Primary Health Properties PLC
Annual Report 2019

A transformational year of growth

Primary Health Properties

"2019 has been a transformational year in PHP's history following the completion of the all-share merger with MedicX in March 2019, bringing together two high quality and complementary portfolios in the UK and Ireland. The business provides a much stronger platform for the future and has already created significant value delivering a total shareholder return of 49.2% in the year. We have also delivered the operating synergies of £4.0 million per annum outlined at the time of the merger, as well as a 50bp reduction in the average cost of debt.

We have continued to selectively grow the enlarged portfolio, particularly in Ireland where we believe there is a significant opportunity, and further strengthened the balance sheet with a successful, oversubscribed £100 million equity issue, £150 million unsecured convertible bond issue and €70 million Euro-denominated private placement loan note. PHP's high quality portfolio and capital base have helped to deliver another year of strong earnings performance and our 23rd consecutive year of dividend growth. Continuing improvements to the rental growth outlook and further reductions in the cost of finance will help to maintain our strategy of paying a progressive dividend to shareholders which is fully covered by earnings, as we look forward to the future with confidence."

Harry Hyman
Managing Director

Strategic report

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Highlights

Net rental income
£115.7m
+51.4%

2019	£115.7m
2018	£76.4m
2017	£71.3m
2016	£66.6m
2015	£62.3m

Dividend per share
5.6p
+3.7%

2019	5.6p
2018	5.4p
2017	5.25p
2016	5.125p
2015	5.0p

Total property portfolio
£2.4bn
+2.1%

2019	£2.4bn
2018	£1.5bn
2017	£1.4bn
2016	£1.2bn
2015	£1.1bn

Adjusted EPRA earnings
£59.7m
+62.2%

2019	£59.7m
2018	£36.8m
2017	£31.0m
2016	£26.8m
2015	£21.7m

Adjusted EPRA earnings per share
5.5p
+5.8%

2019	5.5p
2018	5.2p
2017	5.2p
2016	4.8p
2015	4.9p

Adjusted EPRA NAV per share
107.9p
+2.7%

2019	107.9p
2018	105.1p
2017	100.7p
2016	91.1p
2015	87.7p

IFRS profit*
£75.9m
+2.2%

2019	£75.9m
2018	£74.3m
2017	£91.9m
2016	£43.7m
2015	£56.0m

IFRS earnings per share*
7.0p
-33.3%

2019	7.0p
2018	10.5p
2017	15.3p
2016	7.8p
2015	12.6p

IFRS NAV per share
101.0p
-1.5%

2019	101.0p
2018	102.5p
2017	94.7p
2016	83.5p
2015	77.4p

Cost of debt
3.5%
-40bp

2019	3.5%
2018	3.9%
2017	4.1%
2016	4.7%
2015	4.7%

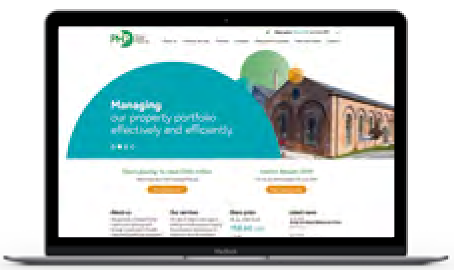
Loan to value
44.2%
-60bp

2019	44.2%
2018	44.8%
2017	52.9%
2016	53.7%
2015	62.7%

Total property return
7.7%
-30bp

2019	7.7%
2018	8.0%
2017	10.8%
2016	7.9%
2015	9.7%

* The IFRS profit and IFRS earnings per share excluding MedicX exceptional adjustments as set out in the summarised results table on page 17.

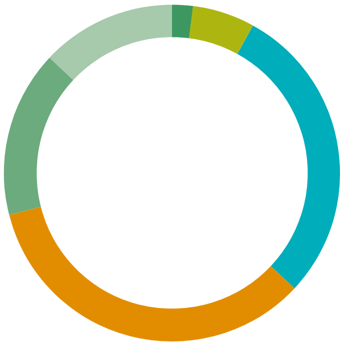


Discover more about PHP at
phpgroup.co.uk

At a glance

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

Analysis of leases unexpired – WAULT 12.8 years



<3 years	1.5%
4-5 years	6.1%
5-10 years	29.0%
10-15 years	34.0%
15-20 years	16.8%
>20 years	12.6%

Business activity in 2019

MedicX merger[1]

£804.3m

Across 167 properties.

Investment activity

£57.1m

Across nine properties.

Asset management activity

£1.9m or 1.5% growth

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

Asset management projects

£13.4m

Invested in 36 projects either completed, on site or about to commence.

1 The MedicX merger has been accounted for as an asset acquisition hence no restatement of comparatives is necessary.

Portfolio distribution by capital value of building*

	2019 number	2019 value	2018 number	2018 value
£10m+	47	£658.8m	27	£419.1m
£5–10m	108	£756.2m	61	£419.9m
£3–5m	164	£629.6m	103	£398.5m
£1–3m	162	£356.4m	121	£262.8m
£0–1m	7	£6.0m	2	£1.6m

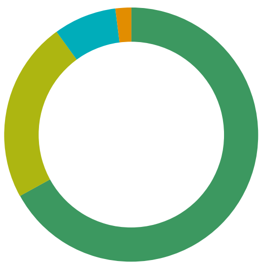
● 2019 ● 2018

* Excluding land valued at £1.6 million (2018: £1.6 million).

Contracted rent roll of £127.7m

Rent roll funded by government	Occupancy	Tenancies
90%	99.5%	1,250

Covenant analysis



GPs	67%
NHS/HSE/Govt bodies	23%
Pharmacy	8%
Other	2%

Five reasons to invest 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.

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

Rent roll funded by government bodies

90%

(2018: 91%)

Strong, high quality and growing cash flow

- Positive yield gap between acquisition yield and funding costs
- Effectively upward-only or indexed rent reviews
- Simple cost structure enhances earnings
- Continued improvements to the rental growth outlook

Rental growth

+£1.9m or 1.5%

(2018: +£1.3m or 1.8%)

Efficient management and reduction in cost of funds

- EPRA cost ratio amongst the lowest in the sector
- Underlying investment characteristics make PHP attractive to investors
- Average cost of debt reduced by 50bp to 3.5%
- £4 million p.a. cost-saving synergies arising from the merger with MedicX

EPRA cost ratio

12.0%

(2018: 14.3%)

Sector demand factors dictate continued development of healthcare premises

- Healthcare demand increasing due to populations growing, ageing and suffering from more instances of chronic illness
- Unwavering political support in the UK and Ireland and promotion of integrated primary care

PHP's portfolio serves

5.3m patients

or 8.0% of UK population

Stable, increasing returns

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

Dividend per share

5.6p

(+3.7% over 2018)

Waters Meeting Health Centre, Bolton.

Discover more about our portfolio at **phpgroup.co.uk/portfolio**

The all-share merger with MedicX represented a rare opportunity to bring together two high quality and complementary portfolios in the UK and Ireland

Steven Owen
Independent Non-executive Chairman

"I am delighted to present my second annual report as Chairman for PHP, for what has been a transformational year of growth for the Company."

Steven Owen
Independent Non-executive Chairman

I am delighted to present my second annual report, as Chairman of PHP, for what has been a transformational year of growth for the Company following the completion of the all-share merger with MedicX Fund Limited ("MedicX") on 14 March 2019. The merger with MedicX represented a rare opportunity to bring together two high quality and complementary portfolios in the UK and Ireland and the combined property portfolio now stands at over £2.4 billion across 488 assets. Historically, both businesses had adopted a very similar investment strategy and consequently the two portfolios were ideally placed to be brought together.

The positive reaction to the merger also allowed us to strengthen further the balance sheet and we successfully completed an oversubscribed £100.0 million equity issue in September 2019 reducing the Group's loan to value ratio back to pre-merger levels of around 44% at the end of 2019. The enlarged Group now has a market capitalisation in excess of £1.9 billion and we have seen a significant improvement in share liquidity as a result of the completion of the merger. The Group is also a member of the FTSE 250 on the London Stock Exchange.

The merger with MedicX crystallised a number of operating and finance cost-saving synergies and we have delivered the targeted £4.0 million per annum reduction in the enlarged Group's operating costs and a 50bp reduction in the average cost of debt following the successful issue of a new £150 million /2.875% unsecured convertible bond and repayment of the £75 million/5.375% retail bond in July 2019. We also issued our second Euro-denominated secured loan notes for €70 million (£59.2 million) at a fixed rate of 1.509% with a maturity of twelve years.

In 2019, we increased the dividend paid to shareholders in the year by 3.7% to 5.6 pence per share (FY 2018: 5.4 pence per share) which is fully covered by increased earnings and represents the Group's 23rd successive year of dividend growth. In January 2020, we declared our first quarterly dividend for 2020 of 1.475 pence per share, equivalent to 5.9 pence on an annualised basis, which represents a further increase of 5.4% on the first quarterly dividend for 2019.

Results highlights

Excluding the impact of the MedicX merger, PHP's recurring Adjusted EPRA earnings increased by £7.3 million or 19.8% to £44.1 million in the year to 31 December 2019, driven by property acquisitions in 2018 and 2019 together with rental growth from our asset management activities and reductions in the cost of finance. The merger with MedicX contributed a further £15.6 million, taking the adjusted EPRA earnings for the enlarged Group to £59.7 million, a 62.2% increase. Using the weighted average number of shares in issue in the year the Adjusted EPRA earnings per share increased to 5.5 pence (2018: 5.2 pence), an increase of 5.8%.

A revaluation surplus and profit on sales of £49.8 million (excluding the exceptional revaluation loss of £138.4 million discussed below) was generated from the portfolio in the year including a £21.3 million surplus on the MedicX assets held for nine and a half months.

The merger with MedicX created a number of exceptional non-cash adjustments reflecting the premium in the Company's share price and the resulting premium paid for MedicX net assets at completion. The merger was completed by way of a share for share exchange with the Company issuing 341.0 million shares at a price of 129.2 pence which, together with the £14.5 million of transaction costs, resulted in a total consideration of £455.1 million. The fair value of the net assets acquired was £316.7 million resulting in an exceptional revaluation loss of £138.4 million but it is important to note that the £14.5 million of transaction costs were the only cash cost. A further exceptional expense of £10.2 million was incurred to terminate the contract with the previous manager of MedicX, Octopus Healthcare Adviser Ltd, as indicated at the time of the merger.

A loss 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 £31.1 million (FY 2018: gain of £1.4 million) further contributed to the loss before tax as reported under IFRS of £70.2 million (FY 2018: profit £74.3 million).

During the year, the Group has continued to selectively grow its portfolio adding nine assets. A further property has been acquired post year end. Activities have been focused predominantly in Ireland where the portfolio has now grown to 16 assets, including four assets currently under development, valued at £160.0 million or €189.2 million (2018: £83.0 million or €92.3 million). We continue to have a strong pipeline of further potential acquisitions both in the UK and Ireland including £44 million of properties currently in solicitors' hands and subject to contract.

Rent reviews and asset management projects completed in the year added £1.9 million or 1.5% (FY 2018: £1.3 million or 1.8%) to the contracted rent roll and the continued positive momentum on rent reviews has seen annualised rental growth improve to 1.9% compared to 1.4% and 1.1% achieved in 2018 and 2017 respectively. Rent reviews and asset management projects accounted for the majority of the revaluation surplus generated in the year.

The portfolio's average lot size continues to grow and is now £4.9 million (31 December 2018: £4.8 million) and we are maintaining our very strong metrics, with a long weighted average unexpired lease term ("WAULT") of 12.8 years, high occupancy at 99.5% and only 1.5% of our rent due to expire in the next three years, of this 65% is subject to a future planned asset management project with 40% in advanced negotiations or in solicitors' hands.

Dividends

The Company distributed a total of 5.6 pence per share in the year to 31 December 2019, an increase of 3.7% above the 2018 total of 5.4 pence per share, and marked the Company's 23rd successive year of dividend growth. The total value of dividends distributed in the year increased by 62.3% to £59.4 million (2018: £36.6 million) which was fully covered by EPRA earnings. Dividends totalling £5.0 million were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.475 pence per share was declared on 2 January 2020, equivalent to 5.9 pence on an annualised basis, which represents an increase of 5.4% over the dividend distributed per share in 2019. The dividend will be paid to shareholders on 21 February 2020 who were on the register at the close of business on 10 January 2020. The dividend will comprise a Property Income Distribution ("PID") of 1.275 pence and an ordinary dividend of 0.20 pence per share. Further dividend payments are planned to be made on a quarterly basis.

The Company intends to maintain its strategy of paying a progressive dividend, which the Company intends to pay in equal quarterly instalments, that is covered by underlying earnings in each financial year.

The Company's share price started the year at 111.0 pence per share and closed on 31 December 2019 at 160.0 pence, an increase of 44.1%. Including dividends, those shareholders who held the Company's shares throughout the year achieved a total shareholder return ("TSR") of 49.2% (2018: -0.5%). This compares to the total return delivered by UK real estate equities (FTSE EPRA Nareit UK Index) of 30.6% and the wider UK equity sector (FTSE All-Share Index) of 19.2% in the year.

Board changes

Following completion of the merger with MedicX in March 2019, Helen Mahy joined the Board as Deputy Chairman and Senior Independent Director and Laure Duhot joined the Board as a Non-executive Director and Chairman of the Adviser Engagement Committee. At the same time Nick Wiles and Geraldine Kennell stepped down from the Board in order to maintain an appropriate size and balance between PHP and MedicX Directors for the combined Board.

In November 2019 it was announced that, following the successful merger and integration of the MedicX portfolio and team, Helen Mahy had informed the Board that she would retire at the Company's Annual General Meeting ("AGM") scheduled for April 2020.

Chairman's statement continued

Board changes continued

In January 2020 it was announced that, following a review of the skills, experience and knowledge of the Board and the consideration of its size and composition as part of the Nomination Committee's annual evaluation process, a Board of six, consisting of four independent Non-executive Directors and two Executive Directors, is the appropriate size for the Group going forward, given the relative simplicity of the business model. Accordingly, a replacement for Helen Mahy will not be made and Dr Stephen Kell will not be standing for re-election at the AGM.

Following the completion of the AGM Ian Krieger will become the Senior Independent Director and Peter Cole will become Chairman of the Remuneration Committee.

I am grateful to our colleagues Helen, Stephen, Nick and Geraldine for their commitment and dedication to the Company during their service, and for their contribution to and support for the merger with MedicX.

Market update and outlook

The primary health centres we invest in perform a vital role in the provision of healthcare across the UK and Ireland, and are unlikely to be directly impacted by the final outcome and consequences of Brexit for the UK. Demand for our properties is driven by demographics and in particular populations in our market that are growing, ageing and suffering from more instances of chronic illness.

Despite the continued volatility in the economic environment and the prolonged era of low interest rates, there continues to be an unrelenting search for income yield across most sectors. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary. The UK market for primary healthcare property investment continues to be highly competitive with attractive yields and prices being paid by investors for assets in the sector and we have continued to see yields compress during 2019, although at a much slower rate than that witnessed in both 2018 and 2017.

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

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

We welcome the announcements made in 2018 by the government to increase funding for the NHS and plans for how the £20.5 billion budget settlement, announced on its 70th anniversary, will be spent over the next five years. The new NHS Long Term Plan, announced in January 2019, sets out how the NHS plans to improve the quality of patient care and health outcomes. The plan also includes measures to improve out-of-hospital care, supporting primary medical and community health services. Investment in these services will grow faster than the overall NHS budget, worth an extra £4.5 billion a year in real terms by 2023/24 with the aim of reducing pressure on emergency hospital services.

In June 2019 the NHS set out plans for Integrated Care Systems in England encouraging organisations to join forces in order to be better able to improve the health of their populations. The plans include the establishment of Primary Care Networks that bring practices together, to work in networks serving 30,000 to 50,000 patients, extending access to GPs and reducing the need for unnecessary hospital admission.

These additional resources and initiatives may in time lead to increased activity in the building of new facilities and the modernisation of existing primary care premises. We look forward to helping deliver the modernisation of the primary care estate by actively pursuing attractive investment opportunities of both existing assets and developments focused around our key strategy of investing in larger hub/core primary care centres.

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.

Following completion of the merger with MedicX the Group is now in a strong position to continue to deliver further dividend growth, fully covered by earnings, together with long term value to shareholders and wider stakeholders and the Board looks forward with confidence to the future.

Steven Owen
Independent Non-executive Chairman
11 February 2020

Further opportunities in Ireland

PHP's Irish portfolio now comprises 16 assets, valued at €189 million (€207 million on completion of properties under development). The average lot size is €12.9 million. Total contracted rent roll of the portfolio is €11.8 million, with 67% of the income secured to the Health Service Executive or government agencies.

Mallow Primary Healthcare Centre.

Demographic drivers of demand

- Growing and ageing population
- Demands on health services increasing and budgets under severe pressure

Government support

- The Irish government has developed a clear programme to support the healthcare system with a focus to establish 200 modern Primary Care Centres ("PCCs") throughout Ireland
- Over the last decade, the government in Ireland has developed various initiatives to modernise and co-locate services into modern PCCs
- For 2020, the HSE has a budget of €17.4 billion, an extra €1 billion of health funding over 2019 including €170 million for capital expenditure projects

Opportunity for PHP

- State-of-the-art regional healthcare hubs with a typical size of 3,000–5,000 sqm
- Stable cash flows from long term leases (WAULT: 21.7 years)
- Rent reviews linked to Irish CPI forecast to grow to around 2% per annum by 2022

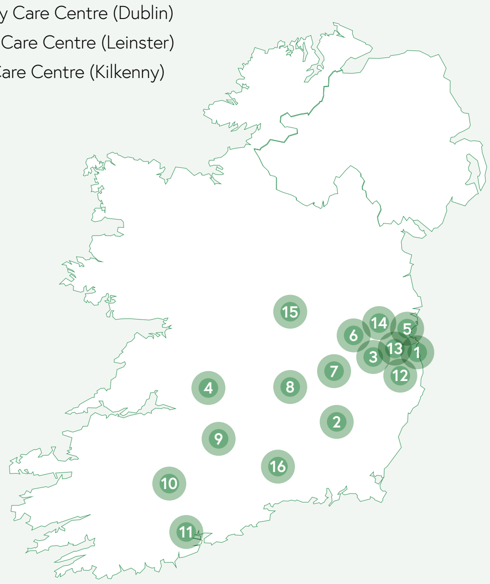
Irish locations

Assets under development

1. Bray Primary Care Centre (Wicklow)
2. Athy Primary Care Centre (Kildare)
3. Rialto Primary Care Centre (Dublin)
4. Banaghar Primary Care Centre (Offaly)

Completed assets

5. Navan Road Primary Care Centre (Dublin)
6. Celbridge Primary Care Centre (Kildare)
7. Newbridge Primary Care Centre (Kildare)
8. Mountmellick Primary Healthcare Centre (Laois)
9. Tipperary Primary Care Centre (Tipperary)
10. Mallow Primary Healthcare Centre (Cork)
11. Carrigaline Primary Care Centre (Cork)
12. Crumlin Primary Care Centre (Dublin)
13. Kilnamanagh Primary Care Centre (Dublin)
14. The Meath Primary Care Centre (Dublin)
15. Mullingar Primary Care Centre (Leinster)
16. Ayrfield Primary Care Centre (Kilkenny)

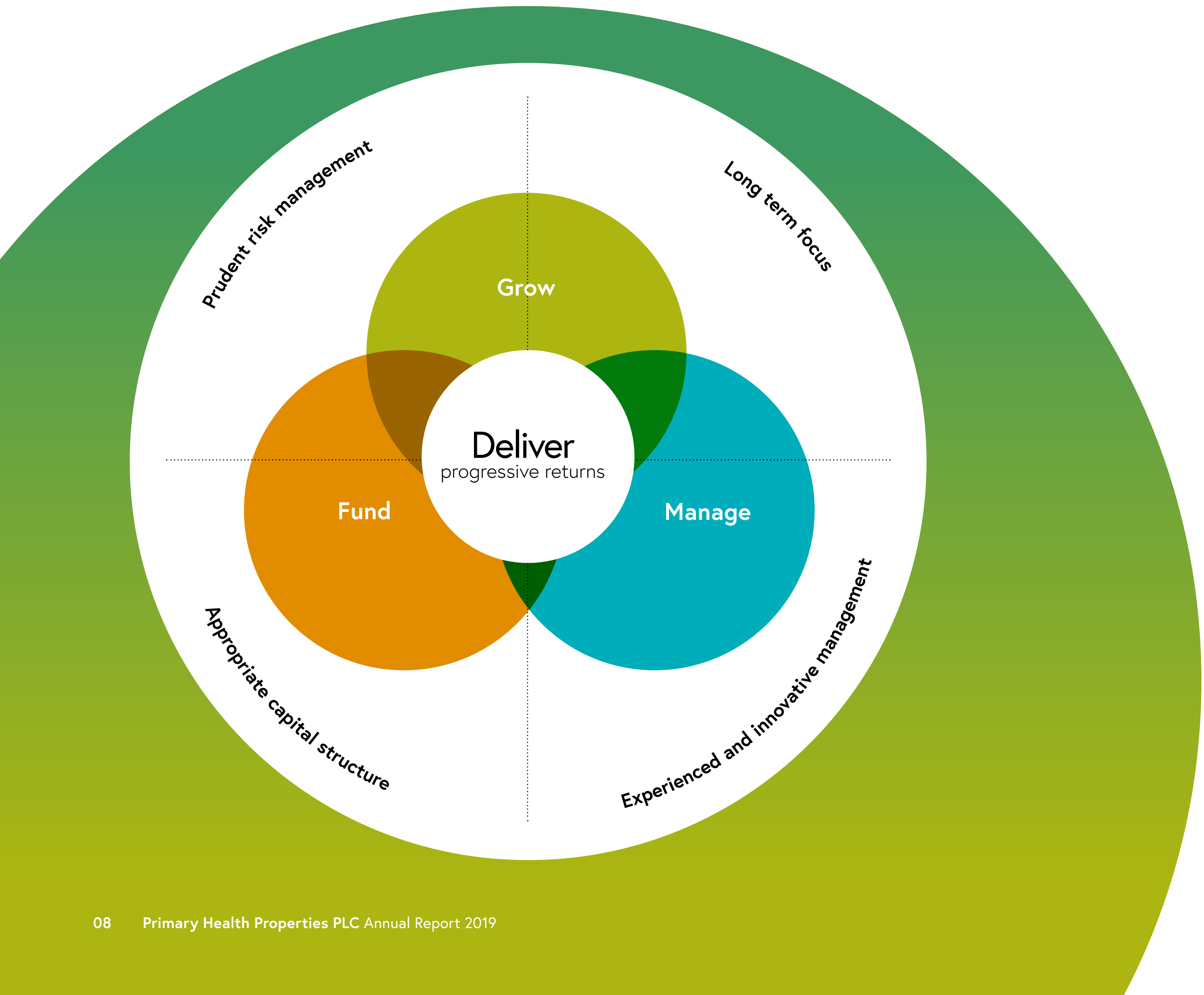


Creating long term sustainable value

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.

Experienced and innovative management



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 by the Adviser and its fees are structured to gain economies of scale as the Group continues to grow.

Appropriate capital structure:

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

Delivering on our strategic objectives

Read more about our strategy on pages 10 to 11

Grow

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

Manage

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

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.

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.

Healthcare targets

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

Read more about our strategy on managing environmental, social and governance issues on pages 34 to 41

Strategy

Continuing improvements to the rental growth outlook and further reductions in the cost of finance will help maintain our strategy of paying a progressive dividend to our shareholders which is fully covered by earnings.

1 Deliver progressive returns

General progressive shareholder returns through a combination of earnings and valuation growth

Activity in 2019

- Adjusted EPRA earnings per share 5.5 pence increased by 5.8% (2018: 5.2 pence).
- Dividend per share increased by 3.7% to 5.6 pence.
- Total NAV return of 8.4p.
- Average cost of debt reduced to 3.5%.

Looking forward

- Strong investment pipeline both in the UK and Ireland.
- Strategy of paying a progressive dividend that is covered by earnings in each financial year.

2 Grow property portfolio

Fund the development of and acquire modern, purpose-built healthcare premises that provide secure long term income streams with the potential for rental growth and capital enhancement

Activity in 2019

- Merger with MedicX acquiring 167 properties valued at £804.3 million.
- Selectively acquired 9 assets in the year investing £57.1 million.
- Portfolio grown to 488 properties including 16 assets in Ireland.
- Total property return in the year of 7.7%.

Looking forward

- Sector fundamentals of long leases and government-backed income continue to drive demand in the sector.
- Strong pipeline of opportunities across the UK and Ireland.

3 Manage effectively and efficiently

Work to improve the rental potential and longevity of underlying income streams and secure capital growth from assets within the portfolio, whilst controlling operating costs

Activity in 2019

- 36 asset management projects completed, on site or about to commence in the year, investing £13.4 million and generating £0.6 million of additional income.
- EPRA cost ratio reduced to 12.0% reflecting the impact of the merger with MedicX.

Looking forward

- 16 asset management projects approved and pipeline of over 100 potential projects being progressed.
- Continued discussions with occupiers to discuss requirements and identify new opportunities.
- Cost ratio should fall in the future due to reducing fee rates as the portfolio grows and a full year of cost-saving synergies from MedicX merger.

4 Fund diversified long term funding

Fund activities through an appropriate mix of shareholder equity and debt, from a diverse range of sources with varied maturities

Activity in 2019

- The Company completed an equity placing in September 2019 raising £97.7 million net of expenses.
- The Group issued its second Euro-denominated senior secured loan notes for €70 million (£59.2 million) at a rate of 1.509% for a twelve-year term.
- New £150.0 million of 2.875% convertible bonds issued in July 2019 for a six-year term.
- £100 million loan facility renewed with HSBC.

Looking forward

- New loan facilities and equity raise provide significant firepower to secure new investment opportunities.
- Over 98% 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.

Key performance indicators

Link to strategy 1 4

Adjusted EPRA earnings per share

5.5p

+5.8%

2019	5.5p
2018	5.2p
2017	5.2p

Rationale

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

Performance

Adjusted EPRA earnings per share increased in the year reflecting the contribution from the merger with MedicX, rental growth and lower cost of finance.

Dividend cover

101%

unchanged

2019	101%
2018	101%
2017	100%

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 EPRA earnings.

Performance

Dividends paid in 2019 were fully covered by EPRA earnings and we intend to maintain a strategy of paying a progressive dividend that is covered by earnings in each financial year.

Link to strategy 2 3

Total property portfolio

£2.4bn

+2.1%

2019	£2.4bn
2018	£1.5bn
2017	£1.4bn

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 2019 add £46.4 million to annual contracted rent roll and are accretive to earnings.

Total property return

7.7%

-30bp

2019	7.7%
2018	8.0%
2017	10.8%

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 7.7% split 5.2% income growth and 2.5% capital growth.

Link to strategy 1 3

Capital invested in asset management projects

£13.4m

+305%

2019	£13.4m
2018	£4.4m
2017	£4.4m

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, on site or about to commence 36 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

12.0%

-2.3%

2019	12.0%
2018	14.3%
2017	13.2%

Rationale

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

Performance

The EPRA cost ratio reflects the impact of the £4.0 million p.a. of cost-saving synergies arising from the MedicX merger.

Link to strategy 2 4

Loan to value

44.2%

-60bp

2019	44.2%
2018	44.8%
2017	52.9%

Rationale

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

Performance

The equity raise, strong capital growth in the year and convertible bond conversions have resulted in the Group's LTV falling to 44.2%.

Average cost of debt

3.5%

-40bp

2019	3.5%
2018	3.9%
2017	4.1%

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 average cost of debt has been reduced by 40bp in the year to 3.5% as a result of a number of refinancings completed.

Business review

Investment and development activity

The majority of investment activity in the year came from the merger with MedicX, which brought a high quality and complementary portfolio of 167 properties valued at £804.3 million (excluding the premium and transaction costs) at completion in March 2019. The enlarged Group has also continued to selectively acquire standing investment and forward funded development opportunities acquiring nine assets for £57.1 million in the year.

Investment pipeline

Post year end, contracts for the acquisition of a forward funded development at Llanbradach, Wales, for £2.8 million were exchanged in February 2020.

PHP continues to have a strong active pipeline of potential acquisitions both in the UK and Ireland totalling approximately £160 million including £44 million in legal due diligence.

Developments

The enlarged Group completed five forward funded developments in the year, including one in Ireland, with a net development cost of £17.6 million and has a further six currently on site with a net development cost of £57.0 million.

Completed developments:

Asset	PC date	Area (sqm)	Net development cost
Ireland			
Mullingar Phase III, County Westmeath	Q3 2019	1,165	£3.2m (€3.6m)
UK			
Vale of Neath, Wales	Q3 2019	1,355	£4.8m
Langwith, Derbyshire	Q3 2019	412	£1.8m
Peterborough, Cambridgeshire	Q4 2019	918	£3.5m
Kew, London	Q4 2019	845	£4.3m
Total		**4,695**	**£17.6m**

Developments on site:

Asset	Anticipated PC date	Area (sqm)	Net development cost	Costs to complete
Ireland				
Bray, County Wicklow	Q1 2020	4,822	£18.9m (€22.4m)	£5.5m (€6.5m)
Athy, County Kildare	Q1 2020	3,486	£10.9m (€12.9m)	£4.6m (€5.5m)
Rialto, Dublin	Q2 2020	3,232	£9.6m (€11.4m)	£0.7m (€0.8m)
Banagher, County Offaly	Q4 2020	1,628	£4.3m (€5.1m)	£4.0m (€4.7m)
UK				
Mountain Ash, Wales	Q4 2020	1,253	£4.9m	£4.4m
Eastbourne, East Sussex	Q1 2021	1,976	£8.4m	£6.2m
Total		**16,397**	**£57.0m**	**£25.4m**

The enlarged Group will continue to adopt a policy of not undertaking any developments on a speculative basis.

Asset management

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

Rent reviews

During 2019, the enlarged Group concluded and documented 312 rent reviews with a combined rental value of £37.7 million resulting in an uplift of £1.6 million per annum or 4.2%, which equates to 1.9% on an annualised basis. This continues the positive trend in rental growth over the last two years (year ended 31 December 2018: 1.4% per annum with an uplift of £1.1 million; year ended 31 December 2017: 1.1% per annum with an uplift of £0.5 million).

In the year, 1.1% per annum was achieved on 165 open market reviews including 52 reviews where no uplift was achieved. Uplifts of 3.0% per annum were achieved on RPI-based reviews and 3.1% per annum on fixed uplift reviews. In addition, a further 86 open market reviews were agreed in principle, which will add another £0.7 million to the contracted rent roll when concluded and represent an uplift of 1.6% per annum.

69% of our rents are reviewed on an open market basis, typically every three years, and are impacted by land and construction inflation. Over recent years, there have been significant increases in these costs which are expected to result in further rental growth in the future. The balance of the PHP portfolio has either indexed/RPI (24%) or fixed uplift (7%) based reviews which also provide an element of certainty to future rental growth within the portfolio. In Ireland, the rents are all linked to the Irish Consumer Price Index.

At 31 December 2019, the rent on 415 tenancies, representing £56.9 million of passing rent, was under negotiation and the large number of outstanding reviews reflects the requirement for all awards to be agreed with the District Valuer. A great deal of evidence to support open market reviews comes from the delivery of new properties into the sector and we have started 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.

Whilst underlying land and construction costs have increased in recent years, the lower number of new schemes approved by the NHS has historically restricted the ability to capture the growth in new rental values. We are seeing signs of more new properties being approved.

Reception area, Maybush Medical Centre, Wakefield, England.

Maybush Medical Centre, Wakefield, England.

Asset management projects

We continued to make good progress during 2019 to enhance and extend existing assets within the portfolio with 17 projects completed, three currently on site and a further 16 approved and due to commence shortly. The projects require the investment of £13.4 million and will generate £0.64 million of additional rental income but, just as importantly, will extend the WAULT on those premises back to an average of 19 years.

PHP continues to work closely with its tenants and has a strong pipeline of over 100 potential projects and will continue to invest capital in a range of physical extensions or refurbishments over the next three years.

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

Sector leading portfolio metrics

The portfolio's annualised contracted rent roll at 31 December 2019 was £127.7 million, an increase of £48.3 million or 60.8% in the year (31 December 2018: £79.4 million) driven predominantly by the merger with MedicX which contributed £44.4 million. The security and longevity of our income are important drivers of our secure, long term predictable income stream and enable our progressive dividend policy.

Security: PHP continues to benefit from secure, long term cash flows with 90% of its rent roll funded directly or indirectly by the NHS in the UK or HSE in Ireland. The portfolio also benefits from an occupancy rate of 99.5%.

Longevity: The portfolio's WAULT at 31 December 2019 was 12.8 years (31 December 2018: 13.1 years). Only £1.9 million or 1.5% of our income expires over the next three years and £81.0 million or 63.4% expires in over ten years. The table below sets out the current lease expiry profile of our income:

Income subject to expiry	£m	%
<3 years	1.9	1.5
4–5 years	7.8	6.1
5–10 years	37.0	29.0
10–15 years	43.4	34.0
15–20 years	21.5	16.8
>20 years	16.1	12.6
Total	**127.7**	**100.0**

Valuation and returns

At 31 December 2019, the portfolio comprised 488 assets independently valued at £2.413 billion (31 December 2018: £1.503 billion) reflecting the addition of the MedicX portfolio adding 167 high quality assets, fair valued in March 2019 at £804.3 million (excluding the premium and acquisition costs). The strong investment market together with our sector leading portfolio metrics and asset management initiatives resulted in a valuation surplus and profit on sales of £49.8 million or 2.1%, including a £21.3 million surplus on the MedicX portfolio held for 9.5 months, in the year to 31 December 2019 (FY 2018: £36.1 million or 2.5%).

During the year, we have not seen any change in net initial yields ("NIY") across the UK portfolio but have seen around 15bp of yield compression in Ireland. The portfolio's blended net initial and true equivalent yields increased slightly to 4.86% (31 December 2018: 4.85%) and 5.04% (31 December 2018: 4.99%) respectively reflecting the increased size of our investment in Ireland. Encouragingly, the improving rental growth environment and our asset management activities accounted for the whole of the revaluation surplus in the UK whilst some modest yield compression in Ireland accounted for the growth in that country. Consequently, a £49.8 million revaluation surplus, including a £1.4 million profit on sales, arose during the year with a surplus of £17.7 million and £32.1 million in the first and second halves of 2019 respectively.

At 31 December 2019, the portfolio in Ireland comprised 16 assets, including four assets currently under development, valued at £160.0 million or €189.2 million (31 December 2018: eight assets/£83.0 million or €92.3 million). The costs to complete the developments are £14.8 million (€17.5 million) and once complete the assets in Ireland are expected to be valued at approximately £175 million (€207 million).

The portfolio's average lot size has grown to £4.9 million (31 December 2018: £4.8 million) and 84.9% of the portfolio is valued at over £3.0 million. We only have seven assets valued at less than £1.0 million.

	Number of properties	Valuation £m	%	Average lot size (£m)
>£10m	47	658.8	27.4	14.0
£5m–£10m	108	756.2	31.4	7.0
£3m–£5m	164	629.6	26.1	3.8
£1m–£3m	162	356.4	14.8	2.2
<£1m (including land £1.6m)	7	7.6	0.3	0.9
Total[1]	**488**	**2,408.6**	**100.0**	**4.9**

1 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 £49.8 million, combined with the portfolio's growing income, helped to deliver a total property return of 7.7% in 2019 (FY 2018: 8.0%) outperforming the MSCI UK Monthly Property Index, which delivered a total return of 2.2% (FY 2018: 7.3%), by 5.5%.

	Year ended 31 December 2019	Year ended 31 December 2018
Income return	**5.2%**	5.3%
Capital return	**2.5%**	2.7%
Total return	**7.7%**	8.0%

Emerald Gardens Medical Centre, Kew, England.

Financial review

The merger with MedicX together with strong underlying asset management activity in the year and the acquisitions made in 2018 and 2019 have enabled us to continue to deliver earnings growth.

The merger with MedicX completed on 14 March 2019 contributed around nine and a half months of income to the performance of the Group during the year. The merger was completed by way of an all-share exchange, with MedicX shareholders receiving 0.77 shares in PHP for every share held, and resulted in 341.0 million new shares in the Company being issued.

PHP's share price reacted positively to the merger announcement in January 2019, rising to 129.2 pence per share at completion, representing a 22.9% (£82.2 million) premium to the previously reported EPRA NAV per share at December 2018 of 105.1 pence. The share price at completion is used to calculate the fair value of the consideration paid for MedicX and has resulted in the recognition of an exceptional non-cash revaluation loss during the year reflecting the premium paid on completion. It is important to note that the only cash paid to complete the merger was £14.5 million of transaction costs and a £10.2 million termination fee paid to Octopus Healthcare Adviser Ltd, the previous manager of MedicX.

The table below summarises the consideration paid for MedicX along with the fair values of the net assets acquired and the resulting exceptional revaluation adjustment arising at completion:

Consideration paid	Adjusted EPRA fair value £m	Debt MtM and deferred tax £m	IFRS fair value £m
341.0m PHP shares issued at 129.2p	440.6	—	440.6
Transaction costs	14.5	—	14.5
Total consideration paid	455.1	—	455.1
MedicX fair values			
Property portfolio	804.3	—	804.3
Cash	5.8	—	5.8
Debt	(441.5)	(48.0)	(489.5)
Other net current liabilities	(1.9)	(2.0)	(3.9)
Net assets acquired	366.7	(50.0)	316.7
Exceptional revaluation loss arising on merger with MedicX	**(88.4)**	**(50.0)**	**(138.4)**

Excluding the impact of the MedicX merger, PHP's Adjusted EPRA earnings increased by £7.3 million or 19.8% to £44.1 million in 2019 (FY 2018: £36.8 million). The merger with MedicX contributed a further £15.6 million taking adjusted EPRA earnings for the enlarged Group to £59.7 million or a 62.2% increase. Using the weighted average number of shares in issue in the year the Adjusted EPRA earnings per share increased to 5.5 pence (FY 2018: 5.2 pence), an increase of 5.8%.

A revaluation surplus and profit on sales of £49.8 million was generated in the year (H1 2019: £17.7 million; H2 2019: £32.1 million) from the portfolio including a £21.3 million surplus on the MedicX assets held for nine and a half months. As noted above the acquisition of MedicX created an exceptional revaluation loss and exceptional contract termination fee of £138.4 million and £10.2 million respectively. The exceptional losses have been offset by a £82.2 million premium (based on Adjusted EPRA NAV) on the issue of 341.0 million shares which were issued on completion but are accounted for as a reserve movement.

A loss 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 £31.1 million (FY 2018: gain of £1.4 million) contributed to the loss before tax as reported under IFRS of £70.2 million (FY 2018: profit £74.3 million).

The financial results for the Group are summarised as follows:

Summarised results

	PHP 12 months to December 2019 £m	MedicX 9.5 months to December 2019 £m	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Net rental income	81.1	34.6	**115.7**	76.4
Administrative expenses	(9.2)	(1.3)	**(10.5)**	(8.6)
Performance incentive fee ("PIF")	(1.8)	—	**(1.8)**	(1.3)
Operating profit before revaluation gain and net financing costs	70.1	33.3	**103.4**	66.5
Net financing costs	(26.0)	(17.7)	**(43.7)**	(29.7)
Adjusted EPRA earnings	44.1	15.6	**59.7**	36.8
Revaluation surplus on property portfolio and profit on sales	28.5	21.3	**49.8**	36.1
Fair value loss on interest rate derivatives	(5.4)	—	**(5.4)**	(1.8)
Fair value (loss)/gain on convertible bond	(28.2)	—	**(28.2)**	3.2
Adjusted IFRS profit excluding MedicX merger adjustments	39.0	36.9	**75.9**	74.3
Exceptional revaluation loss arising on merger with MedicX	—	(138.4)	**(138.4)**	—
Exceptional item – contract termination fee arising on merger with MedicX	—	(10.2)	**(10.2)**	—
Amortisation of MedicX debt MtM at acquisition	—	2.5	**2.5**	—
IFRS profit/(loss) before tax	39.0	(109.2)	**(70.2)**	74.3
Deferred tax provision	(0.6)	(0.5)	**(1.1)**	—
IFRS profit/(loss) after tax	38.4	(109.7)	**(71.3)**	74.3

Net rental income receivable in 2019 increased by 51.4% or £39.3 million to £115.7 million (FY 2018: £76.4 million). The merger with MedicX contributed £34.6 million to net rental income, the majority of the increase, with acquisitions in 2018 and 2019 contributing £2.9 million and completed rent reviews and asset management projects contributing a further £1.8 million.

Operational costs have continued to be managed closely and effectively. Overall administrative costs, excluding the Performance Incentive Fee ("PIF"), have risen by 22.1% to £10.5 million (FY 2018: £8.6 million) reflecting the increased size of the Group following the merger with MedicX and additional regulatory costs.

The Group's EPRA cost ratio continues to be amongst the lowest in the sector at 12.0% for the year, a significant decrease over the 14.3% incurred during the 2018 financial year. The administrative expense ratio also fell to 0.4% (FY 2018: 0.6%) in the year. Both of these ratios reflect the cost-saving synergies arising from the merger with MedicX albeit only reflecting nine and a half months of savings.

EPRA cost ratio	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Gross rent less ground rent and service charge income	**118.3**	77.6
Direct property expense	**5.6**	3.2
Administrative expenses	**10.5**	8.6
Performance incentive fee ("PIF")	**1.8**	1.3
Less: service charge costs	**(2.8)**	(1.7)
Less: ground rent	**(0.2)**	(0.1)
Less: other operating income	**(0.7)**	(0.2)
EPRA costs (including direct vacancy costs)	**14.2**	11.1
EPRA cost ratio	**12.0%**	14.3%
EPRA cost ratio excluding PIF	**10.5%**	12.6%
Administrative expenses as a percentage of gross asset value	**0.4%**	0.6%

Summarised results continued

Net finance costs in the year increased to £43.7 million (FY 2018: £29.7 million) reflecting the debt acquired with the merger with MedicX offset by the reductions in the average cost of debt achieved in 2018 and 2019 from various refinancing initiatives and conversion of the convertible bond during both 2018 and the first six months of 2019.

Performance incentive fee ("PIF")

Another period of strong performance in both 2018 and 2019 resulted in a PIF being earned by Nexus as the Adviser for the year as a whole and consequently a £1.8 million provision has been provided for (2018: £1.3 million).

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

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

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

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

A PIF of £1.1 million was paid to Nexus in the year in respect of 2018 and at 31 December 2019 the balance on the notional cumulative PIF account was £7.0 million (31 December 2018: £6.9 million) of which £1.3 million (31 December 2018: £1.1 million) will become payable on approval of the Annual Report by the Board. The balance is conditional on performance in future years and the restrictions noted above.

Equity raise

In September 2019, the Company completed an oversubscribed equity issue, successfully raising £100.0 million of new share capital (£97.7 million net of expenses). New shares were issued at 128 pence each, a premium to the Adjusted EPRA NAV as at 30 June 2019 of 21.7% or £15.7 million net of issue expenses.

The net proceeds from the equity issue are being used to finance the Group's investment, forward funded developments and asset management project pipeline.

Shareholder value

The Adjusted EPRA NAV per share increased by 2.8 pence or 2.7% to 107.9 pence (31 December 2018: 105.1 pence per share) during the year with the revaluation surplus and profit on sales of £49.8 million or 4.1 pence per share being the main reason for the increase although this was partially offset by the impact of the MedicX merger equivalent to 1.4 pence per share. Dividends distributed in the year were fully covered by recurring EPRA earnings with no material impact on EPRA NAV.

The total NAV return per share, including dividends distributed, in 2019 was 8.4 pence or 8.0% (2018: 9.8 pence or 9.7%).

The table below sets out the movements in the Adjusted EPRA and EPRA NNNAV per share over the year under review.

Adjusted EPRA Net Asset Value per share	**31 December 2019 pence per share**	31 December 2018 pence per share
Opening Adjusted EPRA NAV per share	**105.1**	100.7
Adjusted EPRA earnings for the year	**5.5**	5.2
Dividends paid	**(5.5)**	(5.2)
Revaluation of property portfolio and profit on sales	**4.1**	4.7
Net impact of MedicX merger (see analysis below)	**(1.4)**	—
Shares issued	**0.8**	0.4
Interest rate derivative cancellation	**(0.7)**	(0.7)
Closing Adjusted EPRA NAV per share	**107.9**	105.1
Fixed rate debt, swap mark-to-market value and deferred tax	**(9.1)**	(5.9)
Closing EPRA NNNAV per share	**98.8**	99.2

The impact of the merger with MedicX on NAV is summarised in the table below:

MedicX NAV adjustments	Adjusted EPRA fair value £m	Debt MtM and deferred tax £m	Total £m
341.0m PHP shares issued at 24.1p premium to EPRA NAV (129.2p–105.1p)	82.2	—	82.2
Premium on MedicX NAV acquired	(73.9)	(50.0)	(123.9)
Exceptional transaction costs	(14.5)	—	(14.5)
Exceptional revaluation loss	(88.4)	(50.0)	(138.4)
Exceptional administration expenses	(10.2)	—	(10.2)
Net impact of MedicX merger	**(16.4)**	**(50.0)**	**(66.4)**
Net impact of MedicX merger (pence per share)	**(1.4p)**	**(4.4p)**	**(5.8p)**

In October 2019, we selectively used the premium over Adjusted EPRA NAV on the equity raise to recoupon and extend until November 2024 fixed rate swaps with a nominal value of £100 million from a blended rate of 2.605% to 0.6875%, for a one-off payment of £8.0 million equivalent to 0.7 pence per share on an Adjusted EPRA net asset value basis. The recouponing results in total interest saving of £8.2 million over the period to November 2024. The mark to market ("MtM") of the cancelled derivatives were reflected in the financial statements as at 31 December 2018.

Financing

As at 31 December 2019, total available loan facilities were £1,452.0 million (31 December 2018: £879.9 million) of which £1,210.4 million (31 December 2018: £679.1 million) had been drawn. Cash balances of £143.1 million (31 December 2018: £5.9 million) resulted in Group net debt of £1,067.3 million (31 December 2018: £673.2 million). Contracted capital commitments at the balance sheet date totalled £28.1 million (31 December 2018: £16.1 million) and result in headroom available to the Group of £356.6 million (31 December 2018: £190.6 million).

Capital commitments comprise forward funded development expenditure of £25.4 million and asset management projects on site of £2.7 million.

In July 2019, the Group issued a new unsecured £150 million /2.875% convertible bond and cancelled £73.4 million of unrequired loan facilities, of which only £3.4 million was drawn, that were acquired as part of the merger with MedicX. The net proceeds from the new convertible bonds were used partially to repay the £75 million/5.375% retail bond which matured at the end of July 2019.

In September 2019, the Group issued its second Euro-denominated senior secured loan notes for €70 million (£59.2 million) at a fixed rate of 1.509% with a maturity of twelve years. The proceeds of the issue have been partially applied to repay and cancel a €32.6 million facility with the Bank of Ireland, of which €26.2 million was drawn at a 3.0% margin that was acquired as part of the merger with MedicX. The balance has been used to finance the developments currently on site in Ireland and to repay Euro-denominated tranches of PHP's existing revolving credit facilities which are available to be redrawn in either Sterling or Euros in the future.

In December 2019, a £100 million secured revolving credit facility was entered into with HSBC for an initial three-year period with options to extend by a further year at the first and second anniversaries of the facility.

Debt metrics	31 December 2019	31 December 2018
Average cost of debt	**3.5%**	4.0%[2]
Loan to value	**44.2%**	47.8%[2]
Interest cover	**2.7 times**	2.6 times
Weighted average debt maturity	**7.2 years**	5.4 years
Total drawn secured debt	**£1,060.4m**	£580.9m
Total drawn unsecured debt	**£150.0m**	£98.2m
Total undrawn facilities and cash available to the Group[1]	**£356.6m**	£190.6m
Unfettered assets	**£32.3m**	£64.9m

1 After deducting capital commitments.

2 Including debt acquired on completion of merger with MedicX in March 2019.

Convertible bonds

The convertible bonds, originally issued in 2014, matured in May 2019 and consequently during the year bonds with a nominal value of £23.1 million (year ended 31 December 2018: £40.0 million) were, at the holders' option, converted at a conversion price of 96.16 pence, resulting in 24.0 million (year ended 31 December 2018: 41.5 million) of new Ordinary Shares being issued. At maturity, one convertible bond with a nominal value of £0.1 million remained outstanding and was repaid with all the other bonds successfully converting to Ordinary Shares over the term of the bond.

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, a premium of 15% above the volume weighted average price of the Company's shares on 18 June 2019 of 133.26 pence. Under the terms of the bonds, the Company will have the right to elect to settle the exercise of any conversion rights entirely in shares or cash, or with a combination of both. The exchange price will be 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 was adjusted to 149.39 pence per Ordinary Share during the year.

The conversion of the £150 million convertible bond into new Ordinary Shares would reduce the Group's loan to value ratio by 6.2% from 44.2% to 38.0% on a pro-forma basis as at 31 December 2019 and result in the issue of 100.4 million new Ordinary Shares.

Average cost of debt

Following the various refinancing initiatives as noted above, the Group's average cost of debt has fallen to 3.5%, a 50bp reduction from the 4.0% applicable when we completed the merger with MedicX in March 2019. We continue to look at other opportunities to reduce the Group's average cost of debt and deliver further finance cost-saving synergies arising from the merger with MedicX.

Interest rate and currency exposure

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 31 December 2019 is as follows:

	Facilities		Drawn	
	£m	%	£m	%
Fixed rate debt	1,001.4	69.0	1,001.4	82.8
Hedged by fixed rate interest rate swaps	188.0	12.9	188.0	15.5
Floating rate debt – unhedged	262.6	18.1	21.0	1.7
Total	**1,452.0**	**100.0**	**1,210.4**	**100.0**

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

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

The Group now owns €189.2 million or £160.0 million (2018: €92.3 million/£83.0 million) of Euro-denominated assets in Ireland as at 31 December 2019 and the value of these assets and rental income represented just 7% of the Group's total portfolio. In order to hedge the risk associated with exchange rates, the Group has chosen to fund its investment in Irish assets through the use of Euro-denominated debt, providing a natural asset to liability hedge, within the overall Group loan to value limits set by the Board.

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

Interest rate swap mark to market ("MtM")

Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. During 2019 there was a loss of £3.7 million (2018: gain of £2.2 million) on the fair value movement of the Group's interest rate derivatives due primarily to reductions in interest rates assumed in the forward yield curves used to value the interest rate swaps. As at 31 December 2019 the mark-to-market ("MtM") liability of the swap portfolio was £13.0 million (31 December 2018: £17.3 million) equivalent to 1.0 pence per share.

Fixed rate debt mark to market ("MtM")

The MtM of the enlarged Group's fixed rate debt as at 31 December 2019 was £94.5 million (31 December 2018: £28.1 million) equivalent to 7.8 pence per share (31 December 2018: 3.7 pence). The large increase in the MtM during the year is due primarily to the merger with MedicX, and the fixed rate debt acquired with a fair value adjustment of £48.0 million at completion. In addition, reductions in interest rates assumed in the forward yield curves used to value the debt in the year has increased the MtM. The Group has no intention of cancelling and repaying any of its fixed rate loan facilities and the MtM valuation is sensitive to movements in interest rates assumed in forward yield curves. In accordance with accounting standards the MtM of the Group's fixed rate debt is not reflected in the financial statements.

Milton Keynes Village Practice, Milton Keynes, England.

Chorleywood Health Centre, Rickmansworth, England.

Providing transparent information

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

We use EPRA measures to illustrate PHP's underlying recurring performance and to enable stakeholders to benchmark the Group against other property investment companies.

Set out below is a description of each measure and how PHP has performed.

Adjusted EPRA earnings per share

Adjusted EPRA EPS – 5.5 pence, up 5.8% (2018: 5.2 pence).

Definition

Adjusted EPRA 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, 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 8 to the financial statements.

EPRA earnings per share

EPRA EPS – 4.8 pence, down 7.7% (2018: 5.2 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 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 8 to the financial statements.

Adjusted EPRA NAV per share

Adjusted EPRA NAVPS – 107.9 pence, up 2.7% (2018: 105.1 pence).

Definition

Adjusted EPRA net assets are the EPRA net 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 NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long term investment strategy.

Calculation

See Note 24 to the financial statements.

EPRA NAV per share

EPRA NAVPS – 104.2 pence, down 0.9% (2018: 105.1 pence).

Definition

EPRA net assets ("EPRA NAV") are the balance sheet net assets, excluding the mark to market ("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.

Purpose

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

Calculation

See Note 24 to the financial statements.

EPRA net initial yield

EPRA NIY – 4.86%, up 1bp (2018: 4.85%).

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

	2019 £m	2018 £m
Investment property (excluding those under construction)	**2,379.1**	1,496.9
Allowance for estimated purchaser's costs	**160.8**	94.8
Grossed-up completed property portfolio valuation (B)	**2,539.9**	1,591.7
Annualised cash passing rental income	**124.4**	78.2
Property outgoings	**(0.9)**	(1.0)
Annualised net rents (A)	**123.5**	77.2
EPRA net initial yield (A/B)	**4.86%**	4.85%

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.

EPRA vacancy rate

EPRA vacancy rate – 0.5%, up 30bp (2018: 0.2%).

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

	2019 £m	2018 £m
ERV of vacant space	**0.6**	0.2
ERV of completed property portfolio	**124.4**	77.5
EPRA vacancy rate	**0.5%**	0.2%

EPRA cost ratio

EPRA cost ratio – 12.0%, decrease of 2.3% (2018: 14.3%).

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.

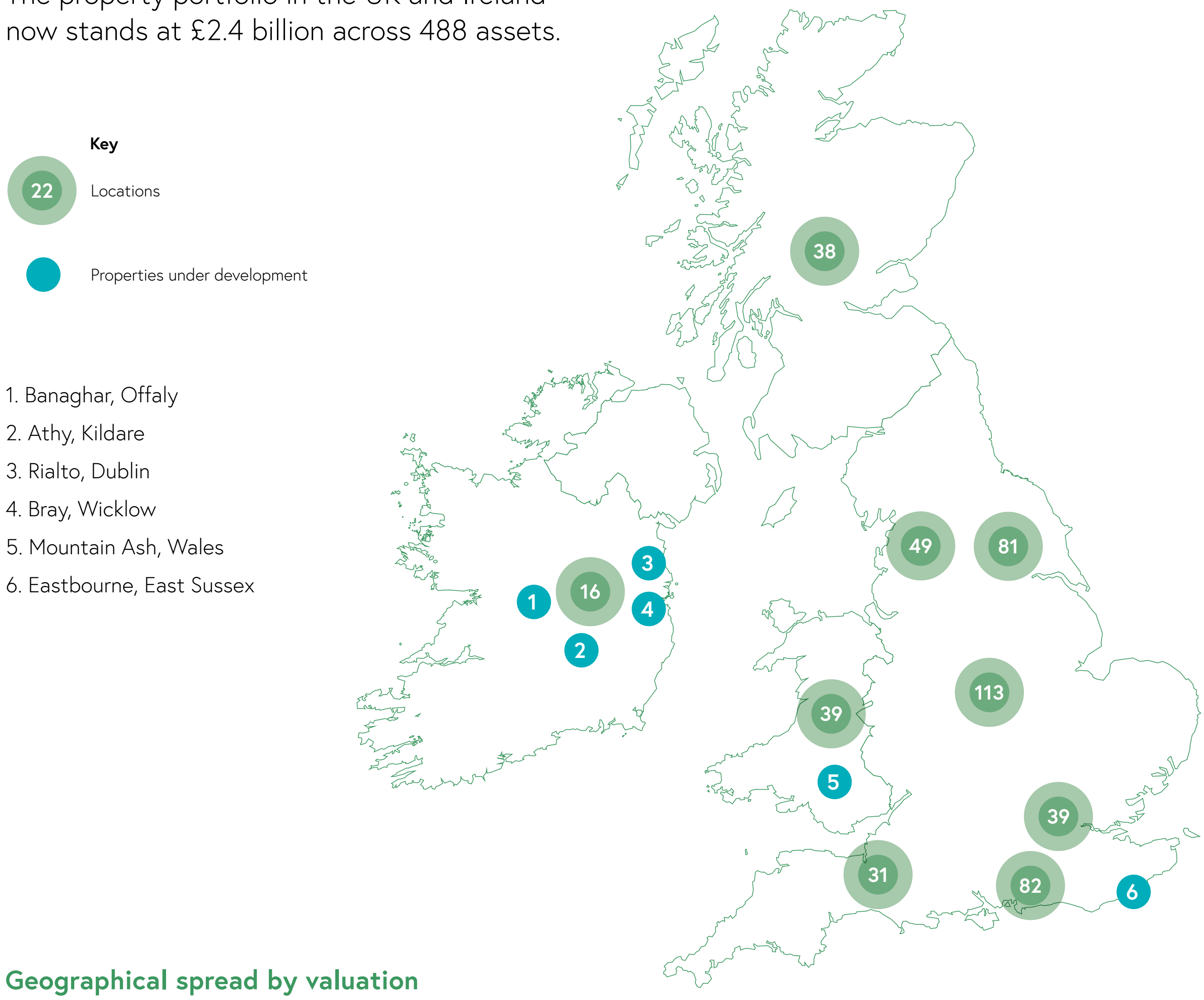
Calculation

See page 17, Business Review.

Raynes Park Health Centre, Wimbledon, England.

Our locations

The property portfolio in the UK and Ireland now stands at £2.4 billion across 488 assets.



1. Banaghar, Offaly
2. Athy, Kildare
3. Rialto, Dublin
4. Bray, Wicklow
5. Mountain Ash, Wales
6. Eastbourne, East Sussex

Geographical spread by valuation

- Midlands and East Anglia (22%)
- North East, Yorkshire and Humbershire (16%)
- South East (14%)
- North West (13%)
- Scotland (8%)
- Wales (8%)
- London (7%)
- Ireland (7%)
- South West (5%)

Discover more about our portfolio at **phpgroup.co.uk/portfolio**

New developments

Developing our portfolio

Emerald Gardens Medical.

Vale of Neath Medical Centre, Wales.

Completed developments

The Group completed five forward funded developments in the year, including one in Ireland, with a net development cost of £17.6 million.

Net development cost

£17.6m

Across

5

completed developments

Developments on site

The Group has a further six forward funded developments currently on site with a net development cost of £57.0 million.

Bray Primary Care Centre, Wicklow, Ireland.

Athy Primary Care Centre, Kildare, Ireland.

"The enlarged Group will continue to adopt a policy of not undertaking any developments on a speculative basis."

Harry Hyman
Managing Director

Risk management and principal risks

Risk management overview

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

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

The structure of the Group's operations includes rigorous, regular reviews 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, general economic conditions and internal risks that arise from how the Group is managed and chooses to structure its operations.

Approach to risk management

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

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

Risk	Inherent risk rating	Change to risk in 2019	Commentary on risk
Deliver progressive returns			
Potential over-reliance on the NHS and HSE PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	**Medium** Likelihood is low but impact of occurrence may be major.	Unchanged	The UK and Irish governments continue to be committed to the development of primary care services and initiatives to develop new models of care increasingly focus on greater utilisation of primary care. Despite the UK's exit from the European Union the demand for health services will continue to grow regardless, driven by demographics. Whilst the uncertainty surrounding the exit may lead to fluctuations in the value of the Group's assets, there is no evidence of this at present. Future government funding levels in the UK may be impacted by any long term, material change to economic performance as a consequence of Brexit. A fundamental change in government policy could impact how the private sector regards its investment in this asset class and its willingness to further deploy private sector resources to improve the quality of primary care facilities.

The Adviser assists the Board in its assessment and monitoring of operational and financial risks and the Adviser has in place robust systems and procedures to ensure risk management is embedded in its approach to managing the Group's portfolio and operations. The Adviser has established a Risk Committee that is formed of members of its senior management team. The Chairman of the Adviser's Risk Committee is independent of both the Adviser and the Group and experienced in the operation and oversight of risk management processes.

The Audit Committee reviews the Group's systems of risk management and their effectiveness on behalf of the Board. These systems and processes have been in place for the year under review and remained in place up to the date of approval of the Annual Report and Accounts.

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

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

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

Principal risks and uncertainties

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

Mitigation	Residual risk rating
The commitment to primary care is a stated objective of both the UK and Irish governments and on a cross-party basis. Management engages directly with government and healthcare providers in both the UK and in Ireland to promote the need for continued investment in modern premises. The attractiveness of long term, secure income streams that characterise the sector leads to stability of values.	**Medium** Policy risk and general economic conditions are out of the control of the Board, but proactive measures are taken to monitor developments and to consider their possible implications for the Group.

Risk management and principal risks continued

Risk	Inherent risk rating	Change to risk in 2019	Commentary on risk
Deliver progressive returns continued			
Foreign exchange risk Income and expenditure that will be derived from PHP's investments in Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates, impacting the Group's earnings and portfolio valuation.	**Medium** Likelihood of volatility is high but the potential impact at present is relatively low due to the quantum of investment in Ireland, albeit this quantum is increasing.	Unchanged	The Group now has 16 investments in Ireland. Asset values, funding and net income is denominated in Euros. The UK's decision to leave the European Union continues to cause exchange rate volatility whilst the exit process is ongoing.
Grow property portfolio			
Competition The emergence of new purchasers in the sector and the continuing low level of approvals of new centres in the UK may restrict the ability of the Group to secure new investments.	**High** Likelihood is high and impact of occurrence could be major.	Unchanged	In terms of values, the Group has benefited from a flight to income as a consequence of the current wider economic uncertainty – investors have been attracted to the sector due to its long term, secure, government-backed cash flows. Lack of supply, as a consequence of the low number of new development approvals in the UK, has also contributed to the increase in values. However, the same increase in demand and lack of supply has meant that the Group is facing increased competition for viable opportunities.
Financing The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest. Furthermore, a more general lack of equity or debt available to the sector could reduce demand for healthcare assets and therefore impact values.	**High** Likelihood of a restricted supply is moderate but the potential impact of such a restriction could be major.	Unchanged	The Group successfully issued a new £150.0 million unsecured convertible bond in July 2019. The Company completed an equity issue in September 2019, raising gross proceeds of £100.0 million. In addition, and also in September 2019, the Group issued new senior secured notes for a total of €70 million at a fixed rate of 1.509% with a maturity of twelve years and in December 2019 the Group entered into a new £100 million revolving credit facility with HSBC. The Group's undrawn facilities and cash mean it currently has headroom of £356.6 million. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term.
Manage effectively and efficiently			
Lease expiry management The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit-for-purpose medical centres is key to delivering the Group's strategic objectives.	**Medium** Likelihood of limited alternative use value is moderate but the impact of such values could be serious.	Unchanged	Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.

Mitigation	Residual risk rating
The Board has and will continue to fund its investments in Euros so as to create a natural hedge between asset values and liabilities in Ireland.	**Low** PHP has implemented a hedging strategy in the form of a natural hedge so as to manage exchange rate risk.
The reputation and track record of the Group in the sector means it is able to source forward funded developments and existing standing investments from developers, investors and owner-occupiers. The Group has a number of formal pipeline agreements and long-standing development relationships that provide an increased opportunity to secure developments that come to market in the UK and Ireland. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.	**Medium** The Group's position within the sector and commitment to and understanding of the asset class mean PHP is aware of a high proportion of transactions in the market and potential opportunities coming to market. Active management of the property portfolio generates regular opportunities to increase income and lease terms and enhance value.
Existing and new equity and debt providers are keen to provide funds to the sector and specifically to the Group, attracted by the strength of its cash flows. The Board monitors its capital structure and maintains regular contact with existing and potential equity investors and debt funders.	**Medium** The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinance debt facilities in advance of their maturity.
The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. 36 projects either completed on site or about to commence, enhancing income and extending occupational lease terms. In addition, there is a strong pipeline of over 100 projects that will be progressed in over the next three years. Only 1.5% of the Group's income expires in the next five years and management is actively managing these lease expiries.	**Medium** The Adviser employs an active asset management programme and has a successful track record of securing enhancement projects and securing new long term leases.

Risk management and principal risks continued

Risk	Inherent risk rating	Change to risk in 2019	Commentary on risk
Manage effectively and efficiently continued			
PHP and Nexus relationship The Group has no employees. The continuance of the Adviser contract is key for the efficient operation and management of the Group.	**Medium** The likelihood of any unexpected change is low but, if that occurred, the impact could be significant.	Unchanged	As well as management fees, the Adviser has earned a performance incentive fee during the period, some of which is only payable in future periods and is dependent on continued outperformance of hurdle rates.
Diversified, long term funding			
Debt financing Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.	**Medium** The likelihood of insufficient facilities is moderate but the impact of such an event would be serious.	Unchanged	Negotiations with lenders have confirmed that the Group enjoys the confidence of the lending markets both in terms of the traditional high street lenders, as well as the bond markets. The Group successfully issued a new £150.0 million unsecured convertible bond in July 2019. In September 2019, the Group issued new senior secured notes for a total of €70 million at a fixed rate of 1.509% with a maturity of twelve years and in December 2019 the Group entered into a new £100 million revolving credit facility with HSBC.
Interest rates Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows and could impact property valuations.	**Medium** The likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.	Unchanged	Term interest rate markets remained volatile during the period and this volatility is likely to continue in the near future. Over the year, term interest rates have reduced which has impacted the mark-to-market ("MtM") valuations of the Group's interest rate derivative portfolio, increasing its "out of the money" status.

Brexit

On 31 January 2020, the United Kingdom left the European Union ("EU") but a substantial amount of uncertainty still remains regarding any future trade deal with the EU ("Brexit"). The Board continues to monitor the negotiations which will set out the UK's future relationship with the EU and until these negotiations are finalised it is too early to fully understand the impact Brexit will have on our business and our sector. The main impact of Brexit is the potential negative impact on the macro-economic environment, potentially leading to political uncertainty and volatility in interest and exchange rates, but it could also impact our investment and occupier market, our ability to execute our investment strategy and our income sustainability in the long term.

Emerging risks

The Board has also considered emerging risks and their potential impact on the Group. During the year, development delivery risk has been added to the Group's Risk Register. The Group enters into forward funding arrangements with developers who then engage contractors to build out the scheme. There is a risk that the developer or the contractor or both could become insolvent causing delays and losses. However, the likelihood, impact and mitigation factors mean that, despite the Group's increasing exposure to this risk, it is not yet considered a principal risk and therefore is 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.

Climate change and environmental risk

In 2018, the Board added climate change and environmental issues to the Risk Register. Whilst it is not yet regarded as a principal risk and uncertainty and therefore is not included in the table above, the Group's approach to the subject matter is considered in more detail in the Responsible Business section of the Annual Report on pages 34 to 37.

Coronavirus

The Board has considered and will continue to monitor the threat and implications of the coronavirus but is too early to fully understand the impact that the virus will have on our business sector and the wider macro-economic environment.

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 2022.

Mitigation	Residual risk rating
The Advisory Agreement with and performance of the Adviser is regularly reviewed. Nexus' remuneration is linked to the performance of the Group to incentivise long term levels of performance. Nexus can be required to serve all or any part of its notice period should the Group decide to terminate providing protection for an efficient handover.	**Medium** The interests of the Adviser are aligned with the objectives of the Group and the composition of its team is monitored by the Board.
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. The Adviser regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.	**Medium** The Board 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 98% of drawn debt is fixed or hedged. MtM valuation movements do not impact on the Group's cash flows and are not included in any covenant test in the Group's debt facilities.	**Low** The Group is currently well protected against the risk of interest rate rises but, due to its continued investment in new properties and the need to maintain available facilities, will be exposed to future interest rate levels.

Although individually the Group's assets may have relatively long unexpired lease terms and will all have a defined asset management strategy, the Board has undertaken its detailed financial review over a three-year period because:

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

The Group's financial review and budgetary processes are based on an integrated model that projects performance, cash flows, position and other key performance indicators including earnings per share, leverage rates, net asset values per share and REIT compliance over the review period. In addition, the forecast model looks at the funding of the Group's activities and its compliance with the financial covenant requirements of its debt facilities. The model uses a number of key parameters in generating its forecasts that reflect the Group's strategy, operating processes and the Board's expectation of market developments in the review period. In undertaking its financial review, these parameters have been flexed to reflect severe, but realistic, scenarios both individually and collectively. Sensitivities applied are derived from the principal risks faced by the Group that could affect solvency or liquidity and are as follows:

- declining attractiveness of the Group's assets or extenuating economic circumstances impacts investment values – valuation parameter stress tested to provide for a one-off 10%/£240 million fall in June 2020;
- 10% 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 2020; and
- tightly controlled NHS scheme approval restricts investment opportunity – investment quantum flexed to remove non-committed transactions.

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. The Board also assumes that the services of the Adviser are available throughout the period.

Harry Hyman
Managing Director
11 February 2020

Creating synergies

"We have delivered the targeted £4.0 million p.a. reduction in the enlarged Group's operating costs leading to the Group having the lowest EPRA cost ratio in the sector and delivered a 50bp reduction in the average cost of debt."

The completion of the all-share merger with MedicX Fund Limited ("MedicX") on 14 March 2019 represented a rare opportunity to bring together two high quality and complementary portfolios in the UK and Ireland. Historically, both PHP and MedicX had adopted very similar investment strategies and consequently the two portfolios were ideally placed to be brought together.

The MedicX portfolio comprised 167 high quality properties, including five assets in Ireland, with a large average lot size of £4.9 million, occupancy of 99%, a long WAULT of 13.4 years and 91% of the rent roll paid by government bodies. These characteristics were almost identical to PHP's existing portfolio and made the combined business a much stronger platform for the future with increased scale and financial resource.

The merger with MedicX crystallised a number of operating and finance cost-saving synergies and we have delivered the targeted £4.0 million per annum reduction in the enlarged Group's operating costs leading to the Group having the lowest EPRA cost ratio in the sector. A number of successful refinancings were also completed following the merger allowing us to deliver a 50bp reduction in the average cost of debt.

The positive reaction to the merger also allowed us to further strengthen the balance sheet and we completed a successful, oversubscribed £100.0 million equity issue in September 2019 reducing the Group's loan to value ratio back to pre-merger levels of around 44% at the end of 2018. The enlarged Group now has a market capitalisation in excess of £1.9 billion and we have seen a significant improvement in share liquidity as a result of the completion of the merger.

Looking to the future, the enlarged Group will be more able to meet the increasing demand for high quality primary healthcare facilities across the UK and Ireland thereby supporting doctors, alleviating pressure on hospital departments and ultimately aiding the welfare of patients.

Rent funded by government bodies

91%

UK properties

162

Ireland properties

5

WAULT

13.4 years

Occupancy

99%

1. Lytham Medical Centre, Lancashire.
2. Mullingar Primary Care Centre, Leinster, Ireland.

Responsible business

Through our investment, asset and property management, forward funded development and corporate activities we look to minimise the environmental impact of our business.

80%
of the portfolio has an EPC rating of "A–C"

Creating long term, sustainable value

Overview

The group's portfolio has changed significantly following the merger with MedicX in 2019 and we recognise the ever-increasing importance of managing the group's impact on Environmental, Social and Governance ("ESG") issues as well as developing strong stakeholder relationships.

PHP's approach is based around our core activities of investment, asset management and forward funded development supported by our corporate activities. We are committed to improving our responsible business disclosure, mitigating sustainability risks and capturing environmental and stakeholder opportunities.

In 2019, the Property Adviser, Nexus Tradeco Limited ("Nexus") created a new committee to establish an ESG policy, set and monitor targets that help us meet our responsible business objectives. The ESG Committee, which meets several times a year, is chaired by Harry Hyman and comprises senior members of the Nexus team who each have relevant experience in the business and are responsible for the implementation of the policy throughout our operations.

We realise the importance of our assets on the local healthcare community in which they serve 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 addition, PHP supports the seventeen UN Sustainable Development Goals ("SDGs") adopted by all United Nation member states in 2015. SDGs constitute the most pressing economic, social and environmental challenges that the world needs to solve. The UK is a signatory to these goals and the government has developed its own agenda for delivering these goals and companies are encouraged to adopt this framework.

At PHP we focus our efforts on the SDGs which align with our environmental, social and governance goals.

Environmental considerations

Through our investment, asset and property management and forward funded development activities we operate and endeavour to minimise the environmental impact of our operations, maximise the efficiency of our assets and minimise the future risk of obsolescence in our portfolio, which are required to meet the NHS's and HSE's exacting standards with regard to environmental considerations. PHP is committed to the principles of continuous improvement in managing environmental issues, including the reduction of pollution and emissions, the proper management and monitoring of waste, and compliance with environmental legislation and codes of practice.

With a void rate of just 0.5%, most of which is expansion space within our existing assets, and no employees the Company has only 35 landlord-controlled energy supplies and total consumption and greenhouse emissions was just 6,127,846 MWh and 1,628 tCO_2 respectively, which equates to the consumption of just 95 median sized homes, and this limits our ability to further reduce energy consumption. However, we continue to look at ways of reducing consumption and the efficiency of our assets to reduce energy consumption for our occupiers.

Asset management in action

Maybush Medical Centre, Wakefield

Major refurbishment of the accommodation to meet infection control and disability access standards

Completed May 2019	7 GPs serving 9,000 patients	Stand-alone surgery

The surgery was built in 1997 and is located within 2 miles of Wakefield Town centre. PHP worked alongside the GPs and the Clinical Commissioning Group in Wakefield to deliver a refurbished surgery that would be fit-for-purpose for the next 20 years and addressed the needs of the staff and patients alike. The works incorporated environmental improvements to assist with the reduction in the building's carbon footprint and running costs and were carefully managed to minimise disruption to the surgery, its staff and patients.

The works included refurbishing consulting rooms and waiting areas with a new reception desk, a new interview room and a baby changing room, and an enlarged meeting room.

Highlights:

- The GPs committed to a new 20 year lease.
- New LED lighting throughout.
- New energy efficient boilers, pipework and low surface temperature radiators.
- New automatic entrance doors.
- New fire alarm panel and sensors.
- Meets current infection control and disability access standards.

Louise Gregory, Practice Manager, Maybush Medical Centre

"The team at PHP have done an excellent job at designing new and improved premises for staff and patients alike. They communicated with us at every step of the way and worked with us to address any practical issues that the Practice had identified. The extensive refurbishment project was delivered on time and with minimal disruption to both staff and patients. The results are outstanding and now gives us modern compliant premises that is fit for purpose and allow us to meet the needs of the local community."

Responsible investment

Environmental and sustainable matters are an integral element of PHP's assessment of the suitability of new medical centres that the Group looks to acquire and fund. PHP undertakes a detailed assessment of each location, looking at the sustainable nature of a site and how it will serve the local population and its importance to the local healthcare provision, ensuring that the centre is affordable and will meet the future needs of the local population.

As climate change risk increases we are reviewing our approach to environmental due diligence, with a view to enhance our assessment for new acquisitions, but an important element of our process is to undertake detailed environmental and building surveys which include a detailed assessment of the environmental risk for each investment, including flooding, to ensure the risk is avoided or appropriate prevention measures are developed. PHP has engaged consultants Simpson Hilder and GEP Environmental to help in this process.

We have obtained EPC ratings across the whole portfolio and will undertake improvement works where required to ensure full compliance with the Minimum Energy Efficiency Standards that will apply from 2023.

30% of the portfolio has an EPC rating of "B" or above and 80% (2018: 72%) has a rating of "A–C". Only two assets, representing less than 1% of the portfolio, are rated "F" of which both will be improved as part of a planned asset management project to improve the asset including the energy performance.

	2019	2018
A	**6%**	3%
B	**24%**	17%
C	**50%**	52%
D	**16%**	22%
E	**4%**	6%
Below E or unknown	**0%**	0%

Responsible asset management

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. Our asset and property management objective is to invest in the portfolio of properties with enduring occupier appeal, which provide opportunities to improve both rental values and the security and longevity of income, including limited risk short-cycle projects to improve the quality of assets. Through these asset management initiatives, we also aim to deliver energy efficiencies and source cleaner energy for our occupiers.

During the year we completed or have on site 20 projects and we have a strong pipeline of over 100 projects which will hopefully commence over the next three years and we continually assess the opportunities to improve the environmental efficiency of the property portfolio and work with its occupiers.

Responsible asset management continued

20 projects completed or on site in 2019 and a further 16 projects approved and due to commence shortly deliver a number of environmental initiatives and efficiencies, including:

- LED lighting upgrades
- Energy efficient boilers and low surface temperature radiators
- Recharge points for electric vehicles
- Solar PV capacity – ongoing engagement with tenants and feasibility studies
- Upgrade cooling and air handling system with new energy efficient plant controls
- Install or make provision for energy metering
- Upgrade U-values of thermal elements

36
projects completed, on site or about to commence

100
pipeline projects due to commence over the next three years

Responsible forward funded development

PHP engages with its development partners to promote the highest possible standards of environmental, sustainable and social matters when designing and constructing new premises. As a minimum, new properties are required to achieve a recognised sustainable building certification standard, of at least BREEAM (Building Research Establishment Environmental Assessment Method) Very Good in the UK or nZEB (nearly Zero Energy Buildings) which typically corresponds to an A3 Building Energy Rating in Ireland, and requirements are in place for developers and contractors to ensure the implementation of responsible property development practices.

We continue to work with occupiers regarding their ongoing environmental responsibilities which in due course we aim to include in all leases entered into as a norm for newly built premises. We continue to work with developers to integrate a range of sustainable features into new scheme including solar PVs, roof lights, electric vehicle recharge points, water conservation and ecology.

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.

100% of the newly completed assets delivered in 2019 held an EPC with a rating of B or better.

Asset management in action

Robin Lane Medical Centre, Pudsey

215 sqm extension	**Completed May 2019**	**8 GPs serving 13,500 patients**	**Surgery with a pharmacy**

The surgery was originally built in 1997 and is located within 6 miles of Leeds City centre. Due to growth in patient numbers, the need to offer a wider range of services to the local community, and the passage of time the accommodation had become too small and tired, and required extension, reconfiguration and refurbishment. PHP worked alongside the GP's and the Clinical Commissioning Group in Leeds to build an extension to deliver 11 additional consulting rooms, 2 new treatment rooms, a new endoscopy suite; and refurbished existing consulting rooms, improved reception and waiting areas for patients, modernised administration space for staff; and incorporated environmental improvements to assist with the reduction in the building's carbon footprint and running costs.

Highlights:

- The GPs committed to a new 25 year lease.
- New energy efficient boilers and low surface temperature radiators.
- New LED lighting throughout.
- New automatic entrance doors.
- New fire alarm panel and sensors.
- Meets infection control and disability access standards throughout.

Dr Neil Bartow, Senior Partner, Robin Lane Medical Centre, Pudsey

"PHP worked closely with us to deliver a refurbished surgery with the addition of an endoscopy suite so we could deliver better services for the local community. The works enabled us to meet current infection control standards whilst making the building more welcoming."

Social, community and stakeholder considerations

PHP is committed to supporting both the NHS and HSE in tackling the major underinvestment 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, the 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 strategic objectives and business planning processes.

PHP's portfolio serves around 5.3 million patients or 8.0% of the UK population and our portfolio is their first point of contact with the NHS when they start their patient journey. 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. Social impact consideration and management sits at the heart of the management of the Group and is directly reviewed by the Board. 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 through 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 is changing to meet the increasing demands on the healthcare system in both countries.

Other stakeholders

While our investment, asset and property management and forward funded 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.

Development in action

Eastbourne Primary Care Centre, East Sussex

Eastbourne Primary Care Centre ("PCC") is a new 2,000 sqm purpose-built development with an anticipated completion in Q1 2021. The scheme will bring together two local GP practices who currently accommodate converted houses which are too small and no longer suitable for delivering the best care for patients.

The scheme will address significant building quality issues by providing a future proof building which provides much needed capacity for a patient list of 23,000, which is later expected to rise beyond 30,000. In addition, the new PCC development will enable the practices to increase the range and quality of services provided to patients according to local need, resultantly reducing the pressure on local hospital services, which is a key priority in the local Sustainability and Transformation Plan.

The PCC will be the largest primary care provider in the town and will provide a range of services to the local community including GP services, dementia, health and wellbeing and diagnostic services and will also include an integrated pharmacy.

Environmental highlights:

- The development will achieve a BREEAM rating of "Excellent".
- Low energy light fittings (including LEDs) will be provided throughout the building complete with occupancy, daylight and dimming controls.
- There will be an indoor air quality plan to minimise air pollution within the building and areas will be naturally ventilated where possible.
- Photovoltaic panels will be installed on the roof of the building.
- Two electric charging points will be installed which we will be used by staff and patients.

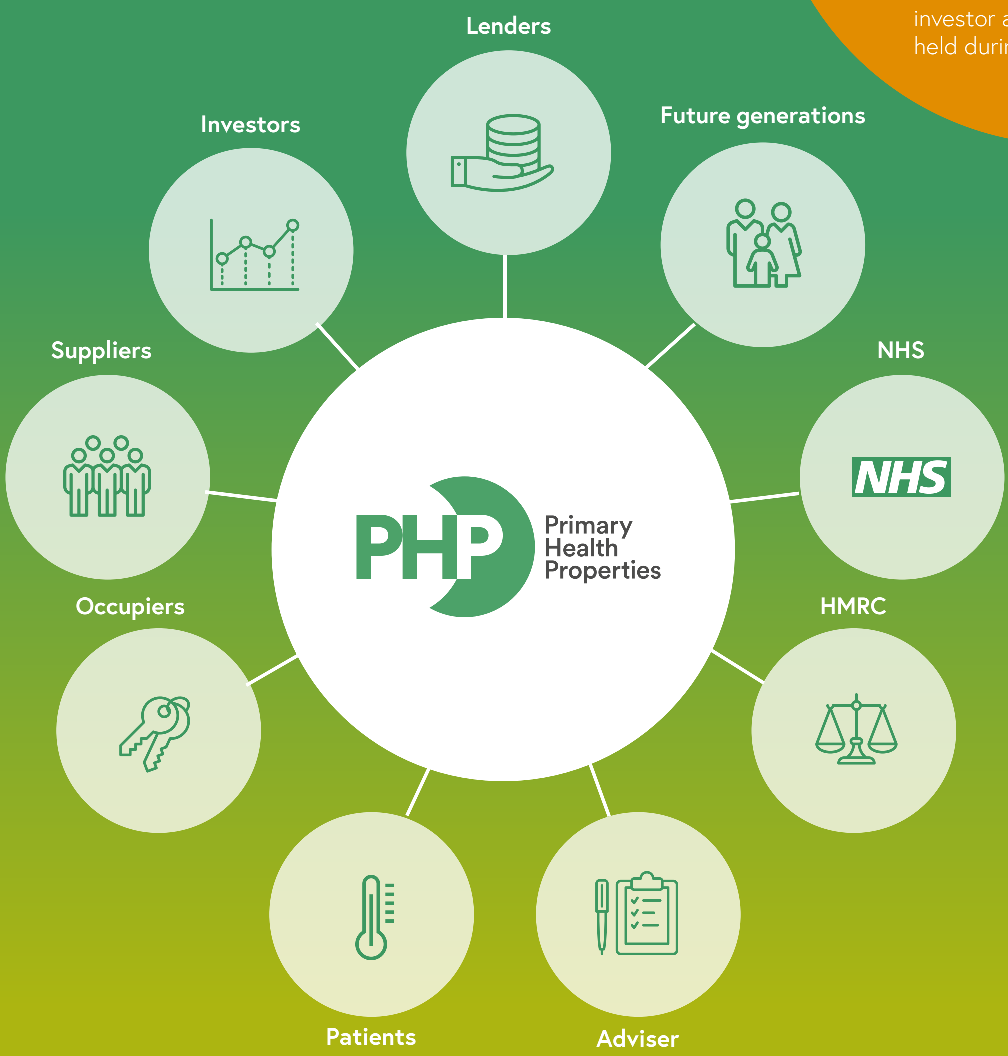
Engaging with our stakeholders

PHP's portfolio serves around 5.3 million patients or 8.0% of the UK population and our portfolio is their first point of contact with the NHS when they start their patient journey.

5.3m
patients served by PHP's portfolio

600+
suppliers across the Group

180+
investor and analyst meetings held during the course of 2019



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 2019, we maintained a regime of inspections utilising both third-party agents and in-house resources. In 2020 we aim to rationalise the process further and engage one risk management solutions provider 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 Nexus resources are used to carry out a health and safety assessment and audit relating to the common parts.
2. 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. Nexus the Property Adviser is required to uphold our high standards and it has separate procedures and processes in place for the employees who work on behalf of the Group to ensure compliance with current legislation and requirements.

During 2019 there were no reported major accidents nor any health and safety prosecutions or enforcements and a health and safety policy was approved by the Board and is available on the website.

Nexus Tradeco Limited ("Nexus")

Although PHP has no employees, it recognises the importance of the welfare of the Property Adviser's, Nexus', employees who work on behalf of the Group. Their experience and contribution to the business is essential to the delivery of our business strategy and ESG commitments.

Both the PHP Board and Nexus maintain a commitment to maintaining and promoting the highest levels of ethics and conduct and seek to promote a workplace culture of:

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

Further details on the Property Adviser can be found on page 47.

Nexus employees' environmental impact

The table below shows the Scope 1 and Scope 2 emissions directly within the operational control of the Group. Scope 1 relates to business vehicles and Scope 2 relates to grid electricity consumed at the Nexus head office and the landlord-controlled energy from our entire investment portfolio.

	2019	2018
Scope 1 – tCO_2	**24.2**	17.1
tCO_2 per employee	**0.5**	0.5
Scope 2 – tCO_2	**31.0**	20.9
tCO_2 per employee	**0.6**	0.6
Total Scope 1 and Scope 2	**55.2**	38.0
Total tCO_2 per employee	**1.1**	1.1

Customers

Our relationships with our customers are imperative to our business success and we aim to be more than just a landlord, working with them to understand the dynamics of their primary health centre and the various services delivered at each asset.

Throughout 2019 we have continued to focus on asset management projects, working closely with our occupiers to understand their future needs, investing capital in a range of physical extensions and refurbishments. In 2019 we completed or had on site 20 projects and a strong pipeline of over 100 projects due to commence in the next three years.

In 2019 we completed an Occupier Survey to address specific property and asset management issues with our GP occupiers. 63% of respondents rated PHP's overall performance as good or excellent. 77% of respondents suggested that their premises will need to be either extended, reconfigured or refurbished in the future and 55% thought their property required some form of environmental review.

Sustainability continued

Contractors and suppliers

Delivering 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 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 600 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 2019 the Group has directly paid £20.6 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. During 2019 the Company 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. During the year we successfully completed the all-share merger with MedicX which 99.9% of PHP and 90.3% of MedicX shareholders voted in favour of the transaction. In addition, we successfully completed a £100 million equity raise and £360 million of new debt facilities to further strengthen our balance sheet. We continue to enjoy strong relationships with our investor, banking and lending partners.

We continue to value existing and potential relationships with our investors with over 180 meetings held during the course of 2019. Shareholders and analysts are regularly updated about our performance and are given the opportunity to meet management throughout the year and attend presentations and site visits to gain a better understanding of our business strategy.

Governance

We conduct our business with integrity and require that our Directors, Nexus and its 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 in so far as it is applicable to PHP. We believe in the 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.

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 policies and systems to counter bribery, which require any gifts of hospitality of more than a trivial amount to be approved.

Section 172 Companies Act 2006

The information disclosed on the preceding pages 34 to 40 and the table on pages 52 and 54 set out how the Directors have had regard to the factors set out in Sections 172 (a)-(f) when performing their duty under Section 172 Companies Act 2006.

Non-financial information statement

The Group has complied with the requirements of Section 414CB of the Companies Act 2006 by including certain non-financial information within the Strategic Report. This can be found as follows:

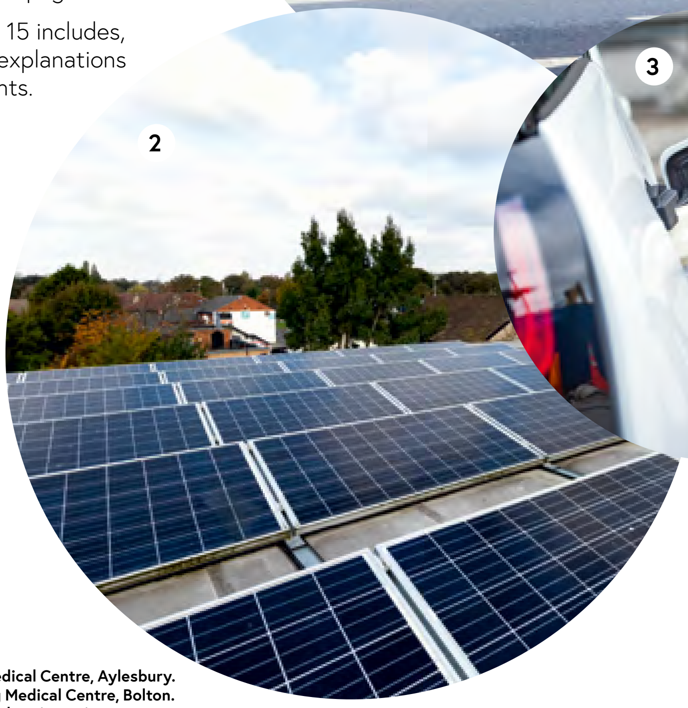
- The Group's business model is on page 8.
- Information regarding the following matters, including policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:
  - environmental matters on page 34;
  - social matters on page 37;
  - health and safety matters on page 39;
  - respect for human rights on page 40; and
  - anti-corruption and anti-bribery matters on page 40.

None of the matters listed above have been identified as a principal risk.

All key performance indicators of the Group, are on page 11.

The Business Performance section on pages 12 to 15 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Harry Hyman
Managing Director
11 February 2020



1. Poplar Grove Medical Centre, Aylesbury.
2. Waters Meeting Medical Centre, Bolton.
3. Electric vehicle charging points at Central Milton Keynes Medical Practice.

An insight into the year

Our governance structure supported the delivery of the PHP strategy in 2019.

PHP has a clearly defined purpose to improve the delivery of healthcare through investment in modern purpose-built primary care facilities delivering progressive returns to shareholders.

1 Deliver progressive returns

Board governance role
- Set appropriate target returns for the Adviser
- Optimise the capital structure and review LTV limits
- Protect the delivery of a progressive dividend to shareholders

Risk management framework
- Detailed appraisal process for investment decisions
- Limits set on overall borrowings

Key Board activities in 2019
- Delivery of MedicX merger synergies to underpin increases in rent roll and earnings
- Reduction in cost of funds through capital raising and debt restructuring
- Purchase of out-of-the-money swaps

2 Grow property portfolio

Board governance role
- Review investment strategy periodically
- Consider and, if appropriate, approve individual investments
- Agree any diversification of portfolio by geography or tenant type

Risk management framework
- Limitation on the size of Irish portfolio
- Limit overall exposure to development funding risk
- Favour investment in larger lot sizes

Key Board activities in 2019
- MedicX merger created portfolio of 488 properties
- Funded six development projects
- Approved acquisition of three new properties

3 Manage effectively and efficiently

Board governance role
- Monitor performance of the Adviser under the Advisory Agreement
- Keep KPIs for rent review and asset management projects under review
- Set standards for environmental efficiency of new building projects

Risk management framework
- Monitor portfolio for lease expiries and asset management opportunities
- Ensure appropriate insurances in place

Key Board activities in 2019
- Invested £13.4 million in asset management projects to re-gear leases and increase rents
- Set new KPIs for asset management projects
- Initiated work on new ESG policy, adopted in February 2020

How our governance informed the MedicX merger

A strong governance framework was key to ensuring that the Board was able to plan and execute successfully the transformative merger with MedicX and deliver the synergies anticipated at the time of the offer.

Our process timeline

H2 2018	Q1 2019	Q2 2019
The strategic rationale for the merger was considered and a sub-committee of the Board established to take matters forward. Discussions were held with PHP's financial advisers regarding deal terms and structure before approaching the MedicX board to agree terms. The Chairman reported back to the full Board on a regular basis.	The formal terms of the merger were considered and approved, in particular, consideration of the strategic and financial benefits accruing to shareholders and other stakeholders. Revised terms were agreed with Nexus for the management of the enlarged portfolio.	The Board was restructured in order to maintain an appropriately sized Board at that time and create a balance between PHP and MedicX Directors post the merger. The Board oversaw the integration of the team from MedicX's investment adviser at Octopus into the Adviser's team and of the respective property management and finance systems.

Read more about our strategy on pages 10 and 11

Board of Directors

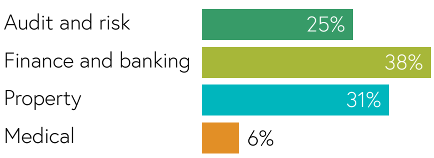
The PHP Board comprises a majority of independent Non-executive Directors selected to deliver an appropriate mix of diversity, skills and experience.

Key to Committee membership

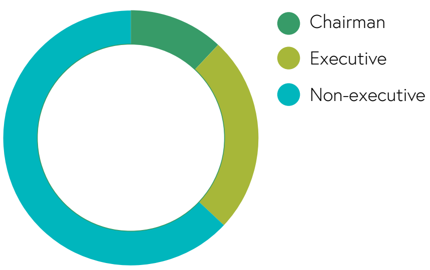
- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- E Adviser Engagement Committee
- S Standing Committee
- C Chairman of Committee

Composition of the Board

Board skills and experience



Balance of the Board



E N R S

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 December 2013, 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 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

None

Independent Non-executive

Yes

S

2 Harry Hyman

Managing Director

Election to the Board

Harry Hyman was the founder of the Company in 1996 and has served on the Board as Managing Director from that time and represents the Adviser, Nexus Tradeco Limited, on the Board.

Career

Harry Hyman graduated from Cambridge University and trained as a Chartered Accountant and Corporate Treasurer. He established the Company in 1996. Harry is the Managing Director of Nexus Tradeco Limited and its subsidiary companies. 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 £2.4 billion. He also brings entrepreneurial flair to the Board having established a number of successful private companies.

Other listed directorships

Harry is the Non-executive Chairman of Summit Properties Limited, an AIM-listed German commercial real estate company and of Hertsford Capital PLC, listed on the London Stock Exchange. In addition, Harry is a Non-executive Director of Biopharma Credit PLC, which invests in the fast-growing science industry.

Independent Non-executive

Not applicable

S

3 Richard Howell

Finance Director

Election to the Board

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

Career

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

Skills, competence and experience

Richard has extensive finance experience, having previously held senior accounting positions within listed property companies operating across the UK. Whilst working for LondonMetric 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

A E N R

4 Helen Mahy CBE

Independent Deputy Chairman and Senior Independent Director

Election to the Board

Helen was appointed to the Board on 14 March 2019, following completion of the merger with MedicX Fund Limited.

Career

Helen qualified as a barrister and was formerly Company Secretary and General Counsel of National Grid plc until she retired in 2013. She was the Chairman of MedicX Fund Limited until the merger with PHP in March 2019. She is currently Chairman of The Renewables Infrastructure Group Limited, a FTSE 250 investment company, and is a Non-executive Director of SSE plc and Bonheur ASA, a company listed on the Oslo Stock Exchange. She is also an Equality and Human Rights Commissioner.

Skills, competence and experience

Helen brings considerable legal and regulatory experience of operating and advising in regulated industries, together with extensive understanding of corporate governance and listed companies. She has a good understanding of the primary care property market from her time as Chairman of the MedicX Fund Limited.

Other listed directorships

The Renewables Infrastructure Group Limited, SSE plc and Bonheur ASA

Independent Non-executive

Yes

A E N R

5 Peter Cole

Independent Non-executive Director

Election to the Board

Peter was appointed to the Board on 1 May 2018.

Career

Peter is a Chartered Surveyor and was until May 2019 Chief Investment Officer of Hammerson plc, the FTSE-listed owner, manager and developer of retail destinations in the UK, Ireland and continental Europe, where he held overall responsibility for developments, acquisitions and joint ventures since 1999. He was a main board Director of Hammerson from October 1999 until 31 December 2018 and has recently been appointed as a director of Hermes CMK General Partner.

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 for listed companies in the UK.

Other listed directorships

None

Independent Non-executive

Yes

A E N R

6 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 the MedicX Fund Limited.

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., Pradera Limited and Grainger plc. She recently stepped down from her last executive role as Head of Investment and Capital Markets – Europe at Lendlease, to focus on her other NED and senior advisory roles. She is also a Non-executive Director of InLand Homes plc and MIC Limited.

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

InLand Homes plc

Independent Non-executive

Yes

A E N R

7 Dr Stephen Kell OBE

Non-executive Director

Election to the Board

Dr Stephen Kell was elected at the Company's Annual General Meeting in 2018 having been appointed to the Board in February 2018.

Career

Stephen is a General Practitioner and Managing Partner of a large medical practice in Worksop, Nottinghamshire with 14 partners and 32,000 patients and operating across five sites. Until 2016, Stephen was also Chair of the Bassetlaw Clinical Commissioning Group, Vice-Chair of the Nottinghamshire Health and Wellbeing Board and Co-Chair of NHS Clinical Commissioners and consequently has an in-depth understanding of healthcare commissioning and has helped to establish a national membership organisation with significant political and NHS influence. He is a Director of Community Health Partners Limited, which provides consultancy services in the primary health market.

Skills, competence and experience

Stephen has spent his career involved in the healthcare sector, principally in the provision of primary care, and this experience is invaluable to the Board by bringing the perspective of one of the Company's key stakeholders to discussions in the boardroom. He has an intimate knowledge of the NHS and has a considerable understanding of the drivers of health commissioning in the UK, particularly as to how this affects the primary care market.

Other listed directorships

None

Independent Non-executive

Yes

A E N R

8 Ian Krieger

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-Chairman at Deloitte until his retirement in 2012. His is currently Senior Independent Non-executive Director and Chairman of the audit committee at Safestore Holdings plc. He is also a Non-executive Director at Capital & Regional plc, where he is also the Chairman of the audit committee. He is the Chairman of Anthony Nolan, a major blood cancer charity.

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 to the Board.

Other listed directorships

Safestore Holdings plc and Capital & Regional plc

Independent Non-executive

Yes

"The performance of the Adviser is evaluated and scrutinised by the Adviser Engagement Committee, which consists entirely of independent Non-executive Directors led by Laure Duhot."

Steven Owen
Independent Non-executive Chairman

Adviser

Nexus Tradeco Limited ("Adviser")

The business of the Company is managed by the Board, which takes all the strategic and investment decisions. The Board has appointed the Adviser to provide property advisory, management, administrative and accounting services and company secretarial services to the PHP Group under an advisory agreement. Further information on the advisory agreement and services provided is on page 70.

The performance of the Adviser is evaluated and scrutinised by the Adviser Engagement Committee, which consists entirely of independent Non-executive Directors led by Laure Duhot. The Adviser Engagement Committee meets each year to formally evaluate the performance of the Adviser in delivering its services to the Company and it also reviews the culture of the wider Nexus Group to ensure that it conforms with PHP's culture, policies and responsible business agenda. The Adviser Engagement Committee also scrutinises the charges levied by the Adviser at each of its meetings. Further details of the work of the Adviser Engagement Committee can be found in its report on pages 68 to 71.

The wider Nexus Group is engaged in the provision of independent advice and financial services to other organisations operating in the public and private sectors, with particular emphasis on health, education and property.

Adviser's team

The team has a wealth of knowledge and experience in health sector real estate as well as in finance and company secretarial matters and comprises a mix of property, finance and legal professionals. The team has grown with PHP's business and currently comprises 52 members of staff, of whom 50% are female and 50% are male, and 13% of the senior management roles are currently held by female members of staff. At comparable levels of seniority female members of staff are paid the same rates as male members. On average female remuneration was 96% of male remuneration.

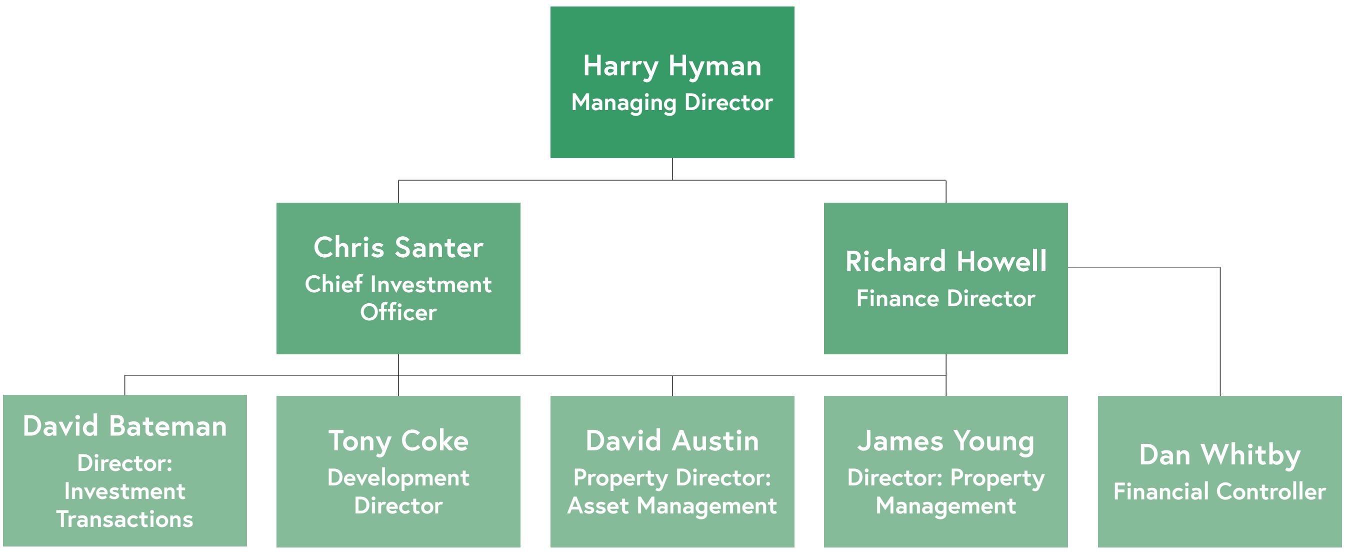
Harry Hyman leads the Nexus team and he is an experienced adviser with many years' experience in PHP's sector of focus. Richard Howell, who joined in March 2017, is an experienced Chartered Accountant with extensive experience within the commercial property sector and is responsible for the delivery of the finance, accounting and administrative services to the Group.

The senior members of the Adviser's team, Chris Santer, David Bateman, David Austin and James Young, all attend at regular Board meetings to present on the activities of the Adviser during the period since the previous meeting and to answer questions from the Directors.

Property team

The property team, which is based in offices in Central London and in Stratford-upon-Avon, comprises professionals engaged in property acquisition, portfolio management and asset and property management and includes 19 members of the Royal Institution of Chartered Surveyors ("RICS") and one Associate member who qualified during the year and a further 4 trainee surveyors, who are being supported through their training by the Adviser and 8 administrative assistants. During the year, 20 employees, came across from Octopus Healthcare Adviser Limited ("Octopus"), the investment manager to MedicX Fund Limited. Nexus was pleased to welcome them all as members of its team.

Structure of the Nexus team



Adviser continued

Property team continued

The property team is headed by Chris Santer, a qualified surveyor who joined Nexus in October 2017 and has over 20 years' real estate investment and development experience in the UK and continental Europe. Prior to joining Nexus, Chris was a Director of Portfolio Management at PGIM Real Estate, the asset management arm of Prudential Financial Inc, and previously MGPA, the real estate fund management arm of Macquarie Bank.

Chris is supported by David Bateman, who has been with Nexus since 2014, and leads a team of four staff focusing on potential investment and development opportunities. Tony Coke, who came from Octopus, is the Development Director and has over 15 years' experience in primary care development. Tony's teams have delivered some 30 new premises, with a particular focus on the South East and Greater London. James Young is the Director of Property Management and responsible for the day-to-day management of the portfolio. James was previously responsible for the MedicX portfolio and has over 20 years experience as a Chartered Surveyor. David Austin, who has been with Nexus since July 2016, having previously worked with Jones Lang Lasalle, Axa and Land Securities, oversees asset management projects.

Finance team

Nexus' finance team, headed by Richard Howell, is twelve strong and comprises six qualified accountants, two part-qualified accountants and four finance assistants. Richard is supported by Dan Whitby, Financial Controller, a Chartered Accountant who has over 15 years' experience working with London-listed multi-jurisdiction commercial property companies, gained principally with LXB Properties.

Members of the team have worked within large professional services companies advising major property companies or held positions within listed and privately owned real estate businesses.

Company secretarial

Company secretarial services are provided on a day-to-day basis by Paul Wright, a qualified solicitor, with over 15 years' experience as a Company Secretary to listed companies. Paul was previously Company Secretary and Legal Counsel at Cambian Group plc and Playtech plc and Company Secretary and General Counsel at TNS plc.

Nexus culture and approach

The culture at the Nexus Group is based on honesty, integrity and respect, which it believes enable it to deliver professional, high quality and value for money services to PHP on a sustainable basis. Nexus recently adopted a culture statement that has been endorsed by the Board of PHP and is available at www.nexusgroup.co.uk/culture.

The Nexus Group is an equal opportunities employer and supports the development and training of its employees and across the group it is supporting 7 employees in achieving appropriate professional qualifications.

Nexus believes its success in the delivery of its services to PHP is a result of its:

- culture of empowerment, inclusion, openness and teamwork;
- fair, performance based remuneration and semi-annual performance review, with clear goals and targets set, feedback given and training and development plans;
- emphasis on personal and professional development;
- flexible working culture; and
- small number of staff, which allows a flexible and individual approach to addressing staffing needs.

Nexus's culture and approach in more detail:

Inclusion

Nexus has a flat management structure with clear responsibilities. There is a strong culture of collaboration across the property, finance and company secretarial teams, which enables good sharing of information and ideas. Regular performance updates are provided to all staff by the Managing Director and Finance Director.

Modern working practices

Nexus has implemented more flexible working arrangements including improved systems to enable home or remote working.

Fair remuneration

Employees' remuneration is aligned to personal performance. Senior members of staff share in the Performance Incentive Fee payable to Nexus as described on page 18, which aligns their interests with those of the Company's shareholders.

Diversity and equal opportunity

Nexus as an organisation is a meritocracy irrespective of gender, race, religion and sexual orientation. While 56% of the Nexus workforce is female, it recognises that it needs to specifically improve gender diversity at a senior level and will continue to work to promote diversity internally.

Employee development and training

Training and development needs are discussed at semi-annual appraisals. Nexus actively encourages employees to further their professional development and to undertake training courses. Over the year Nexus has sponsored in excess of 620 hours of training and professional development for the Advisers' property team.

Health and safety

Nexus has a developed Health and Safety Policy and undertakes regular audits of the workspace to undertake health and safety and fire risk assessments, most recently in August following the transfer of staff from Octopus to the Nexus offices.

Corporate governance report

Letter from the Chairman

Overseeing our strategy

Dear shareholder

Introduction

It is a pleasure to present PHP's Corporate Governance Report for the year ended 31 December 2019, in what has been a truly transformational year for the Company following the merger with MedicX Fund Limited ("MedicX"). The Board's responsibility for leading the Company and overseeing governance of the Group continues to be supported by a robust structure which allows for constructive debate and challenge by its members. This approach enables effective decision making by the Board based on timely and accurate information.

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"), that applies to the Company for the first time.

Board changes

As I mentioned in my Chairman's Statement, it has been a period of significant change during the year. Following the completion of the merger with MedicX, in order to maintain an appropriately sized Board at that time and create a balance between PHP and MedicX Directors post the merger, Helen Mahy joined the PHP Board as Deputy Chairman and Senior Independent Non-executive Director, and Laure Duhot joined the PHP Board as Non-executive Director and Chairman of the Adviser Engagement Committee. At the same time, Nick Wiles and Geraldine Kennell stepped down from the PHP Board. On behalf of the Board, I would like to reiterate our thanks to Nick and Geraldine, for their commitment and support over the past three years and, in particular, their contribution to and support for the merger.

In November 2019, we announced that, following the successful merger and integration of the two businesses, Helen Mahy had informed the Board that she would retire from the Board at the 2020 Annual General Meeting ("AGM"). In January 2020 we announced that Dr Stephen Kell will be stepping down at the 2020 AGM and that, following a review of the skills, experience and knowledge of the directors and consideration of its size and composition as part of the Board evaluation process, led by the Nomination Committee, a Board of six directors is the appropriate size for the Company going forward, given the relative simplicity of the business model. On behalf of the Board, I would also like to thank both Helen and Stephen for their valuable contributions and, in particular to Helen, for her assistance in ensuring the successful completion of the merger. We wish them every success in the future.

Laure brings a deep knowledge and experience from the real estate sector with her appointment and I am confident that following these changes our Board has the skill, diversity and culture necessary to drive the enlarged business forward, establishing a leading position in the FTSE 250 real estate sector.

Details of the length of service of the members of the Board is set out on page 59 and details of the skills and experience of the Directors can be found in their biographies on pages 44 to 46.

Culture

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.

The Company is externally managed and so the Board has no workforce with whom it can engage. However, recognising the important link between culture and performance, we have worked with the Adviser to articulate its culture, values and policies to ensure that these support the desired PHP culture. Further information on this process is set out on page 48. The Board also reviewed and commented upon the Adviser's whistleblowing policy to ensure that its workforce had a means to raise concerns in confidence.

Diversity

It is the Board's policy to seek to ensure that a range of suitable candidates of different genders, ages, ethnicity and backgrounds are considered whenever we seek to make changes to the Board. The priority of the Board is to ensure that the Group continues to have the most effective Board possible and all appointments to the Board are made on merit against objective criteria. Following the appointment of Helen and Laure, in March 2019 there was a 25% female representation on our Board. After the conclusion of the 2020 AGM, the number of women on the Board will reduce to one out of six directors compared with two out of eight. We are conscious that, in order to achieve the 33% target of women on boards set by the Hampton Alexander Review, there should be two women on the Board. Whilst appointments to the Board will always be based on merit, gender balance and the achievement of this target will be a consideration in future appointments. We will continue to work to promote diversity, in all its forms, including gender, ethnicity or religion. More information on diversity is given in the Nomination Committee report on pages 66 to 67.

Evaluation

Another important annual exercise is the Board effectiveness review. I led the annual Board evaluation process with the assistance of the Company Secretary and I am pleased that the anonymised feedback confirms my view that the Board continues to work effectively and has the right skills and experience to support the business. Details of the evaluation and the main findings of the process are set out on pages 60 and 61.

Stakeholders

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

During the year the Board reviewed how it engaged with stakeholders to ensure that it engagement is both appropriate for the business and dynamic, so that we can respond as the business and our stakeholders' views evolve and as we seek to better embed these processes. We provide further details on our initiatives to engage with all our stakeholders on pages 38 to 40 and how we discharge our duties under section 172 Companies Act 2006 on page 41 in the Strategic Report.

Annual General Meeting

One of the primary means for the Board to engage with its shareholders, particularly individual shareholders, is at the Annual General Meeting. This important event gives you the opportunity to meet with me, and the Chairs of the other Board Committees and other Directors. As always, I would encourage you to attend the Company's Annual General Meeting to be held on 1 April 2020 at 10:30 a.m. at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF. A notice setting out details of the business to be conducted at the meeting is being posted to shareholders, who have elected to receive hard copies of communications from the Company, with this Annual Report.

Looking ahead

I am satisfied that our current governance structures remain effective and supportive of the business. Whilst a large part of the year has been taken up with completing the merger with MedicX and ensuring the successful integration of the two portfolios, the Board has taken steps to increase its focus on environmental, social and wider governance issues and has published its Environmental, Social and Governance policy, which is available on the Company's website. I believe that as we develop and strengthen our frameworks in these areas the Board will improve its ability to promote the success of the Company for the benefit of shareholders and stakeholders.

Steven Owen
Chairman
11 February 2020

Statement of compliance with the UK Corporate Governance Code

The 2018 edition of the Code contains broad principles and specific provisions to assist how boards operate. This Code applied to PHP during the financial year ended 31 December 2019.

As the Company is externally managed, it has no responsibility for the remuneration of the executive directors who are employees of the Adviser, Nexus Tradeco Limited and there is no workforce with whom the Board can engage. As a consequence, the portions of provision 5 of the Code that relate to workforce engagement are not applicable to the Company. Further, as the remuneration committee has no remit to review the remuneration policies of the Adviser and its workforce and has no remuneration schemes, provisions 33, 36–38 and 40 of the Code are not considered to be applicable.

As explained above, the Board has ensured that the workforce polices and practices of the Adviser are consistent with PHP's values and support its long term sustainable success, to replicate, in so far as possible given the external management structure, the requirement of Principle E of the Code.

The Board considers that the Company has complied with the provisions of the Code in so far as it is applicable to it. We set out in the following pages how we believe we have done so.

"I am satisfied that our current governance structures remain effective and supportive of the business."

Steven Owen
Chairman

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 page 44
- Activities – see page 42

Audit Committee

Chairman: Ian Krieger

- Oversees the quality of financial and narrative reporting
- Scrutinises significant judgements made by management
- Provides assurance on internal controls, risk management and audit processes
- Evaluates the performance of the external auditor

Membership: Ian Krieger, Helen Mahy, Peter Cole, Laure Duhot and Dr Stephen Kell

Adviser Engagement Committee

Chairman: Laure Duhot

- Oversees and reviews performance of the Adviser in delivering the Group's strategic and sustainability goals
- Approves fees paid to the Adviser
- Approves any changes to the Adviser contract

Membership: Laure Duhot, Steven Owen, Ian Krieger, Helen Mahy, Peter Cole and Dr Stephen Kell

Standing Committee

Chairman: Steven Owen

- Approves routine business matters between Board meetings
- Considers MAR disclosures

Membership: Steven Owen, Helen Mahy, Harry Hyman (Richard Howell, his alternate)

Remuneration Committee

Chairman: Helen Mahy CBE

- Sets the Remuneration Policy
- Approves level of Non-executive Chairman's fees

Membership: Helen Mahy, Steven Owen, Peter Cole, Laure Duhot, Ian Krieger, and Dr Stephen Kell

Nomination Committee

Chairman: Steven Owen

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

Membership: Steven Owen, Laure Duhot, Ian Krieger, Helen Mahy, Peter Cole and Dr Stephen Kell

Adviser's Committees

PHP/Nexus Risk Committee

- 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: Andrew Herd (Chairman)*, Harry Hyman, Richard Howell, Chris Santer, Paul Wright, Dan Whitby and James Young

PHP/Nexus ESG Committee

- Considers opportunities for environmental initiatives in portfolio
- Considers development partners' sustainability and health and safety credentials
- Monitors energy and water consumption in premises under Nexus management

Membership: Harry Hyman (Chairman), Richard Howell, Chris Santer, David Austin and James Young

Nexus Management Committee

- Reviews investment opportunities for consideration by the PHP Board
- Reviews performance of assets and proposals for asset management projects
- Undertakes day-to-day management of the PHP portfolio
- Reports to the Board at each meeting

Membership: Harry Hyman (Chairman), Richard Howell, Chris Santer, David Bateman and David Austin

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

How governance supports our strategy

Board's governance role	Board discussions, decisions and actions in the year	Links
Setting strategy	An annual strategy presentation was given by the Executive Directors and senior members of the Adviser's team, and discussed by the Board. Consideration was given as to whether any changes were required in the light of emerging risk. The property and healthcare market outlook and the economic and political landscape, including the potential impact of Brexit was debated.	Page 58
Investment decisions	The £441 million acquisition of MedicX Fund Limited was approved. The acquisition, as standing let investments, of the Oakwood Medical Centre, Leeds; Waters Meeting Lane, Bolton; and the Meath Primary Health Centre, Dublin were appraised and approved. Approved the funding of developments at Langwith, Derbyshire; Arklow, Co Wicklow; Athy, Co Kildare; Mountain Ash, South Wales; Eastbourne, Sussex; and Banagher, Co Offaly. Capital expenditure on asset management projects totalling £13.4 million was agreed.	Page 53
Financial performance	Approved the annual and interim financial statements and results presentations. Scrutinised the annual and interim property valuations. Reviewed the internal control framework and risk register, including specific consideration of Brexit, IT and cyber security issues. The three-year rolling financial forecasts, going concern and viability statements for the Group were reviewed and approved.	Pages 62 and 63
Income and dividend progression	The Group's dividend policy for the year and the level of quarterly interim dividends were considered and approved to ensure a fully covered dividend.	Page 79
Capital allocation	£150 million convertible bond issue and €70 million private note placement were approved. It was decided to undertake a £100 million placing of new Ordinary Shares to finance identified investment opportunities. Approved entering into new finance facilities with HSBC. Received reports from the Finance Director and approved recouponing of £100 million/2.61% fixed rate swaps.	Pages 18 and 19
Stakeholder engagement	Feedback was received from the Managing Director following shareholder meetings, roadshows and results presentations. We enhanced our engagement with the Adviser as a principal stakeholder of the Company. We received proposals on a more formal stakeholder engagement and environmental reporting framework from the Adviser. Tours of properties in Ireland were undertaken to meet tenants to understand their needs and to meet contractors on site.	Pages 34 to 41
Leadership and direction	Received update on duties under Section 172 of the Companies Act 2006 and obligations in respect of reporting. Received a corporate governance update including provision of the Code. Conducted internal Board and Committee performance evaluation review.	Pages 41 and 60
ESG and diversity	Developed and approved a new ESG policy to support our sustainability initiatives and reviewed and revised its existing diversity and inclusion policy. Both policies are available on the PHP website.	Pages 34 to 41 and 49

Case study

Governance supporting strategy: merger and integration of MedicX Fund Limited

Background

The principal concern for the Board in the first quarter of 2019 was the consideration of the merger with the MedicX Fund Limited ("MedicX"), work on which had begun in the middle of 2018. Early discussions included a consideration of, among other matters:

- rationale for the transaction;
- MedicX's portfolio;
- potential cost synergies;
- key risks, including anti-trust issues and property management; and
- key financial considerations.

Further preliminary work took place over the next few months and a number of Board meetings were held to discuss the merits and risks of the proposed transaction, review the progress of negotiations and approve the next steps, so that by the end of the year the Board was able to consider the opportunities and risks of such a transaction in greater detail and concluded that the acquisition of MedicX presented a most compelling and feasible opportunity which would support the Company's longer term strategic ambitions, deliver positive financial returns for shareholders and benefits for other stakeholders.

Key considerations

Following the early discussions referred to above, the Board authorised further discussions with MedicX. Nexus management and the Board's advisers produced a number of detailed papers to help the Board consider various aspects of the acquisition opportunity.

A particular focus of the Board concerned:

- the identity of the property adviser to the enlarged Group following the merger;
- following the decision to continue with Nexus Tradeco Limited ("Nexus") as Adviser, amendments to the terms of the Advisory Agreement between the Company and Nexus;
- integration of the team from MedicX's investment adviser, Octopus Healthcare Adviser Limited and Octopus AIF Management Limited ("Octopus"), into the Nexus team; and
- arrangements for cross-indemnities between PHP and Nexus in respect of liabilities under the Transfer of Undertakings (Protection of Employment) Regulation.

As these matters were related party matters that involved Nexus, which is controlled indirectly by Harry Hyman, and both he and Richard Howell are employees of Nexus, the detailed consideration and negotiation of these aspects of the transaction were delegated to the Adviser Engagement Committee, under the chairmanship of Nick Wiles, and neither Harry Hyman nor Richard Howell took part in any discussion of these matters at the Board.

Other matters considered by the Board included:

- the valuation of the MedicX portfolio and its debt liabilities;
- an anti-trust risk analysis;
- financial projections, including cost synergies;
- the effect on the Group's key stakeholders including major shareholders, tenants, commercial partners and advisers;
- the terms on which the agreements between MedicX and Octopus were to be terminated and for the provision of transitional services;
- the composition of the Board following the merger;
- the effect on Octopus employees providing services to MedicX of terminating the agreements between MedicX and Octopus;
- its responsibilities under the terms of the UK Takeover Code and other legal requirements; and
- the detailed terms of the transaction, the scheme of arrangement documentation and circular and prospectus.

Governance

Day-to-day consideration of the transaction was delegated to a Committee of the Board (the "Special Project Committee"), led by the Chairman and Nick Wiles and monitored by the Board as a whole, to ensure that all the Board's duties were fulfilled. Procedures were put in place to deal with any potential leak of market-sensitive information and monitored by the Special Project Committee.

In between formal Board meetings, the Chairman and the Managing Director kept the Board informed of significant developments. During the period prior to the announcement of the transaction, the Board received advice from Nexus, PHP's external legal team, its corporate brokers and corporate sponsor.

Transaction implementation and integration

During January 2019, the Board approved the formal terms of the transaction, reviewed the terms of a transitional services agreement between Octopus and Nexus and met again to approve the terms of the related party transactions referred to above and the release of the announcement made on 24 January 2019 and its content.

The Board met again, following the announcement of the merger on 7 February 2019, to formally approve the offer for MedicX to be effected by a scheme of arrangement under Guernsey law, to call a general meeting of PHP shareholders to (inter alia) approve the merger, authorise the issue of new ordinary shares to effect the share for share merger and to approve the contents of the combined circular and prospectus issued by the Company.

Subsequently, the Board met on 13 March 2019, to note the approval of the terms of the merger by the PHP shareholders at the general meeting on 28 February 2019 and by the court in Guernsey, and, consequently, to approve the issue of new ordinary shares of 12.5 pence in the Company to MedicX shareholders under the terms of the scheme of arrangement and to appoint Helen Mahy and Laure Duhot to the Board.

An important aspect of the Board's considerations, once it had been determined that the enlarged Group would continue to appoint Nexus as its Adviser following completion of the merger, was to ensure that there was a smooth transition from Octopus of those staff who were working on the management of the MedicX portfolio, and that they would be successfully integrated into the Nexus culture. No integration activities could be undertaken until the period during which the Competition Commission could investigate the merger had expired in July 2019. The Board, however, received and considered detailed reports from the Adviser on the plans for the integration both of staff and the acquired portfolio of assets before the waiting period had expired and then monitored progress of these plans at subsequent meetings. The Board has also received a formal report from the Adviser on the realisation of the financial synergies that were anticipated arising from the merger.

Part A: Board leadership and Company purpose

Purpose

Your Company has a clearly defined purpose to improve the delivery of healthcare in the United Kingdom and Ireland through investment in modern purpose-built primary care facilities.

Leadership

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, the views and interests of its stakeholders and of the communities within which it operates. It operates in an open and honest manner, engaging and fostering relationships with stakeholders and acting with integrity.

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.

Culture and values

The Chairman fosters the culture and values of the Board which involves a willingness to take considered risk to achieve the Company's strategic goals, within an open and respectful environment that encourages constructive challenge and debate.

While the Company does not have a workforce of its own, given the importance of the PHP culture to the success of the Company, the Board has engaged with the Adviser to ensure that this culture permeates through into the Adviser's organisation through the close interaction of the Managing Director and the Finance Director with staff at the Adviser in day-to-day activities. The Board also encouraged the Adviser to develop and articulate its own culture statement which was commented on by the Chairman and reviewed by the Board to ensure that it aligned with our values and culture. Further information on the Adviser's culture is set out on page 48.

Our key stakeholders	Why they are important to us	How we have engaged with them
Occupiers	The doctors and other professionals who occupy our premises lie at the heart of the PHP purpose. We need to understand our tenants' needs in order to deliver fit-for-purpose medical centres that can improve the delivery of medical care in the local communities.	Members of the property and asset management team visit each of our properties at least once a year to discuss the tenant's needs. In addition, we conducted a tenant satisfaction survey in November this year.
Investors	Understanding the views and priorities of our shareholders, lenders and other investors is fundamental to retaining their continued support.	During the year we held over 180 investor meetings in the US, Holland, Ireland and at various locations across the UK.
Adviser	Given the structure of our business, the role of the Adviser is critical in delivering our strategy. Accordingly, we need to ensure the quality and sustainability of the services being provided by the Adviser.	We engage formally with the Adviser through the evaluation of its performance conducted by the Adviser Engagement Committee. In addition, as members of the Adviser's team attend regularly at board meeting, we have several opportunities to gauge the quality of the Adviser's services and to discuss any issues that may arise.
Contractors and suppliers	To deliver our strategy, the Company relies on a diverse group of key suppliers, including contractors, professional advisers and agents.	We engage with our supply chain to ensure that they all have appropriate standards and policies in place, are financially robust, and capable of delivering high quality services.
Local communities	Supporting and investing into the communities within which we work underpins our approach to doing business and our strategy.	Throughout the year we have worked closely with our occupiers on asset management projects that invest capital in a range of property extensions and refurbishments to meet their future needs and those of the communities they serve.

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.

The Managing Director and Finance Director are the Company's principal representatives and along with Chris Santer, the Chief Investment Officer of the Adviser, hold meetings throughout the year to communicate the Company's strategy and performance.

Investor meetings

The framework of investor relations is set around the financial reporting calendar, specifically the announcement of half and full year results. In addition, significant shareholder engagement occurs outside of these periods and primarily consists of UK regional and overseas roadshows and responses to ad-hoc requests for meetings. These meetings and roadshows seek to keep investors informed of the Company's performance and plans, answer questions they may have and understand their views. Topics discussed include the development and implementation of strategy, financial and operational performance, property transactions, the markets in which we operate, the quality of underlying occupiers, the strength of the Company's income, the debt structure and the real estate market in general.

As the importance of retail/private wealth shareholders continues to grow, the Company maintained its high level of roadshow activity in UK regions. Regional roadshows included visits to Birmingham, Manchester, Glasgow, Edinburgh, Bristol, Leeds and the Channel Islands. The Company continues to place great importance on engaging with its private wealth shareholders.

A number of investor meetings were held overseas in Holland, Ireland and the United States. The Company will continue to engage with overseas investors to broaden its investor base further. The Company also presented at a number of conferences during the year including participating on panel discussions organised by various brokers including Peel Hunt and Numis.

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.

A live and on-demand webcast of results and an interview with the Managing Director and Finance Director is 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 has adopted a formal procedure under which Directors must notify the Chairman of any potential conflicts. The Chairman then decides whether a conflict exists and recommends its authorisation by the Board, where appropriate.

The Company Secretary maintains a register of approved conflicts of interest through this process. In certain circumstances the conflicted Directors may be required to absent themselves while such matters are being discussed. No such situations arose in 2019.

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). Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in the register referred to above.

Part B: Division of responsibilities

The Board sets the Group's strategic aims, ensuring that the necessary resources are available for the Group to meet its objectives, reviews the performance of the Adviser and sets the Group's values and standards, ensuring that its obligations to its shareholders and other stakeholders are satisfied.

The Board has a schedule of matters formally reserved to it for its decision, such as strategic and major financial matters which include acquisitions, dividend policy, equity raising, debt issuance and treasury management and key operational issues.

The Board has delegated certain operational and management activities to the Adviser in the Advisory Agreement as described on page 70. There is a clear statement of delegated authorities setting out the financial parameters within which the Adviser may act without reference to the Board, although any proposal may still be taken to the full Board for consideration and approval where this is considered appropriate. The Managing Director is accountable to the Board in his capacity as the Managing Director of the Adviser for the day-to-day management of the Group and the Finance Director is responsible for the preparation of the financial statements and the provision of quarterly management account information.

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

There is a clear written division of responsibilities agreed by the Board between the roles of the Chairman (who is responsible for the leadership and effectiveness of the Board) and the Managing Director (who is responsible for the activities of the Adviser in managing the Group's portfolio). Each role is clearly defined and quite distinct from the other as set out below.

Part B: Division of responsibilities continued

How the Board functions

The Board meets regularly, with eight scheduled meetings held in 2019 in January, March, April, June, July, September, October and November. There were two separate meetings in January 2019 to consider matters arising in connection with the merger with MedicX.

At each of the regular meetings, an update is presented on progress of strategic initiatives agreed for the year and on any governance matters. Also at each meeting a detailed report from the Managing Director on the Adviser's activities is presented. Typically this report will cover:

- the Group's acquisition and development pipeline;
- current project management initiatives;
- any health and safety issues reported at premises where PHP retains responsibility;
- property management issues and progress on rent reviews across the portfolio;
- updates on discussions with key stakeholders;

Role	Responsibilities
Chairman **Steven Owen**	• Leads the Board, and ensures it runs effectively • Sets Board culture to promote boardroom debate • Regularly meets with the Managing Director to stay informed • Monitors progress against strategy and performance • Ensures all stakeholders views are considered
Senior Independent Director **Helen Mahy CBE**	• Provides a sounding board for the Chairman • Leads performance evaluation of the Chairman • Is available to respond to shareholders concerns when contact through the normal channels is not appropriate
Non-executive Directors **Peter Cole** **Laure Duhot** **Dr Stephen Kell** **Ian Krieger**	• Scrutinise and constructively challenge the performance of executive management • Bring independent judgement to investment decisions brought to the Board by the Adviser and approve decisions reserved for the Board as a whole • Contribute to developing strategy and monitor the delivery of the agreed strategy • Contribute a broad range of skills and experience
Managing Director **Harry Hyman**	• Manages the day-to-day running of the business through the Adviser • Manages dialogue with investors, shareholders and key stakeholders and relays views back to the Board • Help develop and formulate strategy for the Board and is responsible for its implementation
Finance Director **Richard Howell**	• Responsible for the preparation of accounts and integrity of financial reporting • Implements decisions on financing and capital structure determined by the Board • Responsible for day-to-day treasury management • Ensures robust accounting systems and internal controls are implemented
Company Secretary **Paul Wright**	• Advises the Board and is responsible to the Chairman on corporate governance matters • Ensures good flow of information to the Board and its Committees • Promotes compliance with statutory and regulatory requirements and Board procedures

- the state of the healthcare property sector and the wider property market;
- updates on the business and economic environment, including matters relating to the NHS; and
- a review of key portfolio statistics.

In addition, the Finance Director reports on the latest quarterly management accounts for the Group and provides an update of the Group's financing resources and requirements for consideration and discussion and compliance with the Group's financing covenants. He also reports on the activities of the Group's competitors and the performance of the Group on key performance metrics compared with its competitors.

The Board also considers the risks identified by the PHP/Nexus risk committee which are reported back to the Audit Committee at least twice a year, and in this regard during the year, considered cyber security and in particular the robustness of the Adviser's IT systems and insurances, the potential impact of Brexit on the Group and the emerging climate change risk and its potential to impact the Group's operations.

Additionally, at the January meeting, the Board approved the entering into of a formal Data Sharing Deed with the Adviser to regulate the use and sharing of any personal data between the Company and Nexus under data protection legislation.

If any investment decisions are required to be made between Board meetings, the Adviser circulates a detailed paper on the proposed investment setting out key matters for consideration, including financial returns, the quality of the building and its environmental rating, 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 is agreed upon approaches and processes are well understood and adhered to. Further senior members of the Adviser's management team regularly attend meetings of the Board and have developed a strong understanding of the Board's approach and culture.

On the rare occasions that a Director is unable to attend a meeting due to unavoidable business interests, separate discussions are held with, or comments are sought by, the Chairman on all matters of relevance.

The Directors attended all the meetings of the Board that they were entitled to attend during the year.

During 2020, it is again intended that at least one of the meetings of the Board will be held away from the Company's registered office and devoted to consideration of the Group's strategy and inspection of a sample of the properties in the PHP portfolio.

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

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

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

Director	Board (total in year – 8)	Audit Committee (total in year – 3)	Nomination Committee (total in year – 2)	Adviser Engagement Committee (total in year – 3)	Remuneration Committee (total in year – 2)
Steven Owen	8	—	2	3	2
Harry Hyman	8	—	—	—	—
Richard Howell	8	—	—	—	—
Helen Mahy[1]	6	2	1	2	2
Peter Cole	8	3	2	3	2
Laure Duhot[1]	6	2	1	2	2
Dr Stephen Kell	8	3	2	3	2
Ian Krieger	8	3	2	3	2
Nick Wiles[2]	2	1	1	1	1
Geraldine Kennell[2]	2	1	1	1	1

1 Helen Mahy and Laure Duhot were appointed as Directors in March 2019 following completion of the merger with MedicX and have attended all Board and Committee meetings since their appointment.

2 Nick Wiles and Geraldine Kennell resigned as Directors from the conclusion of the merger with MedicX in March 2019.

Part B: Division of responsibilities continued

How the Board functions continued

The induction process for the new Non-executive Directors involved the following elements:

Meetings with the Chairman and other Board members

↓

Meetings with the Managing Director and Finance Director

↓

Full supporting pack of relevant materials to give insight into strategy, structure and operations, as well as its governance framework, policies and procedures

↓

Meetings with senior members of the Adviser's team at Greener House

Strategy meeting

As in previous years, the Board held an annual off-site strategy meeting in Dublin during October. The strategy of the business is at the core of the Board's activities during the year and the strategy event provides the Board with an opportunity to focus on the development of the Group's strategy and reflect on the future direction of the business in an environment outside the boardroom. It is also an opportunity to review progress to date against the strategy.

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 buyers of assets as well as developments within the NHS and the HSE impacting on the delivery of primary care. In particular, the papers included a review of progress achieved in developing a portfolio in Ireland, proposing that the limit on the value of the Irish portfolio be raised from 10% to 15% of the overall portfolio and opportunities that may exist in other jurisdictions or healthcare assets. At the same meeting the Board considered the draft 2020 budget and the forecast through to 2023. The materials also included papers on increasing the focus on asset management projects as a means of entering into new leases and improving the overall environmental quality of the portfolio.

Site visits

The strategy session also included visits to five medical centres in Ireland. Before the strategy discussion, the Board visited two busy medical centres: at Carrigaline, Co Cork, let to the Health Service Executive ("HSE"), a pharmacy and a three GP practice; and at Mallow, Co Cork, let to the HSE, four GP practices, a Dentist, an Optician, a Physiotherapist & Café, both providing a wide range of primary care services to the local communities. The Board also visited a project under construction at Athy, Co Kildare, which has been pre-let to the HSE, a GP practice, a pharmacy and the Irish Child and Family Agency established by the Irish Government to improve wellbeing and outcomes for children.

Following the strategy and Board meetings, the Board had an opportunity the next day to visit one of the Group's flagship properties under development in Bray, Wicklow, due for completion in early 2020, which will create a hub housing a GP practice and pharmacy, and will also deliver radiography and scanning, addiction and other community-based services. The Board also visited the Tallaght Primary Care Centre, in the suburbs of Dublin, acquired as part of the MedicX portfolio.

These visits gave the Board insight into how the Group in Ireland was delivering against the Health Service Executive's strategy of creating larger, locally integrated medical centres, encompassing primary, secondary and social care.

Part C: Composition, succession and evaluation

Board composition

The current Board of Directors of the Company consists of the Chairman, five Independent Non-executive Directors and two Executive Directors from the Adviser. Biographical information on each of our Directors can be found on pages 44 to 46, which shows the breadth of strategic and financial management insight brought to our Board and that the Chairman, Ms Mahy, Ms Duhot, Mr Cole, Dr Kell and Mr Krieger are all considered to be independent.

The composition of the Board is fundamental to its success. We continue to have a strong 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 Non-executive Directors scrutinise the performance of the Adviser in meeting their agreed goals and objectives, and monitor the reporting of that performance.

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.

As noted in the letter from the Chairman on page 6, the size of the Board will reduce from eight to six from the conclusion of the AGM in April 2020 for the reasons explained in the letter.

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 Helen Mahy and Laure Duhot were provided with a tailored induction programme delivered by the Company Secretary.

During their time on the MedicX board, both Helen and Laure developed a good understanding of the primary healthcare sector. The induction programme was designed to ensure that they obtained a comprehensive picture of the Company's operations and the Board's processes.

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

Directors' gender

Directors' tenure

Part C: Composition, succession and evaluation continued

October
Questionnaire circulated to all Directors

Early November
Questionnaire completed and returned to the Company Secretary

Late November
All responses compiled anonymously by the Company Secretary, presented to the Chair, discussed with the Board and actions agreed

Board evaluation

During the year, the effectiveness of the Board and its Committees was assessed by means of a questionnaire drawn up by the Company Secretary and the Chairman in light of the Financial Reporting Council's 2018 Guidance on Board Effectiveness and the Code. The Chairman conducted an evaluation of the performance of each of the individual Directors as a separate exercise. A separate questionnaire was sent to members of the Audit Committee to evaluate the performance of that Committee as detailed in the Report of the Audit Committee on pages 62 to 65.

The evaluation process which was followed in the year is illustrated above.

Given the recent changes in the composition of the Board, it was considered that it would not be appropriate to undertake an externally led review at this time, given the changes in the composition of the Board during the course of the year. The Board will consider the services of an external organisation to lead the process for the current year.

Overall, the results of the questionnaires reflected well on the Board. Its members 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 2018 evaluation and the 2019 evaluation, as well as the actions taken in response to the 2018 evaluation, are set out below:

2018 evaluation outcomes	Actions	2019 evaluation outcomes
Continued improvement of Board succession processes	A more formalised review of the skills and experience of the Board has been adopted to identify requirements on succession. An updated diversity policy has also been adopted	Enhance the Board's risk management process by including a more formal emerging risk review in conjunction with the annual strategy review
Extend opportunities for training of Non-executive Directors	The Company Secretary was charged with circulating details of training events run by third parties to the Board	Include more special topic reviews to be led by members of the Nexus team or the Group's external advisers in the annual board meeting cycle
Consider enhancement of Board evaluation processes	As explained above, in the circumstances of the Merger, the Board decided to defer use of a third-party questionnaire and evaluation process to 2020	Consider the engagement of a third party to create the board evaluation questionnaire and assist in the evaluation

In addition, in order to improve the Board's engagement with the team at Nexus providing advisory services, it was agreed to invite additional members of the team to present to the Board on their areas of responsibility and expertise on a periodic basis.

The Board intends to review the implementation of these recommendations as part of its evaluation process in 2020 and will report on progress in next year's Annual Report.

Helen Mahy, the Deputy Chairman and Senior Independent Non-executive Director led an evaluation of the performance of the Chairman with the individual Directors, who praised the Chairman for his strong organisational skills and in facilitating continued open boardroom discussion and debate and, in particular, for effective leadership of the merger process with MedicX. The Directors agreed that the Chairman and the Managing Director continue to have a strong, supportive relationship providing clear and effective leadership and focus that is instrumental to the long term success of the Company.

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 his retirement as Chief Investment Officer at Hammerson PLC, the Board approved the appointment of Peter Cole to the boards of two private companies, as it considered that he would continue to have sufficient time to meeting his commitments to the Company.

The Company provides the Non-executive Directors with appropriate support and facilities for the consideration of the Company's strategy and performance, and dialogue with the Chairman is encouraged so that any issues regarding time pressures or conflicting commitments are addressed appropriately.

Information and support

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 specifically draw out, when considering properties for acquisition or development, the local needs for healthcare provision, the range of medical and other services to be provided from the centre and the environmental performance of the building. In addition, the Advisers Report to the Board provides greater detail on any health and safety incidents, such as trips and falls, at the Company's premises where these remain a landlord's responsibility.

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

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)
Dr Stephen Kell	3 (3)
Laure Duhot	2 (2)
Helen Mahy	2 (2)
Nick Wiles (resigned 8 March 2019)	1 (1)
Geraldine Kennell (resigned 8 March 2019)	1 (1)

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

Additional attendees invited to attend meetings as appropriate:

Harry Hyman – Managing Director
Richard Howell – Finance Director
Chris Santer – Chief Investment Officer
Deloitte LLP – independent external auditor
Steven Owen – Non-executive Chairman
Andrew Herd – Chair of the Adviser's Risk Committee
Dan Whitby – Group Financial Controller

Dear shareholder,

I am pleased to present my report as Chairman of the Audit Committee and am happy to confirm that we remain committed to achieving high standards of governance and therefore the Committee has adopted the additional requirements of the 2018 Corporate Governance Code (the "Code") as regards audit committees.

Relevant skills and experience

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 recent and relevant financial experience. The biographies of all the members of the Committee are on pages 44 to 46 and show that the Committee's experience is wide ranging and satisfies the provisions of the Code in all respects. The members of the Committee also evaluate the performance of the Committee during the year.

The Committee may invite representatives of the Adviser and other Non-independent Directors to attend the meetings as appropriate.

Responsibilities

The Committee's role is to assist the Board in discharging its duties and responsibilities for financial reporting, internal control and the appointment and remuneration of the external auditor. These duties include:

- monitoring the integrity of the Group's annual and interim financial statements, ensuring they are fair, balanced and understandable and reviewing significant financial reporting issues and judgements contained therein;
- monitoring the Group's statutory audit and interim review;
- reviewing the Group's systems of financial control and risk management and receiving reports from the Adviser's own Risk Committee;
- reviewing the going concern and viability statement presented in the Annual Report and reporting to the Board on its opinion on those statements;
- making recommendations to the Board on the appointment and dismissal of the external auditor and approving its remuneration and terms of engagement;
- monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements;
- considering the need for an internal audit function; and
- undertaking an evaluation of the performance of the Committee.

The Adviser's Whistleblowing Policy enables employees of the Adviser to, in confidence, raise concerns about possible improprieties in matters of financial reporting amongst other things. The Committee ensures that the Adviser has in place arrangements for the proportionate and independent investigation of such matters.

Report on the Committee's activities during the year

During the year the Committee met three times and discharged its responsibilities by:

- reviewing the Group's draft Annual Report and financial statements and its draft interim results statement prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- advising the Board on whether the draft Annual Report and financial statements and draft interim results statement are fair, balanced and understandable and provide information necessary for shareholders to assess the Company's performance, position, business model and strategy;
- reviewing the continuing appropriateness of the Group's accounting policies including the potential implications of forthcoming changes in accounting standards for the Group;
- considering the report of the Adviser's Risk Committee on the principal risk and uncertainties facing the Group;
- reviewing the auditor's plan for the Group audit and approving its terms of engagement and proposed fees;
- considering the effectiveness and independence of the auditor and recommending to the Board its re-appointment;
- reviewing the going concern assumption and viability statement and supporting budgets, forecasts and evidence;
- reviewing the whistleblowing and fraud detection policies;
- considering the need for an internal audit function; and
- undertaking a performance evaluation process for the Committee.

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 relating to:

- **Valuation of the property portfolio**
  The key judgement in the financial statements relates to the valuation of the property portfolio. The Group has property assets of £2.4 billion as detailed in the Group Balance Sheet. As explained in Note 10 to the financial statements, the properties are independently valued by Lambert Smith Hampton and Jones Lang LaSalle in the UK and by CBRE in Ireland, in accordance with IAS 40 Investment property. The Audit Committee reviewed and discussed with management and the Group's valuers the judgements and assumptions made in respect of the property valuation, reviewed the valuer's report and the auditor's comments thereon, and concluded that the valuation is appropriate.
- **Financing and valuation of financial instruments**
  The Group hedges its exposure to interest rate risk using financial instruments. Accordingly the Committee monitors the work of the Adviser and where it feels necessary seeks advice on the Company's compliance with such requirements and evaluations. The valuation of the financial instruments is undertaken by JCRA, an independent specialist in this area. The Committee considered adoption of this hedge valuation is appropriate.
- **Consideration of the implications of the MedicX merger**
  The Group has treated the merger with MedicX during the year as an asset purchase rather than a business combination because substantially all of the fair value was represented by investment properties. Included in additions for the period, are £804.3 million of property assets in respect of the MedicX merger which was settled through issuance to the shareholders of MedicX Fund Limited of 341.0 million Ordinary Shares in the Company at a price of 129.2 pence per share. The Committee considered the appropriateness of this treatment and deemed the treatment to be correct.
- **Review of risk management and internal control processes**
  The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's risk management processes and systems of internal controls.

  Following its own assessment and the report of the Adviser's own Risk Committee and the work it performed on risk management procedures operated by the Adviser, the Committee believes that the key risks facing the business have been correctly identified and disclosed in the Risk Management section of the Strategic Report.

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

Audit Committee report continued

Significant issues considered in relation to the financial statements continued

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

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

The Audit Committee considered the risks associated with the MedicX merger and in particular, reviewed the plan produced by the Adviser for the transfer and integration of the MedicX property management and finance teams with the Adviser's own teams.

Financial reporting

The Board is responsible for preparing the Annual Report. The Audit Committee is asked to review the Annual Report and consider whether it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

In undertaking its assessment, the Committee considered:

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

It also considered whether the Annual Report had been written in straightforward language, without unnecessary repetition of information and that market specific terms and any non-statutory measures, such as EPRA ratios, had been adequately defined or explained.

The Audit Committee has reviewed the contents of this year's Annual Report and financial statements and confirmed to the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Auditor independence

The 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 Adviser may procure certain non-audit services from the external auditor up to £25,000 in value. All other proposed engagements must be submitted to the Committee for approval prior to engagement. Details of the amounts paid to the external auditor during the year for audit and other services are set out in Note 4 to the financial statements.

The external auditor was engaged for three non-audit assignments during the year. These assignments related to the MedicX merger in March 2019, the interim review and procedures on the 2019 management fee. The fee for the non-audit assignments was £244,000 in total (non-audit fees as a percentage of total fees: 37%). The services were deemed to be ancillary to other assurance services provided by the external auditor where using its knowledge of the facts under consideration was seen as being cost effective for the Group. Its engagement was not deemed to compromise its objectivity and independence as sufficient safeguards were in place.

Effectiveness of external auditor

The effectiveness of the audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received from Deloitte LLP a detailed audit plan, identifying its assessment of these key risks. For 2019, the primary risks identified were in relation to the valuation of the property portfolio, the merger with MedicX and management override of controls. It is standard practice for the Audit Committee to also meet privately with the external auditor.

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

Deloitte LLP has been the external auditor of PHP since being appointed in June 2013, which is also the date of the last audit tender. There are no contractual obligations that restrict the Audit Committee's choice of external auditor. Sara Tubridy is the external audit partner and was appointed prior to the 2018 audit.

The Committee assesses the effectiveness of the external auditor on an annual basis. The Committee conducts a formal evaluation process involving the completion of a questionnaire and individual and group discussions, to obtain the views of the Committee and appropriate employees of the Adviser. Following the completion of the 2019 year-end audit, the Committee conducted its review and considers that the audit was appropriately planned and scoped efficiently and effectively performed by Deloitte. The Committee is satisfied that Deloitte continued to perform effectively as the external auditor.

Audit tender policy

The Committee has an established audit tender policy that was adopted by the Board on 18 August 2015. The Audit Committee will consider the need for a competitive tender for the role of external auditor at least every five years and recommend to the Board if a tender process is felt to be appropriate. In any event, a competitive tender will take place at least every ten years.

The tender process will be administered by the Audit Committee which will consider whether to seek major investors' views on the audit firms to be invited to tender and success criteria to be used by the Company in the course of the tender.

If a tender is conducted as part of a normal tender cycle, the incumbent auditor will be invited to participate in the tender unless prohibited due to specific factors such as independence.

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

Evaluation of the performance of the Audit Committee

The performance of the Committee was assessed by each member completing a questionnaire developed by external consultants for audit committees to evaluate their effectiveness. The Chairman considered each response and presented the findings in a report to the Committee. The overall conclusion was that the Committee remained effective at meeting its objectives.

Appointment of the external auditor

The CMA Order places responsibilities on the Audit Committee in relation to the appointment of the external auditor. The Company is prohibited from appointing an auditor unless there has been a competitive tendering process in relation to one or more of the preceding nine financial years or in relation to the next financial year. The Group has complied with the Order.

Internal audit

The Group does not have a separate internal audit function and the Board, at least annually, reviews the requirement for establishing one. During the period the Audit Committee reviewed an analysis of how the keys risks in the financial management are mitigated by existing controls and concluded that an internal audit function is not required. In addition, the Audit Committee and the Adviser's Risk Committee will, from time to time, consider the requirement to commission externally facilitated reviews of the control environment which includes testing IT security systems.

Ian Krieger
Chairman of the Audit Committee
11 February 2020

Nomination Committee report

Steven Owen
Chairman of the Nomination Committee

Members of the Nomination Committee (the "Committee")

Member	Number of meetings and attendance while in post
Steven Owen (Chairman)	2 (2)
Peter Cole	2 (2)
Laure Duhot	1 (1)
Dr Stephen Kell	2 (2)
Ian Krieger	2 (2)
Helen Mahy	1 (1)
Nick Wiles (resigned 8 March 2019)	1 (1)
Geraldine Kennell (resigned 8 March 2019)	1 (1)

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

Additional attendees invited to attend meetings as appropriate:

Harry Hyman – Managing Director

Dear shareholder,

I am delighted to present the report of the Nomination Committee to shareholders for the year to 31 December 2019.

The main focus of the Nomination Committee during the first quarter was to ensure that on completion of the merger with MedicX Fund Limited ("MedicX") the Board and its Committees were of the appropriate size and composition, particularly in light of the 2018 UK Corporate Governance Code, to oversee the integration of the two businesses.

In January 2019 we determined that the then current Board of eight should not be increased as a result of the merger. Therefore, with Helen Mahy and Laure Duhot (two Non-executive Directors from the MedicX board) joining the Board to properly reflect a balance between PHP and MedicX directors following the merger, Nick Wiles and Geraldine Kennell stood down from the Board on completion of the merger. I would like to thank both for their dedication, commitment and valuable contribution to the Board over the three years since their appointment.

Helen has experience of our sector from her time as Chairman of MedicX and as she also chairs the board at The Renewables Infrastructure Group Limited, a FTSE 250 investment company. Therefore, it was considered that she had the necessary understanding of the skills required as the chairman of a listed company to be appointed as the Deputy Chairman and Senior Independent Director. Laure has a background in the property fund management sector and is a highly experienced operator in both the UK and continental Europe.

In November 2019, it was announced that Helen Mahy would be retiring from the Board at the 2020 AGM. In January 2020, it was announced that, following a review of the skills and composition of the Board as part of the Committee's annual evaluation process, a Board of six directors is the appropriate size for the Board going forward. Accordingly, a replacement for Helen Mahy will not be made and Dr Stephen Kell will not be standing for re-election at the AGM.

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;

Board appointments

- Leads the process for new appointments to the Board and its Committees;
- Makes recommendations regarding Board and committee membership changes;
- Ensures that all new directors receive an appropriate induction programme and review the training requirements of the Board;
- Ensure 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.

Board composition and appointments

The Nomination Committee seeks to ensure that all Board appointments are made on merit and measured against objective criteria and with due regard for the benefits of diversity on the Board. The Board is committed to ensuring a broad mix of gender, age, nationality, experience and skills throughout the business.

Non-executive Directors are appointed for an initial three-year term and are subject to annual re-election by shareholders terminable on three months' notice from the Company or the Director. Each Director, on appointment, is provided with a letter setting out the terms of appointment, the fees to be paid and the time commitment expected. The letters of appointment are available for inspection at the registered office and will be on display at the Annual General Meeting of the Company to be held on 1 April 2020.

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 members of the Adviser's staff, including the Company Secretary. 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.

Further details of the induction programme for Helen Mahy and Laure Duhot when they joined the Board is set out page 59.

Diversity

The Nomination Committee is aware of and supports the Hampton-Alexander Review's aim for companies in the FTSE 350 to have one-third female representation on their board by 2020. Care, however, needs to be exercised to ensure that in seeking to achieve this goal, appointments are not made purely to achieve this target. In assessing future candidates the Nomination Committee seeks to ensure that all Board appointments are made on merit and measured against objective criteria and with due regard for the benefits of diversity on the Board, and is committed to ensuring a broad mix of gender, age, nationality, ethnicity, experience and skills. To this end the Nomination Committee reviewed and suggested updates to the Board Diversity Policy which were adopted by the Board in February 2020.

Independence

The Nomination 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. The Nomination Committee recommended to the Board, and the Board has adopted, a practice for the formal register of Directors' interests to be tabled at each meeting of the Board and it reviewed the register to ensure that it was being maintained.

In November, the Nomination Committee assessed the independence of each of the Non-executive Directors, and recommended to the Board that each of them could be considered independent. In considering their independence the Nomination Committee reviewed the guidance contained in the 2018 Code.

Time commitment

All Directors must allocate sufficient time to their work in order to discharge their responsibilities effectively, particularly at a time when the size of the Group's portfolio and the Company's profile have increased significantly. The expected time commitment is reflected in the letters of appointment issued to the Non-executive Directors when they join the Board and includes time preparing for and attending meetings of the Board and its Committees, attending the AGM, participation in the annual evaluation process and taking time to visit some of the properties and understand the perspectives of our stakeholders.

Laure Duhot has one, Ian Krieger has two and Helen Mahy three other external appointments with listed companies. Following due reflection, the Nomination Committee considered and the Board agreed that these appointments did not prevent any of them from committing sufficient time to their roles, as evidenced by their full attendance and effective participation at all Board and Committee meetings.

Evaluation

In accordance with its terms of reference, the Nomination Committee reviewed the results of the annual evaluation of its performance, paying particular attention to any issues raised with respect to the composition of the Board, its skills, experience and diversity. As noted above, following this review, it was decided that a Board of six directors, with four non-executives, was appropriate going forward.

Details of the evaluation process and its outcomes are set out in more detail on pages 60 to 61.

During the year, the Committee also reviewed its terms of reference and agreed that no amendments to the terms of reference were required.

Steven Owen
Chairman of the Nomination Committee
11 February 2020

Adviser Engagement Committee report

Laure Duhot
Chairman of the Adviser Engagement Committee

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

Member	Number of meetings and attendance while in post
Laure Duhot (Chairman)	2 (2)
Steven Owen	3 (3)
Dr Stephen Kell	3 (3)
Ian Krieger	3 (3)
Peter Cole	3 (3)
Helen Mahy	2 (2)
Geraldine Kennell (resigned 8 March 2019)	1 (1)
Nick Wiles (resigned 8 March 2019)	1 (1)

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

Additional attendees invited to attend meetings as appropriate:

Harry Hyman – Managing Director

Richard Howell – Finance Director

CMS Cameron McKenna Nabarro Olswang LLP – Legal Advisers

Dear shareholder,

I am delighted to present my first report as Chairman of the Adviser Engagement Committee (the "Committee") since I was appointed in March 2019, following the announcement that Nick Wiles would be standing down from the Board and as Chairman of the Committee on completion of the merger with MedicX. At the same time, Geraldine Kennell was replaced on the Committee by Helen Mahy.

The Company is advised by Nexus TradeCo Limited ("Nexus") which also provides property management and administration services to the Group. Nexus's appointment is governed by the terms of an Advisory Agreement (the "Advisory Agreement"). Nexus also provides the services of Harry Hyman as Managing Director and Richard Howell as Finance Director.

For the purposes of Rule 11 of the Listing Rules published by the Financial Conduct Authority and applicable to all companies with a premium listing of its shares on the London Stock Exchange, Nexus is deemed to be a related party of PHP and its subsidiaries.

The Advisory Engagement Committee is charged with oversight of the terms and operation of the Advisory Agreement and to ensure that any proposed amendments to the Advisory Agreement are in the best interests of the Company and approved and implemented in compliance with Rule 11 of the Listing Rules.

Responsibilities

The main roles and responsibilities of the Committee include:

- annual review and evaluation of the performance of the Adviser;
- annual review and approval of remuneration paid to the Adviser;
- annual review of the terms of the Advisory Agreement;
- consideration and discussion of any amendments to be made to the Advisory Agreement; and
- advising the Board on such other matters relating to the Advisory Agreement and the Adviser as may be requested by the Board.

Attendance at meetings

The table above sets out attendance by Committee members at meetings held during the year. The Committee has also invited Harry Hyman (Managing Director) and Richard Howell (Finance Director) to attend selected meetings.

In addition, during the year, at each meeting, the Committee:

- monitored compliance with the Advisory Agreement and considered the continued appropriateness of the terms of the Advisory Agreement; and
- scrutinised a schedule of the fees and expenses paid to the Adviser to that date to ensure that they had been paid in accordance with the terms of the Advisory Agreement.

The Committee had another active year, considering a number of strategically important issues arising from the merger with MedicX and its' impact on the Advisory Agreement, and met three times during the year, in January, April, and November. The principal issues considered at these meetings are described below:

Meeting	Main activities
January	The meeting considered a number of changes to the terms of the Advisory Agreement in light of the proposed merger with the MedicX Fund Limited (the "Merger") and the proposal that the Adviser would take over management of the enlarged Group's portfolio, if the transaction completed, and the advice of the Company's lawyers and brokers in connection with these arrangements. The changes were contained in two documents considered by the Committee, one of which was conditional upon the completion of the merger with MedicX and on shareholder approval (the "Deed of Variation"), while the other (the "Amendment Deed") was not conditional. Shareholder approval of the Deed of Variation was obtained at the General Meeting held on 28 February 2019. The meeting also reviewed and agreed the calculation of the Performance Incentive Fee ("PIF") due to Nexus under the terms of the Advisory Agreement, which was revised during 2018. After consideration of the calculation, a PIF payment of £1.1 million was paid to Nexus as a result of the total return on the Group's portfolio in 2018 exceeding the hurdle rate of 8%.
April	The meeting considered a draft amendment and restatement of the Advisory Agreement to consolidate the provisions of the several amendments and variations made to the Advisory Agreement since it was entered into, including the Deed of Variation and Deed of Amendment. The opportunity was taken to make minor, insubstantial changes to clarify the text and align it with current practice and to remove provisions no longer relevant arising, in the main, from the transfer of the finance and administration services from J.O. Hambro to Nexus. These amendments were incorporated into the Amended and Restated Advisory Agreement that was approved at the June Board meeting and entered into on 25 June 2019 ("Amended Advisory Agreement"). A summary of the key terms of the Amended Advisory Agreement are set out opposite/on the next page. The meeting also considered and agreed an approach to be taken to the calculation of EPRA NAV for the current year which was anticipated to be affected by a number of exceptional non-cash adjustments when it came to calculation of the PIF payable to Nexus. After consultation with PHP's sponsor and legal advisers, it was agreed to amend the Advisory Agreement to provide the Board with discretion to make appropriate adjustments to the calculation of EPRA NAV for the purposes of determining the PIF, if the calculation would otherwise result in an anomalous result not reflecting the underlying performance of the Company.
November	The Committee undertook a formal evaluation of the performance of Nexus, both as a provider of property management and investment advisory services and also as the provider of financial, administrative and Company Secretarial services to the Company. This assessment normally takes place in the first half of the year but took place later than usual during the year to allow the new members of the Committee time to form their own view and assessment of Nexus. It also allowed the Committee to evaluate the success of Nexus in integrating the staff who transferred from Octopus Healthcare in the Merger. The process took the form of an evaluation of Nexus against a detailed and comprehensive performance matrix used and evolved by the Committee over several years and a presentation from the Managing Director. The result of this evaluation was that the Committee considered that Nexus continued to perform well. It was agreed to widen the scope of the evaluation going forward to cover staff development and training within Nexus and the performance of Nexus in delivering on the Company's Responsible Business - Environmental, social and governance ("ESG") policy 2020. In particular the Adviser had successfully integrated a total of 20 employees from the MedicX investment manager and a migration of the property database relating to the MedicX portfolio, without disruption to the smooth delivery of the services under the Advisory Agreement. The meeting also considered the proposals of the Adviser with regard to the training and development of the team delivering services under the Amended Advisory Agreement and its succession plans.

Adviser Engagement Committee report continued

Nexus remuneration

Key terms of the Amended Advisory Agreement

Pursuant to the terms of the Amended Advisory Agreement between the Company and the Adviser ("Nexus"), the Company has appointed Nexus:

a) to provide property advisory and management services to the Group and the services of the Managing Director of the Company ("Property Advisory Services");

b) to provide administrative and accounting services to the Group; and

c) to act as the appointed Company Secretary (the services in (b) and (c), together the "Administrative Services").

The Amended Advisory Agreement contains no provisions to amend, alter or terminate the Advisory Agreement upon a change of control of the Group following a takeover bid.

Advisory fees

(a) Property Advisory Services

The fee arrangement for Property Advisory Services (the "Property Services Fee"), in respect of the properties that formed part of the MedicX portfolio on completion of the Merger ("Completion"), is equal to 0.225% per annum of the gross asset value of the MedicX portfolio less a cost contribution paid by Nexus to PHP equal to £2.5 million. This contribution is payable in monthly instalments, over five years, by reducing the fees payable to Nexus, with the contribution terminating five years after the date of Completion or, if earlier, the date on which the Company serves notice terminating the Amended Advisory Agreement. Thereafter, the special arrangements for the MedicX portfolio will cease and the fee payable will be calculated by reference to the fee scale below.

The Adviser currently receives a fee for the remainder of the portfolio (including any assets acquired after Completion) based on gross asset value, which is as follows:

Gross assets	Total fee
First £250 million	0.500%
Between £250 million and £500 million	0.475%
Between £500 million and £750 million	0.400%
Between £750 million and £1 billion	0.375%
Between £1 billion and £1.25 billion	0.325%
Between £1.25 billion and £1.5 billion	0.300%
Between £1.5 billion and £1.75 billion	0.275%
Between £1.75 billion and £2.0 billion	0.250%
Between £2.0 billion and £2.25 billion	0.225%
Above £2.25 billion	0.200%

Additional payments that may be made to Nexus for non-standard real estate related services are capped at 10% of the total annual Property Services Fee payable to Nexus.

(b) Term

As regards Property Advisory Services, the Amended Advisory Agreement will run for a fixed period of three years from the date of Completion and is terminable thereafter by not less than two years' written notice by either side.

In respect of the Administrative Services, the term will run for a fixed period of three years from the date of Completion and is thereafter terminable by not less than twelve months' notice by either side.

(c) Administrative Services Fee

The Amended Advisory Agreement provides for the Company to pay Nexus in relation to Administrative Services a fixed annual fee of £1,214,536 from Completion.

The Administrative Services Fee may be increased or decreased from 1 May in each calendar year by the movement in RPI over the prior calendar year, subject to a cap of 5% per annum.

(d) Performance Incentive Fee ("PIF")

Nexus is entitled to a PIF equal to 11.25% of any performance in excess of an 8% per annum increase in the Group's EPRA Net Asset Value, plus dividends (less equity raised, net of non-cash adjustments) paid subject to an overall cap at the lower of 20% of the Management Fee payable to Nexus in that year or £2.0 million.

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

Laure Duhot
Chairman of the Adviser Engagement Committee
11 February 2020

Remuneration Committee report

Helen Mahy CBE
Chairman of the Remuneration Committee

Members of the Remuneration Committee (the "Committee")

Member	Number of meetings and attendance
Helen Mahy (Chair)	2 (2)
Steven Owen	3 (3)
Peter Cole	3 (3)
Laure Duhot	2 (2)
Dr Stephen Kell	3 (3)
Ian Krieger	3 (3)
Nick Wiles (resigned 8 March 2019)	1 (1)
Geraldine Kennell (resigned 8 March 2019)	1 (1)

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

Additional attendees invited to attend meetings as appropriate:

Harry Hyman – Managing Director

Dear shareholder,

I am delighted to chair the PHP Remuneration Committee following the merger with the MedicX Fund Limited. This report has been prepared by the Remuneration Committee and approved by the Board and includes our proposed Directors' Remuneration Policy and shows how the current policy was implemented during the year.

The report is divided into two parts:

- Part A: this sets out the proposed Directors' Remuneration Policy (the "Policy"). The Directors' Remuneration Policy was last approved at the 2017 Annual General Meeting ("2017 AGM"). As the Company is required to put the Directors' Remuneration Policy to a vote of shareholders every three years, we will be putting the Policy set out in Part A to shareholders for approval by ordinary resolution at the 2020 AGM. Given the relative simplicity of the Company's remuneration arrangements at this time, the Remuneration Committee has decided to make only some very small changes to the Policy to simplify and provide greater clarity; and
- Part B: the Annual Report on Remuneration, which provides information on how the existing policy adopted at the 2017 AGM has been applied during the year and will be applied in the year ahead and which will be subject to an advisory resolution of shareholders at the 2020 AGM.

The Managing Director and Finance Director are employed and remunerated by the Adviser and so the Committee does not determine Executive Directors' pay. Therefore, pay and employment considerations are not taken into account in determining Directors' fees.

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 chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. Steven Owen was independent on his appointment as Chairman and remains so and accordingly he is a member of the Remuneration Committee. I have sat on the remuneration committee of The Renewables Infrastructure Group Limited since my appointment in 2013 and accordingly have served on a remuneration committee for at least twelve months prior to my appointment as required by the UK Corporate Governance Code.

Key responsibilities

- setting the remuneration framework or policy for the Directors;
- reviewing the continued appropriateness and relevance of the Company's remuneration policy;
- within the terms of the approved policy, determining the remuneration of the Chairman;
- appointing and setting out the terms of reference for any remuneration consultants to advise the Committee;
- agreeing policy on the recovery by the Directors of expenses incurred in performance of their duties; and
- drafting the Directors' Remuneration Report and reporting to shareholders on the implementation of the Company's remuneration policy in accordance with relevant statutory and corporate governance requirements.

The Remuneration Committee's activities during the year

During 2019, the Committee met three times, in January, April and November.

At its meeting in January the Committee considered and approved the Directors' Remuneration Report set out in the Annual Report for 2018 and agreed that it would review the remuneration of the Chairman and the Board would review the remuneration of the other Non-executive Directors at a meeting in April.

At its meeting in April, the Committee considered the appropriateness of the Chairman's remuneration given the significant increase in the size and value of its portfolio, which increased by more than 50% following the merger with MedicX, and also its higher profile, having been included as a member of the FTSE 250 index in April 2018. The Committee also considered the results of a benchmarking review of the Chairman's remuneration based on a selection of comparable REITs including direct competitors and those which are also externally managed.

The review indicated that the fee paid to the Chairman remained significantly below the market level for companies of a comparable size on the basis of the REIT peer group. After consideration of this report, it was agreed that the remuneration of the Chairman should be increased to £125,000 per annum with effect from 1 April 2019, to reflect the increased profile and responsibilities of the role, following the over 50% increase in the size and value of the Group's portfolio. Steven Owen, as the Chairman, absented himself from the meeting for these discussions and took no part in the decision of the Remuneration Committee.

The meeting also agreed to appoint Korn Ferry as the remuneration advisers to the Committee in place of FIT Remuneration Consultants LLP. Korn Ferry is a signatory of the Remuneration Consultants' Code of Conduct and has no connection with the Company other than in the provision of advice on remuneration.

At the meeting in November, the Committee considered potential changes to the Directors' Remuneration Policy.

Proposed Directors' Remuneration Policy

There is little material difference in the substance of the Policy from that approved by shareholders in 2017. In considering any amendments to the existing Directors' Remuneration Policy, the Committee has been mindful of the fact that the Company is externally managed and so has relatively simple remuneration arrangements. We have also taken into account the views of the various investors groups on remuneration and the guidance of the GC100 in forming the revised Policy.

Key points to note in relation to the Company and the Policy are that:

- there are no service contracts with the Company as none of the Directors are employees of the Company;
- PHP has no long-term incentive plans, options or similar performance incentive plans;
- there are no payments for loss of office;
- remuneration should reflect the responsibility, experience, time commitment and position on the Board;
- the Policy allows the Chairman and Senior Independent Director and the chairs of the Audit and Advisers Engagement Committees to be remunerated at a higher level than the remaining Non-executive Directors to reflect their increased roles and responsibilities; and
- the Policy allows additional payments for other significant additional responsibilities at the discretion of the Board.

Should any of the Executive Directors in the future be employed directly by the Company or one of its subsidiaries, then the Policy will be amended as appropriate and put to shareholders for approval as required by law.

Conclusion

The Committee believes the current and proposed remuneration arrangements are fair and fit for purpose, and aligned to delivery of the Company's strategy. We will continue to monitor emerging trends and best practice in corporate governance. The Committee takes its responsibilities seriously and hence has an active interest in your views and hopes to receive your support again at the AGM.

Helen Mahy CBE
Chairman of the Remuneration Committee
11 February 2020

Directors' remuneration report

Part A

Directors' Remuneration Policy

Introduction

In accordance with the requirements of the Companies Act 2006 (as amended) the Directors' Remuneration Policy (the "Policy") as set out below, will be put to shareholders for approval at the 2020 AGM on 1 April 2020 and, if approved, will apply for a period of three years from the date of approval. The Policy, if approved, will replace the Directors' Remuneration Policy approved by shareholders at the Company's Annual General Meeting in 2017. There is no material difference in the Policy below from that approved by shareholders in 2017. The only changes are minor to either improve the clarity or to simplify the Policy, where this has been identified as desirable during the review undertaken by the Committee.

Policy summary

The Committee determines the application of the Policy for the Chairman and other Non-executive Directors for current and future years and this is reviewed on an annual basis. The Policy is designed to support the strategic objectives of the Company and reflects the strategy of delivering shareholders progressive returns, through (inter alia) managing costs carefully through outsourcing the execution of all property acquisition and management, finance, company secretarial and other administrative services to a third-party adviser. The Company does not have any employees.

In this context, the Policy is designed to ensure that remuneration of the Directors is set at a reasonable level commensurate with the duties and responsibilities of each Director and the time commitment required to carry out their duties effectively. Remuneration should be such that the Company is able to attract and retain Directors of appropriate experience and quality. The fees paid to Directors will reflect the experience of the Board as a whole and the expected time commitment, will be fair, and will take account of the responsibilities attaching to each role given the nature of the Company's business, as well as the level of fees paid by comparator real estate investment trusts and other UK-listed companies.

Additional payments may be made to Directors for chairing Committees or other significant additional responsibilities. Directors will be reimbursed reasonable travel and subsistence expenses incurred in attending meetings or in carrying out any other duties incumbent on them as Directors of the Company, in accordance with the Company's expense policy. No other benefits, taxable or otherwise are received by any Director; however, expenses incurred in connection with the Company's business are reimbursed. In the event that any such payments are regarded as taxable, Directors may receive additional payments to ensure that they do not suffer any net loss in carrying out their duties. The aggregate level of Directors' fees will not exceed the limit set out in the Company's Articles of Association from time to time (currently £500,000).

Policy table of Directors' remuneration elements

Element	Purpose and link to strategy	Operation	Maximum	Performance measures
Non-executive Directors' fee and expenses payable	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 indicates fees require realignment to remain competitive	Overall fees will not exceed the maximum in the Articles	Not applicable

No Director is entitled to receive any remuneration which is performance related. As a result there are no performance conditions in relation to any elements of the Directors' remuneration in this Policy.

Discretion

The Committee has the discretion to amend the Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, in the best interests of the Company, and disproportionate to seek or await shareholder approval.

Service contracts

No Executive Director has a service contract nor are they appointed for a specific term. The services of the Managing Director, Finance Director or other Executive Directors are provided under the Advisory Agreement by the Adviser, Nexus Tradeco Limited. The Adviser may receive a Director's fee not exceeding that paid to the Non-executive Directors generally in connection with providing the services of the Managing Director and/or any other Executive Director. No Director's fee will be payable in respect of the services of any other Executive Director employed by the Adviser who is appointed to the Board of directors of the Company.

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 Company requires that all Directors are re-elected at each Annual General Meeting.

All Directors' appointments can be terminated by no more than three months' notice of termination by either party.

Loss of office

Directors do not have any entitlement of payment upon a loss of office over and above payment for any notice period and any fees or expenses due to them but unpaid at the time of termination.

There is no provision for the recovery of sums paid to a Director or the withholding of the payment of any sum due to a Director.

Scenarios

As there are no variable elements of Directors' fees linked to performance it is accordingly not considered appropriate to provide different remuneration scenarios for the Directors.

Recruitment Policy

The Company's approach is that the remuneration of any newly recruited Non-executive Director will be assessed in line with the same principles as apply to the existing Non-executive Directors.

The Company will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay fees to search and selection consultants in connection with the appointment of any Non-executive Director.

Shareholding guidelines

Whilst Directors are free to own shares in the Company, there are no requirements to acquire and hold shares.

Consideration of employment conditions elsewhere in the Company

The Company has no employees. Consequently, the Committee when setting the Policy was not required to take into consideration the pay and employment conditions through the Company as a whole.

Consideration of shareholders' views

The Company is committed to engagement with shareholders and will seek major shareholders' views in advance of making significant changes to its remuneration policy and how it is implemented. 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.

Other items

None of the Directors has any entitlement to bonus, pensions or pension related benefits, medical or life insurance schemes, share options, long term incentive plans, performance related payments or other benefits.

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

Legacy arrangements

For the avoidance of doubt, in approving the Policy, authority is given to the Directors to honour any commitments previously entered into with current or former Directors that have been disclosed previously to shareholders.

Part B

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, and relevant sections of the Listing Rules. The Annual Report on Remuneration and the Chair's statement will be put to an advisory shareholder vote at the 2020 AGM. The information on pages 76 to 77 has been audited where required under the regulations and indicated as audited information where applicable.

The set fee for the Non-executive Directors from 1 April 2019 was £50,000 per annum. An additional fee of £10,000 per annum was payable to the Deputy Chairman and Senior Independent Director and the Chair of the Audit Committee and the Chair of the Adviser Engagement Committee received an additional payment of £5,000. The set fee for the Chairman from 1 April 2019 is £125,000.

As the Executive Directors are not employees and there are no employees in the Company there are no CEO pay disclosures to be made and no gender pay analysis.

The dates of appointment and of the appointment letters of each of the Directors proposed for re-election at the forthcoming annual general meeting, are as follows:

Name	Date of appointment	Date of letter of appointment
Harry Hyman[1]	5 February 1996	7 February 2019
Richard Howell[1]	1 April 2017	1 April 2017
Steven Owen	1 January 2014	9 December 2013
Peter Cole	1 May 2018	1 May 2018
Laure Duhot	14 March 2019	14 March 2019
Ian Krieger	15 February 2018	15 February 2018

1 Harry Hyman and Richard Howell are employed by Nexus Tradeco Limited and have letters of appointment in a similar form to those for the Non-executive Directors governing their duties and responsibilities to the Company. Mr Hyman's letter of appointment was updated in connection with the merger.

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

Single total figure of remuneration (audited information)

	Year ended 31 December 2019	Year ended 31 December 2018
Steven Owen (Chairman)	**137,375**	67,210
Harry Hyman (Managing Director)	**47,125**	41,875
Richard Howell (Finance Director)[1]	**nil**	nil
Helen Mahy[2]	**47,959**	nil
Peter Cole	**47,875**	27,686
Laure Duhot[3]	**43,962**	nil
Ian Krieger	**57,875**	43,152
Dr Stephen Kell[6]	**47,875**	36,125
Geraldine Kennell[4]	**10,830**	41,125
Nick Wiles[5]	**26,613**	43,875
Total	**467,489**	347,140

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

2 Ms Mahy was appointed as a Deputy Chairman and Senior Independent Director on 14 March 2019. She will retire from the Board at the 2020 AGM.

3 Ms Duhot was appointed as a Director and as Chairman of the Advisory Engagement Committee on 14 March 2019.

4 Ms Kennell resigned as a Director and as Chair of the Remuneration Committee on 14 March 2019.

5 Mr Wiles resigned as a Director and as Chairman of the Advisory Engagement Committee on 14 March 2019.

6 Dr Stephen Kell will retire from the Board at the 2020 AGM.

Harry Hyman is a Director of Nexus, the Adviser to the Group. Nexus received a fee equal to the basic fee paid to the Non-executive Directors for providing the services of the Managing Director.

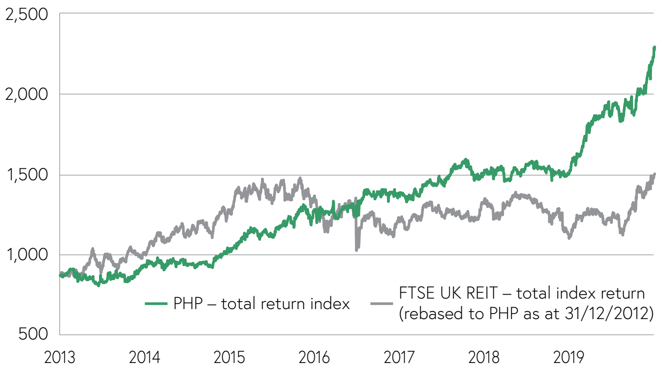
Richard Howell is employed by Nexus, the Adviser to the Group. No additional fees are paid to Nexus in respect of the services of Richard Howell.

Further details of the Advisory Agreement are given in the Adviser Engagement Committee Report on page 70 and details of the amounts paid to the Adviser are in Note 4 to the financial statements on pages 103 and 104.

The Company's performance

The following graph compares, over a ten-year period, the total shareholder return of the Company's Ordinary Shares relative to a return on a hypothetical holding over the same period in the FTSE All-Share Real Estate Investment Trust Index. This Index has been chosen by the Board as the most appropriate in the circumstances. Total shareholder return is the measure of returns provided by a company to shareholders reflecting share price movements and assuming reinvestment of dividends.

For the year ended 31 December 2019, the highest and lowest mid-market prices of the Company's Ordinary Shares were 111 pence and 160 pence respectively.



During the year, the Remuneration Committee appointed Korn Ferry to provide advice on Directors' remuneration and governance, replacing FIT. Nether firm has any other connection with the Company and both are a signatory to the voluntary code of conduct of the Remuneration Consultants Group in relation to executive remuneration consulting. The Committee is therefore satisfied that its advice is independent. The fees paid for their services during the calendar year were £3,000 and £3,000 respectively.

Relative importance of spend on pay

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

	2019	2018	Difference
Directors' fees[1]	**467,489**	347,140	34.7%
Management Fee	**8,810,750**	6,677,550	31.9%
Dividends	**59,464,701**	36,644,047	62.3%

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

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 which has been included because the Directors believe it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are as shown in Note 4 to the financial statements.

There is no separate amount to be disclosed with regard to the Managing Director as his services are provided in accordance with the Advisory Agreement.

Statement of Directors' shareholding and share interests

The interests of each person who served as a Director at any time during the financial year in the share capital of the Company (all of which are beneficial unless otherwise stated) and any interests of a person connected with such persons (within the meaning of Section 96B(2) of the Financial Services and Markets Act 2000) are audited and shown below:

	31 December 2019 Held outright	31 December 2019 Held by connected parties	31 December 2018 Held outright	31 December 2018 Held by connected parties
Harry Hyman[1]	**512,146**	**12,375,752**	463,145	12,373,131[1]
Richard Howell	**69,368**	**101,155**	14,785	101,155
Steven Owen	**51,367**	**32,640**	49,265	23,796
Helen Mahy	**40,061**	**nil**	nil	nil
Peter Cole	**75,000**	**nil**	nil	nil
Laure Duhot	**nil**	**23,169**	nil	nil
Ian Krieger	**101,481**	**nil**	81,481	—
Dr Stephen Kell	**22,503**	**nil**	14,182	—

1 Includes 12,330,000 shares held by Nexus Group Holdings Limited.

Part B continued

Statement of Directors' shareholding and share interests continued

Geraldine Kennell and Nick Wiles resigned as Directors on 14 March 2019 and their interests are shown as at that date and as at 31 December 2018 in the table below:

	14 March 2019 Held outright	14 March 2019 Held by connected parties	31 December 2018 Held outright	31 December 2018 Held by connected parties
Geraldine Kennell	**257,951**	**—**	257,951	—
Nick Wiles	**51,624**	**—**	51,624	—

Save as disclosed below, no changes occurred between 31 December 2019 and the date of this report.

Mr and Mrs Hyman are participants in the Company's monthly investment account that is administered by Equiniti on the Company's behalf. As a consequence of purchases in January and February 2020, at the date of this report Mr Hyman held outright 512,269 shares, and connected parties to Mr Hyman 12,375,875 shares.

There is no requirement or guidelines for any of the Directors to own shares in the Company, though it is anticipated that all Non-executive Directors will acquire shares in the Company.

Statement of shareholder voting

At the 2019 AGM, shareholder voting on the Director's Remuneration Report was as follows:

	Number of shares	% of votes cast
Votes cast in favour	525,995,374	97.4
Votes cast against	13,681,084	2.5
Total votes cast	539,676,458	99.9
Abstentions	301,835	0.1

At the 2018 AGM, shareholder voting on the Directors' Remuneration Policy was as follows:

	Number of shares	% of votes cast
Votes cast in favour	236,693,014	99.9
Votes cast against	232,794	0.1
Total votes cast	236,925,808	100.0
Abstentions	208,130	0.0

Statement of implementation of the Remuneration Policy for the year ended 31 December 2020

Decisions on the remuneration of the Chairman and the Non-executive Directors are usually made in February before the Annual Report is approved by the Board and are then implemented with effect from 1 April. The Remuneration Committee will continue to apply the current approved Directors' Remuneration Policy until the date of the forthcoming Annual General Meeting and then, if approved, apply the Policy. No fee increases are proposed for the current year.

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.

Approval

The Directors' Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors

Helen Mahy CBE
Chairman of the Remuneration Committee
11 February 2020

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 2019 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, which has no branches. 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.

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 responsible business, an indication of future likely developments in the Company and details of important events since the year ended 31 December 2019 are contained in the Group's Strategic Report on pages 1 to 43 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.

On 2 January 2020, the Board declared an interim dividend of 1.475 pence per Ordinary Share of 12.5 pence ("Ordinary Shares"), payable on 21 February 2020, to shareholders on the register at 10 January 2020, being the first quarterly dividend in 2020. Further information on dividends can be found in the Shareholder Information section on page 133.

At the Annual General Meeting held on 11 June 2019 ("2019 AGM"), shareholders renewed the previous authority for the Directors, in accordance with the Company's Articles of Association ("Articles"), to allow shareholders to choose whether to receive cash dividends in new Ordinary Shares rather than in cash ("a scrip dividend") for a period of three years. Shareholders were offered a scrip dividend alternative in respect of each of the interim dividends paid during the year.

Directors

The names and biographical information for the current Directors can be found on pages 44 to 46. 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 76.

The Company's Articles require that Directors should submit themselves for election at the first Annual General Meeting following their appointment and thereafter for re-election at least every three years. The Company has, however, adopted the requirements of the UK Corporate Governance Code (the "Code") in requiring the annual re-election of all Directors.

Neither Helen Mahy or Dr Stephen Kell will seek re-election at the 2020 AGM. All other Directors who served following the 2019 AGM will retire and, being eligible, will offer themselves for re-election at the 2020 AGM. A proposal to re-elect such Directors is included within the Notice calling the 2020 AGM that is being posted with this document. 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.

The Managing Director and Finance Director have service agreements with the Adviser and are not employees of the Company. Details of the service agreements of the Non-executive Directors (including the notice periods required to terminate the agreements) are shown in the Directors' Remuneration Report on pages 77 and 78.

Dividends

The results for the year are shown in the Group Statement of Comprehensive Income on page 93.

The Company has paid four interim dividends for the year totalling 5.6 pence per share as follows:

	1st interim	2nd interim	3rd interim	4th interim
Property Income Distribution	0.75 pence	0.65 pence	0.65 pence	0.50 pence
Ordinary dividend	0.65 pence	0.75 pence	0.75 pence	0.90 pence
Payment date	22 February 2019	24 May 2019	23 August 2019	22 November 2019
Total	**1.4 pence**	**1.4 pence**	**1.4 pence**	**1.4 pence**

Directors' report continued

Powers of Directors

Subject to the provisions of the Companies Act 2006 (the "Act"), the memorandum and Articles of the Company and to any directions given by special resolution, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company.

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.

Following the merger with MedicX, and in line with the MedicX policy, 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 2020 AGM. No indemnity was provided and no payments were made pursuant to these provisions during the year.

Substantial interests

As at 11 February 2020, 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 11 February 2020	Ordinary Shares	Percentage of existing issued share capital
Blackrock Investment Management	85,536,536	7.03
CCLA Investment Management	55,448,220	4.56
Vanguard Group	54,488,091	4.48
Investec Wealth & Investment	53,366,768	4.39
Hargreaves Lansdown (EO)	50,340,237	4.14
Charles Stanley	40,970,313	3.37

Share capital

At the date of this report, the Company has one class of share in issue, being 1,216,312,744 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 2019 AGM 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 2020 AGM and it is proposed to seek renewal of these authorities at the forthcoming 2020 AGM.

During the financial year, 341,045,427 Ordinary Shares were issued to the former shareholders in the MedicX Fund Limited under the terms of the statutory merger, 3,998,568 Ordinary Shares were issued to satisfy election for the scrip dividend alternative and 78,125,00 Ordinary Shares were issued in exercise the powers conferred on the Directors at the 2019 AGM to issue new Ordinary Shares for cash on a non-pre-emptive basis, to raise £100million in order to fund a number of acquisition and capital investment opportunities in the UK and Ireland arising following the Merger and which, as they were financed by equity rather than debt, will increase the value of unfettered assets in the PHP portfolio and strengthen its balance sheet, as they complete.

The new Ordinary Shares issued represented approximately 6.9 per cent of the Company's issued share capital and were issued at 128 pence being a discount of 4.3 per cent to the intra-day price at the time the placing price was agreed (approximately 6.4 per cent to that intra-day price after expenses).

Details of changes in share capital are set out in Note 18 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 under the Articles if all calls or other sums presently payable in respect of a share have not been paid to the Company or if having been served with a notice under Section 793 of the Act 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 (such as insider trading laws, including the EU Market Abuse Regulation, the Listing Rules and the Company's share dealing code, 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 a copy of which can be obtained from the Company's website www.phpgroup.co.uk.

Amendment of the Company's Articles

Any amendments to the Company's Articles may be made in accordance with the provisions of the Act by special resolution. There were no amendments made to the Company's Articles in the year.

Change of control

Under the Group's financing agreements, including the terms of the £150 million 2.875% Convertible Bonds due 2025, the lenders or bondholders may require repayment of the outstanding amounts on a change of control. 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.

Suppliers

The Group aims to settle supplier accounts promptly in accordance with their individual terms of business. The number of creditor days outstanding as at 31 December 2019 was 2 days (2018: 24 days).

Annual General Meeting

The Annual General Meeting of PHP (the "AGM") will be held on 1 April 2020 at 10.30 a.m. The Notice convening the Annual General Meeting and explanatory notes for the resolutions sought is being sent to shareholders with this document.

Auditors

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 AGM.

Employees

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

Donations

The Group does not make any political or charitable donations.

Share service

The Shareholder Information section on page 133 provides details of the share services available.

Financial instruments

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

Post balance sheet events

Details of events occurring since the year end are given in Note 27 on page 123.

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 99.5% occupied with £90m of its income funded directly or indirectly by the UK government.

As at 31 December 2019, the Group had £241.6 million of headroom on its debt facilities, with a further £143.1 million of cash. The Group has total commitments of £28.1 million outstanding to fund on properties under construction through the course of 2020. The Group's consolidated loan to value ratio, including drawn, unsecured debt, is 44.2%, with all banking covenants being met during the year and subsequent to the year end.

Going concern continued

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

Regulatory disclosures

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 on pages 1 to 43
Principal risks	Risk Management section of Strategic Report on pages 26 to 31
Viability statement	Pages 30 and 31
Directors' details	Directors Biographies on pages 44 to 46
Directors' share interests	Remuneration Committee Report on page 77
Section 172 statement	Responsible Business section of the Strategic Report on pages 34 to 37
Greenhouse gas emissions	Responsible Business section of the Strategic Report on pages 34 to 37
Financial instruments	Note 16 on pages 115 and 116
Financial risk management policies	Risk Management section of Strategic Report on pages 26 to 31
Related party transactions	Note 26 on page 123
Post balance sheet events	Note 27 on page 123

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 Corporate Governance Report on pages 49 to 61 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 44 to 46. 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 11 February 2020.

By order of the Board

Nexus Management Services Limited
Company Secretary

Primary Health Properties PLC
Registered office: 5th Floor, Greener House, 66–68 Haymarket, London SW1Y 4RF

Registered in England Number: 3033634

Directors' responsibility statement

Statement of Directors' responsibilities in respect of the Group and Company financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 11 February 2020 and is signed on its behalf by:

For and on behalf of the Board

Steven Owen
Chairman
11 February 2020

Independent auditor's report

to the members of Primary Health Properties PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Primary Health Properties plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group cash flow statement;
- the group and parent company statements of changes in equity; and
- the related notes 1 to 27 for the group and 1 to 17 for the parent Company.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Accounting for the acquisition of MedicX Fund Limited ("MXF"); and • Estimation of property yields and Estimated Rental Values ("ERVs") applied in the valuation of investment property. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was £24.5million, which was determined on the basis of 2% of Net Assets. In addition to net assets, we considered EPRA Earnings to be a critical financial performance measure for the group and we applied a lower threshold of £2.9 million for items affecting EPRA Earnings.

Basis for opinion continued

Summary of our audit approach continued

Scoping	Consistent with 2018, we performed full scope audit procedures on all of the group's subsidiaries including the additional subsidiaries, acquired in the year. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.
Significant changes in our approach	There were no significant changes in our approach in the current year, other than the identification of the new key audit matter. The valuation of investment property continues to be a key audit matter in the current year.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 2.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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

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

Principal risks and viability statement

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

- the disclosures on pages 26 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on pages 30 and 31 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 30 and 31 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for the MXF acquisition

Key audit matter description	PHP completed the acquisition of MXF on 14 March 2019. MXF was considered to be a highly complementary portfolio of primary healthcare assets, which would benefit from the impact of increased scale when combined with the PHP portfolio. The transaction was effected by way of a share for share exchange, with PHP issuing 0.77 shares in exchange for every MXF share in issue, thereby acquiring 100% of the share capital of MXF. The acquisition of MXF by PHP has been accounted for as an 'asset acquisition', rather than a 'business combination', the judgement over which has been classified as a significant risk. Judgement is required in interpreting and applying the relevant accounting standard (IFRS 3 and amendments) to the transaction, the potential outcomes of which could have a materially different impact on the presentation of the Group's financial statements and the resulting assets and liabilities recognised on the balance sheet. Further, the consequence of classifying the transaction as an asset acquisition resulted in further complexity in assessing the value of the consideration. Management has calculated the value of consideration at £440m, based on the number of shares issued at the share price on the date of closing, reflecting the transaction, as the best indication of the fair value of consideration. Please see accounting policy at page 99 and note 2.3 to the financial statements. The consideration of this risk by the Audit Committee is described at page 63.
How the scope of our audit responded to the key audit matter	We completed the following audit procedures: • assessed and challenged the judgement that the acquisition of MXF constitutes an 'asset acquisition' rather than a 'business combination' (IFRS 3 and amendments), addressing the risk of inappropriate accounting and disclosure of the transaction in the financial statements; • challenged the value attributed to the PHP shares issued as consideration (IFRS 2) and the value allocated to the assets and liabilities acquired on acquisition by considering Management's assessment against the accounting Standards and relevant internal guidance; and • agreed the fair values of net assets, in particular investment properties and debt, to third party valuations. We involved our internal specialists in challenging the valuations.
Key observations	We concur with Management's conclusion that the transaction should be regarded as an 'asset acquisition', which is supported by the analysis of the transaction under IFRS 3. We also concur with Management that the value of consideration equates to the number of Primary Health Properties PLC shares issued at their share price on the date of issue.

Estimation of property yields and ERVs applied to the valuation of investment property

Key audit matter description	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 £2,413.1 million as at 31 December 2019 (2018: £1,502.9 million). The group uses professionally qualified external valuers to fair value the group's portfolio at six-monthly intervals. The valuers are engaged by the Directors and perform their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards. The valuers used by the group have considerable experience in the markets in which the group operates. The portfolio (excluding development properties) is valued by the investment method of valuation with development properties valued by the same methodology with a deduction made for all costs necessary to complete the development. The estimation of yields and ERVs in the property valuation is a significant judgement area, underpinned by a number of assumptions relating to the size and location of the property as well as certain attributes of the lease. Given the high level of judgement involved, we determined that there was a potential for fraud through possible manipulation of these key inputs to the valuation. 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 Statement of Comprehensive Income and the Statement of Financial Position, warrants specific audit focus in this area. Please see accounting policy at page 98 and note 2.3 to the financial statements. The consideration of this risk by the Audit Committee is described at page 63.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of Management's controls for reviewing and assessing the work of the external valuer; • We obtained and read the external valuation reports for all properties and evaluated whether the valuation approach is in accordance with RICS and suitable for use in determining the carrying value in the Statement of Financial Position. • We assessed the competence, independence and integrity of the external valuer 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; • We met with the external valuers of the portfolio to discuss the results of their work. We challenged their valuation processes and discussed 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. Where assumptions and critical judgements related to ERVs, we corroborated the valuers' explanations to the lease agreements or rent reviews agreed in the year; • We selected a sample of properties, where the yields applied in the valuation were outside the expected range. We challenged the explanations provided with reference to underlying evidence, such as lease terms and where necessary, held further discussions with the valuers. • We tested the accuracy of completed rent reviews in 2019 to determine an expectation for unagreed rent reviews; • We tested the accuracy of management's forecasting accuracy as regards the outcome of rent reviews with reference to these completed rent reviews; • We compared management's forecast of rents reviews to the ERVs adopted by the valuers; and • We challenged the valuers assumptions in relation to ERVs, focussing specifically on those assets where the valuation movement was driven entirely by rental movement. • Involved Real Estate specialist to obtain an overall understanding of the Primary Healthcare property markets in the UK and Ireland and challenge of the valuation of the investment properties as well as obtain an understanding of the likely effect of Brexit on the portfolio.

Estimation of property yields and ERVs applied to the valuation of investment property continued

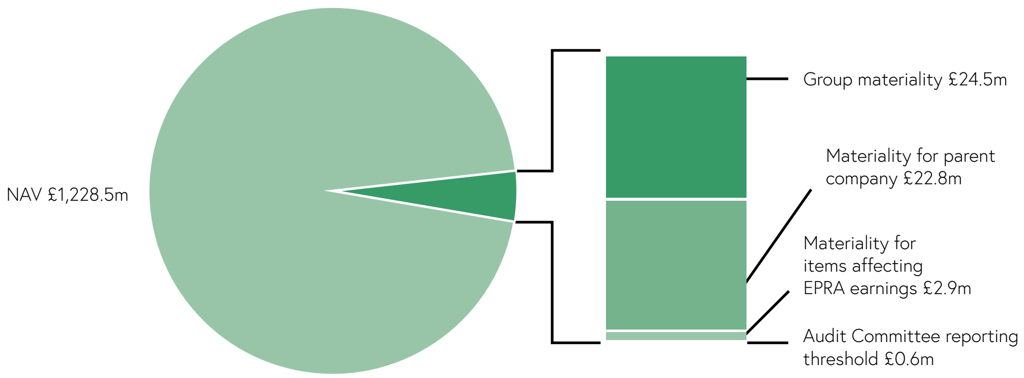
Key observations 	We concluded that the assumptions applied in relation to yields in arriving at the fair value of the group's property portfolio by Management were appropriate.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£24.5 million (2018: £14.7 million) and a lower materiality of £2.9 million (2018: £1.7 million) for balances impacting EPRA earnings	Materiality for the parent company has been determined as £22.8m (2018: £3.6m).
Basis for determining materiality	2% of net assets (2018: 2% of net assets) The lower materiality used for balances impacting EPRA earnings was determined using 5% (2018: 5%) of EPRA Earnings.	2% of net assets excluding intercompany balances (2018: 2% of total assets excluding intercompany balances). 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. The increase in materiality is primarily attributable to the acquisition of the MXF portfolio in the year.	The overall level of materiality was determined using net assets as this is determined to be the most stable base for calculation. The increase in materiality is primarily attributable to the investment for the acquisition of the MXF portfolio in the year.



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 £2.9 million (2018: £1.7 million) for EPRA Earnings items.

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 performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered factors including our risk assessment, our assessment of the group's overall control environment, and our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £597,000 (2018: £348,000), 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.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at group level. The group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally, as the books and records for each entity within the group are maintained at the offices of the adviser. This is with the exception of the books and records for the group's investment in the Irish Collective Asset-management Vehicles ("ICAV"), which holds properties acquired in Ireland, which are held by a local Trust.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

We perform full scope audit procedures on all of the group's subsidiaries at the same time as the group audit which are subject to statutory audit at materiality levels which in most cases are substantially lower than group materiality ranging from £0.1 million to £22.8 million (2018: £0.1 million to £3.0 million). This results in full scope audit procedures performed on 100% (2018: 100%) of the group's net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

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

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

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

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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, our procedures included the following:

- enquiring of Management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's 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 related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and valuations regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area: the judgement surrounding the yield estimation for the valuation of properties; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, REIT legislation, listing rules and tax legislation.

Extent to which the audit was considered capable of detecting irregularities, including fraud continued

Audit response to risks identified

As a result of performing the above, we identified the valuation of investment properties pinpointed to the yields and ERVs as a key audit matter. 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 relevant laws and regulations discussed above;
- inquiring of Management, legal counsel and the audit committee 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;
- 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

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 of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Primary Health Properties on 1 June 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2013 to 31 December 2019.

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).

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.

Sara Tubridy, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom 11 February 2020

Group statement of comprehensive income
for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Rental income		**121.3**	79.6
Direct property expenses		**(5.6)**	(3.2)
Net rental income	3	**115.7**	76.4
Administrative expenses	4	**(12.3)**	(9.9)
Exceptional item – contract termination fee		**(10.2)**	—
Revaluation gain on property portfolio	10	**48.4**	36.0
Profit on sale of land		**1.4**	0.1
Exceptional revaluation loss arising on merger with MedicX	10	**(138.4)**	—
Total revaluation (loss)/gain		**(88.6)**	36.1
Operating profit		**4.6**	102.6
Finance income	5	**1.4**	0.1
Finance costs	6a	**(42.6)**	(29.8)
Fair value loss on derivative interest rate swaps and amortisation of hedging reserve	6b	**(5.4)**	(1.8)
Fair value (loss)/gain and issue costs on convertible bond	6c	**(28.2)**	3.2
(Loss)/profit before taxation		**(70.2)**	74.3
Taxation charge	7	**(1.1)**	—
(Loss)/profit for the year after taxation[1]		**(71.3)**	74.3
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss			
Fair value gain on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve	22	**1.7**	4.1
Exchange loss on translation of foreign balances		**(1.9)**	—
Other comprehensive (loss)/income for the year net of tax[1]		**(0.2)**	4.1
Total comprehensive (loss)/income for the year net of tax[1]		**(71.5)**	78.4
(Loss)/earnings per share			
Basic	8	**(6.5)p**	10.5p
Diluted	8	**(6.5)p**	9.8p
EPRA earnings per share			
Basic	8	**4.8p**	5.2p
Diluted	8	**4.7p**	5.2p
Adjusted EPRA[2] earnings per share			
Basic	8	**5.5p**	5.2p
Diluted	8	**5.4p**	5.2p

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

2 See Glossary of Terms on pages 135 and 136.

The above relates wholly to continuing operations.

Group balance sheet
at 31 December 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investment properties	10	**2,413.1**	1,502.9
Derivative interest rate swaps	16	**0.5**	0.6
		2,413.6	1,503.5
Current assets			
Trade and other receivables	11	**16.7**	4.6
Cash and cash equivalents	12	**143.1**	5.9
		159.8	10.5
Total assets		**2,573.4**	1,514.0
Current liabilities			
Deferred rental income		**(25.2)**	(16.0)
Trade and other payables	13	**(34.7)**	(16.1)
Borrowings: term loans and overdraft	14a	**(6.1)**	(0.9)
Borrowings: bonds	14b	**—**	(101.5)
		(66.0)	(134.5)
Non-current liabilities			
Borrowings: term loans and overdraft	14a	**(682.7)**	(360.5)
Borrowings: bonds	14b	**(575.1)**	(213.2)
Derivative interest rate swaps	16	**(13.5)**	(17.8)
Headlease liabilities	15	**(4.5)**	—
Deferred tax liability		**(3.1)**	—
		(1,278.9)	(591.5)
Total liabilities		**(1,344.9)**	(726.0)
Net assets		**1,228.5**	788.0
Equity			
Share capital	18	**152.0**	96.1
Share premium	19	**338.1**	220.6
Merger and other reserve	20	**398.6**	2.5
Special reserve	21	**65.4**	124.8
Hedging reserve	22	**(24.1)**	(25.8)
Retained earnings	23	**298.5**	369.8
Total equity[1]		**1,228.5**	788.0
Net asset value per share			
Basic	24	**101.0p**	102.5p
EPRA net asset value per share	24	**104.2p**	105.1p
Adjusted EPRA[2] net asset value per share	24	**107.9p**	105.1p
EPRA NNNAV per share	24	**98.8p**	99.2p

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

2 See Glossary of Terms on pages 135 and 136.

These financial statements were approved by the Board of Directors on 11 February 2020 and signed on its behalf by:

Steven Owen
Chairman

Registered in England Number: 3033634

Group cash flow statement
for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Operating activities			
(Loss)/profit on ordinary activities after tax		**(71.3)**	74.3
Taxation charge	7	**1.1**	—
Finance income	5	**(1.4)**	(0.1)
Finance costs	6a	**42.6**	29.8
Fair value loss on derivatives	6b	**5.4**	1.8
Fair value loss and issue costs on convertible bond	6c	**28.2**	(3.2)
Operating profit before financing costs		**4.6**	102.5
Adjustments to reconcile Group operating profit before financing to net cash flows from operating activities:			
Revaluation gain on property portfolio	10	**(48.4)**	(36.0)
Profit on sale of land and property		**(1.4)**	(0.1)
Exceptional revaluation loss arising on merger with MedicX	10	**138.4**	—
Fixed rent uplift		**(1.7)**	(1.6)
Tax paid		**(0.1)**	—
(Increase)/decrease in trade and other receivables		**(5.2)**	2.2
Increase in trade and other payables		**7.8**	1.4
Cash generated from operations		**94.0**	68.5
Net cash flow from operating activities		**94.0**	68.5
Investing activities			
Payments to acquire and improve investment properties		**(49.9)**	(102.9)
Receipts from disposal of properties		**2.5**	1.0
MedicX merger transaction costs		**(14.5)**	—
Cash acquired as part of MedicX merger		**5.8**	—
Interest received on development loans		**0.3**	—
Net cash flow used in investing activities		**(55.8)**	(101.9)
Financing activities			
Proceeds from issue of shares		**100.0**	115.0
Cost of share issues		**(2.4)**	(4.0)
Term bank loan drawdowns	14	**132.8**	123.0
Term bank loan repayments	14	**(160.5)**	(174.0)
Proceeds from bond issue		**213.2**	45.4
Bond repayment		**(75.0)**	—
Bond issue and loan arrangement fees		**(5.7)**	(2.1)
Termination of derivative financial instruments		**(8.0)**	(5.0)
Swap interest paid		**(0.9)**	(2.4)
Non-utilisation fees		**(1.7)**	(1.2)
Interest paid		**(36.9)**	(25.2)
Bank interest received		**0.2**	—
Equity dividends paid net of scrip dividend	9	**(54.4)**	(34.7)
Net cash flow from financing activities		**100.7**	34.8
Increase in cash and cash equivalents for the year		**138.9**	1.4
Effect of exchange rate fluctuations on Euro-denominated loans and cash equivalents		**(1.7)**	0.7
Cash and cash equivalents at start of year		**5.9**	3.8
Cash and cash equivalents at end of year	12	**143.1**	5.9

Group statement of changes in equity
for the year ended 31 December 2019

	Share capital £m	Share premium £m	Merger and other reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2019	96.1	220.6	2.5	124.8	(25.8)	369.8	788.0
Profit for the year	—	—	—	—	—	(71.3)	(71.3)
Other comprehensive income							
Fair value movement on interest rate swaps	—	—	—	—	(1.3)	—	(1.3)
Reclassification to profit and loss – amortisation of hedging reserve	—	—	—	—	3.0	—	3.0
Exchange loss on translation of foreign balances	—	—	(1.9)	—	—	—	(1.9)
Total comprehensive income	—	—	(1.9)	—	1.7	(71.3)	(71.5)
Shares issued on conversion of convertible bonds	3.0	25.4	—	—	—	—	28.4
Shares issued as part of MedicX merger	42.6	—	398.0	—	—	—	440.6
Shares issued as part of capital raise	9.8	90.2	—	—	—	—	100.0
Share issue expenses	—	(2.6)	—	—	—	—	(2.6)
Dividends paid	—	—	—	(54.4)	—	—	(54.4)
Scrip dividend in lieu of cash	0.5	4.5	—	(5.0)	—	—	—
31 December 2019	**152.0**	**338.1**	**398.6**	**65.4**	**(24.1)**	**298.5**	**1,228.5**

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

Notes to the financial statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2019 were approved by the Board of Directors on 11 February 2020 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 81 for further details) and presented in Sterling rounded to the nearest million.

Statement of compliance

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

2.2 Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for the Group as of 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

IFRS 16 Leases

IFRS 16 Leases establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard specifies how entities reporting in accordance with IFRSs will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. As IFRS 16 does not significantly impact lessors, the impact on the Group is not material. For long leasehold properties where PHP is the lessee, the impact has been to recognise a £4.5 million head lease liability and an equal and opposite right-of-use asset which is included in non-current assets. The Group has not restated comparatives.

Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for effective hedges during the period of uncertainty before the hedged items or hedging instrument affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The Group has chosen to early apply the amendments for the reporting period ended 31 December 2019. The amendments are relevant to the Group because it applied hedge accounting to swaps which were cancelled. The remaining value within the cashflow 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. Adopting the amendments permits the Group to continue this treatment.

IFRS 3 Business combinations

IFRS 3 Business combinations establishes different accounting requirements for a business combination as opposed to the acquisition of an asset or a group of assets that does not constitute a business. The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively but the Group has chosen to early apply the amendments for the reporting period ended 31 December 2019.

Notes to the financial statements continued

2. Accounting policies continued

2.3 Summary of significant accounting policies

Basis of consolidation

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

The individual financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will be prepared under UK GAAP. The use of IFRS at Group level does not affect the distributable reserves available to the Group.

Segmental reporting

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

Foreign currency transactions

Each Group company presents its individual financial statements in its functional currency. The functional currency of all UK subsidiaries (with the exception of PHP Euro Private Placement Limited 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.

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 2019 are as follows:

Group Balance Sheet: £1 = €1.1825 (2018: €1.1126). Group Statement of Comprehensive Income: £1 = €1.1787 (2018: €1.1301).

Investment properties and investment properties under construction

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

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

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

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

Property acquisitions and business combinations

Where a property is acquired through the acquisition of corporate interests, the Board considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 2.4(b).

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Property acquisitions and business combinations continued

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.

MedicX merger

The Group has considered the merger with MedicX during the period as an asset purchase rather than a business combination. The key judgements related to the consideration of whether processes had been acquired by the Group. The limited nature of the processes acquired resulted in the transaction being treated as an asset acquisition. The fair value of the consideration for the assets and liabilities acquired was judged to be represented by the issuance to the shareholders of MedicX Fund Limited of 341.0 million Ordinary Shares in the Company at a price of 129.2 pence per share (the fair value at the date of completion). For more information on the acquisition refer to pages 16 to 21 of the Financial Review.

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% (2018: 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.

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.

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Financial instruments under IFRS 9 continued

Convertible bond

The convertible bond is designated as "at fair value through profit or loss" and so is presented on the Group Balance Sheet at fair value with all gains and losses, including the write-off of issuance costs, recognised in the Group Statement of Comprehensive Income. The fair value of the convertible bond is assessed in accordance with level 1 valuation techniques as set out within "Fair value measurements" within these accounting policies. The interest charge in respect of the coupon rate on the bond has been recognised within the underlying component of net financing costs on an accruals basis. Refer to Note 17 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.

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.

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Fair value measurements continued

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

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

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

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

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

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

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

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

Hedge accounting

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

i) Derivative financial instruments ("derivatives")

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

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

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

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

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

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Leases – Group as a lessor

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

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

2.4 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

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

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

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

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

Fair value of derivatives

In accordance with IFRS 9, the Group values its derivative financial instruments at fair value. Fair value is estimated by JCRA on behalf of the Group, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid-price of the yield curve prevailing on 31 December 2019. 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 17 of the financial statements.

b) Judgements

Hedge effectiveness

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

Property acquisitions during the year

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

MedicX merger

The Group has treated the merger with MedicX during the period as an asset purchase rather than a business combination because substantially all of the fair value was represented by investment properties. Included in additions for the period, are £804.3 million of property assets in respect of the MedicX merger which was settled through issuance to the shareholders of MedicX Fund Limited of 341.0 million Ordinary Shares in the Company at a price of 129.2 pence per share. For more information on the acquisition refer to page 16 of the Financial Review.

2. Accounting policies continued

2.5 Standards issued but not yet effective

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

- Amendments to IAS 1 and IAS 8 – definition of material
- Conceptual framework – Amendment to References to the Conceptual Framework in IFRS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020, 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.

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 £114.0 million and £7.3 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 five years £m	More than five years £m	Total £m
2019	**126.9**	**496.3**	**992.1**	**1,615.3**
2018	78.1	307.1	627.6	1,012.8

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:

	2019 £m	2018 £m
Administrative expenses including:		
Advisory fees (Note 4a)	**8.3**	6.6
Performance Incentive Fees (Note 4b)	**1.8**	1.3
Directors' fees (Note 4c)	**0.5**	0.4
Audit fees		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**0.2**	0.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.4**	0.3
Total audit and assurance services	**0.4**	0.3
Non-audit fees		
Advisory services	**0.2**	0.2
Total non-audit fees	**0.2**	0.2
Total fees	**0.6**	0.5

Please refer to page 64 of the Audit Committee Report for analysis of non-audit fees.

a) Advisory fees

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

	2019 £m	2018 £m
Nexus Tradeco Limited ("Nexus")	**8.3**	6.6

4. Group operating profit is stated after charging: continued

a) Advisory fees continued

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

As at 31 December 2019 £0.7 million was payable to Nexus (2018: £0.6 million).

Further fees paid to Nexus in accordance with the Advisory Agreement of £0.1 million (2018: £0.2 million) in respect of capital projects were capitalised in the year.

Service charge management fees paid to Nexus in the year in connection with the Group's properties totalled £0.3 million (2018: £0.2 million).

b) Performance Incentive Fee ("PIF")

Information about the Performance Incentive Fee is provided in the Corporate Governance section of the Strategic Review in the Annual Report.

A PIF of £1.1 million was paid to Nexus in the period in respect of 2018 and at 31 December 2019 the balance on the notional cumulative PIF account was £7.0 million (2018: £6.9 million), of which £1.3 million (2018: £1.1 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 16 to 21.

c) Remuneration of Directors

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

5. Finance income

	2019 £m	2018 £m
Interest income on financial assets		
Bank interest	**0.2**	—
Development loan interest	**1.2**	0.1
	1.4	0.1

6. Finance costs

	2019 £m	2018 £m
Interest expense and similar charges on financial liabilities		
a) Interest		
Bank loan interest	**27.0**	13.8
Swap interest	**0.8**	1.9
Bond interest	**12.1**	11.0
Bank facility non-utilisation fees	**1.8**	1.3
Bank charges and loan commitment fees	**3.4**	1.8
	45.1	29.8
Amortisation of MedicX debt MtM on acquisition	**(2.5)**	—
	42.6	29.8

	2019 £m	2018 £m
b) Derivatives		
Net fair value loss on interest rate swaps	**(2.4)**	(0.3)
Amortisation of cash flow hedging reserve	**(3.0)**	(1.5)
	(5.4)	(1.8)

6. Finance costs continued

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. A fair value loss on derivatives which do meet the hedge effectiveness criteria under IAS 39 of £1.3 million (2018: gain of £2.6 million) is accounted for directly in equity. An amount of £3.0 million (2018: £1.5 million) has been amortised from the cash flow hedging reserve in the year resulting from early termination of effective swap contracts (see Note 22).

Details of the fair value loss on hedges which meet the effectiveness criteria for hedge accounting under IAS 39 are set out in Note 22.

	2019 £m	2018 £m
c) Convertible bond		
Fair value (loss)/gain on convertible bond fully redeemed in the year	**(1.8)**	3.2
Fair value loss on convertible bond issued in the year	**(22.7)**	—
Convertible bond issue costs	**(3.7)**	—
	(28.2)	3.2

During the year, 24,022,454 (2018: 41,457,272) new Ordinary Shares of 12.5 pence were issued on the conversion of £23.1 million (2018: £40.0 million) nominal of the 2014 convertible bonds. Following the conversion of the bonds there were £nil (2018: £23.2 million) nominal of convertible bonds outstanding.

On 15 July 2019, PHP Finance (Jersey No.2) Limited (the "Issuer"), a wholly owned subsidiary of the Group, issued £150 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 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 NAV. Refer to Note 14 for further details about the convertible bonds.

	2019 £m	2018 £m
Net finance costs		
Finance income (Note 5)	**1.4**	0.1
Finance costs (as per above)	**(45.1)**	(29.8)
	(43.7)	(29.7)
Amortisation of MedicX debt MtM on acquisition	**2.5**	—
	(41.2)	(29.7)

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2019 £m	2018 £m
Current tax		
UK corporation tax	**—**	—
Deferred tax on Irish activities	**1.1**	—
Total tax	**1.1**	—

The UK corporation tax rate of 19% (2018: 19%) has been applied in the measurement of the Group's UK related activities tax liability at 31 December 2019.

7. Taxation continued

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £m	2018 £m
(Loss)/profit on ordinary activities before taxation	**(70.2)**	74.3
Theoretical tax at UK corporation tax rate of 19% (2018: 19%)	**(13.3)**	14.1
REIT exempt income	**(23.0)**	(13.3)
Non-taxable items	**36.3**	(0.8)
Deferred tax on Irish activities	**1.1**	—
Taxation charge (Note 7a)	**1.1**	—

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% (2018: 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 2019.

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.

8. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £m	Weighted average Ordinary Shares (number – million)	Per share (pence)
2019			
Basic and diluted loss			
Basic and diluted loss	**(71.3)**	**1,092.0**	**(6.5)**
EPRA basic and diluted earnings			
Basic and diluted loss	**(71.3)**		
Adjustments to remove:			
Net result on property (Note 10)	**(48.4)**		
Profit on sale of properties	**(1.4)**		
Exceptional revaluation loss arising on acquisition of MedicX	**138.4**		
Fair value loss on derivatives	**5.4**		
Fair value movement and issue costs on convertible bond	**28.2**		
Taxation charge	**1.1**		
EPRA basic earnings	**52.0**	**1,092.0**	**4.8**
Dilutive effect of convertible bond	**2.0**	**46.5**	
EPRA diluted earnings per share	**54.0**	**1,138.5**	**4.7**
Adjusted EPRA and diluted earnings[1]			
EPRA basic earnings	**52.0**		
Exceptional items – contract termination fee	**10.2**		
Amortisation of MtM loss on debt acquired	**(2.5)**		
Adjusted EPRA earnings per share	**59.7**	**1,092.0**	**5.5**
Dilutive effect of convertible bond	**2.0**	**46.5**	
Diluted adjusted EPRA earnings per share	**61.7**	**1,138.5**	**5.4**
2018			
Basic and diluted earnings			
Basic earnings	74.3	708.6	10.5
Dilutive effect of convertible bond	(2.2)	24.1	
Diluted earnings	72.1	732.7	9.8
EPRA basic and diluted earnings			
Basic earnings	74.3		
Adjustments to remove:			
Net result on property (Note 10)	(36.0)		
Profit on sale of land	(0.1)		
Fair value loss on derivatives	1.8		
Fair value movement on convertible bond	(3.2)		
EPRA basic earnings	36.8	708.6	5.2
Dilutive effect of convertible bond	1.0	24.1	
EPRA diluted earnings	37.8	732.7	5.2

1 See Glossary of Terms on pages 135 and 136.

8. Earnings per share continued

On 15 July 2019, the Group issued £150 million of unsecured convertible bonds; refer to Note 14 for further details. In accordance with IAS 33 Earnings per share the Company is required to assess and disclose the dilutive impact of the contingently issuable shares within the convertible bond. The impact is not recognised where it is anti-dilutive.

The dilutive impact to EPRA and Adjusted EPRA EPS of convertible bonds is represented by the accrued bond coupon which has been included in the results of the year ended 31 December 2019. The number of dilutive shares is calculated as if the contingently issuable shares within the convertible bond had been in issue for the period from issuance of the bonds to 31 December 2019.

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2019 £m	2018 £m
Quarterly interim dividend paid 22 February 2019	**9.9**	—
Scrip dividend in lieu of quarterly cash dividend 22 February 2019	**0.9**	—
Quarterly interim dividend paid 24 May 2019	**14.4**	—
Scrip dividend in lieu of quarterly cash dividend 24 May 2019	**1.5**	—
Quarterly interim dividend paid 23 August 2019	**15.8**	—
Scrip dividend in lieu of quarterly cash dividend 23 August 2019	**0.1**	—
Quarterly interim dividend paid 22 November 2019	**14.3**	—
Scrip dividend in lieu of quarterly cash dividend 22 November 2019	**2.5**	—
Quarterly interim dividend paid 23 February 2018	**—**	8.1
Scrip dividend in lieu of quarterly cash dividend 23 February 2018	**—**	0.3
Quarterly interim dividend paid 25 May 2018	**—**	7.7
Scrip dividend in lieu of quarterly cash dividend 25 May 2018	**—**	0.7
Quarterly interim dividend paid 24 August 2018	**—**	9.6
Scrip dividend in lieu of quarterly cash dividend 24 August 2018	**—**	0.3
Quarterly interim dividend paid 23 November 2018	**—**	9.3
Scrip dividend in lieu of quarterly cash dividend 23 November 2018	**—**	0.6
Total dividends distributed in the year	**59.4**	36.6
Per share	**5.6p**	5.4p

On 2 January 2020, the Board declared an interim dividend of 1.475 pence per Ordinary Share with regard to the year ended 31 December 2020, payable on 21 February 2020. This dividend will comprise a Property Income Distribution ("PID") of 1.275 pence and ordinary dividend of 0.2 pence per share.

10. 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 ("Red Book"). There were no changes to the valuation techniques during the year. The valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location and category of investment property and have had full regard to market evidence when determining the values.

The properties are 99.5% let (2018: 99.8%). The valuations reflected a 4.86% net initial yield (2018: 4.85%) and a 5.04% (2018: 4.99%) 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 £25.4 million (2018: £16.0 million) in arriving at the fair value to be included in the financial statements.

10. Investment properties and investment properties under construction continued

A fair value increase of £0.9 million (2018: £nil) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on property portfolio in the year of £48.4 million (2018: £36.0 million).

Of the £2,408.6 million valuation, £2,248.6 million (93.4%) relates to investment properties in the UK and £160.0 million (6.6%) relates to investment properties in Ireland.

In line with the Company's accounting policies, the Group has treated the merger with MedicX during the year as an asset purchase rather than a business combination because it was judged to be an acquisition of assets rather than a business and no processes or workforce were acquired by the Group. Included in additions for the period are £804.3 million of property assets in respect of the MedicX merger which was settled through issuance to the shareholders of MedicX Fund Limited of 341.0 million Ordinary Shares in the Company at a price of 129.2 pence per share. For more information on the acquisition refer to page 16 of the Financial Review.

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

	Investment properties freehold[1] £m	Investment properties long leasehold £m	Investment properties under construction £m	Total £m
As at 1 January 2019	1,212.5	284.4	6.0	1,502.9
Acquisition of MedicX portfolio				
Consideration (including transaction costs)	728.3	197.2	17.2	942.7
Less: exceptional revaluation loss arising on acquisition	(107.0)	(28.9)	(2.5)	(138.4)
Fair value of MedicX portfolio acquired	621.3	168.3	14.7	804.3
Property additions	26.3	—	31.2	57.5
Property disposals	(1.1)	—	—	(1.1)
Adoption of IFRS 16 – ground rents recognised as finance leases	—	4.5	—	4.5
Impact of lease incentive adjustment	1.0	2.5	—	3.5
Transfer from properties under construction	7.1	7.9	(15.0)	—
Foreign exchange movements	(3.1)	—	(3.8)	(6.9)
	1,864.0	467.6	33.1	2,364.7
Revaluations for the year	38.2	9.3	0.9	48.4
As at 31 December 2019	**1,902.2**	**476.9**	**34.0**	**2,413.1**
As at 1 January 2018	1,104.9	255.9	1.1	1,361.9
Property additions	81.4	12.9	10.1	104.4
Property disposals	(1.0)	—	—	(1.0)
Impact of lease incentive adjustment	0.9	0.7	—	1.6
Transfer from properties under construction	—	5.2	(5.2)	—
	1,186.2	274.7	6.0	1,466.9
Revaluations for the year	26.3	9.7	—	36.0
As at 31 December 2018	1,212.5	284.4	6.0	1,502.9

1 Includes development land held at £1.6 million (31 December 2018: £1.0 million).

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £2,376 million (2018: £1,434 million).

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 leases 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 2019 and 31 December 2018. There were no transfers between levels during the year or during 2018. 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).

10. Investment properties and investment properties under construction continued

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.

	2019	2018
ERV – range of the portfolio	**£27,400–£1,286,558 per annum**	£32,307–£1,273,630 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.

	2019	2018
True equivalent yield – range of the portfolio	**4.00%–7.87%**	3.84%–7.54%

Unobservable input: physical condition of the property

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

Unobservable input: rental growth

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

Sensitivity of measurement of significant unobservable inputs

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

11. Trade and other receivables

	2019 £m	2018 £m
Trade receivables (net of provision for doubtful debts)	**10.0**	3.0
Prepayments and accrued income	**5.9**	1.6
Other debtors	**0.8**	—
	16.7	4.6

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

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.

12. Cash and cash equivalents

	2019 £m	2018 £m
Cash held at bank	**143.1**	5.9
	143.1	5.9

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.

13. Trade and other payables

	2019 £m	2018 £m
Trade payables	**0.2**	1.6
Bank and bond loan interest accrual	**8.0**	4.6
Other payables	**10.0**	4.7
VAT	**5.5**	3.3
Accruals	**11.0**	1.9
	34.7	16.1

14. Borrowings

a) Term loans and overdrafts

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

		Facility		Amounts drawn		Undrawn	
	Expiry date	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Current							
RBS overdraft	Jun 2020	**5.0**	5.0	**—**	—	**5.0**	5.0
Aviva HIL loan	Jan 2032	**0.9**	0.9	**0.9**	0.9	**—**	—
Aviva loan[1]	Sep 2033	**2.0**	n/a	**2.0**	n/a	**—**	n/a
Aviva loan[1]	Jun 2040	**0.6**	n/a	**0.6**	n/a	**—**	n/a
Aviva loan	Aug 2029	**2.6**	—	**2.6**	—	**—**	—
		11.1	5.9	**6.1**	0.9	**5.0**	5.0
Non-current							
Aviva HIL loan	Jan 2032	**20.4**	21.4	**20.4**	21.4	**—**	—
Aviva loan	Dec 2022	**25.0**	25.0	**25.0**	25.0	**—**	—
Aviva loan	Nov 2028	**75.0**	75.0	**75.0**	75.0	**—**	—
Aviva loan	Aug 2024	**50.0**	50.0	**50.0**	50.0	**—**	—
Aviva loan	Aug 2029	**60.0**	63.0	**60.0**	63.0	**—**	—
Barclays/AIB loan	Jan 2021	**115.0**	115.0	**55.0**	55.0	**60.0**	60.0
HSBC loan	Nov 2022	**100.0**	n/a	**—**	n/a	**100.0**	n/a
HSBC loan	Jul 2020	**n/a**	50.0	**n/a**	—	**n/a**	50.0
Lloyds loan	Dec 2021	**30.0**	30.0	**28.3**	—	**1.7**	30.0
RBS loan	Mar 2021	**100.0**	100.0	**55.7**	65.9	**44.3**	34.1
Santander loan	Jul 2021	**30.6**	30.6	**—**	8.9	**30.6**	21.7
Aviva loan[1]	Sep 2033	**229.4**	n/a	**229.4**	n/a	**—**	n/a
Aviva loan[1]	Sep 2028	**30.8**	n/a	**30.8**	n/a	**—**	n/a
Aviva loan[1]	Jun 2040	**24.8**	n/a	**24.8**	n/a	**—**	n/a
		891.0	560.0	**654.4**	364.2	**236.6**	195.8
Total		**902.1**	565.9	**660.5**	365.1	**241.6**	200.8

1 Acquired as part of the merger with MedicX.

14. Borrowings continued

a) Term loans and overdrafts continued

	2019 £m	2018 £m
Balance as at 1 January	**361.4**	412.3
Changes from financing cash flows		
Acquired as part of the merger with MedicX (net of amortisation fees)	**315.3**	—
Term bank loan drawdowns	**132.8**	123.0
New loan facilities drawn	**448.1**	123.0
Repayments of mortgages principal	**(2.8)**	(0.9)
Repayments of term bank loans	**(157.7)**	(173.1)
Repayments of term loan borrowings	**(160.5)**	(174.0)
Loan issue costs for new facilities/refinancing	**(1.0)**	1.3
Total changes from financing cash flows	**286.6**	(49.7)
Other non-cash changes		
MtM on loans added in the period net of amortisation	**38.9**	—
Amortisation of loan issue costs	**2.4**	(1.2)
Exchange gain on translation of foreign balances	**(0.5)**	—
Total other changes	**40.8**	(1.2)
Balance as at 31 December	**688.8**	361.4

At 31 December 2019, total facilities of £1,452.0 million (2018: £879.9 million) were available to the Group. This included a £70 million secured bond, a £100 million secured bond, a £150.0 million nominal value convertible bond, £43.1 million and £59.2 million Euro-denominated bonds, a £50 million Ignis loan note, a £77.5 million Standard Life loan note and a £5 million overdraft facility. Of these facilities, as at 31 December 2019, £1,210.4 million was drawn (2018: £679.1 million).

On 23 January 2019, a new £50 million facility was successfully completed with HSBC. The new loan could be drawn in Sterling, and had a variable interest rate of LIBOR plus 175bps and the expiry date in October 2020. The new facility was cancelled on 10 July 2019.

On 4 December 2019, the HSBC facility was refinanced and increased to £100.0 million. The new facility can be drawn in Sterling or Euros subject to a maximum drawdown of £60.0 million equivalent of Euros. It has a variable interest rate of LIBOR plus 165bps and an expiry date of 30 November 2022.

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:

	2019 £m	2018 £m
Term loans drawn: due within one year	**6.1**	0.9
Term loans drawn: due in greater than one year	**654.4**	364.2
Total terms loans drawn	**660.5**	365.1
Plus: MtM on loans added in the period net of amortisation	**38.9**	—
Less: unamortised borrowing costs	**(10.6)**	(3.7)
Total term loans per the Group Balance Sheet	**688.8**	361.4

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 17e.

The Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in Note 16.

14. Borrowings continued

b) Bonds

	2019 £m	2018 £m
Unsecured:		
Retail bond July 2019	—	75.0
Convertible bond May 2019 at fair value	—	26.6
Convertible bond July 2025 at fair value	**172.7**	—
Less: unamortised costs	—	(0.1)
Total unsecured bonds	**172.7**	101.5
Secured:		
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	**43.2**	45.8
€70 million secured bond (Euro private placement) September 2031	**59.2**	—
Ignis loan note December 2028	**50.0**	—
Standard Life loan note September 2028	**77.5**	—
Less: unamortised issue costs	**(4.0)**	(2.6)
Plus: MtM on loans added in the year net of amortisation	**6.5**	—
Total secured bonds	**402.4**	213.2
Total bonds	**575.1**	314.7

The fair value of the bonds that converted during the year was £28.3 million (2018: £45.7 million).

Secured bonds

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

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

On 20 December 2018, senior secured notes for a total of €51 million (£43.1 million) were issued at a blended fixed rate of 2.4793% and a weighted average maturity of 10.4 years. Interest is paid semi-annually in arrears. The notes represent PHP's first Euro-denominated transaction in the private placement market. The secured notes were placed with UK and Irish institutional investors in two tranches:

€40 million 2.46% senior notes due December 2028.

€11 million 2.633% senior notes due December 2030.

On 16 September 2019, new senior secured notes for a total of €70 million (£59.2 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 million and £27.5 million at fixed coupon rates of 3.84% and 3.00% respectively. Interest is payable semi-annually in arrears.

14. Borrowings continued

b) Bonds continued

Retail bond

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

Convertible bonds

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

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

During the year, 24.0 million (2018: 41.4 million) new Ordinary Shares of 12.5 pence were issued on the conversion of £23.1 million (2018: £40.0 million) nominal of convertible bonds. Following the conversion of the Bonds and repayment of the remaining liability of £0.1 million there were £nil (2018: £23.2 million) nominal of convertible bonds outstanding.

	2019 £m	2018 £m
Balance at 1 January	**26.6**	75.5
Bond conversions	**(28.3)**	(45.7)
Bond repaid	**(0.1)**	—
Fair value movement in convertible bond	**1.8**	(3.2)
Balance at 31 December	**—**	26.6

On 15 July 2019, PHP Finance (Jersey No.2) Limited (the "Issuer"), a wholly owned subsidiary of the Group, issued £150 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 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 149.39 pence as at 31 December 2019.

	2019 £m	2018 £m
Issued in the year	**150.0**	—
Fair value movement in convertible bond	**22.7**	—
Balance at 31 December	**172.7**	—

The fair value of the convertible bonds at 31 December 2019 and 31 December 2018 were 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 Adjusted EPRA earnings and Adjusted EPRA NAV.

14. Borrowings continued

c) Total borrowings

	2019 £m	2018 £m
Current liabilities:		
Term loans and overdrafts	**6.1**	0.9
Bonds	**—**	101.5
Total current liabilities	**6.1**	102.4
Non-current liabilities:		
Term loan and overdrafts	**654.4**	364.2
MtM on loans added in the period net of amortisation	**38.9**	—
Less: unamortised loan issue costs	**(10.6)**	(3.7)
	682.7	360.5
Bonds	**549.9**	212.7
MtM on loans added in the period net of amortisation	**6.5**	—
MtM on convertible bond	**22.7**	3.2
Less: unamortised bond issue costs	**(4.0)**	(2.7)
Total non-current bonds	**575.1**	213.2
Total borrowings	**1,263.9**	676.1

15. Head lease liabilities

The Company has adopted IFRS 16 Leases from 1 January 2019 but comparatives have not been restated. 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.

	2019 £m	2018 £m
Due within one year	**0.1**	—
Due after one year	**4.4**	—
Closing balance – fair value	**4.5**	—

16. Derivatives and other financial instruments

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

	2019 £m	2018 £m
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 ("effective swaps")		
Non-current liabilities	**—**	(6.2)
	—	(6.2)
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 ("ineffective swaps")		
Non-current assets	**0.5**	0.6
Non-current liabilities	**(13.5)**	(11.6)
	(13.0)	(11.0)
Total fair value of interest rate swaps	**(13.0)**	(17.2)
Shown in the balance sheet as:		
Total non-current assets	**0.5**	0.6
Total non-current liabilities	**(13.5)**	(17.8)

16. Derivatives and other financial instruments continued

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 2019 was a £1.7 million gain (2018: £4.1 million gain), including the amortisation of the cash flow hedging reserve of £3 million (2018: £1.5 million).

Floating to fixed interest rate swaps with a contract value of £258 million (2018: £183 million) were in effect at 31 December 2019. Details of all floating to fixed rate interest rate swap contracts held are as follows:

Contract value	Start date	Maturity	Fixed interest per annum %
2019			
£50.0 million	August 2007	August 2021	0.870
£38.0 million	August 2007	August 2021	0.870
£10.0 million	June 2020	June 2026	4.810
£10.0 million	June 2020	June 2026	4.510
£10.0 million	July 2020	July 2026	4.400
£10.0 million	July 2020	July 2026	4.475
£10.0 million	July 2020	July 2026	4.455
£20.0 million	July 2020	July 2026	4.479
£100.0 million	October 2019	November 2024	0.688
£258.0 million			
2018			
£50.0 million	August 2007	August 2021	0.870
£38.0 million	August 2007	August 2021	0.870
£10.0 million	June 2020	June 2026	4.810
£10.0 million	June 2020	June 2026	4.510
£10.0 million	July 2020	July 2026	4.400
£10.0 million	July 2020	July 2026	4.475
£10.0 million	July 2020	July 2026	4.455
£20.0 million	July 2020	July 2026	4.479
£25.0 million	January 2018	January 2023	2.470
£183.0 million			

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

On 15 October 2019, two HSBC swaps, £25.0 million with a fixed interest rate of 2.47% effective until January 2023 and £75.0 million with a fixed interest rate of 2.65% effective until January 2024, were cancelled for a one-off payment of £8.0 million equivalent to 0.7 pence per share on an EPRA net asset value basis. A new swap agreement was entered into with HSBC for a contract value of £100.0 million with a fixed rate of 0.6875% effective until November 2024. The balance within the cash flow hedge reserve relating to the two cancelled swaps will be amortised through the Group Statement of Comprehensive Income over the remainder of the original contract period to January 2024 (see Note 6b).

17. 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.

17. Financial risk management continued

Financial risk factors

a) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating rates as the Group, generally, does not hold significant cash balances, with short term borrowings being used when required. To manage its interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon principal amount. Note 16 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
2019				
London Interbank Offered Rate	Increase of 50 basis points	**7.5**	**9.0**	**16.5**
London Interbank Offered Rate	Decrease of 50 basis points	**(7.5)**	**(9.0)**	**(16.5)**
2018				
London Interbank Offered Rate	Increase of 50 basis points	5.5	3.0	8.5
London Interbank Offered Rate	Decrease of 50 basis points	(5.5)	(3.0)	(8.5)

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 11).

Trade receivables

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

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

Banks and financial institutions

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

c) Liquidity risk

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

17. Financial risk management continued

Financial risk factors continued

c) Liquidity risk continued

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
2019						
Interest-bearing loans and borrowings	**—**	**11.4**	**34.5**	**304.2**	**1,136.2**	**1,486.3**
Interest rate swaps (net)	**—**	**0.4**	**2.9**	**20.9**	**1.0**	**25.2**
Trade and other payables	**2.1**	**23.6**	**4.0**	**2.6**	**3.4**	**35.7**
	2.1	**35.4**	**41.4**	**327.7**	**1,140.6**	**1,547.2**
2018						
Interest-bearing loans and borrowings	—	5.5	18.7	311.6	425.9	761.7
Interest rate swaps (net)	—	0.4	1.3	18.1	7.6	27.4
Trade and other payables	0.8	13.9	0.4	0.4	0.1	15.6
	0.8	19.8	20.4	330.1	433.6	804.7

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 (2018: none).

d) Market risk

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

Interest rate risk

Interest rate risk is outlined above. The Board, with the assistance of the Adviser, assesses the exposure to other price risks when making each investment decision and monitors the overall level of market risk on the investment portfolio on an ongoing basis through a discounted cash flow analysis. Details of this analysis can be found in the Strategic 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 16), as it does not hold any equity securities or commodities.

Fair values

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

	Book value 2019 £m	**Fair value 2019 £m**	Book value 2018 £m	Fair value 2018 £m
Financial assets				
Trade and other receivables	**16.7**	**16.7**	4.6	4.6
Effective interest rate swaps	**—**	**—**	—	—
Ineffective interest rate swaps	**0.5**	**0.5**	0.6	0.6
Cash and short term deposits	**143.1**	**143.1**	5.9	5.9
Financial liabilities				
Interest-bearing loans and borrowings	**(1,210.4)**	**(1,327.5)**	679.1	707.2
Effective interest rate swaps	**—**	**—**	(6.2)	(6.2)
Ineffective interest rate swaps (net)	**(13.5)**	**(13.5)**	(11.6)	(11.6)
Trade and other payables	**(34.7)**	**(34.7)**	(16.1)	(16.1)

17. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair values continued

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

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

Fair value hierarchy

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

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

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

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

Fair value measurements at 31 December 2019 are as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	**—**	**0.5**	**—**	**0.5**
Financial liabilities				
Derivative interest rate swaps	**—**	**(13.5)**	**—**	**(13.5)**
Convertible bond	**(172.7)**	**—**	**—**	**(172.7)**
Fixed rate debt	**—**	**(945.9)**	**—**	**(945.9)**

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

3 Valuation is based on inputs that are not based on observable market data.

Fair value measurements at 31 December 2018 are as follows:

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

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

3 Valuation is based on inputs that are not based on observable market data.

17. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair value hierarchy continued

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 14 and 16 and the Group's equity is analysed into its various components in the Group Statement of Changes in Equity. The Board, with the assistance of the Adviser, monitors and reviews the Group's capital so as to promote the long term success of the business, to facilitate expansion and to maintain sustainable returns for shareholders.

Under several of its debt facilities, the Group is subject to a covenant whereby consolidated Group rental income must exceed Group borrowing costs by the ratio 1.3:1 (2018: 1.3:1). No debt facility has a Group loan to value covenant.

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

- interest cover: 1.15 to 1.75:1 (2018: 1.0 to 1.15:1); and
- loan to value: 55% to 75% (2018: 55% to 74%).

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

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

Group loan to value ratio	2019 £m	2018 £m
Fair value of completed investment properties	**2,374.6**	1,496.9
Fair value of development properties	**34.0**	6.0
Ground rent recognised as finance leases	**4.5**	—
	2,413.1	1,502.9
Interest-bearing loans and borrowings (with convertible bond at nominal value)	**1,210.4**	679.1
Less cash held	**(143.1)**	(5.9)
Nominal amount of interest-bearing loans and borrowings	**1,067.3**	673.2
Group loan to value ratio	**44.2%**	44.8%

18. Share capital

Ordinary Shares issued and fully paid at 12.5 pence each

	2019		2018	
	Number – millions	2019 £m	Number – millions	2018 £m
Balance at 1 January	**769.1**	**96.1**	619.4	77.5
Scrip issues in lieu of cash dividends	**4.0**	**0.5**	1.7	0.2
Shares issued on merger with MedicX Fund Limited	**341.0**	**42.6**	—	—
Share issue 24 September 2019	**78.1**	**9.8**	106.5	13.3
Shares issued on bond conversions	**24.1**	**3.0**	41.5	5.1
Balance at 31 December	**1,216.3**	**152.0**	769.1	96.1

Issue of shares in 2019

	Date of issue	Number of shares – millions	Issue price
Scrip issue in lieu of cash dividend	22 February 2019	0.8	114.16p
Share issue on merger with MedicX Fund Limited	14 March 2019	341.0	129.20p
Scrip issue in lieu of cash dividend	24 May 2019	1.2	129.80p
Scrip issue in lieu of cash dividend	23 August 2019	0.1	136.72p
Share issue	24 September 2019	78.1	128.00p
Scrip issue in lieu of cash dividend	22 November 2019	1.9	136.76p

19. Share premium

	2019 £m	2018 £m
Balance at 1 January	**220.6**	80.7
Scrip issue in lieu of cash dividend	**4.5**	1.7
Share issue 24 September 2019	**90.2**	101.7
Shares issued on bond conversions	**25.4**	40.5
Share issue expense	**(2.6)**	(4.0)
Balance at 31 December	**338.1**	220.6

20. 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.

	2019 £m	2018 £m
Capital reserve		
Balance at 1 January and 31 December	**1.6**	1.6
Foreign exchange translation reserve		
Balance at 1 January	**0.9**	—
Exchange differences on translating the net assets of foreign operations	**(1.9)**	0.9
Balance at 31 December	**(1.0)**	0.9
Merger reserve		
Balance at 1 January	**—**	—
Premium on shares issued for MedicX merger	**398.0**	—
Balance at 31 December	**398.0**	—
Balance of merger and other reserves at 31 December	**398.6**	2.5

21. Special reserve

	2019 £m	2018 £m
Balance at 1 January	**124.8**	161.4
Dividends paid	**(54.4)**	(34.7)
Scrip issue in lieu of cash dividend	**(5.0)**	(1.9)
Balance at 31 December	**65.4**	124.8

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

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

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

22. Cash flow hedging reserve

Information on the Group's hedging policy and interest rate swaps is provided in Note 16.

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:

	2019 £m	2018 £m
Balance at 1 January	**(25.8)**	(29.9)
Fair value movement on cash flow hedges	**(1.3)**	0.8
Amortisation of cash flow hedging reserve	**3.0**	1.5
Reclassification of swap between ineffective and effective	**—**	1.8
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	**1.7**	4.1
Balance at 31 December	**(24.1)**	(25.8)

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

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

On 15 October 2019, two HSBC swaps, £25.0 million with a fixed interest rate of 2.47% effective until January 2023 and £75.0 million with a fixed interest rate of 2.65% effective until January 2024, were cancelled for a one-off payment of £8.0 million equivalent to 0.7 pence per share. A new swap agreement was entered into with HSBC for a contract value of £100.0 million with a fixed rate of 0.6875% effective until November 2024. The balance within the cash flow hedge reserve relating to the two cancelled swaps has been amortised through the Group Statement of Comprehensive Income over the remainder of the original contract period to January 2024 (see Note 6b).

23. Retained earnings

	2019 £m	2018 £m
Balance at 1 January	**369.8**	295.5
Retained profit for the year	**(71.3)**	74.3
Balance at 31 December	**298.5**	369.8

24. Net asset value per share

Net asset values have been calculated as follows:

	2019 £m	2018 £m
Net assets per Group Balance Sheet	**1,228.5**	788.0
Derivative interest rate swaps (net liability)	**13.0**	17.2
Deferred tax	**3.1**	—
Convertible bond fair value movement	**22.7**	3.4
EPRA net asset value	**1,267.3**	808.6
MtM on MedicX loans net of amortisation	**45.5**	—
Adjusted EPRA net asset value	**1,312.8**	808.6
Fixed rate debt and swap MtM value	**(107.5)**	(45.3)
Deferred tax	**(3.1)**	—
EPRA NNNAV	**1,202.2**	763.3

	Number of shares – million	Number of shares – million
Ordinary Shares		
Issued share capital	**1,216.3**	769.1
Net asset value per share		
Basic net asset value per share	**101.0p**	102.5p
EPRA net asset value per share	**104.2p**	105.1p
Adjusted EPRA net asset value per share	**107.9p**	105.1p
EPRA NNNAV per share	**98.8p**	99.2p

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

As detailed in Note 8, the Company assesses the dilutive impact of the unsecured convertible bond on its net asset value per share with an initial exchange price of 153.25 pence (adjusted to 149.39 pence as at 31 December 2019), the unsecured convertible bond issued by the Group on 15 July 2019 is anti-dilutive to all measures of net asset value per share.

25. Capital commitments

As at 31 December 2019, 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 £25.4 million (2018: £16.0 million) remains to be funded with regard to these properties.

As at 31 December 2019, the Group has capital commitments totalling £2.7 million (2018: £nil) being the cost to complete asset management projects on site.

26. Related party transactions

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

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

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

27. Subsequent events

On 4 February 2020, the Group contracted with a developer to fund the development and acquisition of a purpose-built primary care centre in Llanbradach, near Caerphilly in Wales for a total cost of £2.8 million.

Company balance sheet
at 31 December 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investment in subsidiaries	7	**689.7**	259.5
		689.7	259.5
Current assets			
Trade and other receivables	8	**713.8**	445.5
Cash at bank and in hand	9	**98.5**	—
		812.3	445.5
Total assets		**1,502.0**	705.0
Current liabilities			
Trade and other payables	10	**(231.4)**	(121.9)
Borrowings: bonds	11	**—**	(101.1)
		(231.4)	(223.0)
Non-current liabilities			
Borrowings: bonds	11	**(158.2)**	—
		(158.2)	—
Total liabilities		**(389.6)**	(223.0)
Net assets		**1,112.4**	482.0
Equity			
Share capital	13	**152.0**	96.1
Share premium		**338.1**	220.6
Merger and other reserves		**398.6**	1.6
Special reserve	14	**65.4**	124.8
Retained earnings		**158.3**	38.9
Total equity		**1,112.4**	482.0
Net asset value per share – basic	15	**91p**	63p

The Company's loss for the year was £44.1 million (2018: loss of £44.5 million).

These financial statements were approved by the Board of Directors on 11 February 2020 and signed on its behalf by:

Steven Owen
Chairman

Registered in England Number: 3033634

Company statement of changes in equity
for the year ended 31 December 2019

	Share capital £m	Share premium £m	Merger and other reserves £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2019	96.1	220.6	1.6	124.8	38.9	482.0
Profit for the year	—	—	—	—	(44.1)	(44.1)
Dividends received	—	—	—	—	163.5	163.5
Exchange gain on translation of foreign balances	—	—	(1.0)	—	—	(1.0)
Total comprehensive income	—	—	(1.0)	—	119.4	118.4
Shares issued on conversion of convertible bonds	3.0	25.4	—	—	—	28.4
Shares issued as part of MedicX merger	42.6	—	398.0	—	—	440.6
Shares issued as part of capital raise	9.8	90.2	—	—	—	100.0
Share issue expenses	—	(2.6)	—	—	—	(2.6)
Dividends paid	—	—	—	(54.4)	—	(54.4)
Scrip dividend in lieu of cash	0.5	4.5	—	(5.0)	—	—
31 December 2019	**152.0**	**338.1**	**398.6**	**65.4**	**158.3**	**1,112.4**

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2018	77.5	80.7	1.6	161.4	83.4	404.6
Loss for the year	—	—	—	—	(44.5)	(44.5)
Total comprehensive income	—	—	—	—	(44.5)	(44.5)
Shares issued on conversion of convertible bonds	5.1	40.5	—	—	—	45.6
Shares issued as part of capital raise	13.3	101.7	—	—	—	115.0
Share issue expenses	—	(4.0)	—	—	—	(4.0)
Dividends paid	—	—	—	(34.7)	—	(34.7)
Scrip dividend in lieu of cash	0.2	1.7	—	(1.9)	—	—
31 December 2018	96.1	220.6	1.6	124.8	38.9	482.0

Notes to the Company financial statements

1. Accounting policies

The Company is a limited company incorporated in England and Wales in accordance with the Companies Act 2006. These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates.

Basis of accounting/statement of compliance

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 Reduced disclosure framework as issued by the Financial Reporting Council.

As permitted by FRS 101, exemptions from applying the following requirements have been adopted:

- IFRS 7 Financial instruments: disclosures;
- IFRS 13 Fair value measurement, paragraphs 91 to 99;
- IAS 1 Presentation of financial statements, paragraphs 10(d), 10(f), 38 to 40, 76, 79(d) and 134 to 136;
- IAS 7 Statement of cash flows;
- IAS 24 Related party disclosures, paragraphs 17 and 18A; and
- IAS 36 Impairment of assets, paragraphs 130(f)(ii), 130(f)(iii), 134(d) to (f) and 135(c) to (e).

The Company has also taken advantage of the exemption from the requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

The financial statements have been prepared under the historical cost convention.

Statement of comprehensive income

The Company has taken advantage of the exemption in the Companies Act from presenting a Company statement of comprehensive income together with related notes.

Cash flow statement

The Directors have taken advantage of the exemption in FRS 101 from including a cash flow statement in the financial statements on the grounds that a consolidated cash flow statement is presented in the Group financial statements of PHP.

Income

Revenue is recognised in the financial statements as follows:

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

Dividends: Dividend income is recognised in the period in which it received Board approval and, hence, when the Company's right to the payment is established.

Investment in subsidiaries

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.

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.

3. Foreign currencies

The functional and presentation currency of the Company is Sterling. Transactions in currencies other than Sterling are recognised at the applicable exchange rate ruling on the transaction date. Exchange differences resulting from settling these transactions, or from retranslating monetary assets and liabilities denominated in foreign currencies, are included in the Group Statement of Comprehensive Income.

4. Revenue

The Company operates under one business segment and one geographical segment, being the holding company of subsidiaries that invest in primary healthcare property within the United Kingdom and the Republic of Ireland.

5. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2019 £m	2018 £m
Deferred tax	**0.5**	—

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 lower than (2018: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £m	2018 £m
(Loss)/profit on ordinary activities before taxation	**(44.1)**	(44.5)
Theoretical tax at UK corporation tax rate of 19% (2018: 19%)	**(8.4)**	(8.5)
Transfer pricing adjustments	**1.2**	1.4
Non-taxable items	**7.4**	6.5
Losses brought forward utilised	**0.6**	—
Loss relief	**(0.3)**	—
Losses generated in the year	**—**	0.6
Taxation charge (Note 5a)	**0.5**	—

6. Dividends

Amounts recognised as distributions to equity holders in the year:

	2019 £m	2018 £m
Quarterly interim dividend paid 22 February 2019	**9.9**	—
Scrip dividend in lieu of quarterly cash dividend 22 February 2019	**0.9**	—
Quarterly interim dividend paid 24 May 2019	**14.4**	—
Scrip dividend in lieu of quarterly cash dividend 24 May 2019	**1.5**	—
Quarterly interim dividend paid 23 August 2019	**15.8**	—
Scrip dividend in lieu of quarterly cash dividend 23 August 2019	**0.1**	—
Quarterly interim dividend paid 22 November 2019	**14.3**	—
Scrip dividend in lieu of quarterly cash dividend 22 November 2019	**2.5**	—
Quarterly interim dividend paid 23 February 2018	**—**	8.1
Scrip dividend in lieu of quarterly cash dividend 23 February 2018	**—**	0.3
Quarterly interim dividend paid 25 May 2018	**—**	7.7
Scrip dividend in lieu of quarterly cash dividend 25 May 2018	**—**	0.7
Quarterly interim dividend paid 24 August 2018	**—**	9.6
Scrip dividend in lieu of quarterly cash dividend 24 August 2018	**—**	0.3
Quarterly interim dividend paid 23 November 2018	**—**	9.3
Scrip dividend in lieu of quarterly cash dividend 23 November 2018	**—**	0.6
Total dividends distributed in the year	**59.4**	36.6
Per share	**5.6p**	5.4p

7. Investment in subsidiaries

	£m
As at 1 January 2019	259.5
Acquisition of Chapeloak Investments Limited	2.3
Acquisition of MedicX Fund Limited	448.0
Incorporation of PHP Finance (Jersey No 2) Limited	—
Disposal of HMC Estates Holdings Limited	(8.9)
Acquisition of PHP Ashington Limited	5.6
Impairment of subsidiaries	(16.8)
As at 31 December 2019	**689.7**
As at 1 January 2018	302.6
Acquisition of HMC Estates Holdings Limited	8.9
Impairment of subsidiaries	(52.0)
As at 31 December 2018	259.5

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.

7. Investment in subsidiaries continued

Subsidiaries held directly by the Company

Name	Principal activity	Name	Principal activity
Primary Health Investment Properties Limited	Property investment	PHP Bond Finance PLC	Issuer of bonds/ investment holding
Primary Health Investment Properties (No. 2) Limited	Property investment	PHP Primary Properties (Haymarket) Limited	Property investment
Primary Health Investment Properties (No. 3) Limited	Property investment	PHP Medical Investments 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[2]	Property investment/ investment holding
PHIP (5) Limited	Property investment/ financing company	Carden Medical Investments Limited[4]	Property investment
Primary Health Investment Properties (No. 7) Limited	Property investment	Wincanton Healthcare Limited	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
Primary Health Investment Properties (Sutton) Limited	Property investment	PHP STL Limited	Investment holding/ financing company
PHP Finance (Jersey No. 2) Limited[1]	Issuer of bonds	PHP Ashington Limited (previously HMC Estates Limited)	Property investment
Primary Health Investment Properties (No. 10) Limited	Property investment	PHP Euro Private Placement Limited	Issuer of bonds
MXF Fund Limited[5]	Investment holding	Primary Health Investment Properties (No. 11) Limited	Financing company
Chapeloak Investments Limited	Property investment		

Subsidiaries indirectly held by the Company

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[4]	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[3]	Investment holding
PatientFirst (Burnley) Limited	Property investment	PHPI Newbridge Limited[3]	Property investment

7. Investment in subsidiaries continued

Subsidiaries indirectly held by the Company continued

Name	Principal activity	Name	Principal activity
PHP Investments (2011) Limited	Property investment	PHPI Navan Road Limited[3]	Property investment
PHPI Celbridge Limited[3]	Property investment	GP Property One Limited	Property investment
MXF Properties I Limited[5]	Property investment	MXF Properties II Limited[5]	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[5]	Property investment/ issuer of bonds
MXF Properties VII Limited[5]	Property investment/ investment holding	MXF Properties VIII Limited[5]	Property investment/ issuer of bonds
Primary Medical Property Investments Ltd	Property investment	MXF GPG Holdings Limited[5]	Property investment/ issuer of bonds
GPG No.5 Limited	Property investment	MXF Properties OM Holdings Limited	Investment holding
MXF Properties Ireland Limited[5]	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	MXF Properties Otley Limited	Property investment
MXF Properties Windermere Limited	Property investment	MXF Properties Northern Ireland Limited[5]	Dormant
MXF Properties IX Limited	Holding and finance company	GP Property Limited[5]	Investment holding

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

2 An Irish collective asset management vehicle established in Ireland.

3 Subsidiary company registered in Ireland. Registered office: Riverside 1, Sir John Rogerson's Quay, Dublin 2, Ireland.

4 Subsidiary company registered in Scotland. Registered office: 3rd Floor, 1 West Regent Street, Glasgow, Scotland G2 1RW.

5 Subsidiary company registered in Guernsey. Registered office: Regency Court, Glategny, Esplanade, St Peter Port, Guernsey GY1 1WW.

100% of all voting rights and shares are held directly or indirectly by the Company.

8. Trade and other receivables

	2019 £m	2018 £m
Amounts due from Group undertakings	**713.7**	445.4
Other receivables	**0.1**	0.1
	713.8	445.5

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.

9. Cash at bank and in hand

	2019 £m	2018 £m
Cash at bank and in hand	**98.5**	—

10. Trade and other payables

	2019 £m	2018 £m
Current		
Amounts owed to Group undertakings	**227.9**	117.5
Trade and other payables	**0.5**	0.7
Accruals and deferred income	**3.0**	3.7
	231.4	121.9

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

11. Borrowings

	2019 £m	2018 £m
Retail bond July 2019	—	75.0
Unamortised issue costs	—	(0.1)
Intra-group loan with PHP Finance (Jersey) Limited (Note 12)	—	23.1
Intra-group loan with PHP Finance (Jersey No.2) Limited (Note 12)	**144.9**	—
Option to convert (Note 12)	**13.3**	3.1
	158.2	101.1

On 23 July 2012, PHP issued a retail bond following the issue of a £75 million unsecured seven-year bond to retail investors with an interest rate of 5.375% paid semi-annually in arrears. The bond issue costs were amortised using the effective interest rate method in accordance with FRS 101. The bond matured on 31 July 2019.

12. Intra-group loan with PHP Finance (Jersey) Limited and PHP Finance (Jersey No.2) Limited

On 20 May 2014 PHP Finance (Jersey) Limited (the "Issuer") – a wholly owned subsidiary of the Company – issued £82.5 million of convertible bonds due in 2019 (the "Bonds") at par.

In 2019 convertible bonds with a nominal value of £23.1 million (2018: £40.0 million) converted into Ordinary Shares resulting in 24 million (2018: 41.4 million) new Ordinary Shares being issued. The convertible bond outstanding at 31 December 2019 was £nil (2018: £23.2 million).

On 15 July 2019, PHP Finance (Jersey No.2) Limited (the "Issuer"), a wholly owned subsidiary of the Group, issued £150 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 14 in the Group financial statements for further details about the convertible bond.

13. Share capital

Issued and fully paid at 12.5 pence each

	2019		2018	
	Number – million	£m	Number – million	£m
As at 1 January	**769.1**	**96.1**	619.4	77.5
Scrip issues in lieu of cash dividend	**4.0**	**0.5**	1.7	0.2
Shares issued for MedicX merger	**341.0**	**42.6**	—	—
Shares issued	**78.1**	**9.8**	106.5	13.3
Shares issued on bond conversion	**24.1**	**3.0**	41.5	5.1
As at 31 December	**1,216.3**	**152.0**	769.1	96.1

13. Share capital continued

Issue of shares in 2019

	Date of issue	Number of shares – million	Issue price
Scrip issue in lieu of first quarterly cash dividend	22 February 2019	0.8	114.16p
Share issue on merger with MedicX Fund Limited	14 March 2019	341.0	129.20p
Scrip issue in lieu of second quarterly cash dividend	24 May 2019	1.2	129.80p
Scrip issue in lieu of third quarterly cash dividend	22 August 2019	0.1	136.72p
Share issue	24 September 2019	78.1	128.00p
Scrip issue in lieu of fourth quarterly cash dividend	22 November 2019	1.9	136.76p

14. Special reserve

	2019 £m	2018 £m
As at 1 January	**124.8**	161.4
Dividends paid	**(54.4)**	(34.7)
Scrip issues in lieu of cash dividends	**(5.0)**	(1.9)
As at 31 December	**65.4**	124.8

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

15. Net asset value per Ordinary Share

	2019 pence	2018 pence
Basic and diluted	**91**	63

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £1,112.4 million (2018: £482.0 million) and on 1,216.3 million shares (2018: 769.1 million shares), being the number of shares in issue at the year end.

16. Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £nil (2018: £nil).

17. 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 123. There are no employees other than the Directors, listed on pages 44 to 46.

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.

Shareholder information

Corporate calendar 2020

Annual General Meeting	1 April 2020
AGM statement	1 April 2020
Announcement of half year results	July 2020

Dividends

The Company intends to make quarterly dividend payments to shareholders. The proposed timetable for the first quarterly dividend in 2020 is:

Payment of quarterly dividend (record date 10 January 2020)	21 February 2020

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.

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 a REIT to distribute at least 90% of its exempt rental income (as calculated for tax purposes) as a PID.

PIDs are paid out under deduction of withholding tax at the basic rate, currently 20%. Certain classes of shareholders, including UK companies, charities, local authorities and UK pension schemes, may receive PIDs without deduction of withholding tax, if a valid claim is lodged with the Company by a qualifying shareholder. Shareholders who wish to apply for a tax exemption form should contact the registrar.

The above is a general guide only and shareholders who have any doubt about their tax position should consult their own appropriate independent professional adviser.

Registrar

The Company's registrar is Equiniti. In the event of any queries regarding your holding of shares, please contact the registrar free of charge on 0371 384 2030 (lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday), or in writing to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Changes of name or address must be notified to the registrar in writing.

Equiniti Shareview dealing services

A quick and easy share dealing service is available to either sell or buy PHP shares. To deal online or by telephone all you need is your shareholder reference number, full postcode and date of birth. Your shareholder reference number can be found on your latest dividend statement. For further information on this service, or to buy and sell shares, please contact Equiniti customer services 0371 384 2030 (8.00 a.m. to 6.00 p.m. Monday to Friday) or access www.shareview.co.uk/dealing.

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Financial risk management consultant

JCRA (now part of Chatham)

12 St James's Square, St James's
London SW1Y 4LB

Glossary of terms

Adjusted EPRA 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 EPRA NAV is EPRA NAV excluding MtM adjustment of the fixed rate debt, net of amortisation, acquired on the merger with MedicX.

Adviser is Nexus Tradeco Limited.

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

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

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

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

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

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

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

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

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

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

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

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

EPRA NNNAV is Adjusted EPRA NAV including the MtM value of fixed rate debt and derivatives.

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.

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

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

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

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

JCRA is J.C. Rathbone Associates Limited (now part of Chatham).

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.

MSCI (IPD) provides performance analysis for most types of real estate and produces an independent benchmark of property returns.

MSCI (IPD) Healthcare is 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).

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 ("MedicX") and its subsidiaries.

Net asset value ("NAV") is the value of the Group's assets minus the value of its liabilities.

Glossary of terms continued

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

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

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

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

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

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

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

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

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

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

RICS is the Royal Institution of Chartered Surveyors.

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

Special reserve is a distributable reserve.

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

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

	£m
Net rental income	115.7
Revaluation surplus and profit on sales	49.8
	165.5
Opening property assets	1,502.9
Weighted additions in the period	654.6
	2,157.5
Total property return	7.7%

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

	NAV
At 31 December 2018	105.1
At 31 December 2019	**107.9**
Increase/(decrease)	**2.8**
Add: Dividends paid	
Q1 interim	1.4
Q2 interim	1.4
Q3 interim	1.4
Q4 interim	1.4
Total shareholder return	**8.4**

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

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

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

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

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

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