <li>Bring independent judgement to investment decisions brought to the Board and approve decisions reserved for the Board as a whole</li> <li>Contribute to developing strategy and monitor the delivery of the agreed strategy</li> <li>Contribute a broad range of skills and experience</li> </ul>
<b>Chief Executive Officer</b> Harry Hyman	<ul style="list-style-type: none"> <li>Manages the day-to-day running of the business</li> <li>Manages dialogue with investors, shareholders and key stakeholders and relays views back to the Board</li> <li>Helps develop and formulate strategy for the Board and is responsible for its implementation</li> </ul>
<b>Chief Financial Officer</b> Richard Howell	<ul style="list-style-type: none"> <li>Responsible for the preparation of accounts and integrity of financial reporting</li> <li>Implements decisions on financing and capital structure determined by the Board</li> <li>Responsible for day-to-day treasury management</li> <li>Ensures robust accounting systems and internal controls are implemented</li> </ul>
<b>Company Secretary</b> Paul Wright	<ul style="list-style-type: none"> <li>Advises the Board and is responsible to the Chairman on corporate governance matters</li> <li>Ensures good flow of information to the Board and its Committees</li> <li>Promotes compliance with statutory and regulatory requirements and Board procedures</li> </ul>

# CORPORATE GOVERNANCE REPORT CONTINUED

## PART A: BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

### Shareholder communications continued

A live and on-demand webcast of results and an interview with the CEO and CFO are posted twice a year. Individual shareholders can raise questions directly with the Company at any time through a facility on the website. Shareholders are encouraged to participate in the Annual General Meeting of the Company, which provides a forum for communication with both private and institutional shareholders alike. The whole Board attends and is available to answer shareholder questions. The Senior Independent Director is also available to respond to shareholder concerns when contact through the normal channels is not appropriate.

### Conflicts

The Board operates a policy to identify and, when appropriate, manage actual or potential conflicts of interest affecting Directors. Directors are required to submit any actual or potential conflicts of interest they may have with the Company to the Board for approval. The Company Secretary maintains the register of approved conflicts of interest through this process, which is tabled and considered at each Board meeting. Directors have a duty to keep the Board updated about any changes to these conflicts.

In certain circumstances the conflicted Directors may be required to absent themselves while such matters are being discussed. No such situations arose in the year.

The Board has delegated to the Nomination Committee the process of formally reviewing conflicts disclosed on an annual basis and the authorisations given (including such conditions as the Board may determine in each case) renewed periodically.

## PART B: DIVISION OF RESPONSIBILITIES

The roles of the Chairman (who is responsible for the leadership and effectiveness of the Board), the Chief Executive (who is responsible for the day-to-day operations of the business) and the Senior Independent Director (who is responsible for supporting the Chairman on all governance issues) have been agreed by the Board and are clearly defined and quite distinct from each other as described below.

Following completion of the internalisation, the Board agreed a revised schedule of matters formally reserved to it for its decision, such as strategic and major financial matters which include acquisitions and capital expenditures on asset management projects over an agreed value, dividend policy, equity raising, debt issuance and treasury management and key operational issues.

This governance structure set out on page 63 ensures that the Board is able to focus on strategic proposals, significant property acquisitions and major transactions and governance matters which affect the long term success of the business.

When running Board meetings, the Chairman maintains a collaborative atmosphere and ensures that all Directors have the opportunity to contribute to the debate. The Directors are able to voice their opinions in a calm and respectful environment, allowing coherent discussion. The Chairman meets with individual Directors outside formal Board meetings to allow for open, two-way discussion about the effectiveness of the Board, its Committees and its members. The Chairman is therefore able to remain mindful of the views of the individual Directors.

Harry Hyman as CEO is responsible for the day-to-day management of the Group and the CFO is responsible for the preparation of the financial statements and the provision of quarterly management account information.

### How the Board functions

Regular Board and Committee meetings are scheduled throughout the year with five scheduled meetings held in 2021, of which two were held remotely by video-conference due to restrictions on physical meetings imposed by the government in response to the COVID-19 pandemic. In addition, the Board met by video-conference between scheduled meetings to discuss significant investment opportunities and other matters that arose. There is also regular informal contact between the Executive and Non-executive Directors between scheduled Board meetings.

At the start of the year, and in the light of the internalisation, the Board reviewed its authorities matrix and the formal schedule of matters specifically reserved for its decision, which includes (amongst other things) various strategic, financial and operational responsibilities. As PHP is no longer externally managed, it was agreed to amend the schedule to reflect the new structure: in particular, it was agreed to delegate approval of acquisitions of medical centres with a capital value of below

### Board attendance

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

Director	Board (total in year – 5)	Audit Committee (total in year – 3)	Nomination Committee (total in year – 2)	ESG Committee (total in year – 4)	Remuneration Committee (total in year – 5)
Steven Owen	5	—	2	2*	5
Harry Hyman	5	—	—	4	—
Richard Howell	5	—	—	4	—
Peter Cole	5	3	2	4	5
Laure Duhot	5	3	2	4	5
Ian Krieger	5	3	2	2*	5

\* Steven Owen and Ian Krieger were appointed to the ESG Committee in June 2021.

During the year, the Chairman and the other Non-executives met periodically in the absence of the Executive Directors.



## PART B: DIVISION OF RESPONSIBILITIES CONTINUED

### How the Board functions continued

£5 million and of asset management projects involving a commitment of capital below £2 million, to the Executive Committee. A summary of the key activities of the Board during the year, in accordance with the formal schedule of reserved matters, can be found on page 62.

Care is taken to ensure that information is circulated in good time before Board and Committee meetings and that papers are presented clearly and with the appropriate level of detail to assist the Board in discharging its duties. The Company Secretary assists the Board and Committee Chairs in agreeing the agenda in sufficient time before the meeting to allow input from key stakeholders and senior executives.

Further, the members of the senior management team regularly attend meetings of the Board and have developed a strong understanding of the Board's approach and culture.

### Strategy meeting

The 2021 strategy meeting, which is held as a separate meeting outside the regular Board schedule and attended by all the Directors and the senior management team, was held in Eastbourne. The Board took the opportunity to visit the recently completed Eastbourne Medical Centre, which houses a progressive and dynamic GP practice created from the merger of three formerly distinct practices. The Board received presentations from and had detailed discussions with both the Medical Director and Practice Chief Executive who described how the new building enabled them to deliver their vision for improved primary care to the community. This visit provided the Board with a valuable insight into the challenges facing GPs, particularly following the pandemic, and how innovative and entrepreneurial practices have responded to these. The meeting reinforced the Board's view that the Group's strategy of focusing on hub primary care centres, with a large lot size, flexible floor plans and the ability to offer a variety of healthcare services, is the correct response to the evolving requirements for the delivery of primary care in the United Kingdom and Ireland.

In preparation for the strategy meeting the Board received a background reading pack that included a review of the primary care property market, noting the increased investor interest in the sector, with several new investors entering into the sector chasing the available opportunities. Papers considered the opportunities in related healthcare sectors and markets to diversify the portfolio and for the financing of the Group's capital needs. In particular, the papers included a presentation on the organic expansion of the Group's development capabilities and the further development of the Group's ESG activities and ambitions. The meetings themselves and the dinner that followed gave the Non-executive Directors an opportunity to meet with and discuss issues with the wider senior management team.

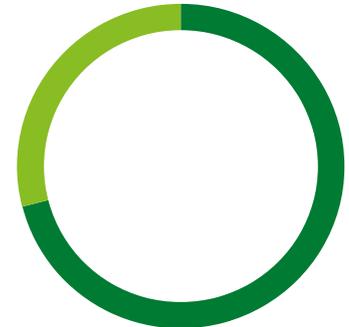
## PART C: COMPOSITION, SUCCESSION AND EVALUATION

### Board composition

The current Board of Directors of the Company consists of the Chairman, four independent Non-executive Directors and two Executive Directors. Biographical information on each of our

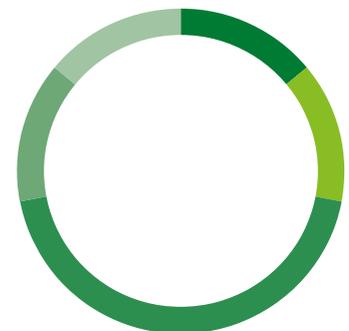
### DIRECTORS' GENDER

- Male
- Female



### DIRECTORS' TENURE

- 1 year
- 2-3 years
- 4-6 years
- 7-9 years
- 10 years+



Directors can be found on pages 60 and 61, which shows the breadth of strategic and financial management insight brought to our Board and that the Chairman, Laure Duhot, Ivonne Cantú, Peter Cole and Ian Krieger are all considered to be independent.

The composition of the Board is fundamental to its success. We continue to have a strong and diverse mix of experienced individuals on the Board. The majority are independent Non-executive Directors who are not only able to offer an external perspective on the business, but also constructively challenge the Executive Directors, particularly when developing the Company's strategy.

The high calibre of debate and the participation of all Directors, Executive and Non-executive, in its meetings allows the Board to utilise the experience and skills of the individual Directors to their maximum potential and make decisions that are in the best interests of the Company. The relatively small size of the Board facilitates all members to develop a close understanding and allows the development of open debate. This culture has helped the Board remain positive, focused and cohesive during the pandemic.

### Board induction and training

The Code provides that all Directors should receive a full, formal and tailored induction on joining the Board. On joining the Board new Directors are provided with a tailored induction programme delivered by the Company Secretary. Ivonne Cantú has started her induction programme and received a detailed pack of materials to read regarding the Company and its governance.

## PART C: COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

### Board induction and training continued

She has undertaken a programme of site visits with members of our property management and asset management teams that included a visit to our properties in Nottingham, an asset management project at our medical centre in Leamington Spa, as well as a visit to our office at Stratford-upon-Avon. Further site visits will be arranged, as well as visits to our offices in London to meet with colleagues.

Directors are able to receive training or additional information on any specific subject pertinent to their role as a Director that they request or require. The suitability of external courses is kept under review by the Company Secretary, who is charged with facilitating the induction of new Directors and with assisting in the ongoing training and development of all Directors. All Directors have access to the advice and services of the Company Secretary and a procedure is in place for them to take independent professional advice at the Company's expense should this be required.

### Succession

As well as leading the procedures for appointments to the Board and its Committees, the Nomination Committee oversees succession planning for the Board and senior management with reference to the Board Diversity and Inclusion Policy. Further details on the work of the Nomination Committee is set out on 79 and 80.

### Board evaluation

The Code recommends that the Chairman should consider having an externally facilitated Board evaluation every three years. This year an external firm, Gould Consulting, were

appointed to assess the effectiveness of the Board and its Committees. In light of continued uncertainty surrounding the pandemic, it was decided to undertake this by means of an online questionnaire that covered a combination of standard items, such as Board dynamics and relationships, and individual participation and contribution, along with more topical matters, such as consideration of stakeholder issues. The Directors were also asked to comment on the performance of the Board Committees.

The results of the survey were collated by Gould Consulting and reviewed together with the Chairman to consider any themes that had been identified ahead of discussion of these issues by the Directors at the Nomination Committee, which also considered next steps and recommendations are set out below.

The Chairman conducted an evaluation of the performance of each of the individual Directors as a separate exercise. Ian Krieger, Senior Independent Non-executive Director, had private meetings with each of the individual Directors to take their feedback on the performance of the Chairman.

Overall, the results of the evaluation process reflected well on the Board and the tone set by the Chairman and the Chief Executive Officer and concluded that each of the Committees were operating effectively. The Chairman and Chief Executive Officer continue to have a strong, supportive relationship providing clear and effective leadership and focus that are instrumental to the long term success of the Company. The members of the Board and its Committees are seen as being engaged and committed and able to raise challenges openly while the culture remains open, respectful and constructive.

Details of the outcomes of the 2020 evaluation and the 2021 evaluation, as well as the actions taken in response to the 2020 evaluation, are set out below:

2020 evaluation outcomes	Progress in 2021	2021 evaluation outcomes
Further develop the Board's consideration of longer term strategic objectives and consideration of climate related risks.	The membership of the ESG Committee was extended to include all the Non-executive Directors and a formal environmental risk register was developed and agreed.	It was agreed to increase the opportunities for the Board to engage with the workforce to assess and develop the Group's culture, following the internalisation.
Evaluate whether some of the revised working procedures that the Board and management were forced to adopt by the COVID-19 pandemic may be adopted going forward to improve our processes.	The consideration of investment decisions between formal Board meetings was facilitated by the use of video-conferencing facilities, as was the holding of virtual meetings of all staff.	There was a desire to undertake a deeper and detailed review of key areas of the business, such as development projects, at Board meetings.
Continue to strengthen our sustainability and community impact agendas through the work of the new ESG Committee.	The Board approved the establishment of the PHP Community Impact Fund as well as other charitable initiatives discussed in our Responsible Business Report on page 40.	Further work will be undertaken to continue strengthening our risk management processes, in light of climate change and the current environment.

The Board intends to review the implementation of these recommendations as part of its evaluation process in 2022 and will report on progress in next year's Annual Report.



## PART C: COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

### Commitment

The letters of appointment for Non-executive Directors set out the time commitment expected to be necessary to perform their duties. All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. Directors must obtain prior approval from the Board when they take on any additional responsibilities or external appointments and it is their responsibility to ensure that such appointments will not prevent them meeting their time commitments. Following her retirement from the board of InLand Homes plc, the Board approved the appointment of Laure Duhot to the board of Safestore plc, where Ian Krieger is also a Non-executive Director, as it considered that she would continue to have sufficient time to meet her commitments to the Company.

The Board also agreed that Harry Hyman could take up the position of Non-executive Chairman of TMT Acquisition plc, a listed shell company formed to pursue opportunities to acquire businesses in the technology, media and telecom sector and which listed on the standard segment of the London Stock Exchange in October 2021. In December, the Board, under the leadership of Ian Krieger as Chairman, considered and approved the appointment of Steven Owen as the Non-executive Chairman of Palace Capital plc, a FTSE Small Cap UK-listed REIT.

### Information and support

The services of the Company Secretary are available to all members of the Board. The Company Secretary is responsible for ensuring good and timely information flows within the Board and its Committees and between the senior management and the Non-executive Directors.

The Board uses a web-based system which provides ready access to Board papers and materials. Prior to each Board meeting the Directors receive the agenda and supporting papers through this system to ensure that they have all the latest and relevant information in advance of the meeting. During the year, the papers presented to the Board have been revised to move away from detailed and lengthy reporting on activity, which was appropriate when the Company was externally managed, to more focused reporting on specific issues related to strategy.

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

## PART D: AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

### Financial and business reporting

A comprehensive budgeting process is in place, with an annual budget and three-year forecast prepared and considered and approved by the Board. The Directors are provided with relevant and timely information to monitor financial performance against the budget. Defined authorisation levels regulate capital expenditure. Investment decisions that require Board approval in accordance with the authorisation matrices are governed by defined appraisal criteria, which include anticipated financial returns, the quality of the building and its environmental rating. The Board is also provided with details of the healthcare

services to be delivered from the medical centre (including details of the patient numbers and the local healthcare need) and other stakeholder considerations. In this way, the Board monitors that agreed upon approaches and processes are well understood and adhered to.

The Board is responsible for preparing the Annual Report and confirms in the Directors' Responsibilities Statement set out on page 104 that it believes that the Annual Report, taken as a whole, is fair, balanced and understandable. The process for reaching this decision is outlined in the Audit Committee Report. The basis on which the Company creates and preserves value over the long term is described in the Strategic Report.

### Audit Committee

The Audit Committee is responsible for monitoring the integrity of the financial statements and results announcements of the Company as well as the appointment, remuneration and effectiveness of the external auditor. The detailed Audit Committee Report is on pages 74 to 78.

### Risk management

The Board determines the extent and nature of the risks it is prepared to take in order to achieve the Company's strategic objectives. The Board is assisted in this responsibility by the Audit Committee which reviews and discusses a report from the management's Risk Committee on the risks facing the Group and the steps taken by management to mitigate the impact of these risks. The Audit Committee evaluates the effectiveness of the risk framework and makes recommendations to the Board in respect of the Group's principal and emerging risks, risk appetite and key risk indicators. Further information on the Group's principal risks and risk management processes can be found in the Risk Management and Principal Risks section of the Strategic Report on pages 50 to 55.

During the course of its review for the year ended 31 December 2021, and to the date of this report, the Audit Committee has not identified, nor been advised of, a failing or weakness which it has determined to be significant.

## PART E: REMUNERATION

The UK Corporate Governance Code requires that a board should establish a remuneration committee of at least three, or in the case of smaller companies, two, independent non-executive directors. In addition the company chair may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chair. Steven Owen was independent on his appointment as Chairman and remains so and accordingly he is a member of the Remuneration Committee.

This year has been a busy one for the Remuneration Committee following the approval of the new Remuneration Policy by shareholders at our General Meeting on 4 January 2021 through the devising and implementing of incentive arrangements appropriate for the senior management team and wider workforce. Details of this and the work of the Remuneration Committee are set out in its report on pages 81 to 85.

# AUDIT COMMITTEE REPORT



**Ian Krieger**  
Chairman of the Audit Committee

## MEMBERS OF THE AUDIT COMMITTEE (THE "COMMITTEE")

Member	Number of meetings and attendance while in post
Ian Krieger (Chairman)	3 (3)
Peter Cole	3 (3)
Laure Duhot	3 (3)

Bracketed numbers indicate the number of meetings the member was eligible to attend.

### Key responsibilities

#### Financial reporting

- Monitor the integrity of the financial reporting process
- Scrutinise the full and half year financial statements
- Consider and challenge the key financial judgements

For further information see page 75

#### Risk management and internal control

- Oversee the internal control processes
- Assess the need for an internal audit function
- Review the risk management framework
- Ensure risks are carefully identified, assessed and mitigated

For further information see page 75

#### External auditor

- Review the performance, independence and effectiveness of the external auditor and audit process

For further information see page 75

#### Regulatory compliance

- Review the viability statement and going concern basis of preparation of the financial statements
- Consider whether the Annual Report is "fair, balanced and understandable"
- Monitor compliance with applicable laws and regulations

For further information see page 75

### Dear shareholder,

I am pleased to present my report as Chairman of the Audit Committee and over the coming pages you will see how the Committee has discharged its responsibilities during the year.

### Composition

The members of the Committee in the year are set out in the table on this page. The Committee has adopted the additional requirements of the 2018 Corporate Governance Code (the "Code") as regards audit committees. Membership of the Committee is restricted solely to independent Non-executive Directors and each Committee member has considerable financial knowledge and industry experience. In addition to the members of the Committee, the following individuals attended by invitation: the Chief Financial Officer; the Commercial Financial Director; the Chief Executive Officer; the audit partner and senior managers from the auditor; and representatives from PHP's valuers, Lambert Smith Hampton, Jones Lang LaSalle and CBRE.

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

### Meetings

During the year the Committee met three times following an annual programme which is agreed at the start of the year. Meetings are aligned to the Company's financial reporting timetable, with the February and July meetings scheduled to precede the approval and issue of the full and half year financial reports. At the December meeting, the Committee examined the risk management and internal control processes and considered the year-end audit plan put forward by the auditor.

One of the key areas of judgement that the Committee are required to consider in reviewing the financial statements is the valuation of the portfolio. Meetings were held with the Company's property valuers to challenge the valuation process and review their independence. This was an area of focus for the Committee as explained below on page 76.

Time is allocated for the Committee to meet the external auditor and property valuers independently of management. In addition to formal Committee meetings, I have regular contact and meetings with the Chief Financial Officer. This allows me to gain a good understanding of key and emerging issues in advance of Committee meetings, facilitating informed and constructive debate.

The Committee is satisfied that it receives sufficient, reliable and timely information and support from management and the Company's external auditor to allow it to fulfil its obligations.

At least once a year, during a Committee meeting, the members of the Committee meet separately with Deloitte without any other member of management being present.



## Our work in 2021

Our remit is unchanged from previous years, primarily to oversee and independently challenge the integrity of the financial reporting processes at PHP which support and ensure the accuracy of the financial results. Alongside this, we review the risk management framework and internal control procedures in place to ensure they remain robust and are implemented effectively.

In the first half of the year, the COVID-19 pandemic continued to have the potential to disrupt operations and we undertook a review to ensure the pandemic had no impact on the robustness of the internal control and risk management systems. In this regard we noted the implementation of an online invoice authorisation system was deployed successfully during the year to improve the control environment with staff working from home.

Each year we also consider the independence and effectiveness of the external audit team and the structure of their audit plan to ensure they provide the appropriate level of challenge and support to the Executive team.

Following our review, on page 78, we have recommended the re-appointment of Deloitte LLP ("Deloitte") at the AGM in April. Deloitte has been in office for nine years now and we will be conducting a process to re-tender the audit during 2022.

The work undertaken this year has included the following:

### Financial reporting

- Reviewing and monitoring the integrity of the financial statements including reviewing significant financial reporting judgements and estimates made by management, to ensure that the quality of the Company's financial reporting is maintained, in the Company's half and full year financial statements;
- reviewing and commenting on the alternative performance measures, not defined under IFRS or "non-GAAP" measures to ensure these were consistent with how management measures and judges the Company's performance;
- assessing the independence and objectivity of the Group's valuers and gaining assurance around the integrity of the conduct of valuation processes at the year end and at the half year;
- reviewing the process undertaken to ensure that the financial statements are fair, balanced and understandable; and
- ensuring compliance with applicable accounting standards, monitoring developments in accounting regulations as they affect the Group and reviewing the appropriateness of accounting policies and practices in place.

### Risk management and internal control

- Reviewing the Group's risk register, in particular with regard to the potential impact of COVID-19, principal and emerging risks including cyber security;
- challenging the effectiveness of the Group's risk management systems and considering the adequacy of the process being undertaken to identify risks and mitigate the exposure of the Group to them;

- considering the adequacy and effectiveness of the Group's internal controls and whether there was a need to establish an internal audit function; and
- ensuring the process followed to support the making of the going concern and viability statements remained robust and was correctly followed.

### External audit

- Examining the performance of the external auditor, its objectivity, effectiveness and independence, as well as the terms of engagement and scope of its audit and agreeing the annual audit plan;
- monitoring the ratio and level of audit to non-audit fees paid to the external auditor and agreeing its remuneration for the year;
- recommending the re-appointment of Deloitte LLP as external auditor; and
- reviewing and approving the plan for the conduct of an audit tender process.

### Regulatory compliance

- Reviewing the Committee's composition, performance, terms of reference and constitution;
- overseeing matters relating to tax and any potential impact tax matters may have on the integrity of the financial statements;
- ensuring appropriate safeguards are in place for the detection of fraud and bribery and reviewing the process by which employees may raise concerns and ensuring that these were communicated to and understood by the workforce, so that concerns could be raised to me, or with the Company Secretary, or the auditor;
- reviewing the Company's REIT compliance and tax strategy;
- consideration to the robustness of the Group's assessment of viability over a period of three years, in particular the assumptions underlying the assessment; and
- determining the appropriateness of adopting a going concern basis for the preparation of the financial statements.

# AUDIT COMMITTEE REPORT CONTINUED

## Significant issues considered in relation to the financial statements

During the year, the Committee considered key accounting matters and judgements in respect of the financial statements as detailed below:

Significant issue	Actions taken
<b>Valuation of the property portfolio</b>	
<p>The Group has property assets of £2.8 billion as detailed in the Group Balance Sheet and valuation is central to the business performance. Accordingly, the key judgement in the financial statements relates to the valuation of the property portfolio which is driven by the yields and ERVs applied in the valuation process. This is a recurring risk for the Group as it is key to its IFRS profitability, balance sheet portfolio value, net asset value, total property return, and employee incentives. It also affects investment decisions. Further, the judgemental nature of the yields and ERVs used in the valuation is compounded by the uncertainty caused by COVID-19.</p>	<p>The portfolio of properties are independently valued by Lambert Smith Hampton and Jones Lang LaSalle in the UK and by CBRE in Ireland (the "Valuers"), in accordance with IAS 40 Investment Property. The Committee ensured that there was a robust process in place to satisfy itself that the valuation of the property portfolio by the Valuers, all leading firms in the UK and Irish property markets, was carried out appropriately and independently. Given the significance, the Committee met twice with the Valuers to review key judgements, challenge, debate and consider the valuation process; understand any particular issues encountered in the valuation; and discuss the processes and methodologies used and whether there were any significant disagreements with management.</p> <p>The auditor also meets with the Valuers, and it uses the services of its own in-house property valuation expert to test the assumptions made. The auditor reports separately to the Audit Committee on its findings.</p> <p>The Committee confirmed that it was satisfied that the valuation had been carried out fairly and appropriately, and in accordance with the industry valuation standards, and therefore suitable for inclusion in the financial statements.</p>
<b>Accounting for significant acquisitions, disposals and transactions</b>	
<p>The accounting treatment of significant property acquisitions, disposals, financing and leasing transactions is a recurring risk for the Group with non-standard accounting entries required, and in some cases management judgement applied.</p> <p>In particular, the Company determined that the total cost of the acquisition reflected compensation for the termination of the Advisory Agreement, together with consideration for the acquisition of the Nexus entities. The consideration was therefore split between termination of the Advisory Agreement (£29.0 million) and consideration for the acquisition of the Nexus entities (£5.1 million), resulting in goodwill of £6.3 million which Management subsequently fully impaired.</p>	<p>During the year the Group made a number of acquisitions, the most significant being the acquisition of Nexus at the beginning of the year. The Committee reviewed management papers on key judgements, including those for the treatment of the acquisition of Nexus, by reviewing and challenging management's papers on accounting treatments and judgements.</p> <p>Following a review of the accounting treatment for these significant transactions, in particular the point at which each transaction should be recognised, the Committee was satisfied that all relevant matters had been fully and adequately addressed and that the approach adopted by the Company was appropriate in each case, and in accordance with IFRS.</p> <p>The Committee challenged the application of accounting policy and internal controls relating to revenue recognition and reviewed reports from the external auditor and management.</p> <p>The Committee concluded that the accounting treatment of the Nexus acquisition was appropriate.</p>
<b>Financing</b>	
<p>The Group uses a mixture of equity and debt finance to grow its portfolio and has a number of debt finance arrangements and swaps to hedge exposure to interest rate risk. The accounting treatment of these transactions under IFRS 9 is by its nature complex.</p>	<p>During the year, the Group refinanced and modified two debt facilities, the NatWest £100 million revolving credit facility and refinanced a number of legacy loan facilities with Aviva Investors, with a new £200 million facility for a 15-year term at a fixed rate of 2.52%.</p> <p>The Committee considered the finance teams paper on the proposed treatment of these transactions under IFRS 9 and agreed that they had been appropriately accounted for.</p>



### Review of risk management

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

Risk management is taken seriously at PHP. The Board as a whole, including the Committee members, considered that both the nature and the extent of PHP's risk management framework was satisfactory to achieve the Group's strategic objectives. There is a culture of risk awareness embedded into the decision-making process and robust processes in place to support the identification and management of risk.

The identification of risk and the preparation of a detailed risk register is the responsibility of the Risk Committee. The Committee, at the request of the Board, considers the principal risks identified and whether appropriate action is being taken to remove or reduce their likelihood and impact. This is discussed in detail in the Risk Management section on pages 50 to 55.

The Group has developed a separate environmental risk register to seek to identify the main emerging risks associated with climate change and the associated governmental policy responses; in particular, increasing legislative standards for operational building energy efficiency and the stated ambition of the NHS to achieve a net zero carbon health service for direct emissions by 2040 have been identified as key risks as well as opportunities for the Group. The register was tabled and agreed by the ESG Committee, and subsequently reviewed by the Committee as part of its monitoring of the overall risk management process of the Group.

### Review of internal control processes

The Committee is responsible for reviewing the adequacy and effectiveness of internal control systems, (covering all material controls, including financial, operational and compliance controls and risk management systems) on behalf of the Board.

Key features of the system of internal control, which were reviewed and updated following completion of the internalisation transaction, include a comprehensive system of budgeting, financial reporting and business planning, formal documentation procedures and the close involvement of the Chief Executive Officer, the Chief Financial Officer and the Chief Investment Officer in all aspects of the day-to-day operations. The Committee has reviewed the adequacy of these systems through various activities including:

- reviewing the effectiveness of the risk management processes;
- reviewing and challenging management's self-assessment of the internal controls framework;
- reviewing the work undertaken by the auditor in relation to internal controls; and
- reporting of any control or fraud related whistle-blowing issues.

In reviewing the periodic financial reports of the Group, the Committee is reliant on the policies and procedures followed by the finance team to ensure that the records accurately reflect transactions so as to facilitate the production of consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and other applicable reporting standards.

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

### Financial reporting

The integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by the Committee and the Board. In undertaking its review, the Committee considered:

- the systems and controls operated by management around the preparation of the accounts;
- the procedures included in these to bring relevant information to the attention of those who prepare the accounts;
- the consistency of the reports; and
- whether they are in accordance with the information provided to the Board during the year.

Developments in accounting regulations and best practice in financial reporting are monitored by the Company and, where appropriate, reflected in the financial statements. The Committee and the Board review the draft consolidated financial statements and the Committee receives reports from management and the auditor on significant judgements, changes in accounting policies, and other relevant matters relating to the consolidated financial statements.

### Fair, balanced and understandable assessment

At the request of the Board, the Committee also reviewed the Annual Report to consider whether it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

The Committee was provided with, and commented on, a draft copy of the Annual Report and Financial Statements. In carrying out the process, key considerations included ensuring that there was consistency between the financial results and the narrative provided.

After reviewing the contents of this year's Annual Report and Financial Statements, the Committee has confirmed to the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Committee is also satisfied that alternative performance measures used are consistent with how management measures and judges the Group's financial performance.

In forming this view, the Committee considered the overall review and confirmation process around the Annual Report and Financial Statements, going concern and viability statements.

# AUDIT COMMITTEE REPORT CONTINUED

## Effectiveness of external auditor

One of the key responsibilities of the Committee was to assess the effectiveness of the external audit process. In turn, the effectiveness of the audit process is dependent on appropriate audit risk identification at the start of the audit cycle. Ahead of the commencement of the audit the Committee received from Deloitte LLP a detailed audit plan, identifying its assessment of these key risks. For the audit of the 31 December 2021 financial statements, the primary risks identified were in relation to the valuation of the property portfolio, the accounting for the Nexus acquisition and management override of controls. It is also standard practice for the Audit Committee to meet privately with the external auditor to gauge the effectiveness of their processes. In addition, the Audit Committee seeks feedback from management on the effectiveness of the audit process.

Following its review of the effectiveness, independence, objectivity and expertise of the external auditor, the Committee is satisfied with the effectiveness of the auditor and therefore recommended the re-appointment of Deloitte LLP as external auditor for 2022. Resolutions to re-appoint Deloitte LLP as auditor and to authorise the Committee to agree its remuneration will be put to shareholders at the Annual General Meeting on 27 April 2022.

## Auditor independence

The Group's policy on the use of its external auditor for non-audit services precludes the external auditor from being engaged to perform valuation, tax or accounting services work. More broadly, the policy prohibits the external auditor from performing services where there may be perceived to be a conflict with its role as external auditor or which may compromise its independence or objectivity.

Subject to the overriding requirement to ensure independence and objectivity of the external auditor, the Company may procure certain non-audit services from the external auditor up to £25,000 in value. All other proposed engagements must be submitted to the Committee for approval prior to engagement and all non-audit fees are reported to the Committee.

The Committee considers the remuneration of the external auditor at least on a semi-annual basis and approves its remuneration. It also keeps under close review the ratio of audit to non-audit fees to ensure that the independence and objectivity of the external auditor are safeguarded.

In 2021, fees for audit services amounted to £0.5 million and the non-audit fees amounted to £0.1 million.

The non-audit fee for 2021 equates to 14% of the average audit fees of the last three years.

The chart below sets out the ratio of audit to non-audit fees for each of the past three years.

	2021	2020	2019
Audit fee	<b>£541,425</b>	£500,000	£400,000
Non-audit fee	<b>£68,575</b>	£35,000	£200,000

## Evaluation of the performance of the Audit Committee

The performance of the Committee was assessed as part of the externally facilitated Board review. The overall conclusion was that the Committee remained effective at meeting its objectives.

## Audit tender

Deloitte LLP was appointed by shareholders in 2013 as the Group's statutory auditor for the 2013 financial year to replace Ernst & Young, following a formal audit tender process. The Company will therefore be conducting an audit tender process during the course of 2022 in readiness for the audit of the 2023 financial statements.

The tender process will be overseen by the Committee whom will consider the audit firms to be invited to tender and determine the success criteria used to assess participants. Deloitte LLP as the incumbent auditor will be invited to participate in the tender unless prohibited due to specific factors such as independence.

The Audit Committee will make a recommendation to the Board of its preferred appointee.

## Internal audit

The Group currently does not have a separate internal audit function and the Committee, at least annually, reviews the requirement for establishing one. Due to the size of the organisation, relatively simple nature of the Group's business and structure and close involvement of the senior management team in day-to-day operations, the Audit Committee did not feel an internal audit function was either appropriate or necessary. It is not considered that the lack of an internal audit function affects the work of the external auditor.

From time-to-time external advisers are engaged to carry out reviews to supplement existing arrangements and provide further assurance.

The Committee considers that this structure, with external assurance sought for any complex, specialist or high-risk matters, is appropriate for the Company at this stage.

I will be delighted to receive any written questions on the work of the Committee. Please submit your questions by email to [cosec@phpgroup.co.uk](mailto:cosec@phpgroup.co.uk), or by post, marked for my attention.

## Ian Krieger

Chairman of the Audit Committee

15 February 2022



**Steven Owen**  
Chairman of the Nomination Committee

### MEMBERS OF THE NOMINATION COMMITTEE DURING THE YEAR (THE "COMMITTEE")

Member	Number of meetings and attendance while in post
Steven Owen (Chairman)	2 (2)
Peter Cole	2 (2)
Laure Duhot	2 (2)
Ian Krieger	2 (2)

Bracketed numbers indicate the number of meetings the member was eligible to attend.

Additional attendees invited to attend meetings as appropriate:

- Harry Hyman – Chief Executive Officer
- Richard Howell – Chief Financial Officer
- Paul Wright – Company Secretary

#### Key responsibilities

##### Board composition and succession

- Reviews and evaluates the size, structure and composition of the Board and its Committees.
- Considers the diversity of the appointments and balance of skills, knowledge and experience of each Director.
- Considers succession planning for the Board and the senior management.

##### Board appointments

- Leads the process for new appointments to the Board and its Committees.
- Ensures that all new Directors receive an appropriate induction programme and reviews the training requirements of the Board.
- Ensures that all potential conflicts of interest are declared on appointment and that all disclosed potential conflicts of interest are reviewed regularly.

##### Diversity

- Promotes the Company's policy on diversity at Board level.

##### Performance evaluation

- Leads the annual Board and Committee evaluation exercise.

##### Re-appointment of Directors

- Reviews the time required from Non-executive Directors and their external commitments.
- Considers the annual election and re-election of Directors to the Board at the Annual General Meeting.

#### Dear shareholder,

I am delighted to present the Nomination Committee Report to shareholders for the year to 31 December 2021. The Committee continues to play a crucial role in supporting PHP's strategy by ensuring the Board and its Committees have an appropriate balance of skills, experience and knowledge, with succession plans in place, for Board and senior management positions and that it implements a robust evaluation process to ensure the Board and Committees are working effectively.

#### Activities of the Committee during the year

##### Appointments

It is the responsibility of the Committee to maintain an appropriate combination of skills and capabilities among our Directors. The Committee seeks to ensure that all Board appointments are made on merit and measured against objective criteria and with due regard for the benefits of diversity on the Board. The Board is committed to ensuring a broad mix of gender, age, nationality, experience and skills throughout the business.

Following our Annual General Meeting in 2019, our Board was reduced in size from eight to six members, which we believe is the optimal size for our Board given the relative simplicity of our business model. However, this resulted in a reduction in our female representation on the Board, which we wished to address during the year.

Accordingly, following a tender process, the Committee engaged Granger Reis to undertake a search for an additional Non-executive Director. Granger Reis have an extensive real estate search practice and have no other connection to the Group. The Committee prepared a job specification and agreed a candidate profile for Granger Reis to undertake a search. A diverse range of candidates with a breadth of experience and exposure were considered. A short-list of three candidates was drawn up for further consideration by the Committee who reviewed the short-listed candidates against their fit with the agreed candidate profile. After a thorough interview process, the members of the Committee unanimously recommended the appointment of Ivonne Cantú to the Board and the Board approved Ivonne's appointment as a Non-executive Director and as a member of all the Company's Committees, with effect from 1 January 2022. It was also agreed that Ivonne would be appointed to chair the Remuneration Committee following the conclusion of the Annual General Meeting in 2022, when Peter Cole will step down from the Board.

##### Succession planning

The Committee is responsible for reviewing the succession plans for the Board, including the Chief Executive Officer. One of the strategic benefits accruing from the internalisation of the management function, is that it is anticipated to enhance our succession planning and operational security. The Committee also oversees succession planning for the senior management positions in the Company going forward, which it will make within the context of our commitment to improving diversity across the Company.

# NOMINATION COMMITTEE REPORT CONTINUED

## Activities of the Committee during the year *continued*

### Succession planning *continued*

Although there are no immediate vacancies at Board or in the senior management team and execution of the Company's strategy is not dependent on any one individual, we recognise the need to develop our internal talent and to have robust plans for unforeseen absences. Looking ahead, long term succession planning at Board and executive level will remain a key priority for the Committee going forward.

### Induction

On appointment, the Company arranges a full, formal and tailored induction on joining the Board to help new Directors develop an understanding of the business, including its strategy, portfolio, governance framework, stakeholders, finances, risks and controls. This programme will usually involve a series of meetings with other Executive and Non-executive Directors and senior management team, and include visits to some of the Group's properties to better understand the nature of the portfolio. To provide insight into the Group's strategy, culture and values, extensive information about the Group, including access to previous Board papers and minutes, is provided.

### Diversity

The Board recognises the importance of diversity and the benefits it brings to the organisation in terms of skills and experience, wider perspectives and fresh ideas. We are committed to the creation of an inclusive culture where our colleagues reflect the diverse communities we serve and where each person can operate in a working environment which promotes a culture of mutual respect and inclusion throughout the organisation.

The Board also recognises that diversity is not limited to just gender and supports the Parker recommendation that FTSE 250 boards should have at least one director from an ethnic minority background by 2024.

To this end the Committee reviewed and suggested updates to the Board Diversity & Inclusion Policy to ensure that it extended to aspects such as age, ethnicity, disability and socio-economic backgrounds in line. The revised policy was adopted by the Board in December 2021. The Diversity & Inclusion Policy is available on the Company's website at [www.phpgroup.co.uk](http://www.phpgroup.co.uk).

### Independence

The Committee ensures that at appointment each Director is independent and that they have formally declared to the Company any actual or potential conflicts of interest.

During the year, the Committee formally reviewed the register of the Directors' other directorships and interests, together with those of their connected persons, to consider whether any of these gave rise to a conflict of interest or were likely to impair the ability of the Director to devote sufficient time to the business of the Company.

Following this review, the Committee assessed the independence of each of the Non-executive Directors, and in particular, consideration was given to the position of both the Chairman and Laure Duhot (who became a NED at Safestore where Ian Krieger is also a NED), in light of the additional responsibilities that they had taken during the year. The Committee recommended to the Board that each of them could be considered independent and had sufficient time to meet their Board responsibilities. In considering their independence the Committee considered their independence of character and judgement and whether any circumstances or relationships exist which could affect their judgement.

### Directors standing for election and re-election

Following Ivonne's appointment, she will be subject to election at the Company's 2022 Annual General Meeting. The remaining Directors will stand for re-election at the 2022 Annual General Meeting. Following the annual Board performance reviews of individual Directors, the Chairman considers:

- that each Director subject to re-election continues to operate as an effective member of the Board; and
- that each Director subject to re-election has the skills, knowledge and experience that enables them to discharge their duties properly and contribute to the effective operation of the Board.

The Board, on the advice of the Committee, recommends the election or re-election of each Director and the skills and experience of each Director are available on pages 60 and 61.

### Evaluation

In accordance with its terms of reference, the Committee's performance was reviewed in the context of the results of the externally-led Board annual evaluation, paying particular attention to any issues raised with respect to the composition of the Board, its skills, experience and diversity. The review found that the Committee functions effectively and should continue to develop and refresh its responsibilities.

Details of the evaluation process and its outcomes are set out in more detail on pages 71 to 73.

### Steven Owen

Chairman of the Nomination Committee  
15 February 2022



**Peter Cole**  
Chairman of the Remuneration Committee

**MEMBERS OF THE REMUNERATION COMMITTEE DURING THE YEAR (THE "COMMITTEE")**

Member	Number of meetings and attendance
Peter Cole (Chairman)	4 (4)
Steven Owen	4 (4)
Laure Duhot	4 (4)
Ian Krieger	4 (4)

Bracketed numbers indicate the number of meetings the member was eligible to attend.

In addition to the scheduled meetings two additional meetings were held to discuss particular topics which all members of the Committee attended.

Additional attendees invited to attend meetings as appropriate:

Harry Hyman – CEO

Korn Ferry

Paul Wright – Company Secretary

The CEO did not attend or participate in any matters that involved his own remuneration.

**Key responsibilities**

- Setting the remuneration framework or policy for the Directors and ensuring it is aligned to the Company's purpose and values and linked to delivery of the Company's long term strategy.
- Reviewing the continued appropriateness and relevance of the Company's Remuneration Policy.
- Within the terms of the approved policy, determining the remuneration of the Directors, the Company Secretary and the senior executives.
- Appointing and setting out the terms of reference for any remuneration consultants to advise the Committee.
- Agreeing policy on the payment to the Directors of expenses incurred in performance of their duties.
- Reviewing overall workforce remuneration and related policies.
- Drafting the Directors' Remuneration Report and reporting to shareholders on the implementation of the Company's Remuneration Policy in accordance with relevant statutory and corporate governance requirements.

**Dear shareholder,**

On behalf of the Board, I am delighted to present the PHP Directors' Remuneration Report in what has been a very busy and important year following the completion of the internalisation of the Group's management functions by the acquisition of Nexus (the "internalisation"). This report has been prepared by the Remuneration Committee and approved by the Board.

Both I and the fellow members of the Committee were encouraged by the exceptionally high level of support (99.9% of votes cast) for the new Directors' Remuneration Policy (the "Policy") at the General Meeting held in January 2021. Following publication of the Directors' Remuneration Report in our 2020 Annual Report and Accounts, it was agreed that I would write to our largest shareholders to explain the approach which we were taking with our revised remuneration arrangements. I am grateful for those shareholders who responded and I am pleased that we received the support of over 88% of shareholders voting at the AGM for the Directors' Remuneration Report.

To provide shareholders with information on both the Policy that applies following the internalisation and its implementation, this report is divided into three parts:

1. This letter on pages 81 to 85, in which I provide an overview of the work of the Committee during the year and the key decisions which it took in relation to both Executive Director remuneration and wider workforce remuneration for the year ended 31 December 2021 and how the Policy will be applied in 2022.
2. A summary of the Directors' Remuneration Policy (the "Policy") approved by shareholders on 4 January 2021 and applicable throughout the year, which details the link between Company performance and remuneration outcomes set out on pages 86 to 91.
3. The Annual Report on Remuneration, which provides information on how the Policy adopted at the General Meeting has been applied during the year, set out on pages 92 to 94.

**Company performance**

You will have read earlier in this Annual Report that the Company once again delivered strong results for 2021, and the 25th consecutive year of dividend growth. Highlights of the performance include:

- Total property portfolio up 4.1%.
- Total property return up 210bp to 9.5%.
- Adjusted earnings up 13.8% to £83.2 million.
- Adjusted earnings per share up 6.9%.
- Dividend per share up 5.1%.
- Average cost of debt down 60bp.

This strong performance reflects well on our Executive and senior management team, who have had to manage the business and their teams through the continued disruption caused by the COVID-19 pandemic. These good results have been achieved without the need to put any staff on furlough or to take advantage of any of the Government financing schemes to help companies through this difficult time.

# REMUNERATION COMMITTEE REPORT CONTINUED

## Company performance continued

In addition, the acquired Nexus property management business has been successfully integrated and the cost savings anticipated at the time of the acquisition achieved. These good outcomes are, to a large extent, the result of the expertise and hard work of the Executive Directors and the senior management team.

## Remuneration in 2021

### Base salaries

The base salaries set by the Committee when the Executive Directors became employees of the Group on 5 January 2021 (CEO: £250,000 and CFO: £320,000) applied for the whole year.

### Annual bonus outcome

Targets for the 2021 annual bonus for the CFO set by the Committee were based 70% on the achievement of financial targets (adjusted earnings and total property return) and 30% on the achievement of personal targets. The rationale for selecting adjusted earnings and total property return ("TPR") is that these are the key indicators of value creation for shareholders, capturing the income received, less expenses and property valuation changes.

The adjusted earnings outcome for the year was £83.2 million against a threshold target of £81.6 million and a maximum of £84.0 million and the total property return in the year was 9.5% against a threshold target of 6.5% and maximum of 9.5%, resulting in 90% of the financial targets being met. The Committee also assessed that 90% of the personal targets should be paid out. Full details of how this assessment was carried out are set out on pages 93 and 94.

In total, the overall bonus pay-out for the CFO represented 67.5% of salary (maximum 75% of salary for 2021) of which 30% net of tax will be deferred into PHP shares to be held for a period of three years in accordance with the Policy.

The CEO did not participate in the annual bonus plan.

### Performance Incentive Fee ("PIF")

There is a period of transition for the two Executive Directors as arrangements that have operated in recent years with their former employer are replaced by more standard market practice. As agreed in connection with the internalisation, this transition includes the payment of amounts earned under PIF arrangements with Nexus in relation to 2020 and earlier years. These are commitments that PHP inherited and is honouring following internalisation as we transition to more standard long term incentive arrangements.

The financial year ended 31 December 2021 was the last year that the CFO was entitled to earn any payment under the PIF and so no PIF payment will be made to him for 2022, however, the cap on his annual bonus will be increased to 125% of salary in line with the policy. The CEO will be entitled to a payment, if one is earned, under the PIF in respect of the financial year ending 31 December 2022 after which his entitlement will cease.

The Group's Adjusted EPRA Net Tangible Assets for the year plus dividends (less equity raised, net of non-cash and other necessary adjustments) increased by 9.5%, which is above the hurdle rate of 8%, triggering a payment of the PIF. The Committee scrutinised the calculation of the amount of the PIF and determined that a PIF had been earned. A payment of £589,000 was agreed to Harry Hyman and a payment of £240,000 was agreed to Richard Howell, under the PIF in respect of 2021 performance. Half of the amount paid to Richard Howell will be paid in cash and shares in 2022, and the other half in cash and shares in 2023.

Harry Hyman will receive half of his PIF payment in cash in 2022 and the remainder in cash in 2023.

### Long Term Incentive Plan ("LTIP")

Following approval of the terms of the LTIP by shareholders, the CFO was granted a nil-cost option over 266,667 Ordinary Shares in PHP. In line with the Policy the grant has a face value of 125% of salary and will vest after three years subject to achievement of performance targets (total accounting return: 50% and EPRA earnings per share: 50%). The award is also subject to a two-year post vesting holding period and is subject to clawback and malus provisions.

Full details of the performance conditions attaching to the award can be found in the Annual Report on Remuneration on pages 92 to 94.

No award was made to the CEO under the LTIP.

Given the Company's strong performance and good returns to shareholders, the Committee feel that the outcome for the annual bonus and PIF reflected the performance of the Executive Directors in the year and that the 2021 remuneration outcomes are appropriate and indicate that the policy operated as intended during the year.



## Implementation of the Policy for 2022

On the basis that the Committee feels that the approved Policy remains fit for purpose, it is not intended that there will be any change to it during 2022. The Committee is comfortable that the Policy and its overarching remuneration principles remain relevant for PHP taking account of the challenges to the business and the sector in which it operates. Implementation details for 2022 are set out below:

Summary of Policy	Implementation in the year to 31 December 2022
<p><b>Base salary</b> An Executive Director's base salary is set on appointment and reviewed annually with changes normally taking effect from the beginning of the year or when there is a change in position or responsibility.</p>	<p>The basic salary of the CEO and the CFO was increased by 5% in line with the average increase awarded to employees across the Group, with effect from 1 January 2022, to £262,500 and £336,000 respectively.</p>
<p><b>Pension</b> Pension funding as an employer contribution to a defined contribution pension plan or as a salary supplement.</p>	<p>With effect from 1 January 2022, it has been agreed that the CFO will receive an employer pension contribution of 6% of salary (previously 3%, capped on earnings to £50,270), subject to an annual cap of £10,000, which is the same level of contribution that all employees receive.</p>
<p><b>Benefits</b> The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy.</p>	<p>In line with the Policy, each Executive Director receives:</p> <ul style="list-style-type: none"> <li>• Life insurance</li> </ul>
<p><b>Annual Bonus Plan</b> Annual bonuses are paid in cash shortly after the end of the financial year to which they relate. However, Executive Directors who participate in the annual bonus plan are required to defer 30% of the bonus net of tax into shares which should be held for at least three years. Dividend equivalents will be added on deferred shares.  Malus and clawback provisions will apply to the award, up to the date of the bonus determination and for three years thereafter.</p>	<p>The CFO participates in the annual bonus plan but, after 2021 no longer participates in the PIF. His maximum opportunity under the bonus plan will be increased to 125% of salary from 75% as the annual bonus fully replaces his PIF participation this year.</p> <p>The CEO does not currently participate in the annual bonus plan.</p> <p>The bonus will operate as follows:</p> <ol style="list-style-type: none"> <li>Financial measures: 70% of opportunity, split equally between (a) EPRA earnings as adjusted by the Committee to ensure consistency with the basis on which the targets are set; and (b) total property return.</li> <li>Strategy and personal measures: 30% of opportunity split between key goals of the business for the year ahead and personal measures.</li> </ol> <p>Full disclosure of the targets set and performance achieved will be made in next year's report as due to the nature of the business these targets are felt to be commercially sensitive at the current time.</p>

# REMUNERATION COMMITTEE REPORT CONTINUED

## Implementation of the Policy for 2022 continued

Summary of Policy	Implementation in the year to 31 December 2022												
<p><b>Long Term Incentive Plan ("LTIP")</b> Awards are to be granted annually under the LTIP in the form of nil-cost options or conditional awards of shares. These awards will vest at the end of a three-year period, normally subject to both continued employment at the date of vesting and achieving the performance conditions. Dividend equivalents will be added to awards to the extent that they vest.</p> <p>The net of tax number of shares that vest after the end of the three-year performance period will be subject to an additional two-year holding period, during which the shares cannot be sold (irrespective of whether the individual remains employed).</p> <p>The award is also subject to a two-year post vesting holding period and is subject to clawback and malus provisions.</p>	<p>The CFO will be granted an LTIP award of shares with a value at grant of 125% of his salary.</p> <p>The CEO will not be granted an LTIP award in 2022.</p> <p>Other senior executives will also be granted LTIP awards.</p> <p>The structure and performance conditions of the awards will remain unchanged from 2021. LTIP awards will vest as follows calculating the growth from the 2021 base level to the level for 2024.</p> <table border="1"> <thead> <tr> <th>Performance measure</th> <th>Weighting</th> <th>Threshold vesting (10%)</th> <th>Stretch vesting (100%)</th> </tr> </thead> <tbody> <tr> <td>Total accounting return</td> <td>50%</td> <td>5% p.a. CAGR</td> <td>10% p.a. CAGR</td> </tr> <tr> <td>EPRA earnings per share</td> <td>50%</td> <td>5% p.a. CAGR</td> <td>10% p.a. CAGR</td> </tr> </tbody> </table> <p>Awards vest on a straight line basis for performance between the threshold and stretch targets and lapse if the threshold is not achieved. The Committee will have a discretion to change the formulaic outcome (both downwards and upwards) if it is out of line with the underlying performance of the Company.</p>	Performance measure	Weighting	Threshold vesting (10%)	Stretch vesting (100%)	Total accounting return	50%	5% p.a. CAGR	10% p.a. CAGR	EPRA earnings per share	50%	5% p.a. CAGR	10% p.a. CAGR
Performance measure	Weighting	Threshold vesting (10%)	Stretch vesting (100%)										
Total accounting return	50%	5% p.a. CAGR	10% p.a. CAGR										
EPRA earnings per share	50%	5% p.a. CAGR	10% p.a. CAGR										
<p><b>Performance Incentive Fee ("PIF")</b> The PIF is an existing arrangement for the remuneration of the senior management team including the Executive Directors.</p> <p>Malus and clawback provisions apply to the PIF, up to the date of any determination and for three years thereafter.</p>	<p>Commitments under the PIF have been inherited following internalisation and will be replaced by more standard long term incentive arrangements going forward. 2022 is the last year of operation of the PIF for the CEO. The CFO no longer has any entitlement under the PIF; however, as half of any PIF earned is deferred, the CFO will receive the deferred element of his previous entitlements delivered in 2022 and 2023 in cash, and shares released to him in 2025 and 2026. Payment of the PIF is calculated as it has in prior years, such that 11.25% of any performance in excess of an 8% per annum increase in the Group's EPRA net asset value, plus dividends (less equity raised, net of non-cash and other necessary adjustments), is paid into the PIF pool. There is an overall cap of £1.8 million on the payment. The deferred element is subject to the account being in a surplus position in relation to 2022.</p> <p>Deferred payments are also due to be made to the CEO in equal halves in 2022 and 2023 in cash.</p> <p>Awards are subject to approval of the Committee and will be capped at £1.08 million for the CEO (being 60% of the £1.8 million cap).</p>												
<p><b>Shareholding requirement</b> Executive Directors are required to build up and hold a shareholding equivalent to a percentage of base salary.</p> <p>The requirements continue for two years after an Executive Director ceases to be employed.</p>	<p>The shareholding requirement remains 200% of base salary.</p>												
<p><b>Non-executive Directors</b> Provide a competitive fee for the performance of NED duties, sufficient to attract high calibre individuals to the role.</p>	<p>The base fee payable to the NEDs has been increased with effect from 1 January 2022 by 5% to £57,750, in line with the average increase awarded to employees across the Group.</p>												

## Wider workforce pay

The strong performance of the Company during the year despite the continued impact of the COVID-19 pandemic would not have been possible without a skilled and motivated workforce. We have invested in formal training programmes for our people in areas beyond professional development as described on page 42. We recognise that it is critical for our colleagues to feel valued as well as to be paid fairly. To this end we undertook a formal review of pay and benefits across the Company at the end of the year and have agreed to implement a number of significant improvements in the overall benefits package, as well as increasing basic salary across the workforce.



### Wider workforce pay continued

The benefits package was improved to increase the employer pension contribution for all staff to 6% (subject to a cap in contributions of £10,000 per annum), provide for an additional day of holiday for each year of service up to a maximum of five additional days, improve the Company's sick pay scheme and introduce a green car scheme, to facilitate the purchase of electric cars by colleagues, to sit alongside the existing cycle to work scheme. In addition, during the year we augmented the level of payment under our life assurance scheme to 4x salary for all staff.

Following the internalisation we are now required to publish our CEO pay ratio for the first time which can be seen on page 98.

Widespread share ownership is an object of the Committee as it rewards our colleagues for the successful execution of our strategy across several years and aligns their interests more closely with our shareholders. We were pleased to be able to grant nil-cost options to the CFO and nine of the senior leadership team under our Long Term Incentive Plan and that 57% of UK colleagues are enrolled in our 2021 PHP Sharesave plan, a figure well above the average for our industry. We plan to offer the LTIP and the PHP Sharesave plan again in 2022.

### The Remuneration Committee's activities during the year

A significant part of the Committee's activities in the early part of the year was spent finalising and implementing the new annual bonus plan and long term incentive arrangements provided for in the Policy for the Executive Directors and senior management team. The Committee met five times, in February, March, April, May and December.

In summary, the key areas of focus for the Committee in 2021 were:

- consideration and approval of the Directors' Remuneration Report set out in the Annual Report for 2020;
- consideration and approval of the terms of a Long Term Incentive Plan ("LTIP") and the adoption of an all-employee share plan;
- the granting of awards under the LTIP and the setting of appropriate performance measures and targets for the awards;
- the design of a new annual bonus plan for the CFO and senior management team and the setting of suitably stretching performance targets for 2021 aligned to the Group's strategy;
- a review of the remuneration of the Chairman;
- a review of pay, pensions and benefits across the workforce to ensure that it continues to be aligned with market pay and sufficient to retain and attract quality staff. We recognise that it is critical that our employees feel valued and this needs to be reflected in fair pay and benefits; and
- receiving a governance update from Korn Ferry on emerging themes and best practices.

Meetings are generally attended by a representative of Korn Ferry, the Committee's appointed remuneration advisers. Korn Ferry is a signatory of the Remuneration Consultants Group Code of Conduct and has no connection with the Company other than the provision of advice on remuneration.

### Committee composition

There have been no changes to the composition of the Committee during the year. As announced by the Company on 14 December 2021, I will not be standing for re-election as a Director of PHP at the forthcoming Annual General Meeting and Ivonne Cantú, who was appointed to the Board with effect from 1 January 2022, will take over from me as the Chair of the Committee. Ivonne is currently also the Chair of the remuneration committee of Creo Medical Group plc.

### Conclusion

I trust you find this report helpful and informative and thank you for your support and engagement during the year. I believe that we have put in place appropriate remuneration structures to reward and retain the Executive Directors, the senior management team and wider workforce during the year since internalisation. We always welcome feedback and hearing the views of our shareholders, so if you have any questions about this report or remuneration generally at PHP, do please contact me through our Company Secretary at cosec@phpgroup.co.uk.

I look forward to your support for the advisory resolution to approve the Directors' Remuneration Report at our forthcoming 2022 AGM.

### Peter Cole

Chairman of the Remuneration Committee  
15 February 2022

# DIRECTORS' REMUNERATION REPORT

## PART 1: SUMMARY OF THE DIRECTORS' REMUNERATION POLICY

The current Policy was approved by shareholders on 4 January 2021 and became effective from 5 January 2021.

The following is a summary of the Policy. The full text of the Policy, as approved by shareholders, was included in the 2020 Annual Report and is available at [www.phpgroup.co.uk](http://www.phpgroup.co.uk).

### Key elements of the Policy

Pay element and purpose	Operation	Opportunity	Performance metrics, weighting and assessment
<p><b>Base salary</b> Provide a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.</p>	<p>Salaries are reviewed annually and any changes are normally effective from the beginning of the financial year, although there is no obligation to increase salary.</p> <p>When determining an appropriate level of salary, the Committee considers:</p> <ul style="list-style-type: none"> <li>remuneration practices within the Company;</li> <li>the performance of the individual Executive Director;</li> <li>the individual Executive Director's experience and responsibilities;</li> <li>the general performance of the Company;</li> <li>salaries within the ranges paid by comparable companies used for remuneration benchmarking; and</li> <li>the economic environment.</li> </ul>	<p>Base salaries will be set at an appropriate level within a comparator group(s) of comparable companies and will normally increase in line with increases made to the wider employee workforce (save where a higher increase is appropriate to reflect a change in role/responsibilities).</p> <p>Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted Policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the average until the target positioning is achieved.</p>	None.



## SUMMARY OF THE DIRECTORS' REMUNERATION POLICY CONTINUED

## Key elements of the Policy continued

Pay element and purpose	Operation	Opportunity	Performance metrics, weighting and assessment
<p><b>Benefits</b> Provide a market competitive level of benefits to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.</p>	<p>The Executive Directors may receive benefits which include, but are not limited to, family private health cover, critical illness cover, life assurance cover, income protection and accident/sickness/business travel insurance (including tax payable if any).</p> <p>The Committee recognises the need to maintain suitable flexibility in the determination of benefits that ensure it is able to support the objective of attracting and retaining key personnel. Accordingly, the Committee would expect to be able to adopt other benefits including (but not limited to) relocation expenses, tax equalisation and support in meeting specific costs incurred by Directors.</p> <p>Any reasonable business related expenses can be reimbursed in accordance with the Company's expenses policy, including the tax thereon if determined to be a taxable benefit. The Executive Directors may also participate in any all-employee share plans operated by the Company.</p>	<p>The maximum will be set at the cost of providing the benefits described.</p> <p>The current CEO will not receive any additional benefits, other than life assurance cover of 4x base salary.</p>	None.
<p><b>Pensions</b> Provide appropriate levels of pension benefits to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.</p>	<p>The Committee has the ability to provide pension funding in the form of a salary supplement or as an employer contribution to a defined contribution pension plan. Any pension payments would not be considered "salary" when determining the extent of participation in the Company's incentive arrangements.</p>	<p>For existing and any future Executive Directors, the maximum pension contribution as a percentage of basic salary will be in line with the contribution level provided to the majority of the workforce (currently 3–6% of salary).</p> <p>The current CEO will not receive a pension.</p>	None.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## SUMMARY OF THE DIRECTORS' REMUNERATION POLICY CONTINUED

### Key elements of the Policy continued

Pay element and purpose	Operation	Opportunity	Performance metrics, weighting and assessment
<p><b>Annual Bonus Plan</b></p> <p>The Annual Bonus Plan provides an incentive to the Executive Directors linked to achievement in delivering goals in a sustainable manner that are closely aligned with the Company's strategy and the creation of value for shareholders.</p>	<p>The Committee will determine the bonus payable after the year end based on performance against targets.</p> <p>Annual bonuses are paid in cash after the end of the financial year to which they relate. However, Executive Directors who participate in the Annual Bonus Plan will be required to defer 30% of the bonus for the 2021 and subsequent financial years, net of tax, into shares which should be held for at least three years. The Committee may award dividend equivalents on deferred shares to the extent they vest.</p> <p>Malus and clawback provisions will apply to the award, up to the date of the bonus determination and for three years thereafter.</p> <p>Bonus payments are not pensionable.</p> <p>Until 31 December 2022 at the latest, the current CEO will not participate in the Annual Bonus Plan but will be remunerated through the performance fee mechanism previously operated through the PIF in favour of Nexus, his former employer. The CFO participated in the Annual Bonus Plan and, until 31 December 2021, also in the PIF.</p> <p>The current PIF will operate until no later than in relation to the 2022 financial year.</p>	<p>After the operation of the PIF has ceased, the maximum bonus opportunity of the current CEO as a % of base salary will be the higher of 150% of salary and £750,000.</p> <p>Including any awards under the PIF, the maximum bonus opportunity of the CFO is 150% of salary.</p>	<p>Discretionary bonus pay-outs will be determined on the satisfaction of a range of key financial and personal/strategic objectives set annually by the Committee. No more than 30% of the overall bonus opportunity can be based on performance against personal/strategic targets.</p> <p>The performance targets applied will be disclosed in the relevant Annual Report, following the end of the performance period.</p> <p>Discretion will apply, enabling the Committee to adjust the bonus outcome upwards or downwards, where the formulaic outcome is, in the view of the Committee, not a fair and accurate reflection of business performance.</p> <p>No more than 25% of the relevant portion of the bonus is payable for delivering a threshold level of performance, and no more than 50% is payable for delivering a target level of performance (where the nature of the performance metric allows such an approach).</p>



## SUMMARY OF THE DIRECTORS' REMUNERATION POLICY CONTINUED

### Key elements of the Policy continued

Pay element and purpose	Operation	Opportunity	Performance metrics, weighting and assessment
<p><b>Performance Incentive Fee ("PIF")</b> The PIF is an existing arrangement for the remuneration of the senior management team including the Executive Directors.</p>	<p>The PIF's last year of operation was 2021 for the CFO and will be 2022 for the CEO. Awards made to the CEO will be in cash whilst at least half of the awards made to the CFO will be deferred into shares that should be held for three years with the remainder paid in cash. The Committee may award dividend equivalents on deferred shares to the extent they vest.</p> <p>Malus and clawback provisions will apply to the PIF, up to the date of any determination and for three years thereafter.</p> <p>The Company will honour its pre-existing commitment in respect of the awards under the PIF for the 2021 financial year.</p>	<p>Awards are capped at £1.08 million for the CEO in any year (being 60% of the £1.8 million cap).</p>	<p>The PIF will be calculated as it has in the recent past, as follows: The PIF pool is equal to 11.25% of any performance in excess of an 8% per annum increase in the Group's EPRA net asset value, plus dividends (less equity raised, net of non-cash and other necessary adjustments) paid subject to an overall cap of £1.8 million. Half of any PIF payment is deferred to the following year, with performance against the hurdle rate (both positive and negative) carried forward in a notional cumulative account with any future payment subject to the account being in a surplus position. Appropriate documentation will be put in place to ensure an adequate transition structure is in place for the period of transition from the PIF to the Annual Bonus Plan and the LTIP.</p>

# DIRECTORS' REMUNERATION REPORT CONTINUED

## SUMMARY OF THE DIRECTORS' REMUNERATION POLICY CONTINUED

### Key elements of the Policy continued

Pay element and purpose	Operation	Opportunity	Performance metrics, weighting and assessment
<p><b>Long Term Incentive Plan ("LTIP")</b> Awards are designed to incentivise the Executive Directors to maximise returns to shareholders by successfully delivering the Company's objectives over the long term in a sustainable manner.</p>	<p>Awards can be granted annually to Executive Directors under the LTIP in the form of nil-cost options or conditional awards of shares. These would vest at the end of a three-year period, normally subject to:</p> <ul style="list-style-type: none"> <li>the Executive Director's continued employment at the date of vesting; and</li> <li>satisfaction of the performance conditions.</li> </ul> <p>The Committee may award dividend equivalents on awards to the extent that they vest.</p> <p>The net of tax number of shares that vest after the end of the three-year performance period will be subject to an additional two-year holding period, during which the shares cannot be sold (irrespective of whether the individual remains employed).</p> <p>Malus and clawback provisions will apply to the award, up to the date of the LTIP determination and for three years thereafter.</p>	<p>Awards may be made up to 200% of base salary in normal circumstances.</p> <p>No more than 25% of the award will vest for threshold performance. 100% of the award will vest for maximum performance.</p>	<p>Awards vest subject to the achievement of challenging performance conditions set by the Committee prior to each grant.</p> <p>Discretion will apply, enabling the Committee to adjust the outcome upwards or downwards, where the formulaic outcome is, in the view of the Committee, not a fair and accurate reflection of business performance.</p> <p>There is no intention to award an LTIP in 2022 to the current CEO, whilst the PIF operates. However, the CFO will be granted awards from 2021.</p>
<p><b>All-employee share plan</b> To encourage share ownership.</p>	<p>The Company does not currently operate an all-employee share plan. To the extent the Company operates an all-employee share plan, the Executive Directors will be able to participate on the same terms as other employees.</p>	<p>Actual participation in these plans will be disclosed in the relevant Annual Report following the implementation and participation in these plans.</p>	<p>None.</p>
<p><b>Shareholding requirement</b> To support long term commitment to the Company and the alignment of Executive Director interests with those of shareholders.</p>	<p>The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up and then subsequently hold a shareholding equivalent to a multiple of their base salary. Requirements will continue for two years after an Executive Director ceases to be employed.</p>	<p>200% of salary.</p>	<p>None.</p>



## SUMMARY OF THE DIRECTORS' REMUNERATION POLICY CONTINUED

### Key elements of the Policy continued

Pay element and purpose	Operation	Opportunity	Performance metrics, weighting and assessment
<b>Non-executive Directors</b> To provide a competitive fee for the performance of NED duties, sufficient to attract high calibre individuals to the role.	Fees are set in conjunction with the duties undertaken.  Normally only increased when an individual takes on additional duties or where benchmarking indicated fees require realignment to remain competitive.	Overall fees will not exceed the maximum in the Company's Articles of Association.	None.  The NEDs are not entitled to receive any remuneration which is performance related. As a result, there are no performance conditions.

The table below sets out how the current Policy addresses factors set out in provision 40 of the Code, the objective of which is to ensure that the remuneration operated by the Company is aligned to all stakeholder interests, including those of shareholders.

Factor	How this is addressed
<b>Clarity</b> Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Policy is well understood by the management team and is clearly articulated to shareholders.
<b>Simplicity</b> Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The Committee is very mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, one of the Committee's objectives is to ensure that the Executive remuneration policies and practices are as simple to communicate and operate as possible, while also supporting strategy.
<b>Risk</b> Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans are identified and mitigated.	The Policy is designed to ensure that inappropriate risk taking is not encouraged and will not be rewarded via: (i) the balanced use of both short and long term incentive plans which employ a blend of financial, non-financial and shareholder return targets; (ii) the significant role played by equity in the incentive plans (together with shareholding guidelines); and (iii) malus/clawback provisions.
<b>Predictability</b> The range of possible values of rewards to individual Directors and other limits or discretions should be identified and explained.	The incentive plans are subject to individual caps, with the share plans also subject to market standard dilution limits.
<b>Proportionality</b> The link between individual awards, the delivery of strategy and the long term performance of the Company should be clear. Outcomes should not reward poor performance.	There is a clear link between individual awards, delivery of strategy and long term performance. In addition, the significant role played by incentive/"at-risk" pay ensures that poor performance is not rewarded.
<b>Alignment to culture</b> Incentive schemes should drive behaviours consistent with the Company purpose, values and strategy.	The Executive pay policies are fully aligned to the Company's culture, purpose and values.

### Statement of employment conditions elsewhere in the Company

The Committee considers pay and employment conditions across the Company when reviewing the remuneration of the Executive Directors and other senior employees. In particular, the Committee considers the range of base pay increases across the Group as well as wider workforce remuneration and related policies. The Policy for the Executive Directors is designed with regard to the policy for the workforce as a whole.

Laure Duhot, who is a member of the Committee, held a series of meetings with staff at our offices in Stratford-upon-Avon and in London to discuss a wide range of employee related matters, including pay and benefits in connection with the Board's employee engagement initiative. Through this engagement exercise the Committee is kept updated on general employment conditions and it approves the budget for annual salary increases and ensures that the remuneration of the Executive Directors is aligned with the wider PHP pay policy. The Company did not consult with employees in formulating the Policy.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## SUMMARY OF THE DIRECTORS' REMUNERATION POLICY CONTINUED

### Consideration of shareholders' views

The Company is committed to engagement with shareholders and in advance of recommending the Policy for approval by shareholders at the 2021 Annual General Meeting, Peter Cole wrote to over 20 of the Company's largest institutional shareholders and also to the main proxy voting agencies to seek their views on the proposed Policy. If any significant changes to the Policy are proposed in the future, the Company will seek to obtain major shareholders' views in advance of implementation.

The Chair of the Committee will attend the Annual General Meeting to hear the views of shareholders on the Policy and to answer any questions in relation to remuneration.

## PART 2: ANNUAL REPORT ON REMUNERATION

On the following pages we set out the Annual Report on Remuneration for the year ended 31 December 2021 which provides details of how the Policy was applied and the remuneration received by each of the Directors.

This part of the report has been prepared in accordance with the Companies Act, various companies regulations, and relevant sections of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2022 AGM. The information on pages 92 to 94 has been audited where required under the regulations and indicated as audited information where applicable.

### Executive Directors

#### Single total figure of remuneration (audited information)

The following tables detail all elements of remuneration receivable by the Executive Directors in respect of the year ended 31 December 2021 and show the comparative figures for the year ended 31 December 2020 in a separate table below.

	Salary 2021 £000	Benefits 2021 £000	Pension <sup>3</sup> 2021 £000	Total fixed 2021 £000	Annual Bonus 2021 £000	LTIP 2021 £000	PIF <sup>4</sup> 2021 £000	Other 2021 £000	Total variable 2021 £000	Total 2021 £000
Harry Hyman <sup>1</sup>	247	—	—	247	—	—	589	—	589	836
Richard Howell <sup>2</sup>	320	—	1	321	216	—	240	—	456	777

Notes:

- Under the terms of the CEO's contractual bonus provisions in his PHP service contract which was signed on 5 January 2021, he is entitled to up to 40% of the PIF. The maximum PIF payable is capped at a maximum of £1.8 million. This is paid to him in cash net of employers national insurance, half following the approval of the financial statements for the year and half in the next year. He is not paid a pension, or an annual bonus and has not been made any award under the LTIP.
- The CFO earned the following elements of variable pay in relation to 2021, some of which will be paid in subsequent years, as follows: (i) Annual Bonus (£216,000), the Annual Bonus is set by the Committee, is discretionary, of which 30% (net of tax) is deferred in to Ordinary Shares which have to be held for three years and are subject to malus and clawback; (ii) PIF (£240,000), this was payable in relation to 2021 of which £120,000 is paid to him in 2022, half in cash and half in shares which must be held for a three-year period and £120,000 paid in 2023 on the same basis. The CFO's award from the PIF is made at the discretion of the Committee. 2021 was the last year the CFO participated in the PIF.
- Following a review of remuneration and benefits across the workforce, it was agreed to increase the employer pension contribution from 1 January 2022 for the CFO to 6%, subject to a limit of £10,000 per annum. The CFO receives the same employer contribution as employees in respect of pension.
- Following the approval of the accounts, the Committee determined that as PHP's Group EPRA Net Asset Value for the year (plus dividends paid, less equity raised, net of non-cash and other necessary adjustments) had exceeded the hurdle rate of 8%, a PIF payment, had been earned and accordingly the payments to the CEO and the CFO set out in the table above were approved. Full details of how the PIF is determined are set out in the Policy on page 89.

	Salary 2020 £000	Benefits 2020 £000	Pension 2020 £000	Total fixed 2020 £000	Annual Bonus 2020 £000	LTIP 2020 £000	PIF 2020 £000	Other 2020 £000	Total variable 2020 £000	Total 2020 £000
Harry Hyman <sup>1</sup>	50	—	—	50	—	—	524	—	524	574
Richard Howell <sup>2</sup>	300	—	1	301	150	—	200	250	600	901

Notes:

- The CEO received no salary in 2020 from PHP or any member of the PHP Group. The Adviser received a fee of £50,000 in 2020 under the advisory agreement for the provision of Harry Hyman's services as Managing Director. Under the terms of the CEO's contractual bonus provisions in his PHP service contract which was signed on 5 January 2021, he is entitled to up to 40% of the PIF payable under the advisory agreement. The maximum PIF payable is capped at a maximum of £1.8 million. This is paid to him in cash, half following the approval of the financial statements for the year and half in the next year.
- The CFO earned the following elements of variable pay in relation to 2020, most of which will be paid in subsequent years, as follows: (i) Annual Bonus (£150,000), the Annual Bonus is set by the Committee, is discretionary, and is payable to him on a phased basis conditional normally on remaining employed, as follows: £75,000 payable in cash in 2021; £75,000 payable in cash in 2022; (ii) Transition bonus (£250,000), the bonus was set by the Committee, is discretionary and is in relation to the internalisation. It is payable to him on a phased basis conditional on remaining employed, as follows: £125,000 payable in cash in 2022; and £125,000 payable in cash in 2023. (iii) PIF (£200,000), this was earned in 2020 of which £100,000 is paid to him in 2021, half in cash and half in shares which must be held for a three-year period and £100,000 paid in 2022 on the same basis. The CFO's award from the PIF is made at the discretion of the Committee.



## 2021 annual bonus outcome

The CEO did not participate in the annual bonus scheme in 2021 as he retains the right to receive a payment from the PIF.

The bonus scheme for the CFO in 2021 was based on a mixture of financial targets and personal targets. The maximum potential bonus awards for 2021 were 75 % of salary. The table below includes details of the specific targets and the extent that they were met.

Metric	Weight	Threshold	Maximum	Outcome	Bonus achieved
Financial targets (equally weighted)	70%				
Adjusted earnings		£81.6m	£84m	£83.2m	80%
Total property return		6.5%	9.5%	9.5%	100%
Personal targets	30%				
Individual targets		See below	See below	See below	See below

## Personal objectives (30% of total bonus)

The personal objectives were set based on Richard Howell's individual areas of responsibility and the main objectives which were all equally weighted are set out below:

Objective	Achievement	Committee assessment
Maintenance of a strong and flexible capital structure and maintain dividend cover	During the year the CFO refinanced £350 million of loan facilities with Aviva Investors, with a new £200 million facility for a 15-year term at a fixed rate of 2.52%, and renewed its existing £100 million facility with NatWest and renewed facilities with Lloyds Bank PLC and Santander PLC. Average debt maturity was extended to seven years.	The Committee assessed that the performance of the CFO had been strong in this area, with the refinancing delivering a reduction in the overall cost of debt for the Group to 2.9% and increasing debt maturity.
Delivering on PHP's ESG initiatives, in particular exploring green finance	The new debt facilities entered into include sustainability KPIs based around PHP's existing built environment targets and the Group will benefit from a margin reduction, conditional on achieving these targets.  The Company published a standalone Responsible Business Report on its website and completed its first TFCD Report in the year.	The Committee noted the achievements in improved ESG reporting in the year, and the early reporting under TFCD. It also recognised Scope 1 & 2 energy consumption outcomes to be amongst the lowest in the REIT sector, and concluded that this objective had been met in full.
Ensuring a smooth transition of IT systems, and banking and accounting functions	The IT system was successfully transitioned off the Nexus infrastructure in the first quarter and subsequently comprehensively reviewed and migrated to a cloud-based platform without interruption.	The Committee noted the efficient transition of the systems from Nexus following the internalisation and concluded that this objective had been successfully achieved and that effective leadership of the finance function during a continued period of COVID-19 disruption meant that reporting was unaffected.
Continued cost control and maintenance of low EPRA cost ratio	During the year the cost savings anticipated in connection with the internalisation process were achieved. The EPRA cost ratio was reduced from 11.9% to 9.3% in the year.	The Committee considered that the delivery of the anticipated cost savings was a key strategic benefit of the internalisation and that the CFO had delivered on the requirement to maintain cost controls to the benefit of shareholders.
Improve risk management processes and documentation following internalisation	All risk procedures comprehensively reviewed and new environmental risk reporting framework developed.  Authorisation matrix comprehensively updated following internalisation.  Automated invoice approval system introduced minimising risk of lost invoices and improved cost control.	The Committee noted the work undertaken in the year and concluded that this objective had been significantly met.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Personal objectives (30% of total bonus) continued

Objective	Achievement	Committee assessment
Deliver an effective Investor Relations strategy and receive positive feedback from investors	Successful investor road-shows were held in the year following full year and interim results, with positive feedback received from the brokers and improved analyst coverage with HSBC and Green Street initiating coverage.  Over 200 investor meetings held during the year.	The Committee assessed that the investor engagement had been effective, particularly given the challenges posed by the COVID-19 pandemic and concluded this objective had been substantially met.

The Committee assessed Richard's performance against his personal targets after the year end and agreed that a bonus of 27% was payable in respect of this aspect of the annual bonus plan, in light of his performance against these objectives. In reaching this conclusion the Committee determined that Richard had performed strongly during the year and had succeeded in meeting the targets set for him.

In total, the bonus payable to Richard Howell in light of his performance against both the financial targets and personal objectives was equivalent to 90% of the maximum payable. This resulted in a bonus award of £216,000 of which, in line with the Policy, £64,800, representing 30% of the award after tax, will be deferred into shares to be held for three years.

In the light of the financial performance of the Company in the year and the successful delivery of the anticipated cost savings from the internalisation, together with the smooth transitioning of the Nexus workforce, the Committee is satisfied that the bonus pay-out is appropriate given the shareholder and wider stakeholder experience.

### Share scheme interests awarded during the year

Only Richard Howell participated in the LTIP during the year.

Richard Howell was granted a nil-cost option over 266,904 Ordinary Shares in PHP (the "Award"). In line with the Policy the Award has a face value of 125% of salary (calculated on the basis of a share price of £1.50, being the average closing price in the three dealing days prior to the date of grant) and will vest over three years subject to the achievement of performance targets (total accounting return: 50% and EPRA earnings per share: 50%).

The Award is subject to the following performance targets over a three-year period to 31 December 2023:

Performance measure	Weighting	Threshold vesting (10%)	Stretch vesting (100%)
Total accounting return	50%	5% per annum CAGR	10% per annum CAGR
EPRA earnings per share	50%	5% per annum CAGR	10% per annum CAGR

The Award vests on a straight line basis for performance between the applicable threshold and stretch targets and lapses to the extent the applicable threshold is not achieved.

50% of the Award is subject to the total accounting return performance measure (i.e. change in EPRA net tangible assets per share plus dividends per share paid). 50% of the Award is subject to the EPRA earnings per share performance measure.

The rationale for selecting EPRA EPS and total accounting return is that these are also key indicators of value creation for shareholders out of which the dividends are paid and the share values are driven. Total accounting return ("TAR") provides continuity with the way the PIF calculates value creation and reflects the impact of gearing as experienced by shareholders. Targets for these measures are in the table above. They are absolute, rather than relative, because in originally setting the targets there was not felt to be a suitably large list of quoted peer companies against which to make comparison. The inclusion of total shareholder return was considered by the Committee but potential volatility that is outside of management control and a very small peer group made the use of absolute and relative targets difficult to justify.

The Committee will determine whether and the extent to which the performance targets have been met, in accordance with the rules of the plan.

Harry Hyman and Richard Howell also participated in the PHP Sharesave plan. Both Harry Hyman and Richard Howell entered into a savings contract to save £500 per month (the maximum sum permitted under the plan rules). They were both granted an option to acquire 14,634 Ordinary Shares of 12.5 pence at a price of £1.23 per share.

The Company may fund its share incentives through a combination of new issue and/or market purchase shares. The Company monitors the level of share grants and the impact of these on the continuing requirements for shares. In accordance with guidelines set out by the Investment Association the Company can issue a maximum of 10% of its issued share capital in a rolling ten-year period to employees under all its share plans, with an inner limit of 5% applying to discretionary plans.



## Non-executive Directors

### Single total figure of remuneration (audited information)

	Fees		Taxable benefits		Total	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Steven Owen (Chairman)	165	125	—	—	165	125
Ian Krieger	70	63	—	—	70	63
Peter Cole	65	50	—	—	65	50
Laure Duhot	60	55	—	—	60	55
Helen Mahy <sup>1</sup>	—	15	—	—	—	15
Dr Stephen Kell <sup>1</sup>	—	12	—	—	—	12

Note:

1 Helen Mahy and Dr Stephen Kell retired from the Board at the 2020 AGM and their remuneration figure represents Directors' fees to April 2020.

The fee for the Non-executive Directors from 1 April 2020 was increased from £50,000 per annum to £55,000 in February 2021. An additional fee of £10,000 per annum was agreed to be payable to the Chairman of the Remuneration Committee, reflecting the substantially increased workload and responsibility following internalisation. Ian Krieger receives an additional payment of £10,000 for chairing the Audit Committee and £5,000 for acting as Senior Independent Director. The Chair of the Environmental, Social and Governance Committee received an additional payment of £5,000. The annual fee for the Chairman is £165,000.

### Executive Directors: contracts

Name	Date of appointment	Date of service agreement or letter of appointment
Harry Hyman	5 February 1996	5 January 2021
Richard Howell	1 April 2017	15 April 2021

Harry Hyman entered into a new contract of employment with the Company on 5 January 2021 and Richard Howell entered into a revised contract of employment with Primary Health Properties PLC on 15 April 2021 to reflect the terms of the Policy.

Harry Hyman's service contract does not permit notice to be given by either party until 4 January 2022; thereafter his service contract has a twelve-month mutual notice period. Richard Howell's service contract has a six-month mutual notice period.

### Non-executive Directors: contracts

Name	Date of appointment	Date of service agreement or letter of appointment	Length of appointment years
Steven Owen	1 January 2014	9 December 2013	8
Peter Cole	1 May 2018	1 May 2018	3
Laure Duhot	14 March 2019	14 March 2019	2
Ivonne Cantú	1 January 2022	14 December 2021	—
Ian Krieger	15 February 2018	15 February 2018	3

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

The appointment of the Chair and any Non-executive Directors may be terminated immediately if they are not re-appointed by shareholders or if they are removed by the Board under the Company's Articles of Association or if they resign and do not offer themselves for re-election. In addition, appointments may be terminated by either the individual or the Company giving three months' written notice of termination.

In accordance with the Code, the Company requires that all Directors are re-elected at each Annual General Meeting.

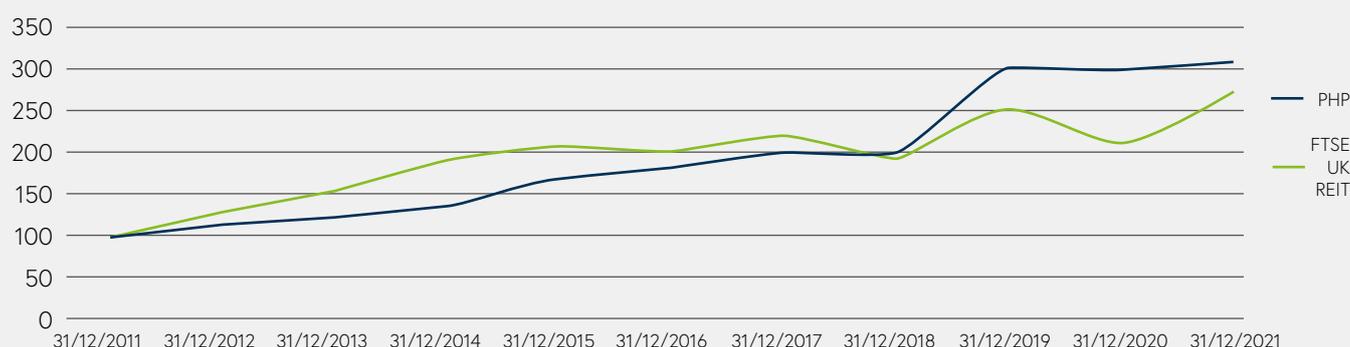
## DIRECTORS' REMUNERATION REPORT CONTINUED

### The Company's performance

The following graph compares the total shareholder return of the Company's Ordinary Shares relative to a return on a hypothetical holding over the same period in the FTSE All-Share Real Estate Investment Trust Index. This Index has been chosen by the Board as the Company is a constituent member of that Index. Total shareholder return is the measure of returns provided by a company to shareholders reflecting share price movements and assuming reinvestment of dividends.

For the year ended 31 December 2021, the highest and lowest mid-market prices of the Company's Ordinary Shares were 170.2 pence and 143.2 pence respectively.

### Total Shareholder Return Performance %



### CEO pay

This table shows how pay for the role of the CEO has changed in the last two years. This table will be expanded over future periods until a ten-year history has been provided.

	2021 £000	2020 £000
Incumbent	<b>Harry Hyman</b>	Harry Hyman
Single figure of remuneration	<b>836</b>	574
% of max bonus earned	<b>n/a</b>	n/a
% of max LTIP awards vesting	<b>n/a</b>	n/a

### Remuneration adviser

The Remuneration Committee's appointed adviser is Korn Ferry, which provides advice on Directors' remuneration and governance. Korn Ferry were appointed by the Board based on their breadth of relevant experience in establishing executive pay structures, and provide no other services to the Group. Korn Ferry has no other connection with the Company and is a signatory to the voluntary code of conduct of the Remuneration Consultants Group in relation to Executive remuneration consulting. The Committee is satisfied that its advice is independent and objective. The fees paid for its services calculated on a time and materials basis during the calendar year were £71,112.

### Relative importance of spend on pay

The following table shows the total remuneration paid to Directors and all employees, and total management fee paid compared to the dividends paid to shareholders:

	2021 £	2020 £	Difference
Directors' fees <sup>1</sup>	<b>1,888,538</b>	371,250	409%
Overall payroll, including Executive Directors <sup>2</sup>	<b>5,004,906</b>	371,250	1248%
Management fee <sup>3</sup>	<b>102,796</b>	9,777,830	-99%
Dividends	<b>82,425,791</b>	73,250,228	13%

Notes:

- As the Company had no employees in 2020 the total spend on remuneration in that year comprises just the Directors' fees.
- The payroll costs show the costs from 5 January 2021 when the internalisation completed and the Company inherited the former Nexus workforce and includes the costs of the Executive Directors.
- The management fee is the amount paid in 2020 to Nexus under the Advisory Agreement between it and the Company. A reduced fee was payable for 2021 following the internalisation of the management and termination of the Advisory Agreement.

**Relative importance of spend on pay** continued

Note: The items listed in the table are as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 Section 20 with the exception of the management fee payable to Nexus prior to internalisation, which has been included because the Directors believe it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are as shown in note 4 to the financial statements.

There is no separate amount to be disclosed with regard to Harry Hyman's remuneration during the year to 31 December 2020 as throughout this period his services were provided in accordance with the Advisory Agreement.

**Statement of Directors' shareholding and share interests (audited)**

The interests of each person who served as a Director at any time during the financial year in the share capital of the Company (all of which are beneficial unless otherwise stated) and any interests of a person connected with such persons (within the meaning of Section 96B(2) of the Financial Services and Markets Act 2000) together with their interests under the PHP Sharesave scheme and LTIP as at 31 December 2021 are shown below:

Director	Number of shares owned beneficially or by connected persons	% of salary held	Total interest subject to conditions (LTIP nil-cost awards)	Total interests subject to continued service condition only	Outstanding Sharesave options	Total interests as at 31 December 2021
Harry Hyman	24,403,690	14,740	n/a	n/a	14,634	<b>24,408,178</b>
Richard Howell	233,264	110	266,904	nil	14,634	<b>514,802</b>
Steven Owen	90,857	n/a	n/a	n/a	n/a	<b>90,857</b>
Ian Krieger	101,481	n/a	n/a	n/a	n/a	<b>101,481</b>
Peter Cole	75,000	n/a	n/a	n/a	n/a	<b>75,000</b>
Laure Duhot	23,169	n/a	n/a	n/a	n/a	<b>23,169</b>

Notes:

- Beneficial interests include shares held directly or indirectly by connected persons.
- The percentage of salary held is based on salary as at 31 December 2021 and a share price at 31 December 2021 of £1.51.

**Shareholding guidelines**

In accordance with the Policy, in order to ensure that the Executive Directors' interests are aligned with those of shareholders, the shareholding guideline (as a percentage of salary) for the Executive Directors is 200%. In addition, the Executive Directors are required to retain shares equal to the level of this guideline (or if they have not reached the guideline, those Ordinary shares that they hold on departure that count towards the guidelines at that point in time) for the two years following their departure.

The guideline shareholdings for the year ended 31 December 2021 are shown below:

Executive Director	Requirement	Guideline holding	Qualifying holding	% of salary held
Harry Hyman	200%	331,126	24,393,544	14,771
Richard Howell	200%	423,841	233,264	110

Notes:

- The percentage of salary held is based on salary as at 31 December 2021 and a share price at 31 December 2021 of £1.51.

The shareholding guidelines includes Ordinary Shares beneficially owned by the Executive Directors and their connected persons, and Ordinary Shares subject to a holding period, but net of tax if not yet exercised (e.g. shares which have vested but are subject to a sale restriction and vested but not exercised (net of tax)).

To the extent that there is a shortfall against the minimum holding at any time during an Executive Director's employment, he/she will be required to retain 50% of the deferred bonus and LTIP shares (net of taxes and exercise costs) until such time as the guideline is satisfied.

The shareholding guidelines will continue to apply for two years post cessation of employment; however, only Ordinary Shares acquired from share awards made after 1 January 2021 will be subject to this restriction.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### CEO pay ratio

Although PHP does not have more than 250 employees, and is thus not formally required to publish the ratio of CEO's pay to the wider UK workforce, we have decided to include this figure as good practice now that, following the completion of the internalisation transaction on 5 January 2021, PHP has employees.

Our CEO to colleague pay ratio is set out in the table below:

Financial year	Method used	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2021	Option A	13.6:1	6.0:1	2.3:1

The Company has chosen to use Option A as the method for calculating the CEO pay ratio. This method has been selected because PHP has a small number of employees, and this method is considered to be the most up to date and statistically accurate method of calculation.

CEO pay for 2021 has been calculated for the period 1 January 2021 to 31 December 2021 based on the single figure of remuneration.

The calculation for the pay of employees at the different levels has been calculated as at 31 December 2021. Where relevant, full-time equivalent pay was calculated by applying a proportionate increase to the pay and benefits of any part-time employees.

For the purpose of the calculations, the following elements of pay were included in the total pay figure for the employee at each quartile in the year to 31 December 2021:

- annual basic salary;
- bonus earned in the year;
- employer pension contributions; and
- Sharesave.

### Percentage change in remuneration of the Board of Directors

The table below shows the percentage change in remuneration of the Executive and Non-executive Directors compared with the average of PHP employees as a whole between the years ended 31 December 2020 and 31 December 2021.

Element of pay	Average employee (% change) <sup>1</sup>	Non-executive Directors (% change) <sup>3</sup>				Executive Directors (% change) <sup>2</sup>	
		Steven Owen	Ian Krieger	Peter Cole	Laure Duhot	Harry Hyman	Richard Howell
Basic salary/fees	n/a	32%	11%	30%	9%	400%	7%
Benefits	n/a	—	—	—	—	—	—
Annual bonus, PIF and transition bonus	n/a	n/a	n/a	n/a	n/a	12%	-24%

Notes:

- 1 The Group had no employees in 2020. In 2021 the average increase for employees was therefore not applicable.
- 2 Whilst Harry Hyman and Richard Howell were not employed by any company in the PHP Group during 2020, the movement presented reflects payments made to them under their PHP Plc contracts for 2021 and under letters of appointment for 2020.
- 3 The Non-executive Directors receive no benefits and do not participate in the annual bonus scheme.

### Payments to past Directors or for loss of office

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



### Statement of shareholder voting

At the 2021 AGM, shareholder voting on the Directors' Remuneration Report was as follows:

	Number of votes	% of total votes cast
Votes cast in favour	765,005,404	88.1
Votes cast against	103,205,973	11.9
<b>Total votes cast</b>	<b>868,211,377</b>	<b>—</b>

At the 2020 AGM, shareholder voting on the Directors' Remuneration Policy was as follows:

	Number of votes	% of total votes cast
Votes cast in favour	742,902,709	99.29
Votes cast against	5,283,534	0.71
<b>Total votes cast</b>	<b>748,186,243</b>	<b>—</b>

A General Meeting was held on 4 January 2021, at which a composite resolution (inter-alia) to approve the internalisation and the adoption of the Policy was proposed and at which shareholder voting was as follows:

	Number of votes	% of total votes cast
Votes cast in favour	759,002,089	99.95
Votes cast against	416,356	0.05
<b>Total votes cast</b>	<b>781,849,853</b>	<b>—</b>

### Approval

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

Signed on behalf of the Board of Directors

### Peter Cole

Chairman of the Remuneration Committee  
15 February 2022

# DIRECTORS' REPORT

The Directors present their Annual Report and Accounts, together with the financial statements and the Auditor's Report, for the year ended 31 December 2021 to shareholders.

## Company status

Primary Health Properties PLC is a public limited liability company incorporated under the laws of England and Wales and is the holding company of the Group. It has a premium listing on the London Stock Exchange Main Market for listed securities (LON:PHP) and is a constituent of the FTSE 250 Index. The Company has no branch offices.

## Principal activity

The principal activity of the Group remains investment in primary healthcare property in the United Kingdom and Ireland.

The purpose of the Annual Report is to provide information to the members of the Company as a body, that is a fair, balanced and understandable assessment of the Group's performance, business model and strategy. A detailed review of the Group's business and performance during the year, the principal risks and uncertainties facing the Group, its approach to sustainability, an indication of future likely developments in the Company and details of important events since the year ended 31 December 2021 are contained in the Group's Strategic Report on pages 1 to 59 and should be read as part of this report.

The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Nothing in this Annual Report should be construed as a profit forecast.

## Tax status

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

## Directors

The names and biographical information for the current Directors can be found on pages 60 and 61. Details of the Directors who served during the year and the interests of the Directors and their connected persons in the Company's Ordinary Shares can be found in the Directors' Remuneration Report on page 86.

A proposal to re-elect such Directors is to be included within the Notice calling the 2022 Annual General Meeting ("2022 AGM"). The Chairman confirms to shareholders that, following formal performance evaluation, all the Directors standing for

re-election continue to be effective and their contribution is valuable and they demonstrate full commitment to and independence in their roles.

## Appointment and removal of Directors

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

## Dividends

The results for the year are shown in the Group Statement of Comprehensive Income on page 114.

The Company has paid four interim dividends each of 1.55 pence per Ordinary Share of 12.5 pence ("Ordinary Shares") for the year, totalling 6.2 pence per share, each of which has been paid as Property Income Distribution.

On 6 January 2022, the Board declared an interim dividend of 1.625 pence per Ordinary Share, payable as an ordinary dividend on 25 February 2022, to shareholders on the register at the close of business on 14 January 2022, being the first quarterly dividend in 2022.

## Powers of Directors

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

## Appointment of Directors

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

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

## Retirement of Directors

Under the Articles at each Annual General Meeting any Director who shall have been a Director at each of the two preceding Annual General Meetings is required to stand for re-election as a Director. However, the Company has adopted the requirements of the Code in requiring the annual re-election of all Directors.

## Removal of Directors

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



## Indemnities

The Company has procured Directors' and officers' liability insurance in respect of itself, the Directors and the Directors of its subsidiaries. These indemnities are qualifying third-party indemnity provisions as defined by Section 234 of the Act.

The Company has agreed to indemnify each Director against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties. The indemnity only applies to the extent permitted by law. A copy of the deed of indemnity is available for inspection at PHP's registered office and will be available at the 2022 AGM. No indemnity was provided and no payments were made pursuant to these provisions during the year.

## Substantial interests

As at 31 January 2022 and 31 December 2021, the Company had been notified under the Disclosure Rules or was otherwise aware of the following shareholders who were directly or indirectly interested in 3% or more of the voting rights in the Company's issued share capital:

As at 31 January 2022	Ordinary Shares	Percentage of existing issued share capital
BlackRock Investment Management	94,474,378	7.1
Vanguard Group	65,593,296	4.9
Hargreaves Lansdown (EO)	53,154,626	3.9
SSGA	52,839,841	3.9
Investec Wealth & Investment	52,734,340	3.9
Legal & General Investment Management	41,226,776	3.1

As at 31 December 2021	Ordinary Shares	Percentage of existing issued share capital
BlackRock Investment Management	95,011,318	7.1
Vanguard Group	65,114,034	4.9
Hargreaves Lansdown (EO)	52,656,085	3.9
Investec Wealth & Investment	52,392,592	3.9
SSGA	47,342,258	3.5
Legal & General Investment Management	41,246,234	3.1

## Share capital

At the date of this report, the Company has one class of share in issue, being 1,332,888,185 million Ordinary Shares and each carrying the right to one vote at general meetings of the Company and to participate in any dividends declared in accordance with the Articles. There are no Ordinary Shares held in treasury. No person has any special rights of control over the Company's share capital.

At the Annual General Meeting held on 12 May 2021, the shareholders authorised the Directors to allot equity securities of the Company up to an aggregate value of £55,343,819.

During the financial year, 17,336,805 Ordinary Shares were issued of which:

- 11,485,080 Ordinary Shares were issued to Harry Hyman as part of the consideration for the acquisition of Nexus Tradeco Holdings Limited on 5 January 2021;
- 5,256,558 Ordinary Shares were issued to satisfy election for the scrip dividend alternative; and
- 595,167 Ordinary Shares were issued to certain of the former shareholders of Sarak Developments Limited in exchange for their shares on acquisition of that company and its subsidiaries that owned the Crwys Medical Centre, Cardiff.

At the 2021 Annual General Meeting shareholders authorised the Company to make market purchases of Ordinary Shares representing up to 10% of its issued share capital at the time to allot equity securities (as defined by the Act) for cash. The Company did not purchase or acquire any of its Ordinary Shares during the year, nor did any nominee or third party with the Company's assistance acquire any shares on behalf of the Company. The authority will expire at the 2022 AGM and it is proposed to seek renewal of these authorities at the forthcoming 2022 AGM.

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

## Rights attaching to shares under the Articles

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

## Voting rights

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

## Restrictions on voting

There are no restrictions on exercising voting rights save in situations where the Company is legally entitled to impose such restrictions, such as if having been served with a notice under Section 793 of the Act, a shareholder fails to disclose details of any past or present beneficial interest. The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

## Transfer

There are no restrictions on the transfer of Ordinary Shares, other than certain restrictions imposed by laws and regulations which restricts Directors and persons closely associated with them from dealing in the Company's securities without prior approval under the share dealing code.

The rights and obligations attaching to the Ordinary Shares, in addition to those conferred by law, are set out in the Articles.

## Amendment of the Company's Articles

Any amendments to the Company's Articles may be made by special resolution.

New Articles of Association were adopted by shareholders at the general meeting held on 4 January 2021. A copy of the new Articles can be obtained from the Company's website [www.phpgroup.co.uk](http://www.phpgroup.co.uk).

## Change of control

Under certain of the Group's financing agreements, including the terms of the £150 million 2.875% convertible bonds due 2025, repayment or termination of the outstanding amounts on a change of control may be required by the lenders or bondholders. There are no agreements between the Company and the Directors providing compensation for loss of office or employment or otherwise that occurs specifically because of a change of control.

The Company's share plans contain provisions that, as a result of a change of control, options and awards may vest or become exercisable, in accordance with the rules of the plans.

## Suppliers

The Group has not signed up to any specific supplier payment code; it is PHP's policy to comply with the terms of payment agreed with its suppliers. Where specific payment terms are not agreed, the Group endeavours to adhere to the suppliers' standard payment terms aims to settle supplier accounts promptly in accordance with their individual terms of business. The number of creditor days outstanding as at 31 December 2021 was 10 days (2020: 2 days, 2019: 2 days).

## Annual General Meeting

The 2022 AGM will be held on 27 April 2022 at 10.30 a.m. The notice convening the 2022 AGM and explanatory notes for the resolutions sought will be sent to shareholders not less than 21 clear days before the date of the meeting.

Full details will be set out in the notice of the meeting, but in case of any further outbreaks of the COVID-19 virus, may need to be altered at short notice and PHP will update shareholders, as necessary, via a Regulatory Information Service and the Company's website at [www.phpgroup.co.uk](http://www.phpgroup.co.uk). Shareholders are advised to check the Company's website for updates.

## Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be put to shareholders at the 2022 AGM.

## Employees

As at 31 December 2021, the Group had 62 employees.

Employees are encouraged to maximise their individual contribution to the Group. In addition to competitive remuneration packages, they participate in an annual bonus scheme which links personal contribution to the goals of the business.

In addition, all employees are eligible to participate in the PHP Sharesave plan 2021 that was approved by shareholders at the 2021 AGM and 57% of staff took up the offer to participate in the plan.

The Group is committed to the promotion of equal opportunities, supported by Board and Workforce Diversity Policy. The policy reflects both current legislation and best practice. It highlights the Group's obligations to race, gender, socio-economic and disability equality.

Full and fair consideration is given to applications for employment from disabled persons and appropriate training and career development are provided.

## Donations

The Group does not make any political donations. Details of the charitable donations made in the year are set out in the Responsible Business section.

## Share service

The Shareholder Information section on page 156 provides details of the share services available.

## Financial instruments

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

## Post balance sheet events

Details of events occurring since the year end are given in note 27 on page 145.

## Going concern

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

The Group's property portfolio is 99.7% occupied with over 90% of its income funded directly or indirectly from government sources and the average WAULT across the Group's portfolio is 11.6 years.

As at 31 December 2021, the Group had £321 million of headroom on its debt facilities, after commitments to fund on properties under construction through the course of 2022 with a further £33 million of cash. The weighted Group average unexpired loan term was 7.3 years.

The Group's consolidated loan to value ratio, including drawn, unsecured debt, is 42.9% with all banking covenants being met during the year and subsequent to the year end. In summary, at a Group level values would need to fall by 42% and Group income fall by approximately 62% before the LTV ratio and income covenants across the Group were at risk of being breached.

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



## Regulatory disclosures

Additional information which is incorporated into this report by reference, including information required in accordance with the Companies Act 2006, Listing Rule 9.8.4 and the Disclosure and Transparency Rules ("DTRs") can be found on the following pages:

Review of business and future developments Strategic Report	 See pages 1 to 59
Principal risks Risk Management section of the Strategic Report	 See pages 50 to 55
Viability statement	 See page 56
Directors' details Directors' biographies	 See pages 60 to 61
Directors' share interests Remuneration Committee Report	 See page 81
Section 172 statement Responsible Business section of the Strategic Report	 See page 48
Greenhouse gas emissions Responsible Business section of the Strategic Report	 See page 39
Financial instruments Note 17	 See pages 138 to 139
Financial risk management policies Risk Management section of the Strategic Report	 See pages 50 to 55
Related party transactions Note 26	 See page 145
Post balance sheet events Note 27	 See page 145

All other sub-sections of LR9.8.4 are not applicable. Information that fulfils the requirements of LR 9.8.6(5) and 9.8.6(6) can be found in the Governance Report on pages 60 to 104 and is incorporated into this Directors' Report by reference.

### Directors' statement as to disclosure of information to auditor

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 60 and 61. Having made enquiries of fellow Directors and of the Company's auditor, each of the Directors confirms that:

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

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

The Directors' Report was approved by the Board on 15 February 2022.

By order of the Board

### Paul Wright

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

Registered in England Number: 03033634

# 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 15 February 2022.

For and on behalf of the Board

### Steven Owen

Chairman

15 February 2022

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF PRIMARY HEALTH PROPERTIES PLC



### Report on the audit of the financial statements

#### 1. Opinion

In our opinion:

- the financial statements of Primary Health Properties Plc (the 'company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group statement of comprehensive income;
- the group and company balance sheets;
- the group and company statements of changes in equity;
- the group cash flow statement;
- the related notes 1 to 28; and
- the related notes to the company financial statements 1 to 20.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### 2. Basis for opinion

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

We are independent of the group and the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and company for the year are disclosed in note 4 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the company.

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

#### 3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"><li>• Estimation of property yields and Estimated Rental Values ("ERVs") applied in the valuation of investment property.</li></ul> Within this report, key audit matters are identified as follows: <ul style="list-style-type: none"><li>⊗ Increased level of risk</li><li>⊕ Similar level of risk</li><li>⊙ Decreased level of risk</li></ul>
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# INDEPENDENT AUDITOR'S REPORT CONTINUED

## TO THE MEMBERS OF PRIMARY HEALTH PROPERTIES PLC

### Basis for opinion continued

#### 3. Summary of our audit approach continued

Materiality	<p>The materiality that we used for the group financial statements was £29.7m which was determined on the basis of 2% of Net Assets.</p> <p>Further to net assets, we considered EPRA Earnings to be a critical financial performance measure for the group and we applied a lower threshold of £4.1 million for items affecting EPRA Earnings on the basis of 5% of EPRA Earnings.</p>
Scoping	<p>The scope has remained consistent with the prior year. We performed full scope audit procedures across the group.</p> <p>Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.</p>
Significant changes in our approach	There were no significant changes in our approach in the current year.

#### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls related to management's process for evaluating the group's ability to continue as a going concern, including the identification and evaluation of the relevant business risks and the method, model and assumptions applied by management;
- obtaining management's approved going concern model, including the sensitivities performed;
- performing a retrospective review of management's historical accuracy of forecast;
- assessing management's going concern model including the nature of the group's income and the associated guarantees with reference to analyst reports, market data and other external information;
- assessing the appropriateness of the scenario analysis, including the 'additional stress-testing' performed by management with reference to analyst reports and forecasts, historical performance and other external data;
- considering the group's position in relation to its debt facilities and respective covenants at the period end date and throughout the going concern period using forecast performance with management's going concern model; and
- evaluating management's disclosures on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.



## 5. Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Estimation of property yields and ERVs applied in the valuation of investment property

Key audit matter description	<p>The group owns and manages a portfolio of primary healthcare properties that are carried at fair value in the financial statements. The portfolio is valued at £2,795.9 million as at 31 December 2021 (2020: £2,576.1 million).</p> <p>The group uses professionally qualified external valuers to fair value the group's portfolio at six-monthly intervals. The valuers are engaged by the directors and perform their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards. The valuers used by the group have considerable experience in the markets in which the group operates.</p> <p>The portfolio is valued by the investment method of valuation, however with development properties a deduction is made for all costs necessary to complete the development</p> <p>The fair value of the group's property portfolio is driven by the yields and ERVs applied in the valuation process. The estimation of these key inputs reflect significant judgements based on factors such as (but not limited to) the volume of transactional evidence in the sector together with the characteristics of the individual property and lease. Further, the level of judgement in the yields and ERVs used in the valuation process has increased in recent years because of uncertainty caused by Covid-19 and Brexit. This in turn has resulted in fluctuations in the investment and occupier markets. Whilst the primary healthcare market has demonstrated resilience and the group's portfolio is regarded as critical infrastructure, there is a potential for increased judgement in the estimations made.</p> <p>The inherent subjectivity in relation to estimation of yields and ERVs, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the group's statement of comprehensive income and the group's balance sheet, warrants specific audit focus in this area. Furthermore, given the high level of judgement involved, we have determined that there is potential for fraud through possible manipulation of these key inputs to the valuation.</p> <p>Please see the accounting policy in note 2.3 to the financial statements. The consideration of this risk by the Audit Committee is described at page 77.</p>
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# INDEPENDENT AUDITOR'S REPORT CONTINUED

## TO THE MEMBERS OF PRIMARY HEALTH PROPERTIES PLC

### 5. Key audit matters continued

#### 5.1. Estimation of property yields and ERVs applied in the valuation of investment property continued

How the scope of our audit responded to the key audit matter	<p>We carried out the following audit procedures in response to the identified key audit matter:</p> <ul style="list-style-type: none"> <li>• obtained an understanding of relevant controls related to the management review and assessment of the work performed by the external valuers;</li> <li>• obtained an understanding of the investor and occupier market, based on transactional evidence and publicly available research, to form a view on expected movements in the key assumptions;</li> <li>• obtained and read the external valuation reports for all properties and evaluated whether the valuation approach is in accordance with RICS guidelines and suitable for use in determining the carrying value in the group balance sheet;</li> <li>• assessed the competence, capabilities and objectivity of the external valuers and read their terms of engagement with the group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;</li> <li>• met with the external valuers of the portfolio to discuss the results of their work, challenge their valuation processes and discuss significant assumptions and critical judgements over yields and ERVs in the context of publicly available information, including average yields quoted by competitors and comparable property transactions;</li> <li>• where assumptions and critical judgements relate to ERVs, corroborated the valuers' explanations to the lease agreements or rent reviews agreed in the year. In challenging the ERVs, the following procedures were undertaken:             <ul style="list-style-type: none"> <li>• tested the accuracy of any rent reviews completed in 2021 to determine an expectation for unsettled rent reviews;</li> <li>• tested the accuracy of management's forecasting as regards the outcome of rent reviews with reference to these completed rent reviews; and</li> <li>• compared management's forecast of rent reviews to the ERVs adopted by the valuers;</li> </ul> </li> <li>• selected a sample of properties, where the yields applied in the valuation were outside our expectations, and challenged the explanations provided with reference to transactional evidence or other relevant information; and</li> <li>• involved our real estate specialist to obtain an overall understanding of the primary healthcare property markets in the UK and Ireland and meet with group's property valuation specialists. We did this to understand and challenge the assumptions the valuers used including any potential further effects of Brexit and Covid-19 on the portfolio.</li> </ul>
Key observations	We concluded that the assumptions applied in relation to yields and ERVs in arriving at the fair value of the group's property portfolio were appropriate.



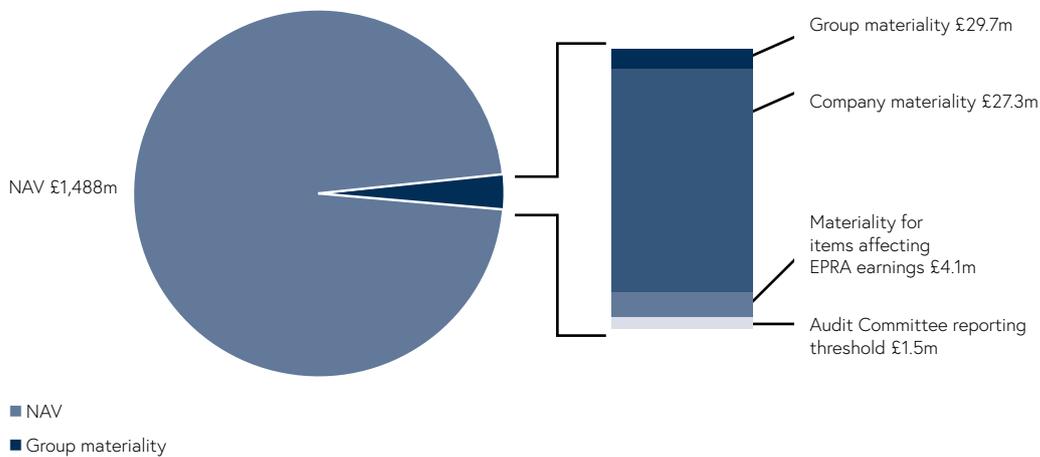
## 6. Our application of materiality

### 6.1. Materiality

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

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

	Group financial statements	Company financial statements
Materiality	£29.7 million (2020: £27.5 million) and a lower materiality of of £4.1 million (2020: £3.6 million) for balances impacting EPRA earnings.	Materiality for the company has been determined as £27.3 million (2020: £26.9 million).
Basis for determining materiality	2% of net assets (2020: 2% of net assets). The lower materiality used for balances impacting EPRA earnings was determined using 5% (2020: 5%) of EPRA Earnings.	2% of net assets (2020: 2% of net assets). The basis of net assets remains consistent with the prior year.
Rationale for the benchmark applied	The overall level of materiality was determined using net assets because this is the primary focus of investors in listed real estate businesses.  In addition to net assets, we considered EPRA Earnings to be a critical financial performance measure for the group and we applied a lower threshold of £4.1 million (2020: £3.6 million) for EPRA Earnings items	The overall level of materiality was determined using net assets as this is determined to be the most stable base for calculation.



# INDEPENDENT AUDITOR'S REPORT CONTINUED

## TO THE MEMBERS OF PRIMARY HEALTH PROPERTIES PLC

### 6. Our application of materiality continued

#### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2020: 70%) of group materiality.	70% (2020: 70%) of company materiality.
Basis and rationale for determining performance materiality	We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered factors including: <ul style="list-style-type: none"><li>• our risk assessment;</li><li>• our assessment of the group's overall control environment; and</li><li>• our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.</li></ul>	

#### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,500,000 (2020: £731,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### 7. An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at group level. The group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally as the books and records for each entity within the group are maintained at the offices of the adviser.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

We have also obtained an understanding of the processes and controls operated in relation to certain key business cycles including the property valuations, revenue, and expenditure processes.

### 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

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

We have nothing to report in this regard.



## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## 10. Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, those charged with governance and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including real estate specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: the estimation of property yields and ERVs applied in the valuation of investment property. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, REIT legislation, listing rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

# INDEPENDENT AUDITOR'S REPORT CONTINUED

## TO THE MEMBERS OF PRIMARY HEALTH PROPERTIES PLC

### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud *continued*

#### 11.2. Audit response to risks identified

As a result of performing the above, we identified the estimation of property yields and ERVs applied in the valuation of investment property as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance,; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

#### Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 102;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 56;
- the directors' statement on fair, balanced and understandable set out on page 104;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 50 to 56;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 77; and
- the section describing the work of the audit committee set out on pages 74 to 78.



## 14. Matters on which we are required to report by exception

### 14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

## 15. Other matters which we are required to address

### 15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Primary Health Properties Plc on 1 June 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2013 to 31 December 2021.

### 15.2. Consistency of the audit report with the additional report to the audit committee

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

## 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

### Sara Tubridy, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

15 February 2022

# GROUP STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £m	2020 £m
Rental income		145.6	139.0
Direct property expenses		(8.9)	(7.8)
<b>Net rental income</b>	3	<b>136.7</b>	131.2
Administrative expenses	4	(10.5)	(13.2)
Revaluation gain on property portfolio	11	110.2	51.3
Profit on sale of land and property	11	0.3	0.1
Total revaluation gain		110.5	51.4
<b>Operating profit</b>		<b>236.7</b>	169.4
Finance income	5	0.8	1.2
Finance costs	6a	(35.9)	(43.0)
Exceptional early loan redemption finance cost	6a	(24.6)	—
Termination payment and goodwill impairment on acquisition of Nexus	7	(35.3)	—
Exceptional Nexus acquisition costs	7	(1.7)	—
Fair value loss on derivative interest rate swaps and amortisation of hedging reserve	6b	(1.8)	(12.9)
Fair value gain/(loss) on convertible bond	6c	3.4	(2.3)
<b>Profit before taxation</b>		<b>141.6</b>	112.4
Taxation charge	8	(1.5)	(0.4)
<b>Profit after taxation<sup>1</sup></b>		<b>140.1</b>	112.0
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Fair value gain on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve	23	4.5	4.0
Exchange (loss)/gain on translation of foreign balances		(3.4)	2.2
<b>Other comprehensive income net of tax<sup>1</sup></b>		<b>1.1</b>	6.2
<b>Total comprehensive income net of tax<sup>1</sup></b>		<b>141.2</b>	118.2
<b>IFRS earnings per share</b>			
Basic	9	10.5p	8.8p
Diluted	9	9.8p	8.7p
<b>Adjusted earnings per share<sup>2</sup></b>			
Basic	9	6.2p	5.8p
Diluted	9	6.1p	5.7p

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

2 See Glossary of Terms on pages 158 to 160.

The above relates wholly to continuing operations.

# GROUP BALANCE SHEET

## AT 31 DECEMBER 2021



	Notes	2021 £m	2020 £m
<b>Non-current assets</b>			
Investment properties	11	2,795.9	2,576.1
Derivative interest rate swaps	17	5.2	—
Fixed assets		0.3	—
		<b>2,801.4</b>	2,576.1
<b>Current assets</b>			
Trade and other receivables	12	17.6	17.4
Cash and cash equivalents	13	33.4	103.6
Developments work in progress		0.7	—
		<b>51.7</b>	121.0
<b>Total assets</b>		<b>2,853.1</b>	2,697.1
<b>Current liabilities</b>			
Deferred rental income		(28.3)	(27.0)
Trade and other payables	14	(40.0)	(34.7)
Borrowings: term loans and overdraft	15a	(2.2)	(6.4)
		<b>(70.5)</b>	(68.1)
<b>Non-current liabilities</b>			
Borrowings: term loans and overdraft	15a	(700.2)	(623.6)
Borrowings: bonds	15b	(572.8)	(582.9)
Derivative interest rate swaps	17	(0.8)	(0.1)
Head lease liabilities	16	(4.5)	(4.5)
Deferred tax liability		(4.4)	(3.5)
		<b>(1,282.7)</b>	(1,214.6)
<b>Total liabilities</b>		<b>(1,353.2)</b>	(1,282.7)
<b>Net assets</b>		<b>1,499.9</b>	1,414.4
<b>Equity</b>			
Share capital	19	166.6	164.4
Share premium account	20	474.9	466.7
Merger and other reserves	21	413.5	400.8
Special reserve	22	—	—
Hedging reserve	23	(15.6)	(20.1)
Retained earnings	24	460.5	402.6
<b>Total equity<sup>1</sup></b>		<b>1,499.9</b>	1,414.4
<b>Net asset value per share</b>			
IFRS net assets – basic and diluted	9	112.5p	107.5p
Adjusted net tangible assets <sup>2</sup> – basic	9	116.7p	112.9p
Adjusted net tangible assets <sup>2</sup> – diluted	9	118.6p	115.4p

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

2 See Glossary of Terms on pages 158 to 160.

These financial statements were approved by the Board of Directors on 15 February 2022 and signed on its behalf by:

**Richard Howell**  
Chief Financial Officer

Registered in England Number: 3033634

# GROUP CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £m	2020 £m
<b>Operating activities</b>			
Profit on ordinary activities after tax		140.1	112.0
Taxation charge	8	1.5	0.4
Finance income	5	(0.8)	(1.9)
Finance costs	6a	35.9	43.7
Exceptional early loan redemption finance cost	6a	24.6	—
Termination payment and goodwill impairment on acquisition of Nexus	7	35.3	—
Exceptional Nexus acquisition costs	7	1.7	—
Fair value loss on derivatives	6b	1.8	12.9
Fair value loss on convertible bond	6c	(3.4)	2.3
Operating profit before financing costs		236.7	169.4
Adjustments to reconcile Group operating profit before financing to net cash flows from operating activities:			
Revaluation gain on property portfolio	11	(110.2)	(51.3)
Profit on sale of land and property	11	(0.3)	(0.1)
Long term incentive plan ("LTIP")		0.2	—
Effect of exchange rate fluctuations on operations		—	(0.3)
Fixed rent uplift		(1.2)	(1.5)
Tax paid		(0.4)	(0.2)
(Increase) in trade and other receivables		(0.3)	(1.3)
Increase in trade and other payables		15.9	4.2
<b>Cash generated from operations</b>		<b>140.4</b>	<b>118.9</b>
<b>Net cash flow from operating activities</b>		<b>140.4</b>	<b>118.9</b>
<b>Investing activities</b>			
Payments to acquire and improve investment properties		(129.6)	(102.9)
Receipts from disposal of properties		0.3	0.1
Cash paid for acquisition of Nexus, including fees		(18.2)	—
Cash acquired as part of merger		0.4	—
Interest received on development loans		0.7	1.9
<b>Net cash flow used in investing activities</b>		<b>(146.4)</b>	<b>(100.9)</b>
<b>Financing activities</b>			
Proceeds from issue of shares		—	140.0
Cost of share issues		(0.1)	(3.2)
Term bank loan drawdowns	15	335.6	17.8
Term bank loan repayments	15	(252.8)	(76.2)
Loan arrangement fees		(2.7)	(2.0)
Purchase of derivative financial instruments		(1.9)	(21.8)
Exceptional early loan redemption finance cost	6a	(24.6)	—
Swap interest paid		—	(0.1)
Non-utilisation fees		(1.8)	(1.9)
Interest paid		(40.9)	(42.0)
Bank interest received		—	0.4
Equity dividends paid net of scrip dividend	10	(74.4)	(69.1)
<b>Net cash flow from financing activities</b>		<b>(63.6)</b>	<b>(58.1)</b>
<b>(Decrease) in cash and cash equivalents for the year</b>		<b>(69.6)</b>	<b>(40.1)</b>
Effect of exchange rate fluctuations on Euro-denominated loans and cash equivalents		(0.6)	0.6
Cash and cash equivalents at start of year		103.6	143.1
<b>Cash and cash equivalents at end of year</b>	13	<b>33.4</b>	<b>103.6</b>

GROUP STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021



	Share capital £m	Share premium £m	Merger and other reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>1 January 2021</b>	164.4	466.7	400.8	—	(20.1)	402.6	1,414.4
Profit for the year	—	—	—	—	—	140.1	140.1
<b>Other comprehensive income</b>							
Amortisation of hedging reserve	—	—	—	—	4.5	—	4.5
Exchange gain on translation of foreign balances	—	—	(3.4)	—	—	—	(3.4)
<b>Total comprehensive income</b>	—	—	(3.4)	—	4.5	140.1	141.2
Shares issued on acquisition of Nexus	1.5	—	16.1	—	—	—	17.6
Shares issued for other acquisitions	0.1	0.9	—	—	—	—	1.0
Share issue expenses	—	(0.1)	—	—	—	—	(0.1)
Share-based awards ("LTIP")	—	—	—	—	—	0.2	0.2
Dividends paid	—	—	—	—	—	(74.4)	(74.4)
Scrip dividend in lieu of cash	0.6	7.4	—	—	—	(8.0)	—
<b>31 December 2021</b>	<b>166.6</b>	<b>474.9</b>	<b>413.5</b>	<b>—</b>	<b>(15.6)</b>	<b>460.5</b>	<b>1,499.9</b>
	Share capital £m	Share premium £m	Merger and other reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2020	152.0	338.1	398.6	65.4	(24.1)	298.5	1,228.5
Profit for the year	—	—	—	—	—	112.0	112.0
<b>Other comprehensive income</b>							
Fair value movement on interest rate swaps	—	—	—	—	—	—	—
Reclassification to profit and loss – amortisation of hedging reserve	—	—	—	—	4.0	—	4.0
Exchange loss on translation of foreign balances	—	—	2.2	—	—	—	2.2
<b>Total comprehensive income</b>	—	—	2.2	—	4.0	112.0	118.2
Shares issued on conversion of convertible bonds	—	—	—	—	—	—	—
Shares issued as part of capital raise	12.1	127.9	—	—	—	—	140.0
Share issue expenses	—	(3.2)	—	—	—	—	(3.2)
Dividends paid	—	—	—	(61.2)	—	(7.9)	(69.1)
Scrip dividend in lieu of cash	0.3	3.9	—	(4.2)	—	—	—
31 December 2020	164.4	466.7	400.8	—	(20.1)	402.6	1,414.4

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Corporate information

The Group's financial statements for the year ended 31 December 2021 were approved by the Board of Directors on 15 February 2022 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 page 102 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 United Kingdom 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 2021.

#### First time application of IFRS 2 Share-based payments

The Group has applied IFRS 2, which had not been applicable in prior years, for the first time in the current year. The standard requires an entity to recognise share-based payment transactions (such as granted shares, share options, or share appreciation rights) in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

### 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; through 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 FRS 101. The use of IFRSs 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 and MXF Properties Ireland Limited which are 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.



## 2. Accounting policies *continued*

### 2.3 Summary of significant accounting policies *continued*

#### 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 2021 are as follows:

- Group Balance Sheet: £1 = €1.1893 (2020: €1.1185).
- Group Statement of Comprehensive Income: £1 = €1.1778 (2020: €1.105).

#### 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.

All costs associated with the purchase and construction of investment properties under construction are capitalised including attributable interest and staff costs. Interest is calculated on the expenditure by reference to the average rate of interest on the Group's borrowings. When properties under construction are completed the capitalisation of costs ceases and they are reclassified as investment properties.

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 2.4(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. Where any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities is acquired, goodwill is recognised. This is recognised as an asset and is reviewed for impairment immediately, and then at least annually. Any impairment is recognised immediately in the income statement.

#### 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% (2020: 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2. Accounting policies continued

### 2.3 Summary of significant accounting policies continued

#### 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 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 15b 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.

#### 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.



## 2. Accounting policies continued

### 2.3 Summary of significant accounting policies continued

#### De-recognition of financial assets and liabilities continued

##### 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 and deferred tax. Taxation is recognised in the Group Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

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

##### 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2. Accounting policies continued

### 2.3 Summary of significant accounting policies continued

#### 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.

For cash flow hedging, the Group monitors the hedging instrument to check it continues to meet the criteria of IAS 39, having applied the practical expedient on transition, for being described as "highly effective" in offsetting changes in the fair values or cash flows of hedged items.

For net investment hedge relationships, the Group monitors the hedging instrument to check it continues to meet the criteria of IAS 39 for being described as "highly effective".

#### 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 Chatham (formally 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.
- 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.

#### Employee costs

##### Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are charged to the income statement as incurred.

##### Share-based employee remuneration

The fair value of equity-settled share-based payments to employees is determined with reference to the fair value of the equity instruments at the date of grant and is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares or options that will eventually vest. The fair value of awards is equal to the market value at grant date.

##### Capitalised salaries

Certain internal staff and associated costs directly attributable to the management of major projects are capitalised. Internal staff costs are capitalised from the start of the project until the date of practical completion.



## 2. Accounting policies *continued*

### 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 and health and safety legislation. Refer to Note 11 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 Chatham (formerly 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 2021. 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.

The Group is exposed to foreign exchange rate movements due to operations in Ireland. In accordance with IAS 39, in order to apply hedge accounting with the Euro-denominated cash flows, the Group has determined that it is highly probable that there will be corresponding Euro bank drawdowns and that these will be renegotiated on or before expiry.

##### 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). Where corporate entities were acquired through special purpose vehicles for holding properties rather than separate business entities, these were accounted for as asset acquisitions. Where business processes inherent in the entities were acquired, these were accounted for as a business combination.

### 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 UK:

- Amendments to IAS 1 Classification of liabilities as current or non-current.
- IAS 8 Definition of accounting estimates.
- IFRS 3 Reference to the conceptual framework.
- Annual improvements to IFRS standards 2018–2020.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2022, 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 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 £134.7 million and £10.9 million of 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 two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
2021	138.6	136.1	130.8	126.3	121.0	859.1	1,511.9
2020	134.4	133.6	131.2	126.0	121.3	935.5	1,582.0

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:

	2021 £m	2020 £m
<b>Administrative expenses including:</b>		
Advisory fees (Note 4a)	0.1	9.1
Staff costs (Note 4b)	5.2	—
Performance Incentive Fees (Note 4c)	1.0	1.6
Directors' fees	0.4	0.4
<b>Audit fees</b>		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	0.4	0.3
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	0.1	0.1
<b>Total audit fees</b>	<b>0.5</b>	<b>0.4</b>
<b>Total audit and assurance services</b>	<b>0.5</b>	<b>0.4</b>
<b>Non-audit fees</b>		
Fees payable to the Company's auditor and its associates for the interim review	0.1	0.1
Advisory services	—	—
<b>Total non-audit fees</b>	<b>0.1</b>	<b>0.1</b>
<b>Total fees</b>	<b>0.6</b>	<b>0.5</b>

Please refer to page 78 of the Audit Committee Report for analysis of non-audit fees.

#### a) Advisory fees

On 5 January 2021 the Group completed the acquisition of Nexus and internalised the management arrangements and consequently payments ceased at this date with no further amounts payable in relation to advisory fees to Nexus.

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

	2021 £m	2020 £m
Nexus Tradeco Limited ("Nexus")	0.1	9.1

As at 31 December 2021 £nil was payable to Nexus (2020: £0.8 million).

There were no other fees paid to Nexus during the year in respect of capital projects and service charge management fees (2020: £0.4 million and £0.4 million respectively).

The Group shares certain operational services with Nexus. Amounts paid during the year in relation to these shared services totalled £0.1 million, and amounts received during the year totalled £0.2 million.

Refer to Note 7 for further information on the Nexus acquisition.

**4. Group operating profit is stated after charging:** continued**b) Staff costs**

	2021 £m	2020 £m
Wages and salaries	5.6	—
Less staff costs capitalised in respect of development and asset management projects	(1.3)	—
Social security costs	0.5	—
Pension costs	0.1	—
Equity-settled share-based payments	0.3	—
	<b>5.2</b>	—

The Group operates a defined contribution pension scheme for all employees. The Group contribution to the scheme during the year was £0.1 million (2020: £nil), which represents the total expense recognised through the income statement. As at 31 December 2021, there were no contributions (2020: £nil) due in respect of the reporting period that had not been paid over to the plan.

The average monthly number of Group employees during the year was 59 (2020: nil), and as at 31 December 2021 was 62 (2020: nil).

The Executive Directors and Non-executive Directors are the key management personnel. Full disclosure of Directors' emoluments, as required by the Companies Act 2006, can be found in the Remuneration Report on pages 86 to 89.

The Group's equity-settled share-based payments comprise the following:

Scheme	Fair value measure
Long Term Incentive Plan ("LTIP")	Face value at grant date
Save As You Earn ("SAYE")	Face value at grant date

The Group expenses an estimate of how many shares are likely to vest based on the market price at the date of grant, taking account of expected performance against the relevant performance targets and service periods, which are discussed in further detail in the Remuneration Report.

**c) 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 £1.4 million was paid in the period in respect of 2020 and at 31 December 2021 the balance on the notional cumulative PIF account was £9.2 million (2020: £8.1 million), of which £1.3 million (2020: £1.5 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 on pages 23 to 27.

**5. Finance income**

	2021 £m	2020 £m
<b>Interest income on financial assets</b>		
Bank interest	—	0.4
Development loan interest	0.8	0.8
	<b>0.8</b>	1.2

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 6. Finance costs

	2021 £m	2020 £m
<b>Interest expense and similar charges on financial liabilities</b>		
<b>a) Interest</b>		
Bank loan interest	24.0	26.1
Swap interest	(0.3)	0.1
Bond interest	15.5	16.0
Bank facility non-utilisation fees	1.9	1.9
Exceptional early loan redemption finance cost	24.6	—
Bank charges and loan arrangement fees	2.7	2.7
	<b>68.4</b>	46.8
Interest capitalised	—	(0.7)
	<b>68.4</b>	46.1
Amortisation of MedicX debt MtM on acquisition	(7.9)	(3.1)
	<b>60.5</b>	43.0

The exceptional early loan redemption finance cost was an amount paid in the year to terminate the Aviva facilities. The weighted average interest rate on the loans redeemed was 4.99% with associated early repayment costs of £24.6 million.

	2021 £m	2020 £m
<b>b) Derivatives</b>		
Net fair value gain/(loss) on interest rate swaps	2.7	(8.5)
Amortisation of cash flow hedging reserve	(4.5)	(4.4)
	<b>(1.8)</b>	(12.9)

The fair value loss on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. There was no fair value gain or loss accounted for directly in equity on derivatives which do meet the hedge effectiveness criteria under IAS 39 (2020: loss of £0.4 million). An amount of £4.5 million (2020: £4.4 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.

	2021 £m	2020 £m
<b>c) Convertible bond</b>		
Fair value loss on convertible bond fully redeemed in the year	—	—
Fair value loss on convertible bond issued in the year	—	—
Fair value gain/(loss) on existing convertible bond	3.4	(2.3)
Convertible bond issue costs	—	—
	<b>3.4</b>	(2.3)

The fair value movement in the convertible bonds is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NTA (replacing EPRA NAV). Refer to Note 15 for further details about the convertible bonds.

	2021 £m	2020 £m
<b>Net finance costs</b>		
Finance income (Note 5)	0.8	1.2
Finance costs (as per above)	(68.4)	(46.8)
	<b>(67.6)</b>	(45.6)
Interest capitalised	—	0.7
	<b>(67.6)</b>	(44.9)
Amortisation of MedicX debt MtM on acquisition	7.9	3.1
	<b>(59.7)</b>	(41.8)



## 7. Business combination

On 5 January 2021 the Group's management function was internalised by acquiring PHP Tradeco Holdings Limited (formerly Nexus Tradeco Holdings Limited), which is the holding company of its long-standing external property adviser, PHP Tradeco Limited (formerly Nexus Tradeco Limited), and certain subsidiaries, including the primary care development business ("Nexus"). Primary Health Properties PLC acquired the entire issued ordinary share capital of PHP Tradeco Holdings Limited at a total cost of £34.1 million, including a termination payment of £29.0 million.

The total cost was met by £16.5 million payment in cash, and £17.6 million satisfied by the issue of 11,485,080 new Ordinary Shares of 12.5 pence each in the share capital of PHP at the quoted market price on completion of 152.8 pence per share.

The acquisition of PHP Tradeco Holdings Limited for a total fair value of consideration of £5.1 million resulted in the transfer of certain assets and liabilities and the fair value of the net liabilities acquired was £1.2 million, resulting in a goodwill on acquisition of £6.3 million.

The acquisition resulted in the termination of the advisory agreement. The total cost of terminating the Nexus agreement and goodwill on acquisition has been calculated to be £35.3 million (fair value of consideration paid £34.1 million plus fair value of net liabilities acquired £1.2 million) when taking into account the consideration and the net assets with fair value adjustments. The goodwill on acquisition of £35.3 million was to effect the termination of the management agreement with Nexus and reflects the termination notice period, approximately 2 years and 2.5 months under the management agreement totalling £29.0 million. The remaining £6.3 million represents a discretionary payment on account of the acquisition of principally the management team, assembled workforce, systems, operational platform and know-how which were "re-branded" from Nexus to PHP.

	Book value £m	Adjustments to fair value £m	Total fair value £m
Cash consideration	16.5	—	16.5
Equity instruments	17.6	—	17.6
<b>Total cost</b>	<b>34.1</b>	<b>—</b>	<b>34.1</b>
Less: termination payment	—	—	(29.0)
<b>Fair value of consideration paid</b>	<b>—</b>	<b>—</b>	<b>5.1</b>
<b>Fair value of net assets acquired</b>			
Tangible fixed assets	0.1	—	0.1
Cash and cash equivalents	0.4	—	0.4
Trade and other debtors	1.2	—	1.2
<b>Total assets</b>	<b>1.7</b>	<b>—</b>	<b>1.7</b>
Trade creditors and other creditors	(1.4)	(1.1)	(2.5)
Amounts due to HMRC	(0.4)	—	(0.4)
<b>Total liabilities</b>	<b>(1.8)</b>	<b>(1.1)</b>	<b>(2.9)</b>
<b>Fair value of net assets acquired</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>(1.2)</b>
<b>Termination payment and goodwill arising on acquisition</b>			<b>35.3</b>
<b>Net cash flow arising on acquisition</b>			
Cash consideration			16.5
Acquisition costs			1.7
Less: cash and cash equivalent balances acquired			(0.4)
			<b>17.8</b>

Acquisition of the Nexus entities contributed £nil revenue and a cost saving of approximately £3.9 million to the Group's profit for the period between the date of acquisition and the reporting date. If the acquisition had completed on the first day of the financial year, the impact on Group revenues for the year would have been £nil and the impact on Group profit would have been a cost saving of approximately £4.0 million.

## 8. Taxation

### a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2021 £m	2020 £m
<b>Current tax</b>		
UK corporation tax	—	—
Irish corporation tax	0.1	0.1
Deferred tax on Irish activities	1.4	0.3
<b>Total tax</b>	<b>1.5</b>	<b>0.4</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8. Taxation continued

#### a) Taxation charge in the Group Statement of Comprehensive Income continued

The UK corporation tax rate of 19% (2020: 19%) and the Irish corporation tax rate of 20% (2020: 20%) have been applied in the measurement of the Group's UK and Ireland related activities tax liability at 31 December 2021.

#### b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2020: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £m	2020 £m
Profit on ordinary activities before taxation	141.6	112.4
Theoretical tax at UK corporation tax rate of 19% (2020: 19%)	26.9	21.4
REIT exempt income	(36.4)	(25.7)
Transfer pricing adjustment	4.7	4.1
Termination payment and goodwill impairment on acquisition of Nexus	7.0	—
Fair value (gain)/loss on convertible bond	(0.6)	0.4
Non-taxable items	(0.6)	0.2
Losses brought forward utilised	(0.2)	—
Irish corporation tax	0.7	0.7
Deferred tax on Irish activities	—	(0.8)
Taxation charge (Note 8a)	1.5	0.4

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% (2020: 19%).

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 2021.

The Group's activities in Ireland are conducted via Irish companies, a Guernsey company and an Irish Collective Asset Vehicle ("ICAV"). The Irish companies pay Irish corporation tax on trading activities and deferred tax is calculated on the increase in capital values. The Guernsey company pays tax on its net rental income. The ICAV does not pay any Irish corporation tax on its profits but a 20% withholding tax is paid on distributions to owners.

## 9. Earnings per share

### Performance measures

In the tables below, we present earnings per share and net assets per share calculated in accordance with IFRSs, together with our own adjusted measure and certain measures defined by the European Public Real Estate Association ("EPRA"), which have been included to assist comparison between European property companies. Two of the Group's key financial performance measures are adjusted earnings per share and adjusted net tangible assets per share.

Adjusted earnings, which is a tax adjusted measure of revenue profit, is the basis for the calculation of adjusted earnings per share. We believe adjusted earnings and adjusted earnings per share provide further insight into the results of the Group's operational performance to stakeholders as they focus on the net rental income performance of the business and exclude capital and other items which can vary significantly from year to year.

**9. Earnings per share** continued**Earnings per share**

	2021			2020		
	IFRS earnings £m	Adjusted earnings £m	EPRA earnings £m	IFRS earnings £m	Adjusted earnings £m	EPRA earnings £m
Profit after taxation	140.1	140.1	140.1	112.0	112.0	112.0
Adjustments to remove:						
Revaluation gain on property portfolio	—	(110.2)	(110.2)	—	(51.3)	(51.3)
Profit on sale of land and property	—	(0.3)	(0.3)	—	(0.1)	(0.1)
Fair value movement on derivatives	—	1.8	1.8	—	12.9	12.9
Fair value movement and issue costs on convertible bond	—	(3.4)	(3.4)	—	2.3	2.3
Taxation charge	—	1.5	1.5	—	0.4	0.4
Termination payment and goodwill impairment on acquisition of Nexus	—	35.3	6.3	—	—	—
Exceptional Nexus acquisition costs	—	1.7	1.7	—	—	—
Early termination fees on bank debt	—	24.6	24.6	—	—	—
MtM write off on early termination of bank debt	—	(4.7)	—	—	—	—
Amortisation of MtM loss on debt acquired	—	(3.2)	—	—	(3.1)	—
Basic earnings	140.1	83.2	62.1	112.0	73.1	76.2
Dilutive effect of convertible bond	0.9	4.3	4.3	6.6	4.3	4.3
Diluted earnings	141.0	87.5	66.4	118.6	77.4	80.5

**Number of shares**

	2021 weighted average			2020 weighted average		
	million	million	million	million	million	million
Ordinary Shares	1,330.4	1,330.4	1,330.4	1,266.4	1,266.4	1,266.4
Dilutive effect of convertible bond	105.4	105.4	105.4	102.0	102.0	102.0
Diluted Ordinary Shares	1,435.8	1,435.8	1,435.8	1,368.4	1,368.4	1,368.4

Profit/(loss) per share attributable to shareholders:

	IFRS pence	Adjusted pence	EPRA pence	IFRS pence	Adjusted pence	EPRA pence
Basic	10.5	6.2	4.7	8.8	5.8	6.0
Diluted	9.8	6.1	4.6	8.7	5.7	5.9

**Net assets per share**

	31 December 2021			31 December 2020		
	IFRS £m	Adjusted £m	EPRA £m	IFRS £m	Adjusted £m	EPRA £m
Net assets attributable to shareholders	1,499.9	1,499.9	1,499.9	1,414.4	1,414.4	1,414.4
Derivative interest rate swaps liability		(4.4)	(4.4)		0.1	0.1
Deferred tax		4.4	4.4		3.5	3.5
Cumulative convertible bond fair value movement		21.6	21.6		25.0	25.0
MtM on MedicX loans net of amortisation		34.4	—		42.3	—
Net tangible assets ("NTA")		1,555.9	1,521.5		1,485.3	1,443.0
Real estate transfer taxes			189.0			174.7
Net reinstatement value ("NRV")			1,710.5			1,617.7
Fixed rate debt and swap MtM value			(20.1)			(88.0)
Deferred tax			(4.4)			(3.5)
Cumulative convertible bond fair value movement			(21.6)			(25.0)
Real estate transfer taxes			(189.0)			(174.7)
Net disposal value ("NDV")			1,475.4			1,326.5

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 9. Earnings per share continued

### Ordinary Shares

	million	million	million	million	million	million
Issued share capital	<b>1,332.9</b>	<b>1,332.9</b>	<b>1,332.9</b>	1,315.6	1,315.6	1,315.6

### Basic net asset value per share<sup>1</sup>

	IFRS pence	Adjusted pence	EPRA pence	IFRS pence	Adjusted pence	EPRA pence
Net tangible assets ("NTA")	<b>112.5</b>	<b>116.7</b>	<b>114.1</b>	107.5	112.9	109.7
Net reinstatement value ("NRV")			<b>128.3</b>			123.0
Net disposal value ("NDV")			<b>110.7</b>			100.8

1 The above are calculated on a "basic" basis without the adjustment for the impact of the convertible bond which is shown in the diluted basis table below.

### Diluted net asset value per share<sup>2</sup>

	31 December 2021			31 December 2020		
	IFRS pence	Adjusted pence	EPRA pence	IFRS pence	Adjusted pence	EPRA pence
Net tangible assets ("NTA")	<b>114.7</b>	<b>118.6</b>	<b>116.2</b>	110.4	115.4	112.4
Net reinstatement value ("NRV")			<b>129.4</b>			124.7
Net disposal value ("NDV")			<b>113.0</b>			104.2

2 The Company assesses the dilutive impact of the unsecured convertible bond, issued by the Group on 15 July 2019, on its net asset value per share with a current exchange price of 142.29 pence (31 December 2020: 147.10 pence).

Conversion of the convertible bond would result in the issue of 105.4 million (31 December 2020: 102.0 million) new Ordinary Shares. The IFRS net asset value and EPRA NDV would increase by £171.6 million (31 December 2020: £175.0 million) and the EPRA NTA, adjusted NTA and EPRA NRV would increase by £150.0 million (31 December 2020: £150.0 million). The resulting diluted net asset values per share are anti-dilutive to all measures and are set out in the table above.

## 10. Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £m	2020 £m
Quarterly interim dividend paid 26 February 2021	<b>18.7</b>	—
Scrip dividend in lieu of quarterly cash dividend 26 February 2021	<b>1.8</b>	—
Quarterly interim dividend paid 21 May 2021	<b>17.7</b>	—
Scrip dividend in lieu of quarterly cash dividend 21 May 2021	<b>2.9</b>	—
Quarterly interim dividend paid 20 August 2021	<b>18.3</b>	—
Scrip dividend in lieu of quarterly cash dividend 20 August 2021	<b>2.4</b>	—
Quarterly interim dividend paid 26 November 2021	<b>19.7</b>	—
Scrip dividend in lieu of quarterly cash dividend 26 November 2021	<b>0.9</b>	—
Quarterly interim dividend paid 21 February 2020	—	16.9
Scrip dividend in lieu of quarterly cash dividend 21 February 2020	—	1.0
Quarterly interim dividend paid 22 May 2020	—	16.9
Scrip dividend in lieu of quarterly cash dividend 22 May 2020	—	1.1
Quarterly interim dividend paid 21 August 2020	—	16.4
Scrip dividend in lieu of quarterly cash dividend 21 August 2020	—	1.5
Quarterly interim dividend paid 20 November 2020	—	18.9
Scrip dividend in lieu of quarterly cash dividend 20 November 2020	—	0.6
<b>Total dividends distributed in the year</b>	<b>82.4</b>	73.3
<b>Per share</b>	<b>6.2p</b>	5.9p

On 6 January 2022, the Board declared an interim dividend of 1.625 pence per Ordinary Share with regard to the year ended 31 December 2021, payable on 25 February 2022. This dividend will comprise wholly of a ordinary dividend of 1.625 pence and no Property Income Dividend ("PID").



## 11. Investment properties and investment properties under construction

Properties have been independently valued at fair value by Lambert Smith Hampton UK, Jones Lang LaSalle and CBRE Chartered Surveyors and Valuers, as at the balance sheet date in accordance with accounting standards. The valuers have confirmed that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards 2017 (the "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 COVID-19 pandemic continues to provide some degree of uncertainty surrounding the valuation of certain property sub-sectors; however, the primary care real estate sector remains robust, and as a result neither UK nor Irish valuers have included a material uncertainty clause in the valuation report at 31 December 2021.

The properties are 99.7% let (2020: 99.6%). The valuations reflected a 4.64% (2020: 4.81%) net initial yield and a 4.74% (2020: 4.84%) 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 valuers.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by the valuers. 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, the valuers have deducted the outstanding cost to the Group through to the completion of construction of £9.0 million (2020: £32.1 million) in arriving at the fair value to be included in the financial statements.

In addition to the above, capital commitments have been entered into amounting to £19.0 million (2020: £7.5 million) which have not been provided for in the financial statements.

A fair value increase of £0.4 million (2020: £0.2 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 the property portfolio in the year of £110.2 million (2020: £51.3 million).

Of the £2,791.4 million (2020: £2,571.6 million) valuation, £2,578.4 million (92%) (2020: £2,373.9 million) relates to investment properties in the UK and £213.0 million (8%) (2020: £197.7 million) relates to investment properties in Ireland.

In line with accounting policies, the Group has assessed whether the acquisitions during the year were asset purchases or business combinations.

	Investment properties freehold <sup>1</sup> £m	Investment properties long leasehold £m	Investment properties under construction £m	Total £m
<b>As at 1 January 2021</b>	2,061.3	491.4	23.4	2,576.1
Property additions	52.4	48.1	22.4	122.9
Property disposals	(2.0)	—	—	(2.0)
Impact of lease incentive adjustment	0.7	0.4	—	1.1
Transfer from properties under construction	23.4	2.9	(26.3)	—
Foreign exchange movements	(9.7)	(2.0)	(0.7)	(12.4)
	2,126.1	540.8	18.8	2,685.7
Revaluations for the year	82.3	27.5	0.4	110.2
<b>As at 31 December 2021</b>	<b>2,208.4</b>	<b>568.3</b>	<b>19.2</b>	<b>2,795.9</b>
As at 1 January 2020	1,902.2	476.9	34.0	2,413.1
Property additions	66.3	0.4	33.3	100.0
Property disposals	0.1	—	—	0.1
Impact of lease incentive adjustment	0.9	0.6	—	1.5
Transfer from properties under construction	46.8	—	(46.8)	—
Interest capitalised	—	—	0.7	0.7
Foreign exchange movements	7.0	0.4	2.0	9.4
	2,023.3	478.3	23.2	2,524.8
Revaluations for the year	38.0	13.1	0.2	51.3
As at 31 December 2020	2,061.3	491.4	23.4	2,576.1

<sup>1</sup> Includes development land held at £0.9 million (31 December 2020: £0.9 million).

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £2,515.4 million (2020: £2,483.2 million).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 11. Investment properties and investment properties under construction continued

#### Right of use assets

In accordance with IFRS 16 Leases, the Group has recognised a £4.5 million head lease liability and an equal and opposite finance lease asset which is included in non-current assets.

#### 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 2021 and 31 December 2020. There were no transfers between levels during the year or during 2020. 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. ERV is also used in determining expected rental uplift on outstanding rent reviews.

	2021	2020
ERV – range of the portfolio	<b>£30,000 – £1,433,486</b> per annum	£18,000 – £1,242,000 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.

	2021	2020
True equivalent yield – range of the portfolio	<b>3.23% – 19.58%</b>	3.11% – 19.51%

#### 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 1% decrease/increase in annual rent would have an approximately £28 million decrease/increase in the investment property valuation.
- A decrease in the equivalent yield will increase the fair value. A 0.10% shift of equivalent yield would have an approximately £60 million impact on the investment property valuation.
- 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.

**12. Trade and other receivables**

	2021 £m	2020 £m
Trade receivables (net of provision for doubtful debts)	11.6	9.8
Prepayments and accrued income	5.4	7.1
Other debtors	0.6	0.5
	<b>17.6</b>	17.4

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 on the recoverability, general economic conditions of the industry and an assessment of both the current and 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.

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**

	2021 £m	2020 £m
Cash held at bank	33.4	103.6
	<b>33.4</b>	103.6

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**

	2021 £m	2020 £m
Trade payables	0.6	0.7
Bank and bond loan interest accrual	6.3	8.0
Other payables	9.1	8.6
VAT	6.6	6.5
Accruals	17.4	10.9
	<b>40.0</b>	34.7

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 15. Borrowings

#### a) Term loans and overdrafts

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

	Expiry date	Facility		Amounts drawn		Undrawn	
		2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
<b>Current</b>							
RBS overdraft	Jun 2022	5.0	5.0	—	—	5.0	5.0
Santander <sup>2</sup>	Jul 2021	—	30.6	—	—	—	30.6
Aviva HIL loan <sup>1</sup>	Jan 2032	—	1.0	—	1.0	—	—
Aviva MXF loan	Sep 2033	2.2	2.0	2.2	2.0	—	—
Aviva loan <sup>1</sup>	Jun 2040	—	0.7	—	0.7	—	—
Aviva loan <sup>1</sup>	Aug 2029	—	2.7	—	2.7	—	—
		<b>7.2</b>	<b>42.0</b>	<b>2.2</b>	<b>6.4</b>	<b>5.0</b>	<b>35.6</b>
<b>Non-current</b>							
Aviva HIL loan <sup>1</sup>	Jan 2032	—	19.4	—	19.4	—	—
Aviva AV loan	Oct 2036	200.0	—	200.0	—	—	—
Aviva loan <sup>1</sup>	Dec 2022	—	25.0	—	25.0	—	—
Aviva loan	Nov 2028	75.0	75.0	75.0	75.0	—	—
Aviva loan <sup>1</sup>	Aug 2024	—	50.0	—	50.0	—	—
Aviva loan <sup>1</sup>	Aug 2029	—	57.3	—	57.3	—	—
Barclays loan	Dec 2023	100.0	100.0	—	—	100.0	100.0
HSBC loan	Nov 2024	100.0	100.0	25.5	—	74.5	100.0
Lloyds loan	Dec 2024	50.0	50.0	38.7	28.8	11.3	21.2
RBS loan <sup>1</sup>	Mar 2022	—	100.0	—	59.4	—	40.7
NatWest loan	Oct 2024	100.0	—	86.3	—	13.7	—
Aviva MXF loan	Sep 2033	225.2	227.4	225.2	227.4	—	—
Aviva MXF loan	Sep 2028	30.8	30.8	30.8	30.8	—	—
Aviva loan <sup>1</sup>	Jun 2040	—	24.1	—	24.1	—	—
		<b>881.0</b>	<b>859.0</b>	<b>681.5</b>	<b>597.2</b>	<b>199.5</b>	<b>261.9</b>
<b>Total</b>		<b>888.2</b>	<b>901.0</b>	<b>683.7</b>	<b>603.6</b>	<b>204.5</b>	<b>297.5</b>

1 Refinanced during 2021.

2 Facility has been renewed in January 2022. Refer to Note 27 for more details.

**15. Borrowings** continued**a) Term loans and overdrafts** continued

	2021 £m	2020 £m
<b>Balance as at 1 January</b>	<b>630.0</b>	688.8
<b>Changes from financing activities</b>		
Term bank loan drawdowns	<b>335.6</b>	17.8
<b>New loan facilities drawn</b>	<b>335.6</b>	17.8
Repayments of mortgages principal	<b>(20.4)</b>	(3.6)
Repayments of term bank loans	<b>(232.4)</b>	(72.6)
<b>Repayments of term loan borrowings</b>	<b>(252.8)</b>	(76.2)
Loan issue costs for new facilities/refinancing	<b>(2.7)</b>	(1.9)
<b>Total changes from financing cash flows</b>	<b>80.1</b>	(60.3)
<b>Other non-cash changes</b>		
MtM on loans net of amortisation	<b>(7.2)</b>	(2.4)
Amortisation of loan issue costs	<b>2.2</b>	2.4
Exchange (gain)/loss on translation of foreign balances	<b>(2.7)</b>	1.5
<b>Total other changes</b>	<b>(7.7)</b>	1.5
<b>Balance as at 31 December</b>	<b>702.4</b>	630.0

At 31 December 2021, total facilities of £1,437.4 million (2020: £1,456.8 million) were available to the Group. This included a £70.0 million secured bond, a £100.0 million secured bond, a £150.0 million nominal value convertible bond, £42.9 million and £58.8 million Euro-denominated bonds, a £50.0 million Ignis loan note, a £77.5 million Standard Life loan note and a £5.0 million overdraft facility. Of these facilities, as at 31 December 2021, £1,232.9 million was drawn (2020: £1,159.3 million).

On 22 October 2021, the Group secured a new £200.0 million 15-year debt facility with Aviva Investors at a fixed rate of 2.52%. The proceeds of the loan have been used to repay a number of legacy facilities with Aviva Investors totalling £177.0 million at a blended fixed rate of 5.0% and weighted average term of just under six years. As part of the refinancing a termination cost of £24.6 million has been paid.

On 27 October 2021, the Group has renewed its existing £100.0 million revolving credit facility with NatWest for a further three-year term with options to extend by a further year on the first and second anniversaries of the new facility.

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:

	2021 £m	2020 £m
Term loans drawn: due within one year	<b>2.2</b>	6.4
Term loans drawn: due in greater than one year	<b>681.5</b>	597.2
Total terms loans drawn	<b>683.7</b>	603.6
Plus: MtM on loans net of amortisation	<b>29.3</b>	36.6
Less: unamortised borrowing costs	<b>(10.6)</b>	(10.2)
<b>Total term loans per the Group Balance Sheet</b>	<b>702.4</b>	630.0

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 15. Borrowings continued

#### b) Bonds

	2021 £m	2020 £m
<b>Unsecured:</b>		
Convertible bond July 2025 at fair value	171.6	175.0
Less: unamortised costs	—	—
Total unsecured bonds	171.6	175.0
<b>Secured:</b>		
Secured bond December 2025	70.0	70.0
Secured bond March 2027	100.0	100.0
€51 million secured bond (Euro private placement) December 2028-30	42.9	45.6
€70 million secured bond (Euro private placement) September 2031	58.8	62.6
Ignis loan note December 2028	50.0	50.0
Standard Life loan note September 2028	77.5	77.5
Less: unamortised bond issue costs	(3.1)	(3.6)
Plus: MtM on loans net of amortisation	5.1	5.8
Total secured bonds	401.2	407.9
Total bonds	572.8	582.9

There were no bond conversions during the year (2020: £nil).

#### Secured bonds

On 18 December 2013, PHP successfully listed the floating rate guaranteed secured bonds issued on 4 November 2013 (the "Secured Bonds") on the London Stock Exchange. The Secured Bonds have a nominal value of £70.0 million and mature on 3 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 £100.0 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, senior secured notes for a total of €51.0 million (£42.9 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:

- €40.0 million 2.46% senior notes due December 2028.
- €11.0 million 2.633% senior notes due December 2030.

On 16 September 2019, new senior secured notes for a total of €70.0 million (£58.8 million) were issued at a fixed rate of 1.509% and a maturity of twelve years. Interest is paid semi-annually in arrears. The secured notes are guaranteed by the Company and were placed with UK and Irish institutional investors.

#### Ignis and Standard Life loan notes

On 14 March 2019, the loan notes were added to the portfolio as a part of the MedicX acquisition. The Ignis loan note of £50.0 million incurs a fixed coupon of 3.99% payable semi-annually in arrears and matures on 1 December 2028.

The Standard Life loan note matures on 30 September 2028 and is split into two tranches, £50.0 million and £27.5 million at fixed coupon rates of 3.84% and 3.00% respectively. Interest is payable semi-annually in arrears.

**15. Borrowings** continued**b) Bonds** continued**Convertible bond**

On 15 July 2019, PHP Finance (Jersey No.2) Limited (the "Issuer"), a wholly owned subsidiary of the Group, issued £150.0 million of 2.875% convertible bonds (the "Bonds") for a six-year term and if not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on maturity in July 2025. The net proceeds were partially used to repay the Company's £75.0 million 5.375% senior unsecured retail bonds at maturity and otherwise for general corporate purposes.

Subject to certain conditions, the Bonds will be convertible into fully paid Ordinary Shares of the Company and the initial exchange price was set at 153.25 pence, a premium of 15% above the volume weighted average price of the Company's shares on 18 June 2019, being 133.26 pence. Under the terms of the Bonds, the Company will have the right to elect to settle exercise of any conversion rights entirely in shares or cash, or with a combination of shares and cash. The exchange price is subject to adjustment if dividends paid per share exceed 2.8 pence per annum and other certain circumstances and consequently the exchange price has been adjusted to 142.29 pence as at 31 December 2021 (2020: 147.10 pence).

	2021 £m	2020 £m
Opening balance – fair value	175.0	172.7
Issued in the year	—	—
Cumulative fair value movement in convertible bond	(3.4)	2.3
<b>Closing balance – fair value</b>	<b>171.6</b>	<b>175.0</b>

The fair value of the Bonds at 31 December 2021 and 31 December 2020 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 NTA (replacing EPRA NAV).

**c) Total borrowings**

	2021 £m	2020 £m
Current liabilities:		
Term loans and overdrafts	2.2	6.4
Bonds	—	—
<b>Total current liabilities</b>	<b>2.2</b>	<b>6.4</b>
Non-current liabilities:		
Term loan and overdrafts	681.5	597.2
MtM on loans net of amortisation	29.3	36.6
Less: unamortised loan issue costs	(10.6)	(10.2)
	<b>700.2</b>	<b>623.6</b>
Bonds	549.2	555.7
MtM on loans net of amortisation	5.1	5.8
MtM on convertible bond	21.6	25.0
Less: unamortised bond issue costs	(3.1)	(3.6)
Total non-current bonds	<b>572.8</b>	<b>582.9</b>
<b>Total borrowings</b>	<b>1,275.2</b>	<b>1,212.9</b>

**16. Head lease liabilities**

The Group holds certain long leasehold properties which are classified as investment properties. The head leases are accounted for as finance leases. These leases typically have lease terms between 25 years and perpetuity and fixed rentals.

	2021 £m	2020 £m
Due within one year	0.1	0.1
Due after one year	4.4	4.4
<b>Closing balance – fair value</b>	<b>4.5</b>	<b>4.5</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 17. Derivatives and other financial instruments

It is Group policy to maintain the proportion of floating rate interest exposure at between 20% and 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.

	2021 £m	2020 £m
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 ("effective swaps")		
Non-current liabilities	—	—
	—	—
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 ("ineffective swaps")		
Non-current assets	5.2	—
Non-current liabilities	(0.8)	(0.1)
	4.4	(0.1)
Total fair value of interest rate swaps	4.4	(0.1)
<b>Shown in the balance sheet as:</b>		
Total non-current assets	5.2	—
Total non-current liabilities	(0.8)	(0.1)

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 2021 was a £4.5 million gain (2020: £4.0 million gain), including the amortisation of the cash flow hedging reserve of £4.5 million (2020: £4.4 million).

Interest rate swaps and caps with a contract value of £188.0 million (2020: £188.0 million) were in effect at 31 December 2021. Details of all floating to fixed rate interest rate swap contracts held are as follows:

Contract value	Product	Start date	Maturity	Fixed interest per annum %
<b>2021</b>				
£88.0 million	Swap	September 2020	March 2022	0.0397
£100.0 million	Swap	October 2021	November 2024	0.0699
£(66.0) million	Reverse swap	October 2021	November 2024	2.5200
£66.0 million	Cap	October 2021	November 2024	1.2500
£(67.0) million	Reverse swap	October 2021	November 2024	2.5200
£67.0 million	Cap	October 2021	November 2024	1.2500
£(67.0) million	Reverse swap	October 2021	November 2024	2.5200
£67.0 million	Cap	October 2021	November 2024	1.2500
£188.0 million				
<b>2020</b>				
£88.0 million		September 2020	March 2022	0.0397
£100.0 million		September 2020	November 2024	0.0699
£188.0 million				

On 28 October 2021 the HSBC £100.0 million variable leg of the LIBOR swap was converted to SONIA. The term and fixed rate were unchanged at November 2024 expiry and 0.0699%.



## 17. Derivatives and other financial instruments continued

On 27 October 2021 three new swap agreements were entered into totalling £200.0 million. All are effective until 29 November 2024 and receive a fixed rate of 2.52%, with variable rates payable. These included a £66.0 million swap agreement with HSBC paying a variable of SONIA + 1.6275%, a £67.0 million swap agreement with Barclays paying a variable of SONIA + 1.575% and a £67.0 million swap agreement with NatWest paying a variable of SONIA + 1.5849%. A one-off payment of £1.8 million across all three new swap agreements was made to cap SONIA at 1.25% for the length of the agreement, equivalent to 0.1 pence per share on an adjusted net tangible asset value basis.

## 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 Report. 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
<b>2021</b>				
London Interbank Offered Rate	Increase of 50 basis points	<b>5.5</b>	<b>6.0</b>	<b>11.5</b>
London Interbank Offered Rate	Decrease of 50 basis points	<b>(5.5)</b>	<b>(6.0)</b>	<b>(11.5)</b>
<b>2020</b>				
London Interbank Offered Rate	Increase of 50 basis points	4.5	5.0	9.5
London Interbank Offered Rate	Decrease of 50 basis points	(4.5)	(5.0)	(9.5)

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 18. Financial risk management continued

#### Financial risk factors continued

##### b) Credit risk continued

###### 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 is 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
<b>2021</b>						
Interest-bearing loans and borrowings	—	9.8	29.7	514.6	1,001.4	1,555.5
Interest rate swaps (net)	—	—	—	—	—	—
Trade and other payables	1.6	29.6	3.2	2.9	2.0	39.3
	<b>1.6</b>	<b>39.4</b>	<b>32.9</b>	<b>517.5</b>	<b>1,003.4</b>	<b>1,594.8</b>
<b>2020</b>						
Interest-bearing loans and borrowings	—	10.8	32.7	543.5	885.5	1,472.5
Interest rate swaps (net)	—	0.4	1.1	2.1	—	3.6
Trade and other payables	0.5	25.7	4.0	2.4	2.1	34.7
	0.5	36.9	37.8	548.0	887.6	1,510.8

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 (2020: 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 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 Report 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.

**18. Financial risk management** continued**Financial risk factors** continued

## d) Market risk continued

## Fair values

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

	Book value 2021 £m	Fair value 2021 £m	Book value 2020 £m	Fair value 2020 £m
<b>Financial assets</b>				
Trade and other receivables	17.6	17.6	17.4	17.4
Effective interest rate swaps	—	—	—	—
Ineffective interest rate swaps	5.2	5.2	—	—
Cash and short term deposits	33.4	33.4	103.6	103.6
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	(1,232.9)	(1,275.1)	(1,159.3)	(1,212.9)
Effective interest rate swaps	—	—	—	—
Ineffective interest rate swaps (net)	(0.8)	(0.8)	(0.1)	(0.1)
Trade and other payables	(40.0)	(40.0)	(34.7)	(34.7)

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.
- 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 2021 were as follows:

Recurring fair value measurements	Level 1 <sup>1</sup> £m	Level 2 <sup>2</sup> £m	Level 3 <sup>3</sup> £m	Total £m
<b>Financial assets</b>				
Derivative interest rate swaps	—	5.2	—	5.2
<b>Financial liabilities</b>				
Derivative interest rate swaps	—	(0.8)	—	(0.8)
Convertible bond	(171.6)	—	—	(175.0)
Fixed rate debt	—	921.3	—	921.3

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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 18. Financial risk management continued

### Financial risk factors continued

#### d) Market risk continued

##### Fair value hierarchy continued

Fair value measurements at 31 December 2020 were as follows:

Recurring fair value measurements	Level 1 <sup>1</sup> £m	Level 2 <sup>2</sup> £m	Level 3 <sup>3</sup> £m	Total £m
<b>Financial assets</b>				
Derivative interest rate swaps	—	—	—	—
<b>Financial liabilities</b>				
Derivative interest rate swaps	—	(0.1)	—	(0.1)
Convertible bond	(175.0)	—	—	(175.0)
Fixed rate debt	—	(981.5)	—	(981.5)

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 17 and the Group's equity is analysed into its various components in the Group Statement of Changes in Equity. The Board 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 (2020: 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<sup>1</sup>: 1.05 to 2.25 (2020: 1.05 to 1.75); and
- loan to value<sup>1</sup>: 55% to 75% (2020: 55% 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.

1 See Glossary of Terms.

**18. Financial risk management** continued**Financial risk factors** continuede) **Capital risk management** continued

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

	2021 £m	2020 £m
Group loan to value ratio		
Fair value of completed investment properties	2,772.2	2,548.2
Fair value of development properties	19.2	23.4
Ground rent recognised as finance leases	4.5	4.5
	<b>2,795.9</b>	2,576.1
Interest-bearing loans and borrowings (with convertible bond at nominal value)	1,232.9	1,159.3
Less cash held	(33.4)	(103.6)
Nominal amount of interest-bearing loans and borrowings	1,199.5	1,055.7
Group loan to value ratio	<b>42.9%</b>	41.0%

**19. Share capital****Ordinary Shares issued and fully paid at 12.5 pence each**

	2021		2020	
	Number – million	2021 £m	Number – million	2020 £m
<b>Balance at 1 January</b>	<b>1,315.6</b>	<b>164.4</b>	1,216.3	152.0
Scrip issues in lieu of cash dividends	5.2	0.7	2.7	0.3
Share issue 9 July 2020 and 5 January 2021	11.5	1.4	96.6	12.1
Share issues on other acquisitions	0.6	0.1	—	—
<b>Balance at 31 December</b>	<b>1,332.9</b>	<b>166.6</b>	1,315.6	164.4

**Issue of shares in 2021**

	Date of issue	Number of shares – million	Issue price
Share issue	5 January 2021	11.5	152.80p
Scrip issue in lieu of cash dividend	26 February 2021	1.2	148.52p
Scrip issue in lieu of cash dividend	21 May 2021	1.9	148.98p
Scrip issue in lieu of cash dividend	20 August 2021	1.5	159.50p
Share issue on other acquisition	9 September 2021	0.6	168.02p
Scrip issue in lieu of cash dividend	26 November 2021	0.6	154.90p

**20. Share premium**

	2021 £m	2020 £m
<b>Balance at 1 January</b>	<b>466.7</b>	338.1
Scrip issue in lieu of cash dividend	7.4	3.9
Share issue 9 July 2020 and 5 January 2021	—	127.9
Share issue on other acquisitions	0.9	—
Shares issued on bond conversions	—	—
Share issue expense	(0.1)	(3.2)
<b>Balance at 31 December</b>	<b>474.9</b>	466.7

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 21. Merger and other reserves

The merger and other reserves are 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, the foreign exchange translation reserve and the premium on shares issued for the MedicX Fund Limited merger and the Nexus merger.

	2021 £m	2020 £m
<b>Capital reserve</b>		
Balance at 1 January and 31 December	1.6	1.6
<b>Foreign exchange translation reserve</b>		
Balance at 1 January	1.2	(1.0)
Exchange differences on translating the net assets of foreign operations	(3.4)	2.2
<b>Balance at 31 December</b>	<b>(2.2)</b>	1.2
<b>Merger reserve</b>		
Balance at 1 January	398.0	398.0
Premium on shares issued for Nexus merger	16.1	—
<b>Balance at 31 December</b>	<b>414.1</b>	398.0
<b>Balance of merger and other reserves at 31 December</b>	<b>413.5</b>	400.8

### 22. Special reserve

	2021 £m	2020 £m
<b>Balance at 1 January</b>	—	65.4
Dividends paid	—	(61.2)
Scrip issue in lieu of cash dividend	—	(4.2)
<b>Balance at 31 December</b>	<b>—</b>	—

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 previous periods have been distributed from this reserve. The remaining dividends distributed in the period have been distributed from retained earnings.

### 23. Cash flow hedging reserve

Information on the Group's hedging policy and interest rate swaps is provided in Note 17.

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:

	2021 £m	2020 £m
<b>Balance at 1 January</b>	<b>(20.1)</b>	(24.1)
Fair value movement on cash flow hedges	—	(0.4)
Amortisation of cash flow hedging reserve	4.5	4.4
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	4.5	4.0
<b>Balance at 31 December</b>	<b>(15.6)</b>	(20.1)

The balance within the cash flow hedge reserve relating to cancelled swaps will be amortised through the Group Statement of Comprehensive Income over the remainder of the original contract period (see Note 6b).



## 24. Retained earnings

	2021 £m	2020 £m
<b>Balance at 1 January</b>	<b>402.6</b>	298.5
Retained profit for the year	140.1	112.0
Dividends paid	(74.4)	(7.9)
Scrip dividend in lieu of cash	(8.0)	—
Share-based awards ("LTIP")	0.2	—
<b>Balance at 31 December</b>	<b>460.5</b>	402.6

## 25. Capital commitments

As at 31 December 2021, the Group has entered into forward funding development agreements with third parties for the development of primary healthcare properties in the UK and Ireland. The Group has acquired the land and advances funds to the developers as the construction progresses. Total consideration of £9.0 million (2020: £32.1 million) remains to be funded with regard to these properties.

As at 31 December 2021, the Group has capital commitments totalling £10.0 million (2020: £7.5 million) being the cost to complete asset management projects on site, and £10.7 million (2020: £nil) being the cost to complete investments.

## 26. Related party transactions

On 5 January 2021 the Group completed the acquisition of Nexus and internalised the management arrangements. Refer to Note 4a for details on payments made and received in relation to shared services with Nexus, and on fees payable to Nexus in prior periods. Refer to Note 7 for further information on the acquisition of Nexus.

## 27. Subsequent events

On 11 February 2022, the Group completed a €75.0 million private placement for a term of twelve years at 1.64%.

On 6 January 2022, the Group refinanced a £50.0 million revolving credit facility with Santander. The facility can be drawn in Sterling and Euros and has an interest rate of 1.65% plus SONIA or EURIBOR.

## 28. Audit exemptions taken for subsidiaries

The following subsidiaries are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of the Act.

Name	Companies House registration number
Primary Health Investment Properties (No. 8) Limited	11274227
Primary Health Investment Properties (No. 9) Limited	11328330
PHP Euro Private Placement ML Limited	11714222
PHP Epsom Limited	12004850
GP Property One Limited	10801028
PHP SPV Limited	12256431
PHP Primary Properties (Haymarket) Limited	08304612
Motorstep Limited	04532029
MXF Properties OM Holdings Limited	10946803
MXF Properties OM Group Limited	07039742
MXF Properties Bridlington Limited	07763871
PHP Liverpool Holding Company Limited	07342781
PHP Tradeco Holdings Limited	09642987
PHP Cardiff Group Limited	10253987
PHP (Spilsby) Limited	13735391
PHP Health Solutions Limited	06949900
PHP Liverpool Limited	08872347
PHP Tradeco Limited	07685933
PHP Property Management Services Limited	02877191
PHP Primary Care Developments Limited	11862233
PHP Cardiff Limited	10254492
PHP Developments (Cardiff) Limited	04856121

# COMPANY BALANCE SHEET

AT 31 DECEMBER 2021

	Notes	2021 £m	2020 (Restated) £m
<b>Non-current assets</b>			
Investment in subsidiaries	8	857.2	739.2
Fixed assets		0.2	—
Debtors: amounts falling due after more than one year		849.9	707.9
		<b>1,707.2</b>	1,447.1
<b>Current assets</b>			
Trade and other receivables	9	0.5	24.5
Cash at bank and in hand	10	5.2	70.8
		<b>5.7</b>	95.3
<b>Total assets</b>		<b>1,712.9</b>	1,542.4
<b>Current liabilities</b>			
Trade and other payables	11	(188.4)	(57.4)
Borrowings: bonds	12	—	—
		<b>(188.4)</b>	(57.4)
<b>Non-current liabilities</b>			
Borrowings: bonds	12	(166.6)	(159.4)
		<b>(166.6)</b>	(159.4)
<b>Total liabilities</b>		<b>(355.0)</b>	(216.8)
<b>Net assets</b>		<b>1,357.9</b>	1,325.6
<b>Equity</b>			
Share capital	14	166.6	164.4
Share premium		474.9	466.7
Merger and other reserves		416.1	397.5
Special reserve	15	—	—
Retained earnings		300.3	297.0
<b>Total equity</b>		<b>1,357.9</b>	1,325.6
Net asset value per share – basic	17	<b>102p</b>	101p

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

The Company's loss for the year was £62.5 million (2020: loss of £22.9 million).

These financial statements were approved by the Board of Directors on 15 February 2022 and signed on its behalf by:

**Richard Howell**

Chief Financial Officer

Registered in England Number: 3033634

# COMPANY STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2021



	Share capital £m	Share premium £m	Merger and other reserves £m	Special reserve £m	Retained earnings £m	Total equity £m
<b>1 January 2021</b>	164.4	466.7	397.5	—	297.0	1,325.6
Loss for the year	—	—	—	—	(62.5)	(62.5)
Dividends received	—	—	—	—	148.0	148.0
Exchange gain on translation of foreign balances	—	—	2.5	—	—	2.5
<b>Total comprehensive income</b>	—	—	2.5	—	85.5	88.0
Shares issued on acquisition of Nexus	1.5	—	16.1	—	—	17.6
Shares issued on other acquisitions	0.1	0.9	—	—	—	1.0
Share issue expenses	—	(0.1)	—	—	—	(0.1)
Share-based awards ("LTIP")	—	—	—	—	0.2	0.2
Dividends paid	—	—	—	—	(74.4)	(74.4)
Scrip dividend in lieu of cash	0.6	7.4	—	—	(8.0)	—
<b>31 December 2021</b>	<b>166.6</b>	<b>474.9</b>	<b>416.1</b>	<b>—</b>	<b>300.3</b>	<b>1,357.9</b>
	Share capital £m	Share premium £m	Merger and other reserves £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2020	152.0	338.1	398.6	65.4	158.3	1,112.4
Loss for the year	—	—	—	—	(22.9)	(22.9)
Dividends received	—	—	—	—	169.5	169.5
Exchange gain on translation of foreign balances	—	—	(1.1)	—	—	(1.1)
<b>Total comprehensive income</b>	—	—	(1.1)	—	146.6	145.5
Shares issued as part of capital raise	12.1	127.9	—	—	—	140.0
Share issue expenses	—	(3.2)	—	—	—	(3.2)
Dividends paid	—	—	—	(61.2)	(7.9)	(69.1)
Scrip dividend in lieu of cash	0.3	3.9	—	(4.2)	—	—
31 December 2020	164.4	466.7	397.5	—	297.0	1,325.6

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. Accounting policies

The Company is a limited company incorporated in England and Wales in accordance with the Companies Act 2006. These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates.

### Basis of accounting/statement of compliance

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 Reduced disclosure framework as issued by the Financial Reporting Council.

As permitted by FRS 101, exemptions from applying the following requirements have been adopted:

- IFRS 7 Financial instruments: disclosures;
- IFRS 13 Fair value measurement, paragraphs 91 to 99;
- IAS 1 Presentation of financial statements, paragraphs 10(d), 10(f), 38 to 40, 76, 79(d) and 134 to 136;
- IAS 7 Statement of cash flows;
- IAS 24 Related party disclosures, paragraphs 17 and 18A; and
- IAS 36 Impairment of assets, paragraphs 130(f)(ii), 130(f)(iii), 134(d) to (f) and 135(c) to (e).

The Company has also taken advantage of the exemption from the requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

The financial statements have been prepared under the historical cost convention.

### Statement of comprehensive income

The Company has taken advantage of the exemption in the Companies Act from presenting a Company Statement of Comprehensive Income together with related notes.

### Cash flow statement

The Directors have taken advantage of the exemption in FRS 101 from including a cash flow statement in the financial statements on the grounds that a Consolidated Cash Flow Statement is presented in the Group financial statements of PHP.

### Income

Revenue is recognised in the financial statements as follows:

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

Dividends: Dividend income is recognised in the period in which it received Board approval and, hence, when the Company's right to the payment is established.

### Investment in subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains 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.

Investments in subsidiary undertakings are stated at cost in the Company's Statement of Financial Position less any provision for permanent impairment in value. The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### Taxation

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

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

### Employee costs

The fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares or options that will eventually vest. The fair value of awards is equal to the market value at grant date.



## 1. Accounting policies continued

### Prior period restatement

Previously amounts owed by and receivable from other Group undertakings were presented on a gross basis. However, where these are with the same counterparty these should have been presented net, reflecting the substance of the arrangements which is such that settlement of these balances can occur only on a net basis with each individual counterparty. The impact on the 31 December 2020 balance sheet is a decrease in amounts owed by Group undertakings by £227.8 million and an increase in amounts owed to Group undertakings by £227.8 million. There is no impact on the income statement or net assets.

Amounts owed by Group undertakings have previously been presented within current assets as these amounts were repayable on demand. However, there was no expectation that these amounts would be repaid within twelve months, being the Group's normal operating cycle, and therefore they did not meet the criteria to be classified as current assets. The impact on the 31 December 2020 balance sheet is an increase to non-current assets of £8.9 million and an equal decrease to current assets. There is no impact on the income statement or net assets.

### 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. No revisions were recognised in the period. There are no critical accounting judgements or key sources of estimation uncertainty in the Company's accounts.

### 3. Foreign currencies

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

### 4. Revenue

The Company operates under one business segment and one geographical segment, being the holding company of subsidiaries that invest in primary healthcare property within the United Kingdom and the Republic of Ireland.

### 5. Staff costs

	2021 £m	2020 £m
Wages and salaries, pension and bonus	1.3	—
Social security costs	—	—
Equity-settled share-based payments	0.3	—
	<b>1.6</b>	—

The Company operates a defined contribution pension scheme for all employees. The Company contribution to the scheme during the year was £nil (2020: £nil), which represents the total expense recognised through the income statement. As at 31 December 2021, there were no contributions (2020: £nil) due in respect of the reporting period had not been paid over to the plan.

The average monthly number of Company employees was two (2020: nil).

The Executive Directors and Non-executive Directors are the key management personnel. Full disclosure of Directors' emoluments, as required by the Companies Act 2006, can be found in the Remuneration Report on pages 81 to 85.

The Company's equity-settled share-based payments comprise the following:

Scheme	Fair value measure
Long Term Incentive Plan ("LTIP")	Face value at grant date
Save As You Earn ("SAYE")	Face value at grant date

The Company expenses an estimate of how many shares are likely to vest based on the market price at the date of grant, taking account of expected performance against the relevant performance targets and service periods, which are discussed in further detail in the Remuneration Report.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 6. Taxation

#### a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2021 £m	2020 £m
Deferred tax	0.6	1.0

The Company holds an investment in an Irish Collective Asset Vehicle ("ICAV"). The ICAV does not pay any Irish corporation tax on its profits but a 20% withholding tax is paid on distributions to owners.

#### b) Factors affecting the tax credit for the year

The tax assessed for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £m	2020 £m
Loss on ordinary activities before taxation	(61.9)	(21.9)
Theoretical tax at UK corporation tax rate of 19% (2020: 19%)	(11.8)	(4.2)
REIT exempt income	—	0.3
Transfer pricing adjustments	1.1	1.1
Fair value loss on convertible bond	1.2	—
Non-taxable items	9.2	2.0
Impact of taxes in the Republic of Ireland	0.6	1.0
Loss relief	0.3	0.7
<b>Losses generated in the year</b>	<b>—</b>	<b>0.1</b>
<b>Taxation charge (Note 6a)</b>	<b>0.6</b>	<b>1.0</b>

### 7. Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £m	2020 £m
Quarterly interim dividend paid 26 February 2021	18.7	—
Scrip dividend in lieu of quarterly cash dividend 26 February 2021	1.8	—
Quarterly interim dividend paid 21 May 2021	17.7	—
Scrip dividend in lieu of quarterly cash dividend 21 May 2021	2.9	—
Quarterly interim dividend paid 20 August 2021	18.3	—
Scrip dividend in lieu of quarterly cash dividend 20 August 2021	2.4	—
Quarterly interim dividend paid 26 November 2021	19.7	—
Scrip dividend in lieu of quarterly cash dividend 26 November 2021	0.9	—
Quarterly interim dividend paid 21 February 2020	—	16.9
Scrip dividend in lieu of quarterly cash dividend 21 February 2020	—	1.0
Quarterly interim dividend paid 22 May 2020	—	16.9
Scrip dividend in lieu of quarterly cash dividend 22 May 2020	—	1.1
Quarterly interim dividend paid 21 August 2020	—	16.4
Scrip dividend in lieu of quarterly cash dividend 21 August 2020	—	1.5
Quarterly interim dividend paid 20 November 2020	—	18.9
Scrip dividend in lieu of quarterly cash dividend 20 November 2020	—	0.6
<b>Total dividends distributed in the year</b>	<b>82.4</b>	<b>73.3</b>
<b>Per share</b>	<b>6.2p</b>	<b>5.9p</b>

**8. Investment in subsidiaries**

	£m
<b>As at 1 January 2021</b>	<b>739.2</b>
Acquisition of PHP Tradeco Limited	—
Acquisition of PHP Cardiff Group Limited	2.7
Acquisition of PHP Health Solutions Limited	3.6
Acquisition of additional shares in PHP Healthcare (Holdings) Limited	110.8
Acquisition of additional shares in PHP ICAV Limited	12.0
Impairment of subsidiary undertakings	(11.1)
<b>As at 31 December 2021</b>	<b>857.2</b>
As at 1 January 2020	689.7
Acquisition of PHP Liverpool Holding Company Limited	2.0
Disposal of Primary Health Investment Properties (No.7) Limited	—
Disposal of Primary Health Investment Properties (Sutton) Limited	—
Disposal of Wincanton Healthcare Limited	(2.5)
Disposal of PHP Ashington Limited	(5.6)
Disposal of Primary Health Investment Properties (No.11) Limited	—
Disposal of ChapelOak Investments Limited	(2.3)
Acquisition of additional shares in PHP ICAV Limited	60.0
Impairment of subsidiaries	(2.1)
As at 31 December 2020	739.2

All subsidiaries of the Company are 100% owned and listed opposite. 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**

Name	Principal activity	Name	Principal activity
Primary Health Investment Properties Limited	Property investment	PHP Bond Finance PLC	Property investment
Primary Health Investment Properties (No. 2) Limited	Property investment	PHP Medical Investments Limited	Property investment/ financing company
Primary Health Investment Properties (No. 3) Limited	Property investment	PHP (Milton Keynes) Limited	Property investment/ financing company
PHP Healthcare (Holdings) Limited	Investment holding	PHIP (Milton Keynes) Limited	Dormant
Primary Health Investment Properties (No. 4) Limited	Investment holding/ financing company	Primary Health Properties ICAV <sup>2</sup>	Property investment/ investment holding
PHIP (5) Limited	Property investment/ financing company	Carden Medical Investments Limited <sup>4</sup>	Property investment
Primary Health Investment Properties (No. 8) Limited	Property investment	PHP SB Limited	Issuer of bonds/ investment holding
Primary Health Investment Properties (No. 9) Limited	Property investment	Chelmsley Associates Limited	Property investment
PHP Finance (Jersey No.2) Limited <sup>1</sup>	Issuer of bonds	PHP STL Limited	Investment holding/ financing company
PHP Euro Private Placement ML Ltd	Property investment	PHP Euro Private Placement Limited	Issuer of bonds
PHP SPV Limited	Property investment	PHP Liverpool Holding Company Limited	Investment holding
MXF Fund Limited <sup>5</sup>	Investment holding	PHP Primary Properties (Haymarket) Limited	Property investment
PHP Epsom Limited	Property investment	PHP Tradeco Holdings Limited	Investment holding
PHP Cardiff Group Limited	Investment holding	PHP (Spilsby) Limited	Property investment
PHP Health Solutions Limited	Property Investment		

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 8. Investment in subsidiaries continued

### Subsidiaries held directly by the Company continued

Name	Principal activity	Name	Principal activity
PHP (Bingham) Limited	Property investment	PHP Investments No.2 Limited	Property investment
PHIP (Chester) Limited	Property investment	Motorstep Limited	Property investment
Anchor Meadow Limited	Property investment	Leighton Health Limited	Property investment
PHP (Ipswich) Limited	Property investment	PHP Healthcare Investments Limited	Property investment
PHP Healthcare Investments (Holdings) Limited	Investment holding	PHP St. Johns Limited	Property investment
PHP Investments No.1 Limited	Property investment	PHP Clinics Limited	Property investment
PHP (Project Finance) Limited	Property investment	PHIP (Stourbridge) Limited	Property investment
PHP Medical Properties Limited	Property investment/ investment holding	Gracemount Medical Centre Limited <sup>4</sup>	Property investment
PHP Glen Spean Limited	Property investment	PHP AssetCo (2011) Limited	Property investment
PHP Empire Holdings Limited	Property investment	PHP Primary Properties Limited	Property investment
Health Investments Limited	Property investment/ investment holding	Crestdown Limited	Property investment
PatientFirst Partnerships Limited	Property investment	Primary Health Investment Properties (No. 6) Limited	Property investment
PatientFirst (Hinckley) Limited	Property investment	Jellia Holdings Limited <sup>3</sup>	Investment holding
PatientFirst (Burnley) Limited	Property investment	PHPI Newbridge Limited <sup>3</sup>	Property investment
PHP Investments (2011) Limited	Property investment	PHPI Navan Road Limited <sup>3</sup>	Property investment
PHPI Celbridge Limited <sup>3</sup>	Property investment	GP Property One Limited	Property investment
MXF Properties I Limited <sup>5</sup>	Property investment	MXF Properties II Limited <sup>5</sup>	Property investment
MXF Properties III Limited	Property investment	MXF Properties IV Limited	Property investment
MXF Properties V Limited	Property investment/ investment holding	MXF Properties VI Limited <sup>5</sup>	Property investment/ issuer of bonds
MXF Properties VII Limited <sup>5</sup>	Property investment/ investment holding	MXF Properties VIII Limited <sup>5</sup>	Property investment/ issuer of bonds
Primary Medical Property Investments Ltd	Property investment	MXF GPG Holdings Limited <sup>5</sup>	Property investment/ issuer of bonds
GPG No.5 Limited	Property investment	MXF Properties OM Holdings Limited	Investment holding
MXF Properties Ireland Limited <sup>5</sup>	Property investment	MXF (Fakenham) Limited	Property investment
MXF Properties OM Group Limited	Investment holding	MXF Properties OM Limited	Property investment
MXF Properties Bridlington Limited	Property investment	PHP Liverpool Limited	Property investment
MXF Properties IX Limited	Holding and finance company	GP Property Limited <sup>5</sup>	Investment holding
PHP Property Management Services Limited	Operations management	PHP Tradeco Limited	Operations management
PHP Cardiff Limited	Property investment	PHP Primary Care Developments Limited	Property investment
		PHP Developments (Cardiff) Limited	Property investment

1 Subsidiary company registered in Jersey. Registered office: 3rd Floor, 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.

5 Subsidiary company registered in Guernsey. Registered office: Oak House, Hirzel Street, St Peter Port, Guernsey GY1 1NP.

100% of all voting rights and ordinary shares are held directly or indirectly by the Company.



## 9. Trade and other receivables

	2021 £m	2020 (Restated) £m
<b>Non-current</b>		
Amounts due from Group undertakings	849.9	707.9
<b>Current</b>		
Amounts due from Group undertakings	—	24.3
Other receivables	0.5	0.2
	<b>850.4</b>	<b>732.4</b>

Based on the IFRS 9 expected credit loss model no impairment provision was recognised on amounts due from Group undertakings.

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

Restated balance breakdowns have been disclosed in Note 1 to the accounts.

## 10. Cash at bank and in hand

	2021 £m	2020 £m
Cash at bank and in hand	5.2	70.8

## 11. Trade and other payables

	2021 £m	2020 (restated) £m
<b>Current</b>		
Amounts owed to Group undertakings	181.7	50.7
Trade and other payables	1.7	3.4
Accruals and deferred income	5.0	3.3
	<b>188.4</b>	<b>57.4</b>

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

Restated balance breakdowns have been disclosed in Note 1 to the accounts.

## 12. Borrowings

	2021 £m	2020 £m
Intra-group loan with PHP Finance (Jersey No.2) Limited (Note 13)	146.6	145.7
Option to convert (Note 13)	20.0	13.7
	<b>166.6</b>	<b>159.4</b>

## 13. Intra-group loan with PHP Finance (Jersey No.2) Limited

On 15 July 2019, PHP Finance (Jersey No.2) Limited (the "Issuer"), a wholly owned subsidiary of the Group, issued £150.0 million of 2.875% convertible bonds (the "Bonds") for a six-year term and if not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on maturity in July 2025. The proceeds have been loaned to the Company and the Company has unconditionally and irrevocably guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the Bonds.

Subject to their terms, the Bonds are/were convertible into preference shares of the Issuer which are/were automatically transferred to the Company in exchange for Ordinary Shares in the Company or, at the Company's election, any combination of Ordinary Shares and cash.

The intra-group loan between the Issuer and the Company arising from the transfer of the loan proceeds was initially recognised at fair value, net of capitalised issue costs, and is accounted for using the amortised cost method.

In addition to the intra-group loan, the Company has effectively entered into a derivative contract due to its guarantee of the obligations of the Issuer in respect of the Bonds and the commitment to provide shares or a combination of shares and cash on conversion of the Bonds. This derivative contract is included within the balance sheet as a liability carried at fair value through profit and loss.

See Note 15 in the Group financial statements for further details about the convertible bond.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 14. Share capital

#### Issued and fully paid at 12.5 pence each

	2021		2020	
	Number – million	£m	Number – million	£m
<b>As at 1 January</b>	<b>1,315.6</b>	<b>164.4</b>	1,216.3	152.0
Scrip issues in lieu of cash dividend	5.2	0.7	2.7	0.3
Shares issued for Nexus acquisition	11.5	1.4	—	—
Shares issued for other acquisitions	0.6	0.1	96.6	12.1
<b>As at 31 December</b>	<b>1,332.9</b>	<b>166.6</b>	1,315.6	164.4

#### Issue of shares in 2021

	Date of issue	Number of shares – million	Issue price
Share issue	5 January 2021	11.5	158.20p
Scrip issue in lieu of first quarterly cash dividend	26 February 2021	1.2	148.52p
Scrip issue in lieu of second quarterly cash dividend	21 May 2021	1.9	148.98p
Scrip issue in lieu of third quarterly cash dividend	20 August 2021	1.5	159.50p
Share issue	9 September 2021	0.6	168.00p
Scrip issue in lieu of fourth quarterly cash dividend	26 November 2021	0.6	154.90p

### 15. Special reserve

	2021 £m	2020 £m
<b>As at 1 January</b>	—	65.4
Dividends paid	—	(61.2)
Scrip issues in lieu of cash dividends	—	(4.2)
<b>As at 31 December</b>	—	—

As the special reserve is a distributable reserve, the dividends distributed in the prior period have been distributed from this reserve until the balance reduced to £nil. The remaining dividends distributed in the prior and current periods have been distributed from retained earnings.

### 16. Retained earnings

	2021 £m	2020 £m
<b>As at 1 January</b>	<b>297.0</b>	158.3
Loss for the year	(62.5)	(22.9)
Dividends received	148.0	169.5
Dividends paid	(74.4)	(7.9)
Scrip issues in lieu of cash dividends	(8.0)	—
Long term incentive plan	0.2	—
<b>As at 31 December</b>	<b>300.3</b>	297.0

### 17. Net asset value per Ordinary Share

	2021 pence	2020 pence
Basic and diluted	<b>102</b>	101

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £1,357.9 million (2020: £1,325.6 million) and on 1,332.9 million shares (2020: 1,315.6 million shares), being the number of shares in issue at the year end.

**18. Contingent liabilities**

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £nil (2020: £nil).

**19. Related party transactions**

Details of related party transactions are provided in the Directors' Report, the Directors' Remuneration Report and Note 26 to the Group financial statements on page 145. The Directors are listed in the Board of Directors section.

The Company has also taken advantage of the exemption from the requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

**20. Subsequent events**

There have been no significant events affecting the Company since the period ended 31 December 2021.

# SHAREHOLDER INFORMATION

## Corporate calendar 2022

Annual General Meeting	27 April 2022
AGM statement	27 April 2022
Announcement of half year results	28 July 2022

## Dividends

The Company intends to make quarterly dividend payments to shareholders in February, May, August and November. The proposed timetable for the first quarterly dividend in 2022 is:

Payment of quarterly dividend (record date 6 January 2022)	25 February 2022
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Distributions from the Company may comprise PIDs (see below), ordinary cash dividends or a combination of the two. PIDs have been paid by the Group since 1 January 2007.

## Payment of dividends

If you would like your dividend/interest paid directly into your bank or building society account, you should write to the registrar including details of your nominated account. Although this will enable your dividend/interest to be paid directly into your account, your tax voucher will be sent to your registered address.

## Scrip dividend scheme

The optional scrip dividend scheme enables shareholders to receive new Ordinary Shares in PHP instead of cash dividends without incurring dealing costs, stamp duty or stamp duty reserve tax by electing to take a scrip dividend instead of a cash dividend. Shareholders can obtain information about the scrip dividend scheme from the Company or the registrar.

## Investment account

The Company has made arrangements for Equiniti Financial Services Limited to provide an investment account to allow lump sum and regular savings to facilitate the purchase of the Company's Ordinary Shares. Detail and the forms required for this service can be accessed from the Company's website or alternatively at: [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing).

For details of the service please contact: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Shareholder helpline: 0371 384 2030.

Equiniti Financial Services Limited is authorised and regulated by the Financial Conduct Authority. As with all stock market investments, the price of shares can go down as well as up and on sale investors may not get back the full amount they invested.

## Taxation status

The REIT Regulations require an REIT to distribute at least 90% of its exempt rental income (as calculated for tax purposes) as a PID.

PIDs are paid out under deduction of withholding tax at the basic rate, currently 20%. Certain classes of shareholders, including UK companies, charities, local authorities and UK pension schemes, may receive PIDs without deduction of withholding tax, if a valid claim is lodged with the Company by a qualifying shareholder. Shareholders who wish to apply for a tax exemption form should contact the registrar.

The above is a general guide only and shareholders who have any doubt about their tax position should consult their own appropriate independent professional adviser.

## Registrar

The Company's registrar is Equiniti. In the event of any queries regarding your holding of shares, please contact the registrar free of charge on 0371 384 2030 (lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday), or in writing to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Changes of name or address must be notified to the registrar in writing.

## Equiniti Shareview dealing services

A quick and easy share dealing service is available to either sell or buy PHP shares. To deal online or by telephone all you need is your shareholder reference number, full postcode and date of birth. Your shareholder reference number can be found on your latest dividend statement. For further information on this service, or to buy and sell shares, please contact Equiniti customer services on 0371 384 2030 (8.00 a.m. to 6.00 p.m. Monday to Friday) or access [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing).

## Forward-looking statements

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking in nature and are subject to risks and uncertainties. Actual future results may differ materially from those expressed in or implied by these statements. Many of these risks and uncertainties relate to factors that are beyond PHP's ability to control or estimate precisely, such as future market conditions, the behaviour of other market participants, the actions of governmental regulators and other risk factors such as the Company's ability to continue to obtain financing to meet its liquidity needs, and changes in the political, social and regulatory framework in which the Company operates or in economic or technological trends or conditions, including inflation and consumer confidence, on a global, regional or national basis. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. PHP does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document.

Information contained in this document relating to the Company should not be relied upon as a guide to future performance.



## Stockbrokers

### Numis Securities Limited

45 Gresham Street  
London EC2V 7BF

### Peel Hunt LLP

7th Floor  
100 Liverpool Street  
London EC2M 2AT

## Solicitors

### CMS Cameron McKenna Nabarro Olswang LLP

Cannon Place  
78 Cannon Street  
London EC4N 6AF

### Shepherd and Wedderburn LLP

1 Exchange Crescent  
Conference Square  
Edinburgh, Lothian EH3 8UL

### Gowling WLG (UK) LLP

4 More London Riverside  
London SE1 2AU

### McCann FitzGerald

Riverside One  
Sir John Rogerson's Quay  
Dublin 2  
D02 X576

### Pinsent Masons

30 Crown Place  
Earl Street  
London  
EC24 4ES

### Eversheds Sutherland

One Earlsfort Centre  
Earlsfort Terrace  
Saint Kevin's  
Dublin 2  
Ireland

## Auditor

### Deloitte LLP

1 New Street Square  
London EC4A 3HQ

## Bankers

### Allied Irish Bank PLC

St Helens  
1 Undershaft  
London EC3A 8AB

### Aviva Public Private Finance Limited

St Helens  
1 Undershaft  
London EC3P 3DQ

### Barclays Bank PLC

1 Churchill Place  
London E14 5HP

### HSBC Bank PLC

8 Canada Square  
London E14 5HQ

### Lloyds Bank PLC

25 Gresham Street  
London EC2V 7HN

### Santander UK PLC

2 Triton Square  
Regent's Place  
London NW1 3AN

### The Royal Bank of Scotland PLC

250 Bishopsgate  
London EC2M 4AA

## Building and environmental consultant

### Simpson Hilder Associates Limited

67a High Street, Lyndhurst  
Hampshire SO43 7BE

## Property valuers

### Lambert Smith Hampton Group Limited

Interchange Place  
Edmund Street  
Birmingham B3 2TA

### Jones Lang LaSalle Limited

30 Warwick Street  
London W1B 5NH

### CBRE

Connaught House  
Number One Burlington Road  
Dublin 4

## Financial risk management consultant

### Chatham

12 St James's Square, St James's  
London SW1Y 4LB

## GLOSSARY OF TERMS

**Adjusted earnings** is EPRA earnings excluding the exceptional contract termination fee and amortisation of MtM adjustments for fixed rate debt acquired on the merger with MedicX.

**Adjusted earnings per share** is adjusted earnings divided by the weighted average number of shares in issue during the year.

**Adjusted net tangible assets ("adjusted NTA")** (which has replaced the former adjusted EPRA net asset value alternative performance measure) is EPRA net tangible asset value excluding the MtM adjustment of the fixed rate debt, net of amortisation, acquired on the merger with MedicX. The objective of the adjusted NTA measure is to highlight the value of net assets on a long term basis and excludes assets and liabilities that are not expected to crystallise in normal circumstances and continues to be used as a measure to determine the PIF payment.

**Adviser** is PHP Tradeco Limited.

**Annualised rental income** on a like-for-like basis is the contracted rent on a per annum basis assuming a consistent number of properties between each year.

**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.

**EPC** is an Energy Performance certificate.

**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 NNAV** is adjusted EPRA NAV including the MtM value of fixed rate debt and derivatives.

**EPRA net reinstatement value ("EPRA NRV")** is the balance sheet net assets including real estate transfer taxes but excluding the MtM value of derivative financial instruments, deferred tax and the convertible bond fair value movement. The aim of the metric is to reflect the value that would be required to recreate the Company through the investment markets based on its current capital and financing structure. Refer to Note 9.

**EPRA NRV per share** is the EPRA net reinstatement value divided by the number of shares in issue at the balance sheet date. Refer to Note 9.



**EPRA net disposal value ("EPRA NDV")** (replacing EPRA NNNNAV) is adjusted EPRA NRV including deferred tax and the MtM value of fixed rate debt and derivatives. The aim of the metric is to reflect the value that would be realised under a disposal scenario. Refer to Note 9.

**EPRA net tangible assets ("NTA")** (which has replaced the former EPRA net asset value alternative performance measure) are the balance sheet net assets but excluding the MtM value of derivative financial instruments, deferred tax and the convertible bond fair value movement. The aim of the metric is to reflect the fair value of the assets and liabilities of the Group that it intends to hold and does not intend in the long run to sell. Refer to Note 9.

**EPRA NTA per share** is the EPRA net tangible assets divided by the number of shares in issue at the balance sheet date. Refer to Note 9.

**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.

**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.

**IFRSs** are International Financial Reporting Standards as adopted by the United Kingdom.

**IFRS or Basic net asset value per share ("IFRS NAV")** is 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.

**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.

**MedicX** is MXF Fund Limited and its subsidiaries.

**MSCI (IPD)** provides performance analysis for most types of real estate and produces an independent benchmark of property returns.

**MSCI (IPD) Healthcare** is the 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).

**Net asset value ("NAV")** is the value of the Group's assets minus the value of its liabilities.

**Net initial yield ("NIY")** 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.

**Net zero carbon** refers to the point at which a process, activity, system etc... produces net zero carbon emissions, through emissions reduction, use of low or zero carbon energy and removal or offsetting of residual emissions. In the context of buildings and activities associated with the construction, refurbishment, maintenance and operation of buildings, PHP refers to the UK Green Building Council "Net zero carbon, a frame work definition" (<https://www.ukgbc.org/ukgbc-work/net-zero-carbon-buildings-a-framework-definition/>). This sets out the key requirements for buildings to achieve 'net zero carbon - construction' and 'net zero carbon - operational energy'.

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

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

## GLOSSARY OF TERMS CONTINUED

**Progressive returns / dividend** is where it is expected to continue to rise each year

**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.

**Sterling Overnight Interbank Average Rate ("SONIA")** is the effective overnight interest rate paid by banks for unsecured transactions in the British Sterling market.

**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
Net rental income	136.7
Revaluation surplus and profit on sales	110.5
	247.2
Opening property assets	2,576.1
Weighted additions in the period	33.1
	2,609.2
Total property return	9.5%

**Total NAV return** is calculated as the movement in adjusted net tangible asset value for the period plus the dividends paid, divided by opening EPRA net tangible asset value.

	NAV
At 31 December 2020	112.9
<b>At 31 December 2021</b>	<b>116.7</b>
<b>Increase/(decrease)</b>	<b>3.8</b>
Add: dividends paid	
Q1 interim	1.550
Q2 interim	1.550
Q3 interim	1.550
Q4 interim	1.550
<b>Total shareholder return</b>	<b>10.0</b>

**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.



Primary Health Properties' commitment to environmental issues is reflected in this Annual Report, which has been printed on Claro Silk, an FSC® certified material. This document was printed by Opal X using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

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**Primary Health Properties PLC**

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

Website:  
[www.phpgroup.co.uk](http://www.phpgroup.co.uk)

Registered in England Number:  
3033634

