Leading the way in modern primary health properties.

Primary Health Properties PLC
Annual Report 2018

PHP Primary Health Properties

At the heart of our business is the aim to modernise and improve the ability to provide efficient and effective healthcare in the UK and Ireland.

Highlights

Net rental income

£76.4m

+7.2%

2018	**£76.4m**
2017	£71.3m
2016	£66.6m
2015	£62.3m

Dividend per share

5.4p

+2.9%

2018	**5.4p**
2017	5.25p
2016	5.125p
2015	5.0p

Total property portfolio

£1.5bn

+ 10.4%

2018	**£1.5bn**
2017	£1.4bn
2016	£1.2bn
2015	£1.1bn

EPRA earnings

£36.8m

+18.7%

2018	**£36.8m**
2017	£31.0m
2016	£26.8m
2015	£21.7m

EPRA earnings per share

5.2p

unchanged

2018	**5.2p**
2017	5.2p
2016	4.8p
2015	4.9p

EPRA NAV per share

105.1p

+4.4%

2018	**105.1p**
2017	100.7p
2016	91.1p
2015	87.7p

IFRS profit

£74.3m

-19.2%

2018	**£74.3m**
2017	£91.9m
2016	£43.7m
2015	£56.0m

IFRS earnings per share

10.5p

-31.4%

2018	**10.5p**
2017	15.3p
2016	7.8p
2015	12.6p

IFRS NAV per share

102.5p

+8.2%

2018	**102.5p**
2017	94.7p
2016	83.5p
2015	77.4p

Cost of debt

3.90%

-19bps

2018	**3.90%**
2017	4.09%
2016	4.65%
2015	4.67%

Loan to value

44.8%

-8.1%

2018	**44.8%**
2017	52.9%
2016	53.7%
2015	62.7%

Total property return

8.0%

-2.8%

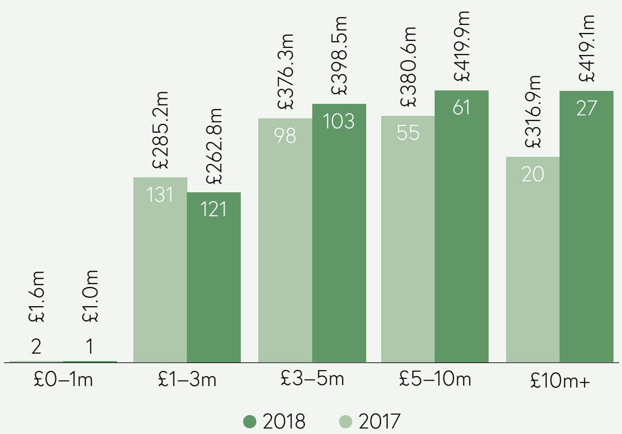
2018	**8.0%**
2017	10.8%
2016	7.9%
2015	9.7%

At a glance

The Group's portfolio comprises 313 primary healthcare facilities

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

Portfolio distribution by capital value of building*



* Excluding land valued at £1.6m (2017: £1.3m).

Business activity in 2018

Investment activity

£106.2m

Across eight investments.

(Including £16 million of committed expenditure on Bray.)

Asset management activity

£1.3m

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

Asset management projects

£4.4m

Invested in 16 projects completed in year.

Contracted rent roll of £79.4m

(Including developments as complete)

Rent roll funded by government

91%

Occupancy

99.8%

Tenancies

660

Investment case

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

01

Low risk, long term and non-cyclical market

- Development opportunities emerging in the UK
- Opportunities in Ireland, priced very attractively
- Majority of rents in both jurisdictions funded by government for long lease terms

02

Strong, high quality and growing cash flow

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

03

Efficient management and reduction in cost of funds

- EPRA cost ratio amongst the lowest in the sector
- Underlying investment characteristics make PHP attractive to investors

04

Sector demand factors dictate continued development of healthcare premises

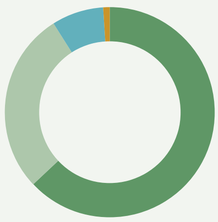
- Healthcare demand increasing due to ageing population
- Unwavering political support in the UK and Ireland and promotion of integrated care

05

Stable, increasing returns

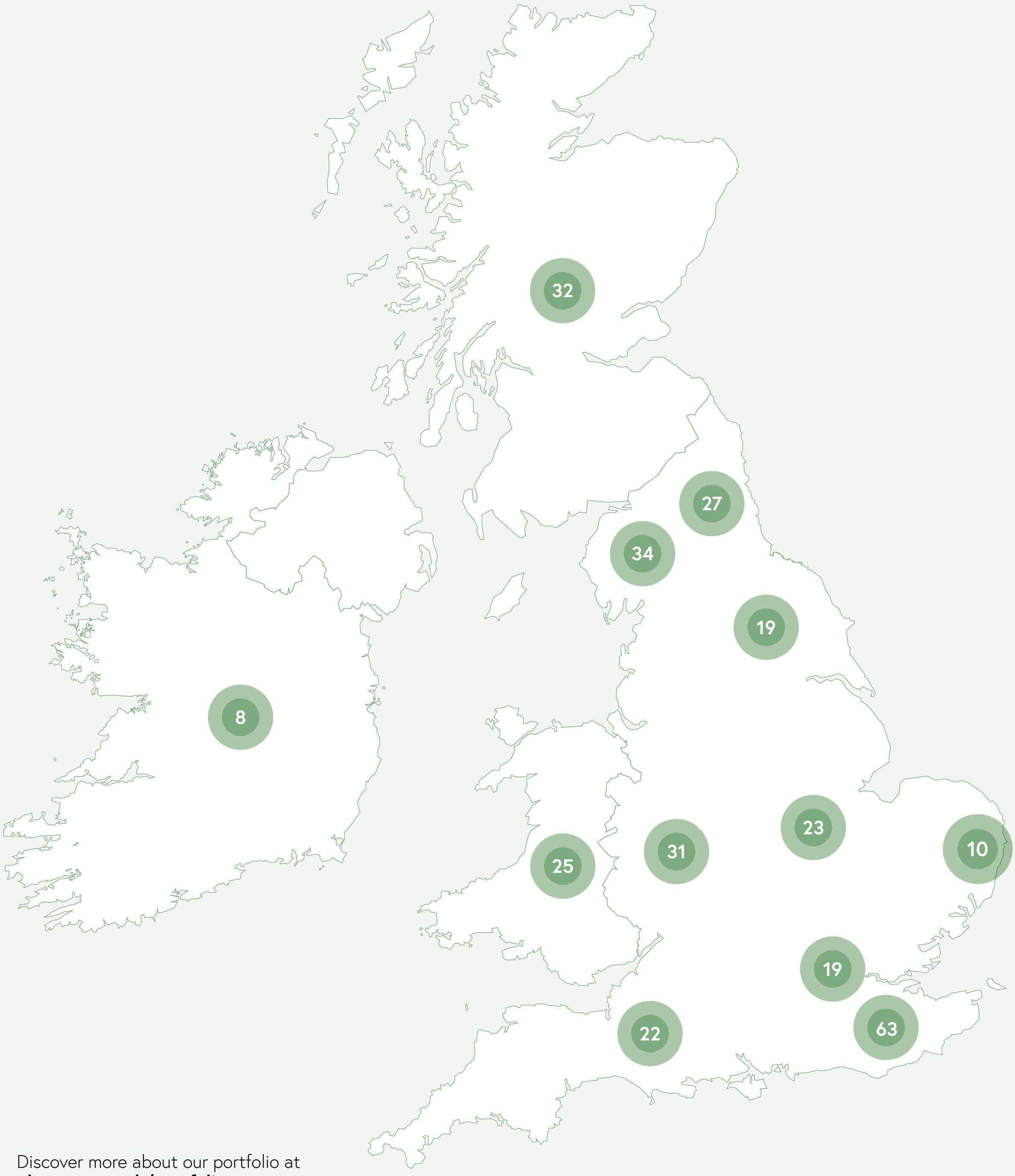
- Growing shareholder return through dividend increase and capital appreciation
- Dividend fully covered by earnings
- Strong yield characteristics and low volatility

Covenant analysis



GPs	63%
NHS/HSE/Govt bodies	28%
Pharmacy	8%
Other	1%

Our portfolio



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

Portfolio by region

Scotland
Capital value: £175.8m
Properties: 32
Rent roll: £9.0m
Tenancies: 57

Ireland
Capital value: £83.0m
Properties: 8
Rent roll: £5.7m
Tenancies: 36

West Midlands
Capital value: £158.9m
Properties: 31
Rent roll: £8.6m
Tenancies: 73

Wales
Capital value: £124.7m
Properties: 25
Rent roll: £6.5m
Tenancies: 78

South West
Capital value: £90.3m
Properties: 22
Rent roll: £4.4m
Tenancies: 37

East Anglia
Capital value: £37.5m
Properties: 10
Rent roll: £2.0m
Tenancies: 19

South East
Capital value: £227.9m
Properties: 63
Rent roll: £12.2m
Tenancies: 120

North
Capital value: £131.1m
Properties: 27
Rent roll: £6.6m
Tenancies: 57

Yorkshire
Capital value: £90.3m
Properties: 19
Rent roll: £4.9m
Tenancies: 40

North West
Capital value: £207.7m
Properties: 34
Rent roll: £10.5m
Tenancies: 73

East Midlands
Capital value: £97.4m
Properties: 23
Rent roll: £5.1m
Tenancies: 51

London
Capital value: £78.3m
Properties: 19
Rent roll: £3.9m
Tenancies: 27

Opportunities in Ireland

PHP's Irish portfolio now comprises eight assets, valued at €92.3 million (€110.1 million on completion of Bray which is under development). The average lot size is €13.8 million. Total rent roll of the portfolio is €6.3 million with 67% of the income secured to the Health Service Executive or government agencies.

Celbridge Primary Care Centre
Acquired in September 2018.

Demographic drivers of demand

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

Government support

- The Irish government has developed a clear programme to support the healthcare system with a focus to establish 200 modern Primary Care Centres ("PCCs") throughout Ireland
- Over the last decade, the government in Ireland has developed various initiatives to modernise and co-locate services into modern PCCs
- For 2018, the HSE had a budget of c. €14.5 billion. An extra €1.1 billion of health funding has been announced for 2019 including €154 million for capital expenditure projects

Opportunity for PHP

- State of the art regional healthcare hubs with a typical size of 3,000–5,000 sqm
- Stable cash flows from long term leases (WAULT: 22.5 years)
- Rent reviews linked to Irish CPI forecast to grow to around 2% per annum in 2022

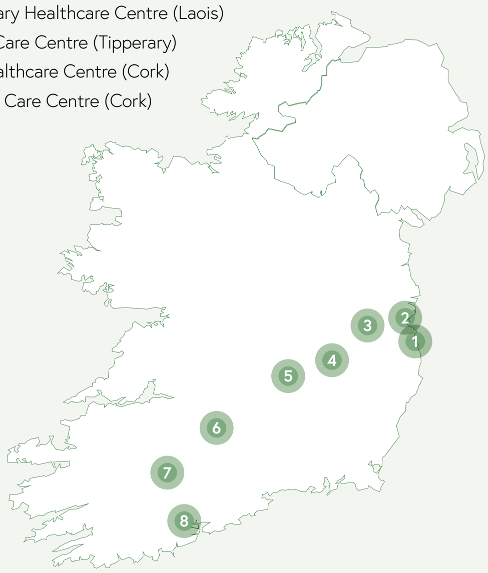
Irish locations

Asset under development

1. Bray Primary Care Centre (Wicklow)

Completed assets

2. Navan Road Primary Care Centre (Dublin)
3. Celbridge Primary Care Centre (Kildare)
4. Newbridge Primary Care Centre (Kildare)
5. Mountmellick Primary Healthcare Centre (Laois)
6. Tipperary Primary Care Centre (Tipperary)
7. Mallow Primary Healthcare Centre (Cork)
8. Carrigaline Primary Care Centre (Cork)



Chairman's statement

At the heart of our business is the aim to modernise and improve the ability to provide efficient and effective healthcare in the UK

"I am delighted to present PHP's Annual Report for 2018, which has been another successful and transformative period in the Company's history."

Steven Owen
Independent Non-executive Chairman

Mallow Primary Healthcare Centre, Ireland.

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

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

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

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

Proposed merger with MedicX Fund Limited ("MedicX")

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

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

Results highlights

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

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

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

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

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

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

Chairman's statement
continued

Dividends

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

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

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

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

Board changes

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

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

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

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

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

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

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

Market update and outlook

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

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

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

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

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

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

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

Steven Owen
Chairman
30 January 2019

Newbridge Primary Care Centre, Ireland
Acquired in September 2018.

Winchcombe Medical Centre, Winchcombe
250 sqm extension completed.

"The UK market for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors."

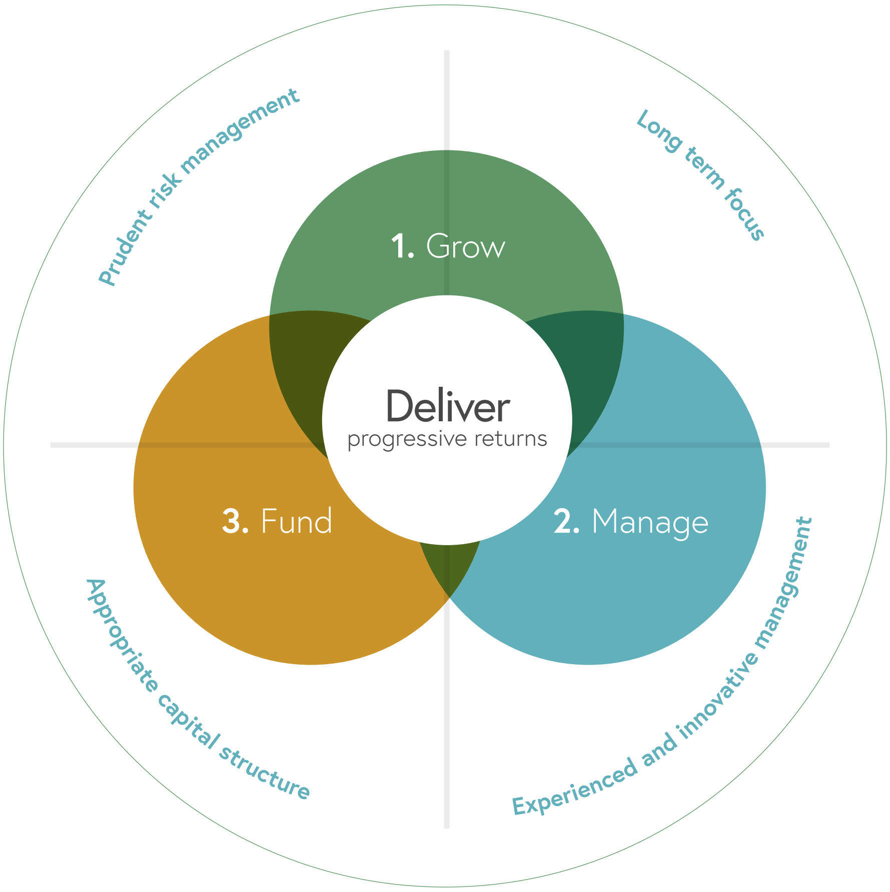
Business model

Creating long term sustainable value

What we do

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

Experienced and innovative management



Our key strengths

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

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

Experienced and innovative management:
PHP's portfolio is managed by an experienced team within an efficient management structure, where operating costs are tightly controlled by the adviser and its fees are structured to gain economies of scale as the group continues to grow.

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

Delivering on our strategic objectives

Grow

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

Manage

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

Fund

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

Achieving each of these strategic objectives will enable PHP to meet its overriding aim of delivering progressive shareholder returns

Wider outcomes

Social impact

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

Environmental impact

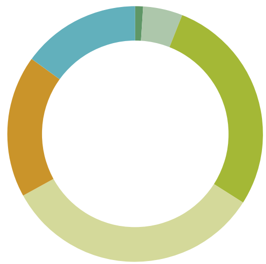
Environmental impact is an integral consideration in the development, design and construction of new PHP properties. Developing new premises PHP and its development partners seek to achieve the highest BREEAM standards.

Healthcare targets

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

Read more about Environment and social issues on pages 33–37

Analysis of leases unexpired



- <3 years (1.5%)
- 4–5 years (5.2%)
- 5–10 years (28.0%)
- 10–15 years (32.7%)
- 15–20 years (18.0%)
- 20+ years (14.6%)

Strong performance delivering strategic objectives

Strategic objective	Activity in 2018	Looking forward
Deliver progressive returns General progressive shareholder returns through a combination of earnings and valuation growth	• EPRA earnings per share 5.2 pence unchanged (2017: 5.2 pence). • Dividend per share increased by 2.9% to 5.4 pence. • Total NAV return of 9.8p. • Average cost of debt reduced to 3.90%.	• Strong investment pipeline both in the UK and Ireland. • Strategy of paying a progressive dividend that is covered by earnings in each financial year.
Grow property portfolio Fund the development of and acquire modern, purpose-built healthcare premises that provide secure long term income streams with the potential for rental growth and capital enhancement	• Selectively acquired eight assets in the year investing £106.2 million. • Portfolio grown to 313 properties including eight assets in Ireland. • Total property return in the year of 8.0%.	• Sector fundamentals of long leases and government-backed income continue to drive demand in the sector. • Strong pipeline of opportunities across the UK and Ireland.
Manage effectively and efficiently Work to improve the rental potential and longevity of underlying income streams and secure capital growth from assets within the portfolio, whilst controlling operating costs	• 16 asset management projects completed in the year, investing £4.4 million and generating £0.2 million of additional income. • EPRA cost ratio increased to 14.3% reflecting the impact of the performance incentive fee.	• Five asset management projects approved and pipeline of 36 potential projects being progressed. • Continued discussions with occupiers to discuss requirements and identify new opportunities. • Cost ratio should fall in the future due to reducing fee rates as the portfolio grows.
Fund diversified, long term funding Fund activities through an appropriate mix of shareholder equity and debt, from a diverse range of sources with varied maturities	• The Company completed an equity issue in April 2018 raising £111.2 million net of expenses. • The Group issued its first Euro-denominated senior secured loan notes for €51 million (£45.8 million) at a blended rate of 2.4973% with a weighted average maturity of 10.4 years. • £30.6 million of new loan facilities completed with Santander. • £40.0 million of 4.25% convertible bonds converted into equity and a further £6.2 million has converted post period end saving £2.0 million p.a.	• New loan facilities and equity raise provide significant firepower to secure new investment opportunities. • Over 90% of the Group's drawn debt is fixed or hedged protecting underlying earnings from potential interest rate rises that may result from recent and future economic and potential change.

Key performance indicators

EPRA earnings per share

5.2p

unchanged

2018	5.2p
2017	5.2p
2016	4.8p

Rationale

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

Performance

EPRA earnings per share was unchanged in the year reflecting the dilution from the equity raise in April 2018.

Dividend cover

101%

+2%

2018	101%
2017	99%
2016	100%

Rationale

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

Performance

Dividends paid in 2018 were fully covered by EPRA earnings and we intend to maintain a strategy of paying a progressive dividend that is covered by earnings in each financial year.

D F

Total property portfolio

£1.5bn

+10.4%

2018	£1.5bn
2017	£1.4bn
2016	£1.2bn

Rationale

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

Performance

The assets acquired in 2018 add £5.9 million to annual contracted rent roll and are accretive to earnings.

Total property return

8.0%

-2.8%

2018	8.0%
2017	10.8%
2016	7.9%

Rationale

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

Performance

Strong earnings and capital growth in the year delivered a total property return of 8.0% split 5.3% income growth and 2.7% capital growth.

G M

Capital invested in asset management projects

£4.4m

unchanged

2018	£4.4m
2017	£4.4m
2016	£1.8m

Rationale

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

Performance

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

EPRA cost ratio

14.3%

+1.1%

2018	14.3%
2017	13.2%
2016	11.5%

Rationale

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

Performance

The EPRA cost ratio reflects the impact of the performance incentive fee, arising from strong performance in both 2017 and 2018.

D M

Loan to value

44.8%

-8.1%

2018	44.8%
2017	52.9%
2016	53.7%

Rationale

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

Performance

The equity raise, strong capital growth in the year and convertible bond conversions have resulted in the Group's LTV falling to 44.8%.

Average cost of debt

3.90%

-19bps

2018	3.90%
2017	4.09%
2016	4.65%

Rationale

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

Performance

The average cost of debt has been reduced by 19bp in the year to 3.90% as a result of the equity raise and swap cancellations completed in the year.

G F

Highlights

IFRS profit before tax

£74.3m

-19.2%

(2017: £91.9m, +110.3%)

EPRA profit before tax

£36.8m

+18.7%

(2017: 31.0m, +15.7%)

IFRS earnings per share

10.5p

-31.4%

(2017: 15.3p, +96.2%)

EPRA earnings per share

5.2p

no change

(2017: 5.2p, +8.3%)

IFRS NAV per share

102.5p

+8.2%

(2017: 94.7p, +13.4%)

EPRA NAV per share

105.1p

+4.4%

(2017: 100.7p, +10.5%)

Harry Hyman
Managing Director

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

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

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

Investment activity

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

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

1 Irish Government covenant.

Mallow Primary Health Centre, Mallow, County Cork is one of Ireland's largest primary healthcare facilities and comprises 6,500m² and was acquired in February 2018. The Irish Government's Health Service Executive ("HSE") has signed a new 25-year lease, accounting for 65% of the rent roll, with the remainder derived from four separate GP practices, a dentist, an optician and a physiotherapist. The property also benefits from a pharmacy and has considerable unused land for future expansion.

Moredon Medical Centre, Swindon, was acquired in June 2018 and comprises 1,446m² and is fully let to a GP practice and pharmacy with a patient list of over 11,500 and a long WAULT of 27.5 years.

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

Maple & Elm Court, Ashington, a modern keyworker accommodation facility located next to Wansbeck General Hospital, was acquired in September 2018 for £22.8 million. The property comprises 2,750m², and benefits from a long WAULT of 29.5 years and is fully let to the Northumbria Healthcare NHS Foundation Trust with fixed rental uplifts of just over 3% per annum.

Investment activity continued

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

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

Investment pipeline

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

Developments

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

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

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

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

Asset management

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

Rent reviews

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

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

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

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

Asset management projects

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

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

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

High quality portfolio metrics

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

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

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

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

Valuation and returns

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

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

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

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

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

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

Business review continued

Richard Howell
Finance Director

Financial review

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

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

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

Summarised results

The financial results for the Group are summarised as follows:

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

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

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

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

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

Performance incentive fee ("PIF")

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

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

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

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

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

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

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

Equity raise

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

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

Shareholder value

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

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

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

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

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

Financing

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

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

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

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

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

New long term financing

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

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

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

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

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

Interest rate swap contracts

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

Convertible bonds

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

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

The conversion of the remaining £23.2 million convertible bonds into Ordinary Shares would reduce the Group's loan to value ratio by 1.6%, from 44.8% to 43.2%, on a pro-forma basis as at 31 December 2018, and result in the issue of 24.1 million new Ordinary Shares. A further £6.2 million of convertible bonds have been converted post the year end.

Average cost of debt

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

Interest rate and currency exposure

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

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

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

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

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

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

Navan Road Primary Care Centre, Dublin, Ireland.

Maple and Elm Court, Ashington, England.

Providing transparent information

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

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

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

EPRA earnings per share

EPRA EPS – 5.2 pence, unchanged (2017: 5.2 pence).

Diluted EPRA EPS – 5.1 pence, unchanged (2017: 5.1 pence).

Definition

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

Purpose

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

Calculation

See Note 8 to the financial statements.

EPRA NAV per share

EPRA NAVPS – 105.1 pence, up 4.4% (2017: 100.7 pence).

Definition

EPRA net assets ("EPRA NAV") are the balance sheet net assets, excluding the mark to market ("MtM") value of derivative financial instruments and the convertible bond fair value movement, divided by the number of shares in issue at the balance sheet date.

Purpose

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

Calculation

See Note 25 to the financial statements.

Celbridge Primary Care Centre, County Kildare, Ireland.

EPRA net initial yield

EPRA NIY – 4.85%, down 6bps (2017: 4.91%).

Definition

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

Purpose

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

Calculation

	2018 £m	2017 £m
Investment property (excluding those under construction)	**1,496.9**	1,360.8
Allowance for estimated purchaser's costs	**94.8**	86.7
Grossed-up completed property portfolio valuation (B)	**1,591.7**	1,447.5
Annualised cash passing rental income	**78.2**	72.0
Property outgoings	**(1.0)**	(1.0)
Annualised net rents (A)	**77.2**	71.0
EPRA net initial yield (A/B)	**4.85%**	4.91%

EPRA vacancy rate

EPRA vacancy rate – 0.2%, down 10bps (2017: 0.3%).

Definition

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

Purpose

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

Calculation

	2018 £m	2017 £m
ERV of vacant space	**0.2**	0.2
ERV of completed property portfolio	**77.5**	71.6
EPRA vacancy rate	**0.2%**	0.3%

EPRA cost ratio

EPRA cost ratio – 14.3%, increase reflects performance incentive fee payable as a result of the strong performance in both 2017 and 2018 (2017: 13.2%).

Definition

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

Purpose

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

Calculation

See page 18, Business Review.

Mountmellick Primary Care Centre, County Laois, Ireland.

Risk management and principal risks

Risk management overview

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

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

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

Approach to risk management

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

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

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

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

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

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

Brexit

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

Emerging risks

The Board has also considered emerging risks and their potential impact on the Group. In this regard, the Board has recently added climate change and environmental issues to the Risk Register. Whilst it is not yet regarded as a principal risk and uncertainty and therefore is not included in the tables that follow, the Group's approach to the subject matter is considered in more detail in the Responsible Business section of the Annual Report on pages 32 to 37.

Risk management and principal risks
continued

Principal risks and uncertainties

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

Risk	Inherent risk rating	Change to risk in 2018	Commentary on risk in the year
Deliver progressive returns			
Potential over-reliance on the NHS and HSE PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	**Medium** Likelihood is low but impact of occurrence may be major.	Unchanged	The UK and Irish governments continue to be committed to the development of primary care services and initiatives to develop new models of care that increasingly focus on greater utilisation of primary care. Despite the UK's likely exit from the European Union, the demand for health services will continue to grow regardless, driven by demographics. Whilst the uncertainty surrounding the exit may lead to fluctuations in the value of the Group's assets, there is no evidence of this at present. Future government funding levels in the UK may be impacted by any long term, material change to economic performance as a consequence of Brexit. A fundamental change in government policy could impact how the private sector regards its investment in this asset class and its willingness to further deploy private sector resources to improve the quality of primary care facilities.
Foreign exchange risk Income and expenditure that will be derived from PHP's investments in Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates, impacting the Group's earnings and portfolio valuation.	**Medium** Likelihood of volatility is high but the potential impact at present is relatively low due to the quantum of investment in Ireland, albeit this quantum is increasing.	Increased	The Group has completed its eighth acquisition in Ireland. Asset values, funding and net income are denominated in Euros. The UK's decision to leave the European Union continues to cause exchange rate volatility whilst the exit process is ongoing.
Grow property portfolio			
Competition The emergence of new purchasers in the sector and the recent slowing in the level of approvals of new centres in the UK may restrict the ability of the Group to secure new investments at a price that delivers an appropriate return to shareholders.	**High** Likelihood is high and impact of occurrence could be major.	Unchanged	In terms of values, the Group has benefited from a flight to income as a consequence of the current wider economic uncertainty – investors have been attracted to the sector due to its long term, secure, government-backed cash flows. Lack of supply, as a consequence of the low number of new development approvals in the UK, has also contributed to the increase in values. However, the same increase in demand and lack of supply has meant that the Group is facing increased competition for viable opportunities.

Mitigation	Residual risk rating
The commitment to primary care is a stated objective of both the UK and Irish governments and on a cross-party basis. Management engages directly with government and healthcare providers in both the UK and in Ireland to promote the need for continued investment in modern premises. The attractiveness of long term, secure income streams that characterise the sector leads to stability of values.	**Medium** Policy risk and general economic conditions are out of the control of the Board, but proactive measures are taken to monitor developments and consider their possible implications for the Group.
The Board has and will continue to fund its investments in Euros so as to create a natural hedge between asset values and liabilities in Ireland.	**Low** PHP has implemented a hedging strategy in the form of a natural hedge so as to manage exchange rate risk.
The reputation and track record of the Group in the sector means it is able to source forward funded developments and existing standing investments from developers, investors and owner-occupiers. The Group has a number of formal pipeline agreements and long standing development relationships that provide an increased opportunity to secure developments that come to market in the UK and Ireland. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.	**Medium** The Group's position within the sector and commitment to and understanding of the asset class mean PHP is aware of a high proportion of transactions in the market and potential opportunities coming to market. Active management of the property portfolio generates regular opportunities to increase income and lease terms and enhance value.

Risk management and principal risks
continued

Risk	Inherent risk rating	Change to risk in 2018	Commentary on risk in the year
Grow property portfolio continued			
Financing The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest. Furthermore, a more general lack of equity or debt available to the sector could reduce demand for healthcare assets and therefore impact values.	**High** Likelihood of a restricted supply is moderate and the potential impact of such a restriction could be major.	Unchanged	The Company successfully completed an over-subscribed equity issue in April 2018, raising £115.0 million (£111.2 million net of expenses) at a 7% premium to EPRA NAV as at 31 December 2017. In addition, the Group secured a new three-year £30.6 million revolving credit facility with Santander in July 2018 and in December 2018 the Group secured a €51 million 10.4-year private placement secured against its investment properties held in Ireland. The Group's undrawn facilities mean it currently has headroom of £190.6 million. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term.
Manage effectively and efficiently			
Lease expiry management The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit-for-purpose medical centres is key to delivering the Group's strategic objectives.	**Medium** Likelihood of limited alternative use value is moderate but the impact of such values could be serious.	Unchanged	The Group's property portfolio has grown by eight assets in the period. Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.
PHP and Nexus relationship The Group has no employees. The continuance of the Adviser contract is key for the efficient operation and management of the Group.	**Medium** The likelihood of any unexpected change is low but, if that occurred, the impact could be significant.	Unchanged	As well as management fees, the Adviser has earned a performance incentive fee during the period, some of which is only payable in future periods and is dependent on continued out performance of hurdle rates.

Group properties acquired in 2018

Celbridge

Mallow

Mountmellick

Mitigation	Residual risk rating
Existing and new debt providers are keen to provide funds to the sector and specifically to the Group, attracted by the strength of its cash flows. The Board monitors its capital structure and maintains regular contact with existing and potential equity investors and debt funders.	**Medium** The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinances debt facilities in advance of their maturity.
The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. 16 projects either completed or started on site in the period, enhancing income and extending occupational lease terms. In addition, there is a strong pipeline of over 40 projects that will be progressed in 2019. Only 6.7% of the Group's income expires in the next five years and management is actively managing these leases expiries.	**Medium** The Adviser employs an active asset management programme and has a successful track record of securing enhancement projects and securing new long term leases.
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.


Navan Road


Newbridge

Ashington


Moredon

Risk management and principal risks
continued

Risk	Inherent risk rating	Change to risk in 2018	Commentary on risk in the year
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	Total Group borrowing has increased in the period but negotiations with lenders have confirmed that at the current time and off the back of the successful equity raise in April 2018, the Group enjoys the confidence of the lending markets both in terms of the traditional high street lenders, as well as the bond markets. The Group secured a new £30.6 million revolving credit facility with Santander in July 2018 and in December 2018 the Group secured a €51 million private placement secured against its investment properties held in Ireland.
Interest rates Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows, and could impact property valuations.	**Medium** The likelihood of volatility in interest rate markets is high and the potential impact if not managed adequately could be major.	Unchanged	Term interest rate markets remained volatile during the period and this volatility is likely to continue in the near future. Over the year, term interest rates have risen which has impacted the mark to market ("MtM") valuations of the Group's interest rate derivative portfolio, reducing its "out of the money" status.

Viability statement

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

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

The Group's financial review and budgetary processes are based on an integrated model that projects performance, cash flows, position and other key performance indicators including earnings per share, leverage rates, net asset values per share and REIT compliance over the review period.

Mitigation	Residual risk rating
Existing lenders remain keen to finance PHP and new entrants to debt capital markets have increased available resource. Management constantly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds. The Adviser regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.	**Medium** The Board constantly monitors the facilities available to the Group and looks to refinance in advance of any maturity. The Group is subject to the changing conditions of debt capital markets.
The Group holds a proportion of its debt in long term, fixed rate loans and mitigates its exposure to interest rate movements on floating rate facilities through the use of interest rate swaps. As at the balance sheet date 98% of drawn debt is fixed or hedged. MtM valuation movements do not impact on the Group's cash flows and are not included in any covenant test in the Group's debt facilities.	**Low** The Group is currently well protected against the risk of interest rate rises, but, due to its continued investment in new properties and the need to maintain available facilities, will be exposed to future interest rate levels.

In addition, the forecast model looks at the funding of the Group's activities and its compliance with the financial covenant requirements of its debt facilities. The model uses a number of key parameters in generating its forecasts that reflect the Group's strategy, operating processes and the Board's expectation of market developments in the review period. In undertaking its financial review, these parameters have been flexed to reflect severe, but realistic, scenarios both individually and collectively. Sensitivities applied are derived from the principal risks faced by the Group (see Risk Management on pages 24 to 31) that could affect solvency or liquidity. These include the rate of investment in new properties and the return achieved from those investments, the availability and cost of debt finance, any potential reasonable decline in asset valuations and the ability to meet debt facility covenants. Sensitivities also flex assumed rental growth rates. In making its assessment, the Board has made a number of specific assumptions that overlay the financial parameters used in the Group's models. The Board has assumed that there is little or no change to healthcare policies or reduction in the levels of funding for primary care. In addition to the specific impact of the new debt facilities, the Board has reflected its reasonable confidence that the Group will be able to refinance or replace other debt facilities that mature within the review period in advance of their maturity and on terms similar to those at present.

Harry Hyman
Managing Director
30 January 2019

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

Creating long term, sustainable value

Overview

Responsible business addresses the key areas of the environment and our stakeholders which is embedded into our investment, asset management, forward funded development and corporate activities. We are committed to improving our responsible business disclosure, mitigating sustainability risks and capturing environmental and stakeholder opportunities.

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

Environmental considerations

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

With a void rate of just 0.3%, most of which is expansion space within our existing assets, and no employees the Company has no landlord controlled energy supply and this limits our ability to further reduce energy consumption. However, we continue to look at ways of reducing consumption and the efficiency of our assets to reduce energy consumption for our occupiers.

73%

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

Asset management in action

Reclaimed stone and natural timber cladding	New LED lighting	New seasonal efficiency boilers	Supporting local wildlife

Winchcombe Medical Centre, Winchcombe

The closure of a local community hospital meant access to medical services in the area was limited. We worked alongside the GPs and the NHS Gloucestershire Clinical Commissioning Group to design a 250 sqm extension to house additional GP consulting capacity and a local service base for the Gloucester Care Services NHS Trust providing community services to the local population. The extension was completed for a five-GP practice that serves 7,500 patients.

Highlights:

- The project was built to a BREEAM "Good" standard and the Energy Performance Rating improved from "D" to "B".
- Local materials and reclaimed stone used for the extension with natural timber cladding.
- New LED lighting installed throughout and absence detection on lighting in consulting rooms.
- New boilers increased seasonal efficiency from 70% to 95%.
- Sustainable drainage system installed including attenuation pond built to provide natural habitat to support wildlife.

"The works required PHP to liaise very closely with us and we developed an excellent working relationship with the team who we found to be very approachable and proactive in resolving any issues that arose. Overall the extension has meant that we have facilities that are more modern and better suited to support the local community as it continues to grow."

Clare Burton, Practice Manager

Responsible business
continued

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

An important element of our due diligence process is to undertake a detailed building survey and assessment of the environmental risk for each investment, including flooding, to ensure the risk is avoided or appropriate prevention measures are developed. We also obtain an environmental desktop study and energy performance certificate ("EPC"). PHP has engaged consultants Savills, Simpson Hilder and GEP Environmental to help in this process.

In advance of the enhanced Minimum Energy Efficiency Standards which came into effect in April 2018, we have taken steps to ensure full coverage of EPCs across our portfolio is achieved and will undertake improvement works where required to ensure full compliance with the Minimum Energy Efficiency Standards that will apply from 2023.

24% of the portfolio has an EPC rating of "B" or above and 73% has a rating of "A–C". Only two assets, representing less than 1% of the portfolio, are rated "F" or "G" of which both will be improved as part of a planned asset management project to improve the asset including the energy performance.

16

projects completed during the year

41

projects will commence in 2019/2020

Asset management
We are delivering energy efficiencies and sourcing cleaner energy for our occupiers through various asset management initiatives. During the year we completed 16 projects and we have a strong pipeline of a further 36 projects which will commence in 2019/2020.

We continually assess the opportunities to improve the environmental efficiency of a property and work with its occupiers to improve its environmental performance with enhancements such as the installation of LED lighting, energy efficient boilers and solar panels.

A further five projects are approved and due to commence shortly.

Asset management in action

BREEAM Very Good	Energy Performance Rating of A	New LED lighting	New seasonal efficiency boilers

Milton Keynes Village Practice, Milton Keynes
A local practice closure, along with substantial residential growth, meant the provision of primary health services was lacking. We worked alongside the GPs and the NHS Milton Keynes Clinical Commissioning Group to deliver the project which comprised an additional six consulting rooms, a new minor operations suite, health promotion room and district nurses' locality office.

Highlights:
- The project was built to a BREEAM "Very Good" standard and the Energy Performance Rating improved from "F" to "A".
- New LED lighting installed throughout and absence detection on lighting in consulting rooms.
- Heat recovery system installed and new boilers increased seasonal efficiency from 70% to 95%.
- Four electric vehicle recharge points installed.
- Project sensitively developed around ancient waterways system and treeline boundary.

"PHP has been very supportive of Milton Keynes Village Practice in facilitating extra clinical space. The provision of additional consulting rooms and a minor surgery suite will enable us to expand the range of services we offer, including some out of hospital services for local residents. They have been particularly enthusiastic regarding this project and receptive to our forward plan, encouraging our input in all areas. It has been a pleasure working closely with them for the past year to finally reach our joint goal."

Kim Foy-Olowu, Practice Manager

Developments

PHP engages with its development partners to promote the highest possible standards of environmental, sustainable and social matters when designing and constructing new premises. As a minimum, new properties are required to achieve at least a BREEAM "Excellent" rating, but where possible the aim is to exceed this. Ongoing environmental responsibilities are included in the leases entered into by the occupational tenants as a norm for newly built premises. 100% of the newly completed assets delivered in 2018 held an EPC with a rating of A or better. PHP continues to work with its development partners, occupiers and other stakeholders to develop ways in which to monitor and improve the management of environmental and sustainability issues.

The community and social impact

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

PHP's portfolio serves around 3.6 million patients or 5% of the UK population and our portfolio is their first point of contact with the NHS when they start their patient journey. Our active management of the property portfolio seeks to maintain the centres as fit for purpose and systems have been established to ensure that PHP is properly monitoring its social impact and identifying and managing opportunities and risks associated with the provision of its properties. Social impact consideration and management sits at the heart of the management of the Group and is directly reviewed by the Board.

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

In January 2018, the UK 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. In July 2017 we, along with our sector colleagues, pledged £3 billion of investment into new primary care centres over five years to help the Government reach its commitment of £10 billion of investment to improve the NHS estate.

Development in action

Building Energy Rating of A3	Air source heat pumps	New LED lighting	Rainwater harvesting system

Bray Primary Care Centre

Bray Primary Care Centre is a brand new 4,800 sqm purpose-built development with an anticipated completion in autumn 2019. It will provide a range of services to the local community including GP services, mental health, dental, dietetics, physiotherapy and psychology services and also includes a pharmacy and café.

Highlights:

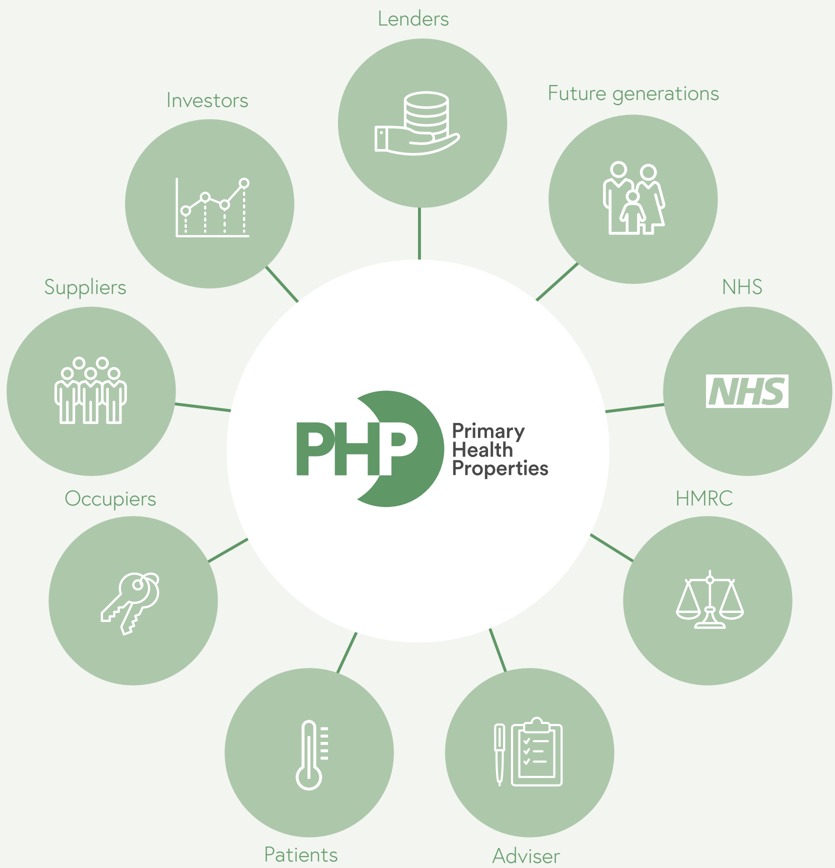
- The development has been designed to achieve a Building Energy Rating of A3 using the Non-domestic Energy Assessment Procedure (equivalent to EPC Rating A in the UK).
- The development will go well beyond current building regulations for U-values (a measure of how effective a material is as an insulator) and air tightness.
- The building will be designed to maximise the use of natural ventilation and heat recovery methods will be installed including air source heat pumps.
- New LED lighting to be installed throughout with absence detection systems.
- Rainwater harvesting system and dual flush cisterns will minimise water consumption.

"It has been a pleasure to work with the PHP team on this deal. They really understand the commercials on these type of transactions which ensures a quicker turnaround; it took less than three months from start to close, and enabled us to begin on site as planned. It is a win–win for both parties and their collaborative approach has made the whole forward funding/monitoring part much easier than traditional bank financing and it allows us to better manage our risks while protecting return. We hope to work with PHP in the future on other Primary Care Centre."

Leslie FitzPatrick, Chief Financial Officer, Collen Construction Limited

Responsible business
continued

Engaging with our stakeholders



3.6m
patients served by PHP's portfolio

800+
suppliers across the Group

100+
investor and analyst meetings held during the course of 2018

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.

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 800 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 2018 the Group has directly paid £16.1 million of tax in the form of VAT, income tax, stamp duty land tax, stamp duty and national insurance contributions to the UK and Irish governments.

Investors and lenders

The support of our shareholders, banking partners and lenders is crucial to sustaining our investment in the health infrastructure of the UK and Ireland. During the year we successfully completed a £115 million equity raise and £76.3 million of new debt facilities to further strengthen our balance sheet. In October 2018 we hosted a capital markets visit to a selection of assets in the city and surrounding towns of Dublin. We continue to enjoy strong relationships with our investor, banking and lending partners.

We continue to value existing and potential relationships with our investors with over 100 meetings held during the course of 2018. 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.

Non-financial information statement

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

- The Group's business model is on page 10.
- 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 33;
  - social matters on page 35;
  - respect for human rights on page 37; and
  - anti-corruption and anti-bribery matters on page 37.

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 13.

The Business Performance section on pages 15 to 21 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Harry Hyman
Managing Director
30 January 2019

Board of Directors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Key to Committee membership

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

1 Steven Owen

Independent Non-executive Chairman

E N R S

Election to the Board

Steven Owen was elected at the Company's Annual General Meeting in 2014 having been appointed to the Board in December 2013. Following his election to the Board he took up the position as Chairman of the Audit Committee and Senior Independent Director and was appointed Chairman in April 2018 and took over the chair of the Nomination Committee from Nick Wiles.

Career

Steven embarked on his career with KPMG before moving into property with Brixton plc where he became Finance Director and subsequently Deputy Chief Executive. He is currently CEO and founding partner of Wye Valley Partners LLP, a commercial real estate asset management business. Steven is also a Director of ICE Campus Ventures Ltd.

Skills, competence and experience

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

Other listed directorships

None

Independent Non-executive

Yes

2 Harry Hyman

Managing Director

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Election to the Board

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

Career

Harry Hyman graduated from Cambridge University and trained as a Chartered Accountant and corporate treasurer. He established the Company in 1996. Harry is the Managing Director of Nexus Tradeco Limited and its subsidiary companies. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Skills, competence and experience

Harry has extensive experience in investing in the primary healthcare sector, having developed the Company's business from inception over 20 years ago to its current position with an investment portfolio of over £1.5 billion. He also brings entrepreneurial flair to the Board having established a number of successful private companies.

Other listed directorships

Harry is the Non-executive Chairman of Summit Germany Limited, an AIM listed German commercial real estate company. In addition, Harry is a non-executive director of Biopharma Credit PLC, which invests in the fast-growing science industry.

Independent Non-executive

Not applicable

3 Peter Cole
Independent Non-executive Director

A E N R

Election to the Board
Peter was appointed to the Board on 1 May 2018.

Career
Peter is a Chartered Surveyor and is Chief Investment Officer of Hammerson plc, the FTSE listed owner, manager and developer of retail destinations in the UK, Ireland and continental Europe. He was a main board director of Hammerson from October 1999 until 31 December 2018.

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

Other listed directorships
None

Independent Non-executive
Yes

4 Richard Howell
Finance Director

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

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

Skills, competence and experience
Richard has extensive finance experience, having previously held senior accounting positions within listed property companies operating across the UK. Whilst working for LondonMetric and Brixton plc, he has been involved in over £4 billion of property transactions.

Other listed directorships
None

Independent Non-executive
Not applicable

5 Dr Stephen Kell OBE
Non-executive Director

A E N R

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

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

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

Other listed directorships
None

Independent Non-executive
Yes

Board of Directors
continued

6 Geraldine Kennell
Independent Non-executive Director

A E N R

Election to the Board
Geraldine Kennell was elected a Director at the 2016 Annual General Meeting and joined the Board on 5 April 2016. On 7 June 2016, Geraldine was appointed to chair the Remuneration Committee.

Career
After gaining a degree in economics from Bristol University, Geraldine joined Samuel Montagu & Co Limited as a graduate trainee, before taking up roles first at 3i and subsequently at Silverfleet Capital LLP, formerly the private equity arm of Prudential plc, where she became a partner, specialising in mid-market buy-outs across Europe.

Skills, competence and experience
Geraldine brings skills and experience in complex business decision making across a broad range of sectors, monitoring and supporting investments and extensive experience and strength in originating, negotiating, and structuring transactions, including the negotiation of complex cash flow and asset backed debt facilities. At Silverfleet, she served on the boards of a number of companies in which the fund was invested.

Other listed directorships
None

Independent Non-executive
Yes

7 Ian Krieger
Independent Non-executive Director

A E N R

Election to the Board
Ian Krieger was elected a Director at the 2018 Annual General Meeting having been appointed to the Board in February 2018 and chairs the Audit Committee.

Career
Ian is a Chartered Accountant and was a partner and vice-chairman at Deloitte until his retirement in 2012. His is currently senior independent non-executive director and chairman of the audit committee at Safestore Holdings plc and Premier Foods plc. He is also a non-executive director at Capital & Regional plc, where he also chairs the audit committee. He is Chair of Anthony Nolan, a major blood cancer charity, and Trustee and Chairman of the finance committee of the Nuffield Trust.

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

Other listed directorships
Premier Foods plc, non-executive director. Safestore Holdings plc, non-executive director. Capital & Regional plc, non-executive director.

Independent Non-executive
Yes

8 Nick Wiles
Independent Non-executive Director and Senior Independent Director

A E N R S

Election to the Board
Nick Wiles was elected at the Company's Annual General Meeting in 2016, and was appointed to the Board on 5 April 2016. He took over a chair of the Adviser Engagement Committee in January, when Mark Creedy announced his intention not to seek re-election at the AGM in April 2018. Following the appointment of Steven Owen as Chairman, Nick was appointed as Senior Independent Director.

Career
Following a period at Sandhurst and a short service commission in the Army, Nick joined Mercury Asset Management as a fund manager and equity analyst. He subsequently worked for more than 20 years in investment banking at Cazenove & Co. and subsequently JP Morgan Cazenove. Nick retired as chairman of UK investment banking at Nomura in 2012. He was also a non-executive director of Strutt & Parker from 2003–2014.

Skills, competence and experience
Nick has considerable experience of investment banking and a deep understanding of equity markets and investor sentiment. He brings to the Board a combination of skills in banking and corporate finance, an understanding of regulatory environment for listed companies in the UK and international financial services markets.

Other listed directorships
Nick is currently non-executive chairman of PayPoint plc a UK listed provider of cash dispensing and payment services.

Independent Non-executive
Yes

Adviser

Nexus Tradeco Limited ("Nexus")

The Company has appointed Nexus Tradeco Limited ("Nexus") to provide property advisory, management, administrative and accounting service and company secretarial services to the PHP Group under an advisory agreement. Further information on the Advisory Agreement is on page 68.

The Nexus team have a wealth of knowledge and experience in health sector real estate and in company secretarial matters and comprises a mix of property, finance and legal professionals. Nexus is engaged to provide property management services which include identifying suitable properties, negotiating, subject to Board approval, the terms of purchase of those properties and providing day-to-day property management on behalf of the Group. Nexus provides the services of the Managing Director, the Finance Director, the Company Secretary and also administrative and accounting services to the Group.

The performance of Nexus is evaluated and scrutinised by the Advisers Engagement Committee, which consists entirely of independent Non-executive Directors led by Nick Wiles. The Advisers Engagement Committee meets in April each year to formally review and evaluate the performance of Nexus in delivering its services to the Company and reviews the charges levied at each of its meetings. To date Nexus has had an exemplary track record in providing advice and identification of investment opportunities delivering solid yields and enabling the Company to enjoy over 22 years of continuous dividend growth.

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

Nexus team

Nexus provides the Company with the services of Harry Hyman, Managing Director and Richard Howell, Finance Director. Harry Hyman is an experienced adviser to and manager of listed property groups and has many years' experience in PHP's sector of focus. Richard, who joined in March 2017, is an experienced chartered accountant with extensive experience within the commercial property sector.

Nexus has provided property advisory and management services since its appointment in March 1996. The Nexus property team has grown with PHP's business and currently comprises 37 members of staff, of whom twelve are qualified chartered surveyors. It is headed by David Austin, a qualified surveyor who joined Nexus in July 2016 with over 20 years' experience in the sector, having previously worked with Lasalle, Axa and Land Securities and he is supported by David Bateman, who has been with Nexus since 2014 and leads the team focusing on potential investment opportunities.

The property team, which is based in offices in central London and in Stratford-upon-Avon, comprises professionals engaged in property acquisition, portfolio management, asset and property management, and includes a further two trainee surveyors and four administrative assistants. The property team has a combined wealth of experience of the healthcare real estate sector, having between them worked in investment, development and asset and property management functions at either Nexus or other specialist sector operators prior to joining Nexus.

Nexus' finance team includes three qualified accountants, two part-qualified accountants and two finance assistants under the management of Richard Howell, the Finance Director. Members of the team have worked within large professional services companies advising major property companies or held positions within listed and privately-owned real estate businesses.

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

Nexus remuneration

Details of the fees payable to Nexus for its advisory services and the basis for their calculation can be found in the Directors' Report on pages 65 to 69.

Corporate governance report
Letter from the Chairman

Promoting long term success

Dear shareholder

Introduction

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018: my first as your Chairman. The Board's leadership of the Company and oversight of the Group's strategy continues to be supported by a robust governance structure which allows for constructive debate and challenge by its members. This approach enables the Directors to make decisions which creates long term sustainable value for the benefit of all of our stakeholders. The success of this approach was illustrated by PHP winning in April 2018 the UK Property Investment Award for the highest ten-year risk-adjusted total return in the UK market, with an 8% total annualised return relative to the Investment Property Forum benchmark over the measured period. In addition, the Board's focus on sustainable growth was reflected in April 2018 by the inclusion of PHP in the FTSE 250 and FTSE All-Share indices, which marks an important milestone in the Company's history, having first listed on AIM in 1996.

In the Corporate Governance Report over the next few pages we provide details of our Board members, the activities of the Board and its Committees, and how we discharge our statutory duties and oversight functions. I hope this section of the report will help you gain a better understanding of the effectiveness of our Board and how we apply the main principles of the April 2016 UK Corporate Governance Code (the "Code"), issued by the Financial Reporting Council ("FRC") that applied during the year.

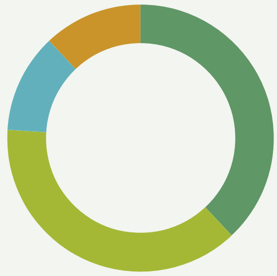
Board changes

As I mentioned in my Chairman's Statement, we have made a number of changes to the composition of the Board during the year. Following the Annual General Meeting in April 2018 ("2018 AGM"), long standing directors, Mark Creedy, Dr Ian Rutter OBE and Alun Jones all retired from the Board. On behalf of the Board, I would like to thank all of them for their contribution to growing the business of PHP during their long service as Directors.

In February 2018, we announced the appointment of two new Non-executive Directors to our Board, Ian Krieger and Dr Stephen Kell, whose appointments were confirmed by shareholders at the 2018 AGM. Ian brings with him finance expertise and experience in the property sector, while Stephen is a practising General Practitioner and has an in-depth understanding of healthcare commissioning. Subsequently, we were pleased to announce the appointment in May of Peter Cole, Chief Investment Officer of Hammerson plc and a Chartered Surveyor. He brings significant property related experience to the Board. I look forward to working closely with them over the coming years.

Following the changes to the Board, the length of service of the members of the Board is as set out below:

Length of service



Further details of the skills and experience that the new Directors bring to the Company can be found in their biographies on pages 38 to 40.

We announced on 24 January 2019 the proposed merger with MedicX. It is expected that conditional upon completion of the merger, Helen Mahy will join the Board as Deputy Chairman and Senior Independent Executive Director, and Laure Duhot will join as a Non-executive Director and Chairman of the Adviser Engagement Committee. Nick Wiles and Geraldine Kennell will step down from the PHP Board on completion of the merger. This will deliver an appropriately sized and balanced Board with the complementary skills necessary to drive the enlarged group forward following the merger.

Accordingly, Harry Hyman, Richard Howell, Ian Krieger, Dr Stephen Kell and I will all stand for re-election at the 2019 Annual General Meeting which is to be held on Tuesday 11 June 2019 ("2019 AGM"). Peter Cole, who was appointed after the 2018 AGM, will be proposed for election by shareholders at the 2019 AGM.

Board effectiveness

As your Chairman, it is my role to provide leadership to ensure the operation of an effective Board, based on a culture of openness and mutual respect. Such a culture allows the Board to provide constructive scrutiny of proposed investments and help develop proposals on strategy. To achieve this objective and in accordance with the Code, the Board comprises eight Directors, including myself. A majority of the Board consists of Independent Non-executive Directors who have been selected to deliver an appropriate mix of diversity, skills and experience.

The Board recognises the importance of its role in setting the tone for the culture of PHP and has always recognised the importance of boardroom diversity as providing a wide range of perspectives to avoid a narrow approach in thinking.

It is the Board's policy to seek to ensure that a range of suitable candidates of different genders and backgrounds is considered whenever we seek to make changes to the Board. The priority of the Board is to ensure that the Group continues to have the most effective Board possible and all appointments to the Board are made on merit against objective criteria.

Evaluation

During the final quarter of the year, I led the annual Board evaluation process with the assistance of the Company Secretary. Whilst a well performing board should not learn anything from an evaluation that is not already known or under discussion, it gives an important opportunity to focus on performance and the generation of specific action points from any identified actions. Details of the evaluation and the results of the process are set out on pages 50 and 51.

Stakeholders

The Board is very conscious that there are a number of stakeholders in our business model, the most important of whom are set out in the Responsible Business section on page 36. It is our job to consider the interests of each stakeholder group when making decisions which may affect them. The Board spend a good deal of time discussing the potential effects on our stakeholders as part of its evaluation of the acquisitions we made during the year. At PHP we realise that our business has an impact on the communities in which we operate and therefore, our vision is to create sustainable, high quality medical centres which enable the delivery of integrated primary care services in the local community and provide a flexible, modern environment for patients, healthcare professionals and other users of our facilities both now and in the future. We provide further details on our initiatives to engage with all our stakeholders on pages 36 to 37.

Annual General Meeting

One of the primary means for the Board to engage with its shareholders, particularly individual shareholders, is at the Annual General Meeting. As always, I would encourage you to attend the Company's Annual General Meeting to be held on 11 June 2019 at 10:30 a.m. at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF. A notice setting out details of the business to be conducted at the meeting will be posted in due course. This important event gives you the opportunity to meet with me, and the Chairs of the other Board Committees and other Directors.

Looking ahead

I am satisfied that our current governance structures remain effective and supportive of the business. The new UK Corporate Governance Code was published in July 2018 and is effective from 1 January 2019. Since we became a FTSE 250 company during 2018, from 1 January 2019 we will no longer be able to use the exemptions available for companies outside the FTSE 250.

We are reviewing our governance structures to ensure we remain fully compliant from 1 January 2019. In this regard I have stepped down as a member of the Audit Committee to comply with the new provision 24 of Section 4 of the new Code. Maintaining the highest standards of corporate governance is integral to the delivery of our strategy and your Board remains focused on creating sustainable long term value for the benefit of our shareholders and stakeholders.

Statement of compliance with the UK Corporate Governance Code

The 2016 edition of the Code contains broad principles and specific provisions to assist how boards operate. This Code applied to PHP during the financial year ended 31 December 2018.

The Board considers that since the appointment of Ian Krieger and Dr Stephen Kell in February 2018, the Company has complied with the provisions of the Code. Before that date three of the Directors, Dr Rutter, Mr Jones and Mr Creedy had ceased to be regarded as independent, because they had served for more than nine years on the Board.

Further information on how we comply with the Code can be found as follows:

A. Leadership	Read more on page
A.1 Role of the Board	45
A.2 Division of responsibilities	45
A.3 The Chairman	45
A.4 Non-executive Directors	45
B. Effectiveness	
B.1 Composition of the Board	45
B.2 Appointments to the Board	42
B.3 Commitment	50
B.4 Development	49
B.5 Information and support	51
B.6 Evaluation	50
B.7 Re-election	42
C. Accountability	
C.1 Financial and business reporting	53
C.2 Risk management and internal control	53
C.3 Audit Committee and auditor	52
D. Remuneration	
D.1 The level and components of remuneration	61
D.2 Procedure	59
E. Relations with shareholders	
E.1 Dialogue with shareholders	42
E.2 Constructive use of general meetings	43

Steven Owen
Chairman
30 January 2019

Corporate governance report
Our governance structure

The Board
- Responsible for the long term success of the Company
- Development of a strategy
- Determines the nature and extent of significant risks
- Approves investments and capital transactions

Adviser Engagement Committee
- Oversees and reviews performance of Adviser
- Approves fees paid to Adviser
- Approves any changes to the Adviser contract

Audit Committee
- Oversees quality of financial and narrative reporting
- Provide assurance on internal controls, risk management and audit processes
- Reviews performance of auditor

Nomination Committee
- Leads process for Board appointments
- Ensures appropriate balance of skills and experience on the Board

Standing Committee
- Approves routine business matters between Board meetings
- Approves dividend payments

Remuneration Committee
- Sets remuneration policy
- Approves level of Non-executive Chairman's fees

PHP's governance structure is illustrated above. The Board has delegated a number of its responsibilities to its Audit, Nomination, Adviser Engagement and Remuneration Committees. The terms of reference of each of these Committees can be found at www.phpgroup.co.uk. Further information on the activities of these Committees and their composition can be found in the Reports of the Audit Committee on pages 52 to 54, the Nomination Committee on pages 55 to 56 the Adviser Engagement Committee on pages 57 to 58 and the Remuneration Committee on pages 59 to 60.

In addition, the Company has established a Standing Committee to implement decisions of the Board, as necessary, between Board meetings, approve routine matters that require approval between Board meetings, and to approve the four interim dividend payments made in the year. The Standing Committee comprises the Chairman, Steven Owen, Managing Director, Harry Hyman (who may be represented by Richard Howell as his alternate) and Nick Wiles, the Senior Independent Director or any other Non-executive Director. Minutes of Standing Committee meetings are included within papers for Board meetings to formally record the actions that have been taken to implement Board decisions. In addition, the Adviser has the following Committees that report as appropriate to the Board and/or its Committees.

PHP/Nexus Risk Committee

Activities	Members
→ Reviews strategic and operational risks in achieving delivery of PHP's strategic goals → Reviews operational risk management processes → Recommends appropriate risk appetite levels and monitors risk exposure → Reports to the Audit Committee at each of its meetings	Andrew Herd (Chairman) Harry Hyman Richard Howell David Austin Paul Wright Dan Whitby (Group Financial Controller)

Adviser's Management Committee

Activities	Members
→ Considers investment opportunities → Reviews performance of PHP's assets and proposals for asset management → Reviews day-to-day management of the PHP portfolio → Reports to the Board at each meeting	Harry Hyman Richard Howell Chris Santer David Austin David Bateman

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

How the Board functions

Board composition

The current Board of Directors of the Company consists of the Chairman, five Independent Non-executive Directors and two Executive Directors from the Adviser.

Biographical information on each of our Directors can be found on pages 38 to 40, which shows the breadth of strategic and financial management insight brought to our Board. All of our Non-executive Directors bring industry experience from a wide range of backgrounds including finance, business services, investment management, real estate and the NHS.

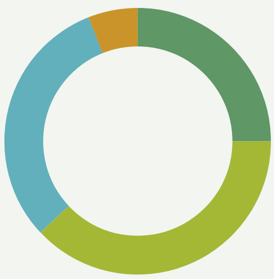
The composition of the Board is fundamental to its success. We continue to have a strong mix of experienced individuals on the Board. The majority are independent Non-executive Directors who are not only able to offer an external perspective on the business, but also constructively challenge the Executive Directors, particularly when developing the Company's strategy. The Non-executive Directors scrutinise the performance of the Adviser in meeting their agreed goals and objectives, and monitor the reporting of that performance.

Directors

- Non-executive Chairman
- Executive Directors
- Independent Non-executive Directors

Skills

- Audit; risk management
- Finance; banking
- Property
- Medical



The high calibre of debate and the participation of all Directors, Executive and Non-executive, in its meetings allows the Board to utilise the experience and skills of the individual Directors to their maximum potential and make decisions that are in the best interests of the Company.

Role of the Board

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

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

The Board has delegated certain operational and management activities to the Adviser as described on page 68 in the Advisory Agreement section of the Directors' Report. There is a clear statement of delegated authorities setting out the financial parameters within which the Adviser may act without reference to the Board, although any proposal may still be taken to the full Board for consideration and approval where this is considered appropriate. The Managing Director is accountable to the Board in his capacity as the managing director of the Adviser for the day-to-day management of the Group and the Finance Director is responsible for the preparation of the financial statements and the provision of quarterly management account information.

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

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

Chairman

- Leads the Board, sets the agenda and promotes a culture of open debate
- Regularly meets with the Managing Director to stay informed
- Ensures all stakeholders views are considered

Senior Independent Director

- Provides a sounding board for the Chairman and appraises his performance
- Is available to respond to shareholders concerns when contact through the normal channels is not appropriate

Non-executive Directors

- Contribute to developing strategy
- Scrutinise and constructively challenge the performance of executive management

Corporate governance report
continued

Role of the Board continued

Managing Director

- Help formulate and implement strategy
- Manages the day-to-day running of the business through the Adviser
- Reports on meetings with investors
- Presents investment opportunities for Board approval

Finance Director

- Responsible for the preparation and integrity of financial reporting
- Implements financing and capital structure determined by the Board
- Responsible for day-to-day treasury management

Company Secretary

- Assists the Chairman in organising induction programmes and ensuring that all Directors have full and timely access to Board papers and information
- Advises the Board on corporate governance matters
- Ensures regulatory compliance by the Company

How the Board functions

The Board meets regularly, with six scheduled meetings held in 2018, in February, April, June, July, September and November.

At each of these meetings, any specific investment decisions are considered and approvals given as required and an update is presented on progress of strategic initiatives agreed for the year. Also at each meeting a detailed report from the Managing Director on the Adviser's activities is presented. Typically this report will cover:

- the state of the healthcare property sector and the wider property market;
- the Group's acquisition and development pipeline;
- current project management initiatives;
- progress on rent reviews across the portfolio;
- property management issues;
- updates on discussions with key stakeholders;
- updates on the business and economic environment, including matters relating to the NHS; and
- a review of key portfolio statistics.

Board activities

The Board regularly reviews the strategic investment and financing options available to the Group, as well as developments in government policy towards the primary health sector generally, during the scheduled meetings held during the year.

Key areas considered by the Board during the year in addition to matters reviewed and reported on at each meeting were:

February

- Approval of proposals for the acquisition of Moredon Medical Centre, Swindon, UK
- Approval of purchase of land for future asset management activity
- Approval of preliminary statement
- Approval of Annual Report and Notice of AGM

April

- Consideration of results of capital raising
- Approval of proposal to acquire the Mountmellick Primary Healthcare Centre, Ireland
- Consideration of performance of the Adviser following review by Adviser Engagement Committee
- Approval of terms for a new facility with Santander
- Review of GDPR preparedness and approval of revised privacy policy

June

- Approval of proposal to forward fund and acquire Bray Primary Care Centre, Ireland
- Consideration and approval of proposals for crime and cyber insurance

In addition, in connection with the proposed merger with MedicX, the Board established a Special Project Committee consisting of the Chairman, Senior Independent Director, Managing Director and the Finance Director to lead the transaction and the Board had several adhoc meetings during the year in connection with the merger.

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

Culture and values

The Chairman fosters the culture and values of the Board which involves a willingness to take considered risk to achieve the Company's strategic goals, within an open and respectful environment that encourages constructive challenge and debate. This culture permeates through into the Adviser's organisation through the close interaction of the Managing Director and the Finance Director with staff at the Adviser in day-to-day activities. In this way, the Board agreed upon approaches and processes are well understood and adhered to. Further senior members of the Adviser's management team regularly attend meetings of the Board and have developed a strong understanding of the Board's approach and culture. In addition to the regularly scheduled meeting there were several additional meetings held at short notice during the year including in connection with the approval of the placing, open offer and offer for subscription of new Ordinary Shares in the Company and associated prospectus and other documentation that completed in April 2018.

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

During 2019, it is again intended that at least one of the meetings of the Board will be held away from the Company's registered office and devoted to consideration of the Group's strategy.

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

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

July

- Approval of purchase of three medical centres in Ireland through Jellia Holdings Limited
- Consideration of proposal to purchase Maple & Elm Court, Wansbeck General Hospital, Ashington
- Approval of interim statement

September

- Strategy discussions
- Approval of purchase of Maple & Elm Court, Wansbeck General Hospital, Ashington
- Consideration of the method for conducting Board evaluation

November

- Consideration of revised UK Corporate Governance Code
- Approval of the rolling three-year business plan
- Consideration of viability assessment for the proposed viability statement
- Approval of revised whistleblowing and updated anti-slavery policies

Culture and values continued

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

Director	Board (total in year – 6)	Audit Committee (total in year – 3)	Nomination Committee (total in year – 2)	Adviser Engagement Committee (total in year – 4)	Remuneration Committee (total in year – 2)
Steven Owen	6	3	2	4	2
Harry Hyman	6	—	—	—	—
Richard Howell	6	—	—	—	—
Nick Wiles	6	3	2	4	2
Geraldine Kennell	6	3	2	4	2
Dr Stephen Kell[1]	5	2	1	3	1
Ian Krieger[1]	5	2	1	3	1
Peter Cole[1]	4	2	1	2	1
Alun Jones[2]	2	1	1	1	1
Dr Ian Rutter[2]	2	1	1	1	1
Mark Creedy[2]	2	1	1	1	1

1 Ian Krieger and Dr Stephen Kell were appointed as Directors in February 2018 and Peter Cole was appointed in May 2018 and have attended all Board and Committee meetings since their appointment.

2 Alun Jones, Dr Ian Rutter and Mark Creedy all resigned as Directors from the conclusion of the 2018 AGM in April 2018.

Strategy day

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

In preparation for the strategy meeting the Board received a background reading pack that included a review of the primary care property market and of developments within the NHS and the HSE impacting on the delivery of primary care. In particular, the papers included a review of progress achieved in developing integrated care systems ("ICS") and the development of sustainability and transformation partnerships across the NHS, together with an evaluation of progress against the Group's objective of developing a portfolio of initially around €150 million in Ireland. The materials also included papers on potential financing strategies to achieve the Group's objectives.

The meeting was followed by the opportunity to visit one of the Group's properties located in Newbury, tenanted by a doctors' surgery and pharmacy, where proposals have been submitted to the local Clinical Commissioning Group ("CCG") for the expansion of the surgery to cater for the increasing demand from local population growth, with a particular regard to the location of a new care home immediately adjacent to the site. The current proposal is to create a ground floor extension (154 sqm) at the rear of the premises, creating a net gain of five clinical rooms and additional records storage. A longer lease on the enlarged centre will also be entered into upon completion of the development.

"To be effective as a Board member it is essential to have a thorough induction process. My induction has enabled me to make a meaningful contribution to the Board and gain a sound understanding of the business."

Dr Stephen Kell OBE, Non-executive Director

Effectiveness

Board induction and training

The Code provides that all Directors should receive a full, formal and tailored induction on joining the Board. On joining the Board each of Mr Krieger, Dr Kell and Mr Cole were provided with a tailored induction programme delivered by the Company Secretary and designed to ensure that they obtained a comprehensive picture of the Company's operations and the Board's processes.

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

Meetings with the Chairman and other Board members

↓

Meetings with the Managing Director and Finance Director

↓

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

↓

Meeting with the Company's advisers, including the auditor and brokers

↓

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

↓

Site visits

The programme was tailored to reflect each individual Non-executive Directors' background, experience and knowledge and designed for their specific needs.

Mr Krieger and Mr Cole received additional papers giving them background information on the policy framework for primary health in the UK and Ireland, and Dr Kell attended a session with the Company's external lawyers to give him a more detailed understanding of a director's duties and the regulatory framework in which the Company operates as a listed company.

In addition, Mr Krieger and Dr Kell had a day's visit to the Company's facilities in Milton Keynes and Toddington. Details of the sites visited are as follows:

Name	Operations	Insights gained
Central Milton Keynes Medical Centre	A large GP practice, a dental practice, a physiotherapist and a pharmacy	Range of primary care and health services housed
Milton Keynes Village Practice	A large GP practice, NHSPS and a pharmacy	Asset management project on site to allow increase in patient list to 20,000
Toddington Medical Centre	GP practice and a pharmacy	Completed asset management project bringing a new pharmacy to site

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

Board evaluation

During the year, the effectiveness of the Board and its Committees was conducted by means of a questionnaire drawn up by the Company Secretary and the Chairman in the light of the Financial Reporting Council's 2018 Guidance on Board Effectiveness. The Chairman conducted an evaluation of the performance of each of the individual Directors as a separate exercise. A separate questionnaire was sent to members of the Audit Committee to evaluate the performance of that committee as detailed in the Report of the Audit Committee on pages 52 to 54.

Given the recent changes in the composition of the Board, it was considered that it would not be appropriate to undertake an externally led review at this time, but to consider doing so in the future when all Directors will have gained sufficient experience of the culture and processes of the PHP boardroom.

Board evaluation continued

The evaluation process which was followed in the year is illustrated below:

September
Questionnaire circulated to all Directors

October
Questionnaire completed and returned to the Company Secretary

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

Overall, the results of the questionnaires reflected well on the Board. Its members are seen as being engaged and committed and able to raise challenge openly while the culture remains open, respectful and constructive.

Details of the outcomes of the 2017 evaluation and the 2018 evaluation, as well as the actions taken in response to the 2017 evaluation are set out below:

2017 evaluation outcomes	Actions	2018 evaluation outcomes
Create more opportunities to discuss and evaluate strategy	Strategy discussion included in each Board agenda	Continued improvement of Board succession processes
Ensure succession planning strengthens experience in property investment	New NED recruitment included addition of Peter Cole and Ian Krieger with relevant sector expertise	Extend opportunities for training of Non-executive Directors
Improve presentation of key metrics in Board reports	Board papers include "at a glance" graphics for KPIs	Consider enhancement of Board evaluation processes

The Board intends to review the implementation of these recommendations as part of its evaluation process in 2019 and will report on progress in next year's Annual Report.

In addition to the formal Board evaluation, Nick Wiles, the Senior Independent Non-executive Director conducted an evaluation of the performance of the Chairman using a questionnaire tailored to specific responsibilities of a chairman of a listed company. Nick Wiles also followed up to discuss the findings of the survey regarding the Chairman's performance with the individual Directors and the results were fed back to the Company Secretary.

Commitment

The letters of appointment for Non-executive Directors set out the time commitment expected to be necessary to perform their duties. All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. Directors must notify the Chairman when they take on any additional responsibilities or external appointments and it is their responsibility to ensure that such appointments will not prevent them meeting their time commitments discussed above. The Company provides the Non-executive Directors with appropriate support and facilities for the consideration of the Company's strategy and performance, and a dialogue with the Chairman is encouraged so that any issues regarding time pressures or conflicting commitments are addressed appropriately.

Information and support

The Company Secretary is responsible for ensuring good and timely information flows within the Board and its Committees and between the senior management and the Non-executive Directors.

The Board uses a web-based system which provides ready access to Board papers and materials. Prior to each Board meeting the Directors receive through this system the agenda and supporting papers to ensure that they have all the latest and relevant information in advance of the meeting. During the year, the Executive Directors and the Company Secretary have worked on improving the clarity and focus of papers in the Board papers, to reduce the overall volume of the Board papers and to make them easier for Directors to monitor progress against key strategic objectives and to form a more useful tool for discussion and decision making.

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

Conflicts

The Board has adopted a formal procedure under which Directors must notify the Chairman of any potential conflicts. The Chairman then decides whether a conflict exists and recommends its authorisation by the Board, where appropriate.

The Company Secretary maintains a register of approved conflicts of interest through this process. In certain circumstances the conflicted Directors may be required to absent themselves while such matters are being discussed. No such situations arose in 2018.

The Board has an annual process of formally reviewing conflicts disclosed, and the authorisations given (including such conditions as the Board may determine in each case). Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in the register referred to above.

Shareholders

Working together with its brokers and communications adviser, the Managing Director and Finance Director have regular meetings with institutional investors, analysts and the financial press throughout the year. Annual and Interim Reports are presented to formal meetings of analysts and trading updates are widely distributed to these and other parties who may have an interest in the Group's performance.

Following the increase in the size of the Company's Irish portfolio to over €100 million, the Company held an investor day in Ireland for analysts and investors, which showcased the recently acquired assets in the Dublin area and the development being funded at Bray.

Audit Committee report

Members of the Audit Committee (the "Committee")

Member	Number of meetings and attendance while in post
Ian Krieger (incoming Chairman)	2/2
Steven Owen (outgoing Chairman)	3/3
Geraldine Kennell	3/3
Nick Wiles	3/3
Peter Cole (incoming member)	2/2
Dr Stephen Kell (incoming member)	2/2
Alun Jones (outgoing member)	1/1
Mark Creedy (outgoing member)	1/1

Additional attendees invited to attend meetings as appropriate

Harry Hyman – Managing Director
Richard Howell – Finance Director
Deloitte LLP – independent external auditor
Dr Ian Rutter – Non-executive Director
Andrew Herd – Chair of the Adviser's Risk Committee
Dan Whitby – Group Financial Controller

Dear shareholder,

I am pleased to present my first report as Chairman of the Audit Committee and am happy to confirm that we remain committed to achieving high standards of governance and therefore the Committee has adopted the additional requirements of the Corporate Governance Code (the "Code") as regards audit committees. Steven Owen stood down from the Committee for the reasons set out in the Corporate Governance Statement.

Relevant skills and experience

As Chairman, in conjunction with the Nominations Committee, I review on an annual basis the composition of the Committee to ensure that it is comprised of members with skills and competences relevant to the primary care real estate sector and recent and relevant financial experience. The biographies of all the members of the Committee are on pages 38 to 40 and show that the Committee's experience is wide ranging and satisfies the provisions of the Code in all respects. The members of the Committee also evaluate the performance of the Committee during the year.

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

Responsibilities

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

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

There are arrangements in place whereby employees of the Adviser may, in confidence, raise concerns about possible improprieties in matters of financial reporting amongst other things. The Committee ensures that the Adviser has in place arrangements for the proportionate and independent investigation of such matters.

Report on the Committee's activities during the year

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

- reviewing the Group's draft annual report and financial statements and its draft interim results statement prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- advising the Board on whether the draft annual report and financial statements and draft interim results statement are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, position, business model and strategy;
- reviewing the continuing appropriateness of the Group's accounting policies including the potential implications of forthcoming changes in accounting standards for the Group;
- considering the report of the Adviser's Risk Committee on the principal risk and uncertainties facing the Group;
- reviewing the auditor's plan for the Group audit and approving their terms of engagement and proposed fees;
- considering the effectiveness and independence of the auditor and recommending to the Board their re-appointment;

- reviewing the Going Concern assumption and Viability Statement and supporting budgets, forecasts and evidence;
- reviewing the whistleblowing and fraud detection policies;
- considering the need for an internal audit function; and
- undertaking a performance evaluation process for the Committee.

Significant issues considered in relation to the financial statements

During the year, the Committee considered key accounting matters and judgements in respect of the financial statements relating to:

- **Valuation of the property portfolio**
  The key judgement in the financial statements relates to the valuation of the property portfolio. The Group has property assets of £1.5 billion as detailed in the Group Balance Sheet. As explained in Note 10 to the financial statements, the properties are independently valued by Lambert Smith Hampton in the UK and in Ireland, in accordance with IAS 40 'Investment property'. The Audit Committee reviewed and discussed with management and the Group's valuers the judgements and assumptions made in respect of the property valuation, reviewed the valuer's report and the auditor's comments thereon, and concluded that the valuation is appropriate.
- **Revenue recognition**
  The Committee considered the implication of the adoption of IFRS 15: Revenue from contracts with customers on the Group Financial Statements from 1 January 2018. In addition, the Group adopts a policy of recognising the expected uplift from rent reviews from the date a rent review falls due until the date it is settled. The Committee reviewed the judgements made in respect of this policy, reviewed past experience of settlements and challenged management as to its continued appropriateness. The Committee received confirmation from management that the policy remained appropriate. The Committee also assessed this matter with the external auditor and is satisfied that the policy remains appropriate.
- **Financing and valuation of financial instruments**
  The Committee considered the implication of the adoption of IFRS 9: Financial Instruments on the Group Financial Statements from 1 January 2018 including the appropriateness of continuing to use hedge accounting, impairment provisioning of trade receivables and possible adjustments arising from debt modifications. The Group will continue to apply the hedge accounting requirements of IAS 39 and does not anticipate a material impact from the adoption of IFRS 9.

  The Group hedges its exposure to interest rate risk swaps using financial instruments. This is a complex area of accounting and accordingly the Committee monitors the work of the Adviser and where it feels necessary seeks advice on the Company's compliance with such requirements and evaluations. The valuation of the financial instruments is undertaken by JCRA, an independent specialist in this area.
- **Review of risk management and internal control processes**
  The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's risk management processes and systems of internal control.

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

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

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

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

Financial reporting

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

In undertaking its assessment, the Committee considered:

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

Audit Committee report
continued

Financial reporting continued

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

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

Auditor independence

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

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

The external auditor was engaged for two non-audit assignments during the year. These assignments related to the equity raise in April 2018 and fees paid to the Adviser, including the Performance Incentive Fee. The fee for the non-audit assignments was £142,000 in total. The services were deemed to be ancillary to other assurance services provided by the external auditor where using their knowledge of the facts under consideration was seen as being cost effective for the Group. Their engagement was not deemed to compromise their objectivity and independence as sufficient safeguards were in place. During the period the external auditor was engaged to work on the merger with MedicX and a fee of £85,000 was accrued at the year end. The majority of this work was undertaken after the year end.

Effectiveness of external auditor

The effectiveness of the audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received from Deloitte LLP a detailed audit plan, identifying their assessment of these key risks. For 2018, the primary risks identified were in relation to the valuation of the property portfolio and management override of controls. It is standard practice for the Audit Committee to also meet privately with the external auditor.

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

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

The Committee assesses the effectiveness of the external auditor on an annual basis. The Committee conducts a formal evaluation process involving the completion of a questionnaire and individual and group discussions, to obtain the views of the Committee and appropriate employees of the Adviser. Following the completion of the 2018 year-end audit, the Committee conducted its review and considers that the audit was appropriately planned and scoped efficiently and effectively performed by Deloitte. The Committee is satisfied that Deloitte continued to perform effectively as the external auditor.

Audit tender policy

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

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

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

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

Evaluation of the performance of the Audit Committee

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

Internal audit

The Audit Committee considers annually the requirement for an internal audit function and the Board, on the recommendation of the Audit Committee, having regard to the matters considered above, has concluded that one is not currently required.

Ian Krieger
Chairman of the Audit Committee
30 January 2019

Nomination Committee report

Members of the Nomination Committee (the "Committee")

Member	Number of meetings and attendance while in post
Steven Owen (Chairman)	2/2
Nick Wiles	2/2
Geraldine Kennell	2/2
Ian Krieger	1/1
Dr Stephen Kell OBE	1/1
Peter Cole	1/1

Dear shareholder,

I am delighted to present the report of the Nomination Committee to shareholders, following my appointment as Chairman and having succeeded Nick Wiles as chairman of the Nomination Committee.

The Board is required by the Code to establish a Nomination Committee which should lead the process for Board appointments and make recommendations for appointments to the Board. A majority of members of the Nomination Committee should be independent Non-executive Directors. The Nomination Committee's key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities.

Summary of responsibilities

The Nomination Committee reviews the structure, size and composition of the Board and its committees and makes recommendations with regard to any changes considered necessary in the identification and nomination of new directors, the re-appointment of existing directors and appointment of members to the Board's committees.

It also acts as a forum to assess the roles of the existing directors in office to ensure that there continues to be a balanced Board in terms of skills, knowledge, experience and diversity.

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

The composition of the Board itself is based on a range and balance of skills, knowledge, experience and merit. The Nomination Committee ensures that diversity is an important consideration and part of the selective criteria used to assess candidates to achieve a balanced Board.

The terms of reference of the committee are available on the Company's website at www.phpgroup.co.uk/investors/corporate-governance.

Report on the Committee's activities during the year

The Committee had a busy year seeking candidates with a suitable blend of skills and experience to appoint to the Board, as the Company looked to replace a number of retiring Non-executive Directors.

The Committee worked with Lomond Consulting a specialist agent with no other connection to the Company to lead the search for suitable candidates to replace Alun Jones, Dr Ian Rutter and Mark Creedy. The Committee agreed the terms of appointment for the agent and the specification, required skills and experience that should be provided by the successful candidates. Following this process, a shortlist of potential candidates was produced and they were interviewed by members of the Committee and the Managing Director to assess the suitability of each of them. This resulted in the appointment of Ian Krieger as my successor as Chairman of the Audit Committee and Dr Stephen Kell who succeeded Dr Rutter in February 2018.

The Committee continued to search for a candidate with relevant expertise in the property sector to succeed Mark Creedy and were delighted to announce the appointment of Peter Cole, Chief Investment Officer at Hammerson plc, following the same process as outlined above.

During the year, the Committee also discharged its responsibilities, under its terms of reference, by:

- reviewing the proposals for re-election of Directors at the Annual General Meeting;
- reviewing the succession planning for the Board;
- discussing the results of the annual directors' performance and skills evaluation exercise; and
- reviewing its terms of reference and agreeing amendments to the terms of reference to encompass responsibility for overseeing Board induction, conflicts of interest and outside appointments.

Nomination Committee report
continued

Post-year-end activities

On 24 January 2019 the Board and the board of MedicX announced that they had reached agreement on the terms of a recommended all-share merger between the two companies.

Following completion of the proposed merger, it is expected that, Helen Mahy, the current Chair of MedicX will join the Board as Deputy Chairman and Senior Independent Director, and Laure Duhot, currently a Non-executive Director of MedicX, will join as Non-executive Director and Chairman of the Adviser Engagement Committee. Nick Wiles and Geraldine Kennell will step down from the Board on completion of the merger. This will deliver an appropriately sized and balanced Board with the complementary skills necessary to drive the enlarged group forward following the merger.

Terms of Non-executive appointments

Non-executive Directors are appointed for an initial three-year term and are subject to annual re-election by shareholders and to three months' notice from the Company or the Director. Each Director, on appointment, is provided with a letter setting out the terms of appointment, the fees to be paid and the time commitment expected. The letters of appointment are available for inspection at the registered office and will be on display at the Annual General Meeting of the Company to be held on 11 June 2019.

Steven Owen
Chairman of the Nomination Committee
30 January 2019

Adviser Engagement Committee report

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

Member	Number of meetings and attendance while in post
Nick Wiles (Chairman)	4/4
Steven Owen	4/4
Geraldine Kennell	4/4
Ian Krieger	3/3
Dr Stephen Kell OBE	3/3
Peter Cole	2/2

Dear shareholder,

I am delighted to present my first report as chairman of the Adviser Engagement Committee, since I was appointed in January 2018, following the announcement that Mark Creedy would not be standing for re-election as a Non-executive Director at the 2018 Annual General Meeting.

The Company is advised by Nexus TradeCo Limited ("Nexus") who also provide property management and administration services to the Group. Nexus's appointment is governed by the terms of an Advisory Agreement dated 27 January 2014 (the "Advisory Agreement"). Nexus also provides the services of Harry Hyman as Managing Director and Richard Howell as Finance Director. For the purposes of Rule 11 of the Listing Rules published by the Financial Conduct Authority and applicable to all companies with a premium listing of its shares on the London Stock Exchange, Nexus is deemed to be a related party of PHP and its subsidiaries.

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

Responsibilities

The main roles and responsibilities of the Committee include:

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

Attendance at meetings

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

Report on the Committee's activities during the year

The Committee had an active year, considering a number of strategically important issues, and met four times during the year, in February, April, July and November.

The main activity of the meeting in February was to review and agree the calculation of the performance incentive fee (PIF) due to Nexus under the terms of the Advisory Agreement, which was revised during 2017. After consideration of the calculation and after discussion with the auditors, a PIF payment of £0.5 million was paid to Nexus as a result of the total return on the Group's portfolio in 2017 exceeding the hurdle rate of 8%.

The revised Advisory Agreement also provides for at least 25% of the PIF paid to be shared between the senior members of Nexus's management involved in servicing the Company. The Committee also reviewed the proposals from Nexus for the allocation of this sum among the members of the team to satisfy itself that the proposed allocation would aid retention and motivation as intended.

During the April meeting, the Committee undertook a formal evaluation of the performance of Nexus, both as a provider of property management and investment services and also as the provider of financial and administrative services to the Company. This took the form of an evaluation of Nexus against a detailed and comprehensive performance matrix used and evolved by the Committee over several years and a presentation from the Managing Director. The result of this evaluation was that the Committee considered that Nexus continued to perform well.

Adviser Engagement Committee report
continued

Report on the Committee's activities during the year
continued

The meeting also considered arrangements for the sharing of personal data between the Company and Nexus and agreed to formalise these in the light of changes required by the General Data Protection Regulation and the Data Protection Act 2018.

The Committee in July formally approved minor changes to the wording of the Advisory Agreement to clarify the operation of the provisions of the PIF and the execution of a data sharing deed to reflect the arrangements regarding personal data referred to above. At the same meeting, the Committee also considered the Adviser's plans for succession planning in its staff and the potential risk (if any) associated with the departure of any key members of the Adviser's senior management team.

The meeting in November considered a number of further changes to the terms of the Advisory Agreement in light of the negotiations with MedicX and the proposal that the Adviser would take over management of the enlarged group's portfolio, if the transaction completed.

The changes were contained in two documents considered by the Committee, one of which is conditional upon the completion of the merger with MedicX and on shareholder approval (the "Deed of Variation"), while the other (the "Amendment Deed") is not conditional. The Amendment Deed provides that PHP's current marginal property fee scale of 0.275%, applied in calculating the annual property services fee, will reduce in accordance with the following scale - where the gross asset value of the portfolio is:

- between £1.75–£2.00 billion, the rate applied is 0.25%;
- between £2.00–£2.25 billion, the rate applied is 0.225%; and
- £2.25 billion and above, the rate applied is 0.200%.

Prior to the amendments made by the Amendment Deed, a rate of 0.250%. was applied in calculating the annual property services fee where the gross asset value of the portfolio was greater than £1.75 billion.

The key terms of the Deed of Variation, provide that:

- in respect of the services provided in relation to the properties currently owned by the MedicX Group, PHP shall pay a monthly fee to Nexus equal to 0.225%. per annum of the MedicX Group's gross asset value for a period of five years from the date of the completion of the merger, after which PHP's marginal property fee scale will apply – this monthly fee will be reduced by the monthly cost contribution from Nexus referred to in the next paragraph;
- a cost contribution paid by Nexus to PHP equal to 25% of the payment made by MedicX to terminate the MedicX Investment Management Agreement with Octopus Healthcare (capped at £2.5 million), such contribution to be payable in monthly instalments, over five years, by reducing the fees payable to Nexus under the Advisory Agreement with such contribution terminating five years after the date of Completion or, if earlier, the date on which the Company serves notice terminating the Advisory Agreement;
- the fee payable in respect of the provision of the finance and company secretarial services shall increase by an annual figure of £250,000;
- in respect of property management services, setting an initial term of the appointment of three years from the date of Completion and thereafter continuing until terminated on at least two years' notice; and
- in respect of financial and company secretarial services, setting an initial term of appointment of three years from the date of Completion and thereafter continuing until terminated on at least twelve months' notice.

The Deed of Variation is conditional upon shareholder approval and on completion of the merger.

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

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

I will be standing down as Chairman of the Committee and will hand over to Laure Duhot on completion of the proposed MedicX merger.

Nick Wiles
Chairman of the Adviser Engagement Committee
30 January 2019

Remuneration Committee report

Members of the Remuneration Committee (the "Committee")

Member	Number of meetings and attendance
Geraldine Kennell (Chairman)	2/2
Nick Wiles	2/2
Steven Owen	2/2
Ian Rutter	1/1
Dr Stephen Kell OBE	1/1
Peter Cole	1/1

Additional attendees invited to attend meetings as appropriate

Harry Hyman – Managing Director

Dear shareholder,

This report has been prepared by the Remuneration Committee and approved by the Board and includes our current Directors' remuneration policy and shows how it was implemented during the year.

Our current policy was last approved at the 2017 Annual General Meeting ("2017 AGM"), when shareholders voted by a majority of over 99% of the votes cast to approve the directors' remuneration policy. As there are no proposed changes to the Directors' remuneration policy, there is no requirement for a shareholder vote on this part of the Directors' Remuneration Report at the AGM to be held in April 2019. All arrangements operated by the Company during the year were in line with the policy.

The Company has no employees and therefore pay and employment considerations are not taken into account in determining Directors' fees. The Managing Director and Finance Director are employed by the Adviser and remunerated by them and so the Committee does not determine executive directors' pay.

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

Responsibilities of the Committee

The principal responsibilities of the Committee are:

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

Attendance at meetings

Alun Jones, Mark Creedy and Dr Ian Rutter attended the meeting held while they were directors of the Company and Ian Krieger, Peter Cole and Dr Stephen Kell attended the meeting held after their appointment. The Chair of the Remuneration Committee also invited Harry Hyman (Managing Director) to attend selected meetings.

The Remuneration Committee's activities during year

During 2018, the Committee met twice, in February and September.

At its meeting in February the Committee considered and approved the Directors' Remuneration Report set out in the Annual Report for 2017 and the remuneration of the Chairman. The Committee engaged FIT Remuneration Consultants LLP ("FIT") to conduct a benchmarking review of the Chairman's remuneration based on a pan-sector group of the 20 companies immediately above and below PHP's market capitalisation and a selection of comparable REIT's including direct competitors.

The Remuneration Committee's activities during year
continued

The review indicated that the fee paid to the Chairman remained below the median both on the basis of the pan-sector data and the REIT peer group. After consideration of this report, it was agreed to increase the level of the Chairman's remuneration by 3.5% or £2,500 to £74,500 with effect from 1 April 2018. Mr Owen, as the Chairman designate at the time, absented himself from the meeting for these discussions and took no part in the decision of the Remuneration Committee.

At the meeting in September, the Committee formally reviewed the expenses of the directors and approved these as being in line with the Company's policy.

Conclusion

The report that follows consists of two sections:

- an "At a glance" summary of the approved remuneration policy on page 61; and
- an Annual Report on Remuneration, detailing how our Directors were paid during 2018 and how the remuneration policy will be applied in 2019, on pages 62 to 64.

The Committee takes its responsibilities seriously and hence has an active interest in your views and hopes to receive your support again at the AGM. I will be standing down as Chairman of the Committee and will hand over to Helen Mahy on completion of the proposed MedicX merger.

Geraldine Kennell
Chair of the Remuneration Committee
30 January 2019

Directors' remuneration report

Part A

Directors' remuneration policy

The policy as approved in 2017 can be found on pages 52 and 53 of the 2016 PHP Annual Report accessible at https://www.phpgroup.co.uk/investors/results-centre.

In summary, the Company's policy is to pay each director a fixed fee per annum commensurate with the level of commitment required and prevailing rates informed by external consultants and comparable organisations. Additional fees may be payable for additional services, such as chairing committees or other significant additional responsibilities at the direction of the Board. No other benefits, taxable or otherwise are received by any director, however, expenses incurred in connection with the Company's business are reimbursed.

Recruitment and remuneration policies

- The Chairman and non-executive Directors are not entitled to receive any remuneration which is performance related. As a result there are no performance conditions in relation to any elements of the Directors' remuneration in this policy.
- The remuneration package for any new Chairman or Non-executive Director will be in line with our approved policy. The fee and entitlement to reclaim reasonable expenses is set out in the Directors' letters of appointment.
- There is no provision for the recovery of sums paid to a Director or the withholding of the payment of any sum due to a Director.
- The Company will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay fees to search and selection consultants in connection with the appointment of any Non-executive Director.
- The Committee determines appropriate levels of remuneration for all Directors' fees, subject to the overall limit as set out in the Articles of Association of £500,000.

Service contracts

No director has a service contract, nor are they appointed for a specific term.

The contract for the services of Harry Hyman and Richard Howell is with Nexus, pursuant to the Advisory Agreement. The Adviser receives the annual fee for a Non-executive Director for the services of Harry Hyman.

There are letters of appointment in place for the other Directors, including the Chairman. These provide, subject to the appointment and any re-appointment being in accordance with the terms of the Articles of Association and to retirement by rotation, that Directors' appointments can be terminated upon either party giving not less than three months' prior written notice. These letters of appointment are available for inspection at the Registered Office and on display at the Annual General Meeting.

All Directors are subject to re-appointment by shareholders at the first Annual General Meeting held after their appointment and annual re-election thereafter in accordance with the Code.

Loss of office – Directors do not have any entitlement to payment upon loss of office over and above the pro-rated fees due to them and any outstanding expenses.

Scenarios – as the Directors' fees are fixed at annual rates, there are no other scenarios where remuneration will vary. It is accordingly not considered appropriate to provide different remuneration scenarios for each Director.

Statement of consideration of conditions elsewhere in the Company

The Company has no employees and hence it is not possible to take into account employment conditions elsewhere in the Company when setting the Directors' remuneration policy. We cannot take into account any internal comparisons and the matter of employee consultation does not arise.

Other items

None of the Directors have any entitlement to bonus, pensions or pension related benefits, medical or life insurance schemes, share options, long term incentive plans, performance related payments or other benefits. Non-executive Directors may be reimbursed for travel and accommodation expenses in connection with Board meetings and in line with the Group's expense policy. No Director is entitled to any other monetary payment or any assets of the Company except in their capacity as shareholders of the Company.

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

The Company has not received any comment or views from shareholders with regard to the formulation of the Directors' remuneration policy.

Directors' remuneration report
continued

Part B

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, and relevant sections of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2019 AGM. The information on pages 62 to 63 has been audited where required under the regulations and indicated as audited information where applicable.

The set fee for the Non-executive Directors and payable to the Adviser for the services of the Managing Director from 1 April 2018 was £41,500 per annum and £74,500 per annum for the Chairman. The Audit Committee Chairman received an additional £10,000 per annum, making his total remuneration £51,500 and the Chair of the Adviser Engagement Committee received an additional £3,000 making his total remuneration £44,500.

In the year, in connection with the merger with MedicX, the Board established a special project committee consisting of the Chairman, the Senior Independent Director, the Managing Director and the Finance Director to lead the transaction. The Chairman and the Senior Independent Director both agreed to take on significant additional duties and responsibilities by serving on this committee, which has been meeting on a weekly basis since the summer of 2018. In recognition of these additional duties and responsibilities on 29 January 2019, the Remuneration Committee approved additional fees of £25,000 and £15,000 to the Chairman and Senior Independent Director respectively. No further payments will be made in respect of the activities of the project committee.

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

Single total figure of remuneration (audited information)

	Year ended 31 December 2018	Year ended 31 December 2017
Alun Jones[1]	**21,748**	69,000
Harry Hyman (Managing Director)	**41,875**	39,500
Richard Howell (Finance Director)[2]	**nil**	nil
Dr Ian Rutter[1]	**12,047**	39,500
Mark Creedy[1]	**12,297**	41,750
Nick Wiles[3]	**43,875**	39,500
Steven Owen[4]	**67,210**	48,750
Geraldine Kennell	**41,125**	39,500
Ian Krieger[5]	**43,152**	n/a
Dr Stephen Kell[5]	**36,125**	n/a
Peter Cole[6]	**27,686**	n/a
Total	**347,140**	317,500

1 Alun Jones, Dr Ian Rutter and Mark Creedy retired at the annual general meeting held on 18 April 2018.

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

3 Mr Wiles was appointed to chair the Advisory Engagement Committee on 29 January 2018.

4 Mr Owen was appointed as Chairman following the Annual General Meeting on 18 April 2018.

5 Ian Krieger and Dr Stephen Kell were appointed as non-executive directors on 15 February 2018.

6 Mr Cole was appointed as a non-executive director on 1 May 2018.

Harry Hyman is a Director of Nexus, the Adviser to the Group. The fees in respect of the services of Harry Hyman are paid to Nexus.

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

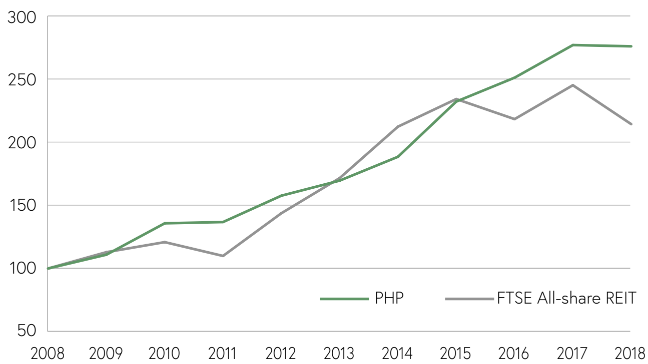
The Managing Director holds a non-executive director appointment outside of the Company. The Advisory Agreement does not require the services of the Managing Director on a full time basis and he is committed to working a minimum number of days a month for the Company. The Remuneration Committee is satisfied that the Company has received the appropriate time commitment from the Managing Director and that it would not be appropriate to require disclosure of the fee payable to the Managing Director in respect of his appointments outside of the Company.

Further details of the Advisory Agreement are given in the Directors' Report on page 68 and details of the amounts paid to the Adviser in Note 4 to the financial statements on page 90.

The Company's performance

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

For the year ended 31 December 2018, the highest and lowest mid-market prices of the Company's Ordinary Shares were 117.4 pence and 106.4 pence respectively.



The Remuneration Committee appointed FIT Remuneration Consultants LLP to provide advice on directors' remuneration policy and governance. FIT has no connection with the company and is a signatory to the voluntary code of conduct in relation to executive remuneration consulting. The Committee is therefore satisfied that their advice is independent. The fees paid for their services have been capped at £5,000 per calendar year.

Relative importance of spend on pay

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

	2018	2017	Difference
Directors' fees[1]	**347,140**	317,500	9.3%
Management fee	**6,677,550**	6,334,132	5.4%
Dividends	**36,644,047**	31,429,561	16.6%

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

Note: The items listed in the table are as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 Section 20 with the exception of the management fee which has been included because the Directors believe it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are as shown in Note 4 to the financial statements.

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

Statement of Directors' shareholding and share interests

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

	31 December 2018 Held outright	31 December 2018 Held by connected parties	31 December 2017 Held outright	31 December 2017 Held by connected parties
Mark Creedy	**32,800**	**22,540**	32,800	22,540
Harry Hyman[1]	**463,145**	**12,373,131**[1]	384,391	12,362,913[1]
Richard Howell	**14,785**	**101,155**	13,964	36,036
Alun Jones	**117,518**	**60,259**	99,000	51,000
Steven Owen	**49,265**	**23,796**	35,226	21,790
Dr Ian Rutter	**67,061**	**46,308**	65,205	38,046
Geraldine Kennell	**257,951**	**—**	25,000	—
Nick Wiles	**51,624**	**—**	25,000	—
Ian Krieger	**81,481**	**—**	—	—
Dr Stephen Kell	**14,182**	**—**	—	—

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

Save as disclosed below, no changes occurred between 31 December 2018 and the date of this report.

Mr and Mrs Hyman are participants in the Company's monthly investment account that is administered by Equiniti on the Company's behalf. As a consequence of purchases in January 2019, at the date of this report Mr Hyman held outright 463,231 shares, and connected parties to Mr Hyman 12,373,217 shares.

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

Directors' remuneration report
continued

Statement of shareholder voting

At the 2018 AGM, shareholder voting on the Director's Remuneration Report was as follows:

	Number of shares	% of votes cast
Votes cast in favour	236,693,014	99.9
Votes cast against	232,794	0.1
Total votes cast	236,925,808	100
Abstentions	208,130	0.08

At the 2017 AGM, shareholder voting on the Directors' Remuneration Policy was as follows:

	Number of shares	% of votes cast
Votes cast in favour	221,478,616	99.87
Votes cast against	298,301	0.13
Total votes cast	221,776,917	100
Abstentions	121,781	0.0203

Statement of implementation of the remuneration policy for the year ended 31 December 2019

Decisions on the remuneration of the Chairman and the Non-executive Directors are usually made in February before the Annual Report is approved by the Board and are then implemented with effect from 1 April. It has been decided that further discussions and subsequent decisions will not be made until after the transaction has been approved by shareholders and completed. The Remuneration Committee will continue to apply the current approved Directors' Remuneration Policy.

Payments to past Directors or for loss of office

There have been no payments made to past Directors and no payments made for loss of office in the year.

Approval

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

Signed on behalf of the Board of Directors

Geraldine Kennell
Chairman of the Remuneration Committee
30 January 2019

Directors' report

The Directors present their Annual Report to shareholders for the year ended 31 December 2018.

The Group's Strategic Report on pages 1 to 37 includes matters that would otherwise be required to be disclosed in this report including on the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, an indication of future likely developments in the Company and details of important events since the year ended 31 December 2018.

The purpose of the Annual Report is to provide information to the members of the Company, as a body. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Nothing in this Annual Report should be construed as a profit forecast.

Principal activity

The principal activity of the Group (of which Primary Health Properties PLC is the Parent Company) is the generation of rental income and capital growth through investment in primary healthcare property in the United Kingdom and Ireland.

The Group became a Real Estate Investment Trust ("UK REIT") on 1 January 2007. It is the opinion of the Directors that the Group has conducted its affairs so as to be able to continue as a UK REIT.

Results and dividends

The results for the year are shown in the Group Statement of Comprehensive Income on page 78.

As in 2017, the Board resolved in 2018 to pay quarterly interim dividends. In line with this policy interim ordinary dividends totalling 5.40 pence per ordinary share of 12.5 pence each ("Ordinary Share") were paid during the year (year ended 31 December 2017: 5.25 pence). The quarterly dividends were split into elements comprising a property income distribution ("PID") and an ordinary dividend.

On 3 January 2019, the Board declared an interim dividend of 1.4 pence per Ordinary share, payable on 22 February 2019, to shareholders on the register at 11 January 2019, being the first quarterly dividend in 2019. Further information on dividends can be found in the Shareholder Information section on page 120.

Directors

Biographical information for the current Directors can be found on pages 38 to 40.

Details of the Directors who served during the year and their interests in the Company's Ordinary Shares can be found in the Directors' Remuneration Report on page 63.

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

Mr Cole having been appointed since the Annual General Meeting in 2018 will stand for election at the Annual General Meeting to be held on 11 June 2019 ("2019 AGM").

All other Directors who served during the year will retire and being eligible, will offer themselves for re-election at the 2019 AGM. A proposal to re-elect such Directors will be included within the Notice calling the 2019 AGM. The Chairman confirms to shareholders that, following formal performance evaluation, all the Directors standing for re-election continue to be effective and their contribution is valuable and they demonstrate full commitment to and independence in their roles.

Information on the performance evaluation of the Board is shown in the Corporate Governance Report on page 50.

Appointment and removal of Directors

Unless and until otherwise determined by the Company by ordinary resolution, the number of Directors (other than any alternate Directors) shall not be less than two and there shall be no maximum number of Directors.

The Managing Director and Finance Director have service agreements with the Adviser and are not employees of the Company. Details of the service agreements of the Non-executive Directors (including the notice periods required to terminate the agreements) are shown in the Directors' Remuneration Report on page 61. Save in respect of any payments that may be made in lieu of notice on termination, there are no arrangements between the Company and the Directors or other employees for compensation for loss of office or employment that occurs because of a takeover bid.

Directors' report
continued

Powers of Directors

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

The Directors were empowered by resolutions of the Company passed on 18 April 2018 to allot equity securities (as defined by the Companies Act 2006) for cash and to make market purchases of the Company's shares, up to a maximum aggregate number of 62,092,932 ordinary shares. It is proposed to seek renewal of these authorities at the forthcoming 2019 AGM.

Appointment of Directors

Subject to the articles of association, and without prejudice to the power of the Company to appoint any person to be a Director, the Board shall have power at any time to appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors shall not exceed any maximum number fixed in accordance with the articles of association.

Any Director so appointed shall hold office only until the next Annual General Meeting of the Company following such appointment and shall then be eligible for election.

Retirement of Directors

Under the articles of association at each annual general meeting any Director who shall have been a Director at each of the two preceding annual general meetings is required to stand for re-election as a Director. However, the Company has, however, adopted the requirements of the Code in requiring the annual re-election of all Directors.

Removal of Directors

In addition to any powers of removal conferred by the Companies Act, the Company may by special resolution remove any Director before the expiration of his period of office and may (subject to the articles) by ordinary resolution, appoint another person to act in their place.

Indemnities

The Company's Articles of Association permit it to indemnify Directors of the Company (or of any associated company) in accordance with the Companies Act 2006. The Company may fund expenditure incurred by Directors in defending proceedings against them. The Company may indemnify any Director of the Company or of any associated company against any liability. However, the Company may not provide an indemnity against: (i) any liability incurred by the Director to the Company or to any associated company; or (ii) against any liability incurred by the Director to pay a criminal or regulatory penalty; or (iii) against any liability incurred by the Director in defending criminal proceedings in which they are convicted; or (iv) in defending any civil proceedings brought by the Company (or an associated company) in which judgment is given against them; or (v) in connection with certain court applications under the Companies Act 2006. No indemnity was provided and no payments were made pursuant to these provisions during the year.

The Company also procures Directors' and officers' liability insurance in respect of itself, the Directors and the Directors of its subsidiaries. These indemnities are qualifying third-party indemnity provisions as defined by Section 234 of the Companies Act 2006.

The indemnities were valid throughout the year and are currently valid.

Substantial interests

As at 30 January 2019, the Company had been notified or was otherwise aware of the following shareholders who were directly or indirectly interested in 3% or more of the voting rights in the Company's issued share capital:

As at 30 January 2019	Ordinary Shares	Percentage of existing issued share capital
Blackrock Investment Management	53,214,035	6.9
Investec Wealth & Investment	40,064,371	5.21
Charles Stanley Group	31,328,539	4.07
Hargreaves Lansdown	30,925,436	4.02
CCLA Investment Management	26,729,268	3.48
Troy Asset Management	26,504,851	3.45
Vanguard Group	26,373,928	3.43

Share capital

At the date of this report, the Company has one class of share in issue, being 774.4 million Ordinary Shares of 12.5 pence each and each carrying the right to one vote at general meetings of the Company and to participate in any dividends declared in accordance with the articles of association. No person has any special rights of control over the Company's share capital.

The Company did not purchase or acquire any of its Ordinary Shares during the year, nor did any nominee or third party with the Company's assistance acquire any shares on behalf of the Company. Save as specifically authorised by shareholders in connection with the placings on 13 April 2016 and 18 April 2018 of new Ordinary Shares and under the Company's scrip dividend scheme, the Company has not issued any shares for cash other than on a pre-emptive basis in any financial period since 31 December 2014.

Details of changes in share capital are set out in Note 19 of the financial statements.

Rights attaching to shares under the articles of association

The Company's articles of association do not contain any specific restrictions on the size of a shareholder's holding.

Voting rights

Subject to any special rights or restrictions as to voting attached to any shares by or in accordance with the articles of association, on a show of hands every member who is present in person or by proxy and entitled to vote has one vote and on a poll every member who is present in person or by proxy and entitled to vote has one vote for every share of which he is the holder.

Restrictions on voting

No member shall, unless the Board otherwise determines, be entitled to vote at a general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, in respect of any share held by such member or to exercise any right as a member unless all calls or other sums presently payable by such member in respect of that share have been paid to the Company. In addition, any member (or other person appearing to be interested in the shares (a "third party"), who having been served with a notice under section 793 of the Companies Act 2006 by the Company requiring such member to disclose to the Board in writing within such reasonable period as may be specified in such notice, details of any past or present beneficial interest of such member or any such third party in the shares or any other interest of any kind whatsoever which a member or third party may have in the shares and the identity of the person having or having had any such interest, fails to do so may be disenfranchised by service of a notice by the Board.

Transfer

Any member may transfer all or any of his uncertificated shares by means of a relevant system in such manner provided for, and subject as provided, in the CREST Regulations and the rules of any relevant system. Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. Subject to the provisions of the Companies Act, the Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully paid share provided that where such a share is a member of a class of share admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis.

The Board may only decline to register a transfer of an uncertificated share in the circumstances set out in the CREST Regulations, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share unless the instrument of transfer is: (i) left at the registered office, or at such other place as the Board may decide, for registration and is accompanied by the certificate for the shares to be transferred and/or such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer; or (ii) (if stamp duty is generally chargeable on transfers of certificated shares) the instrument of transfer is duly stamped or adjudged or certified as not chargeable to stamp duty; or (iii) the instrument is in respect of only one class of share; and (iv) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

Amendment of the Company's articles of association

Any amendments to the Company's articles of association may be made in accordance with the provisions of the Companies Act 2006 by special resolution. There were no amendments made to the Company's articles of association in the year.

Corporate governance

A report on corporate governance and compliance with the provisions of the UK Corporate Governance Code, which forms part of this Directors' Report, is contained on pages 42 to 51.

Report on greenhouse gas emissions

The Group is externally advised and administered by the Adviser and therefore has no employees or office premises. Any emissions are therefore negligible. Further information on the Group's social and environmental impact can be found in the Responsible business section on page 33.

Directors' report
continued

Annual General Meeting

The Annual General Meeting of PHP (the "AGM") will be held on 11 June 2019 at 10:30 a.m. The Notice convening the Annual General Meeting and explanatory notes for the resolutions sought will be sent to shareholders separately from this document.

Auditors

Deloitte LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint them will be put to shareholders at the AGM.

Related party transactions

Mr Hyman is a director of Nexus Tradeco Limited ("Nexus"). Nexus is the Adviser to the Group and, as a result, Mr Hyman is deemed to have an interest in the Advisory Agreement referred to below and is thus a related party. Details of the transactions with the related party are set out in note 4 to the financial statements on page 90.

Advisory Agreement

Pursuant to an advisory agreement between the Company and the Adviser (Nexus) ("the Advisory Agreement"), as amended, the Company has appointed Nexus:

- to provide property advisory and management services to the Group and the services of the Managing Director of the Company ("Property Advisory Services");
- to provide administrative and accounting services to the Group; and
- to act as the appointed Company Secretary (together the "Administrative Services").

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

Advisory fees

(a) Property Advisory Services

The current fee arrangement for Property Advisory Services (the "Property Services Fee"), based on gross asset value, is as follows:

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

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

As regards Property Advisory Services, the Advisory Agreement is terminable by not less than two years' written notice.

As explained on page 7 if the merger with MedicX completes and shareholders approve the changes to the Advisory Agreement, in respect of the property management services, the term will be three years and thereafter continuing until terminated on at least two years notice.

(b) Administrative services

The Advisory Agreement provides for the Company to pay Nexus in relation to Administrative Services a fixed annual fee of £964,536 from 1 May 2018.

The Administrative Services fee may be increased or decreased by up to 5% per annum subject to movements in RPI from 1 May 2016.

Nexus' appointment to provide Administrative Services was initially for a minimum two-year period ending 1 May 2016. Thereafter, the notice period to terminate such services is 12 months given by either Nexus or the Company. If the proposed changes to the Advisory Agreement are approved by shareholders the fee payable in respect of the Administrative services shall increase by an annual figure of £250,000 and the term shall be three years from completion of the proposed MedicX merger and thereafter continuing until terminated on at least twelve months notice.

(c) Performance Incentive Fee ("PIF")

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

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

Employees

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

Donations

The Group does not make any political or charitable donations.

Share service

The Shareholder Information section on page 120 provides details of the share services available.

Financial instruments

The Group's financial risk management objectives and policies are discussed in Notes 17 and 18.

Post balance sheet events

Details of events occurring since the year end are given in Note 29 on page 110.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report.

The Group's property portfolio is 99.8% occupied with 91% of its income funded directly or indirectly by the UK government.

As at 31 December 2018, the Group had £200.8 million of headroom on its debt facilities, with a further £5.9 million of cash. The Group has total commitments of £16.0 million outstanding to fund on properties under construction through the course of 2019. The Group's consolidated loan to value ratio, including drawn, unsecured debt, is 44.8%, with all banking covenants being met during the year and subsequent to the year end.

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

Regulatory disclosures

The following disclosures are made in compliance with Listing Rule 9.8.4 and the Disclosure and Transparency Rules ("DTRs"). Details of the Directors' (and their connected persons) interest in the shares of the Company are set out on page 63 and details of significant interests in the Company's shares disclosed under DTR5 at the year end are set out in the Directors' Report on page 66, and the going concern statement on page 69. Details of the financial instruments used by the Group are set out in Note 17 forming part of the Group financial statements on pages 101 to 102, which are incorporated into this Report of the directors by reference. No interest was capitalised by the Group in the financial year to 31 December 2018. All other sub-sections of LR9.8.4 are not applicable. Information that fulfils the requirements of LR 9.8.6(5) and 9.8.6(6) can be found in the Corporate Governance report on pages 42 to 51 and is incorporated into this Directors' Report by reference.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 38 and 40. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

By order of the Board

Nexus Management Services Limited
Company Secretary
30 January 2019

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

Registered in England Number: 3033634

Directors' responsibility statement

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

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

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

For and on behalf of the Board

Steven Owen
Chairman
30 January 2019

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Primary Health Properties plc (the "parent company") and its subsidiaries (the "group") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group cash flow statement;
- the group and parent company statements of changes in equity; and
- the related Notes 1 to 29 for the group and 1 to 18 for the parent Company.

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

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • in relation to the valuation of investment property, the estimation of the property yields to be applied. Within this report, any new key audit matters are identified with ⓐ and any key audit matters which are the same as the prior year identified with ⓐ.
Materiality	The materiality that we used in the current year was £14.7million which was determined on the basis of 2% of Net Assets. In addition to net assets, we considered EPRA Earnings to be a critical financial performance measure for the group and we applied a lower threshold of £1.7 million for items affecting EPRA Earnings.
Scoping	Consistent with 2017, we performed full scope audit procedures on all of the group's subsidiaries. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.
Significant changes in our approach	There have been no significant changes in our approach in the current year, with the key audit matter still relating to the valuation of investment property.

Conclusions relating to principal risks, going concern and viability statement

Going concern

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

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

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

Principal risks and viability statement

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

- the disclosures on pages 24 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 30 and 31 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Key audit matters

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

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

Estimation of property yields

Key audit matter description

The group owns and manages a portfolio of primary healthcare properties that are carried at fair value in the financial statements. The portfolio is valued at £1,502.9 million as at 31 December 2018 (2017: £1,361.9million).

The group uses professionally qualified external valuers to fair value the group's portfolio at six-monthly intervals. The valuers are engaged by the Directors and perform their work in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards. The valuers used by the group have considerable experience in the markets in which the group operates.

The portfolio (excluding development properties) is valued by the investment method of valuation with development properties valued by the same methodology with a deduction made for all costs necessary to complete the development.

The estimation of yields in the property valuation is a significant judgement area and is underpinned by a number of assumptions relating to the size and location of the property as well as certain attributes of the lease. Given the high level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The inherent subjectivity in relation to estimation of yields, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the Statement of Comprehensive Income Statement of Financial Position, warrants specific audit focus in this area.

Please see accounting policy at page 84 and Note 10 to the financial statements. The consideration of this risk by the Audit Committee is described at page 53.

How the scope of our audit responded to the key audit matter

- We assessed the design and implementation of management's process for reviewing and assessing the work of the external valuer.
- We obtained and read the external valuation reports for all properties and evaluated whether the valuation approach is in accordance with RICS and suitable for use in determining the carrying value in the balance sheet.
- We assessed the competence, independence and integrity of the external valuer and read their terms of engagement with the group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work.
- We met with the external valuer of the portfolio to discuss the results of their work. We challenged their valuation process and discussed significant assumptions and critical judgements over yields in the context of publicly available information, including average yields quoted by competitors as well as comparable property transactions.
- We selected a sample of properties, where the yields applied in the valuation were outside the expected range. We challenged the explanations provided with reference to underlying evidence, such as lease terms and where necessary, held further discussions with the valuers.

Key observations

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

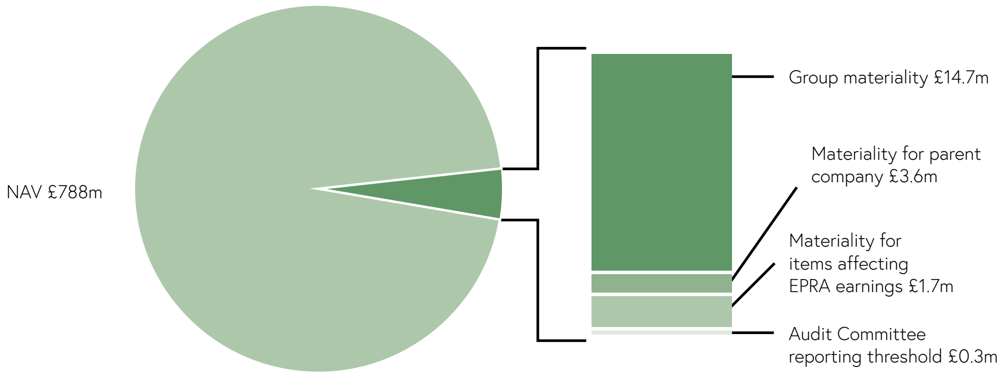
Independent auditor's report continued to the members of Primary Health Properties PLC

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£14.7 million (2017: £10.6 million) and a lower materiality of £1.7 million (2017: £1.6 million) for balances impacting EPRA earnings.	Materiality for the parent company has been determined as £3.6m (2017: £6.0m).
Basis for determining materiality	2% of net assets (2017: 2% of net assets). The lower materiality used for balances impacting EPRA earnings was determined using 5% (2017: 5%) of EPRA Earnings.	2% of net assets excluding intercompany (2017: 2% of total assets excluding intercompany). This basis has changed from total assets in the prior year to net assets this year. As there is no material debt, this change has had no significant impact on the materiality level.
Rationale for the benchmark applied	The overall level of materiality was determined using net assets because this is the primary focus of investors in listed real estate businesses.	The overall level of materiality was determined using net assets as this is determined to be the most stable base for calculation.



In addition to net assets, we considered EPRA Earnings to be a critical financial performance measure for the group and we applied a lower threshold of £1.7 million for EPRA Earnings items.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £348,000 (2017: £321,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

We perform full scope audit procedures on all of the group's subsidiaries at the same time as the group audit which are subject to statutory audit at materiality levels which in most cases are substantially lower than group materiality (ranging from £0.1 million to £3m million (2017:£0.03 million to £1.6 million)). This results in full scope audit procedures performed on 100% (2017: 100%) of the group's net assets.

Other information

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

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

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

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and valuations regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area: the judgement surrounding the yield estimation for the valuation of properties; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, REIT legislation, listing rules and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified valuation of investment properties pinpointed to the yield as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Primary Health Properties on 1 June 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2013 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sara Tubridy, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom 30 January 2019

Group statement of comprehensive income
for the year ended 31 December 2018

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

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

The above relates wholly to continuing operations.

Group balance sheet
at 31 December 2018

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

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

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

Steven Owen
Chairman

Registered in England Number: 3033634

Group cash flow statement
for the year ended 31 December 2018

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

1 Payment of liabilities acquired with subsidiaries.

Group statement of changes in equity
for the year ended 31 December 2018

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

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

Notes to the financial statements

1. Corporate information

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

2. Accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared on the historical cost basis, except for investment properties, including investment properties under construction and land and derivative financial instruments that have been measured at fair value. The Group's financial statements are prepared on the going concern basis (see page 69 for further details) and presented in Sterling rounded to the nearest million.

Statement of compliance

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

2.2 Standards adopted during the year

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

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

IFRS 9 Financial instruments

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

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

(i) Classification and measurement

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

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

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

(ii) Impairment

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

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

2. Accounting policies continued

2.2 Standards adopted during the year continued

IFRS 9 Financial instruments continued

(ii) **Impairment** continued

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

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

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

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

(iii) **Hedge accounting**

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

IFRS 15 Revenue from contracts with customers

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

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

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

2.3 Summary of significant accounting policies

Basis of consolidation

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

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

Segmental reporting

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

Foreign currency transactions

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

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

Notes to the financial statements
continued

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Foreign operations

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

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

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

Investment properties and investment properties under construction

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

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

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

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

Property acquisitions and business combinations

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

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

Gains on sale of properties

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

Net rental income

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

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

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

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

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Interest income

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

Financial instruments under IFRS 9

Trade receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Bank loans and borrowings

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

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

Borrowing costs

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

Convertible bond

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

Financial instruments under IAS 39

Financial liabilities at fair value through profit or loss

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

Other loans and payables

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

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Financial instruments under IAS 39 continued

Loans and receivables

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

De-recognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

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

Tax

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

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

Fair value measurements

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

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

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

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Fair value measurements continued

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

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

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

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

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

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

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

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

Hedge accounting

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

i) Derivative financial instruments ("derivatives")

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

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

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

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

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

2. Accounting policies continued

2.3 Summary of significant accounting policies continued

Leases – Group as a lessor

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

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

2.4 Significant accounting estimates and judgements

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

a) Estimates

Fair value of investment properties

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

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

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

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

Fair value of derivatives

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

b) Judgements

Hedge effectiveness

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

2. Accounting policies continued

2.4 Significant accounting estimates and judgements continued

b) Judgements continued

Property acquisitions during the year

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

2.5 Standards issued but not yet effective

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

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

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

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

3. Rental and related income

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

Group as a lessor

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

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

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

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

4. Group operating profit is stated after charging:

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

a) Advisory fees

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

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

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

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

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

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

b) Performance incentive fee ("PIF")

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

A PIF of £0.5 million was paid to Nexus in the period in respect of 2017 and at 31 December 2018 the balance on the notional cumulative PIF account was £6.9 million (2017: £5.2 million) of which £1.1 million (2017: £0.5 million) will become payable on approval of the Annual Report by the Board. The balance is conditional on performance in future years and the restrictions noted in the Financial Review on pages 18 to 19.

c) Remuneration of Directors

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

5. Finance income

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

6. Finance costs

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

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

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

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

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

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

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

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

7. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

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

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

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

b) Factors affecting the tax credit for the year

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

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

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

c) Basis of taxation

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

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

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

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

Strategic report | Governance | Financial statements | Further information

8. Earnings per share

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

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

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

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

9. Dividends

Amounts recognised as distributions to equity holders in the year:

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

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

10. Investment properties and investment properties under construction

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

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

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

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

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

10. Investment properties and investment properties under construction continued

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

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

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

Fair value hierarchy

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

Valuation techniques used to derive level 3 fair values

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

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

Valuation techniques: market comparable method

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

Unobservable input: estimated rental value ("ERV")

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

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

Unobservable input: equivalent yield

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

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

Unobservable input: physical condition of the property

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

10. Investment properties and investment properties under construction continued

Unobservable input: rental growth

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

Sensitivity of measurement of significant unobservable inputs

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

11. Group entities

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

Subsidiaries held directly by the Company

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

Subsidiaries indirectly held by the Company

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

1 Subsidiary company registered in Jersey. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG.

2 An Irish collective asset management vehicle established in Ireland.

3 Subsidiary company registered in Ireland. Registered office: Riverside 1, Sir John Rogerson's Quay, Dublin 2, Ireland.

4 Subsidiary company registered in Scotland. Registered office: 3rd Floor, 1 West Regent Street, Glasgow, Scotland G2 1RW.

11. Group entities continued

Subsidiaries indirectly held by the Company continued

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

12. Trade and other receivables

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

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

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

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

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

13. Cash and cash equivalents

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

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

14. Trade and other payables

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

15. Borrowings: term loans and overdrafts

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

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

Providers:

1 The Royal Bank of Scotland plc.

2 Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032.

3 Aviva GPFC facility.

4 HSBC Bank facility.

5 Aviva facility.

6 Barclays/AIB facility.

7 Aviva facility.

8 Lloyds facility.

9 Santander facility.

15. Borrowings: term loans and overdrafts continued

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

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

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

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

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

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

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

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

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

16. Borrowings: bonds

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

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

Secured bonds

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

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

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

€40 million 2.46% senior notes due December 2028

€11 million 2.633% senior notes due December 2030.

Retail bond

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

Convertible bond

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

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

16. Borrowings: bonds continued

Convertible bond continued

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

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

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

17. Derivatives and other financial instruments

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

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

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

Notes to the financial statements
continued

17. Derivatives and other financial instruments continued

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

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

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

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

18. Financial risk management

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

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

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

Financial risk factors

a) Interest rate risk

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

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

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

		Effect on fair value of financial instruments £m	Effect on profit before taxation £m	Effect on equity £m
2018				
London Interbank Offered Rate	Increase of 50 basis points	**5.5**	**3.0**	**8.5**
London Interbank Offered Rate	Decrease of 50 basis points	**(5.5)**	**(3.0)**	**(8.5)**
2017				
London Interbank Offered Rate	Increase of 50 basis points	7.3	1.0	8.3
London Interbank Offered Rate	Decrease of 50 basis points	(7.3)	(1.0)	(8.3)

b) Credit risk

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

Trade receivables

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

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

Banks and financial institutions

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

Notes to the financial statements
continued

18. Financial risk management continued

Financial risk factors continued

c) Liquidity risk

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

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

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

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

d) Market risk

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

Interest rate risk

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

Price risk

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

18. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair values

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

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

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

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

Fair value hierarchy

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

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

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

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

18. Financial risk management continued

Financial risk factors continued

d) Market risk continued

Fair value hierarchy continued

Fair value measurements at 31 December 2018 are as follows:

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

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

3 Valuation is based on inputs that are not based on observable market data.

Fair value measurements at 31 December 2017 are as follows:

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

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

3 Valuation is based on inputs that are not based on observable market data.

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

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

18. Financial risk management continued

Financial risk factors continued

e) Capital risk management

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

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

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

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

- interest cover: 1.0 to 1.15:1 (2017: 1.0 to 1.7:1); and
- loan to value: 55% to 74% (2017: 50% to 75%).

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

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

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

19. Share capital

Ordinary Shares issued and fully paid at 12.5 pence each

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

Issue of shares in 2018

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

20. Share premium

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

21. Other reserve

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

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

22. Special reserve

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

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

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

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

23. Cash flow hedging reserve

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

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

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

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

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

24. Retained earnings

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

25. Net asset value per share

Net asset values have been calculated as follows:

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

	Number of shares – million (2018)	Number of shares – million (2017)
Ordinary Shares		
Issued share capital	**769.1**	619.4
Net asset value per share		
Basic net asset value per share	**102.5p**	94.7p
EPRA NAV per share	**105.1p**	100.7p

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

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

Notes to the financial statements
continued

26. Capital commitments

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

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

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

27. Contingent liabilities

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

28. Related party transactions

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

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

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

29. Subsequent events

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

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

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

Company balance sheet
at 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investment in subsidiaries	7	**259.5**	302.6
		259.5	302.6
Current assets			
Trade and other receivables	8	**445.5**	521.6
Cash at bank and in hand	9	**—**	—
		445.5	521.6
Total assets		**705.0**	824.2
Current liabilities			
Trade and other payables	10	**(121.9)**	(271.8)
Borrowings: bonds	11	**(101.1)**	—
		(223.0)	(271.8)
Non-current liabilities			
Borrowings	11	**—**	(147.8)
		—	(147.8)
Total liabilities		**(223.0)**	(419.6)
Net assets		**482.0**	404.6
Equity			
Share capital	13	**96.1**	77.5
Share premium		**220.6**	80.7
Capital reserve		**1.6**	1.6
Special reserve	14	**124.8**	161.4
Retained earnings		**38.9**	83.4
Total equity		**482.0**	404.6
Net asset value per share – basic	15	**63p**	65p

The Company's loss for the year was £44.5 million (2017: profit of £74.0 million).

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

Steven Owen
Chairman

Registered in England Number: 3033634

Company statement of changes in equity
for the year ended 31 December 2018

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2018	77.5	80.7	1.6	161.4	83.4	404.6
Loss for the year	—	—	—	—	(44.5)	(44.5)
Total comprehensive income	—	—	—	—	(44.5)	(44.5)
Shares issued on conversion of convertible bonds	5.1	40.5	—	—	—	45.6
Shares issued as part of capital raise	13.3	101.7	—	—	—	115.0
Share issue expenses	—	(4.0)	—	—	—	(4.0)
Dividends paid	—	—	—	(34.7)	—	(34.7)
Scrip dividend in lieu of cash	0.2	1.7	—	(1.9)	—	—
31 December 2018	**96.1**	**220.6**	**1.6**	**124.8**	**38.9**	**482.0**

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2017	74.8	59.1	1.6	192.8	9.4	337.7
Profit for the year	—	—	—	—	74.0	74.0
Total comprehensive income	—	—	—	—	74.0	74.0
Shares issued on conversion of convertible bonds	2.5	20.3	—	—	—	22.8
Share issue expenses	—	(0.1)	—	—	—	(0.1)
Dividends paid	—	—	—	(29.8)	—	(29.8)
Scrip dividend in lieu of cash	0.2	1.4	—	(1.6)	—	—
31 December 2017	77.5	80.7	1.6	161.4	83.4	404.6

Notes to the Company financial statements

1. Accounting policies

The Company is a limited company incorporated in England and Wales in accordance with the Companies Act 2006. These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates.

Basis of accounting/statement of compliance

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 Reduced disclosure framework as issued by the Financial Reporting Council.

As permitted by FRS 101, exemptions from applying the following requirements have been adopted:

- IFRS 7 Financial instruments: disclosures;
- IFRS 13 Fair value measurement, paragraphs 91 to 99;
- IAS 1 Presentation of financial statements, paragraphs 10(d), 10(f), 38 to 40, 76, 79(d) and 134 to 136;
- IAS 7 Statement of cash flows;
- IAS 24 Related party disclosures, paragraphs 17 and 18A; and
- IAS 36 Impairment of assets, paragraphs 130(f)(ii), 130(f)(iii), 134(d) to (f) and 135(c) to (e).

The Company has also taken advantage of the exemption from the requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

The financial statements have been prepared under the historical cost convention.

Statement of comprehensive income

The Company has taken advantage of the exemption in the Companies Act from presenting a Company statement of comprehensive income together with related notes.

Cash flow statement

The Directors have taken advantage of the exemption in FRS 101 from including a cash flow statement in the financial statements on the grounds that a consolidated cash flow statement is presented in the Group financial statements of PHP.

Income

Revenue is recognised in the financial statements as follows:

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

Dividends: Dividend income is recognised in the period in which it received Board approval and, hence, when the Company's right to the payment is established.

Investment in subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

Investments in subsidiary undertakings are stated at cost in the Company's Statement of Financial Position less any provision for permanent impairment in value. The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Taxation

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

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

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. No revisions were recognised in the period.

3. Foreign currencies

The functional and presentation currency of the Company is Sterling. Transactions in currencies other than Sterling are recognised at the applicable exchange rate ruling on the transaction date. Exchange differences resulting from settling these transactions, or from retranslating monetary assets and liabilities denominated in foreign currencies, are included in the Group Statement of Comprehensive Income.

4. Revenue

The Company operates under one business segment and one geographical segment, being the holding company of subsidiaries that invest in primary healthcare property within the United Kingdom and the Republic of Ireland.

5. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2018 £m	2017 £m
UK corporation tax	**—**	—

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

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

b) Factors affecting the tax credit for the year

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

	2018 £m	2017 £m
(Loss)/profit on ordinary activities before taxation	**(44.5)**	74.0
Theoretical tax at UK corporation tax rate of 19% (2017: 19.25%)	**(8.5)**	14.2
Transfer pricing adjustments	**1.4**	3.4
Non-taxable items	**6.5**	(17.2)
Losses brought forward utilised	**—**	(0.4)
Losses generated in the year	**0.6**	—
Taxation charge (Note 5a)	**—**	—

6. Dividends

Amounts recognised as distributions to equity holders in the year:

	2018 £m	2017 £m
Quarterly interim dividend paid 23 February 2018	**8.1**	—
Scrip dividend in lieu of quarterly cash dividend 23 February 2018	**0.3**	—
Quarterly interim dividend paid 25 May 2018	**7.7**	—
Scrip dividend in lieu of quarterly cash dividend 25 May 2018	**0.7**	—
Quarterly interim dividend paid 24 August 2018	**9.6**	—
Scrip dividend in lieu of quarterly cash dividend 24 August 2018	**0.3**	—
Quarterly interim dividend paid 23 November 2018	**9.3**	—
Scrip dividend in lieu of quarterly cash dividend 23 November 2018	**0.6**	—
Quarterly interim dividend paid 24 February 2017	**—**	7.7
Scrip dividend in lieu of quarterly cash dividend 24 February 2017	**—**	0.1
Quarterly interim dividend paid 26 May 2017	**—**	7.2
Scrip dividend in lieu of quarterly cash dividend 26 May 2017	**—**	0.7
Quarterly interim dividend paid 25 August 2017	**—**	7.1
Scrip dividend in lieu of quarterly cash dividend 25 August 2017	**—**	0.7
Quarterly interim dividend paid 24 November 2017	**—**	7.8
Scrip dividend in lieu of quarterly cash dividend 24 November 2017	**—**	0.1
Total dividends distributed in the year	**36.6**	31.4
Per share	**5.4p**	5.25p

7. Investment in subsidiaries

	£m
As at 1 January 2018	**302.6**
Acquisition of HMC Estates Holdings Limited	**8.9**
Impairment of subsidiaries	**(52.0)**
As at 31 December 2018	**259.5**
As at 1 January 2017	283.8
Acquisition of Carden Medical Investments Limited	3.1
Acquisition of Ettrick Health Limited	10.6
Acquisition of Chelmsley Associates Limited	1.3
Acquisition of Wincanton Health Limited	2.4
Transfer of Patient First Partnerships Limited from subsidiary	1.1
Transfer of PHIP (5) Limited from subsidiary	0.3
As at 31 December 2017	302.6

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

7. Investment in subsidiaries continued

Subsidiaries held directly by the Company

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

Subsidiaries indirectly held by the Company

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

1 Subsidiary company registered in Jersey. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG.

2 An Irish collective asset management vehicle established in Ireland.

3 Subsidiary company registered in Ireland. Registered office: Riverside 1, Sir John Rogerson's Quay, Dublin 2, Ireland.

4 Subsidiary company registered in Scotland. Registered office: 3rd Floor, 1 West Regent Street, Glasgow, Scotland G2 1RW.

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

8. Trade and other receivables

	2018 £m	2017 £m
Amounts due from Group undertakings	**445.4**	521.5
Other receivables	**0.1**	0.1
	445.5	521.6

Based on the IFRS 9 ECL model no impairment provision was recognised on amounts due from Group undertakings.

Amounts due from Group undertakings are unsecured, interest free and repayable on demand.

9. Cash at bank and in hand

	2018 £m	2017 £m
Cash at bank and in hand	**—**	—

10. Trade and other payables

	2018 £m	2017 £m
Current		
Amounts owed to Group undertakings	**117.5**	269.2
Trade and other payables	**0.7**	0.1
Accruals and deferred income	**3.7**	2.5
	121.9	271.8

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

11. Borrowings

	2018 £m	2017 £m
Retail bond July 2019	**75.0**	75.0
Unamortised issue costs	**(0.1)**	(0.3)
Intra-group loan with PHP Finance (Jersey) Limited (Note 12)	**23.1**	62.0
Option to convert (Note 12)	**3.1**	11.1
	101.1	147.8

On 23 July 2012, PHP issued a retail bond following the issue of a £75 million unsecured seven-year bond to retail investors with an interest rate of 5.375% paid semi-annually in arrears. The bond issue costs are being amortised using the effective interest rate method in accordance with FRS 101.

12. Intra-group loan with PHP Finance (Jersey) Limited

On 20 May 2014 PHP Finance (Jersey) Limited (the "Issuer") – a wholly owned subsidiary of the Company – issued £82.5 million of convertible bonds due in 2019 (the "Bonds") at par. The proceeds have been loaned to the Company and the Company has unconditionally and irrevocably guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the Bonds.

Subject to their terms, the Bonds are convertible into preference shares of the Issuer which are automatically transferred to the Company in exchange for Ordinary Shares in the Company or, at the Company's election, any combination of Ordinary Shares and cash.

The intra-group loan between the Issuer and the Company arising from the transfer of the loan proceeds was initially recognised at fair value, net of capitalised issue costs, and is accounted for using the amortised cost method.

In addition to the intra-group loan, the Company has effectively entered into a derivative contract due to its guarantee of the obligations of the Issuer in respect of the Bonds and the commitment to provide shares or a combination of shares and cash on conversion of the Bonds. This derivative contract is included within the balance sheet as a liability carried at fair value through profit and loss.

12. Intra-group loan with PHP Finance (Jersey) Limited continued

In 2018 convertible bonds with a nominal value of £9.8 million (2017: £19.3 million) converted into Ordinary Shares at a conversion price of 97.5 pence and £30.2 million at a conversion price of 96.16 pence resulting in 41.5 million (2017: 19.8 million) new Ordinary Shares being issued. The convertible bond outstanding at 31 December 2018 was £23.2 million (2017: £63.2 million).

See Note 16 in the Group financial statements for further details about the convertible bond.

See Note 29 to the Group financial statements for further details about conversions of the convertible bond after the balance sheet date.

13. Share capital

Issued and fully paid at 12.5 pence each

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

Issue of shares in 2018

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

14. Special reserve

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

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

15. Net asset value per Ordinary Share

	2018 pence	2017 pence
Basic and diluted	**63**	65

The basic net asset value per Ordinary Share is based on net assets attributable to Ordinary Shareholders of £482.0 million (2017: £404.6 million) and on 769.1 million shares (2017: 619.4 million shares), being the number of shares in issue at the year end.

16. Contingent liabilities

The Company has guaranteed the performance of its subsidiaries in respect of development agreements totalling £nil (2017: £4.2 million plus VAT).

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

17. Related party transactions

Details of related party transactions are provided in the Directors' Report, the Directors' Remuneration Report and Note 28 to the Group financial statements on page 110. There are no employees other than the Directors, listed on pages 38 to 40.

The Company has also taken advantage of the exemption from the requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of the Group where those party to the transaction are wholly owned by a member of the Group.

18. Subsequent events

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

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

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

Shareholder information

Corporate calendar 2019

Annual General Meeting	11 June 2019
AGM statement	11 June 2019
Announcement of half year results	July 2019

Dividends

The Company intends to make quarterly dividend payments to shareholders. The proposed timetable for the first quarterly dividend in 2019 is:

Payment of quarterly dividend (record date 3 January 2019)	22 February 2019

Distributions from the Company may comprise PIDs (see below), ordinary cash dividends or a combination of the two. PIDs have been paid by the Group since 1 January 2007.

Payment of dividends

If you would like your dividend/interest paid directly into your bank or building society account, you should write to the registrar including details of your nominated account. Although this will enable your dividend/interest to be paid directly into your account, your tax voucher will be sent to your registered address.

Scrip dividend scheme

The optional scrip dividend scheme enables shareholders to receive new Ordinary Shares in PHP instead of cash dividends without incurring dealing costs, stamp duty or stamp duty reserve tax by electing to take a scrip dividend instead of a cash dividend. Shareholders can obtain information about the scrip dividend scheme from the Company or the registrar.

Investment account

The Company has made arrangements for Equiniti Financial Services Limited to provide an investment account to allow lump sum and regular savings to facilitate the purchase of the Company's Ordinary Shares. Detail and the forms required for this service can be accessed from the Company's website or alternatively at: www.shareview.co.uk/dealing.

For details of the service please contact: Equiniti, PO Box 4605, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Shareholder helpline: 0345 300 0430.

Equiniti Financial Services Limited is authorised and regulated by the Financial Conduct Authority. As with all stock market investments, the price of shares can go down as well as up and on sale investors may not get back the full amount they invested.

Taxation status

The REIT Regulations require a REIT to distribute at least 90% of its exempt rental income (as calculated for tax purposes) as a PID.

PIDs are paid out under deduction of withholding tax at the basic rate, currently 20%. Certain classes of shareholders, including UK companies, charities, local authorities and UK pension schemes, may receive PIDs without deduction of withholding tax, if a valid claim is lodged with the Company by a qualifying shareholder. Shareholders who wish to apply for a tax exemption form should contact the registrar.

The above is a general guide only and shareholders who have any doubt about their tax position should consult their own appropriate independent professional adviser.

Registrar

The Company's registrar is Equiniti. In the event of any queries regarding your holding of shares, please contact the registrar free of charge on 0371 384 2030 (lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday), or in writing to: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Changes of name or address must be notified to the registrar in writing.

Equiniti Shareview dealing services

A quick and easy share dealing service is available to either sell or buy PHP shares. To deal online or by telephone all you need is your shareholder reference number, full postcode and date of birth. Your shareholder reference number can be found on your latest dividend statement. For further information on this service, or to buy and sell shares, please contact Equiniti customer services 0345 300 0430 (8.00 a.m. to 6.00 p.m. Monday to Friday) or access www.shareview.co.uk/dealing.

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Financial risk management consultant

JCRA
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London SW1Y 4LB

Glossary of terms

Adviser is Nexus Tradeco Limited.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross rental income is the gross accounting rent receivable.

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

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

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

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

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

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

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

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

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

JCRA is J.C. Rathbone Associates Limited.

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

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

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

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

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

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

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

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

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

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

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

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

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

RICS is the Royal Institution of Chartered Surveyors.

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

Special reserve is a distributable reserve.

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

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

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

Glossary of terms
continued

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

	NAV
At 31 December 2017	100.70
At 31 December 2018	**105.10**
Increase/(decrease)	**4.40**
Add: Dividends paid	
23/02/2018 Q1 interim	1.35
25/05/2018 Q2 interim	1.35
24/08/2018 Q3 interim	1.35
24/11/2018 Q4 interim	1.35
Total shareholder return	**9.80**

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

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

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

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

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

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