

Premises, Health and People



Primary Health Properties PLC

Responsible Business: Environmental, Social, and Governance Policy and
Targets for 2021



RESPONSIBLE BUSINESS

Premises, Health and People: investing in the health and wellbeing of our communities.



Laure Duhot
Chair of the Environmental, Social and Governance Committee

Dear shareholder,

I am delighted to chair the recently formed PHP Environmental, Social and Governance Committee. The Board agreed to create the Committee as a full board committee in October 2020 to take over the work of a joint committee formed with Nexus in 2019, to drive forward the Group's environmental, social and governance agenda. These are important topics and it is believed that having a committee dedicated to consider these matters will give greater impetus to our initiatives in this area, some of which are described on the following pages of this report.

The members of the ESG Committee are set out below:

Member	Number of meetings and attendance while in post
Laure Duhot (Chair)	1 (1)
Peter Cole	1 (1)
Harry Hyman	1 (1)
Richard Howell	1 (1)
Chris Santer (Chief Investment Officer)	1 (1)

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

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

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

I trust you find this initial report of the Committee helpful and informative. I am excited that one of the many benefits of the internalisation will be to allow the Company to focus on its ESG agenda, implement a comprehensive strategy with all its stakeholders in mind, and launch new initiatives in this important priority area. I would be delighted to receive any feedback or comments you may have on our approach.

Laure Duhot
Chairman of the ESG Committee
17 February 2021

INTRODUCTION

PHP invests in flexible, modern properties for the delivery of primary healthcare to the communities they are located in. The buildings are let on long-term leases where the NHS, HSE, GPs and other healthcare operators are our principal occupiers. As at 31 December 2020, the Group owned 513 properties valued at £2.6 billion which are located across the UK and Ireland.

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

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

In October 2020, the NHS adopted a multi-year plan to become the world's first carbon net zero national health system by 2045 and with an ambition for an interim 80% reduction by 2036-2039. PHP is committed to helping the NHS achieve this target and will pro-actively engage and work with our various healthcare occupiers to help them achieve this.

Consequently, the ESG Committee, originally established by Nexus in 2019, became a full Committee of the Board in

2020 following the appointment of Non-Executive Directors, Laure Duhot as Chair and Peter Cole to the Committee. The Committee also comprises Harry Hyman (Chief Executive), Richard Howell (Chief Financial officer) and Chris Santer (Chief Investment Officer) along with senior members of staff, as standing invitees, who each have relevant experience in the business and are responsible for the implementation of the ESG policies, targets and monitoring performance throughout our operations.

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

OUR APPROACH

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







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

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



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

Premises, Health, People

Approach	Purpose	Aims	Focus
Premises – Built Environment			
Investing in sustainable buildings  	To employ sustainable design to develop, refurbish and upgrade our buildings to modern medical standards	Building a more resilient portfolio for the long term	Reducing risk by building purpose built new developments and making quality acquisitions Working with tenants to improve the energy efficiency of our properties and integrate more sustainable features
		Reducing our carbon footprint	Working with our stakeholders to improve the energy efficiency of our properties and integrate more sustainable features
		Governing an ethical business	Being transparent and compliant in all our operations
Health – Community Impact			
Engaging and enhancing the right stakeholders to drive effective decision making.  	To support initiatives that further the health, wellbeing and education of our local communities	Meeting the healthcare needs of communities	Engaging in effective communications with our tenants Responding to feedback and implementing change
		Creating social value	Working with partners to enhance wellbeing and inclusivity through initiatives that contribute to the creation of healthy, supportive and thriving communities
People – Responsible Business			
Conducting our business with integrity and investing in human capital.  	To create opportunities and maximise the potential of the stakeholders we work with	Providing a good place to work	Ensuring the effective investment in the professional development of the Group's employees Maintaining an open, inclusive and supportive culture for our people
		Governing an ethical business	Being transparent and compliant in all our operations

BUILT ENVIRONMENT – PREMISES

Responsible Investment

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

As awareness of climate change risk increases, we are reviewing our approach to environmental due diligence when assessing new acquisitions. An important element of our process is to undertake detailed environmental and building surveys which include a detailed assessment of the environmental risk for each investment, including flooding, to ensure the risk is avoided or appropriate prevention measures are developed.

Energy efficiency is also considered through the due diligence process and all new acquisitions are now required to have an EPC of C or better, or capable of remedial action to achieve the required rating in due course. PHP has engaged consultants Simpson Hilder and GEP Environmental to help in this process.

Responsible asset and property management

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

Due to the high levels of occupancy across the portfolio there are only a limited number of properties where PHP controls energy usage and where this is the case, we have adopted a target to reduce our greenhouse gas emissions by 25% in absolute terms and 40% in terms of Intensity by 2030. This will largely be achieved through a policy of replacing existing features at the buildings with technology exhibiting high energy conservation credentials and energy supplies on green energy tariffs.

We will also engage, encourage and work with the NHS and our healthcare occupiers as part of NHS's commitment to be 'carbon net zero' by 2045.

Across the portfolio, it is our goal for at least every asset that is refurbished to have an EPC of at least B by 2030 or have been raised by at least two grades. Where PHP is refurbishing an existing building or the new investment is the conversion and fit out of an existing structure, the minimum standard is to achieve a BREEAM (Building Research Establishment Environmental Assessment Method) rating of Very Good.

Responsible development

PHP together with its development partners are committed to promote the highest possible standards of environmental, sustainable and social matters when designing and constructing new premises. As a minimum, it is our policy that all new, stand alone, developments PHP undertakes must have a BREEAM rating of Excellent (and Very Good with regards to fit-outs and rural areas where the premises would not otherwise be provided) in the UK. In Ireland, all new developments are built to a Building Energy Rating of A3, or better, and in accordance with nZEB (nearly Zero Energy Buildings) standards. Requirements are also in place for our development partners and contractors to ensure the implementation of responsible property development practices.

We continue to work with our occupiers regarding their ongoing environmental responsibilities which in due course we aim to include in all leases entered into as a norm for newly built premises. We will integrate a range of sustainable features into new schemes including metering, solar PVs, roof lights, electric vehicle recharge points, water conservation and ecology; encouraging our development partners to do the same when funding new schemes.

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

Built environment targets agreed for 2021

In 2020, the ESG Committee considered and agreed on a number of targets to achieve across the portfolio:

- All acquisitions to have an EPC of no less than C or have a visible route to achieve this when the asset is next refurbished.
- Deliver the first net-zero carbon PHP building within five years in the UK and explore the possibility in Ireland.
- All UK forward funded developments to have a BREEAM rating of Excellent (or Very Good with regards to fit-outs and rural areas where the premises would not otherwise be provided).
- In Ireland, all new developments are built to a Building Energy Rating of A3, or better, and in accordance with nZEB (nearly Zero Energy Buildings) standards.
- Refurbished assets to have an EPC of at least B by 2030 or have been raised at least by at least two grades.
- Energy audits to be completed before asset management projects are planned in order to identify and fully integrate in each project energy saving opportunities and energy-efficient technology.
- Reduce scope 1 and 2 green-house-gas emissions by 25% in absolute terms and 40% in intensity terms by 2030.
- Launch a green procurement program on behalf of all our occupiers including green lease clauses for all new leases entered into.
- Set ESG standards for our suppliers and developers to follow.

Achievements for 2020

In Ireland, we completed four forward funded developments and have a further two under construction all of which achieved or will achieve a BER of A3 and in line with our strategy. In the UK we completed or have under construction four forward funded developments of which two achieved a BREEAM rating of Excellent and two Very Good.

The estate has a high occupancy rate and is largely let on long leases, so the day-to-day control of energy usage, a key direct and indirect driver of greenhouse gas emissions, is the responsibility of our occupiers. In addition, the portfolio is already well designed to mitigate its impact on the environment with 81% (2019: 80%) of the buildings in the portfolio having an Energy Performance Certificate ("EPC") of C or better.

	2020	2019
A	6%	6%
B	23%	24%
C	52%	50%
D	15%	16%
E	4%	4%
Below E or unknown	0%	0%

During the year we completed or have on-site 13 projects, 92% of which achieved an improvement in the EPC rating of B or above. We have a strong pipeline of over 100 projects which will hopefully commence over the next three years and we continually assess the opportunities to improve the environmental efficiency of the portfolio property by including:

- LED lighting upgrades;
- energy efficient boilers and low surface temperature radiators;
- recharge points for electric vehicles;
- solar PV capacity – ongoing engagement with tenants and feasibility studies;
- upgrade cooling and air handling system with a new energy efficient plant and controls;
- install or make provision for energy metering; and
- upgrade U-values of thermal elements.

SECR disclosures

The table below shows the Scope 1 and Scope 2 emissions directly within the operational control of the Group. Scope 1 relates to business vehicles and Scope 2 relates to grid electricity consumed at the Group's head office as well as the 46 landlord-controlled energy supplies.

	2020	2019
Scope 1 tCO ₂	15.9	24.2
Scope 1 tCO ₂ per employee	0.3	0.5
Scope 1 kWh	3,981,870	6,054,555
Scope 2 tCO ₂	4.9	31.1
Scope 2 tCO ₂ per employee	0.1	0.6
Scope 2 kWh	11,650	73,291
Total Scope 1 and 2 tCO ₂	20.8	55.2
Total Scope 1 and 2 kWh	3,993,520	6,127,846
Total CO₂ per employee	0.4	1.1
Total kWh per employee	70,062	107,506

100% of the Total Scope 1 and 2 kWh emissions in the year were based in the UK. An assessment of the contributing factors to this, mainly business travel, is being done in order to reduce this in future years.

COMMUNITY IMPACT

Social – Health

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

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

PHP's portfolio serves around 5.8 million patients or 8.7% of the UK population and our portfolio is their first point of contact with the NHS when they start their patient journey. Our active management of the property portfolio seeks to maintain the centres as fit for purpose and systems have been established to ensure that PHP is properly monitoring its social impact and identifying and managing opportunities and risks associated with the provision of its properties. We conduct an annual survey of our occupiers to review and consider awareness and overall satisfaction with our activities including social initiatives.

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



Community Impact targets agreed for 2021

In 2020, the ESG Committee considered and agreed on a number of targets to achieve across the portfolio:

- **Community Impact Program** – PHP has committed £0.25 million per annum to fund social and charitable activities and services linked to the patients and communities of our occupiers which cannot be readily accessed elsewhere. We will continue to work with our GPs, understanding their views with a view to implementing a program of activities in 2021 and beyond.
- Continue to engage and consider the views of our occupiers including an annual survey.

Achievements for 2020

In 2020, we surveyed nearly 500 GP practices in England and Scotland, approximately six months after the start of the COVID-19 pandemic and the significant increase in remote consultations currently being offered by GPs that ensued. There were a number of interesting findings from the survey:

- 73% are interested in delivering COVID-19 vaccinations.
- 81% are interested in exploring ways to reduce their CO₂ emissions and reduce their impact on the environment.
- 81% expected to be employing and hosting more primary care staff in the next few years.
- 75% of respondents expected to increase the provision of services from their premises over the next three years.
- 63% would be interested in locating some diagnostics at their premises.
- 61% would be interested in providing some outpatient and secondary services.

Notwithstanding the current pandemic, we think these are encouraging responses, that highlight the ongoing need for purpose-built, primary care premises to provide modern healthcare to an ageing population that will live for longer with more incidence of chronic illness. This further reinforces our objectives to continue to invest in our existing, and new premises, for the benefit of all our stakeholders.

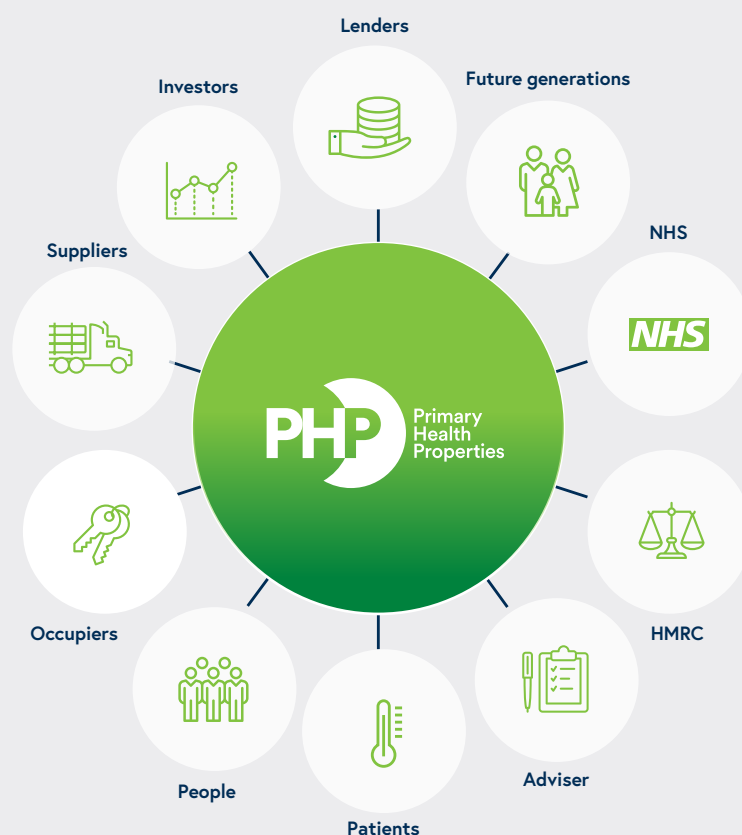
Our tenant survey also asked occupiers to name initiatives that they felt would benefit the health and wellbeing of their patients and communities they serve and are not currently provided for them elsewhere. The responses received are currently being reviewed by the Board with a view to helping to target the Community Impact Program in 2021 and beyond.

RESPONSIBLE BUSINESS

Other stakeholders

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

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



PEOPLE

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

PHP's Board maintains a commitment to maintaining and promoting the highest levels of ethics, conduct and seek to promote a workplace culture of:

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

Responsible Business targets agreed for 2021

- Publish the Chief Executive Officer's commitment to Real Estate Balance promoting employee diversity challenging mindsets on bias and discrimination.
- Publish and report transparent information regarding employees (see below and page 46).
- Set ESG targets as part of employee's appraisal and personal performance objectives.
- Employee training plans to be developed to include at least 10% ESG content.

Achievements for 2020

In 2020, we successfully transitioned to working remotely as COVID-19 restrictions were enforced resulting in a range of new internal communication channels and regular team meetings at least once a week and across functions. IT systems and the disaster recovery plan have worked seamlessly throughout the year with a focus on supporting employees' needs, health and wellbeing throughout the pandemic.

We conducted a staff survey during the year indicating good levels of employee engagement and the key findings were:

- 73% of staff were either very satisfied or satisfied with the Company as an employer.
- 84% of staff felt they were able to speak to senior managers as needed.
- 82% of staff could see the link between their work and the Company's objectives.

Areas of continued focus for next year are further improvements to IT, communications and the office environment.

Eleven people are currently studying for professional qualifications across the team and we continue to support all staff with training plans, semi-annual appraisals including and reviewing personal performance objectives which now include ESG content.

In 2020, we signed up for Real Estate Balance with the goal of improving gender diversity across all managers and at all levels.

Employee gender diversity at 31 December 2020:

	Male	Female
Board of Directors	5	1
Senior management	8	1
Employees	20	26
Total all employees (including NEDs)	33	28

Health and Safety

Health and safety remains central to the execution of PHP's business strategy and we take our responsibilities very seriously and are committed to the continued improvement but have an excellent record. The Board is responsible for ensuring appropriate health and safety procedures are in place and during 2020 and we maintained a regime of inspections utilising both third party agents, including two risk management solutions providers and in-house resources to support the portfolio.

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

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

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

Contractors and suppliers

Delivering forward funded developments, asset management projects and property services on time, on budget and in adherence with our high standards is a key priority. Our supply chain is checked to ensure it is high quality, robust, has a proven track record and applies appropriate standards on areas such as labour and human rights, health and safety, modern slavery and human trafficking. For developments, contractors are expected to demonstrate adherence to these requirements and our development monitoring surveyor stays close to our contractors and monitors all elements of projects as they progress. Our Modern Slavery Act Statement is available on our website and no human rights concerns arose within the year. We have approximately 600 suppliers across the Group ranging from small local businesses to large multi-national companies. We also acknowledge the importance of our suppliers, who are often small businesses and sole traders, especially those involved with the upkeep and maintenance of our assets. We aim to pay all invoices and amounts due promptly and well within stated payment terms in an effort to preserve the cash flows of these small businesses.

Tax

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

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

Investors and lenders

The support of our shareholders, banking partners and lenders is crucial to sustaining our investment in the health infrastructure of the UK and Ireland. Post year-end we successfully completed the acquisition of Nexus with 99.95% of shareholders voting in favour of the transaction. In addition, we successfully completed a £140 million equity raise and £150 million of new debt facilities to further strengthen our balance sheet. We continue to enjoy strong relationships with our investor, banking and lending partners.

Despite the pandemic, we have successfully continued to value existing and potential relationships with our investors with over 200 meetings representing approximately 57% of the share-register during the course of 2020. Shareholders and analysts are regularly updated about our performance and are given the opportunity to meet management throughout the year and attend presentations and site visits to gain a better understanding of our business strategy.

Governance

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

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

We will:

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

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

Enhanced disclosure

During 2020, PHP completed its first submission to The Global ESG Benchmark for Real Assets ("GRESb") and will do so again in 2021 and will publish the results when they are available later in 2021. PHP will also complete and make available disclosures in accordance with EPRA Sustainability Best Practice Recommendations ("sBPR") and is already preparing to report under the framework established by the Task Force for Climate Related Financial Disclosures ("TCFD").

Anti-corruption and anti-bribery

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

Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the strategic report of the Annual Report 2020. This can be found as follows:

The Group's business model is on pages 14 and 15.

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

- environmental matters on page 42;
- social matters on page 44;
- health and safety matter on page 46;
- respect for human rights on page 46; and
- anti-corruption and anti-bribery matters on page 47.

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

All key performance indicators of the Group, including those non-financial indicators, are on page 18.

The Business Review section on pages 19 to 24 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Laure Duhot

Chairman of the Environmental, Social and Governance Committee

Primary Health Properties PLC

17 February 2021