Primary Health Properties PLC

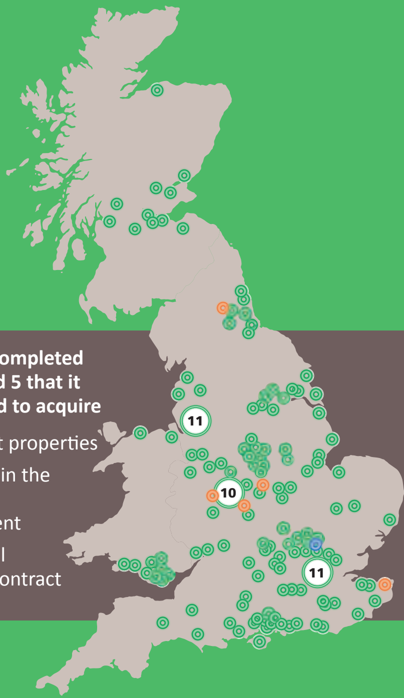
A dedicated healthcare REIT

Half Year Report for the six months ended 30 June 2012

Primary Health Properties

Primary Health Properties PLC ("PHP") is a UK Real Estate Investment Trust ("REIT").

The objective of the Group is to generate rental income and capital growth through investment in primary health property in the United Kingdom leased principally to GPs, NHS organisations and other associated healthcare users.



PHP has 160 completed properties and 5 that it has committed to acquire

- Investment properties
- Properties in the process of development
- Conditional purchase contract

Financial Highlights

- Total annualised rent roll including commitments has risen by 2.8% to £33.2m (Dec 11: £32.3 million)
- Total portfolio including recent commitments has increased by 2.4% to £552.5m (Dec 11: £539.7 million)
- Core debt facilities of £175m refinanced by a new four year, interest only "Club" Bank Facility
- £75m, seven year, 5.375% retail bond issued subsequent to the period end

Contents

for more information visit

www.phpgroup.co.uk

Conan Doyle Medical Centre, Edinburgh

Watton Medical Centre, Norfolk

Kingsway Health Centre, Luton

Nantgarw Road Medical Centre, Caerphilly

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Year ended 31 Dec 2011
Rental and related income	£16.2m	£15.3m	£30.7m
Operating profit before net valuation gain on property portfolio	£13.4m	£12.6m	£25.1m
Total dividend paid to shareholders	9.25p	9.0p	18.0p
Total investment property	£539.2m	£489.5m	£525.6m
Loan to value ratio	56.4%	55.6%	57.8%
EPRA net asset value per share	314.9p	317.8p	318.7p

Chairman's Statement

A number of successful transactions have been made by the Group on all fronts.

The acquisition of four investment properties was completed in the first half of the year for a total consideration of £11.5 million.

I am delighted to present the Group's half year report for the six months ended 30 June 2012.

The period under review has seen a number of successful transactions completed which enhance the Group's portfolio and ability to increase shareholder return. Further assets have been acquired and asset management projects undertaken which add to the contracted rent roll and income surplus that funds the continuing dividend payment.

Our core banking facilities have been renewed, a small equity issue completed and on 23 July 2012 PHP became the first UK REIT to issue a retail bond. All of this strengthens the capital and resource base of the Group and provides firepower to finance a strong pipeline of acquisition opportunities currently being documented or negotiated by our management team.

The long awaited Health and Social Care Act (the "Act") entered into statute on 27 March 2012 and further information emerged about the establishment of NHS Property Services Limited and the management of the NHS's Primary Care Estate. The Act brings major structural changes to the delivery of health care in England, transferring the commissioning of care to more localised Clinical Commissioning Groups. This supports a UK wide drive to deliver an increasing number of healthcare services within local communities. To do this efficiently and effectively, an increasing number of high quality primary care facilities will need to be provided. The Group is well placed to provide this investment and continues to deliver consistent market leading returns to its shareholders.

Performance

Rental income in the period increased by 6.3% to £16.21 million (30 June 2011: £15.25 million), due to acquisitions and rent reviews that were completed. The Group continues to achieve satisfactory growth on rent reviews, although the overall rate of increase has fallen slightly. Increases averaged 2.7% per annum on reviews completed in the six month period, down slightly from 3.0% achieved during 2011.

Costs were once again tightly controlled within the Group, aided by its external management model. Operating profit before finance costs, the revaluation of investment properties and derivatives increased by 6.5% to £13.4 million (30 June 2011: £12.6 million). Deducting debt costs, that include the increased margin since the refinance of the Group's core debt, adjusted earnings per share for the period were 6.1pence (30 June 2011: 8.3pence).

Conan Doyle, Edinburgh

A modern, purpose built primary care facility acquired in 2012. The property houses a 7 Partner GP Practice and is located within a large residential area adjacent to the Cameron Toll Shopping Centre, to the south of Edinburgh City Centre.

size:	1,150 sqm
built:	October 2007
cost:	£3.6m
patient numbers:	10,400
tenants:	GP practice

Property portfolio

Four investment properties were acquired in the first half of the year for a total consideration of £11.5 million. The Group's investment property portfolio as at 30 June 2012 was independently valued at £545.2 million including commitments, providing a revaluation surplus of £0.63 million. Investment yields remained stable with an initial yield of 5.74% (31 December 2011: 5.74%).

On 19 July 2012, PHP contracted to buy a fully let investment in Luton for £3.9 million. Including this and a property held under a finance lease, the Group now holds 165 assets with a total value of £552.5 million.

Terms have been agreed for the purchase of a further £49.4 million of high quality medical centre assets and these acquisitions are currently being documented. In addition to this, a further significant pipeline of asset purchases is being negotiated, which we hope to secure in the second half of the year.

Funding and capital value

The Group completed the refinance of its main bi-lateral debt facilities on 2 April 2012 resulting in a new £175 million, four year interest only debt facility with the Group's main lenders Royal Bank of Scotland and Santander. There was no requirement to redeem the pre-existing interest rate swaps and incur any value eroding breakage fees. The Group now has a well-diversified group of lenders with a wide range of maturity dates.

The Company successfully completed a small share issue in May, issuing 6.2 million shares at 305 pence per share, a discount of 6.2% to the then share price, raising a net £18.4 million to provide equity for further acquisitions. The small dilution contributed to a slight reduction in

Chairman's Statement

EPRA[1] net asset value ("EPRA NAV") per share at 30 June 2012, standing at 314.9 pence, a fall of 1.2% from 318.7 pence as at 31 December 2011.

PHP recently announced the completion of a retail bond issue, the first issue of its kind by a UK REIT, raising £75 million from a new investor base. The bond was issued for a seven year term on an unsecured basis giving maximum flexibility to the Group as to how the funds are invested. These proceeds will be used alongside the banking facility headroom and new equity proceeds to fund further acquisitions through the coming months. The issue will pay a coupon of 5.375% per annum on a semi-annual basis.

Dividends

The Company paid a second interim dividend of 9.25 pence per share in respect of 2011 to shareholders on 5 April 2012. The Board has approved the payment of a first interim dividend for 2012 of 9.25 pence per share, payable on 26 October 2012 to shareholders on the register on 28 September 2012. This will make a total of 18.5 pence per share paid in dividends to shareholders in 2012, the 16th successive year of dividend growth for the Company.

Outlook

The Group has further strengthened its balance sheet in 2012. Its underlying property portfolio is producing benchmark beating returns and the Group has significant resources available to take advantage of opportunities to expand its portfolio through the remainder of 2012.

The Board is confident in the ability of the property portfolio and its management team to generate further growth from rent review and asset management projects. With the Act in place and work continuing to move the commissioning of primary care services into the hands of GPs, we are confident that the demand for new, modern facilities will increase and that we are ideally placed to satisfy this demand.

I look forward to another positive period for the remainder of 2012.

Graeme Elliot
Chairman
21 August 2012

1 European Public Real Estate Association

Acquisition activity

The Group's asset portfolio has grown in the six months under review as further property acquisitions have been completed and a number of asset management projects from within the owned portfolio have been undertaken.

Caerphilly

A modern, newly developed primary care centre completed and acquired in March 2012. The property is fully let to a 3 Partner GP Practice, the Local Health Board ("LHB") and a Pharmacy for 20 years, providing a purpose built, fit for purpose facility to replace the old terraced housing from which this practice previously operated.

size:	1,250 sqm
built:	March 2012
cost:	£3.78m
patient numbers:	9,500
tenants:	GP practice, LHB and a pharmacy

Managing Director's Review

We have maintained a leading position within the primary care premises sector and established PHP as a leading participant in future developments

Overview

Royal Assent of the Health and Social Care Act 2012 introduces wide reaching structural changes to the delivery of healthcare services in England, the largest of the four UK NHS organisations. From April 2013, Primary Care Trusts ("PCTs") will be abolished and replaced by Clinical Commissioning Groups, whose management will mainly comprise of GPs. This will strengthen the drive to provide services within the local community and place further emphasis on primary care as the gateway to wider NHS facilities.

Although the commissioning of care is being transferred into GP management, there will be no change to the reimbursement of GP rent and property costs. This will be the responsibility of the newly formed National Commissioning Board which will carry the status of a Special Health Authority, so providing a continuing strong covenant to underpin the funding of the Group's rent roll. The precise structure of this body between national and regional operations is as yet unknown. During the period under review, the NHS Property Services Limited has also been formed to take on the ownership and management of the NHS's primary care estate when the PCTs are abolished.

We feel that all of the above combines to strengthen the need for the development of further purpose built modern primary care facilities from which a greater variety of healthcare services can be provided within the local community.

We have worked extremely hard in the first half of 2012 to ensure that the Group's leading position within the primary care premises sector is maintained and to position PHP to be a significant participant in future developments.

Portfolio

The Group's portfolio has grown in the six months under review as further property acquisitions have been completed and a number of asset management projects from within the owned portfolio have been undertaken.

Four acquisitions were completed in the period for a total of £11.5 million. As detailed below, these were spread across the United Kingdom, and were all high quality, modern premises with income contracted for terms longer than the Weighted Average Unexpired Lease Term ("WAULT") of the existing portfolio, helping to maintain the longevity of the Group's rental income.

Watton

A modern, purpose built health facility in Watton, Norfolk built in 2006 and acquired by PHP in 2012. The property houses a 6 Partner GP Practice and services a major part of the local health infrastructure.

size:	**925 sqm**
built:	**July 2006**
cost:	**£2.7m**
patient numbers:	**12,750**
tenants:	**GP practice, LGB and pharmacy**

Asset acquired	m^2	£m*	Occupational tenants
Conan Doyle Medical Centre, Edinburgh	1,144	3.8	7 GP practice
Pharmacy Unit, Connahs Quay	310	1.0	Pharmacy at existing PHP site
Watton Medical Practice, Norfolk	924	2.8	6 GP practice
Nantgarw Road Medical Centre, Caerphilly, South Wales	1,250	3.9	3 GP practice, Health Board and pharmacy
		11.5	

* including legal expenses

Asset management projects were completed at three sites in the period incurring capital expenditure of £0.5 million, but adding £0.03 million to rent roll with an average additional lease period secured of over 14 years.

The Group's portfolio produces continuing growth from rent reviews with a total of £0.21 million of rental income added to contracted rent roll from the completed review of £3.07 million of rent in the period. This gives an average annualised increase of 2.7% (2011: 3.0%).

At the start of the year, the Group had committed to forward fund the development of four further centres. One of these, a 795 square metre centre in Allesley, Coventry will be delivered and rent will commence in the coming weeks. The three other forward commitments are progressing as planned and are scheduled to be delivered on time.

The investment portfolio was independently valued as at 30 June 2012 at open market value by Lambert Smith Hampton Chartered Surveyors and Valuers at a total of £545.2 million. Including properties held under finance leases and some expansion land, the aggregate value of the Group's property assets at the balance sheet date was £548.6 million. Whilst commercial property values have generally fallen in 2012, the longevity of contracted income and strength of the underlying NHS covenant has led to investment yields for the Group's portfolio being stable across the period, reflecting an initial yield of 5.74% (31 December 2011: 5.74%).

Managing Director's Review continued

	Number of properties	30 June 2012 £m	31 December 2011 £m
Investment properties	159	**533.7**	521.2
Properties in the course of development	4	**5.5**	4.4
Total properties	163	**539.2**	525.6
Finance leases and expansion land	1	**3.1**	3.1
Total owned and leased	164	**542.3**	528.7
Balance of purchases committed at the period end	-	**6.3**	11.0
Total owned, leased and committed at the balance sheet date	164	**548.6**	539.7
Purchases committed after the period end	1	**3.9**	
Total owned, leased and committed	165	**552.5**	

The Group has continued to acquire assets since the balance sheet date with a standing let investment in Luton being acquired for £3.9 million on 19 July 2012.

Asset committed	m^2	Occupational tenants
Kingsway Health Centre, Luton	1,281	Wholly let to PCT

Following this recent activity, the Group's portfolio numbers 165 assets with a total value of some £552.5 million. Annualised rent roll stands at £33.2 million including commitments and the WAULT of the portfolio stands at 16.0 years (31 December 2011: 16.3 years).

Valuing the portfolio held at 30 June 2012 using a discounted cash flow ("DCF") methodology, to reflect the long term stable cash flow from the occupational leases, produces a value of £595.1 million. Compared to the LSH valuation of £548.6 million, the difference in value represents 63 pence per share in net asset value terms.

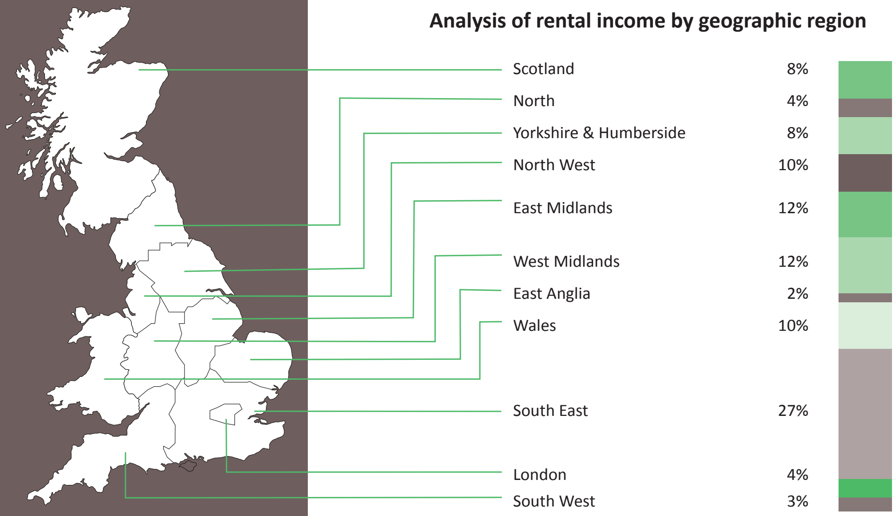
In the DCF valuation, cash flows from the assets are discounted at 7%. This is based on a margin of 250 basis points over an historic long term gilt yield of 4.5%. At current gilt yields, this would actually be a margin of approximately 470 basis points over the 16 year gilt.

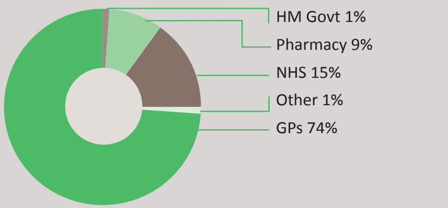
In my 2011 year-end report, I set out how the Group benchmarks its real estate performance against the IPD Healthcare Property Index. This index was published in May 2012 and confirmed that the Group's assets had outperformed the Index in 2011. PHP's portfolio delivered a total return in 2011 of 10.1% against the primary care property element of the Index of 9.4%.

For the 12 month period to 30 June 2012, the Group's property portfolio has shown an annualised total return of 7.19%, compared to the IPD All Property Index for the same period that showed 4.4%.

PHP has a strong pipeline of potential investment purchases and opportunities to forward fund the development of new centres. At the time of writing this review, we have agreed terms to

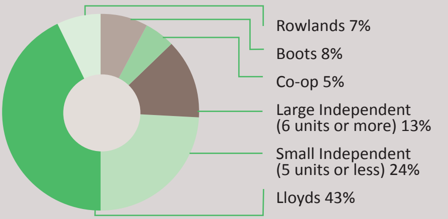
Analysis of rental income by geographic region





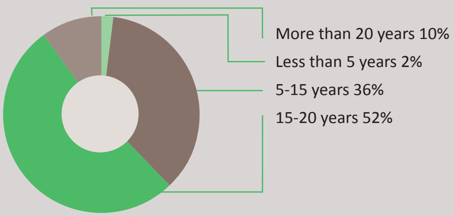
Covenant analysis by annual rent

90% of the Group's rent roll is paid directly or indirectly by the Government.



Analysis of pharmacy rental income

Pharmacy rents represent 9% of total income. 63% of this is derived from national covenants.



Analysis of annualised rent by unexpired lease term

62% of occupational leases have a remaining life of 15 years or longer. The weighted average lease length (including commitments) is 16 years.

acquire over £49.4 million of standing let investments and forward funded developments and these transactions are currently being documented. A further sizeable tranche of acquisitions is also being negotiated with all transactions continuing to apply the Group's prudent acquisition policies that target assets that contribute immediately to profitability but also have potential for future growth.

Operations

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 Dec 2011 £m
Rental and related income	**16.2**	15.2	30.7
Expenses	**(2.8)**	(2.6)	(5.6)
Operating profit before revaluation gain and financing	**13.4**	12.6	25.1
Net financing costs	**(9.0)**	(7.2)	(15.4)
Profit on sale of AHMP shares	**-**	0.3	0.3
Underlying profit before revaluation gain, fair value movement on interest rate swaps and profit on sale of investment	**4.4**	5.7	10.0
Fair value (loss)/gain on interest rate swaps	**(0.8)**	1.0	(8.0)
Revaluation gain on property portfolio	**0.6**	5.2	10.6
Profit before tax	**4.2**	11.9	12.6

The asset purchases, property enhancements and rent review uplifts detailed above have combined to increase rents received in the period to £16.2 million, an increase of 6.6% over the same period last year.

Fees paid to the joint managers were stable at 0.77% of gross assets (2011: 0.77%), but the proportion will reduce through the remainder of the year as the sliding scale fee rate, introduced in 2011, has an impact as gross assets increase further above £500 million. Profits before financing and revaluations increased by 6.4% to £13.4 million (six months to 30 June 2011: £12.6 million).

Net finance costs increased for the six month period, as acquisitions and the increased cost of the Group's bank finance impacted results. The impact will be less in future periods due to income from upcoming rent reviews and further property acquisitions.

Earnings per share, excluding property revaluation and the change in the Mark to Model of the Group's interest rate derivatives, were 6.1 pence (six months to 30 June 2011: 8.3 pence).

Commitments

Pelton

A purpose built primary care centre located in Pelton, County Durham, to be completed Q3 2012. The property will provide 1,613m^2 of primary care space to include a pharmacy and is built alongside a new public library serving the local community.

size:	1,613 sqm
expected completion:	Q3 2012
cost:	£4.15m
patient numbers:	8,500
tenants:	GP practice, PCT and a pharmacy

Dividends and increase in capital base

The dividend announced with this statement brings cash dividends to date in 2012 to a total of 18.5 pence per share, an increase of 2.8% over that paid in 2011. This will be the 16th consecutive year of dividend growth. Once again, no portion of this dividend represents a Property Income Distribution ("PID").

In May 2012, the Company undertook a small capital raising, issuing a total of 6,229,509 shares at a price of 305 pence per share, a small discount to the then share price and a discount of 4.3% to the 31 December 2011 EPRA NAV. The net proceeds of the issue of £18.4 million have been used to fund property acquisitions and amounts paid towards commitments in the period and since the balance sheet date. A further 107,332 shares have been issued in the period to satisfy the scrip alternative to the cash dividend paid in April.

EPRA NAV excludes fair value adjustments of debt and associated derivatives. As a result of the activities detailed above, EPRA NAV per share has fallen by 1.2% in the period to 314.9 pence (31 December 2011: 318.7 pence).

Debt finance

The management team has worked diligently to secure the Group's underlying banking facilities and to expand the range of providers of debt and facility maturities to spread any refinance risk. The largest part of this exercise was completed on 2 April 2012, when the Group completed the refinance of its core £175 million bi-lateral loans into a new four year, interest only, "Club" facility provided by Royal Bank of Scotland plc and Santander Banking Group.

The Allied Irish Banks plc ("AIB") facility was reduced to £27 million and will run to its planned maturity in January 2013.

Total facilities available to the Group as at 30 June 2012 were £384 million, for an average term of 5.2 years. As at the balance sheet date, £301 million was drawn, leaving headroom for additional asset purchases and the refinance of the AIB debt. Group LTV stood at 56.4% (31 December 2011: 57.8%). The average margin on the Group's floating rate debt reflecting the refinance detailed above stands at 230 basis points (31 December 2011: 80 basis points).

On 23 July 2012, the Company issued a £75 million, seven year retail bond with an annual coupon of 5.375%, payable semi-annually. The bond is unrated and was issued on an unsecured basis, giving total flexibility over the use of the proceeds. These funds will be used to satisfy asset acquisitions and be invested at the earliest opportunity. Pending this, the funds have been used to pay down the revolving elements of the banking facilities which are available to be re-drawn as and when needed.

The Group's underlying long term, strong covenanted income streams and well managed portfolio, demonstrating consistent returns and growth potential, combined to present a compelling investment case for fixed income investors such that the offer period for the issue had to be closed a week earlier than planned as PHP quickly reached its target maximum issue size of £75 million. The bond issue, a first for a UK REIT, provides additional resource for investment to grow the portfolio and increase shareholder returns.

Interest rate hedging

Another achievement of the debt refinance outlined above was that it was secured without the requirement to break any of the Group's interest rate swap agreements. This avoided crystallising large breakage costs associated with cancelling interest rate derivatives and the capital value erosion that would entail. The Mark to Model liability of the Group's derivative portfolio stood at £49.3 million at the balance sheet date (31 December 2011 - £49.5 million).

Going concern

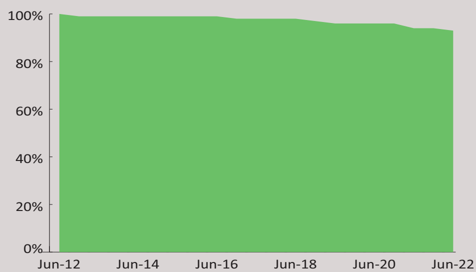
Set out above and in the financial statements are details of the Group's business activities, and development, performance and position including its cash flows, liquidity position and borrowing facilities. The Directors believe that the Group is well placed to manage its business risks successfully, despite the continuing uncertain general economic outlook. Having reviewed the Group's current position and cash flow projections, actual and prospective debt facilities and covenant cover, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Prospects

The Group's business is underpinned by long term occupational leases in a sector where demand is consistent and no over supply exists. 90% of the rent roll is directly or indirectly received from the NHS with leases having an average remaining term of 16 years. 93% of today's income contracted will still be received in 10 years' time.

Security of income by term certain

At the end of 10 years the Group would still be receiving 93% of its current income.



I am confident that we will see numerous opportunities to increase assets under management as new modern premises are demanded to provide the infrastructure from which modern day primary care services are delivered. The changes to the management and commissioning of care in England are now being implemented, removing considerable uncertainty from the market and showing signs of a return to a more normal volume of new centre approvals.

The outlook for the Group is positive as the funds that have been secured are invested in assets that will enhance returns to shareholders.

Harry Hyman
Managing Director
21 August 2012

Commitments

Allesley

size:	1,243 sqm
expected completion:	Q3 2012
cost:	£2.81m
patient numbers:	14,850
tenants:	GP practice and a pharmacy

Ramsgate

size:	773 sqm
expected completion:	Q1 2013
cost:	£2.43m
patient numbers:	6,400
tenants:	GP practice and a pharmacy

Arley

size:	650 sqm
expected completion:	Q4 2012
cost:	£1.83m
patient numbers:	12,750
tenants:	GP practice

Post balance sheet commitments

Luton

A modern purpose built health centre in Luton, Bedfordshire, constructed in 2008. The centre is fully let to Luton Primary Care Trust with nearly 17 years remaining on the lease.

size:	1,281 sqm
built:	February 2008
cost:	£3.9m
patient numbers:	7,700
tenants:	PCT

Principal Risks

The 2011 Annual Report includes details of the Group's principal financial risks which may be summarised as follows:

- The valuation of property and property-related assets is inherently subjective and is subject to uncertainty. There is no assurance that the valuations of the properties reflect actual sale prices.
- The Group uses leverage to acquire its property assets. Without confirmed debt facilities in the future, PHP may be unable to meet commitments or repay or refinance debt facilities as they become due.
- The Group's debt facilities include a number of covenant requirements, all of which are in compliance and expected to remain so for the foreseeable future. Should the Group be unable to meet these covenants it could result in possible default and/or penalties being levied.
- The Group intends to continue its strategy of investing solely in primary care premises. The Group has no influence over the future direction of primary care initiatives in the public sector and there can be no assurance that the UK government's primary care budget will not decline or that growth will stay at present levels. A change in policy, moving resources away from the primary care market, could materially and adversely affect the Group's prospects for continued profitability and rental growth.
- The majority of the Group's occupational lease counterparties are GP practices who benefit from rental and premises costs reimbursement under the National Health Services (General Medical Services Premises Costs) Direction 2004. Cuts in the funding available for the renting of medical centres or changes to future rental reimbursement mechanisms may reduce funds available to meet the costs of accommodation provided by the Group or impact on the underlying covenant strength in future.
- A breach of REIT requirements may lead to the Group losing its REIT status and the taxation benefits that this affords.
- The Group has no employees and depends on services supplied by third parties for the efficient operation and management of the Group. The termination of the Joint Managers' contract could adversely affect the Group's ability to effectively manage its operations.
- A large proportion of the Group's debt facilities are exposed to movements in underlying interest rates.
- The mark to model valuation of the Group's interest rate derivative portfolio is based on underlying market interest rates. Changes to market rates could give rise to volatility in mark to model values.

Further details of how the Audit Committee monitors risks and how these are mitigated can be found in the Group's 2011 Annual Report.

Condensed Group Statement of Comprehensive Income

for the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Rental income		**16,038**	15,079	30,333
Finance lease income		**172**	171	343
Rental and related income		**16,210**	15,250	30,676
Direct property expenses		**(175)**	(182)	(436)
Administrative expenses	9	**(2,592)**	(2,450)	(5,123)
Operating profit before net valuation gain on property portfolio		**13,443**	12,618	25,117
Profit on sale of available for sale ("AFS") investment		**-**	312	312
Net valuation gain on property portfolio	3	**631**	5,219	10,584
Operating profit before financing costs		**14,074**	18,149	36,013
Finance income	5	**175**	212	414
Finance costs	6	**(9,308)**	(7,451)	(15,831)
Fair value (loss)/gain on derivative interest rate swaps and amortisation of cash flow hedging reserve	6	**(785)**	1,041	(7,947)
Profit on ordinary activities before tax		**4,156**	11,951	12,649
Current taxation credit	7	**-**	2	5
Profit for the period [1]		**4,156**	11,953	12,654
Fair value movement on interest rate swaps treated as cash flow hedges		**982**	1,165	(13,613)
Recycling of previously unrealised gain on current asset investment		**-**	(73)	(73)
Other comprehensive income/(loss)		**982**	1,092	(13,686)
Total comprehensive income/(loss) for the period net of tax		**5,138**	13,045	(1,032)
Earnings per share				
• basic and diluted [2]	4	**5.9p**	18.3p	19.0p
Adjusted earnings per share[3]				
• basic and diluted[2]	4	**6.1p**	8.3p	14.5p

The above relates wholly to continuing operations.

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

2 There is no difference between basic and fully diluted EPS.

3 Adjusted for large one off items and movements in fair value of properties and derivatives. See note 4.

Condensed Group Balance Sheet

at 30 June 2012

	Notes	At 30 June 2012 £000 (unaudited)	At 30 June 2011 £000 restated[3] (unaudited)	At 31 Dec 2011 £000 (audited)
Non current assets				
Investment properties	2,3	**539,154**	489,516	525,586
Net investment in finance leases		**3,084**	3,052	3,069
Derivative interest rate swaps		**8**	1,196	24
		542,246	493,764	528,679
Current assets				
Trade and other receivables		**3,116**	3,045	2,633
Net investment in finance leases		**25**	39	30
Cash and cash equivalents		**964**	915	77
		4,105	3,999	2,740
Total assets		**546,351**	497,763	531,419
Current liabilities				
Term loans	10	**(27,610)**	(574)	(592)
Derivative interest rate swaps		**(7,126)**	(15,818)	(23,866)
Trade and other payables		**(6,975)**	(4,875)	(5,831)
Deferred rental income		**(6,848)**	(6,144)	(6,624)
		(48,559)	(27,411)	(36,913)
Non current liabilities				
Term loans	10	**(269,956)**	(268,300)	(300,747)
Derivative interest rate swaps		**(42,148)**	(14,019)	(25,639)
		(312,104)	(282,319)	(326,386)
Total liabilities		**(360,663)**	(309,730)	(363,299)
Net assets		**185,688**	188,033	168,120

	Notes	At 30 June 2012 £000 (unaudited)	At 30 June 2011 £000 (unaudited)	At 31 Dec 2011 £000 (audited)
Equity				
Share capital		**37,305**	34,088	34,136
Share premium account		**54,722**	54,178	54,430
Capital reserve		**1,618**	1,618	1,618
Special reserve		**72,689**	57,405	57,405
Cash flow hedging reserve		**(25,910)**	(12,114)	(26,892)
Retained earnings		**45,264**	52,858	47,423
Total equity [1]		**185,688**	188,033	168,120
Net asset value per share				
• Basic	11	**248.9p**	275.8p	246.3p
• EPRA[2] net asset value per share	11	**314.9p**	317.8p	318.7p

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

2 See definition of 'EPRA' on page 4.

3 Principal repayments on Aviva fixed term loan of £0.6 million restated to current liabilities from non-current liabilities. This reclassification has no effect on net assets.

Condensed Group Cash Flow Statement

for the six months ended 30 June 2012

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Operating activities			
Profit before tax	**4,156**	11,951	12,649
Less: Finance income	**(175)**	(212)	(414)
Plus: Finance costs	**9,308**	7,451	15,831
Plus: Fair value loss/(gain) on derivatives and amortisation of cash flow hedging reserve	**785**	(1,041)	7,947
Operating profit before financing	**14,074**	18,149	36,013
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Revaluation gain on property portfolio	**(631)**	(5,219)	(10,584)
Profit on sale of AFS investment	**-**	(312)	(312)
Increase in trade and other receivables	**(488)**	(504)	(146)
Increase in trade and other payables	**634**	41	1,095
Cash generated from operations	**13,589**	12,155	26,066
UK REIT conversion charge instalment	**-**	(1,998)	(1,998)
Taxation paid	**-**	(48)	(43)
Net cash flow from operating activities	**13,589**	10,109	24,025
Investing activities			
Payments for investment properties	**(12,937)**	(15,007)	(45,712)
Receipt from sale of shares in AFS investment	**-**	788	788
Interest received on commitments	**-**	58	296
Bank interest received	**56**	25	35
Other interest received	**-**	-	4
Net cash flow used in investing activities	**(12,881)**	(14,136)	(44,589)

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Financing activities			
Proceeds from issue of shares (net of expenses)	**18,399**	15,605	15,605
Term bank loan drawdowns	**36,335**	18,250	145,953
Term bank loan repayments	**(19,792)**	(3,274)	(111,007)
Temporary offset of proceeds of share issue against revolving bank loan	**(18,399)**	(13,450)	-
Swap interest payable	**(3,238)**	(4,457)	(8,833)
Non utilisation fees	**(176)**	-	(224)
Loan arrangement fees paid	**(2,280)**	(54)	(1,690)
Interest paid	**(4,701)**	(2,685)	(5,454)
Swap buy back costs	**-**	-	(2,880)
Equity dividends paid (net of scrip dividend)	**(5,969)**	(5,363)	(11,199)
Net cash flow from financing activities	**179**	4,572	20,271
Movement in cash and cash equivalents for the period	**887**	545	(293)
Cash and cash equivalents at start of period	**77**	370	370
Cash and cash equivalents at end of period	**964**	915	77

Condensed Group Statement of Changes in Equity

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve[1] £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Six months ended 30 June 2012 (unaudited)							
1 January 2012	34,136	54,430	1,618	57,405	(26,892)	47,423	168,120
Profit for the period	-	-	-	-	-	4,156	4,156
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps and amortisation of cash flow hedging reserve	-	-	-	-	982	-	982
Total comprehensive income	-	-	-	-	982	4,156	5,138
Proceeds from capital raisings	3,115	-	-	15,885	-	-	19,000
Expenses of capital raisings	-	-	-	(601)	-	-	(601)
Dividends paid:							
Second interim dividend for period ended 31.12.11 (9.25p)	-	-	-	-	-	(5,969)	(5,969)
Scrip dividends in lieu of interim cash dividends	54	292	-	-	-	(346)	-
30 June 2012	**37,305**	**54,722**	**1,618**	**72,689**	**(25,910)**	**45,264**	**185,688**
Six months ended 30 June 2011 (unaudited)							
1 January 2011	31,401	53,934	1,618	44,442	(13,279)	46,630	164,746
Profit for the period	-	-	-	-	-	11,953	11,953
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps treated as cash flow hedges	-	-	-	-	1,165	-	1,165
Recycling of previously unrealised gain	-	-	-	-	-	(73)	(73)
Total comprehensive income	**-**	**-**	**-**	**-**	**1,165**	**11,880**	**13,045**
Proceeds from capital raisings	2,642	-	-	13,474	-	-	16,116
Expenses of capital raisings	-	-	-	(511)	-	-	(511)
Dividends paid:							
Second interim dividend for period ended 31.12.10 (9.00p)	-	-	-	-	-	(5,363)	(5,363)
Scrip dividends in lieu of interim cash dividends	45	244	-	-	-	(289)	-
30 June 2011	**34,088**	**54,178**	**1,618**	**57,405**	**(12,114)**	**52,858**	**188,033**

	Share capital £000	Share premium £000	Capital reserve £000	Special reserve[1] £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Year ended 31 December 2011 (audited)							
1 January 2011	31,401	53,934	1,618	44,442	(13,279)	46,630	164,746
Profit for the year	-	-	-	-	-	12,654	12,654
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps and amortisation of cash flow hedging reserve	-	-	-	-	(13,613)	-	(13,613)
Recycling of previously unrealised gain	-	-	-	-	-	(73)	(73)
Total comprehensive income	-	-	-	-	(13,613)	12,581	(1,032)
Proceeds from capital raisings	2,642	-	-	13,474	-	-	16,116
Expenses of capital raisings	-	-	-	(511)	-	-	(511)
Dividends paid:							
Second interim dividend for the year ended 31 December 2010 (9.00p)	-	-	-	-	-	(5,363)	(5,363)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	45	244	-	-	-	(289)	-
First interim dividend for the year ended 31 December 2011 (9.00p)	-	-	-	-	-	(5,836)	(5,836)
Scrip dividends in lieu of interim cash dividends (net of expenses)	48	252	-	-	-	(300)	-
31 December 2011	**34,136**	**54,430**	**1,618**	**57,405**	**(26,892)**	**47,423**	**168,120**

1 The Special Reserve is a distributable reserve

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 2011 have been filed with the Registrar of Companies. The auditors' report on these financial statements was unqualified and did not contain a statement under section 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 auditors and their report to the Company is included on page 31.

These condensed interim financial statements of the Group for the six months ended 30 June 2012 were approved and authorised for issue by the Board of Directors on 21 August 2012.

Basis of preparation/Statement of compliance

The half year report for the six months ended 30 June 2012 has been prepared in accordance with IAS 34 'Interim Financial Reporting' and reflects consistent accounting policies as set out in the Group's financial statements at 31 December 2011 which have been prepared in accordance with IFRS as adopted by the European Union.

The half year report does 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 2011.

Convention

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

Segmental reporting

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

Going concern

The Group's property portfolio is let to tenants with strong covenants and the acquisition pipeline is strong. In the period the Group has finalised the refinancing of £175 million of bank debt facilities into a new four year interest only facility. This has extended the average maturity of the Group's banking facilities to over five years. The loan to value ratio is currently 56.4%, well below the maximum Group banking covenant of 70%. The Group has announced the issue of a £75 million, seven year unsecured retail bond with an interest rate of 5.375%. For these reasons the Directors' continue to adopt the going concern basis of accounting in preparing the financial statements.

2. Investment properties and investment properties under construction

Investment properties have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2012 in accordance with IAS 40: Investment Property.

The revaluation gain for the six months ended 30 June 2012 amounted to £0.6 million. The revaluation gain for the year ended 31 December 2011 amounted to £10.6 million and the gain for the six months ended 30 June 2011 amounted to £5.2 million.

Property additions, including acquisitions, for the six months ended 30 June 2012 amounted to £12.9 million. No properties were disposed of in the six months to 30 June 2012. Commitments outstanding at 30 June 2012 amounted to £6.3 million (31 December 2011: £11.0 million).

Property additions for the 12 months ended 31 December 2011 and the six months ended 30 June 2011 amounted to £45.7 million and £15.0 million respectively. There were no property disposals during these periods.

3. Property acquisitions

	Investment properties freehold £000 (unaudited)	Investment properties long leasehold £000 (unaudited)	Investment properties under construction £000 (unaudited)	Total £000 (unaudited)
As at 1 January 2012	433,245	87,966	4,375	525,586
Acquisitions	10,528	957	-	11,485
Additions	373	21	1,058	1,452
Revaluation gain for the period	210	386	35	631
As at 30 June 2012	**444,356**	**89,330**	**5,468**	**539,154**

Notes to the Condensed Financial Statements

4. Earnings per share

The purpose of calculating an adjusted earnings per share is to provide a better indication of dividend cover for the period by excluding large one-off items affecting earnings per share during the period.

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Net profit attributable to Ordinary Shareholders			
Basic profit	4,156	11,953	12,654
Adjusted profit - Adjustments to remove:			
Net gain on revaluation of property	(631)	(5,219)	(10,584)
Fair value loss/(gain) on derivatives [1]	785	(1,041)	7,947
Profit on sales of AFS investment	-	(312)	(312)
Taxation	-	(2)	(5)
Adjusted basic and diluted earnings [2]	4,310	5,379	9,700
Number of Ordinary Shares [3]	70,413,807	65,157,643	66,696,096
Earnings per share [2]	5.9p	18.3p	19.0p
Earnings per share - Adjusted [1]	6.1p	8.3p	14.5p

1 In view of the continuing volatility in the mark to model adjustment in respect of the period end valuation of derivatives that flows through the Condensed Group Statement of Comprehensive Income, the Directors believe that it is appropriate to remove the loss/(gain) in the calculation of adjusted earnings.

2 There is no difference between basic and fully diluted EPS.

3 Weighted average number of Ordinary Shares in issue during the period. In April 2012, the Group issued 0.1 million Ordinary Shares following the scrip dividend issue and in May 2012, 6.2 million Ordinary Shares were issued by way of a Placing.

5. Finance income

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Interest income on financial assets not at fair value through profit or loss			
Bank interest	57	33	70
Development loan interest	65	177	249
Other interest	53	2	95
	175	212	414

6. Finance costs

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Interest expense on financial liabilities			
(i) Interest paid			
Bank loan interest paid	5,433	2,690	5,792
Bank swap interest paid	3,219	4,438	8,768
Other interest paid	10	13	-
Notional UK-REIT interest	-	5	5
Bank facility non utilisation fees	206	60	288
Bank charges and loan commitment fees	440	245	978
	9,308	7,451	15,831
(ii) Derivatives			
Net fair value loss/(gain) on interest rate swaps	113	(1,041)	7,891
Amortisation of cash flow hedging reserve	672	-	56
	785	(1,041)	7,947

The fair value loss on derivatives recognised in the Condensed Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A fair value gain on derivatives which meets the hedge effectiveness criteria under IAS39 of £0.3 million (30 June 2011: gain of £1.2 million) is accounted for directly in equity, together with amortisation of the hedging reserve of £0.7 million (30 June 2011: £ nil).

Net finance costs excluding fair value movements on derivatives can be summarised as follows:

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Net finance costs	9,133	7,239	15,417

Notes to the Condensed Financial Statements

7. Taxation

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Taxation in the Condensed Group Statement of Comprehensive Income:			
Current tax			
UK Corporation tax credit on non property income	-	(2)	(5)
Taxation credit in the Condensed Group Statement of Comprehensive Income	-	(2)	(5)

8. Dividends paid

	Six months ended 30 June 2012 £000 (unaudited)	Six months ended 30 June 2011 £000 (unaudited)	Year ended 31 Dec 2011 £000 (audited)
Second interim dividend for the period ended 31 December 2011 (9.25p) paid 2 April 2012 (2011: 9.00p)	5,969	5,363	5,363
Scrip dividend in lieu of second interim cash dividend	346	289	289
First interim dividend for the period ended 31 December 2011: (9.00p) paid 28 October 2011	-	-	5,836
Scrip dividend in lieu of first interim cash dividend	-	-	300
	6,315	5,652	11,788
Per share	9.25p	9.00p	18.00p

The Board proposes to pay an interim cash dividend of 9.25p per Ordinary Share for the six months to 30 June 2012, payable on 26 October 2012. This dividend will not be a Property Income Distribution ("PID").

9. Administrative expenses

As the portfolio has grown, administrative expenses as a proportion of rental and related income fell to 16.0% (30 June 2011: 16.1%). This equates to an annualised rate of 1.0% of gross real estate assets (30 June 2011: 1.0%). Management fees paid to the Joint Managers are shown in note 12.

No performance incentive fee is payable to the Joint Managers for the period ended 30 June 2012 (six months to 30 June 2011 and year ended 31 December 2011: £nil). Under the terms of the management agreement there is a deficit of some £58.4million to be made up in the net asset value before any further performance incentive fee becomes payable.

10. Bank borrowings reconciliation

	Drawn down £000 (unaudited)	Headroom £000 (unaudited)	Total facility £000 (unaudited)
As at 1 January 2012	303,005	89,297	392,302
Term bank drawdowns	36,335	(36,335)	-
Term bank repayments	(16,501)	16,501	-
Temporary offset of proceeds of share issue against revolving bank facility	(18,399)	18,399	-
Repayment of Aviva mortgage	(291)	-	(291)
	1,144	(1,435)	(291)
	304,149	**87,862**	**392,011**
Repayment of and reduction in AIB bank loan	(3,000)	-	(3,000)
Reduction in RBS overdraft	-	(5,000)	(5,000)
	(3,000)	(5,000)	(8,000)
Total term loans as at 30 June 2012	**301,149**	**82,862**	**384,011**

Any bank facility arrangement fee amounts unamortised as at the period end are offset against amounts drawn on the facillities as shown in the table below:

	30 June 2012 £000 (unaudited)
Term loans drawn: due within one year	27,610
Term loans drawn: due in greater than one year	273,539
Less: Unamortised borrowing costs	(3,583)
Total term loans due in greater than one year	269,956
Total term loans per Condensed Group Balance Sheet	**297,566**

Notes to the Condensed Financial Statements

11. Net asset value calculations

Net asset values have been calculated as follows:

	30 June 2012 £000 (unaudited)	30 June 2011 £000 (unaudited)	31 Dec 2011 £000 (audited)
Net assets per Condensed Group Balance Sheet	185,688	188,033	168,120
Derivative interest rate swaps liability (net)	49,266	28,641	49,481
EPRA net asset value	234,954	216,674	217,601

	Number of shares	Number of shares	Number of shares
Ordinary Shares:			
Issued share capital	74,609,070	68,175,990	68,272,229
Basic net asset value per share	248.9p	275.8p	246.3p
EPRA net asset value per share	314.9p	317.8p	318.7p

12. Related party transactions

The management fee calculated and payable for the period was as follows:

	30 June 2012 £000 (unaudited)	30 June 2011 £000 (unaudited)	31 Dec 2011 £000 (audited)
Nexus TradeCo Limited	1,236	1,105	2,295
J O Hambro Capital Management Limited	851	782	1,591

13. Post balance sheet events

On 19 July 2012, PHP announced that it had entered into a conditional contract to acquire a modern, purpose built medical centre in Luton, Bedfordshire for approximately £3.9 million.

On 23 July 2012, PHP announced that it had become the first UK REIT to issue a Retail Bond following the issue of a £75 million, 7 year bond, to Retail Investors with an interest rate of 5.375% paid semi-annually in arrears.

Independent review report to Primary Health Properties PLC

Introduction

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 2012 which comprises the Condensed Group Statement of Comprehensive Income, Condensed Group Balance Sheet, Condensed Group Cash Flow Statement, Condensed Group Statement of Changes in Equity and the related notes 1 to 13. 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 guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE 2410") issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our 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 Services Authority. As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards "IFRS" 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 report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 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 Services Authority.

Ernst & Young LLP
London

21 August 2012

Directors' responsibility statement

The Directors confirm that to the best of their knowledge this condensed set of 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 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 Financial Report.

The Directors of Primary Health Properties PLC are listed in the Annual Financial Report for the year ended 31 December 2011. A list of current Directors is shown on page 33. Shareholder information is as disclosed in the Annual Financial Report and is also available on the PHP website www.phpgroup.co.uk.

Graeme Elliot
Chairman
21 August 2012

Corporate Profile and Advisers

Directors
Graeme Elliot (Chairman)
Alun Jones (Chairman of Audit Committee and Senior Independent Director)
Harry Hyman
(Managing Director)
Mark Creedy
Martin Gilbert
(resigned 14 June 2012)
William Hemmings
(appointed 18 June 2012)
James Hambro
Dr Ian Rutter OBE

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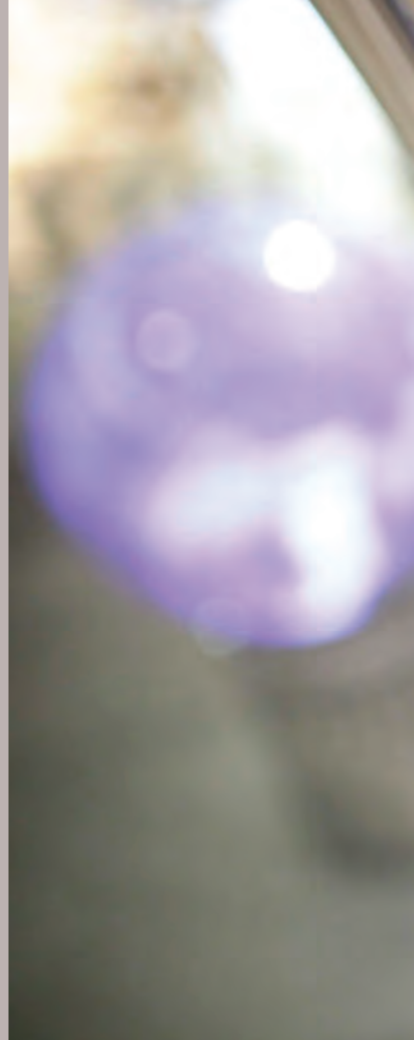
PHP Primary Health Properties



Primary Health Properties PLC

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www.phpgroup.co.uk