Primary Health Properties PLC

Interim results

Strengthened balance sheet and rental growth delivering continued shareholder value

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), a leading investor in modern primary health facilities, announces its interim results for the six months ended 30 June 2018.

FINANCIAL HIGHLIGHTS

- EPRA Earnings[1, 4] increased by 11.0% to £17.1m (30 June 2017: £15.4m)
- EPRA Earnings[1, 4] per share decreased by 3.8% to 2.5p (30 June 2017: 2.6p) reflecting the dilution from the successful, over-subscribed £115.0m equity raise in April 2018
- Net rental income[3] increased by 7.5% to £37.4m (30 June 2017: £34.8m)
- IFRS profit before tax decreased by 12.6% to £38.7m (30 June 2017: £44.3m) due to a lower revaluation surplus in the period of £21.2m (30 June 2017: £29.9m)
- IFRS earnings[1] per share decreased by 23.0% to 5.7p (30 June 2017: 7.4p)
- EPRA Net Asset Value per share[2, 3, 4] increased by 3.5% to 104.2p (31 December 2017: 100.7p)
- IFRS Net Asset Value per share[2, 3] increased by 5.4% to 99.8p (31 December 2017: 94.7p)
- Total dividends paid increased by 7.0% to £16.8m (30 June 2017: £15.7m) fully covered by EPRA earnings
- Total dividends of 2.7p per share distributed in the period (30 June 2017: 2.62p), the 22nd successive year of dividend growth. Third quarterly dividend of 1.35p per share payable on 24 August 2018
- Increase in EPRA net assets and dividends paid in the period equivalent to 6.2p per share, an increase of 6.2% (30 June 2017: 7.6p up 8.4%)

OPERATIONAL HIGHLIGHTS

- Total portfolio of 308 assets valued at £1.415bn as at 30 June 2018 (31 December 2017: £1.362bn) with a contracted rent roll of £74.4m (31 December 2017: £72.3m)
- Surplus on property valuation of £21.2m (30 June 2017: £29.9m), growth of 1.5%; portfolio net initial valuation yield of 4.85% (31 December 2017: 4.91%)
- Successful, over-subscribed equity issue completed in April 2018, raising £115.0m (£111.2m net of expenses) at a 7% premium to EPRA NAV as at 31 December 2017

- Proceeds from the equity issue being invested in a disciplined manner with four properties acquired for £48.6m, including post period end transactions, £4.8m invested in asset management projects and a further four properties in solicitors' hands, subject to due diligence, for £37m
- Strong pipeline of acquisitions totalling over £175m in the UK and Ireland being progressed
- Average annualised uplift of 1.7% on rent reviews agreed in the period resulting in an uplift in rent of £0.6m continuing the positive trend in rental growth over the last two years (year ended 31 December 2017: 1.1% p.a. with an uplift of £0.5m; year ended 31 December 2016: 0.9% p.a. with an uplift of £0.3m)
- 99.7% of portfolio let with 12.9 years weighted average unexpired lease term (31 December 2017: 13.2 years) and only 1.3% of rent due to expire in the next three years
- Loan to Value[3] reduced to 44.6% (31 December 2017: 52.9%) falling to 40.5% on a pro-forma basis excluding the convertible bond
- Group's average cost of debt reduced by 23bp to 3.86% (31 December 2017: 4.09%) including the impact of £70.0m/4.52% fixed rate swaps cancelled for two years, post period end, for a one-off payment of £5.0m. Total interest savings of £2.5m p.a.
- PHP shares were elevated to the FTSE 250 and FTSE All-Share indices on the London Stock Exchange in April 2018

1 See note 7, earnings per share, to the financial statements.
2 See note 15, net asset value per share, to the financial statements.
3 Definitions for net rental income, loan to value ("LTV") and net asset value ("NAV") are set out in the Glossary of Terms.
4 The Company uses a number of alternative performance measures in this interim statement. See page 16, Business Review.

Harry Hyman, Managing Director of PHP, commented:

"The successful, over-subscribed equity raise has strengthened the balance sheet and provides significant headroom for future investment in a strong, disciplined and selective pipeline. As we have already demonstrated, we are actively engaged in expanding our portfolio, with particular growth in the number of significant Irish assets. PHP continues to benefit from the strong fundamental characteristics and government-backed income which position primary healthcare as a highly attractive investment opportunity.

We are also encouraged by the continuing improvement in rental growth in the sector which will help to maintain our strategy of paying a progressive dividend to our shareholders which is covered by earnings."

Presentation and webcast:

A presentation for analysts will be held on 25 July 2018 at 10.30am at the offices of Numis, 10 Paternoster Square, London EC4M 7LT.

The presentation will be accessible via a live conference call:

UK Toll Free: +44 (0) 808 237 0040
International dial in numbers:
http://events.arkadin.com/ev/docs/FEL_Events_International_Access_List.pdf
Participant PIN code: 20993790#

There will be a replay available for one month following the presentation:
UK Toll-Free Number: 0808 237 0026
Conference Number: 697622#

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

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FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)	Year ended 31 December 2017 (audited)
Investment portfolio	**£1.415bn**	£1.266bn	£1.362bn
Net rental income[1]	**£37.4m**	£34.8m	£71.3m
Weighted average unexpired lease term (WAULT)	**12.9 years**	13.3 years	13.2 years
Contracted rent roll (annualised)	**£74.4m**	£69.3m	£72.3m
EPRA results			
EPRA Earnings[2, 4]	**£17.1m**	£15.4m	£31.0m
EPRA Earnings per share[2, 4]	**2.5p**	2.6p	5.2p
EPRA NAV[1, 3, 4]	**£762.9m**	£575.4m	£623.6m
EPRA NAV per share[1, 3, 4]	**104.2p**	96.1p	100.7p
Dividends			
Dividend per share[5]	**2.70p**	2.62p	5.25p
Dividends paid	**£16.8m**	£15.7m	£31.4m
Dividend cover	**102%**	98%	99%
Debt			
Average cost of debt[6]	**3.86%**	4.65%	4.09%
Weighted average debt maturity	**5.9 years**	5.1 years	6.3 years
Loan to value ratio[1]	**44.6%**	53.7%	52.9%
Total undrawn loan facilities[7]	**£200.7m**	£90.5m	£101.0m
Reported results			
IFRS profit for the period	**£38.7m**	£44.3m	£91.9m
IFRS earnings per share[2]	**5.7p**	7.4p	15.3p
Total equity	**£730.6m**	£530.6m	£586.8m
IFRS NAV per share[1, 3]	**99.8p**	88.6p	94.7p

[1] Definitions for net rental income, loan to value ("LTV") and net asset value ("NAV") are set out in the Glossary of Terms.
[2] See note 7, earnings per share, to the financial statements.
[3] See note 15, net asset value per share, to the financial statements.
[4] The Company uses a number of alternative performance measures in this interim statement. See page 16, Business Review.
[5] See note 8, dividends, to the financial statements.
[6] Including the impact of £70m fixed rate swaps re-couponed post period end.
[7] After deducting the remaining cost to complete contracted acquisitions, properties under development and asset management projects.

Performance

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Increase in EPRA NAV plus dividends paid	**6.2%**	8.4%	16.4%
Income return	**2.7%**	2.8%	5.5%
Capital return	**1.6%**	2.5%	5.3%
Total property return	**4.3%**	5.3%	10.8%
IPD All Property return[1]	**4.4%**	4.7%	10.3%
(Under)/outperformance over IPD	**(0.1%)**	0.6%	0.5%

[1] IPD Monthly All Property, All Assets index to June 2018.

EXECUTIVE REVIEW

The Group has completed a successful start to the year strengthening the balance sheet and securing additional resource for future investment by raising £115.0m of new equity capital (£111.2m net of expenses). Including post period end transactions, we have committed £53m, or 46% of the equity raised, in acquiring four properties including a forward funded development and invested in 19 asset management projects to create additional value. A further £37m of transactions have been agreed and are in advanced stages of legal due diligence which, if they complete, will result in the investment of approximately 80% of the equity raised.

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

We have increased the dividend paid to shareholders in the period by 7.0% to £16.8m (30 June 2017: £15.7m) which is fully covered by increased earnings and represents the Group's 22nd successive year of dividend growth.

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

Overview of results

The acquisitions in both 2017 and 2018, together with continued and increasing organic rental growth, helped to deliver another set of strong results in the first six months of the year with EPRA earnings up 11.0% to £17.1m (30 June 2017: £15.4m) and EPRA earnings per share down 3.8% to 2.5p (30 June 2017: 2.6p) reflecting the dilution from the successful equity raise in April 2018. The Group's portfolio was valued at just over £1.4bn which generated a revaluation surplus of £21.2m (30 June 2017: £29.9m) after allowing for costs associated with acquisitions and capital expenditure.

The Group has continued to selectively grow its portfolio in the period, adding two assets and exchanging contracts to acquire our fourth property in Ireland. Post period end, a forward funded development in Ireland has been acquired, for a total cost of £19.7m (€22.3m). We continue to have a strong pipeline of further potential acquisitions both in the UK and Ireland including £37m of properties currently in solicitors' hands and subject to contract.

The EPRA earnings, revaluation surplus, profit on land sale of £0.1m and a gain on the mark to market valuation of our derivative portfolio and convertible bond of £0.3m resulted in an IFRS profit of £38.7m (30 June 2017: £44.3m), a decrease of 12.6%.

We have continued to see further yield compression in the sector which resulted in the portfolio's net initial yield contracting by 6bp to 4.85% (31 December 2017: 4.91%) which accounted for approximately half of the revaluation surplus. Rent reviews and asset management projects accounted for the balance, adding £0.7m to the contracted rent roll. Positive momentum on rent reviews has seen annualised rental growth continue to improve with 1.7% achieved on rent reviews completed, compared to 1.1% and 0.9% achieved in the whole of 2017 and 2016 respectively.

The portfolio's average lot size continues to grow and is now £4.6m (31 December 2017: £4.5m) and we have only two assets valued at less than £1.0m; one of which will be sold post period end at book value. We continue to maintain our very strong metrics, with a long average lease length of 12.9 years, high occupancy at 99.7% and with only 1.3% of our rent due to expire in the next three years.

Dividends

The Company distributed a total of 2.7p per share in the six months to 30 June 2018, an increase of 3.1% over that distributed in the first half of 2017 of 2.62p per share. The total value of dividends distributed in the period increased by 7.0% to £16.8m (30 June 2017: £15.7m) and were fully covered by EPRA earnings. Dividends totalling £1.0m were satisfied through the issuance of shares via the scrip dividend scheme.

Interim dividends of 1.35p per share were paid in February and May 2018 and the Company is to pay its third quarterly dividend, also of 1.35p per share, on 24 August 2018 to shareholders on the register as at 13 July 2018. The dividend will comprise a Property Income Distribution ("PID") of 0.85p and an ordinary dividend of 0.50p per share. The dividends are equivalent to 5.4p on an annualised basis and represent the Company's 22nd successive year of dividend growth. A further dividend payment is planned to be made in November 2018.

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

The Company's share price started the year at 117.0p per share and closed on 30 June 2018 at 116.6p, a slight decrease of 0.3%. Including dividends, those shareholders who held the Company's shares throughout the period achieved a Total Shareholder Return of 2.0% (30 June 2017: 4.4%).

Market update and outlook

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

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

In January 2018, the Government published a response to the Naylor Review which acknowledged the importance of land and property to the transformation of the health system and how the NHS will be able to supplement public capital with other sources of finance from the private sector. The response also confirms that the use of private finance has been particularly effective as a source of investment and innovation in primary and community care in the past and will still be used in the future where it represents good value for money. Demand for healthcare is driven by demographics and the NHS is supported on a cross party basis in the UK. We welcome the recent announcement by the Government to increase funding for the NHS, on its 70th anniversary, and these additional resources may in time lead to increased activity in the building of new and the modernisation of existing primary care premises which is essential if they are to reduce the increasing pressures on hospitals by improving access to primary care. We look forward to helping deliver the modernisation of the primary care estate by actively pursuing attractive investment opportunities of both existing assets and developments.

The equity raise in April 2018 has strengthened our balance sheet and provides significant headroom to invest selectively in both the UK and Ireland and we are encouraged to see rental growth continuing to improve, albeit at a modest rate. The Company is now in a strong position to continue to deliver long-term value to shareholders.

Board changes

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

Three new Non-Executive Directors, Ian Krieger, Dr Stephen Kell, OBE and Peter Cole have been appointed.

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

The new Board has only been in position for a few months but has settled in well and made a positive contribution to the future of the Company.

Steven Owen
Chairman

Harry Hyman
Managing Director

24 July 2018

BUSINESS REVIEW

The Group continues to focus its activities on large hub primary care facilities both in the UK and Ireland and has continued to increase the portfolio's average lot size to £4.6m (31 December 2017: £4.5m) from both investment and asset management activity.

Investment activity

PHP continues to remain selective and disciplined in its approach to acquisitions; maintaining a strict selection criteria and pricing approach to ensure additions are high quality, accretive to net earnings and offer the opportunity for future growth. This has resulted in the acquisition of just two assets for £23.8m in the six months to 30 June 2018 (six months to 30 June 2017: four assets for £18.6m; six months to 31 December 2017: six assets for £53.3m).

Asset		Area (Sq. m)	Acquisition price	WAULT (years)	GP patient list and key tenants
Mallow, County Cork, Ireland	Investment	6,500	£17.7m (€20.0m)	21.9	30,000 + HSE + pharmacy + dentist + optician+ physiotherapist
Moredon, Swindon	Investment	1,446	£6.1m	27.5	11,500 + pharmacy
Total		7,946	£23.8m	22.2	

Mallow Primary Health Centre, Mallow, County Cork, Ireland is one of Ireland's largest primary healthcare facilities and comprises 6,500m^2. The property was acquired in February 2018 and represents PHP's third acquisition in the country. The Irish Government's Health Service Executive ("HSE") has signed a new 25-year lease, accounting for 65% of the rent roll, with the remainder derived from four separate GP practices, a dentist, an optician and a physiotherapist. The property also benefits from a pharmacy and has considerable unused land for future expansion.

Moredon Medical Centre, Swindon was acquired in June 2018 and comprises 1,446m^2 and is fully let to a GP practice and pharmacy with a patient list of over 11,500 and a long WAULT of 27.5 years.

Investment pipeline

Contracts for the acquisition of Mountmellick Primary Healthcare Centre, County Laois, Ireland for £5.1m (€5.8m) were exchanged in May 2018 and completion is expected to occur shortly. The purchase represents PHP's fourth acquisition in Ireland and will be accounted for in the second half of 2018 because the Group's accounting policy is to recognise acquisitions upon completion. The property comprises 1,850m^2, a long WAULT of 25 years and is fully let to the HSE, a GP practice and a pharmacy.

PHP continues to have a strong pipeline of potential acquisitions both in the UK and Ireland totalling over £175m.

Developments

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

Post period end a forward funded development was acquired in Ireland with a net development cost of £19.7m (€22.3m) and construction is due to commence shortly:

Asset	Anticipated PC date	Area (Sq. m)	Net development cost
Bray, County Wicklow, Ireland	Q4 2019	4,805	£19.7m (€22.3m)

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

Asset management

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

Rent reviews

During the six months to 30 June 2018, PHP concluded and documented 143 rent reviews with a combined rental value of £19.8m resulting in an uplift of £0.6m or 3.0% which equates to 1.7% per annum continuing the positive trend in rental growth over the last two years (year ended 31 December 2017: 1.1% per annum with an uplift of £0.5m; year ended 31 December 2016: 0.9% per annum with an uplift of £0.3m).

In the period, 0.5% per annum was achieved on open market reviews (1.6% per annum excluding nil increases), 2.7% per annum on RPI-based reviews and 2.8% per annum on fixed uplift reviews. In addition, a further 25 open market reviews were agreed in principle, which will add another £0.1m to the contracted rent roll when concluded and represent an uplift of 1.0% per annum.

73% of our rents are reviewed on an open market basis, typically every three years and are impacted by land and construction inflation. Over recent years, there have been significant increases in these costs which is expected eventually to result in further rental growth in the future. The balance of the PHP portfolio has either RPI (20%) or fixed uplift (7%) based reviews which also provide an element of certainty to future rental growth within the portfolio.

At 30 June 2018, the rent at 267 tenancies, representing £35.2m of passing rent, was under negotiation and the large number of outstanding reviews reflects the requirement for all awards to be agreed with the District Valuer. A great deal of evidence to support open market reviews comes from the delivery of new properties into the sector. Whilst underlying land and construction 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. However, the demand for new, purpose built premises continues and is now being supported by NHS initiatives to modernise the primary care estate.

Asset Management Projects

We have continued to make strong progress in the six months to 30 June 2018 to enhance and extend existing assets within the portfolio with nine projects completed, three currently on-site and a further seven approved and due to commence shortly. The projects require the investment of £4.8m and will generate £0.2m of additional rental income but, just as importantly, will extend the WAULT on those premises back to an average 20 years.

PHP continues to work closely with its tenants and has a strong pipeline of over 17 potential projects and will continue to invest capital in a range of physical extensions or refurbishments.

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

Sector leading portfolio metrics

The portfolio's annualised contracted rent roll at 30 June 2018 was £74.4m, an increase of 2.9% in the period (31 December 2017: £72.3m). The security and longevity of our income are important drivers of our secure, long term predictable income stream and enable our progressive dividend policy.

Security: PHP continues to benefit from secure, long term cash flows with 90% of its rent roll funded directly or indirectly by the NHS in the UK or HSE in Ireland. The portfolio also benefits from an occupancy rate of 99.7%.

Longevity: The portfolio's WAULT at 30 June 2018 was 12.9 years (31 December 2017: 13.2 years). Only £1.0m or 1.3% of our income expires over the next three years and £50.7m or 68.1% expires in over 10 years. The table below sets out the current lease expiry profile of our income:

Income subject to expiry	£m	%
< 3 years	1.0	1.3%
4 – 5 years	2.2	3.0%
5 – 10 years	20.5	27.6%
10 – 15 years	28.3	38.0%
15 – 20 years	13.7	18.4%
> 20 years	8.7	11.7%
Total	74.4	100.0%

Valuation and returns

At 30 June 2018, the portfolio comprised 308 assets independently valued at £1.415bn (31 December 2017: £1.362bn). The strong investment market together with our sector leading portfolio metrics and asset management initiatives resulted in a valuation surplus of £21.2m or 1.5%, after allowing for capital expenditure, in the six months to 30 June 2018 (six months to 30 June 2017: £29.9m or 2.4%). The net initial yield ("NIY") contracted by 6bps in the period to 4.85% (31 December 2017: 4.91%) with the true equivalent yield reducing to 5.02% (31 December 2017: 5.09%). The contraction in the NIY accounted for approximately half of the surplus whilst rent reviews and asset management projects accounted for the balance.

The portfolio at 30 June 2018 includes three assets in Ireland valued at £33.4m (31 December 2017: 2 assets/£13.7m).

The portfolio's average lot size continues to grow at £4.6m (31 December 2017: £4.5m) and just under 80% of the portfolio is valued at over £3.0m. We only have two assets valued at less than £1.0m; one of which will be sold post period end at book value.

	Number of Properties	Valuation £m	%	Average lot size (£m)
> £10m	22	356.6	25.2	16.2
£5m - £10m	56	387.4	27.4	6.9
£3m - £5m	99	386.9	27.3	3.9
£1m - £3m	129	281.1	19.9	2.2
< £1m (including land £1.6m)	2	3.2	0.2	0.8
Total	308	1,415.2	100.0	4.6

The valuation uplift, combined with the portfolio's growing income, helped to deliver a total property return of 4.3% in the six months to 30 June 2018 (30 June 2017: 5.3%) slightly under-performing the IPD Monthly All Property, All Asset Index by 10bps.

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Income return	2.7%	2.8%	5.5%
Capital return	1.6%	2.5%	5.3%
Total return	4.3%	5.3%	10.8%

FINANCIAL REVIEW

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

Recurring EPRA earnings increased by £1.7m or 11.0% to £17.1m in the six months to 30 June 2018 (30 June 2017: £15.4m) which using the weighted average number of shares in issue in the period, equates to EPRA earnings per share of 2.5p (30 June 2017: 2.6p), a decrease of 3.8% reflecting the dilution from the successful equity raise in April 2018.

A revaluation surplus of £21.2m, profit on a land sale of £0.1m and a gain on the fair value of interest rate derivatives and convertible bond of £0.3m (30 June 2017: loss of £1.0m) contributed to the profit as reported under IFRS of £38.7m (30 June 2017: £44.3m).

The financial results for the Group are summarised as follows:

Summarised results

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Net rental income	**37.4**	34.8	71.3
Administrative expenses	**(4.2)**	(3.9)	(8.2)
Performance incentive fee (“PIF”)	**(0.6)**	-	(0.5)
Operating profit before revaluation gain and net financing costs	**32.6**	30.9	62.6
Net financing costs	**(15.5)**	(15.5)	(31.6)
EPRA earnings	**17.1**	15.4	31.0
Revaluation surplus on property portfolio	**21.2**	29.9	64.5
Profit on sale of land	**0.1**	-	-
Fair value gain/(loss) on interest rate derivatives	**0.2**	0.4	(0.3)
Fair value gain/(loss) on convertible bond	**0.1**	(1.4)	(3.3)
IFRS profit before tax	**38.7**	44.3	91.9

Net rental income receivable in the six months to 30 June 2018 increased by 7.5% or £2.6m to £37.4m (30 June 2017: £34.8m). Acquisitions in 2017 and the first six months of 2018 contributed £1.7m to this increase, with developments completed in 2017 and 2018 adding a further £0.4m. Completed rent reviews contributed a further £0.5m.

Operational costs have continued to be managed closely and effectively. Overall administrative costs, excluding the PIF, have risen by 7.7% to £4.2m (30 June 2017: £3.9m) reflecting the increased size of the portfolio and additional regulatory costs. The Group’s EPRA cost ratio continues to be amongst the lowest in the sector at 14.2% for the period, a slight increase over the 13.2% incurred during the 2017 financial year.

EPRA cost ratio	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Gross rent less ground rent and service charge income	**38.0**	35.2	72.1
Direct property expense	**1.5**	0.5	1.2
Administrative expenses	**4.2**	3.9	8.2
Performance incentive fee ("PIF")	**0.6**	-	0.5
Less: service charge costs	**(0.7)**	-	-
Less: ground rent	**(0.1)**	(0.1)	(0.1)
Less: other operating income	**(0.1)**	(0.1)	(0.3)
EPRA costs (including direct vacancy costs)	**5.4**	4.2	9.5
EPRA cost ratio	**14.2%**	11.9%	13.2%
EPRA cost ratio excluding PIF	**12.6%**	11.9%	12.5%
Administrative expenses as a percentage of gross asset value (annualised)	**0.6%**	0.6%	0.6%

There was no change in net finance costs in the period at £15.5m (30 June 2017: £15.5m) despite the level of debt funded acquisitions in both 2017 and first half of 2018. This was due to the lower cost of debt secured in 2017 from various refinancing initiatives, conversion of some of the convertible bond during both 2017 and the first six months of 2018 and the application of the equity issue proceeds received in April to repay the Group's revolving credit facilities.

Performance incentive fee ("PIF")

The strong performance in both 2017 and first half of 2018 is likely to result in a PIF being earned by the Adviser for the year as a whole and consequently a £0.6m provision has been provided in the period (six months ended 30 June 2017: £nil; year ended 31 December 2017: £0.5m).

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

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

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

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

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

A PIF of £0.5m was paid to Nexus in the period in respect of 2017 and at 30 June 2018 the balance on the notional cumulative PIF account was £5.7m (31 December 2017: £5.2m) of which £0.6m (31 December 2017: £0.5m) has been provided for in the financial statements with the balance conditional on performance in future years and the restrictions noted above. No payment in respect of 2018 will be made until the audited financial results and total returns for the year have been agreed in 2019.

Equity raise

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

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

Shareholder value

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

EPRA Net Asset Value per share	**30 June 2018 pence per share**	30 June 2017 pence per share	31 December 2017 pence per share
Opening EPRA NAV per share	**100.7**	91.1	91.1
EPRA earnings for the period	**2.5**	2.6	5.2
Dividends paid	**(2.5)**	(2.6)	(5.2)
Net result on property portfolio	**2.9**	5.0	10.4
Shares issued	**0.6**	-	0.2
Interest rate derivative cancellation	**-**	-	(1.0)
Closing EPRA NAV per share	**104.2**	96.1	100.7

The revaluation surplus of £21.2m in the six months to 30 June 2018 is the main reason for the increase in EPRA NAV per share. Dividends distributed in the period were fully covered by recurring EPRA earnings with no material impact on EPRA NAV. The £4.0m premium over EPRA NAV, net of expenses, from the equity raise added a further 0.6p.

The 3.5p or 3.5% increase in EPRA NAV per share to 104.2p (31 December 2017: 100.7p per share) together with the dividends distributed in the period resulted in a total NAV return per share of 6.2p per share or 6.2% in the six months ended 30 June 2018 (30 June 2017: 7.62p or 8.4%).

Financing

As at 30 June 2018, total available loan facilities were £838.5m (31 December 2017: £844.3m) of which £643.5m (31 December 2017: £724.2m) had been drawn. Cash balances of £12.1m (31 December 2017: £3.8m) resulted in Group net debt of £631.4m (31 December 2017: £720.3m). Contracted capital commitments at the balance sheet date totalled £6.4m (31 December 2017: £23.0m) and result in headroom available to the Group of £200.7m (31 December 2017: £101.0m).

Capital commitments comprise acquisitions of £5.5m and asset management projects on site of £0.9m.

Debt metrics	**30 June 2018**	31 December 2017
Average cost of debt[1]	**3.86%**	4.09%
Loan to Value	**44.6%**	52.9%
Loan to value excluding the convertible bond	**40.5%**	48.2%
Interest cover	**2.4 times**	2.25 times
Weighted average debt maturity	**5.9 years**	6.3 years
Total drawn secured debt	**£510.7m**	£585.9m
Total drawn unsecured debt	**£132.8m**	£138.2m
Total undrawn facilities available to the Group[2]	**£200.7m**	£101.0m

[1] – Including the impact of £70m fixed rate swaps re-couponed post period end.

[2] – After deducting the remaining cost to complete properties under development and asset management projects.

Convertible bonds

In the six months to 30 June 2018, convertible bonds with a nominal value of £5.4m (year ended 31 December 2017: £19.3m) were, at the holders' option, converted at a conversion price of 97.5p, resulting in 5.5m (year ended 31 December 2017: 19.8m) of new ordinary shares being issued. The nominal value of the convertible bonds outstanding at 30 June 2018 were £57.8m (31 December 2017: £63.2m).

The impact of dividends paid in the period was within the maximum dilution parameters and so no adjustment to the conversion price was required in the period and it remains at 97.5p.

The conversion of the remaining £57.8m convertible bonds into ordinary shares would reduce the Group's loan to value ratio by 4.1%, from 44.6% to 40.5%, on a pro-forma basis as at 30 June 2018, and result in the issue of 59.3m new ordinary shares.

Interest rate swap contracts

Post period end, we have selectively used the premium over NAV on the equity issue in April 2018 to cancel, 4.52% fixed rate swaps with a nominal value of £70.0m, effective until July 2026, for the next two years for a one-off payment of £5.0m equivalent to 0.7p per share on an EPRA net asset value basis. The cancellation results in total interest savings of £2.5m p.a. over the next two years and reduces the Group's average cost of debt by 41bps to 3.86% (30 June 2016: 4.26%; 31 December 2017: 4.09%). The mark-to-market ("MtM") of the cancelled derivative was reflected in the financial statements as at 30 June 2018.

We expect the average cost of debt will continue to fall over the remainder of 2018 and 2019 following the conversion and/or repayment of the convertible and retail bonds which mature in May and July 2019 respectively.

Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. During the six months to 30 June 2018 there was a gain of £3.4m (30 June 2017: gain £2.4m) on the fair value movement of the Group's interest rate derivatives due primarily to increases in interest rates assumed in the forward yield curves used to value the interest rate swaps. This reduced the MtM liability of the swap portfolio to £21.1m (31 December 2017: £24.5m).

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 30 June 2018 is as follows:

	Facilities		Drawn	
	£m	%	£m	%
Fixed rate debt	468.5	55.9	468.5	72.8
Hedged by fixed rate interest rate swaps	183.0	21.8	175.0	27.2
Floating rate debt – unhedged	187.0	22.3	-	-
Total	**838.5**	**100.0**	**643.5**	**100.0**

Alternative Performance Measures ("APMs")

PHP uses EPRA earnings and EPRA net assets as APMs which are widely used by public real estate companies to highlight the underlying and recurring performance of the property portfolio. The APMs are in addition to the statutory measures from the condensed financial statements. The measures are defined and reconciled to amounts presented in the financial statements within this interim statement at notes 7 and 15. The APMs used by the Company are consistent with those used in the 2017 Annual Report and the reasons for the Company's use of these APMs are set out therein.

Related party transactions

Related party transactions are disclosed in note 16 to the condensed financial statements. There have been no material changes in the related party transactions described in the 2017 Annual Report.

Harry Hyman	**Richard Howell**
Managing Director	**Finance Director**

24 July 2018

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.

The principal risks and uncertainties include:

- The Group's investment in a niche asset sector, where changes in healthcare policy may adversely affect the portfolio;
- The bespoke nature of the Group's assets could lead to limited alternative use; and
- Currency risk in respect of the Group's assets in Ireland, where investments are denominated in Euros and may be unfavourably affected by currency fluctuations.

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.

The Board has concluded that there have been no significant changes to the principal risks and uncertainties faced by the Group, nor do they anticipate any significant changes during the remaining six months to 31 December 2018. Full disclosure of risks and uncertainties faced by the Company are set out within the 2017 Annual Report.

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 half-yearly financial report for the six months ended 30 June 2018 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 19. We have read the other information contained in the half-yearly 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 Financial Reporting Council. 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly 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 half-yearly 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 half-yearly 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 Financial Reporting Council 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 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 half-yearly financial report for the six months ended 30 June 2018 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
Statutory Auditor
London, United Kingdom
24 July 2018

Condensed Group Statement of Comprehensive Income
For the six months ended 30 June 2018

		Notes	**Six months ended 30 June 2018 £m (unaudited)**	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Rental income		2	**38.9**	35.3	72.5
Direct property expenses			**(1.5)**	(0.5)	(1.2)
Net rental income			**37.4**	34.8	71.3
Administrative expenses		3	**(4.8)**	(3.9)	(8.7)
Revaluation gain on property portfolio		9	**21.2**	29.9	64.5
Operating profit			**53.8**	60.8	127.1
Finance income		4	**0.1**	0.3	0.3
Finance costs		5	**(15.6)**	(15.8)	(31.9)
Profit on sale of land			**0.1**	-	-
Fair value gain/(loss) on derivative interest rate swaps and amortisation of cash flow hedging reserve		5	**0.2**	0.4	(0.3)
Fair value gain/(loss) on convertible bond		5	**0.1**	(1.4)	(3.3)
Profit before taxation			**38.7**	44.3	91.9
Taxation charge		6	**-**	-	-
Profit for the period[1]			**38.7**	44.3	91.9
Other comprehensive income:					
Items that may be reclassified subsequently to profit and loss:					
Fair value gain on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve			**3.2**	2.0	2.8
Exchange gain on translation of foreign balances			**0.1**	-	-
Other comprehensive income for the period net of tax			**3.3**	2.0	2.8
Total comprehensive income for the period net of tax			**42.0**	46.3	94.7
Earnings per share	– basic	7	5.7p	7.4p	15.3p
	– diluted	7	5.4p	6.7p	14.7p
EPRA earnings per share	– basic	7	2.5p	2.6p	5.2p
	– diluted	7	2.5p	2.5p	5.1p

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

The above relates wholly to continuing operations.

Condensed Group Balance Sheet
As at 30 June 2018

	Notes	30 June 2018 £m (unaudited)	30 June 2017 £m (unaudited)	31 December 2017 £m (audited)
Non-current assets				
Investment properties	9	**1,415.2**	1,265.9	1,361.9
Derivative interest rate swaps	13,14	**0.7**	-	-
		1,415.9	1,265.9	1,361.9
Current assets				
Derivative interest rate swaps	13, 14	**-**	0.2	0.3
Trade and other receivables		**4.5**	4.3	6.4
Cash and cash equivalents	10	**12.1**	8.1	3.8
		16.6	12.6	10.5
Total assets		**1,432.5**	1,278.5	1,372.4
Current liabilities				
Derivative interest rate swaps	13, 14	**-**	(4.1)	(2.7)
Deferred rental income		**(15.7)**	(14.6)	(15.0)
Trade and other payables		**(15.6)**	(14.8)	(15.4)
Borrowings: term loans and overdraft	11	**(0.9)**	(0.8)	(0.8)
Borrowings: bonds	12	**(69.0)**	-	-
		(101.2)	(34.3)	(33.9)
Non-current liabilities				
Borrowings: term loans and overdraft	11	**(336.1)**	(348.0)	(411.5)
Borrowings: bonds	12	**(242.8)**	(338.6)	(318.1)
Derivative interest rate swaps	13, 14	**(21.8)**	(27.0)	(22.1)
		(600.7)	(713.6)	(751.7)
Total liabilities		**(701.9)**	(747.9)	(785.6)
Net assets		**730.6**	530.6	586.8
Equity				
Share capital	17	**91.6**	74.9	77.5
Share premium account		**185.2**	59.8	80.7
Capital reserve		**1.6**	1.6	1.6
Special reserve	18	**144.6**	177.1	161.4
Hedging reserve		**(26.7)**	(30.7)	(29.9)
Retained earnings		**334.3**	247.9	295.5
Total equity[1]		**730.6**	530.6	586.8
Net asset value per share				
Basic and diluted	15	**99.8p**	88.6p	94.7p
EPRA net asset value per share	15	**104.2p**	96.1p	100.7p

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

Condensed Group Cash Flow Statement
For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Operating activities				
Profit on ordinary activities before tax		**38.7**	44.3	91.9
Finance income		**(0.1)**	(0.3)	(0.3)
Finance costs		**15.6**	15.8	31.9
Profit on sale of land		**(0.1)**	-	-
Fair value (gain)/loss on derivatives		**(0.2)**	(0.4)	0.3
Fair value (gain)/loss on convertible bond		**(0.1)**	1.4	3.3
Operating profit before financing costs		**53.8**	60.8	127.1
Adjustments to reconcile Group operating profit to net cash flows from operating activities:				
Revaluation gain on property portfolio		**(21.2)**	(29.9)	(64.5)
Fixed rent uplift		**(0.8)**	(0.6)	(1.4)
Decrease/(Increase) in trade and other receivables		**2.0**	(0.9)	(3.1)
Increase in trade and other payables		**0.6**	1.2	2.0
Cash generated from operations		**34.4**	30.6	60.1
Investing activities				
Payments to acquire and improve investment properties		**(31.1)**	(15.2)	(75.4)
Interest received on development loans		**0.1**	0.3	0.3
Net cash flow used in investing activities		**(31.0)**	(14.9)	(75.1)
Financing activities				
Proceeds from issue of shares	17	**115.0**	-	-
Costs of share issues		**(3.9)**	-	(0.1)
Term bank loan drawdowns		**30.6**	58.5	137.8
Term bank loan repayments		**(105.6)**	(140.6)	(155.5)
Proceeds from bond issue		**-**	100.0	100.0
Bond issue costs		**-**	(1.0)	(1.1)
Termination of derivative financial instruments		**-**	-	(6.2)
Swap interest paid		**(1.7)**	(1.7)	(3.5)
Non-utilisation fees		**(0.5)**	(0.4)	(0.5)
Loan arrangement fees		**(0.6)**	(1.3)	(1.8)
Interest paid		**(12.5)**	(11.3)	(26.1)
Equity dividends paid net of scrip dividend	8	**(15.8)**	(14.9)	(29.8)
Net cash flow from/(used in) financing activities		**5.0**	(12.7)	13.2
Increase/(decrease) in cash and cash equivalents for the period		**8.4**	3.0	(1.8)
Effect of exchange rate fluctuations on Euro denominated loans and cash equivalents		**(0.1)**	-	0.5
Cash and cash equivalents at start of period		**3.8**	5.1	5.1
Cash and cash equivalents at end of period	10	**12.1**	8.1	3.8

Condensed Group Statement of Changes in Equity
For the six months ended 30 June 2018 (unaudited)

Six months ended 30 June 2018 (unaudited)

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2018	77.5	80.7	1.6	161.4	(29.9)	295.5	586.8
Profit for the period	-	-	-	-	-	38.7	38.7
Other comprehensive income							
Exchange gain on translation of foreign balances	-	-	-	-	-	0.1	0.1
Fair value movement on interest rate swaps	-	-	-	-	2.9	-	2.9
Amortisation of hedging reserve	-	-	-	-	0.3	-	0.3
Total comprehensive income	-	-	-	-	3.2	38.8	42.0
Shares issued as part of capital raise	13.3	101.7	-	-	-	-	115.0
Shares issued on conversion of convertible bonds	0.7	5.8	-	-	-	-	6.5
Share issue expenses	-	(3.9)	-	-	-	-	(3.9)
Dividends paid	-	-	-	(15.8)	-	-	(15.8)
Scrip dividend in lieu of cash	0.1	0.9	-	(1.0)	-	-	-
30 June 2018	**91.6**	**185.2**	**1.6**	**144.6**	**(26.7)**	**334.3**	**730.6**

Six months ended 30 June 2017 (unaudited)

	Share capital £m	Share premium £m	Capital reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2017	74.8	59.1	1.6	192.8	(32.7)	203.6	499.2
Profit for the period	-	-	-	-	-	44.3	44.3
Other comprehensive income							
Fair value movement on interest rate swaps	-	-	-	-	2.0	-	2.0
Total comprehensive income	-	-	-	-	2.0	44.3	46.3
Dividends paid	-	-	-	(14.9)	-	-	(14.9)
Scrip dividend in lieu of cash	0.1	0.7	-	(0.8)	-	-	-
30 June 2017	**74.9**	**59.8**	**1.6**	**177.1**	**(30.7)**	**247.9**	**530.6**

Condensed Group Statement of Changes in Equity (continued)

Year ended 31 December 2017 (audited)

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

Notes to the 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 2017 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 pages 18-19. These condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 were approved and authorised for issue by the Board on 24 July 2018.

Basis of preparation/Statement of compliance

The condensed consolidated interim financial statements for the six months ended 30 June 2018 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 2017 which were prepared in accordance with IFRS as adopted by the European Union (see Accounting policies section below).

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 2017.

Convention

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

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 and Ireland leased principally to GPs, Government and Healthcare organisations and other associated healthcare users.

Notes to the condensed financial statements (continued)

1. Accounting policies (continued)

Going concern

The Group's property portfolio is let on long leases to tenants with strong covenants and the business is substantially cash generative. The Group's loan to-value ratio is currently 44.6% and the Group's interest cover for the period under review was 2.4 times, well above the minimum Group banking covenant of 1.3 times. Taking these and others factors into account, 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 as set out in the Annual Report with the exception of the standards noted below:

***IFRS 15 Revenue from Contracts with Customers*:**

IFRS 15 is based on the principle that revenue is recognised when control passes to a customer. The majority of the Group's income is from tenant leases and is outside the scope of the new standard. The main impact of IFRS 15 has been to show service charge income gross within rental income and service charge expense gross within direct property expenses. The comparatives have not been restated as the transitional provisions within the standard have been used to retrospectively apply the standard with the cumulative effect before initial application of the standard being recognised at the date of initial application. This cumulative effect is £nil.

IFRS 9 Financial Instruments:

IFRS 9 "Financial Instruments" contains the guidance on the recognition, derecognition, classification and measurement of financial instruments, including impairment and hedge accounting. IFRS 9 is effective for the accounting period starting on 1 January 2018. The Group has elected to apply IFRS 9 without restating comparatives and furthermore, the Group has elected to continue to apply the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" in relation to hedge accounting.

The application of IFRS 9 has not had a significant impact on the financial statements presented. The impact of non-substantial debt modifications has been reviewed and there is no material impact on the financial statements at transition. We have performed an assessment of the impact of impairment losses recognised for trade receivables under IFRS 9 at 30 June 2018 through estimating the expected credit losses based on actual credit loss experienced over the past three years. Based on this assessment, the impact of impairment losses recognised under IFRS 9 is estimated to be immaterial.

Notes to the condensed financial statements (continued)

2. Rental and related income

Revenue comprises rental income receivable on property investments in the UK and Ireland, which is exclusive of VAT. Revenue is derived from one reportable operating segment.

3. Administrative expenses

Administrative expenses as a proportion of rental income were 12.6% (30 June 2017: 11.0%). The Group's EPRA cost ratio has increased to 14.2%, compared to 11.9% for the same period in 2017.

Details of the PIF payable to the Adviser for the period ended 30 June 2018 are contained the Financial Review on pages 12-16 and in note 16.

4. Finance income

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Interest income on financial assets			
Development loan interest	0.1	0.3	0.3
	0.1	0.3	0.3

5. Finance costs

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Interest expense and similar charges on financial liabilities			
(i) Interest			
Bank loan interest	6.9	7.2	14.6
Swap interest	1.6	1.7	3.4
Bond interest	5.6	5.5	11.6
Bank facility non utilisation fees	0.6	0.5	0.5
Bank charges and loan arrangement fees	0.9	0.9	1.8
	15.6	15.8	31.9

5. Finance costs (continued)

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
(ii) Derivatives			
Net fair value gain on interest rate swaps	0.5	0.4	0.7
Amortisation of cash flow hedging reserve	(0.3)	-	(1.0)
	0.2	0.4	(0.3)

The fair value gain 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 gain on derivatives which meet the hedge effectiveness criteria under IAS 39 of £2.9m (30 June 2017: gain of £2.0m), (31 December 2017: gain of £2.6m) is accounted for directly in equity.

An amount of £0.3m (30 June 2017: £nil), (31 December 2017: £0.2m) has been amortised from the cash flow hedging reserve in the period.

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
(iii) Convertible Bond			
Fair value gain / (loss) on Convertible Bond	**0.1**	(1.4)	(3.3)

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 12 for further details about the Convertible Bond.

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Finance income (Note 4)	(0.1)	(0.3)	(0.3)
Finance costs (Note 5 (i))	15.6	15.8	31.9
Net finance costs	**15.5**	15.5	31.6

Notes to the condensed financial statements (continued)

6. Taxation

The Group elected to be treated as a UK-REIT with effect from 1 January 2007. The UK-REIT rules exempt the profits of the Group's property rental business from corporation tax. Gains on properties are also exempt from tax, provided they are not held for trading or sold in the three years post completion of development. The Group will otherwise be subject to corporation tax at 19% (2017: 19%).

Acquired companies are effectively converted to UK-REIT status from the date on which they become a member of the Group.

As a UK-REIT, the Company is required to pay Property Income Distributions ("PIDs") equal to at least 90% of the Group's rental profit calculated by reference to tax rules rather than accounting standards.

To remain as a UK-REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activities and the balance of its business. The Group remains compliant as at 30 June 2018.

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Taxation in the Condensed Group Statement of Comprehensive Income:			
Current tax			
UK corporation tax charge on non-property income	-	-	-
Taxation credit in the Condensed Group Statement of Comprehensive Income	**-**	-	-

Notes to the condensed financial statements (continued)

7. Earnings per share

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

	Net profit attributable to Ordinary Shareholders £m	Ordinary Shares (number - millions)[1]	Per share (pence)
Six months ended 30 June 2018 (unaudited)			
Basic and diluted earnings			
Basic earnings	**38.7**	**676.8**	**5.7**
Dilutive effect of Convertible Bond	**1.1**	**59.3**	
Diluted earnings	**39.8**	**736.1**	**5.4**
EPRA basic and diluted earnings			
Basic earnings	**38.7**		
Adjustments to remove:			
Net result on property (Note 9)	**(21.2)**		
Profit on sale of land	**(0.1)**		
Fair value movement on derivatives	**(0.2)**		
Fair value movement on Convertible Bond	**(0.1)**		
EPRA basic earnings per share	**17.1**	**676.8**	**2.5**
Dilutive effect of Convertible Bond	**1.2**	**59.3**	
EPRA diluted earnings per share	**18.3**	**736.1**	**2.5**

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

	Net profit attributable to Ordinary Shareholders £m	Ordinary Shares (number - millions)[1]	Per share (pence)
Six months ended 30 June 2017 (unaudited)			
Basic and diluted earnings			
Basic earnings	44.3	598.5	7.4
Dilutive effect of Convertible Bond	1.8	84.6	
Diluted earnings	46.1	683.1	6.7
EPRA basic and diluted earnings			
Basic and diluted earnings	44.3		
Adjustments to remove:			
Net result on property	(29.9)		
Fair value movement on derivatives	(0.4)		
Fair value movement on Convertible Bond	1.4		
EPRA basic earnings per share	15.4	598.5	2.6
Dilutive effect of Convertible Bond	1.8	84.6	
EPRA diluted earnings per share	17.2	683.1	2.5

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

Notes to the condensed financial statements (continued)

7. Earnings per share (continued)

	Net profit attributable to Ordinary Shareholders £m	Ordinary Shares (number - millions)[1]	Per share (pence)
Year ended 31 December 2017 (audited)			
Basic and diluted earnings			
Basic earnings	91.9	600.7	15.3
Dilutive effect of Convertible Bond	5.9	64.8	
Diluted earnings	97.8	665.5	14.7
EPRA basic and diluted earnings			
Basic and diluted earnings	91.9		
Adjustments to remove:			
Net result on property	(64.5)		
Fair value movement on derivatives	0.3		
Fair value movement on Convertible Bond	3.3		
EPRA basic earnings per share	31.0	600.7	5.2
Dilutive effect of Convertible Bond	2.7	64.8	
EPRA diluted earnings per share	33.7	665.5	5.1

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

On 20 May 2014, the Group issued £82.5m of unsecured Convertible Bonds (refer to note 12 for further details). In accordance with IAS 33 'Earnings per share' the Company is required to assess and disclose the dilutive impact of the contingently issuable shares within the Convertible Bond. The impact is not recognised where it is anti-dilutive.

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

8. Dividends

	Six months ended 30 June 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Quarterly interim dividend paid 23 February 2018	8.1	-	-
Scrip dividend in lieu of quarterly cash dividend 23 February 2018	0.3	-	-
Quarterly interim dividend paid 25 May 2018	7.7	-	-
Scrip dividend in lieu of quarterly cash dividend 25 May 2018	0.7	-	-
Quarterly interim dividend paid 24 February 2017	-	7.7	7.7
Scrip dividend in lieu of quarterly cash dividend 24 February 2017	-	0.1	0.1
Quarterly interim dividend paid 26 May 2017	-	7.2	7.2
Scrip dividend in lieu of quarterly cash dividend 26 May 2017	-	0.7	0.7
Quarterly interim dividend paid 25 August 2017	-	-	7.1
Scrip dividend in lieu of quarterly cash dividend 25 August 2017	-	-	0.7
Quarterly interim dividend paid 24 November 2017	-	-	7.8
Scrip dividend in lieu of quarterly cash dividend 24 November 2017	-	-	0.1
Total dividends distributed	**16.8**	15.7	31.4
Per share	**2.70p**	2.62p	5.25p

The Company will pay a third interim dividend of 1.35 pence per Ordinary Share for the year ending 31 December 2018, payable on 24 August 2018, to shareholders on the register as at 13 July 2018. This dividend will comprise a Property Income Distribution ("PID") of 0.85p and ordinary dividend of 0.50p per share.

9. Investment properties and investment properties under construction

Properties have been independently valued at fair value by Lambert Smith Hampton UK ("LSH"), and CBRE Ireland ("CBRE") Chartered Surveyors and Valuers, as at the balance sheet date in accordance with IAS 40 'Investment property'. LSH and CBRE confirm that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards ("Red Book"). There were no changes to the valuation techniques during the period. The valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location and category of investment property and have had full regard to market evidence when determining the values.

The properties are 99.7% let (31 December 2017: 99.7%). The valuations reflected a 4.85% net initial yield (31 December 2017: 4.91%) and a 5.02% (31 December 2017: 5.09%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the valuer.

9. Investment properties and investment properties under construction (continued)

In accordance with IAS 40, investment properties under construction have also been valued at fair value by LSH. In determining the fair value, the valuer is required to value development property as if complete, deduct the costs remaining to be paid to complete the development and consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks and the impact they may have on fair value. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the valuer has deemed that the residual risk to the Group is minimal. As required by the Red Book, LSH has deducted the outstanding cost to the Group through to the completion of construction of £0.8m (31 December 2017: £5.7m) in arriving at the fair value to be included in the financial statements.

In line with accounting policies, the Group has treated the acquisitions during the period as asset purchases rather than business combinations as they were judged to be acquisitions of properties rather than businesses.

	Investment properties freehold[1] £m (unaudited)	Investment long leasehold £m (unaudited)	Investment properties under construction £m (unaudited)	Total £m (unaudited)
As at 1 January 2018	1,104.9	255.9	1.1	1,361.9
Property additions	26.2	1.0	4.1	31.3
Impact of lease incentive adjustment	0.4	0.4	-	0.8
Transfer from properties in the course of development	-	5.2	(5.2)	-
	1,131.5	262.5	-	1,394.0
Revaluations for the period	13.1	8.1	-	21.2
As at 30 June 2018	**1,144.6**	**270.6**	**-**	**1,415.2**

[1] Includes development land held at £0.9m (31 December 2017: £0.9m)

Capital commitments have been entered into amounting to £6.4m (30 June 2017: £8.8m; 31 December 2017: £23.0m) which have not been provided for in the financial statements.

Fair value hierarchy

All of the Group's properties are level 3, as defined by IFRS 13, in the fair value hierarchy as at 30 June 2018 and 31 December 2017. There were no transfers between levels during the year or during 2016. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Notes to the condensed financial statements (continued)

10. Cash and cash equivalents

	30 June 2018 £m (unaudited)	31 December 2017 £m (audited)
Cash held at bank	5.1	3.3
Restricted cash	7.0	0.5
	12.1	3.8

Cash and cash equivalents include £7.0m (2017: £0.5m) retained in rent and restricted accounts which are not readily available to the Group for day to day commercial purposes.

11. Borrowings: term loans and overdrafts

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

	Facility		**Amounts drawn**		**Undrawn**	
	30 June 2018 £m	31 December 2017 £m	**30 June 2018 £m**	31 December 2017 £m	**30 June 2018 £m**	31 December 2017 £m
Current						
Overdraft facility [1]	**5.0**	5.0	**-**	-	**5.0**	5.0
Fixed rate term loan [2]	**0.9**	0.8	**0.9**	0.8	**-**	-
	5.9	5.8	**0.9**	0.8	**5.0**	5.0
Non-current						
Fixed rate term loan [2]	**21.8**	22.3	**21.8**	22.3	**-**	-
Term loan to March 2021 [3]	**100.0**	100.0	**50.0**	52.5	**50.0**	47.5
Fixed rate term to December 2022 [4]	**25.0**	25.0	**25.0**	25.0	**-**	**-**
Term to July 2020 [5]	**50.0**	50.0	**-**	21.5	**50.0**	28.5
Fixed rate term loan to November 2028 [6]	**75.0**	75.0	**75.0**	75.0	**-**	-
Term to January 2021 [7]	**115.0**	115.0	**55.0**	105.9	**60.0**	9.1
Fixed rate term loan to August 2024 [8]	**50.0**	50.0	**50.0**	50.0	**-**	-
Fixed rate term loan to August 2029 [8]	**63.0**	63.0	**63.0**	63.0	**-**	-
Term loan to December 2020 [9]	**30.0**	30.0	**-**	-	**30.0**	30.0
	529.8	530.3	**339.8**	415.2	**190.0**	115.1
Total	**535.7**	536.1	**340.7**	416.0	**195.0**	120.1

Providers:
1 The Royal Bank of Scotland PLC.
2 Aviva facility (acquired as part of HIL acquisition) repayable in tranches to 31 January 2032.
3 The Royal Bank of Scotland plc (“RBS”).
4 Aviva GPFC facility.
5 HSBC Bank facility.
6 Aviva facility.
7 Barclays/AIB facility.
8 Aviva facility.
9 Lloyds facility.

Notes to the condensed financial statements (continued)

11. Borrowings: term loans and overdrafts (continued)

At 30 June 2018, total facilities of £838.5m (31 December 2017: £844.3m) were available to the Group. This included a £75m unsecured retail bond, a £70m secured bond, a £100m secured bond, a £57.8m convertible bond (£69.0m fair value) and a £5m overdraft facility. Of these facilities, as at 30 June 2018, £643.5m was drawn (31 December 2017: £724.1m).

On 8 May 2018, the Aviva HIL (£22.7m) and Aviva GPFC (£25.0m) loan facilities were amended with the amendments having no material impact on the terms of the facilities.

Costs associated with the arrangement of the facilities, including legal advice and loan arrangement fees, are amortised over the 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 2018 £m (unaudited)	31 December 2017 £m (audited)
Term loans drawn: due within one year	**0.9**	0.8
Term loans drawn: due in greater than one year	**339.8**	415.2
Total term loans drawn	**340.7**	416.0
Less: unamortised borrowing costs	**(3.7)**	(3.7)
Total term loans per the Condensed Group Balance Sheet	**337.0**	412.3

The Group has been in compliance with all the financial covenants of the above facilities applicable through the period.

12. Borrowings: Bonds

	30 June 2018 £m (unaudited)	31 December 2017 £m (audited)
Secured		
Secured Bond December 2025	**70.0**	70.0
Secured Bond March 2027	**100.0**	100.0
Unsecured		
Retail Bond July 2019	**75.0**	75.0
Convertible Bond May 2019 at fair value	**69.0**	75.5
Less: unamortised issue costs	**(2.2)**	(2.4)
	311.8	318.1

Notes to the condensed financial statements (continued)

12. Borrowings: Bonds (continued)

Secured Bonds

On 18 December 2013, PHP successfully listed the floating rate guaranteed secured bonds issued on 4 November 2013 (the "Secured Bonds") on the London Stock Exchange. The Secured Bonds have a nominal value of £70m and mature on or about 30 December 2025. 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.

Borrowings: bonds (continued)

On 21 March 2017, a new £100m Secured Bond was issued for a 10-year term at a fixed coupon of 2.83% that matures on 21 March 2027. Interest is paid semi-annually in arrears.

Retail Bond

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a Retail Bond following the issue of a £75m, 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 £82.5m of 4.25% Convertible Bonds due 2019 (the "Bonds") at par. The Company has guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the Bonds.

Subject to certain conditions, the Bonds are convertible into preference shares of the Issuer which will be automatically and mandatorily exchangeable into fully paid Ordinary Shares of the Company (the "Shares"). The initial conversion price was set at 390 pence per Share (the "Exchange Price") which has subsequently been revised to 97.5 pence following the Company's four-for-one Share sub-division undertaken in November 2015. 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.

During the period 5.5m new Ordinary Shares of 12.5 pence were issued on the conversion of £5.4m nominal of convertible bonds. Following the conversion of the Bonds there were £57.8m (31 December 2017: £63.2m) nominal of convertible bonds outstanding.

Notes to the condensed financial statements (continued)

12. Borrowings: Bonds (continued)

Convertible Bond

	30 June 2018 £m	31 December 2017 £m
Opening balance – fair value	**75.5**	95.0
Bond conversions	**(6.4)**	(22.8)
Fair value movement in Convertible Bond	**(0.1)**	3.3
Closing balance – fair value	**69.0**	75.5

The fair value of the Convertible Bond at 30 June 2018 and 31 December 2017 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NAV.

13. 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 £m	Ineffective interest rate swaps £m	Total £m
Assets			
As at 1 January 2018	-	0.3	0.3
Fair value movement in the period	-	0.4	0.4
As at 30 June 2018	-	0.7	0.7
Liabilities			
As at 1 January 2018	(24.6)	(0.2)	(24.8)
Fair value movement in the period	2.9	0.1	3.0
As at 30 June 2018	(21.7)	(0.1)	(21.8)
Total – derivative financial instruments			
As at 1 January 2018	(24.6)	0.1	(24.5)
Fair value movement in the period	2.9	0.5	3.4
As at 30 June 2018	**(21.7)**	**0.6**	**(21.1)**

Notes to the condensed financial statements (continued)

14. 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 2018 £m	**Fair value 30 June 2018 £m**	Book value 31 December 2017 £m	Fair value 31 December 2017 £m
Financial assets				
Trade and other receivables	**2.7**	**2.7**	4.8	4.8
Effective interest rate swaps	**0.7**	**0.7**	0.3	0.3
Cash and short-term deposits	**12.1**	**12.1**	3.8	3.8
Financial liabilities				
Interest-bearing loans and borrowings	**(643.5)**	**(678.7)**	(724.2)	(772.0)
Effective interest rate swaps	**(21.7)**	**(21.7)**	(24.6)	(24.6)
Ineffective interest rate swaps	**(0.1)**	**(0.1)**	(0.2)	(0.2)
Trade and other payables	**(15.0)**	**(15.0)**	(15.0)	(15.0)

The fair value of the financial assets and liabilities is included as an estimate of the amount at which the instruments could be 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 2018. 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)

14. Financial risk management (continued)

Fair value measurements at 30 June 2018 are as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	**-**	**0.7**	**-**	**0.7**
Financial liabilities				
Derivative interest rate swaps	**-**	**(21.8)**	**-**	**(21.8)**
Convertible bond	**(69.0)**	**-**	**-**	**(69.0)**

Fair value measurements at 31 December 2017 were as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	-	0.3	-	0.3
Financial liabilities				
Derivative interest rate swaps	-	(24.8)	-	(24.8)
Convertible Bond	(75.5)	-	-	(75.5)

[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.

Notes to the condensed financial statements (continued)

15. Net asset value per share

Net asset values have been calculated as follows:

	30 June 2018 £m (unaudited)	30 June 2017 £m (unaudited)	31 December 2017 £m (audited)
Net assets			
Basic net assets	**730.6**	530.6	586.8
Derivative interest rate swaps liability (net)	**21.1**	30.9	24.5
Cumulative Convertible Bond fair value movement	**11.2**	13.9	12.3
EPRA net asset value	**762.9**	575.4	623.6

	Number of shares Millions	Number of shares Millions	Number of shares Millions
Ordinary Shares:			
Issued share capital	**732.4**	598.9	619.4

Net asset value per share			
Basic net asset value per share	**99.8p**	88.6p	94.7p
EPRA net asset value per share	**104.2p**	96.1p	100.7p

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

16. 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 2018 £m (unaudited)	Six months ended 30 June 2017 £m (unaudited)	Year ended 31 December 2017 £m (audited)
Nexus TradeCo Limited	**3.3**	3.0	6.2

Notes to the condensed financial statements (continued)

16. Related party transactions (continued)

As at 30 June 2018, outstanding advisory fees payable to Nexus totalled £0.5m (30 June 2017: £0.5m).

Further fees paid to Nexus in accordance with the Advisory Agreement for the period to 30 June 2018 of £0.1m (30 June 2017: £0.1m) in respect of capital projects were capitalised in the period.

Service charge management fees paid to Nexus in the period, in connection with the Group's properties, totalled £0.2m (30 June 2017: £0.1m).

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

A PIF of £0.5m was paid to Nexus in the period in respect of 2017. A provision of £0.6m has been provided in the period (six months ended 30 June 2017: £nil; year ended 31 December 2017: £0.5m). No payment in respect of 2018 will be made until the audited financial results and total returns for the year have been agreed in 2019.

17. Share capital

	30 June 2018 £m (unaudited)	30 June 2017 £m (unaudited)	31 December 2017 £m (audited)
Issued and fully paid Ordinary Shares at 12.5p each	**91.6**	74.9	77.5

At beginning of year	**77.5**	74.8	74.8
Scrip issues in lieu of cash dividends	**0.1**	0.1	0.2
Shares issued on bond conversions in the period	**0.7**	-	2.5
Shares issued in the period	**13.3**	-	-
	91.6	74.9	77.5

On 18 April 2018, a general meeting of the Company approved the issue of 106,481,482 new Ordinary Shares at a price of 108p each in connection with a Firm Placing, Placing, Open Offer and Offer for subscription. The shares were admitted to trading on the Main Market of the London Stock Exchange on 19 April 2018.

Notes to the condensed financial statements (continued)

18. Special reserve

	30 June 2018 £m (unaudited)	30 June 2017 £m (unaudited)	31 December 2017 £m (audited)
At beginning of year	**161.4**	192.8	192.8
Dividends paid	**(15.8)**	(14.9)	(29.8)
Scrip issues in lieu of cash dividends	**(1.0)**	(0.8)	(1.6)
	144.6	177.1	161.4

The special reserve has arisen on previous issues of the Company's shares. It represents the share premium on the issue of the shares, net of expenses, from issues effected by way of a cash box mechanism.

A cash box raising is a mechanism for structuring a capital raising whereby the cash proceeds from investors are invested in a subsidiary company of the parent instead of the parent itself. Use of a cash box mechanism has enabled the share premium arising from the issue of shares to be deemed to be a distributable reserve and has therefore been shown as a special reserve in these financial statements. Any issue costs are also deducted from the special reserve.

As the special reserve is a distributable reserve, the dividends declared in the period have been distributed from this reserve.

19. Subsequent events

On 11 July 2018, the Group contracted to provide development funding for the construction of a new primary care centre in Bray, County Wicklow, Ireland, for a total consideration of £19.7m (€22.3m).

On 17 July 2018, six 4.52% fixed rate swaps with a total nominal value of £70.0m, effective until July 2026, were cancelled for the next two years for a one-off payment of £5.0m equivalent to 0.7p per share on an EPRA net asset value basis.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge this condensed consolidated 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 consolidated 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

Steven Owen
Chairman
24 July 2018

Glossary of terms

Adviser is Nexus Tradeco Limited.

Building Research Establishment Environmental Assessment Method ("BREEAM") assesses the sustainability of buildings against a range of criteria.

Clinical Commissioning Groups ("CCGs") are the groups of GPs and other healthcare professionals that are responsible for designing local health services in England with effect from 1 April 2013.

Company and/or **Parent** is Primary Health Properties PLC ("PHP").

Direct property costs comprise ground rents payable under head leases, void costs, other direct irrecoverable property expenses, rent review fees and valuation fees.

District Valuer ("DV") is the District Valuer Service being the commercial arm of the Valuation Office Agency ("VOA"). It provides professional property advice across the public sector and in respect of primary healthcare represents NHS bodies on matters of valuation, rent reviews and initial rents on new developments.

Dividend cover is the number of times the dividend payable (on an annual basis) is covered by EPRA earnings.

Earnings per Ordinary Share from continuing operations ("EPS") is the profit attributable to equity holders of the Parent divided by the weighted average number of shares in issue during the year.

European Public Real Estate Association ("EPRA") is a real estate industry body, which has issued Best Practice Recommendations in order to provide consistency and transparency in real estate reporting across Europe.

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

EPRA earnings is the profit after taxation excluding investment and development property revaluations, gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA net assets ("EPRA NAV") are the balance sheet net assets excluding own shares held, the MtM value of derivative financial instruments and the convertible bond fair value movement.

EPRA NAV per share are the balance sheet net assets excluding own shares held, the MtM value of derivative financial instruments and the convertible bond fair value movement, divided by the number of shares in issue at the balance sheet date.

EPRA vacancy rate is, as a percentage, the ERV of vacant space in the Group's property portfolio divided by ERV of the whole portfolio.

Equivalent yield (true and nominal) is a weighted average of the net initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. The true equivalent yield assumes rents are received quarterly in advance. The nominal equivalent assumes rents are received annually in arrears.

Estimated rental value ("ERV") is the external valuer's opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Exchange price is 116% of the share price at the date of issue.

Gross rental income is the gross accounting rent receivable.

Group is Primary Health Properties PLC ("PHP") and its subsidiaries.

HSE or **the Health Service Executive** is the executive agency of the Irish government responsible for health and social services for people living in Ireland.

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

IFRS or Basic net asset value per share ("IFRS NAV") are the balance sheet net assets, excluding own shares held, divided by the number of shares in issue at the balance sheet date.

Interest cover is the number of times net interest payable is covered by net rental income.

Interest rate swap is a contract to exchange fixed payments for floating payments linked to an interest rate, and is generally used to manage exposure to fluctuations in interest rates.

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 and assets.

Mark to Market ("MTM") is the difference between the book value of an asset or liability and its market value.

Net initial yield is the annualised rents generated by an asset, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the asset valuation (after notional 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, the company wholly owned and funded by the Department of Health, which, as of 1 April 2013, has taken on all property obligations formerly borne by Primary Care Trusts.

Parity value is calculated based on dividing the convertible bond value by the Exchange Price.

Property Income Distribution ("PID") is the required distribution of income as dividends under the REIT regime. It is calculated as 90% of exempted net income.

Real Estate Investment Trust ("REIT") is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK profits, arising from property rental income and gains on investment property disposals, from corporation tax, but which has a number of specific requirements.

Rent reviews take place at intervals agreed in the lease and their purpose is usually to adjust the rent to the current market level at the review date.

Rent roll is the passing rent being the total of all the contracted rents reserved under the leases.

Reversionary yield is the anticipated yield which the initial yield will rise to once the rent reaches the ERV and when the property is fully let. It is calculated by dividing the ERV by the valuation.

Retail Price Index ("RPI") is the official measure of the general level of inflation as reflected in the retail price of a basket of goods and services such as energy, food, petrol, housing, household goods, travelling fare, etc. RPI is commonly computed on a monthly and annual basis.

RICS is the Royal Institution of Chartered Surveyors.

RPI linked leases are those leases which have rent reviews which are linked to changes in the RPI.

Special reserve is a distributable reserve.

Total expense ratio ("TER") is calculated as total administrative costs for the year divided by the average total asset value during the year.

Total property return is the overall return generated by properties on a debt-free basis. It is calculated as the net rental income generated by the portfolio plus the change in market values, divided by opening property assets plus additions.

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.