Primary Health Properties

The leading investor in modern healthcare properties

Primary Health Properties PLC
Interim Report for the six months ended 30 June 2016

Primary Health Properties is the leading investor in modern healthcare properties.

We generate increased rental income and capital growth through investment in flexible integrated healthcare properties in the UK and Ireland.

Contents

Interim statement

Group financial statements

Further information

2016 interim highlights

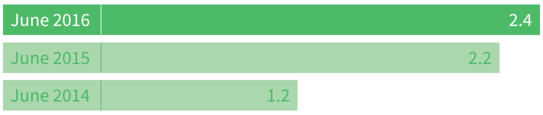
Data for the period ended 30 June 2016

Net rental income (£m)

£32.2m (+5.2%)

EPRA Earnings per share[1,3,5] (p)

2.4p (+9.1%)



EPRA Earnings[1,5] (£m)

£12.6m (+27.3%)

IFRS profit for the period (£m)

£25.4m (-21.6%)

Investment portfolio (£bn)

£1.19bn (+8.1%)

EPRA NAV per share[2,3,5] (p)

90.4p (+3.1%)

- 19 properties acquired for a total consideration of £54 million
- Surplus on property valuation of £15.5 million (30 June 2015: £23.9 million), underlying like-for-like growth of 1.85%; portfolio net initial valuation yield of 5.21% (31 December 2015: 5.32%)
- Average annualised uplift of 1.0% on rent reviews completed or closed in the period (31 December 2015: 0.9%)
- Portfolio 99.7% let with 14.1 years weighted average unexpired lease term (including commitments) (31 December 2015: 14.7 years)
- Successful, over-subscribed equity issue completed in April 2016, raising £150 million (£145.3 million net of costs) at a 14% premium to EPRA NAV as at 31 December 2015
- Loan to Value reduced to 53.0% (31 December 2015: 62.7%)
- Interest rate on £88 million of swap contracts reduced from 4.79% to 0.87% at a one-off cash outlay of £14.5 million[4], saving interest of £16.4 million for the period November 2016 to August 2021

[1] See Note 6 to the financial statements.

[2] See Note 14 to the financial statements.

[3] June 2014 and June 2015 restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

[4] See Note 12 to the financial statements.

[5] The Company uses a number of Alternative Performance Measures in this Interim statement. See page 8, Business review.

Primary Health Properties at a glance

Primary Health Properties ("PHP") specialises in the ownership of freehold or long leasehold interests in modern purpose-built healthcare facilities, the majority of which are leased to general practitioners, government bodies and other associated healthcare users.

The Group's portfolio comprises over two hundred and ninety primary healthcare facilities, both completed and committed, that provide flexible accommodation to meet the changing demands placed upon primary healthcare services.

PHP endeavours to provide high quality buildings for its tenants and growing returns to its shareholders.

Portfolio value[1]
£1,198m

Occupancy
99.7%

91%
of the Group's rent roll is paid directly or indirectly by the UK Government

Properties[1]
292

Registered patients[1]
3.2m

Rent roll[1]
£66.9m

Two Rivers Medical Centre, Ipswich
Development completion

Tenants
16 GP Practices and Pharmacy

Date committed
April 2015

Delivered
July 2016

Size
1,837 sqm

Winchcombe Medical Centre, Winchcombe
Asset management project

Tenants
Seven GP Practices

Size
734 sqm

Date completed
June 2016

Bingham Medical Centre, Bingham
Investment acquisition

Tenants
Five GP Practices

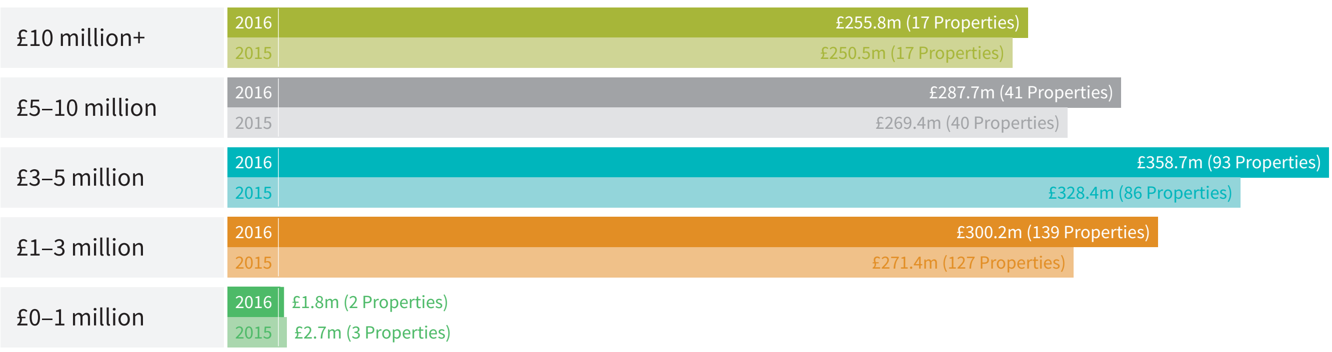
Date of purchase
April 2016

Size
1,300 sqm

How our portfolio has developed

Read more on page 7

Portfolio distribution by capital value of building[1]

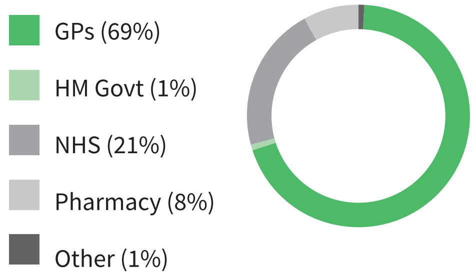


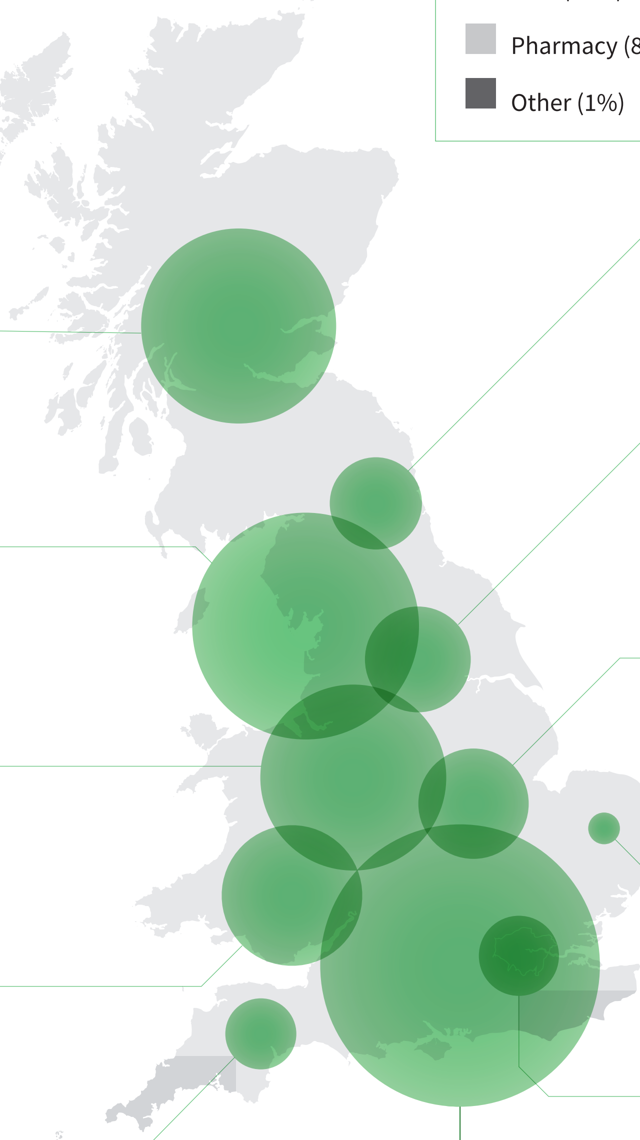
[1] Including development commitments.

Our property portfolio

The Group's completed properties at 30 June 2016 are located in the United Kingdom and leased to general practitioners, NHS organisations and other associated healthcare users. Over 3.2 million patients are registered to GP practices at our properties.

Covenant analysis by annual rent





Total – completed properties only

Capital value	Properties
£1,174.9m	289
Rent roll	**Tenancies**
£65.7m	616

Scotland

Capital value	Properties
£143.3m	29
Rent roll	**Tenancies**
£7.9m	53

North West

Capital value	Properties
£177.0m	32
Rent roll	**Tenancies**
£9.0m	65

West Midlands

Capital value	Properties
£144.3m	30
Rent roll	**Tenancies**
£8.0m	74

Wales

Capital value	Properties
£109.3m	24
Rent roll	**Tenancies**
£6.2m	81

South West

Capital value	Properties
£55.7m	17
Rent roll	**Tenancies**
£3.0m	30

South East

Capital value	Properties
£217.5m	66
Rent roll	**Tenancies**
£12.6m	131

North

Capital value	Properties
£72.0m	25
Rent roll	**Tenancies**
£4.6m	55

Yorkshire and Humberside

Capital value	Properties
£82.4m	19
Rent roll	**Tenancies**
£4.7m	40

East Midlands

Capital value	Properties
£85.6m	23
Rent roll	**Tenancies**
£4.8m	47

East Anglia

Capital value	Properties
£24.8m	8
Rent roll	**Tenancies**
£1.5m	16

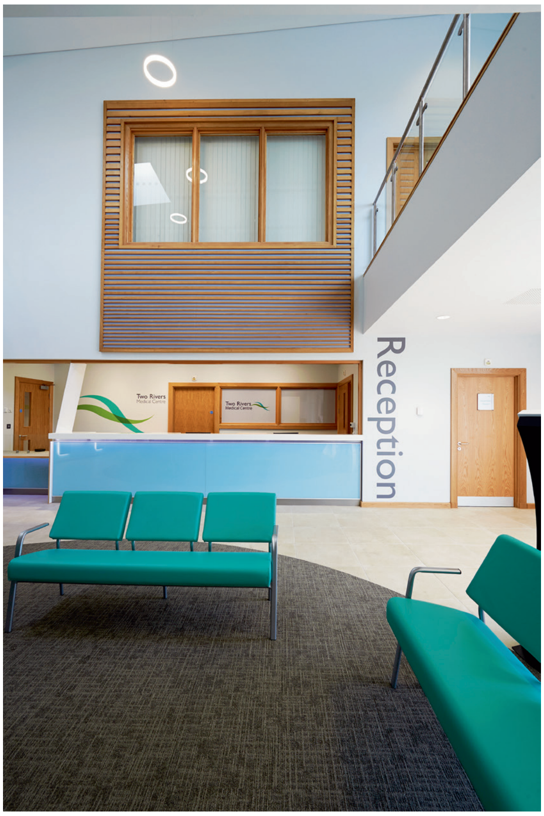
London

Capital value	Properties
£63.0m	16
Rent roll	**Tenancies**
£3.4m	24

Executive review

Highlights

- Issue of £150 million of equity at 14% premium to December 2015 EPRA NAV
- EPRA earnings increased by 27% to £12.6 million
- 20th consecutive year of dividend growth
- EPRA NAV per share increased by 3% to 90.4 pence



▲ **Two Rivers Medical Centre, Ipswich**

The Group has completed a very successful six months to 30 June 2016, strengthening the balance sheet and securing additional resource for future investment by raising £150 million of new capital (before transaction costs). We have acquired additional modern, purpose built medical centres that meet the Group's strict investment criteria and re-set rates within our interest rate swap portfolio to current low market levels. We have once again increased the dividend paid to shareholders which is fully covered by increased earnings in the period.

Overview of results

Net rental income has increased by 5.2% to £32.2 million (30 June 2015: £30.6 million) as the Group added to its investment property portfolio through acquisitions and the delivery of PHP's forward funded, newly developed properties.

The Group's EPRA Cost Ratio has stayed constant at 11.5%, although administrative costs have risen by 2.9% to £3.5 million (30 June 2015: £3.4 million). The tiered structure of the property advisory fee provides benefits as the portfolio grows and attracts a lower management charge rate. This has led to no overall change in the EPRA Cost Ratio, which continues to be the lowest in the quoted property sector.

In absolute terms, net financing costs have fallen by 6.9% to £16.1 million, as overall sums drawn were reduced following the equity raise in April 2016, even after the deployment of capital into new properties acquired in the period. The average cost of the Group's debt in the first six months of the year was 4.49%, down from 4.67% for the 2015 financial year.

In summary, EPRA earnings have increased by 27.3% to £12.6 million (30 June 2015: £9.9 million).

Portfolio valuation

PHP acquired 19 properties in the first six months of the year for a total consideration of £54 million. The Group looked at a number of other transactions where it was either unsuccessful or chose to withdraw from the process where it was felt that pricing levels did not represent fair value to PHP. A total of 292 properties are now owned by the Group, 99.7% let with 91% of the rent roll paid for, directly or indirectly, by the National Health Service and a weighted unexpired lease term of over 14 years.

The Group's property portfolio was valued at £1.2 billion as at 30 June 2016 (31 December 2015: £1.1 billion), generating a surplus, after the costs associated with acquisitions in the period, of £15.5 million (30 June 2015: £23.9 million).

Yields in the primary care sector have tightened a little further thanks to the attractive fundamentals and the continued low levels of new development approval by the NHS. Transactions in the primary care real estate sector continued through the period of market uncertainty in the lead up to the EU referendum. Post-vote activity in the primary care market has not suggested any immediate change to trading conditions or valuations. We will closely monitor the market and assess any impact on the Group of the UK's pending exit from the EU.

Dividends

In February and May 2016, PHP paid its first two quarterly dividends to shareholders, both of 1.28125 pence per share to eligible shareholders, which were fully covered by earnings in the period. This represents an increase of 2.5% over dividends paid in the first half of 2015 of 2.5 pence per share, the Company's 20th successive year of dividend growth.

The Company is to pay its third quarterly dividend, also of 1.28125 pence per share, on 26 August 2016 to shareholders on the register as at 15 July 2016. A further dividend payment is planned to be made in November 2016. The Company intends to maintain its strategy of paying a progressive dividend that is fully covered by earnings in each financial year.

Capital resources and funding

On 13 April 2016, the Company successfully completed the issue of £150 million of new capital (£145.3 million, net of expenses) via an oversubscribed offering to new and existing shareholders.

We have invested £54 million of the proceeds in earnings-enhancing acquisitions in the UK and we are delighted to report that on 8 July 2016, PHP entered into its first, conditional contract to acquire a primary care centre under development in the Republic of Ireland for a consideration of €6.7 million.

In May 2016, PHP completed the re-couponing of two interest rate swaps with a total nominal value of £88 million, reducing the contracted rates from an average of 4.79% per annum to 0.87% per annum. The reduction will be effective from November 2016 to their maturity in August 2021 and will save £16.4 million in interest in that period. A one-off payment of £14.5 million was made by the Group, representing a discount to the Mark to Market valuation at the time of the transaction.

The balance of the equity proceeds was used to repay revolving credit facilities but these remain available to PHP to be re-drawn to fund ongoing development and management projects and investment in new acquisition opportunities.

Shareholder value

The combination of the above transactions and the operating performance of the Group over the six-month period has seen EPRA NAV increase to £539.9 million (31 December 2015: £391.6 million). EPRA NAV per share has increased by 3.1% to 90.4 pence per share (31 December 2015: 87.7 pence per share). Total shareholder NAV return for the period was 5.2625 pence per share or 6.0%, including dividends paid in the period.

Developing market backdrop

We have seen continued progress within the NHS toward the objectives of the Five Year Forward View, with the plan for primary care being strengthened in April 2016 by the publication of the General Practice Forward View ("GPFV"). In his introduction to this document, Simon Stevens, Chief Executive of NHS England, repeated that "… personal and population-orientated primary care is central to any country's health system".

The GPFV sets out targets for all aspects of GP services, including recruiting 5,000 more GPs over the next five years, together with further health care professionals and support staff. Specific commitments are made to providing out of hours access, developing clinical hubs and reforming urgent care.

To do this, a further £2.4 billion per annum will be invested into general practice, an increase of 25% over the 2015/16 GP budget. A sustainability and transformation package of over £500 million will help to develop the workforce and fund care redesign. Capital investment in GP estate and infrastructure will be facilitated by a £900 million funding pool, the Estates and Technology Transformation Fund ("ETTF"). The NHS will provide support to move schemes quickly through design and documentation to start on site.

All Clinical Commissioning Groups ("CCGs") were required by December 2015 to develop a Strategic Estates Plan aimed at long term estates planning to meet the care objectives of a local area. These will feed into a Sustainability and Transformation Plan ("STP") to be prepared for all local health and care organisations across England. STPs are currently being completed and will show how local services will evolve over the next five years to create long term, sustainable and fundable integrated care systems for an area. It is anticipated that implementation will start in autumn 2016.

Executive review continued

Developing market backdrop continued

PHP will play a key role in the implementation of these initiatives providing new premises and enhancing and enlarging existing properties. There is a very clear movement toward the formation of larger practices and local alliances, and demand for larger, hub-style medical centres to replace out-dated, smaller converted residential properties. PHP is working with GP practices, federations (groups of GPs that join together to provide and develop services collaboratively), emerging "super-practices" (practices merging to create larger patient lists and benefit from economies of scale) and other NHS bodies to feed into estates planning and STPs as well as the procurement of new premises across the UK.

We continue to work closely with our occupier base as they seek to widen the scope of their activities and grow their practices to provide an increased range of services to their patients in an efficient manner. PHP has supported its GP tenants in making 23 applications for ETTF funding for schemes at PHP properties which, together with ten projects completed or approved in the period would see a total investment by PHP of £15.4 million. Additional income of £1.02 million per annum would be secured for an average additional lease term of 13.4 years.

Outlook

PHP operates in a sector that is ultimately driven by demographics and demands on healthcare systems across western society are increasing due to growing, ageing populations with higher numbers of multiple long term conditions.

The fundamentals of the primary care real estate sector remain strong and cross-party commitment to the NHS continues. The importance attached to primary care in modernising the NHS, improving access to services and the efficiency with which they are delivered will not change, despite the vote to leave the EU.

The Group continues to benefit from secure, long term cash flows. 91% of its rent roll in the UK is funded directly or indirectly by the NHS, for an average unexpired term of 14.1 years.

A substantial proportion of cash flows from properties the Group will acquire in the Republic of Ireland will come from the Irish government. PHP intends to hedge its Euro currency exposure regarding asset values and from an income standpoint.

PHP has a strong pipeline in both the UK and Republic of Ireland and is well positioned to expand its portfolio and support the modernisation of healthcare services in both territories. PHP is well funded and has resources available to selectively acquire modern primary care premises that will continue to be appraised in detail to ensure they meet the Group's exacting investment requirements.

We are confident in our ability to grow the portfolio and increase earnings and returns to shareholders and we look forward to reporting further progress at the year end.

Alun Jones
Chairman
26 July 2016

Harry Hyman
Managing Director

How our portfolio has developed

▲ **Hope Family Medical Centre, Wrexham**

Completion date
May 2016

Size
1,291 sqm

Tenants
GP Practice,
Local Health Board

Purchase price
£3.4m

◄ **Colwyn Bay Medical Centre, Colwyn Bay**

Completion date
July 2016

Size
2,603 sqm

Tenants
Two GP Practices,
Local Health Board
and Pharmacy

Purchase price
£4.9m

▼ **Caia Park Primary Care Centre, Wrexham**

Completion date
November 2015

Size
935 sqm

Tenants
Local Health Board

Purchase price
£2.2m

Portfolio[1]
292 assets

June 2016	292
June 2015	272
June 2014	262

Total capital value[1]
£1.2bn

June 2016	1.2
June 2015	1.1
June 2014	1.0

Contracted rent roll[1]
£66.9m

June 2016	66.9
June 2015	62.9
June 2014	59.4

Weighted average unexpired lease term
14.1 years

June 2016	14.1
June 2015	15.1
June 2014	16.0

Patients registered at PHP properties
3.2m

June 2016	3.2
June 2015	2.9
June 2014	2.7

[1] Including development commitments.

Business review

The first six months of 2016 has been a busy and successful period for the Group. The highlight of the period was the completion of a £150 million share issue, raising fresh funds to facilitate ongoing investment into modern, purpose built healthcare assets in the UK and the Republic of Ireland.

The primary care real estate sector remains an attractive asset class due to its strong, long term, government-backed cash flows. More investors have looked to the sector and pressure on pricing has resulted from increased competition for assets.

PHP has maintained its selective acquisition strategy, investing in assets that were well priced and provide an immediate earnings-enhancing return, but also with the scope for future income and capital growth.

Following on from 2015, when a number of debt facilities were expanded or extended, work through the period has focused on interest rate swaps and those facilities that mature in the year ahead.

These activities combined to generate increased rental income in the period and a lower average cost of borrowing. Administrative costs have remained stable, resulting in increased earnings, which has been translated into an increased, fully covered dividend paid to shareholders, the 20th successive year of dividend growth.

Summarised results

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Net rental income	**32.2**	30.6	62.3
Administrative expenses	**(3.5)**	(3.4)	(6.8)
Operating profit before revaluation gain and net financing costs	**28.7**	27.2	55.5
Net financing costs	**(16.1)**	(17.3)	(33.8)
EPRA earnings	**12.6**	9.9	21.7
Net result on property portfolio	**15.5**	23.9	39.8
Fair value (loss)/gain on interest rate derivatives	**(4.5)**	2.2	1.0
Fair value gain/(loss) on Convertible Bond	**1.8**	(3.6)	(6.5)
IFRS profit before tax	**25.4**	32.4	56.0

Related party transactions

Related party transactions are disclosed in Note 15 to the condensed financial statements. There have been no material changes in the related party transactions described in the 2015 Annual Report.

Alternative Performance Measures ("APMs")

This interim statement contains a number of alternative performance measures in addition to the statutory measures from the condensed financial statements. The measures are defined and reconciled to amounts presented in the financial statements within this interim statement. The APMs used by the Company are consistent with those used in the 2015 Annual Report and the reasons for the Company's use of these APMs are set out therein.

Operational performance

EPRA earnings per share	Dividend per share
2.4p	**2.5625p**
+9.1%	+2.5%
EPRA NAV per share	**Total NAV return**
90.4p	**5.2625p**
+3.1%	+6.0%

Net rental income received in the six months to 30 June 2016 increased by 5.2% to £32.2 million (30 June 2015: £30.6 million). Acquisitions in the period contributed £0.4 million to this increase with development properties that were delivered in the period contributing £0.1 million. The balance of the increased rental income came from a full period's contribution from those properties acquired or completed in 2015 and from rent reviews undertaken in the period.

A total of 82 rent reviews have been concluded in the period, resulting in average annualised growth of 1.0% (30 June 2015: 1.1% p.a.). The rate of growth is down slightly on that for the corresponding period in 2015, but slightly above growth rates achieved for 2015 as a whole of 0.9% per annum.

Reviews follow three basic patterns with 6% of rent roll having fixed uplifts within its lease terms, 18% of income being reviewed upwards only in line with the Retail Price Index and the remaining 76% having open market rental value reviews ("OMRV"). A great deal of evidence to support OMRV reviews comes from the delivery of new properties into the sector. Whilst underlying build costs have increased in recent years, the lower number of new schemes approved by the NHS has restricted the ability to capture the growth in new rental values. The demand for new, purpose built premises continues and is now being supported by NHS initiatives to modernise the primary care estate. PHP is confident in the outlook for rental growth as a growing number of new properties are delivered in the medium term.

Operational costs have continued to be managed closely and effectively. Overall administrative costs have risen by 2.9% to £3.5 million (30 June 2015: £3.4 million). On 30 April 2016, the initial pricing period for the provision of administrative services by Nexus Tradeco Limited to the Group ended. The fixed price for these services increased from 1 May 2016 from £749,000 per annum to £904,000 per annum, in line with the 2014 Advisory Agreement. The property advisory fee continues to be governed by a reducing scale formula with assets added to the portfolio between £1 billion and £1.25 billion incurring fees at 32.5 basis points. This rate will fall to 30 basis points for assets added to the portfolio beyond £1.25 billion.

The Group's EPRA cost ratio continues to be the lowest in the sector at 11.5% for the period, in line with that for the 2015 financial year (30 June 2015: 11.6%).

EPRA cost ratio

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Gross rent less ground rent	**32.4**	30.8	62.7
Direct property expense	**0.4**	0.4	0.8
Administrative expenses	**3.5**	3.4	6.8
Less: ground rent	**—**	—	(0.1)
Less: other operating income	**(0.2)**	(0.2)	(0.3)
EPRA costs (including direct vacancy costs)	**3.7**	3.6	7.2
EPRA cost ratio	**11.5%**	11.6%	11.5%

Net finance costs fell in the period by 6.9% to £16.1 million (30 June 2015: £17.3 million). This is primarily as a result of the application of the proceeds of the equity issue to pay down revolving debt facilities, but also due to the lower cost of debt secured in 2015 by swap restructuring and margin reductions. The average cost of debt fell further in the period to 4.49% from 4.67% for 2015 as a whole.

EPRA earnings have increased by 27.3% to £12.6 million (30 June 2015: £9.9 million) which, on an accounting basis, using the weighted average number of shares in issue in the period, equates to EPRA earnings per share of 2.4 pence (30 June 2015: 2.2 pence).

A charge of £4.5 million is recognised in the Income Statement in respect of the Mark to Market ("MtM") of the Group's "ineffective" interest rate swaps and a credit of £1.8 million is recognised with regard to the MtM of the Company's Convertible Bond due to the movement in the Company's share price in the period and increased volatility in bond and interest rate markets. These are all non-cash, accounting adjustments and do not impact on the Group's cash flows.

The Group's property portfolio was independently valued as at 30 June 2016, including properties acquired to that date and valuation growth achieved from asset management projects contracted in the period. The net surplus, after deducting the Group's transaction costs on acquisitions and capital spend on management projects, totalled £15.5 million (30 June 2015: £23.9 million). This equates to 2.6 pence per share (30 June 2015: 5.4 pence per share).

IFRS profit before tax totalled £25.4 million, a decrease of 21.6% compared to that of the first six months of 2015 of £32.4 million due primarily to the lower surplus on revaluation of the property portfolio.

Business review continued

Operational performance continued

Dividends

The Company paid a total of 2.5625 pence per share in the six months to 30 June 2016, an increase of 2.5% over that paid in the first half of 2015 of 2.5 pence per share.

Dividend cover

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
EPRA earnings	**12.6**	9.9	21.7
Total dividends paid	**11.4**	11.1	22.2
Dividend cover for the period	**110%**	89%	98%

Total dividend cover by EPRA earnings rose to 110% from the 98% achieved for the 2015 financial year (30 June 2015: 89%). The significant increase is in part due to the timing differences relating to the Company's April 2016 equity issue, where the new shares will receive their first dividend only in August 2016. This temporary distortion will be reversed in the second half of the year but the Company expects to maintain full cover of its total dividend payment for the year as a whole.

The Company has declared that quarterly dividend, paying 1.28125 pence on 26 August 2016 to shareholders on the register as at 15 July 2016.

Shareholder value

EPRA Net Asset Value per share

	30 June 2016 pence per share	31 December 2015 pence per share
Opening EPRA NAV per share	**87.7**	79.7
EPRA earnings for the period[1]	**2.8**	4.9
Net result on property portfolio	**2.6**	8.9
Dividend paid	**(2.6)**	(5.0)
Share issue	**2.3**	—
Interest rate derivative rate re-coupon	**(2.4)**	—
Interest rate derivative rate termination	**—**	(0.8)
Closing EPRA NAV per share	**90.4**	87.7

[1] 2015 restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

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

Key features are:

- the Company issued new Ordinary Shares in April 2016 at a price of 100 pence per new share, raising £145.3 million after costs;
- yields in the healthcare property sector have continued to tighten leading to a revaluation surplus of £15.5 million as at 30 June 2016; and
- the Group re-set two interest swaps in May 2016 paying a one-off cash outlay of £14.5 million, saving interest over the term to August 2021 of £16.4 million.

These individual items combined with increased EPRA Earnings saw EPRA Net Asset Value per share increase by 3.1% to 90.4 pence (31 December 2015: 87.7 pence per share).

Adding back dividends, total NAV return per share was 5.2625 pence per share (30 June 2015: 7.6 pence) or 6.0% (twelve months to 30 June 2015: 9.5%).

The Company's share price started the year at 108.75 pence per share. With the impact from the equity issue and also the volatility created by the result of the EU referendum, the share price at 30 June 2016 stood at 106.75 pence. Including dividends, those who held the Company's shares throughout the period achieved a Total Shareholder Return of 0.5% (30 June 2015: 8.5%).

Property portfolio

Total property assets
£1.2bn
+8.1%

Revaluation surplus
£15.5m
2.6p per share

Contracted rent roll
£66.9m
+5.0%

WAULT
14.1 years
31 Dec 2015: 14.7 years

The fundamentals of the sector remain strong as demands upon the health service in the UK continue to increase but the supply of modern, flexible premises remains restricted. Similar characteristics are evident in the Republic of Ireland, where PHP has taken its first steps to create a similar high quality portfolio to that which it holds in the UK.

PHP acquired a total of 19 modern, purpose-built primary care properties in the six months to 30 June 2016, all located in the UK with ten of the assets in London or the South East. The total aggregate consideration for these assets was £53.8 million and they add £3.0 million to total contracted rent roll for a weighted unexpired lease term of 12.1 years. In addition to their immediate income return, a number of these assets provide the opportunity to add income and capital value through active management.

Property valuation

The Group owned a total of 292 properties as at 30 June 2016. All assets were located in the UK, with 289 completed and rent producing and three on site, under development. The development at Ipswich was subsequently completed on 4 July 2016, with the project at Colwyn Bay due to complete in the coming weeks and the development at Swindon targeted for delivery in March 2017.

Including development commitments as complete, the annualised contracted rent roll of the portfolio at 30 June 2016 was £66.9 million, an increase of 5.0% in the period (31 December 2015: £63.7 million). Portfolio WAULT at 30 June 2016 was 14.1 years (31 December 2015: 14.7 years).

The Group's entire property portfolio was independently valued by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2016. Including development commitments, the aggregate of the individual property values totalled £1.2 billion (31 December 2015: £1.1 billion). Allowing for the costs associated with properties acquired in the six month period and to complete asset management projects, an overall surplus resulted on revaluation of £15.5 million (six months to 30 June 2015: £23.9 million). This surplus equates to 2.6 pence per share.

	30 June 2016 £m	31 December 2015 £m
Investment properties	**1,174.9**	1,091.9
Properties in the course of development	**12.1**	8.7
Total properties	**1,187.0**	1,100.6
Cost to complete development and purchase commitments	**11.2**	21.8
Total completed and committed	**1,198.2**	1,122.4

The primary care real estate sector offers different investment characteristics to the main commercial sectors. The long term income streams and high quality tenant covenant offered by such healthcare assets make them attractive to investors. Limited new development approvals by the NHS leads to existing assets being increasingly sought after by alternative sector investors.

The sector saw steady trading of completed assets through the first six months of 2016 with some yield tightening evident in pricing. Many opportunities were openly marketed, with bids invited from longstanding market participants and an increasing number of new entrants. Despite more competition for assets, PHP kept to its focused strategy of acquiring assets where there is strong income and potential for growth.

PHP's portfolio reflected an average net initial yield of 5.21% (31 December 2015: 5.32%) with the true equivalent yield reducing to 5.41% (31 December 2015: 5.53%).

The immediate aftermath of the EU referendum vote has seen a lot of publicity concerning the liquidity of open-ended property funds and much commentary on the future of property valuations. Much of this concerns properties that are located in London, particularly office properties that service the financial services sector. The future value of such assets and the business of the occupiers of these properties may vary greatly depending on the eventual impact of Britain leaving the EU.

The Group's property assets serve a specific purpose within the social infrastructure of the UK. PHP's properties are 99.7% occupied with an average unexpired lease term of 14.1 years. Over 90% of the income from the Group's UK assets is funded by the UK government through the NHS. There is no speculative development of premises in the primary care sector and supply of new premises is restricted at present due to low numbers of NHS approvals. The Board is confident in the strength of the Group's property values and its ability to continue to invest in earnings enhancing assets and to grow the portfolio.

Business review continued

Asset management

Rental growth on review
1% per annum
2015 (twelve months): 0.9% per annum

Capital projects
£2.0m invested
£0.2m of additional rent
Average 18 years additional WAULT

EPRA cost ratio
11.5% for the period

Work has continued with tenants to identify situations where existing assets owned by the Group may be expanded or enhanced to facilitate the development of their business and allow for the provision of a wider range of services by them or other users of the properties. Projects range from simple upgrade projects to major construction and extension works and generate additional rental income and extended occupational lease durations for PHP. In the six months to 30 June 2016:

- four projects were completed, investing capital of £0.7 million, generating additional rent of £0.1 million and an average additional lease term of 13 years for each project;
- one project is currently on site where PHP has committed £0.8 million of capital, adding £0.05 million of rental income for an additional eleven year lease term; and
- five projects are NHS approved and being documented or in the midst of the planning approval process. PHP will invest £1.9 million into these schemes to generate £0.2 million of additional rent for an average additional lease term of 18.6 years.

PHP has supported its tenants to develop and submit 23 applications for funding from the Estates and Technology Transformation Fund ("ETTF"). If all were successful, a total of £25.2 million of capital would be invested, £10.7 million of which would be funded by PHP, yielding additional rent of £0.6 million per annum for an average additional lease term of 13.6 years.

Financing

Net debt
£628.8m
(2015: £689.8m)

Loan-to-value
53%
(2015: 62.7%)

Weighted average facility maturity
5.6 years
(2015: 5.9 years)

Capital raise

PHP successfully raised £150 million of new share capital in April 2016 (£145.3 million, net of expenses). The offering to new and existing shareholders was over-subscribed with new shares issued at 100 pence each, a premium of 14% to EPRA NAV as at 31 December 2015 and a discount of 9.5% to the closing share price on 21 March 2016, the day before the offer was announced.

The proceeds of the issue were initially used to pay down revolving credit facilities where the funds remain available to PHP to be re-drawn as needed to fund investment in new and existing properties. The share issue immediately reduced the overall Group Loan to Value ratio and enables the Group to work to a short to medium term target limit on LTV of no higher than 60%.

Debt facilities

As reported with the 2015 results, on 7 January 2016, the Group completed the extension of its existing £100 million loan facility with Barclays plc. The total facility was extended by £15 million, with Allied Irish Banks plc ("AIB") providing these additional funds, and the enlarged facility was completed for a new five-year term.

Following the pay down of revolving credit facilities from the equity proceeds, the £50 million revolving element of the overall £165 million Club facility provided by RBS and Santander was cancelled as it allowed the Group to save non-utilisation costs. The overall facility matures in August 2017 and discussions have already commenced with the banks to renew this loan in full.

Interest rate swap contracts

On 11 May 2016, PHP re-couponed two active interest rate swap contracts to prevailing market rates. The swaps hedge a total nominal value of debt of £88 million and both have August 2021 maturities. The swaps carried an average fixed interest rate of 4.79% for their remaining duration and PHP made a one-off payment of £14.5 million to re-set the contracted rate for both swaps to 0.87% with effect from November 2016, for the remaining term of the contract from that date. This saves a total of £16.4 million in interest costs in that period.

The swaps were classified as "ineffective" swaps by the Group with previous Mark to Market ("MtM") valuations being recorded in the Income Statement in each financial period. The cash payment crystallised a significant proportion of the MtM liability held for these swaps in the balance sheet. The movement in the fair value of these contracts resulting from their re-couponing was recognised in the Income Statement in the current period. See Note 12 to the financial statements.

Term interest rates have fallen sharply following the EU referendum result. This creates an opportunity for PHP to secure historically low debt costs when acquiring new assets and locking in a wider spread between this and rental yields. Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. The movement in rates has sharply increased the MtM liability, with an overall increase of £17.6 million in the period to 30 June 2016. Of this, £2.9 million relates to "ineffective" swaps and is recognised in the Income Statement and £14.7 million relates to "effective" swaps and so is recognised directly in reserves.

These movements are accounting entries only and do not represent cash flows. Additionally, the MtM of the Group's interest rate swaps is not included in any debt facility covenant test and no debt facility held by the Group has a net asset value covenant. The Group's debt is 94% fixed or hedged as at 30 June 2016, limiting any exposure to movements in market interest rates.

Convertible Bond

The terms of the Convertible Bond require the Company to review the price at which new shares are issued in connection with an equity raise such as that detailed above. The issue price of 100 pence per share was within the allowable pricing parameters such that no adjustment was made to the conversion price of the Convertible Bond which remains unchanged at 97.5 pence. There has been no conversion of any Bonds during the period.

Total debt

The principal value of debt drawn as at 30 June 2016 totalled £634.8 million (31 December 2015: £692.7 million). Cash balances were £6.0 million (31 December 2015: £2.9 million) resulting in Group net debt of £628.8 million (31 December 2015: £689.8 million). The total remaining cost of development work on site at the balance sheet date was £11.2 million (31 December 2015: £21.8 million), resulting in headroom of £109.8 million (31 December 2015: £91.1 million) from existing facilities being available to the Group.

Debt metrics

	30 June 2016	31 December 2015
Loan to Value	**53.0%**	62.7%
Interest cover	**2.0 times**	1.9 times
Weighted average debt maturity	**5.6 years**	5.9 years
Total drawn secured debt	**£477.3m**	£535.2m
Total drawn unsecured debt	**£157.5m**	£157.5m
Total undrawn facilities available to the Group[1]	**£109.8m**	£91.1m

[1] After deducting the remaining cost to complete properties under development as at 30 June 2016.

Republic of Ireland

On 8 July 2016, the Group signed its first contract to acquire a primary care centre in the Republic of Ireland. The asset is located in the south and is currently nearing completion which is scheduled for August 2016. The property will cost PHP €6.7 million and will be fully let for a term of 25 years from completion, with 75% of income received from the Health Service Executive in Ireland ("HSE"), 22% from a major Irish pharmacy chain and 3% from local GPs. Completion of the contract is conditional upon the HSE executing certain transaction documents.

The Irish government remains committed to modernising its primary care infrastructure and providing many new, purpose built primary care centres to facilitate this. PHP has built strong relationships with vendors, agents and developers and has a strong pipeline of opportunities in the Republic of Ireland.

The Group plans to mitigate the risk of movements in currency markets creating a direct hedge for its capital investment by funding acquisitions from Euro denominated resources. Net revenue streams will be hedged on a shorter term basis to reduce exposure to currency markets.

Harry Hyman
Managing Director

Phil Holland
Finance Director

26 July 2016

Principal risks and uncertainties

Effective risk management is a key element of the Board's operational processes. The Group faces a variety of risks, both within its business and external factors that have the potential to impact on its performance, position and longer term viability. Operations are structured to allow the Group to operate in a low risk environment and in order to minimise the Group's residual exposure to risks that it may face, but also to ensure that risks that are accepted are appropriate to the returns they may generate and within the overall risk appetite of the Board. The Board regularly conducts a rigorous review of risks and how these are mitigated and managed across all areas of the Group's activities.

Risk and uncertainty created by the UK's vote to leave the EU in June 2016 has been considered by the Board as being the single event that would cause any change in the principal risks and uncertainties faced by the Group since the publication of the Annual Report for the year ended 31 December 2015. A detailed explanation of the risks facing the Group and how the Group seeks to mitigate them is summarised below:

Risk	Change to risk in six months to 30 June 2016	Factors affecting risk in the period	Mitigation
Delivering progressive returns			
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.	Unchanged	The eventual outcome of EU exit negotiations is not able to be predicted at present. The demand for and investment in NHS services will continue regardless. Future funding levels could be impacted by any long-term, material change to economic performance. The uncertainty caused by the referendum may lead to fluctuations in the value of the Group's assets, but no evidence of this can be seen at present.	The commitment to primary care is a stated objective of both the UK and Irish governments. Additional funding has been committed to the NHS with a resulting increase in funding for primary care underpinned by publication of the GP Forward View. The attractiveness of the long term, secure and growing income streams that characterise the sector leads to stability of values. The Group has reduced its borrowing levels following its capital raise in April 2016, maintains headroom in its covenant tests and holds a pool of unfettered assets.
Income and expenditure that will be derived from PHP's investment in the Republic of Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates impacting the Group's earnings and portfolio valuation.	Increased	The Group has signed its first conditional contract to acquire a primary care centre in Ireland completion of which will crystallise Euro denominated cash flows. The most noticeable impact of the referendum vote has been the fall in Sterling exchange rates. Volatility will continue whilst the exit process is ongoing.	The Board will fund its investments so as to create a natural hedge between asset values and liabilities in Ireland. Operating cash flows will be hedged wherever possible to limit exposure to exchange rate fluctuations. This will include the use of currency derivatives and matching Euro denominated assets with Euro debt facilities.
Grow property portfolio			
The emergence of new purchasers to 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.	Unchanged	A flight to income is emerging post-referendum which will attract property investors to the sector due to its long term, secure, government cash flows. The sector continues to experience a low number of new development approvals in the UK.	The reputation and track record of the Group in the sector means it is able to source investment in 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. The Estates and Technology Transformation Fund ("ETTF") provides an opportunity to secure projects to enhance or extend existing properties. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.

Risk	Change to risk in six months to 30 June 2016	Factors affecting risk in the period	Mitigation
Grow Property Portfolio continued			
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.	Reduced	The Company successfully raised £145.3 million (after costs) of equity capital in April 2016. Proceeds were initially used to pay down revolving credit facilities, but these funds remain available to be redrawn as needed by the Group. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term with significant overall headroom.	Overall debt levels have been reduced in the period and the quantum of unfettered assets increased. Existing and new debt providers are keen to provide funds to the sector, 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.
Manage effectively and efficiently			
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 on the Group's strategic objectives.	Unchanged	The Group's property portfolio has grown by 19 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.	The Adviser meets with occupiers to discuss the specific property and the tenant's aspirations and needs for their future occupation. Ten projects procured in the period and 23 bids submitted for approval and funding to the ETTF. These all enhance income and extend occupational lease terms.
The Group has no employees. The continuance of the Adviser contract is a key for the efficient operation and management of the Group.	Unchanged	None	The Advisory Agreement with and performance of Nexus 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.
Diversified, long term funding			
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.	Unchanged	Total Group borrowing has been decreased in the period and a short term (twelve months remaining), revolving credit facility has been cancelled. The Group was successful in extending the quantum and term of a facility with Barclays Bank plc and Allied Irish Banks plc in January 2016. The facility is for a total of £115 million for a new five year term.	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.
Adverse movement in underlying interest rates could adversely affect the Group's earnings and cash flows.	Increased	Term interest rate markets experienced significant volatility in the lead up to the referendum. Rates fell sharply on the result of the vote but will continue to see fluctuations as markets react to exit negotiations. Lower term interest rates have led to an increase in the Mark to Market ("MtM") valuations of the Group's interest rate derivative portfolio.	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 mainly through the use of interest rate swaps. As at the balance sheet date 94% 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.

Independent review report

to Primary Health Properties PLC

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2016 which comprises the Condensed Group Statement of Comprehensive Income, the Condensed Group Balance Sheet, the Condensed Group Cash Flow Statement, the Condensed Group Statement of Changes in Equity and related Notes 1 to 18. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 July 2016

Condensed Group statement of comprehensive income

for the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Rental income		**32,564**	30,975	63,115
Direct property expense		**(410)**	(422)	(852)
Net rental income		**32,154**	30,553	62,263
Administrative expenses	2	**(3,532)**	(3,392)	(6,807)
Net result on property portfolio		**15,530**	23,890	39,767
Operating profit		**44,152**	51,051	95,223
Finance income	3	**308**	535	737
Finance costs	4	**(16,375)**	(17,846)	(34,464)
Non recurring: early loan repayment fee		**(24)**	—	—
Fair value (loss)/gain on derivative interest rate swaps and amortisation of cash flow hedging reserve	4	**(4,504)**	2,287	1,005
Fair value gain/(loss) on Convertible Bond	4	**1,854**	(3,612)	(6,469)
Profit before taxation		**25,411**	32,415	56,032
Taxation charge	5	**—**	—	—
Profit for the period[1]		**25,411**	32,415	56,032
Other comprehensive (loss)/income:				
Items that may be reclassified subsequently to profit and loss:				
Fair value movement on interest rate swaps treated as cash flow hedges		**(13,116)**	3,524	1,420
Other comprehensive (loss)/income for the period net of tax		**(13,116)**	3,524	1,420
Total comprehensive income for the period net of tax		**12,295**	35,939	57,452
Earnings per share				
Basic	6	**4.9p**	7.3p[2]	12.6p
Diluted	6	**4.5p**	6.4p[2]	11.2p
EPRA earnings per share				
Basic	6	**2.4p**	2.2p[2]	4.9p
Diluted	6	**2.4p**	2.2p[2]	4.8p

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

[2] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

The above relates wholly to continuing operations.

Interim statement | Group financial statements | Further information

Condensed Group balance sheet

as at 30 June 2016

	Notes	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 December 2015 £000 (audited)
Non-current assets				
Investment properties	8	**1,187,041**	1,074,757	1,100,612
Derivative interest rate swaps	12	**—**	21	9
		1,187,041	1,074,778	1,100,621
Current assets				
Trade and other receivables		**4,038**	4,656	4,153
Cash and cash equivalents	9	**6,057**	1,516	2,881
		10,095	6,172	7,034
Total assets		**1,197,136**	1,080,950	1,107,655
Current liabilities				
Derivative interest rate swaps	12, 13	**(4,369)**	(7,340)	(4,734)
Corporation tax payable		**—**	—	—
Deferred rental income		**(14,032)**	(12,985)	(13,169)
Trade and other payables		**(14,068)**	(15,892)	(16,099)
Borrowings: Term loans and overdraft	10	**(779)**	(840)	(862)
		(33,248)	(37,057)	(34,864)
Non-current liabilities				
Borrowings: Term loans and overdraft	10	**(402,799)**	(448,459)	(460,550)
Borrowings: Bonds	11	**(234,656)**	(233,300)	(236,328)
Derivative interest rate swaps	12, 13	**(34,017)**	(27,859)	(30,553)
		(671,472)	(709,618)	(727,431)
Total liabilities		**(704,720)**	(746,675)	(762,295)
Net assets		**492,416**	334,275	345,360
Equity				
Share capital	16	**74,646**	55,689	55,785
Share premium account		**58,185**	56,699	57,422
Capital reserve		**1,618**	1,618	1,618
Special reserve	17	**208,216**	104,310	93,063
Cash flow hedging reserve		**(35,534)**	(20,298)	(22,402)
Retained earnings		**185,285**	136,257	159,874
Total equity[1]		**492,416**	334,275	345,360
Net asset value per share				
Basic and diluted	14	**82.5p**	75.0p[2]	77.4p
EPRA net asset value per share	14	**90.4p**	84.7p[2]	87.7p

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

[2] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

Condensed Group cash flow statement

for the six months ended 30 June 2016

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Operating activities			
Profit on ordinary activities before tax	**25,411**	32,415	56,032
Finance income	**(308)**	(535)	(737)
Finance costs	**16,375**	17,846	34,464
Provision for early loan repayment fee	**24**	—	—
Fair value loss/(gain) on derivatives	**4,504**	(2,287)	(1,005)
Fair value (gain)/loss on Convertible Bond	**(1,854)**	3,612	6,469
Operating profit before financing costs	**44,152**	51,051	95,223
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Net result on property portfolio	**(15,530)**	(23,890)	(39,767)
Fixed rent uplift	**(779)**	(726)	(1,480)
Decrease in trade and other receivables	**167**	343	999
Decrease/(increase) in trade and other payables	**(805)**	2,369	2,170
Cash generated from operations	**27,205**	29,147	57,145
Taxation paid	**(51)**	—	—
Net cash flow from operating activities	**27,154**	29,147	57,145
Investing activities			
Payments to acquire investment properties	**(70,120)**	(16,139)	(17,863)
Payment to acquire Crestdown Limited[1]	**—**	—	(3,869)
Payment to acquire White Horse Centre Limited[2]	**—**	(7,745)	(7,745)
Interest received on development loans	**170**	1,139	1,311
Bank interest received	**56**	12	12
Net cash flow used in investing activities	**(69,894)**	(22,733)	(28,154)
Financing activities			
Gross proceeds of share issue	**150,000**	—	—
Costs of share issue	**(4,695)**	—	—
Costs of share issue – PPP[3]	**—**	—	(139)
Term bank loan drawdowns	**31,690**	24,342	45,750
Term bank loan repayments	**(89,507)**	(13,350)	(25,764)
Termination of derivative financial instruments	**—**	—	(3,286)
Payment to re-set derivative contract rates	**(14,512)**	—	—
Swap interest paid	**(2,103)**	(3,784)	(6,724)
Non-utilisation fees	**(533)**	(489)	(875)
Loan arrangement fees	**(738)**	(111)	(270)
Interest paid	**(13,134)**	(12,784)	(25,791)
Loan breakage costs	**(24)**	—	—
Group structuring costs	**—**	(61)	—
Equity dividends paid (net of scrip dividend)	**(10,528)**	(10,733)	(21,083)
Net cash flow from/(used in) financing activities	**45,916**	(16,970)	(38,182)
Movement in cash and cash equivalents for the period	**3,176**	(10,556)	(9,191)
Cash and cash equivalents at start of period	**2,881**	12,072	12,072
Cash and cash equivalents at end of period	**6,057**	1,516	2,881

[1] Acquisition of Thornaby Property.

[2] Acquisition of White Horse, Westbury Property.

[3] Prime Public Partnerships Limited, acquired in December 2013.

Condensed Group statement of changes in equity

for the six months ended 30 June 2016

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Six months ended 30 June 2016 (unaudited)							
1 January 2015	55,785	57,422	1,618	93,063	(22,402)	159,874	345,360
Profit for the period	—	—	—	—	—	25,411	25,411
Other comprehensive income:							
Fair value movement on interest rate swaps	—	—	—	—	(14,676)	—	(14,676)
Amortisation of cash flow hedging reserve	—	—	—	—	1,560	—	1,560
Total comprehensive income:	—	—	—	—	(13,116)	25,411	(12,295)
Reclassification of swap interest accrual from cash flow hedge reserve	—	—	—	—	(16)	—	(16)
Shares issued as part of capital raise	18,750	—	—	131,250	—	—	150,000
Share issue expenses	—	(38)	—	(4,657)	—	—	(4,695)
Dividends paid	—	—	—	(10,528)	—	—	(10,528)
Scrip dividend in lieu of cash	111	801	—	(912)	—	—	—
30 June 2016	**74,646**	**58,185**	**1,618**	**208,216**	**(35,534)**	**185,285**	**492,416**

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Six months ended 30 June 2015 (unaudited)							
1 January 2015	55,638	56,416	1,618	115,438	(23,847)	103,867	309,130
Profit for the period	—	—	—	—	—	32,415	32,415
Other comprehensive income:							
Fair value movement on interest rate swaps	—	—	—	—	3,524	—	3,524
Total comprehensive income:	—	—	—	—	3,524	32,415	35,939
Reclassification of swap interest accrual from cash flow hedge reserve	—	—	—	—	25	(25)	—
Dividends paid:							
Dividends paid	—	—	—	(10,733)	—	—	(10,733)
Scrip dividends in lieu of cash (net of expenses)	51	344	—	(395)	—	—	—
Group structuring costs	—	(61)	—	—	—	—	(61)
30 June 2015	55,689	56,699	1,618	104,310	(20,298)	136,257	334,275

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Year ended 31 December 2015 (audited)							
1 January 2015	55,638	56,416	1,618	115,438	(23,847)	103,867	309,130
Profit for the year	—	—	—	—	—	56,032	56,032
Other comprehensive income:							
Fair value movement on interest rate swaps	—	—	—	—	(132)	—	(132)
Amortisation of cash flow hedging reserve	—	—	—	—	1,552	—	1,552
Total comprehensive income:	—	—	—	—	1,420	56,032	57,452
Reclassification of swap interest accrual from hedging reserve[1]	—	—	—	—	25	(25)	—
Share issue expenses	—	(30)	—	(109)	—	—	(139)
Dividends paid:							
Dividends paid	—	—	—	(21,083)	—	—	(21,083)
Scrip dividends in lieu of cash (net of expenses)	147	1,036	—	(1,183)	—	—	—
31 December 2015	55,785	57,422	1,618	93,063	(22,402)	159,874	345,360

[1] This relates to fair value changes in prior periods incorrectly recognised within the cash flow hedging reserve movements.

[2] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

Notes to the condensed financial statements

1. Accounting policies

General information

The financial information set out in this report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2015 have been filed with the Registrar of Companies. The Auditor's Report on these financial statements was unqualified and did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

The condensed consolidated interim financial statements of the Group are unaudited but have been formally reviewed by the auditor and its report to the Company is included on page 16.

These condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016 were approved and authorised for issue by the Board on 26 July 2016.

Basis of preparation/Statement of compliance

The condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 'Interim Financial Reporting' and reflect consistent accounting policies as set out in the Group's financial statements at 31 December 2015 which were prepared in accordance with IFRS as adopted by the European Union.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the statutory financial statements and should be read in conjunction with the Group's financial statements as at 31 December 2015.

Convention

The condensed interim financial statements are presented in Sterling, rounded to the nearest thousand.

Segmental reporting

The Directors are of the opinion that the Group currently has one operating and reportable segment, being the acquisition and development of property in the United Kingdom leased principally to GPs, NHS organisations and other associated health-care users.

Going concern

The Group's property portfolio is let to tenants with strong covenants and the acquisition pipeline is positive. The Group's loan to-value ratio is currently 53.0% and the Group's interest cover for the period under review was 2.0 times, well above the minimum Group banking covenant of 1.3 times. The Directors are therefore satisfied that the Group has sufficient resources to continue in operation for, a period of not less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Amendments to IFRSs effective for the financial year ending 31 December 2016 are not expected to have a material impact on the Group.

2. Administrative expenses

As the Group's portfolio has grown, administrative expenses as a proportion of rental income were 10.8% (30 June 2015: 10.9%). The Group's EPRA cost ratio has fallen to 11.5%, compared to 11.6% for the same period in 2015.

No performance incentive fee is payable to the Adviser for the period ended 30 June 2016 (six months to 30 June 2015: £nil; year ended 31 December 2015: £nil).

3. Finance income

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Interest income on financial assets			
Bank interest	**54**	9	9
Development loan interest	**252**	523	725
Other interest	**2**	3	3
	308	535	737

4. Finance costs

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Interest expense and similar charges on financial liabilities			
(i) Interest			
Bank loan interest	**8,049**	8,031	16,287
Swap interest	**2,100**	3,746	5,954
Bond interest	**4,790**	4,737	9,567
Bank facility non-utilisation fees	**512**	485	922
Bank charges and loan commitment fees	**924**	847	1,734
	16,375	17,846	34,464

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
(ii) Derivatives			
Net fair value (loss)/gain on interest rate swaps	**(2,944)**	2,287	2,557
Amortisation of cash flow hedging reserve	**(1,560)**	—	(1,552)
	(4,504)	2,287	1,005

The fair value loss on derivatives recognised in the Condensed Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A fair value loss on derivatives which meet the hedge effectiveness criteria under IAS39 of £14.7 million (30 June 2015: gain of £3.5 million) is accounted for directly in equity.

An amount of £1.6 million has been amortised from the cash flow hedging reserve in the period resulting from the early termination of an effective swap contract in July 2015 that would otherwise have matured on 2 July 2016.

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
(iii) Convertible Bond			
Fair value gain/(loss) on Convertible Bond	**1,854**	(3,612)	(6,469)

Notes to the condensed financial statements continued

4. Finance costs continued

The fair value movement in the Convertible Bond is recognised in the Group Statement of Comprehensive Income within profit before taxation but is excluded from the calculation of EPRA earnings and EPRA NAV. Refer to Note 11 for further details about the Convertible Bond.

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Finance income (Note 3)	**(308)**	(535)	(737)
Finance costs	**16,375**	17,846	34,464
Net finance costs	**16,067**	17,311	33,727

5. Taxation

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Taxation in the Condensed Group Statement of Comprehensive Income:			
Current tax			
UK corporation tax credit on non-property income	**—**	—	—
Taxation credit in the Condensed Group Statement of Comprehensive Income	**—**	—	—

6. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per share (pence)
Six months ended 30 June 2016			
Basic and diluted earnings			
Basic earnings	**25,411**	**521,750,643**	**4.9**
Dilutive effect of Convertible Bond	**1,744**	**84,615,385**	
Diluted earnings	**27,155**	**606,366,028**	**4.5**
EPRA basic and diluted earnings			
Basic earnings	**25,411**		
Adjustments to remove:			
Net result on property (Note 8)	**(15,530)**		
Early repayment penalty	**24**		
Fair value movement on derivatives	**4,504**		
Fair value movement on Convertible Bond	**(1,854)**		
EPRA basic earnings per share	**12,555**	**521,750,643**	**2.4**
Dilutive effect of Convertible Bond	**1,744**	**84,615,385**	
EPRA diluted earnings per share	**14,299**	**606,366,028**	**2.4**

[1] Weighted average number of shares in issue during the period.

6. Earnings per share continued

	Net profit attributable to Ordinary Shareholders £000	Ordinary Shares (number)[1]	Per share (pence)
Six months ended 30 June 2015			
Basic and diluted earnings			
Basic earnings	32,415	445,310,968[2]	7.3[2]
Dilutive effect of Convertible Bond	1,728	84,615,384[2]	
Diluted earnings	34,143	529,926,352[2]	6.4[2]
EPRA basic and diluted earnings			
Basic and diluted earnings	32,415		
Adjustments to remove:			
Net result on property	(23,890)		
Fair value movement on derivatives	(2,287)		
Fair value movement on Convertible Bond	3,612		
EPRA basic earnings per share	9,850	445,310,968[2]	2.2[2]
Dilutive effect of Convertible Bond	1,728	84,615,384[2]	
EPRA diluted earnings per share	11,578	529,926,352	2.2[2]
Year ended 31 December 2015 (audited)			
Basic and diluted earnings			
Basic earnings	56,032	445,606,491	12.6
Dilutive effect of Convertible Bond	3,506	84,615,385	
Diluted earnings	59,538	530,221,876	11.2
EPRA basic and diluted earnings			
Basic and diluted earnings	56,032		
Adjustments to remove:			
Net result on property	(39,767)		
Fair value movement on derivatives	(1,005)		
Fair value movement on Convertible Bond	6,469		
EPRA basic earnings per share	21,279	445,606,491	4.9
Dilutive effect of Convertible Bond	3,506	84,615,385	
EPRA diluted earnings per share	25,235	530,221,876	4.8

1 Weighted average number of shares in issue during the period.

2 Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

On 20 May 2014, the Group issued £82.5 million of unsecured Convertible Bonds (refer to Note 11 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 Convertible Bonds are dilutive for basic earnings per share but not EPRA earnings per share.

The dilutive impact to basic EPS of Convertible Bonds is represented by the accrued bond coupon which has been included in the results of each period. 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 the end of each reporting period.

Notes to the condensed financial statements continued

7. Dividends

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Quarterly interim dividend paid 26 February 2016	**5,358**	—	—
Scrip dividend in lieu of quarterly cash dividend 26 February 2016	**360**	—	—
Quarterly interim dividend paid 27 May 2016	**5,170**	—	—
Scrip dividend in lieu of quarterly cash dividend 27 May 2016	**552**	—	—
Interim dividend 2.50p paid 1 April 2015	**—**	10,733	10,733
Scrip dividend in lieu of cash dividend 1 April 2015	**—**	395	395
Interim dividend 2.5p paid 30 October 2015	**—**	—	10,350
Scrip dividend in lieu of cash dividend 30 October 2015	**—**	—	788
Total dividends distributed	**11,440**	11,128	22,266
Per share	**2.5625p**	2.50p[1]	5.00p[1]

[1] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

The Company will pay a third interim dividend of 1.28125 pence per Ordinary Share for the year ending 31 December 2016, payable on 26 August 2016, to shareholders on the register as at 15 July 2016. This dividend will not be a Property Income Distribution ("PID").

8. Investment properties and investment properties under construction

Investment properties have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2016 in accordance with IAS 40: Investment Property.

The revaluation surplus for the six months ended 30 June 2016 amounted to £15.5 million (30 June 2015: £23.9 million; 31 December 2015: £39.8 million).

Property additions, including acquisitions, for the six months ended 30 June 2016 amounted to £70.1 million (30 June 2015: £23.9 million; 31 December 2015: £33.1 million). There were no property disposals in the six months ended 30 June 2016 (30 June 2015: £nil; 31 December 2015: £nil).

	Investment properties freehold £000 (unaudited)	Investment long leasehold £000 (unaudited)	Investment properties under construction £000 (unaudited)	Total £000 (unaudited)
As at 1 January 2016	882,016	209,861	8,735	1,100,612
Property additions	51,955	8,204	9,961	70,120
Impact of lease incentive adjustment	356	423	—	779
Transfer from properties in the course of development	7,245	—	(7,245)	—
	941,572	218,488	11,451	1,171,511
Revaluations for the period	10,695	4,135	700	15,530
As at 30 June 2016	**952,267**	**222,623**	**12,151**	**1,187,041**

In their Interim Valuation Report, Lambert Smith Hampton ("LSH") commented on the referendum decision to exit the EU. LSH referred to the period of uncertainty post the referendum vote and that many factors may affect the property market as a whole.

LSH point to the lower level of property occupational and investment transactions in the wider property sector that may continue for the foreseeable future due to the Brexit scenario. They state that "in "thin" transactional markets, by their nature, there is less certainty to be attached to valuation. With fewer transactions, there is less market evidence to provide definitive price guidance at any time, and this coupled to volatility in financial markets, creates additional risk".

9. Cash and cash equivalents

	30 June 2016 £000 (unaudited)	31 December 2015 £000 (audited)
Cash held at bank	**6,057**	2,881

10. Bank and other borrowings reconciliation

The table indicates amounts drawn and undrawn from each individual facility:

	Facility		Amounts drawn		Undrawn	
	30 June 2016 £000	31 December 2015 £000	30 June 2016 £000	31 December 2015 £000	30 June 2016 £000	31 December 2015 £000
Current						
Overdraft facility[1]	**5,000**	5,000	**—**	—	**5,000**	5,000
Fixed rate term loan[2]	**779**	755	**779**	755	**—**	—
Term loan to November 2028[9]	**—**	107	**—**	107	**—**	—
	5,779	5,862	**779**	862	**5,000**	5,000
Non-current						
Term loan to August 2017[3]	**115,000**	165,000	**115,000**	146,250	**—**	18,750
Fixed rate term loan[2]	**23,552**	23,948	**23,552**	23,948	**—**	—
Fixed rate term to December 2022[4]	**25,000**	25,000	**25,000**	25,000	**—**	—
Term to July 2020[5]	**50,000**	50,000	**—**	21,513	**50,000**	28,487
Fixed rate term to November 2018[6]	**75,000**	75,000	**75,000**	75,000	**—**	—
Term to August 2019[7]	**—**	100,000	**—**	57,160	**—**	42,840
Term to August 2021[7]	**115,000**	—	**55,000**	—	**44,841**	—
Fixed rate term to August 2024[8]	**50,000**	50,000	**50,000**	50,000	**—**	—
Fixed rate term to August 2029[8]	**63,000**	63,000	**63,000**	63,000	**—**	—
Term to November 2028[9]	**—**	2,415	**—**	2,415	**—**	—
	516,552	554,363	**406,552**	464,286	**94,841**	90,077
Total	**522,331**	560,225	**407,331**	465,148	**99,841**	95,077

Providers:

1 The Royal Bank of Scotland PLC.

2 Aviva facility repayable in tranches to 31 January 2032.

3 The Royal Bank of Scotland plc ("RBS") and Abbey National Treasury Services plc (branded Santander from January 2010) ("The Club facility").

4 Aviva GPFC facility.

5 HSBC Bank facility.

6 Aviva facility.

7 Barclays Bank facility.

8 Aviva facility.

9 RBS facility (acquired with Crestdown Limited).

Notes to the condensed financial statements continued

10. Bank and other borrowings reconciliation continued

At 30 June 2016, total facilities of £749.8 million (31 December 2015: £787.7 million) were available to the Group. This included a £75 million Unsecured Retail Bond, a £70 million Secured Bond, a £82.5 million Convertible Bond and a £5 million overdraft facility. Of these facilities, as at 30 June 2016, £634.8 million was drawn (31 December 2015: £692.8 million).

On 10 June 2016, a £50 million revolving credit tranche of the Club facility, which would have matured in August 2017, was voluntarily cancelled by the Group. The remaining tranche of the loan is fully drawn by the Group. Its terms remain unchanged.

On 7 January 2016, the £100 million loan facility provided by Barclays Bank plc was successfully extended by £15 million. The enlarged facility will be made available for a new five-year term from January 2016. All other terms of the facility remain unchanged.

On 16 July 2015, the £50 million revolving credit facility with HSBC Bank plc was extended for a new five-year term. All other terms of the loan remain unaltered.

As part of the acquisition of Crestdown Limited on 29 June 2015, the Group acquired an existing loan with the Royal Bank of Scotland PLC in the sum of £2.5 million. The loan was fully repaid on 22 April 2015, incurring a £24,000 early repayment fee.

Costs associated with the arrangement and extension of the facilities, including legal advice and loan arrangement fees, are amortised over the remaining life of the related facility.

Any amounts unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	30 June 2016 £000 (unaudited)	31 December 2015 £000 (audited)
Term loans drawn: due within one year	**779**	862
Term loans drawn: due in greater than one year	**406,552**	464,286
Total term loans drawn	**407,331**	465,148
Less: unamortised borrowing costs	**(3,753)**	(3,736)
Total term loans per the Condensed Group Balance Sheet	**403,578**	461,412

11. Borrowings: bonds

	30 June 2016 £000 (unaudited)	31 December 2015 £000 (audited)
Secured		
Secured Bond November 2015	**70,000**	70,000
Unsecured		
Retail Bond July 2019	**75,000**	75,000
Convertible Bond May 2019 at fair value	**91,577**	93,431
Less: unamortised issue costs	**(1,921)**	(2,103)
	234,656	236,328

Secured Bond

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. £60 million was paid up on the issue of the Secured Bonds with the remaining £10 million being received on 30 June 2014 following the completion of the construction of four further secured assets. The Secured Bonds incur interest on the paid-up amount at an annualised rate of 220 basis points above six month LIBOR, payable semi annually in arrears.

11. Borrowings: bonds continued

Retail Bond

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a Retail Bond following the issue of a £75 million, unsecured, seven-year bond, to retail investors with an annual interest rate of 5.375% paid semi-annually in arrears. The Retail Bond issue costs are being amortised on a straight line basis over seven years.

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 has been 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. 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.

The bondholders have the right to convert the Bonds up until 20 May 2017 only where the Parity Value (as defined in the Bond's terms) is greater than the Exchange Price.

On or after 20 May 2017, the Bonds may be redeemed at par at the Company's option subject to the Parity Value equalling or exceeding £130,000, for Bonds with a nominal value of £100,000. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on the maturity date.

	30 June 2016 £000	31 December 2015 £000
Opening balance – fair value	**93,431**	86,962
Fair value movement in Convertible Bond	**(1,854)**	6,469
Closing balance – fair value	**91,577**	93,431

The fair value of the Convertible Bond at 30 June 2016 and 31 December 2015 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within profit before taxation but is excluded from the calculation of EPRA earnings and EPRA NAV.

Notes to the condensed financial statements continued

12. Derivatives and other financial instruments

It is Group policy to maintain the proportion of floating rate interest exposure at between 20% and 40% of total debt. 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.

The table below sets out the movements in the value of the Group's interest rate swaps during the period:

	Effective interest rate swaps £000	Ineffective interest rate swaps £000	Total £000
Assets			
As at 1 January 2016	9	—	9
Fair value movement in the period	(9)	—	(9)
As at 30 June 2016	—	—	—
Liabilities			
As at 1 January 2016	(20,784)	(14,503)	(35,287)
Cash paid to re-set interest rates	—	14,512	14,512
Fair value movement in the period	(14,667)	(2,944)	(17,611)
As at 30 June 2016	(35,451)	(2,935)	(38,386)
Total – derivative financial instruments			
As at 1 January 2016	(20,775)	(14,503)	(35,278)
Cash paid to re-set interest rates	—	14,512	14,512
Fair value movement in the period	(14,676)	(2,944)	(17,620)
As at 30 June 2016	(35,451)	(2,935)	(38,386)

On 11 May 2016, PHP paid a one-off cash sum of £14.5 million to re-set the contracted rates on two interest rate swaps. The contracts were as follows:

- for a nominal value of £50.0 million, at a rate of 4.835%, maturing on 11 August 2021; and
- for a nominal value of £38.0 million, at a rate of 4.74%, maturing on 11 August 2021.

The contracted rate on both swaps was bought down to the prevailing market rate of 0.87% for the period of the contract between 11 November 2016 and maturity. The swaps are no longer callable at the option of the bank. All other terms remain unchanged.

These swap contracts are classified as ineffective swaps. As such, Mark to Market valuation movements have been recognised in the Income Statement in the period they arose. The payment made to re-set the rates on these contracts crystallised part of the value held in the balance sheet at that time. Further fair value movements resulting from the re-coupon of these swaps are recognised in the Income Statement (see above).

13. Financial risk management

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 30 June 2016 £000	Fair value 30 June 2016 £000	Book value 31 December 2015 £000	Fair value 31 December 2015 £000
Financial assets				
Trade and other receivables	**2,545**	**2,545**	2,364	2,364
Effective interest rate swaps	**—**	**—**	9	9
Cash and short-term deposits	**6,057**	**6,057**	2,881	2,881
Financial liabilities				
Interest-bearing loans and borrowings	**(629,158)**	**(685,387)**	(692,648)	(731,532)
Effective interest rate swaps	**(35,451)**	**(35,451)**	(20,776)	(20,776)
Ineffective interest rate swaps	**(2,935)**	**(2,935)**	(14,502)	(14,502)
Trade and other payables	**(11,537)**	**(11,537)**	(14,424)	(14,424)

The fair value of the financial assets and liabilities is included as an estimate of the amount at which the instruments could be transferred 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 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.

The Group held the following financial instruments at fair value at 30 June 2016. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, i.e. those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

Notes to the condensed financial statements continued

13. Financial risk management continued

Fair value measurements at 30 June 2016 are as follows:

Recurring fair value measurements	Level 1[1] £000	Level 2[2] £000	Level 3[3] £000	Total £000
Financial assets				
Derivative interest rate swaps	—	—	—	—
Financial liabilities				
Derivative interest rate swaps	—	(38,386)	—	(38,386)
Convertible Bond	(91,577)	—	—	(91,577)

Fair value measurements at 31 December 2015 were as follows:

Recurring fair value measurements	Level 1[1] £000	Level 2[2] £000	Level 3[3] £000	Total £000
Financial assets				
Derivative interest rate swaps	—	9	—	9
Financial liabilities				
Derivative interest rate swaps	—	(35,287)	—	(35,287)
Convertible Bond	(93,431)	—	—	(93,431)

[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.

14. Net asset value calculations

Net asset values have been calculated as follows:

	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 December 2015 £000 (audited)
Net assets			
Basic net assets	**492,416**	334,275	345,360
Derivative interest rate swaps liability (net)	**38,386**	35,178	35,278
Cumulative Convertible Bond fair value movement	**9,077**	8,074	10,931
EPRA net asset value	**539,879**	377,527	391,569

	Number of shares	Number of shares	Number of shares
Ordinary Shares			
Issued share capital	**597,171,537**	445,513,044[1]	446,281,348
Net asset value per share			
Basic net asset value per share	**82.5p**	75.0p[1]	77.4p
EPRA net asset value per share	**90.4p**	84.7p[1]	87.7p

[1] Restated to reflect the Company's four-for-one share sub-division undertaken in November 2015.

EPRA NAV is calculated as balance sheet net assets including the valuation result on investment properties but excluding fair value adjustments for debt and related derivatives.

As detailed in Note 6, the Company is required to assess the dilutive impact of the unsecured Convertible Bond on its net asset value per share, but only report any impact if it is dilutive. 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), the unsecured Convertible Bond issued by the Group on 20 May 2014 is anti-dilutive to all measures of net asset value per share.

15. Related party transactions

The fees calculated and payable for the period to the Adviser, included in administrative expenses, were as follows:

	Six months ended 30 June 2016 £000 (unaudited)	Six months ended 30 June 2015 £000 (unaudited)	Year ended 31 December 2015 £000 (audited)
Nexus Tradeco Limited	**2,801**	2,606	5,296

As at 30 June 2016, outstanding advisory fees payable to Nexus totalled £0.5 million (31 December 2015: £0.5 million).

Further fees paid to Nexus in accordance with the Advisory Agreement for the period 30 June 2016 of £0.02 million (31 December 2015: £0.1 million) in respect of capital projects were capitalised in the year.

Notes to the condensed financial statements continued

16. Called up share capital

	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 December 2015 £000 (audited)
Issued and fully paid Ordinary Shares at 12.5p each	**74,646**	55,689	55,785
At beginning of year	**55,785**	55,638	55,638
Scrip issues in lieu of cash dividends	**111**	51	147
Shares issued in the period	**18,750**	—	—
	74,646	55,689	55,785

On 13 April 2016, a general meeting of the Company approved the issue of 150,000,000 new Ordinary Shares at a price of 100 pence each. The shares were admitted to trading on the Main Market of the London Stock Exchange on 14 April 2016.

At a general meeting of the Company on 11 November 2015, shareholders approved the resolution to sub-divide each issued Ordinary Share of 50.0 pence each into four Ordinary Shares of 12.5 pence. The sub-division of the Ordinary Shares became effective on 12 November 2015.

17. Special reserve

	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 December 2015 £000 (audited)
At beginning of year	**93,063**	115,438	115,438
Share issue: 14 April 2016	**131,250**	—	—
Dividends paid	**(10,528)**	(10,733)	(21,083)
Scrip issues in lieu of cash dividends	**(912)**	(395)	(1,183)
Share issue expenses	**(4,657)**	—	(109)
	208,216	104,310	93,063

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. The issue of shares on 14 April 2016, referred to in Note 16, was effected by way of a cash box.

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 declared in the period have been distributed from this reserve.

18. Subsequent events

On 8 July 2016, the Group signed a conditional contract to acquire a primary care centre in the Republic of Ireland for a consideration of €6.7 million. Completion is scheduled for August 2016 conditional upon the completion of certain transaction documents.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge this condensed set of interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the operating and financial review herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency rules of the United Kingdom's Financial Services Authority namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

Shareholder information is as disclosed in the Annual Report and is also available on the PHP website www.phpgroup.co.uk.

By order of the Board

Alun Jones
Chairman
26 July 2016

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.

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 total dividend paid in the period (in cash or shares under the Scrip Dividend Scheme) 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 period.

European Public Real Estate Association ("EPRA") is a real estate industry body, which has issued Best Practices 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 and gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA Net Assets Value ("EPRA NAV") is the balance sheet net assets excluding own shares held and Mark to Market derivative financial instruments.

EPRA Vacancy Rate is, as a percentage, the ERV of vacant space in the Group's property portfolio divided by the 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 and its subsidiaries.

IFRS is International Financial Reporting Standards as adopted by the European Union.

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.

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.

IPD Healthcare is the Investment Property Databank's UK Annual Healthcare Property Index.

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 IPD.

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 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 purchaser's 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 and 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 capital expenditure, less disposals.

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.

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.

FSC www.fsc.org MIX Paper from responsible sources FSC® C014999

Primary Health Properties PLC's commitment to environmental issues is reflected in this Interim Report which has been printed on Claro Silk, an FSC® Mix Certified paper, which ensures that all virgin pulp is derived from well-managed forests and other responsible sources.

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

Primary Health Properties

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

Registered in England Number:
3033634