PHP Primary Health Properties

Primary Health Properties PLC

Preliminary results for the year ended 31 December 2019

Transformational merger and improving rental growth drive strong performance

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), a leading investor in modern primary health facilities, announces its audited preliminary results for the year ended 31 December 2019.

Harry Hyman, Managing Director of PHP, commented:
"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 £4.0m 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, over-subscribed £100m equity issue, £150m unsecured convertible bond issue and €70m 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."

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Income statement metrics	**Year to 31 December 2019**	Year to 31 December 2018	Change
Net rental income[1]	**£115.7m**	£76.4m	**+51.4%**
Adjusted EPRA earnings[1,2]	**£59.7m**	£36.8m	**+62.2%**
Adjusted EPRA earnings per share[2]	**5.5p**	5.2p	**+5.8%**
IFRS profit before tax excluding MedicX exceptional adjustments[5]	**£75.9m**	£74.3m	**+2.2%**
IFRS (loss)/profit for the year (includes £123.9m of non-cash losses)[10]	**(£71.3m)**	£74.3m	
IFRS (loss)/earnings per share[1,2]	**(6.5p)**	10.5p	
Dividends			
Dividend per share[6]	**5.6p**	5.4p	**+3.7%**
Dividends paid[6]	**£59.4m**	£36.6m	**+62.3%**
Dividend cover[1]	**101%**	101%	
Balance sheet and operational metrics	**31 December 2019**	31 December 2018	Change
Adjusted EPRA NAV per share[1,3]	**107.9p**	105.1p	**+2.7%**
IFRS NAV per share[1,3]	**101.0p**	102.5p	**-1.5%**
EPRA NNNAV per share[3]	**98.8p**	99.2p	**-0.4%**
Property portfolio			
Investment portfolio valuation[4]	**£2.413bn**	£1.503bn	**+2.1%**
Net initial yield ("NIY")	**4.86%**	4.85%	
Contracted rent roll (annualised)[8]	**£127.7m**	£79.4m	**+1.5%**
Weighted average unexpired lease term ("WAULT")	**12.8 years**	13.1 years	
Occupancy	**99.5%**	99.8%	
Rent-roll funded by government bodies	**90%**	91%	
Debt			
Average cost of debt	**3.5%**	4.0%[9]	
Loan to value ratio[1]	**44.2%**	47.8%[9]	
Weighted average debt maturity	**7.2 years**	5.4 years	
Total undrawn loan facilities[7,9]	**£356.6m**	£190.6m	

Primary Health Properties

[1] Definitions for net rental income, earnings per share ("EPS"), dividend cover, loan to value ("LTV") and net asset value ("NAV") are set out in the Glossary of Terms.
[2] See note 8, earnings per share, to the financial statements.
[3] See note 24, net asset value per share, to the financial statements.
[4] Percentage valuation movement during the year based on the difference between opening and closing valuations of properties after allowing for acquisition costs, capital expenditure and the exceptional revaluation loss arising on merger with MedicX.
[5] The IFRS profit before tax excluding MedicX exceptional adjustments is set-out in detail in the summarised results table.
[6] See note 9, dividends, to the financial statements.
[7] After deducting the remaining cost to complete contracted properties under development and asset management projects.
[8] Percentage contracted rent roll increase during the year is based on the annualised uplift achieved from all completed rent reviews and asset management projects.
[9] Including impact of debt acquired with MedicX on completion of merger on 14 March 2019.
[10] £123.9m of non-cash losses are composed of £138.4m exceptional revaluation loss arising on the merger with MedicX less the £14.5m exceptional transactions costs.

DELIVERING EARNINGS AND DIVIDEND GROWTH

- Adjusted EPRA earnings per share increased by 5.8% to 5.5p (FY 2018: 5.2p)
- Completion of all share merger with MedicX contributing £15.6m to Adjusted EPRA earnings in the 9.5 months since completion
- Excluding the impact of the MedicX merger PHP's recurring Adjusted EPRA earnings increased by £7.3m or 19.8% (FY 2018: £5.8m or 18.7% increase)
- Average uplift of 1.9% p.a. on rent reviews agreed in the year, resulting in an uplift in rent of £1.6m p.a. (FY 2018: 1.4% with an uplift of £1.1m p.a.)
- Quarterly dividends totalling 5.6p per share distributed in the year, a 3.7% increase over 2018 and representing the Company's 23rd consecutive year of dividend growth
- 9 income accretive properties, including six forward funded developments selectively acquired for £57.1m, with a large average lot size of £6.3m
- EPRA cost ratio reduced to 12.0% (FY 2018: 14.3%) and administrative expense ratio reduced to 0.4% (FY 2018: 0.6%) driven by £4.0m p.a. of cost saving synergies arising from the merger with MedicX

DELIVERING FINANCIAL MANAGEMENT

- £100.0m (£97.7m net of expenses) over-subscribed equity issue at 128.0p per share or 21.7% premium to previously reported Adjusted EPRA NAV per share of 105.2p as at 30 June 2019
- Average cost of debt reduced by 50bp to 3.5% from 4.0% as at completion of the merger with MedicX (31 December 2018: 3.9%)
- £150m/2.875% unsecured convertible bond issued for a six-year term expiring in July 2025
- €70m/1.509% Euro-denominated senior secured loan notes issued for a 12-year term expiring September 2031
- £100m secured, multi-currency revolving credit facility refinanced with HSBC for an initial three-year term with options to extend by a further year at the first and second anniversaries of the facility
- £75m/5.375% retail bond repaid in July 2019

DELIVERING NET ASSET VALUE GROWTH

- Underlying property valuation surplus and profit on sales of £49.8m (FY 2018: £36.0m), showing growth of 2.1% (FY 2018: 2.5%); portfolio's net initial yield increased slightly to 4.86% (31 December 2018: 4.85%) reflecting additional investment in Ireland; no change in the UK
- Rental growth of £1.9m or 1.5% (FY 2018: £1.3m or 1.8%) accounting for the majority of the revaluation surplus created in the year
- Portfolio in Ireland now comprises 16 assets, valued at €189m, and including four forward funded developments currently under construction which if valued as complete increases the value to approximately €207m
- Strong pipeline of targeted acquisitions of approximately £160m of which £44m currently in legal due diligence
- 36 asset management projects either completed, on-site or about to commence investing £13.4m (FY 2018: £4.4m), creating an additional £0.64m p.a. (FY 2018: £0.2m p.a.) of rental income, and strong pipeline of over 100 future projects being progressed
- Only £1.9m or 1.5% of annualised rent roll expiring in the next three years of which 65% is subject to a planned asset management initiative and terms have been agreed to renew the lease.

DELIVERING STRONG TOTAL RETURNS

	Year ended 31 December 2019	Year ended 31 December 2018
Increase in Adjusted EPRA NAV plus dividends paid	**8.0%**	9.7%
Income return	**5.2%**	5.3%
Capital return	**2.5%**	2.7%
Total property return[1]	**7.7%**	8.0%
MSCI UK Monthly Property Index	**2.2%**	7.3%
Out performance over MSCI	**5.5%**	0.7%

[1] The definition for total property return is set out in the Glossary of Terms.

Presentation and webcast:

A presentation for analysts will be held on 12 February 2020 at 9.30am at the offices of Buchanan, 107 Cheapside, London EC2V 6DN.

The presentation will be accessible via a live conference call:

UK Toll Free: 0800 358 9473
International dial in numbers:
http://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf
Participant PIN code: 51899533#

There will be a replay available for 90 days following the presentation:
UK Toll-Free Number: 0800 358 2049
Conference Number: 301307952#

A live webcast of the presentation will also be available via this link.

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Chairman's statement

I am delighted to present my second annual results 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 further strengthen the balance sheet and we successfully completed an oversubscribed £100.0m 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 £4.0m 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 £150m/2.875% unsecured convertible bond and repayment of the £75m/5.375% retail bond in July 2019. We also issued our second Euro-denominated secured loan notes for €70m (£59.2m) at a fixed rate of 1.509% with a maturity of 12 years.

In 2019, we increased the dividend paid to shareholders in the year by 3.7% to 5.6p per share (FY 2018: 5.4p 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 1.475p per share, equivalent to 5.9p 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 £7.3m or 19.8% to £44.1m 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 £15.6m taking the adjusted EPRA earnings for the enlarged Group to £59.7m, a 62.2% increase. Using the weighted average number of shares in issue in the year the Adjusted EPRA earnings per share increased to 5.5p (2018: 5.2p), an increase of 5.8%.

A revaluation surplus and profit on sales of £49.8m (excluding the exceptional revaluation loss of £138.4m discussed below) was generated from the portfolio in the year including a £21.3m 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 341.0m shares at a price of 129.2p which together with the £14.5m of transaction costs resulted in a total consideration of £455.1m. The fair value of the net assets acquired was £316.7m resulting in an exceptional revaluation loss of £138.4m but it is important to note that the £14.5m of transaction costs were the only cash cost. A further exceptional

expense of £10.2m 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 £31.1m (FY 2018: gain of £1.4m) further contributed to the loss before tax as reported under IFRS of £70.2m (FY 2018: profit £74.3m).

During the year, the Group has continued to selectively grow its portfolio adding 9 assets and 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 4 assets currently under development, valued at £160.0m or €189.2m (2018: £83.0m or €92.3m). We continue to have a strong pipeline of further potential acquisitions both in the UK and Ireland including £44m of properties currently in solicitors' hands and subject to contract.

Rent reviews and asset management projects completed in the year added £1.9m or 1.5% (FY 2018: £1.3m 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 £4.9m (31 December 2018: £4.8m) 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 5.6p per share in the year to 31 December 2019, an increase of 3.7% above the 2018 total of 5.4p 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 £59.4m (2018: £36.6m) which was fully covered by EPRA earnings. Dividends totalling £5.0m were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.475p per share was declared on 2 January 2020, equivalent to 5.9p 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 1.275p and an ordinary dividend of 0.20p 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 111.0p per share and closed on 31 December 2019 at 160.0p, 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 from the Board at the Company's Annual General Meeting ("AGM") scheduled for April 2020.

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

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
Chairman

11 February 2020

Primary Health Properties

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 £804.3m (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 9 assets for £57.1m in the year.

Investment pipeline

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

PHP continues to have a strong active pipeline of potential acquisitions both in the UK and Ireland totalling approximately £160m including £44m 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 £17.6m and has a further six currently on site with a net development cost of £57.0m.

Completed developments:

Asset	PC date	Area (sqm)	Net development cost
Ireland			
Mullingar Ph 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 regears) 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 £37.7m resulting in an uplift of £1.6m 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 £1.1m; year ended 31 December 2017: 1.1% per annum with an uplift of £0.5m).

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 £0.7m 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 £56.9m 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.

Asset management projects

We continued to make good progress during 2019 to enhance and extend existing assets within the portfolio with 17 projects completed, 3 currently on site and a further 16 approved and due to commence shortly. The projects require the investment of £13.4m and will generate £0.64m 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 £127.7m, an increase of £48.3m or 60.8% in the year (31 December 2018: £79.4m) driven predominantly by the merger with MedicX which contributed £44.4m. 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 £1.9m or 1.5% of our income expires over the next three years and £81.0m or 63.4% expires in over 10 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 £2.413bn (31 December 2018: £1.503bn) reflecting the addition of the MedicX portfolio adding 167 high quality assets, fair valued in March 2019 at £804.3m (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 £49.8m or 2.1%, including a £21.3m surplus on the MedicX portfolio held for 9.5 months, in the year to 31 December 2019 (FY 2018: £36.1m 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 £49.8m revaluation surplus, including a £1.4m profit on sales, arose during the year with a surplus of £17.7m and £32.1m in the first and second halves of 2019 respectively.

At 31 December 2019, the portfolio in Ireland comprised 16 assets, including 4 assets currently under development, valued at £160.0m or €189.2m (31 December 2018: 8 assets/£83.0m or €92.3m). The costs to

complete the developments are £14.8m (€17.5m) and once complete the assets in Ireland are expected to be valued at approximately £175m (€207m).

The portfolio's average lot size has grown to £4.9m (31 December 2018: £4.8m) and 84.9% of the portfolio is valued at over £3.0m. We only have 7 assets valued at less than £1.0m.

	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 £4.5m impact of IFRS 16 *Leases* with ground rents recognised as finance leases.

The underlying valuation uplift and profit on sales of £49.8m, 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%

Primary Health Properties

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 341.0m new shares in the Company being issued.

PHP's share price reacted positively to the merger announcement in January 2019, rising to 129.2p per share at completion, representing a 22.9% (£82.2m) premium to the previously reported EPRA NAV per share at December 2018 of 105.1p. 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 £14.5m of transaction costs and a £10.2m 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:

	Adjusted EPRA fair value	Debt MtM and deferred tax	IFRS fair value
Consideration paid	£m	£m	£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 assets/(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 £7.3m or 19.8% to £44.1m in 2019 (2018: £36.8m). The merger with MedicX contributed a further £15.6m taking adjusted EPRA earnings for the enlarged Group to £59.7m 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 5.5p (FY 2018: 5.2p), an increase of 5.8%.

A revaluation surplus and profit on sales of £49.8m was generated in the year (H1 2019: £17.7m; H2 2019: £32.1m) from the portfolio including a £21.3m 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 £138.4m and £10.2m respectively. The exceptional losses have been offset by a £82.2m premium (based on Adjusted EPRA NAV) on the issue of 341.0m 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 £31.1m (FY 2018: gain of £1.4m) contributed to the loss before tax as reported under IFRS of £70.2m (FY 2018: profit £74.3m).

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

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 £10.5m (FY 2018: £8.6m) 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%

Net finance costs in the year increased to £43.7m (FY 2018: £29.7m) 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 £1.8m provision has been provided for (FY 2018: £1.3m).

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
- £2.0m.

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 £1.1m 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 £7.0m (31 December 2018: £6.9m) of which £1.3m (31 December 2018: £1.1m) 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 over-subscribed equity issue successfully raising £100.0m of new share capital (£97.7m net of expenses). New shares were issued at 128p each, a premium to the Adjusted EPRA NAV as at 30 June 2019 of 21.7% or £15.7m 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 2.8p or 2.7% to 107.9p (31 December 2018: 105.1p per share) during the year with the revaluation surplus and profit on sales of £49.8m or 4.1p per share being the main reason for the increase although this was partially offset by the impact of the MedicX merger equivalent to 1.4p 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 8.4p or 8.0% (2018: 9.8p 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 re-coupon and extend until November 2024 fixed rate swaps with a nominal value of £100m from a blended rate of 2.605% to 0.6875%, for a one-off payment of £8.0m equivalent to 0.7p per share on an Adjusted EPRA net asset value basis. The re-couponing results in total interest saving of £8.2m 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 £1,452.0m (31 December 2018: £879.9m) of which £1,210.4m (31 December 2018: £679.1m) had been drawn. Cash balances of £143.1m (31 December 2018: £5.9m) resulted in Group net debt of £1,067.3m (31 December 2018: £673.2m). Contracted capital commitments at the balance sheet date totalled £28.1m (31 December 2018: £16.1m) and result in headroom available to the Group of £356.6m (31 December 2018: £190.6m).

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

In July 2019, the Group issued a new unsecured £150m/2.875% convertible bond and cancelled £73.4m of unrequired loan facilities, of which only £3.4m 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 £75m/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 €70m (£59.2m) at a fixed rate of 1.509% with a maturity of 12 years. The proceeds of the issue have been partially applied to repay and cancel a €32.6m facility with the Bank of Ireland, of which €26.2m 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 £100m 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 £23.1m (year ended 31 December 2018: £40.0m) were, at the holders' option, converted at a conversion price of 96.16p, resulting in 24.0m (year ended 31 December 2018: 41.5m) of new Ordinary Shares being issued. At maturity, one convertible bond with a nominal value of £0.1m 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

£150m 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 153.25p per Ordinary Share, a premium of 15% above the volume weighted average price of the Company's shares on 18 June 2019 of 133.26p. 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 2.8p per annum and in accordance with the dividend protection provisions the conversion price was adjusted to 149.39p per Ordinary Share during the year.

The conversion of the £150m 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 £70m 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 €189.2m or £160.0m (2018: €92.3m/£83.0m) 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 £3.7m (2018: gain £2.2m) 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 £13.0m (31 December 2018: £17.3m) equivalent to 1.0p per share.

PHP Primary Health Properties

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

The MtM of the enlarged Group's fixed rate debt as at 31 December 2019 was £94.5m (31 December 2018: £28.1m) equivalent to 7.8p per share (31 December 2018: 3.7p). 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 £48.0m 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.

PHP Primary Health Properties

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.

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:

Risk	Inherent risk rating	Change to risk in 2019	Commentary on risk	Mitigation	Residual risk rating
Deliver progressive returns					
Potential over-reliance on the NHS and HSE PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	***Medium*** Likelihood is low but impact of occurrence may be major.	Unchanged	The UK and Irish governments continue to be committed to the development of primary care services and initiatives to develop new models of care 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 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.

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.	The Board has and will continue to fund its investments in Euros so as to create a natural hedge between asset values and liabilities in Ireland.	***Low*** PHP has implemented a hedging strategy in the form of a natural hedge so as to manage exchange rate risk.
Grow property portfolio					
Competition The emergence of new purchasers in the sector and the 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.	The reputation and track record of the Group in the sector means it is able to source forward funded developments and existing standing investments from developers, investors and owner-occupiers. The Group has a number of formal pipeline agreements and long-standing development relationships that provide an increased opportunity to secure developments that come to market in the UK and Ireland. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.	***Medium*** The Group's position within the sector and commitment to and understanding of the asset class mean PHP is aware of a high proportion of transactions in the market and potential opportunities coming to market. Active management of the property portfolio generates regular opportunities to increase income and lease terms and enhance value.

Financing The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest. Furthermore, a more general lack of equity or debt available to the sector could reduce demand for healthcare assets and therefore impact values.	***High*** Likelihood of a restricted supply is moderate 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.	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.
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.	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.

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.	The Advisory Agreement with and performance of the Adviser is regularly reviewed. Nexus' remuneration is linked to the performance of the Group to incentivise long term levels of performance. Nexus can be required to serve all or any part of its notice period should the Group decide to terminate providing protection for an efficient handover.	**Medium** The interests of the Adviser are aligned with the objectives of the Group and the composition of its team is monitored by the Board.
Diversified, long term funding					
Debt financing Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or 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.	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.
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.	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.

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.

Coronavirus
The Board has considered and will continue to monitor the threat and implications of the Coronavirus but it 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. 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%/£240m 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

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.

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

	Notes	**2019**	2018
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.

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

Primary Health Properties

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

Primary Health Properties

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 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.

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).

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 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.

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.

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

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

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

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

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

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

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

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

Hedge accounting

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

i) Derivative financial instruments ("derivatives")

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

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

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

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

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

Leases – Group as a lessor

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

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

2.4 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

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

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

Primary Health Properties

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 the Financial Review.

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	2018

	£m	£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 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

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.

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)

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)
Amoritisation 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	2018

	£m	£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.

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 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.

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 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).

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.

	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.

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.

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.

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)

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.

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).

PHP Primary Health Properties

Trade receivables

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

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

Banks and financial institutions

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

c) Liquidity risk

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

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

	On demand £m	Less than three months £m	Three to twelve months £m	One to five years £m	More than five years £m	Total £m
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)

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.

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	**1067.3**	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).

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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.

Note on the annual report

Annual Report

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be

delivered in due course. The Auditor has reported on those accounts and their reports were (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2019 will be published on the Group's website at www.phpgroup.co.uk and will be posted to shareholders in February 2020.

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

Note on Going concern

Going concern

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

The Group's property portfolio is 99.5% occupied with 90% of its income funded directly or indirectly by the Government bodies in the UK and Republic of Ireland. The nature of the Group's tenant base and long term lease agreements, provides secure, transparent cash flows that are collected promptly. A strategy of maintaining a prudent level of hedging combined with stable and predictable administrative costs enables the Board to have great visibility on the Group's liquidity.

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

In July 2019, the Group issued for a six-year term new unsecured convertible bonds with a nominal value of £150m 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 153.25p per Ordinary Share, a premium of 15% above the volume weighted average price of the Company's shares on 18 June 2019 of 133.26p. 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 2.8p per annum and in accordance with the dividend protection provisions the conversion price was adjusted to 149.39p per Ordinary Share during the year. The net proceeds from the new convertible bonds were used partially to repay the £75m/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 €70m (£59.2m) at a fixed rate of 1.509% with a maturity of 12 years. The proceeds of the issue have been partially applied to repay and cancel a €32.6m facility with the Bank of Ireland, of which €26.2m 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 £100m 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.

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

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

Alternative performance measures note

Alternative Performance Measures ("APMs")

PHP uses EPRA earnings and Adjusted EPRA earnings and EPRA net assets and Adjusted EPRA net assets as APMs which are widely used by public real estate companies to highlight the underlying and recurring performance of the property portfolio. The APMs are in addition to the statutory measures from the condensed financial statements. The measures are defined and reconciled to amounts presented in the financial statements within this annual results statement at notes 8 and 24. The APMs used by the Company are consistent with those used in the 2018 Annual Report and the reasons for the Company's use of these APMs are set out therein.

Directors’ responsibility statement

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

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

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

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

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

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

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

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

Responsibility statement
We confirm that to the best of our knowledge:

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

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

For and on behalf of the Board

Steven Owen
Chairman
11 February 2020

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.

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.