Primary Health Properties PLC

Interim results for the six months ended 30 June 2014

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), the UK's leading investor in modern primary healthcare facilities, is pleased to announce its interim results for the six months ended 30 June 2014.

OPERATIONAL HIGHLIGHTS

- Total portfolio including development properties reaches £1 billion including commitments; an increase of 4.3% in the period (31 December 2013: £958.7 million)
- Surplus on property valuation of £16.1 million, an increase of 1.7% for the period (30 June 2013: £0.2 million)
- Rental income receivable increased by 50% to £29.4 million (30 June 2013: £19.7 million)
- Average annualised uplift of 1.9% on reviews completed in the period
- Portfolio 99.7% let with 16 years weighted average lease length (including commitments)
- Revised terms for provision of property advisory and administrative services

FINANCIAL HIGHLIGHTS

- Operating profit before result on property portfolio rose 52% to £25.4 million (30 June 2013: £16.7 million)
- Profit before tax increased to £22.1 million (30 June 2013: £13.6 million)
- Adjusted profit increased by 91% to £8.2 million (30 June 2013: £4.3 million)
- Adjusted earnings per share increased by 54% to 7.4 pence (30 June 2013: 4.8 pence)
- Interim dividend of 9.75 pence per share paid in April 2014 (30 June 2013: 9.5 pence)
- Dividend cover increased to 76% (30 June 2013: 52%)
- Further interim dividend of 9.75 pence per share declared, payable on 7 November 2014
- EPRA net asset value per share increased by 2.7% to 308 pence (31 December 2013: 300 pence)
- £82.5 million Convertible Bond 2019 issued on 20 May 2014
- Average cost of debt reduced to 4.6% (year to 31 December 2013: 5.5%)

OUTLOOK

- Strengthened debt structure enhances PHP's ability to continue to expand its portfolio
- Further progress toward short term priority of returning to full dividend cover as debt terms revised and acquisition activity continues through second half of 2014
- Strong sector fundamentals with long term secure income streams funded by the National Health Service
- Strong pipeline of acquisition opportunities to build on success of first six months

Harry Hyman, Managing Director of Primary Health Properties, commented:

"PHP continues to perform strongly and deliver value for shareholders. For the first time the portfolio of high quality modern healthcare facilities has reached £1 billion with the strength of the portfolio reflected in a healthy valuation surplus.

We have made significant progress in increasing dividend cover, which has been a key focus for the Group and have maintained our progressive dividend policy with a 2.6% increase over the same period in 2013.

The sector continues to demand new purpose built premises as primary care now becomes more integrated with other aspects of care historically delivered by NHS Trusts and Local Authorities. The increasing demand for healthcare services and continued drive to deliver more care from modern local facilities will maintain the need for the types of new premises that PHP provides. "

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Primary Health Properties

Interim Review

The first six months of 2014 has been a busy period for the Group with significant activity across all areas of its business. The Group has increased its property portfolio to over £1 billion, completed over £157 million of debt capital market transactions and consolidated the provision of advisory services to the Group.

These are in line with our strategic objectives of continuing to acquire modern, purpose built premises that provide secure long term income streams and the potential for rental and capital growth, funding this investment with an appropriate mix of equity and debt, with our debt provided by a diversified range of funding partners at a competitive cost. The combination of these will generate increased earnings that will enable us to deliver a return to shareholders through dividend and share price growth.

We have made strong progress during the period toward achieving our key, short term priority of returning to full dividend cover whilst maintaining a progressive dividend policy. The properties acquired in late 2013 and the refinancing of the debt that was assumed with the Prime Public Partnerships (Holdings) Limited ("PPP") acquisition have both been reflected in improved earnings for the period, which has been further enhanced by restructuring the cost of managing the Group.

Notwithstanding the increase in the interim dividend, dividend cover rose to 76% in the first half of 2014 compared with 52% for the same period in 2013.

Key performance indicators

	Six months to 30 June 2014	**Year to 31 December 2013**	**Year to 31 December 2012**	**Year to 31 December 2011**	**Year to 31 December 2010**	**Year to 31 December 2009**
Total Investment Property[1]	**£1,000.4m**	£958.7m	£645.4m	£539.7m	£503.6m	£371.0m
Total property return	**4.75%**	8.23%	6.99%	8.25%	10.21%	2.93%
Rent roll (annualised)	**£59.4m**	£57.6m	£38.9m	£31.4m	£28.0m	£21.3m
Adjusted earnings per share	**7.4p**	10.6p	10.2p	14.5p	14.7p	18.4p
Dividend per share	**9.75p**	19.0p	18.5p	18.0p	17.5p	17.0p
Dividend cover	**76%**	56%	56%	82%	84%	128%
Net asset value (EPRA[2])	**£341.9m**	£330.9m	£231.9m	£217.6m	£195.6m	£172.0m
Net asset value per share (EPRA[2])	**308 p**	300 p	305 p	319 p	311 p	280 p

[1] Includes developments properties committed to at period end as if completed
[2] European Public Real Estate Association ("EPRA")

Operations

We have achieved 91% growth in adjusted profit in the period to £8.2 million (30 June 2013: £4.3 million), which equates to a 54% increase in adjusted earnings per share of 7.4 pence (30 June 2013: 4.8 pence per share). We have paid an interim dividend of 9.75 pence per share, an increase of 2.6% over that for the same period in 2013 but at the same time have increased dividend cover to 76% for the period, compared to 52% for the first half of 2013 and 56% for 2013 as a whole.

	Six months to 30 June 2014 £m	Six months to 30 June 2013 £m	Year to 31 December 2013 £m
Rental and related income	29.4	19.7	42.0
Property related and administrative expenses	(4.0)	(3.0)	(6.5)
Operating profit before revaluation gain and financing	**25.4**	**16.7**	**35.5**
Net financing costs	(17.2)	(12.4)	(26.0)
Adjusted profit	**8.2**	**4.3**	**9.5**
Profit on sale of asset held as a finance lease	-	0.6	0.6
Early loan repayment fee	(0.9)	(0.8)	(0.9)
Convertible Bond issue costs	(2.4)	-	-
Fair value gain on interest rate swaps	1.1	9.5	11.4
Net result on property portfolio	16.1	0.2	2.3
Non-recurring expenses	-	(0.2)	(2.7)
Profit before tax	**22.1**	**13.6**	**20.2**

Rental income receivable by the Group in the period to 30 June 2014 increased by 50% to £29.4 million (30 June 13: £19.7 million) reflecting a full six month contribution from the PPP portfolio acquired in December 2013.

The additional income from rent reviews completed in the period is also reflected in this growth. Reviews on a total of £6.5 million of rent were finalised on a mix of open market reviews, fixed rental uplifts and rents formally linked to the Retail Prices Index. An average increase of 1.9% per annum has been achieved, down marginally from that for the whole of 2013 of 2.2%. We expect to see growth continue on review at these lower levels in the immediate future but increasing as more new developments are approved and new rental levels established.

As previously reported, on 1 May 2014 we consolidated the provision of accounting and company secretarial services to Nexus, our long term real estate adviser, to enhance service quality and information management. The change breaks the previous link to gross asset value and reduces considerably the Group's overhead costs. Based on gross assets as they were at 1 May 2014 an annualised saving of £1.2 million per annum is made on fees that would otherwise have been payable. The new fixed fee basis will provide additional benefit as the Group continues to grow its asset portfolio allowing more of the rental surplus to flow through to earnings.

The total advisory fee for the period compared to the first six months of 2013 increased overall to £2.8 million (30 June 2013: £2.3 million) due to the substantial increase in the value of the Group's property portfolio. This does, however, represent an annualised cost of just 0.59% of gross assets in the period, a significant reduction when compared to a cost of 0.71% for 2013 as a whole.

Net finance costs increased to £17.2 million (30 June 2013: £12.4 million), similarly reflecting the increase in the overall property portfolio, but the average cost of debt fell to 4.6% (31 December 2013: 5.5%) as the benefits of the financing activity of 2013 took full effect.

The underlying growth in the value of the Group's asset portfolio is reviewed in more detail below but a slight tightening in the equivalent valuation yield at the balance sheet date has generated a valuation surplus of £16.1 million for the period (30 June 2013: £0.2 million), after absorbing the costs of property acquisitions.

Changes to term interest rates through the period have led to an overall increase of £0.3 million in the Mark to Market ("MtM") liability on revaluation of interest rate swaps. The composition of the Group's swap portfolio means that a surplus of £1.1 million is recognised in profit for the period, with a deficit of £1.4 million taken directly to reserves.

After recognising a residual early repayment fee of £0.9 million on the refinancing of the Aviva loans acquired with the PPP portfolio, the profit before tax of the Group for the period to 30 June 2014 was £22.1 million (30 June 2013: £13.6 million).

Property portfolio

Three new property transactions were completed in the six month period, committing a total of £23.0 million.

Asset	Acquisition basis	Acquisition cost	Size sqm	Target completion date
Gorse Stacks, Chester	Forward commitment	£19.0 million	5,754 sqm	December 2014
Caia Park, Wrexham	Forward commitment	£2.3 million	850 sqm	December 2014
Newton Abbot, Devon (Pharmacy unit)	Completed investment	£1.7 million	753 sqm	Rent producing

The property portfolio comprised of 262 assets as at 30 June 2014, 257 of which were completed and rent producing and five that were on site being built with completion dates through the second half of 2014 and the first half of 2015. One asset in Bradford has since reached completion and became rent producing from 4 July 2014.

The wider property sector has seen a strong improvement in values as confidence returns to investment and occupier markets and the UK economy in general. Primary care real estate has traditionally not seen large swings in values due to the long term, secure nature of its income underpinned by the NHS covenant. In the first half of 2014, the sector has, however, experienced an increase in investor demand for these characteristics, particularly from institutional investors looking for larger lot sizes with indexed linked or fixed rental uplifts.

The interim property valuation has reflected the tone of the underlying market. Value growth has been seen across the portfolio but has been more pronounced for larger lot sizes and assets with indexed linked or fixed uplift rent review characteristics.

The value of the Group's portfolio as at 30 June 2014, including purchases committed, totalled a landmark £1.0 billion (31 December 2013: £958.7 million). The independent valuation undertaken by Lambert Smith Hampton, Chartered Surveyors and Valuers, generated an overall surplus on revaluation of £16.1 million an increase of 1.7% in the six month period, that equates to 14.0 pence per ordinary share. This reflects an equivalent yield of 5.64% (31 December 2013: 5.71%) and an initial yield of 5.58% (31 December 2013: 5.64%).

	Number of properties at 30 June 2014	At 30 June 2014 £m	At 31 December 2013 £m
Investment properties	257	965.3	929.5
Properties in the course of development	5	17.5	11.7
Total properties	262	982.8	941.2
Expansion land	-	0.5	0.4
Total owned and leased	262	983.3	941.6
Balance of purchases committed at the period end	-	17.1	17.1
Total owned, leased and committed	262	1,000.4	958.7

The annualised contracted rent roll of the portfolio, including development commitments, stood at £59.4 million, an increase of 3.1% in the period generated by acquisitions, increases from asset management projects and growth from rent reviews. The Weighted Average Unexpired Lease Term ("WAULT") of the portfolio as at 30 June 2014 was 16 years (31 December 2013: 16 years).

The 2013 acquisitions and those in 2014 have changed the overall profile of the portfolio with a larger proportion now having rent reviews formally linked to RPI or with fixed increases, 22% by rental value as at 30 June 2014 compared to 15% as at 30 June 2013. We have also continued to increase the average lot size of assets within the portfolio.

Capital value	30 June 2014 Number	30 June 2014 £m	30 June 2014 %	31 December 2013 %
Above £9 million	14	202.8	20.3%	16.6%
£3 million - £9 million	108	503.8	50.4%	53.0%
£1 million - £3 million	136	290.3	29.0%	30.1%
£0 - £1 million	4	3.5	0.3%	0.3%
	262	1,000.4	100.0%	100.0%

On 28 July 2014 we announced PHPs commitment to fund and acquire a new medical centre in North Wales, as detailed in the table below, for a cost of £3.5 million.

Asset	Acquisition basis	Size sqm	WAULT/ Lease term	Tenants
Hope Primary Care Resource Centre, Flintshire	Development asset	1,793	20 years	GP practices and Local Health Board

We have a strong pipeline totalling £85 million of further investment and development acquisitions either in solicitors' hands or at advanced stages of negotiation. We are working on additional opportunities that will add to this and are optimistic that the second half of 2014 will see further assets purchased and or committed.

Asset Management

As set out in the 2013 Annual Report, a key strategic focus of the Group is the active management of its existing portfolio. This takes a number of forms that seek to realise enhanced capital value through extending buildings and leases and so increasing rental income and capital value.

Projects range from small refurbishment and reconfigurations of existing accommodation, for example, bringing complementary pharmacy and dentistry facilities to sites, up to large scale extensions to enable general practice amalgamations and the provision of additional health and community related services.

To date three projects have been completed in 2014, investing £1.0 million into the assets and generating additional rent of £0.1 million for an average additional term of 15 years.

We are currently on site with six projects of varying scale that are set out in the table below. These commit the Group to a total capital spend of £5.6 million and generate an additional £0.5 million or 9% cash yield on investment. Leases will be completed or extended that add an average of 18 years to their current term.

Project	Project	Additional lease term
Aylesbury	A 743 square metre extension	16 years
Corbridge	Conversion of under croft space to medical space	18 years
Cowbridge	New pharmacy unit	17 years
Eastleigh	Centre refurbishment	20 years
Hornchurch	New pharmacy and building extension	13 years
Willesden	Refurbishment of whole building	21 years

There are a number of further schemes that are being pursued where discussions continue with tenants and NHS bodies. These are at various stages of formation and approval and will provide a steady flow of additional revenue and valuation growth for the Group.

Portfolio performance

The IPD Healthcare Property Index for 2013 (the “Index”) was published on 28 February 2014. PHP, its listed peers and other healthcare real estate investors contribute data with regard to assets totalling over £2.3 billion in value.

For the calendar year to 31 December 2013, PHP outperformed the Index once again. Total return from the Group’s property portfolio was 8.2% compared to the Index return of 7.2%. The table below sets out the full range of comparable data which illustrates the continued strong performance of the Group’s real estate portfolio.

	One year	Three years	Five years
Primary Health Properties	8.2%	8.3%	14.0%
IPD Healthcare Property Index[1]	7.2%	7.9%	8.7%

[1] Source: Investment Property Databank

Capital resources and debt issuance
The first six months of 2014 have seen further work on debt management and issuance, starting with the reinstatement of £25 million of the Club facility that had been repaid in November 2013.

As part of the acquisition of the companies that held the PPP portfolio, the Group assumed £178 million of loan obligations funded by Aviva. The transaction pricing included a provision of £13.7 million that estimated the cost of re-setting those loans to current market rates. This provision was utilised in full in February reducing the average interest rate on these loans to 5.04% from an inherited average of 5.9%, but with the reduction being effective from 1 January 2014 resulting in an annualised saving of £1.4 million. The Group took the opportunity to make a capital repayment of £15 million at this time also.

In April, the second stage of the refinance of the PPP loans was completed. A further £50 million of Aviva loan was repaid following the completion of a new £50 million revolving debt facility with HSBC Bank plc. This facility was secured at an initial margin of 200 basis points over LIBOR, further reducing the cost to the Group of this debt. The facility is for a five year term and includes an element that can be utilised to match the stage payments that the Group makes on its development of new properties.

We have now concluded the final element of this refinance with Aviva, creating two debt tranches utilising the existing security pool and reducing the overall cost by a further 13 basis points. A £50 million, 10 year interest only tranche and a £63 million 15 year loan that will start to amortise slowly from year six onwards have been established.

Having entered the institutional bond market with a secured issue in November 2013, the Group successfully issued a £82.5 million unsecured convertible bond on 20 May 2014. The bond matures in May 2019 and carries a coupon of 4.25% per annum, payable in two instalments in May and November of each year. The bond has an initial conversion price of 390 pence per share which represented a premium of 16% to the volume weighted share price on the day of pricing. The bond was successfully listed on the Channel Islands Stock Exchange on 14 August 2014.

Importantly, the terms of the bond provide that no adjustment will be made to the conversion price with regard to dividend payments of up to 19.5 pence per share in any calendar year. This was a key condition that management felt balanced the commercial terms of the bond with the interests of the equity shareholder. Dividends may be paid above this value which may result in an adjustment to the conversion price but with an allowable dividend at 19.5 pence, any adjustment is expected to be relatively small.

On 30 June 2014, the final instalment of £10 million from the proceeds of the Secured Bond that the Group issued in November 2013 was received as planned. This followed the successful delivery of four assets that were under construction when the bond was issued.

As already reported to shareholders, on 28 January 2014 as part of the PPP transaction, a further 282,768 shares were issued to the vendors following the finalisation of the completion accounts of PPP, along with 235,475 shares issued following the completion of a Deed of Variation with regard to the St Catherine's property.

A further 81,554 shares were issued in the period to satisfy the scrip alternative to the cash dividend paid in April 2014.

Debt facilities

As at 30 June 2014, total debt facilities (including all issued bonds) available to the Group were £756.1 million (31 December 2013: £677.6 million). These debt sources have an average remaining term of 7.1 years. Debt drawn at the balance sheet date, net of cash balances, totalled £625.4 million, with Group LTV standing at 63.6% (31 December 2013: 61.6%). Most notably, the composition of the Group's debt structure has been significantly changed with unsecured debt now representing 25% of debt drawn as at 30 June 2014 (31 December 2013: 12 %).

Provider	Maturity	Facility Maximum £'m	Drawn at 30 June 2014 £m	Headroom 30 June 2014 £m
Secured				
Royal Bank of Scotland (overdraft)	Mar 2015	5.0	-	5.0
Royal Bank of Scotland/ Santander	Mar 2016	165.0	115.0	50.0
Barclays	Mar 2017	70.0	29.1	40.9
Aviva	Nov 2018	75.0	75.0	-
HSBC	April 2019	50.0	21.5	28.5
Aviva	Dec 2022	25.0	25.0	-
Aviva	Dec 2030*	112.8	112.8	-
Aviva	Jan 2032	25.8	25.8	-
Floating Rate Bond	Dec 2025	70.0	70.0	
		598.6	474.2	124.4
Unsecured				
Retail Bond	July 2019	75.0	75.0	-
Convertible Bond	May 2019	82.5	82.5	-
		157.5	157.5	-
Total		**756.1**	**631.7**	**124.4**
Average maturity*	7.1 years			
Cash on deposit			(6.3)	6.3
Group Net Debt			**625.4**	
Costs to complete				
Forward funded developments				(14.0)
Asset management projects				(3.1)
Net headroom				**113.6**

* This is a weighted average maturity

The underlying economy has improved and positive trends in key data have continued to emerge. Interest rate markets have reacted to news flow with a degree of volatility being seen in the first six months of the year. Overall there been a flattening of the interest rate curve, with short term rates (three years) increasing, medium term rates (five years) remaining unchanged and longer term rates (ten years) seeing a 25 basis point fall. The MtM valuation of the Group's interest rate hedging portfolio net liability has increased marginally to stand at £28.9 million as at 30 June 2014 (31 December 2013: £28.6 million).

	Facilities		Drawn	
	£'m	%	£'m	%
Fixed rate debt	396.1	52.4	396.1	62.7
Debt hedged by interest rate swaps/caps	241.0	31.9	235.6	37.3
Floating rate debt	119.0	15.7	-	-
	756.1	100.0	631.7	100.0

Since the half year, further activity has seen extensions and amendments agreed with a number of our major lenders, lengthening the duration of existing facilities and more importantly reducing lending margins by an average of 55 basis points. This will be effective for the second half of 2014, reducing the Group's weighted average cost of debt and enhancing earnings.

On 20 August 2014, we signed agreements to extend the loan facility with Barclays Bank PLC to an overall £100 million. This will consist of a £40 million term loan and a £60 million revolving debt facility and will be for a new five year term from this date.

On 20 August 2014 credit approved terms were agreed with Royal Bank of Scotland and Santander to extend the £165 million facility that they jointly provide to a new three year term, an additional 18 months on the original term. This extension will see the lending margin reduced by 65 basis points and be completed in the coming weeks.

Dividends
The Company paid an interim dividend of 9.75 pence per share in April 2014, an increase of 2.6% over that of the same period in 2013 (30 June 2013: 9.5 pence) which, as we detail above is covered 76% by the increased earnings of the period. The Board has approved the payment of a further interim dividend for 2014 of 9.75 pence per share, payable on 7 November 2014 to shareholders on the register on 19 September 2014. No part of this dividend will be a PID under the UKI REIT rules. There will continue to be a scrip alternative.

Net asset value
EPRA net asset value per share has increased by 2.7% in the period to reach 308 pence per share as at as 30 June 2014 (31 December 2013: 300 pence). The growth has come from positive movement on revaluation of the real estate portfolio, reflecting the increased attractiveness of primary care properties to the wider investment community. This growth was partially offset by the payment of an uncovered dividend, but the amount of cover has been increased substantially in the period, to 76% from 52% for the first six months of 2013. The activity in the property and debt portfolios that are detailed above will lead to further increases in cover through the remainder of 2014.

Social responsibility
On 6 June 2013, the Company was admitted as an initial member of the Social Stock Exchange ("SSE"). The SSE is a unique platform, which gives investors access to publicly listed businesses with strong social and environmental purpose and guarantees full and transparent disclosure on the impact of those businesses. During 2014, we have continued to identify ways in which the Company can further increase its social and environmental impact. We will submit our next Impact Report to the SSE in September 2014.

Going concern
Set out above and in the financial statements are details of the Group's business activities, financial 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. 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. This is discussed further in note 1 to the financial statements.

Outlook

The underlying demands put upon primary care continue to increase but there remains an all-party political commitment to the NHS. This includes increasing patient choice, transferring services into local settings and looking to integrate primary care with other care services, which is designed to generate cost savings that will help to safeguard the future of the NHS as the world's leading "free at the point of delivery" health service.

Primary care is now becoming more integrated with other aspects of care historically delivered by NHS Trusts and Local Authorities. We are working hard in conjunction with our strategic development partners, the NHS and NHS Property Services to progress the development of new healthcare facilities to meet the changing needs of the Health Service. PHP remains committed to investing in large integrated facilities which will best meet these needs and offer investors long term income streams from excellent covenants and is well placed to facilitate and fund the necessary investment as opportunities crystallise.

We have successfully continued to grow the Group's portfolio in the first six months of 2014 and combine this with raising further funds for investment. The incremental cost of managing the Group together with the average cost of debt have both been reduced, enabling PHP to maintain a satisfactory yield gap as values have increased in investment markets. The attractiveness of the Group's property assets has been highlighted once again as capital growth has been achieved and we continue to generate additional value from the active management of our properties.

We are confident that the increasing demand for health care services and the drive to deliver more of this care from primary care facilities will maintain the need for new, purpose built premises. The work of the first six months of 2014 has further strengthened the Company's balance sheet and we will continue to implement our acquisition and asset management strategies to generate further earnings and value enhancing opportunities increasing not only dividend cover, but total return to our shareholders. We look forward to reporting further progress through the second half of 2014 and beyond.

Finally, the Board would like to thank Graeme Elliot for his substantial contribution to the Company as Chairman since its flotation in 1996. Our new director, Steven Owen, is already providing very valuable input.

Alun Jones **Chairman**	**Harry Hyman** **Managing Director**

21 August 2014

Principal Risks

The 2013 Annual Report includes details of the Group's principal financial risks which the Audit Committee sees as unchanged for the remaining six months of 2014. These may be summarised as follows:

Funding and available finance

- 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.
- After interest rate derivatives, 18% of the Group's debt facilities would be exposed to movements in underlying interest rates if fully drawn.
- The mark to market valuation of the Group's interest rate derivative portfolio is based on underlying market interest rates. Changes to market rates give rise to volatility in mark to market values.

Property market and sector risks

- The valuation of property and property-related assets is inherently subjective and is subject to uncertainty. There are no assurances that the valuations of the properties reflect the actual sale prices that may be achievable.
- 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 cost reimbursement under the National Health Service (General Medical Services – Premises Costs) Direction 2013. Cuts in the funding available for the renting of medical centres may reduce funds available to meet the costs of accommodation provided by the Group or impact on the underlying covenant strength in the future.

Taxation risks

- A breach of the REIT requirements may lead to the Group losing its REIT status and the taxation benefits that this affords.

Operational risks

- The Group is managed by the Board of Directors, but has no other employees. The Board appoints specialist third party advisers to assist it with the day to day management of the Group. The termination of the advisory contract with Nexus could adversely affect the Board's ability to effectively manage ongoing Group operations.

Further details of how the Audit Committee monitors risks and how these are mitigated can be found in the Group's 2013 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 2014 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 16. 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 Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The 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 company 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 Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP - Chartered Accountants and Statutory Auditor

London

21 August 2014

Condensed Group Statement of Comprehensive Income
for the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Rental income		29,428	19,606	41,895
Finance lease income		-	87	87
Rental and related income		29,428	19,693	41,982
Direct property expenses		(298)	(153)	(398)
Administrative expenses	8	(3,683)	(2,890)	(6,080)
Non-recurring expenses: Termination fee		-	-	(2,485)
Non-recurring expenses: Project costs		-	(200)	(217)
Operating profit before result on property portfolio		25,447	16,450	32,802
Profit on sale of finance lease		-	641	638
Net valuation gain on property portfolio	2	16,055	240	2,313
Profit before financing costs		41,502	17,331	35,753
Finance income	4	410	172	434
Finance costs	5	(17,645)	(12,545)	(26,450)
Non-recurring expenses: Convertible bond costs		(2,435)	-	-
Early loan repayment fee		(903)	(825)	(950)
Fair value gain on interest rate swaps and amortisation of cash flow hedging reserve	5	1,115	9,446	11,432
Profit before tax		22,044	13,579	20,219
Taxation charge	6	-	1	1
Profit for the period[(1)]		22,044	13,580	20,220
Items that may be reclassified subsequently to profit and loss:				
Fair value movement on interest rate swaps treated as cash flow hedges		(1,444)	8,707	12,840
Other comprehensive (loss)/income		(1,444)	8,707	12,840
Total comprehensive income for the period net of tax		20,600	22,287	33,060
Earnings per share – basic	3	19.9p	17.4p	22.7p
– diluted	3	19.4p	17.4p	22.7p
EPRA earnings per share – basic	3	6.6p	4.2p	6.6p
Adjusted earnings per share[(2)] – basic	3	7.4p	4.8p	10.6p

The above relates wholly to continuing operations.

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

(2) Adjusted for large one-off items and movements in fair value of properties and derivatives and provision for early loan repayment fee. See note 3.

Condensed Group Balance Sheet
at 30 June 2014

	Notes	30 June 2014 £000 (unaudited)	30 June 2013 £000 (unaudited)	31 December 2013 £000 (audited)
Non-current assets				
Investment properties	2	983,335	646,728	941,548
Derivative interest rate swaps		374	203	472
		983,709	646,931	942,020
Current assets				
Trade and other receivables		3,981	3,033	4,764
Cash and cash equivalents		6,280	14,624	9,288
		10,261	17,657	14,052
Total assets		993,970	664,588	956,072
Current liabilities				
Derivative interest rate swaps		(7,095)	(7,482)	(7,566)
Corporation tax payable		(23)	-	(23)
Deferred rental income		(12,448)	(8,166)	(11,934)
Trade and other payables		(14,225)	(10,275)	(16,269)
Borrowings: Term loans and overdraft	9	(3,513)	(617)	(3,843)
		(37,304)	(26,540)	(39,635)
Non-current liabilities				
Borrowings: Term loans and overdraft	9	(396,611)	(276,704)	(460,185)
Borrowings: Bonds	10	(224,914)	(73,849)	(132,408)
Derivative interest rate swaps		(22,161)	(27,315)	(21,459)
		(643,686)	(377,868)	(614,052)
Total liabilities		(680,990)	(404,408)	(653,687)
Net assets		312,980	260,180	302,385
Equity				
Share capital	14	55,537	48,922	55,237
Share premium account		55,838	58,786	55,611
Capital reserve		1,618	1,618	1,618
Special reserve		126,267	107,191	135,483
Cash flow hedging reserve		(17,097)	(18,470)	(14,337)
Retained earnings		90,817	62,133	68,773
Total equity(1)		312,980	260,180	302,385
Net asset value per share				
Basic and diluted	11	282p	266p	274p
EPRA(2) net asset value per share	11	308p	301p	300p

(1) Wholly attributable to equity shareholders of Primary Health Properties PLC.
(2) See definition of 'EPRA' as contained within the Interim Review.

Condensed Group Cash Flow Statement
for the six months ended 30 June 2014

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Operating activities			
Profit before tax	22,044	13,579	20,219
Less: Finance income	(410)	(172)	(434)
Plus: Finance costs	17,645	12,545	26,450
Plus: Provision for early loan repayment fee	903	825	950
Plus: Amortisation of cash flow hedging reserve	-		571
Less: Fair value gain on derivatives	(1,115)	(9,446)	(12,003)
Operating profit before financing	39,067	17,331	35,753
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Net result on property portfolio	(16,055)	(240)	(2,313)
Profit on termination of finance lease	-	(641)	(638)
Fixed rent uplift adjustment	(545)	(692)	(905)
Convertible bond issue costs	2,435	-	-
Decrease/(increase) in trade and other receivables	765	(693)	4,402
(Decrease)/increase in trade and other payables	(1,380)	(34)	383
Cash generated from operations	24,287	15,031	36,682
Taxation paid	-	-	(89)
Net cash flow from operating activities	24,287	15,031	36,593
Investing activities			
Payments for investment properties	(25,155)	(22,720)	(44,560)
Proceeds from disposal of asset held on a finance lease	-	3,768	3,768
Payments to acquire PHCC (net of cash acquired)	-	-	(9,738)
Payments to acquire PPP (cash acquired)	-	-	1,954
Payments to acquire Gracemount Medical Centre Limited (net of cash acquired)	-	-	(6,155)
Interest received on development funding	412	82	188
Bank interest received	15	38	48
Net cash flow used in investing activities	(24,728)	(18,832)	(54,495)
Financing activities			
Proceeds from issue of shares (net of expenses)	-	65,814	65,772
Cost of share issue PPP	-	-	(540)
Term bank loan drawdowns	126,112	80,063	120,718
Term bank loan repayments	(175,976)	(79,614)	(195,740)
Proceeds of bond issues (net of issue costs)	89,965	-	58,680
Temporary offset of proceeds of share issue against revolving bank loan	-	(50,250)	-
Swap interest payable	(3,835)	(3,875)	(7,661)
Non utilisation fees	(293)	(417)	(1,023)
Loan arrangement fees paid	(1,315)	(1,273)	(1,274)
Interest paid	(12,343)	(7,834)	(18,328)
Loan breakage costs	(14,328)	(2,279)	(2,380)
Equity dividends paid (net of scrip dividend)	(10,554)	(7,006)	(16,130)
Net cash flow (used in)/from financing activities	(2,567)	(6,671)	2,094
Movement in cash and cash equivalents for the period	(3,008)	(10,472)	(15,808)
Cash and cash equivalents at start of period	9,288	25,096	25,096
Cash and cash equivalents at end of period	6,280	14,624	9,288

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 2014 (unaudited)							
1 January 2014	55,237	55,611	1,618	135,483	(14,337)	68,773	302,385
Profit for the period	-	-	-	-	-	22,044	22,044
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps	-	-	-	-	(1,444)	-	(1,444)
Total comprehensive income	-	-	-	-	(1,444)	22,044	20,600
Reclassification of swap interest accrual from cash flow hedge reserve					(1,316)		(1,316)
Share issue as part of consideration for PPP	259	-	-	1,605	-	-	1,864
Dividends paid:							
Second interim dividend for period ended 31 December 2013 (9.75p)	-	-	-	(10,542)	-	-	(10,542)
Scrip dividends in lieu of interim cash dividends	41	238	-	(279)	-	-	-
Share issue expenses	-	(11)	-	-	-	-	(11)
30 June 2014	**55,537**	**55,838**	**1,618**	**126,267**	**(17,097)**	**90,817**	**312,980**
Six months ended 30 June 2013 (unaudited)							
1 January 2013	38,017	58,606	1,618	59,473	(27,177)	48,553	179,090
Profit for the period	-	-	-	-	-	13,580	13,580
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps	-	-	-	-	8,257	-	8,257
Amortisation of cash flow hedging reserve					450		450
Total comprehensive income	-	-	-	-	8,707	13,580	22,287
Proceeds from capital raising	10,873	-	-	57,627	-	-	68,500
Expenses of capital raising	-	-	-	(2,686)	-	-	(2,686)
Dividends paid:							
Second interim dividend for period ended 31 December 2012 (9.50p)	-	-	-	(7,006)	-	-	(7,006)
Scrip dividends in lieu of interim cash dividends	32	185	-	(217)	-	-	-
Share issue expenses	-	(5)	-	-	-	-	(5)
30 June 2013	**48,922**	**58,786**	**1,618**	**107,191**	**(18,470)**	**62,133**	**260,180**

Condensed Group Statement of Changes in Equity (continued)

	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 2013 (audited)							
1 January 2013	38,017	58,606	1,618	59,473	(27,177)	48,553	179,090
Profit for the year	-	-	-	-	-	20,220	20,220
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps	-	-	-	-	12,269	-	12,269
Amortisation of cash flow hedging reserve	-	-	-	-	571	-	571
Total comprehensive income	-	-	-	-	12,840	20,220	33,060
Proceeds from capital raising	10,873	-	-	57,627	-	-	68,500
Expenses of capital raising	-	-	-	(2,728)	-	-	(2,728)
Share issue as part of consideration for PPP	6,289	-	-	35,344	-	-	41,633
Share issue expenses	-	-	-	(1,040)	-	-	(1,040)
Reserves transfer[2]	-	(3,325)	-	3,325	-	-	-
Dividends paid:							
Second interim dividend for the year ended 31 December 2012 (9.50p)	-	-	-	(7,006)	-	-	(7,006)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	32	185	-	(217)	-	-	-
First interim dividend for the year ended 31 December 2013 (9.50p)	-	-	-	(9,124)	-	-	(9,124)
Scrip dividends in lieu of interim cash dividends (net of expenses)	26	145	-	(171)	-	-	-
31 December 2013	**55,237**	**55,611**	**1,618**	**135,483**	**(14,337)**	**68,773**	**302,385**

(1) The special reserve is a distributable reserve.
(2) £3.3 million has been transferred from Share Premium to the Special Reserve with regard to the Apollo transaction under the merger relief provision of the Companies Act 2006.

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 2013 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 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 auditor and their report to the Company is included on page 11.

These condensed interim financial statements of the Group for the six months ended 30 June 2014 were approved and authorised for issue by the Board on 21 August 2014.

Basis of preparation/Statement of compliance

The half year report for the six months ended 30 June 2014 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 2013 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 2013.

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 the acquisition and development of property in the United Kingdom leased principally to GPs, NHS organisations and other associated health care users.

Going concern

The Group's property portfolio is let to tenants with strong covenants and the acquisition pipeline is positive. In the period the Group has completed the issue of an £82.5 million unsecured Convertible Bond and completed the refinance of a proportion of the debt it assumed with the acquisition of Prime Public Partnerships (Holdings) Limited ("PPP") in December 2013.The refinance of the PPP loans saw the completion of a new £50 million revolving debt facility with HSBC Bank plc which also provides a loan tranche to match the funding profile of the Group's forward funded development commitments. The Group's average maturity of its banking facilities stands at 7.1 years. The Group's loan to value ratio is currently 63.6% and the Group's interest cover for the period under review was 1.75 times, well above the minimum Group banking covenant of 1.3 times. The Directors are therefore satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Accounting policies

On 20 May 2014, the Group issued a convertible bond that may be settled in shares, cash or a combination of both. In accordance with IAS 32, upon initial recognition the bonds have been designated at fair value through profit and loss with any gains or losses arising at subsequent re-measurement recognised in the income statement. All arrangement fees associated with the issuance of the convertible bond have been expensed as incurred.

The accounting policies adopted are consistent with those of the previous financial year except as described below.

IFRS 10, 'Consolidated financial statements'. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10 and there has been no material impact to the financial statements as a result.

Other amendments to IFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

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 2014 in accordance with IAS 40: Investment Property.

The revaluation gain for the six months ended 30 June 2014 amounted to £16.1 million. The revaluation gain for the year ended 31 December 2013 amounted to £2.3 million and the gain for the six months ended 30 June 2013 amounted to £0.2 million.

Property additions, including acquisitions, for the six months ended 30 June 2014 amounted to £25.2 million. No properties were disposed of in the six months to 30 June 2014. Commitments outstanding at 30 June 2014 amounted to £17.1 million (31 December 2013: £17.1 million).

Property additions for the 12 months ended 31 December 2013 and the six months ended 30 June 2013 amounted to £314.4 million and £22.7 million respectively. There were no property disposals in the 12 months ended 31 December 2013.

	Investment properties freehold £000 (unaudited)	Investment long leasehold £000 (unaudited)	Investment properties under construction £000 (unaudited)	Total £000 (unaudited)
As at 1 January 2014	759,871	169,998	11,679	941,548
Property additions	4,336	1,025	19,826	25,187
Impact of lease incentive adjustment	445	100	-	545
Transfer from properties in the course of development	15,218	-	(15,218)	-
	779,870	171,123	16,287	967,280
Revaluations for the period	12,393	1,945	1,717	16,055
As at 30 June 2014	**792,263**	**173,068**	**18,004**	**983,335**

3. Earnings per share

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

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Basic and diluted earnings			
Basic earnings	22,044	13,580	20,220
Dilutive effect of convertible bond	403	-	-
Diluted earnings	***22,447***	13,580	20,220
EPRA basic earnings			
Basic earnings	22,044	13,580	20,220
Adjustments to remove:			
Net result on property	(16,055)	(240)	(2,313)
Fair value gain on derivatives [1]	(1,115)	(9,446)	(11,432)
Profit on termination of finance lease	-	(641)	(637)
Issue costs of convertible bond	2,435	-	-
EPRA basic earnings	***7,309***	3,253	5,838
Adjusted basic earnings			
EPRA basic earnings			
Adjustments to remove:			
Early loan repayment fee charges	903	825	950
Non-recurring expenses:			
Costs associated with corporate purchase [2]	-	200	217
JOHCM Termination Fee	-	-	2,485
UK corporation tax credit	-	(1)	(1)
Adjusted basic earnings	***8,212***	4,277	9,489
Average number of shares [3]			
Basic	110,945,347	78,221,562	89,121,611
Dilutive effect of convertible bond	4,908,627	-	-
Diluted number of shares	***115,853,974***	78,221,562	89,121,611
Earnings per share			
Basic			
Basic	19.9p	17.4p	22.7p
EPRA	6.6p	4.2p	6.6p
Adjusted	7.4p	4.8p	10.6p
Diluted			
Basic	19.4p	17.4p	22.7p

(1) In view of the continuing volatility in the mark-to-market adjustment of derivatives in respect of the period end valuation of derivatives that flows through the Group Statement of Comprehensive Income, the Directors believe that it is appropriate to remove the gain or loss in the calculation of adjusted earnings. This is in line with EPRA guidance.

(2) Costs related to the PPP acquisition that were expensed as incurred in accordance with Accounting Standards.

(3) Weighted average number of Ordinary Shares in issue during the year.

On 20 May 2014, the Group issued £82.5 million of unsecured convertible bonds. The bonds carry a coupon of 4.25% per annum and were issued with an initial conversion price of 390 pence per share. In accordance with IAS 33 (Earnings per Share) the Company is required to assess and disclose the dilutive impact of the contingently issuable shares within the convertible bond. The impact is not recognised where it is anti-dilutive. The convertible bonds are dilutive for basic earnings per share but not EPRA or Adjusted earnings per share.

The dilutive impact to basic EPS of convertible bonds is represented by the accrued bond coupon which has been included in the results of the period to 30 June 2014. The number of dilutive shares is calculated as if the contingently issuable shares within the convertible bond had been in issue for the period to 30 June 2014.

4. Finance income

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Interest income on financial assets not at fair value through profit or loss			
Bank interest	13	32	41
Development loan interest	396	132	388
Other interest	1	8	5
	410	172	434

5. Finance costs

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Interest expense on financial liabilities			
(i) Interest paid			
Bank loan interest payable	9,617	5,737	12,021
Swap interest payable	3,764	3,788	7,699
Bond interest payable	3,230	1,990	4,314
Bank facility non utilisation fees	220	395	976
Bank charges and loan commitment fees	814	635	1,440
	17,645	12,545	26,450
(ii) Early repayment fees			
Fee on breakage of Apollo debt	-	825	714
Fee on breakage of PHCC debt	-	-	236
Fee on breakage of PPP debt	903	-	-
	903	825	950
(iii) Fair value movements through profit and loss			
Net fair value loss on interest rate swaps	(1,115)	(9,896)	(12,003)
Amortisation of cash flow hedging reserve	-	450	571
	(1,115)	(9,446)	(11,432)

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 loss on derivatives which meet the hedge effectiveness criteria under IAS39 of £1.4 million (30 June 2013: gain of £8.7 million) is accounted for directly in equity, together with amortisation of the hedging reserve of nil (30 June 2013: £0.5 million).

Net finance costs excluding fair value movements on derivatives and early repayment fees can be summarised as follows:

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Finance income (note 4)	(410)	(172)	(434)
Finance costs	17,645	12,545	26,450
Net finance costs	17,235	12,373	26,016

6. Taxation

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Taxation in the Condensed Group Statement of Comprehensive Income:			
Current tax			
UK corporation tax credit on non-property income	-	(1)	(1)
Taxation credit in the Condensed Group Statement of Comprehensive Income	-	(1)	(1)

The tax credit relates to the release of tax provisions from prior years and variances in the amount of corporation tax paid in acquired companies against the agreed provision at acquisition.

7. Dividends paid

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Second interim dividend for the period ended 31 December 2013 (9.75p) paid 25 April 2014	10,542	-	-
Scrip dividend in lieu of second interim cash dividend	279	-	-
First interim dividend for the period ended 31 December 2013: (9.50p) paid 1 November 2013	-	-	9,124
Scrip dividend in lieu of first interim cash dividend	-	-	171
Second interim dividend for the period ended 31 December 2012 (9.50p) paid 22 April 2013	-	7,006	7,006
Scrip dividend in lieu of second interim cash dividend	-	217	217
	10,821	7,223	16,518
Per share	9.75p	9.50p	19.00p

The Board proposes to pay an interim cash dividend of 9.75p per Ordinary Share for the six months to 30 June 2014, payable on 7 November 2014. This dividend will not be a Property Income Distribution ("PID").

8. Administrative expenses

As the portfolio has grown, administrative expenses as a proportion of rental and related income fell to 12.5% (30 June 2013: 14.7%). This equates to an annualised rate of 0.7% of gross real estate assets (30 June 2013: 0.9%).

Of the total £3.7million of administrative expenses (30 June 2013: £2.9 million), fees of £2.8 million were payable to the Advisors (30 June 2013: £2.3 million), as shown in note 12. As reported in the Annual Report, the Joint Advisory appointment of JO Hambro Capital Management Limited ("JOHCM") was terminated with effect from 30 April 2014. A contractual termination fee of £2.5 million was accounted for in the year ended 31 December 2013 and settled on 13 May 2014.

No performance incentive fee is payable to the Advisors for the period ended 30 June 2014 (six months to 30 June 2013 and year ended 31 December 2013: £nil). Under the terms of the advisory agreement there is a deficit of some £41.2 million to be made up in the net asset value before any further performance incentive fee becomes payable.

9. Bank and other borrowings reconciliation

	Facility		Amounts drawn		Undrawn	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	£000	£000	£000	£000	£000	£000
Current						
Overdraft facility (1)	5,000	5,000	-	-	5,000	5,000
Fixed Rate term loan (3)	1,891	1,857	1,891	1,857	-	-
Fixed Rate term Loan (8)	1,622	1,986*	1,622	1,986*	-	-
	8,513	**8,843**	**3,513**	**3,843**	**5,000**	**5,000**
Non-Current						
Term to March 2016 (2)	165,000	140,000	115,000	100,500	50,000	39,500
Fixed Rate term loan (3)	23,893	25,511	23,893	25,511	-	-
Fixed Rate term to December 2022 (4)	25,000	25,000	25,000	25,000	-	-
Fixed Rate term to November 2018 (5)	75,000	75,000	75,000	75,000	-	-
Term to March 2017 (6)	70,000	70,000	29,060	49,470	40,940	20,530
Term to April 2019 (7)	50,000	-	21,513	-	28,487	-
Fixed Rate term to December 2032 (8)	111,163	188,271*	111,163	188,271*	-	-
	520,056	**523,782**	**400,629**	**463,752**	**119,427**	**60,030**
Total	**528,569**	**532,625**	**404,142**	**467,595**	**124,427**	**65,030**

Providers:
(1) The Royal Bank of Scotland PLC
(2) The Royal Bank of Scotland PLC and Abbey National Treasury Services plc (branded Santander from January 2010)
(3) Aviva facility repayable in tranches to 31 January 2032
(4) Aviva GPFC facility
(5) Aviva facility
(6) Barclays Bank plc
(7) HSBC Bank plc
(8) Aviva facility (acquired with PPP)

* The nominal value of this debt equalled £177.9 million but included an adjustment of £13.7 million to reflect the fair value of the debt on acquisition of PPP. This was repaid and re-set to nominal value in February 2014.

As part of the acquisition of the companies that held the PPP portfolio, the Group assumed £178 million of loan obligations funded by Aviva. The transaction pricing included a provision of £13.7 million that estimated the cost of re-setting those loans to current market rates. This provision was utilised in full in February reducing the average interest rate on these loans to 5.04% from an inherited average of 5.9%, but with the reduction being effective from 1 January 2014. The Group took the opportunity to make a capital repayment of £15 million at this time also.

On 15 April 2014, a further £50 million of the Aviva loan was repaid following the completion of a new £50 million revolving debt facility with HSBC Bank plc. This facility was secured at an initial margin of 200 basis points over LIBOR for a five year term and includes an element that can be utilised to match the stage payments that the Group makes on its development of new properties.

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

	30 June 2014 £000 (unaudited)	31 December 2013 £000 (audited)
Term loans drawn: due within one year	3,513	3,843
Term loans drawn: due in greater than one year	400,629	463,752
Total term loans drawn	404,142	467,595
Less: Unamortised borrowing costs	(4,018)	(3,567)
Total term loans per the Condensed Group Balance Sheet	400,124	464,028

10. Borrowings: Bonds

	30 June 2014 £'000 (unaudited)	31 December 2013 £000 (audited)
Secured		
Secured Bond November 2015	70,000	60,000
Unsecured		
Retail Bond July 2019	75,000	75,000
Convertible Bond May 2019	82,500	-
Less: unamortised Issue costs	(2,586)	(2,592)
	224,914	132,408

On 20 May 2014, PHP successfully issued £82.5 million of senior, unsecured Convertible Bonds due 2019. The Bonds have a fixed coupon of 4.25% and an initial conversion price of 390 pence per share, representing a premium of 16% above the volume weighted average price of the Company's shares from launch to pricing.

On 18 December 2013, PHP listed floating rate guaranteed secured bonds issued on 4 November 2013 (the "Bonds") on the London Stock Exchange. The Bonds have a nominal value of £70 million and mature on or about 30 November 2025. An amount of £60 million was paid up on issue with the remaining £10 million being received on 30 June 2014 following the completion of four development assets acting as security. The Bonds incur interest at an annualised rate of 220 basis points above six month LIBOR, payable semi-annually in arrears.

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

11. Net asset value calculations

Net asset values have been calculated as follows:

	30 June 2014 £000 (unaudited)	30 June 2013 £000 (unaudited)	31 December 2013 £000 (audited)
Net assets			
Basic net assets	312,980	260,180	302,385
Derivative interest rate swaps liability (net)	28,882	34,594	28,553
EPRA net asset value	341,862	294,774	330,938

	Number of shares	Number of shares	Number of shares
Ordinary Shares:			
Issued share capital	111,074,018	97,844,276	110,474,230

Net asset value per share			
Basic net asset value per share	282p	266p	274p
EPRA net asset value per share	308p	301p	300p

As detailed in note 3, the Company is required to assess the dilutive impact of the unsecured convertible bond on its net asset value per share, but only report any impact if it is dilutive. With an initial conversion price of 390 pence, the unsecured convertible bond issued by the Group on 20 May 2014 is anti-dilutive to all measures of net asset value per share.

12. Related party transactions

The fees calculated and payable for the period to the Advisors were as follows:

	Six months ended 30 June 2014 £000 (unaudited)	Six months ended 30 June 2013 £000 (unaudited)	Year ended 31 December 2013 £000 (audited)
Nexus TradeCo Limited	2,112	1,439	3,114
J O Hambro Capital Management Limited	648	842	1,733
	2,760	**2,281**	**4,847**

Following the announcement on 26 September 2013 by the Board of PHP to terminate the Joint Advisory Agreement, a contractual termination fee of £2.5m became payable to JO Hambro Capital Management upon termination of their services on 30 April 2014. This sum was provided for in the Group Statement of Comprehensive Income for the year ended 31 December 2013 and settled on 13 May 2014.

13. Financial Instruments' fair value disclosure

The Group held the following financial instruments at fair value at 30 June 2014. 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.

Fair value measurements at 30 June 2014 are as follows:

Recurring fair value measurements	Level 1[1] £'000	Level 2[2] £'000	Level 3[3] £'000	Total £'000
Financial assets				
Derivative interest rate swaps	-	374	-	374
Financial liabilities				
Derivative interest rate swaps	-	(29,256)	-	(29,256)
Convertible bond	-	(82,500)	-	(82,500)

Fair value measurements at 31 December 2013 are as follows:

Recurring fair value measurements	Level 1[1] £'000	Level 2[2] £'000	Level 3[3] £'000	Total £'000
Financial assets				
Derivative interest rate swaps	-	472	-	472
Financial liabilities				
Derivative interest rate swaps	-	(29,025)	-	(29,025)

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
- Observable market data

14. Called up share capital

	30 June 2014 £000 (unaudited)	30 June 2013 £000 (unaudited)	31 December 2013 £000 (audited)
Issued and fully paid at 50p each	55,537	48,922	55,237
At beginning of year	55,237	38,017	38,017
Scrip issues in lieu of second interim cash dividends	41	32	32
Scrip issues in lieu of first interim cash dividends	-	-	26
Proceeds from capital raisings	-	10,873	10,873
Shares issued as consideration for PPP acquisition	259	-	6,289
	55,537	**48,922**	**55,237**

A further 518,243 Ordinary Shares of 50 pence each were issued on 31 January 2014 in accordance with the terms and conditions of the purchase agreement for PPP. The market price of a PHP share on 31 January 2014 was 360 pence.

15. Contingent liabilities

The terms and conditions agreed on acquiring Apollo Medical Partners Limited ("Apollo") in 2012 may oblige the Group to pay a number of potential additional elements of consideration conditional upon events that may be achieved by the vendor in an agreed period after acquisition.

In particular, a number of properties acquired with Apollo include small areas of vacant lettable space to which no value has been ascribed on acquisition. PHP has agreed a three year period from completion of the Apollo acquisition within which the vendor is engaged to let this space and should they be successful, additional consideration may become payable. The Group estimates the maximum potential payment for these events at £0.58 million at the interim balance sheet date (31 December 2013: £0.58 million). The new lettings would add value to the property portfolio.

16. Post balance sheet events

On 28 July 2014, PHP announced that a wholly owned subsidiary has contracted to fund the development and acquire a new modern, purposed built medical centre to be constructed in Flintshire, North Wales. The completed property will cost £3.5 million. The centre is expected to be completed by the end of 2015.

On 19 August 2014, the Group entered into a revised and extended loan facility agreement with Barclays Bank PLC. This extends the previous facility to a total of £100 million for a new five year term and reduces the initial margin chargeable on the debt.

On 20 August 2014, the Group concluded the final stage of the refinance of the debt assumed together with the PPP portfolio acquisition. Two new facilities have been created to split the balance of £112.8 million of assumed debt. A £50 million, 10 year facility has been completed on an interest only basis and a £62.8 million 15 year facility has been established with an initial 5 year interest only period and partial amortisation thereafter.

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.

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

Alun Jones
Chairman
21 August 2014