Primary Health Properties PLC

A dedicated healthcare REIT

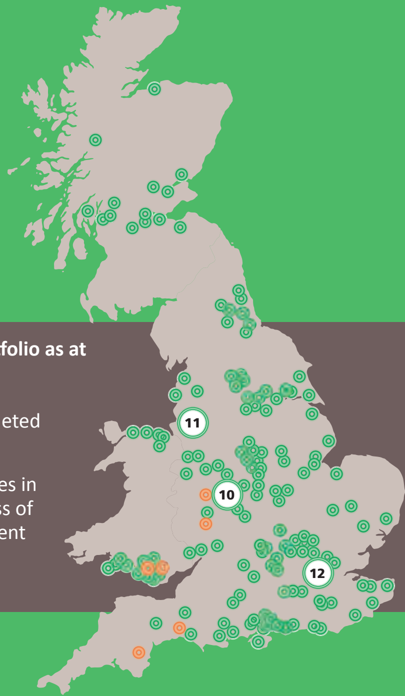
Half Year Report for the six months ended 30 June 2013

Primary Health Properties

Primary Health Properties PLC is a UK property company that has elected to be a Real Estate Investment Trust ("REIT")

Business Strategy

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



Financial Highlights for the period

- Total annualised rent roll including development properties has risen by 2.1% to £39.7 million (Dec 12: £38.9 million)
- Total portfolio including development properties has increased by 2.3% to £660.5 million (Dec 12: £645.4 million)
- Apollo debt facilities refinanced; new £70 million four year, interest only facility completed with Barclays Bank PLC
- Issued 21.7 million new shares at £3.15 per share, raising £65.8 million of new capital (net of issue costs)

Contents

for more information visit

www.phpgroup.co.uk

Llanrumney Medical Centre, Llanrumney

Acquired in June 2013, a purpose built integrated health centre let to a GP practice and the Cardiff and Vale NHS Trust, with a Lloyds Pharmacy. The property comprises a two storey medical centre extending to a total of 1,100 square metres with 52 car parking spaces.

size:	1,100 sqm
built:	2004
cost:	£2.2m
patient numbers:	10,400
tenants:	GP practice, NHS Trust and Pharmacy

	Six months ended 30 Jun 2013	Six months ended 30 Jun 2012	Year ended 31 Dec 2012
Rental and related income	£19.7m	£16.2m	£33.2m
Operating profit before net valuation gain on property portfolio	£16.5m	£13.4m	£27.6m
Profit for the period	£13.6m	£4.2m	£1.1m
Dividend's paid to shareholders	9.50p	9.25p	18.50p
Total investment property	£646.7m	£539.2m	£622.4m
Net asset value	£260.2m	£185.7m	£179.1m

Chairman's Statement

In the six months ended 30 June 2013 we have put the foundations in place to enable us to execute our planned expansion of the Group's property portfolio.

The underlying primary health care market in England has seen the implementation of the long awaited Health and Social Care Act (the "Act"). Primary Care Trusts ("PCT") were abolished on 1 April 2013 and responsibility for the delivery of primary care in England was transferred to NHS England (formerly the NHS Commissioning Board) and more localised Clinical Commissioning Groups that have a significant GP management involvement.

The reimbursement of GP property costs was not materially impacted by the Act and has been taken on by NHS England in place of PCTs. PCT assets and obligations, such as those of occupational leases with PHP, were transferred to NHS Property Services Limited ("NHSPS"), a company wholly-owned by the Secretary of State for Health who has indemnified it for the cost of funding its obligations.

The changes and transfers have slowed the rate of approvals of capital related transactions and new schemes, but this will ease as the new operating procedures are enacted and approval and authority systems take shape. There remains a nationwide drive to move more healthcare services to primary care in local communities, increasing the breadth of patient choice and the efficiency of care delivery. This will require a significant number of new, high quality primary care facilities to be provided and the Group is well funded and placed to deliver such premises and continue to achieve satisfactory returns for our shareholders.

Performance

Building on the growth achieved in 2012, rental income for the period increased by 21.5% to £19.7 million (30 June 2012: £16.2 million), as the full impact of the Apollo acquisition took effect and rent review increases were achieved. The rate of rental growth, however, continues to be under pressure, with increases on reviews completed in the first half of 2013 averaging 2.3% per annum as compared to 2.4% achieved for 2012 as a whole.

As the size of the Group's portfolio grows, costs as a proportion of gross assets reduce, reflecting the sliding scale of the cost of managing the Group. Operating profit before finance costs and the revaluation of investment properties and interest rate derivatives increased by 22.3% to £16.5 million (30 June 2012: £13.4 million). Recurring debt costs increased to £12.5 million (30 June 2012: £9.3 million) reflecting the higher average debt position as a result of the larger portfolio, however, the first half of 2013 also includes a first full period of increased margins on the debt refinanced in April 2012.

Property portfolio

We completed four property transactions in the first half of the year, committing a total of £15.9 million. The portfolio generated a revaluation surplus of £0.2 million (30 June 2012: £0.6 million) as average yields have remained stable, showing an initial yield of 5.71% at the half year (31 December 2012: 5.72%). The Group's investment property portfolio as at 30 June 2013 (independently valued by Lambert Smith Hampton) stood at £660.5 million including development commitments (31 December 2012: £645.4 million).

In the period since the balance sheet date, we have completed the acquisition of an additional 16 properties for a total consideration of £45.6 million. This brings the total portfolio value to £706.1 million and increases the contracted rent roll to £42.6 million (31 December 2012: £38.9 million).

We continue to have a good pipeline of further acquisition opportunities as we work to achieve our main priority of returning the Company to full dividend cover. Acquisitions of assets with a total value in the region of £55 million are currently in solicitors' hands and, as completed in the second part of the year, will result in an increase in earnings.

The Group will continue to seek to add value to its existing portfolio through lease renewals, rent review, the expansion and/or modification of existing premises and lease re-gearing.

Funding and capital value

To facilitate the acquisitions that we have completed to date and provide the funds to enable us to grow our property portfolio further, we have successfully undertaken transactions in both equity and debt markets.

In March 2013, we completed the refinance of the debt that we assumed with our acquisition of the Apollo portfolio in December 2012. This saw a new £70 million, four year revolving debt facility being arranged with Barclays Bank PLC. We have drawn under this facility and locked into recent historically low interest rates to generate an all in cost of funding that is less than 3.5%. Debt facilities available to the Group at 30 June 2013 totalled £501 million with available headroom of £159 million. Group loan to value was 52.8% (31 December 2012: 60.9%).

In June, we completed a successful equity capital raise, issuing 21.7 million shares at 315 pence each, realising proceeds of £65.8 million, net of issue costs. The choice of a varied offer structure allowed existing shareholders to participate in the issue and also a number of new institutional shareholders to be added to the register, widening and strengthening our shareholder base. The issue price reflected a small discount of 6.3% to the share price immediately before announcing the issue, but was 3.3% ahead of the European Public Real Estate Association net asset value per share ("EPRA NAV") as at 31 December 2012 of 305 pence.

Dividends

The Company paid an interim dividend of 9.5 pence per share in April, an increase of 2.7% over that of the same period in 2012 (30 June 2012: 9.25 pence). The Board has approved the payment of a further interim dividend for 2013 of 9.5 pence per share, payable on 1 November 2013 to shareholders on the register on 20 September 2013. A total of 19.0 pence per share will then have been paid in dividends to shareholders in 2013, the 17th successive year of dividend growth for the Company.

Adjusted earnings per share for the period stood at 4.8 pence (30 June 2012: 6.1 pence). Dividend cover stood at 52% - evidencing the first step taken in restoring full dividend cover at the earliest opportunity when comparing the outturn to previous six month dividend periods. The impact of the assets added to date in 2013 will be evident in the second half of the year as they contribute to earnings.

Six month period	Dividend cover	Key events
30 June 2013	52%	Impact of Apollo acquisition, equity raise to fund pipeline
31 December 2012	45%	First period at higher margins on debt, Retail Bond issued
30 June 2012	68%	Core debt refinance completed in April 2012

Auditors

In recognition of best governance practice, during the period a number of audit firms were invited to tender for the audit of the Group. After much deliberation following a thorough tender process, the Directors have appointed Deloitte LLP as auditor to the Group.

Ernst & Young LLP have been auditors to the Group since its incorporation and I would like to thank them for the high quality of the audit services provided throughout their tenure.

Outlook

We have taken significant steps towards achieving the Group's main business objective of returning to a fully covered dividend whilst maintaining a progressive dividend policy. We have raised further equity that, alongside existing debt facilities, has and will continue to be deployed in the acquisition and development of high quality primary care assets to generate earnings accretive returns. Our existing property portfolio presents numerous opportunities to enhance returns and contribute to increasing dividend cover.

Your Board remains confident that the changes in the management of the NHS and the trends in care delivery will result in an ongoing demand for new, purpose built assets that the Group is well placed to provide. We continue to achieve growth from rent reviews and asset management projects that contribute to generating benchmark beating returns from the property business.

I look forward to another positive period for the remainder of 2013.

Graeme Elliot
Chairman
22 August 2013

St Andrew's Health Centre, Bromley-by-Bow

PHP acquired this purpose built centre, located within a modern residential development in East London in June 2013. Construction was completed in 2010 and the primary care accommodation extends to 1,785 square metres arranged over two floors. The centre is fully let to NHS Property Services and houses a GP practice with walk in centre and a pharmacy.

size:	1,785 sqm
built:	2010
cost:	£6.81 million
patient numbers:	6,500 (excluding walk-in patients)
tenants:	NHSPS Ltd (GP practice, walk-in centre and pharmacy)

Managing Director’s Review

We have demonstrated our ability to source attractive acquisitions through both portfolio purchases and individual property transactions. The positive earnings margin that we are able to secure has boosted dividend cover, which is our number one priority.

Overview

The first six-month period of 2013 has seen the Group successfully incorporate the Apollo assets into our business, secure new debt and equity funding and start to deliver on a pipeline of high quality assets that are earnings enhancing as we build dividend cover back towards 100%. Assets added in 2013 to the date of this report total £62 million and add £3.8 million to annual contracted rent roll.

Capital resources

In June, the Company completed a successful equity raising, issuing a total of 21,746,032 shares at a price of 315 pence per share. This issue was structured by the Board to allow existing shareholders the opportunity to participate in the offering, alongside the continued drive to attract new investors to the Company. This proved to be the correct mix of opportunity as investors showed strong support for the issue and our initial target fund raise was exceeded.

A total of £68.5 million was raised, which after costs netted some £65.8 million of funds for deployment into new primary care assets. The issue price of 315 pence was at a small discount to the share price immediately preceding the offering, but ahead of 31 December 2012 EPRA NAV. From the £65.8 million, two of the Group’s revolving credit facilities were temporarily repaid in full using £50.3 million from the funds raised. These funds are available to be re-drawn as we require them for portfolio growth.

A further 64,036 shares were issued in the period to satisfy the scrip alternative to the cash dividend paid in April.

Debt finance

Management finalised the refinance of the underlying debt facilities acquired with the Apollo portfolio in December 2012. In March 2013, a new £50 million, four year, interest only revolving debt facility was completed with Barclays Bank PLC, refinancing the Apollo loans and providing capacity for new acquisitions. This was subsequently increased to an overall facility of £70 million. The initial draw down to fund the Apollo loans has been swapped for the four year term of the loan at an all in rate of 90 basis points, which together with the loan margin and other management costs delivers a surplus of over 200 basis points between the cash yield on the property assets and their associated costs.

The Beacon Centre for Health, Swansea, SA1

Located in a prominent position in the prestigious 'Waterfront' development in Swansea, the centre has become the largest facility in Swansea and one of the largest in Wales. PHP acquired the property as part of the corporate acquisition of Apollo Medical Partners Limited in December 2012 which reached practical completion in April 2013.

size:	2,902 sqm
built:	2013
cost:	£8.4m
patient numbers:	10,526 (GP only)
tenants:	Tawe Practice Port Tennant Practice ULHB University Eastside Dental Co-operative Pharmacy

The £27 million Allied Irish Banks plc ("AIB") facility was repaid upon its maturity in January 2013 but the underlying interest rate swaps remain in place and no breakage cost was crystallised. As the condition of banking markets improves, discussions have begun with AIB and continue with other funders to provide new and extended facilities as new assets are acquired and developed and existing lines reach their maturity.

Total facilities available to the Group as at 30 June 2013 were £501 million (31 December 2012: £511 million), for an average term of 5.2 years. At the same date debt drawn, net of cash balances totalled £342 million, resulting in the Group LTV being 52.8% (31 December 2012: 56.4%).

Longer-term swap rates have increased in the period, which has led to the Mark to Model ("MtM") valuation of the Group's interest rate hedging portfolio falling substantially. At 30 June 2013, the MtM liability stood at £34.8 million (31 December 2012: £52.8 million) demonstrating the volatility of what is a bookkeeping adjustment and not something that impacts the Group's cash flows.

The Group's incremental cost of debt is averaging 230 basis points over LIBOR and despite the recent small increases in market rates, the overall cost of funding will still be at historic lows as we deploy the proceeds of our capital raising activity in the months ahead, generating a satisfying rental surplus after debt and management costs.

Operations

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 Dec 2012 £m
Rental and related income	19.7	16.2	33.2
Expenses	(3.2)	(2.8)	(5.6)
Operating profit before revaluation gain and financing	16.5	13.4	27.6
Net financing costs	(12.4)	(9.0)	(20.2)
Profit on sale of asset held on a finance lease	0.6	-	-
Underlying profit before revaluation gain, fair value movement on interest rate swaps and provision for early loan repayment fee	4.7	4.4	7.4
Early loan repayment fee	(0.8)	-	(1.6)
Fair value gain/(loss) on interest rate swaps	9.5	(0.8)	(2.9)
Revaluation gain/(loss) on property portfolio	0.2	0.6	(1.8)
Profit before tax	13.6	4.2	1.1

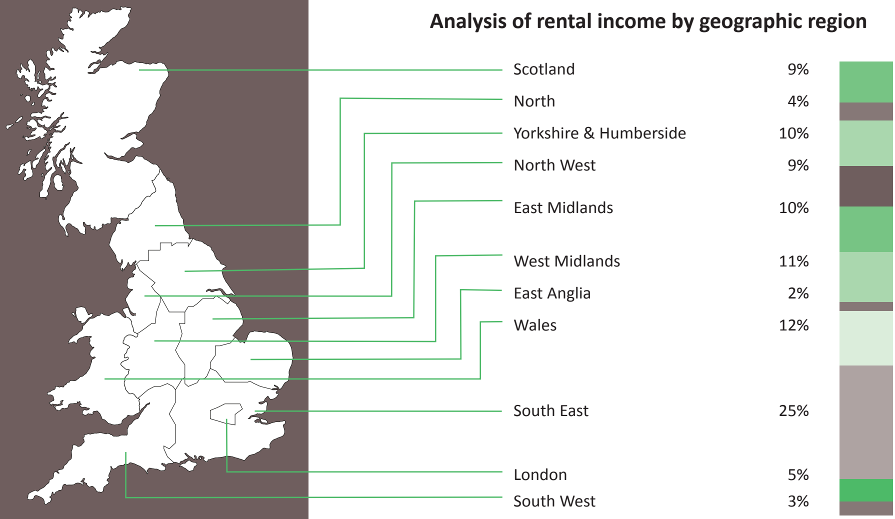
The earnings benefits of the Apollo portfolio are reflected in the first half-year performance as rental income has grown some 21.6% over the same period in 2012. The increase has also been aided by other acquisitions closed in the latter part of 2012 and the first part of 2013, completed property developments delivered in the same periods and also from growth achieved on rent reviews determined in the period.

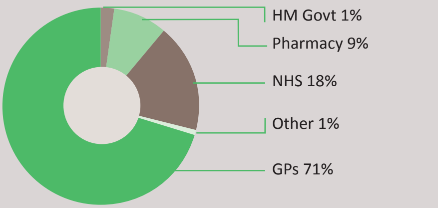
Reviews have been completed in the period on a total of £3.6 million of rent. These include a mix of open market reviews, fixed rental uplifts and rents formally linked to the Retail Prices Index. An average increase of 2.3% per annum has been achieved, down marginally from that for the year in 2012 of 2.4%.

Administrative costs continue to reduce as a proportion of gross assets, with fees paid to the Joint Advisors being at an average of 0.72% of gross assets (12 months ended 31 December 2012: 0.75%). The net rental surplus from the Group's rental activities, before financing and non-recurring items, was £16.5 million an increase of 23% over the equivalent period in 2012 (six months to 30 June 2012: £13.4 million).

A full six-month impact of the higher margin from the 2012 debt refinancing was recorded in the period. This, together with the overriding increase in debt as the Group's portfolio has increased, has led to net finance costs increasing by 35% for the period from £9.0 million in the six months to 30 June 2012 to £12.4 million in the six months to 30 June 2013. Resultant earnings per share, excluding property and derivative revaluations and non-recurring items, were 4.8 pence (six months to 30 June 2012: 6.1 pence).

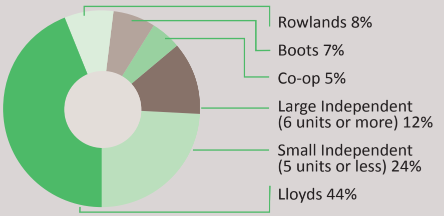
Analysis of rental income by geographic region





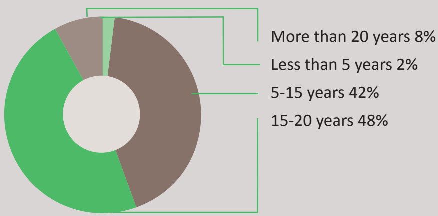
Covenant analysis by annual rent

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. 64% of this is derived from national covenants.



Analysis of annualised rent by unexpired lease term

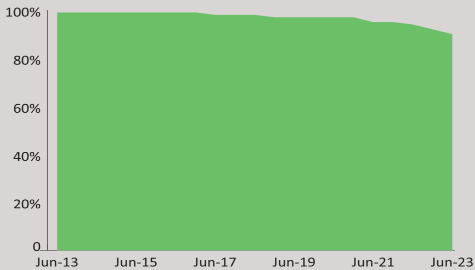
56% of occupational leases have a remaining life of 15 years or longer. The weighted average lease length is 16 years.

Managing Director's Review continued

The Group also sold an asset held on a finance lease to the NHS in March 2013, generating a surplus of £0.6 million over book value. The strength of the Group's asset portfolio and stability of yields is reflected in a surplus on revaluation at the balance sheet date, after absorbing the costs of property acquisitions in the period, of £0.2 million. An amount of £9.5 million is reflected in the income statement from the reduced MtM liability on revaluation of interest rate swaps as at 30 June 2013. A one-off early repayment fee of £0.8 million was incurred when repaying the Aviva loans acquired with the Apollo portfolio due to a short lived fall in gilt rates at the time of repayment. These non-recurring and valuation movements are included in an overall profit for the period of £13.6 million (30 June 2012: £4.2 million).

Security of income by term certain

At the end of 10 years the Group would still be receiving in excess of 90% of its current income.



Property portfolio

Four primary care asset purchases were completed in the period. Two standing let properties were acquired and two further development properties contracted for a total of £15.9 million. Detailed below, these represent a variety of assets across the United Kingdom but all are purpose-built, modern premises with a large majority of the rental income funded by the UK government. We have also continued to source asset management projects from within the existing portfolio that provide further growth in terms of rent and capital value. Lease extensions have been agreed at Eastleigh and Aylesbury.

Asset acquired	sqm	£m[1]	Occupational tenants
Chard, Somerset[2]	653	1.9	GP Practice
Worcester, West Midlands[2]	1,355	4.5	5 partner GP practice and pharmacy
Llanrumney, South Wales	1,100	2.3	GP practice and local health board
Bromley-by-Bow, London	1,785	7.2	NHS Property Services
		15.9	

1 including legal expenses
2 development property

St John's House Medical Centre, Worcester

PHP entered into an agreement in January 2013 for the development of a 1,355 square metre medical centre located in Worcester in the West Midlands. Upon completion, the scheme will be fully let to a GP practice for a 25 year term with fixed uplifts for the first 15 years of the lease. The scheme is under construction and due to complete towards the end of 2013; it will replace the existing dated practice which currently serves 13,500 patients.

size:	1,355 sqm
built:	Due to complete December 2013
cost:	£4.5m
patient numbers:	13,500 (existing practice)
tenants:	GP practice

The property portfolio, on the basis that all development commitments are completed, was independently valued at open market value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2013 at a total of £660.3 million. Including some areas of expansion land held at cost, the aggregate value of the Group’s property assets including commitments at the balance sheet date was £660.5 million.

Investors have continued to seek out longer term, secure income streams as general commercial property markets continue to stutter outside of London. The demand for the good quality assets that comprise the Group’s portfolio with the longevity of their contracted income and the continued strength of the NHS covenant has seen valuation yields for the Group’s portfolio remaining broadly stable valued at an initial yield of 5.71% as at 30 June 2013 (31 December 2012: 5.72%).

	Number of properties at 30 June 2013	30 June 2013 £m	31 December 2012 £m
Investment properties	180	632.5	606.7
Properties in the course of development	6	14.0	15.7
Total properties	186	646.5	622.4
Finance leases and expansion land	-	0.2	3.1
Total owned and leased	186	646.7	625.5
Balance of purchases committed at the period end	-	13.8	19.9
Total owned, leased and committed	186	660.5	645.4

Using a discounted cash flow (“DCF”) methodology to value the total property portfolio held at 30 June 2013, reflecting the long-term stable cash flows from the underlying occupational leases, the Group’s property portfolio would be valued at £731.2 million. Compared to the LSH valuation of £660.3 million, the difference in value represents 72.5 pence per share in net asset value terms. For this DCF valuation, we have continued to discount the rental flows from the assets at 7% in order to provide comparability with prior periods.

Following the equity raise in June, we have completed the purchase of a number of assets that were included in our identified pipeline at that time. Since the balance sheet date we have acquired Primary Health Care Centres (“PHCC”) Limited and its portfolio of 11 assets for £26.8 million, and 5 further individual property purchases.

High Street and Peter Street Surgery, Dover

The asset in Dover comprises 2 standalone, purpose built properties, each let to a separate GP Practice. Located in a central position in Dover, the centres provide GP services to the local community. PHP acquired the property as part of the corporate acquisition of PHCC Surgeries in July 2013. The two properties total 1,005 square metres with 31 car parking spaces shared between the practices. Both are fully let on a TIR basis with approximately 20.7 years unexpired on the leases.

size:	**1,005 sqm**
built:	**2001**
cost:	**£2.9m (PHCC Portfolio)**
patient numbers:	**15,318 (combined)**
tenants:	**2 GP Practices**

Including the post balance sheet transactions detailed below, the Group's portfolio comprises 202 assets with a total value of some £706.1 million.

Asset committed	sqm	Occupational tenants
Basingstoke[1]	1,076	GP Practice, NHS, Dentist, Pharmacy
Chandlers Ford[1]	372	GP Practice
Darvel[1]	562	GP Practice
Dover[1]	1,005	2 GP Practices
Hounslow[1]	601	2 GP Practices
Melksham[1]	833	GP Practice
Paisley[1]	1,505	3 GP Practices
Portsmouth[1]	685	GP Practice
Speke[1]	631	GP Practice, Pharmacy
Swaffham Barn[1]	595	GP Practice
Walthamstow[1]	803	GP Practice
Gracemount, Edinburgh	2,050	GP Practice, NHS
Farrow, Bradford[2]	812	GP Practice, Pharmacy
Ewell	1,764	2 GP Practices, Dentist
Haywards Heath	810	GP Practice, Dentist, Pharmacy
New Cumnock[2]	540	GP Practice

1 PHCC asset
2 development property

Annualised rent roll stood at £39.7 million including development commitments and the WAULT of the portfolio was 16 years as at 30 June 2013 (31 December 2012: 16 years). Including the assets contracted since the balance sheet date, contracted rent roll increases to £42.6 million.

Work has continued to generate a number of asset management projects from within the Group's property portfolio. One such project was completed at our property in Stotfold and two further projects have been contracted at Eastleigh and Aylesbury that will all commence on site in the coming months. These projects represent £2.5 million of capital expenditure and will generate a valuation surplus of 40% and secure new leases with an average unexpired term of 24 years. There are five further schemes that have been approved by the Board where we hope to achieve financial close in 2013, committing a further £3.3 million to enhance the existing portfolio and generate similar returns and lease terms.

Portfolio performance

	One year	Three years	Five years
Primary Health Properties	7.0%	10.1%	5.6%
IPD Healthcare Property Index	6.8%	8.8%	6.5%
IPD All Property Index	2.7%	8.4%	0.5%

Source: Investment Property Database

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. We are pleased to be one of the founding members and are proud to be recognised as a generator of positive social impact.

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. This is discussed further in note 1 to the financial statements.

Auditors

Following a competitive tender process the Board appointed Deloitte LLP as Group auditor with effect from 17 June 2013. The appointment was made to fill a "casual vacancy" in accordance with the Companies Act 2006 and is subject to shareholder approval at the 2014 Annual General Meeting. Ernst & Young LLP has provided the Company with a "Statement of Circumstances" confirming that it resigned as auditor of the Company with effect from 17 June 2013 following its unsuccessful tender and for no other reason.

Post balance sheet commitments

Forest Road Medical Centre, Walthamstow

The Forest Road Medical Centre is a purpose built facility, let entirely to NHS Property Services. Located in a residential area in the London Borough of Waltham Forest, the centre provides GP services to the local community. PHP acquired the property as part of the corporate acquisition of PHCC in July 2013. The property extends to 803 square metres with 12 car parking spaces and is fully let on a FRI basis with approximately 22.6 years unexpired on the lease.

size:	803 sqm
built:	2002
cost:	£5.0m
patient numbers:	7,042
tenants:	NHSPS Ltd.

Prospects

The Company has achieved some notable success to date in 2013, securing further equity and debt capital in what have been volatile markets. This demonstrates the continued appeal of the Group's business, underpinned by long-term occupational leases where 90% of the rent roll is directly or indirectly received from the NHS. We have subsequently applied these funds to acquire earnings enhancing assets that will show an immediate and recurring positive impact to our annual income surplus and provide the opportunity to undertake additional asset management projects including some redevelopment work to increase this further. We continue to have a strong pipeline of acquisition opportunities, a number of which are scheduled for the remainder of 2013.

With the major impact of the NHS structural changes in England now behind us, we believe that we will start to see the new regime looking to work with private investors such as the Group to provide additional new modern premises. This will enable the provision of an increasing range of primary care services in a more localised environment. We are well placed to play a major role in this repositioning of the primary care estate and add to the Group's property assets.

We have demonstrated our ability to source attractive asset acquisitions through both portfolio purchases and individual property transactions including continuing to develop new centres together with sector specialist developers. The positive earnings margin that we are able to secure has boosted dividend cover from its low in 2012 and, as we invest our available capital into further, prudently assessed assets, I am confident of being able to achieve our main priority of returning the Group to full dividend cover.

Harry Hyman
Managing Director
22 August 2013

Principal Risks

The 2012 Annual Report includes details of the Group's principal financial risks which the Audit Committee sees as unchanged for the remaining six months of 2013. 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 swaps, some 17.6% of the Group's debt facilities would be exposed to movements in underlying interest rates if fully drawn.
- The mark to model 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 model values.

Property market 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 intends to continue its strategy of acquiring and developing solely 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 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 and J O Hambro 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 2012 Annual Report.

Condensed Group Statement of Comprehensive Income

for the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Rental income		19,606	16,038	32,806
Finance lease income		87	172	345
Rental and related income		19,693	16,210	33,151
Direct property expenses		(153)	(175)	(402)
Administrative expenses	9	(2,890)	(2,592)	(5,124)
Non-recurring expenses: Project costs	9	(200)	-	-
Operating profit before net valuation gain on property portfolio		16,450	13,443	27,625
Profit on sale of finance lease		641	-	-
Net valuation gain/(deficit) on property portfolio	3	240	631	(1,768)
Operating profit before financing costs		17,331	14,074	25,857
Finance income	5	172	175	518
Finance costs	6	(12,545)	(9,308)	(20,760)
Early loan repayment fee		(825)	-	(1,564)
Fair value gain/(loss) on derivative interest rate swaps and amortisation of cash flow hedging reserve	6	9,446	(785)	(2,922)
Profit on ordinary activities before tax		13,579	4,156	1,129
Current taxation credit	7	1	-	1
Profit for the period [1]		13,580	4,156	1,130
Items that may be reclassified subsequently to profit and loss:				
Fair value movement on interest rate swaps treated as cash flow hedges		8,707	982	(285)
Other comprehensive income/(loss)		8,707	982	(285)
Total comprehensive income for the period net of tax		22,287	5,138	845
Earnings per share - basic and diluted [2]	4	17.4p	5.9p	1.6p
Adjusted earnings per share[3] - basic and diluted[2]	4	4.8p	6.1p	10.2p

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 and provision for early loan repayment fee. See note 4.

Condensed Group Balance Sheet

at 30 June 2013

	Notes	At 30 June 2013 £000 (unaudited)	At 30 June 2012 £000 (unaudited)	At 31 Dec 2012 £000 (audited)
Non current assets				
Investment properties	2,3	646,728	539,154	622,447
Net investment in finance leases		-	3,084	3,100
Derivative interest rate swaps		203	8	-
		646,931	542,246	625,547
Current assets				
Trade and other receivables		3,033	3,116	2,916
Net investment in finance leases		-	25	21
Cash and cash equivalents		14,624	964	25,096
		17,657	4,105	28,033
Total assets		664,588	546,351	653,580
Current liabilities				
Term loans	10	(617)	(27,610)	(79,934)
Derivative interest rate swaps		(7,482)	(7,126)	(7,523)
Trade and other payables		(10,275)	(6,975)	(10,687)
Deferred rental income		(8,166)	(6,848)	(7,811)
Provision for liabilities and charges		-	-	(1,564)
		(26,540)	(48,559)	(107,519)
Non current liabilities				
Term loans	10	(276,704)	(269,956)	(247,905)
Retail bond		(73,849)	-	(73,755)
Derivative interest rate swaps		(27,315)	(42,148)	(45,311)
		(377,868)	(312,104)	(366,971)
Total liabilities		(404,408)	(360,663)	(474,490)
Net assets		260,180	185,688	179,090

	Notes	At 30 June 2013 £000 (unaudited)	At 30 June 2012 £000 (unaudited)	At 31 Dec 2012 £000 (audited)
Equity				
Share capital	14	48,922	37,305	38,017
Share premium account		58,786	54,722	58,606
Capital reserve		1,618	1,618	1,618
Special reserve		107,191	66,374	59,473
Cash flow hedging reserve		(18,470)	(25,910)	(27,177)
Retained earnings		62,133	51,579	48,553
Total equity [1]		260,180	185,688	179,090
Net asset value per share				
• Basic	11	265.9p	248.9p	235.5p
• EPRA[2] net asset value per share	11	301.3p	314.9p	305.0p

1 Wholly attributable to equity shareholders of Primary Health Properties PLC.
2 See definition of 'EPRA' on page 3.

Condensed Group Cash Flow Statement

for the six months ended 30 June 2013

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Operating activities			
Profit before tax	13,579	4,156	1,129
Less: Finance income	(172)	(175)	(518)
Plus: Finance costs	12,545	9,308	20,760
Plus: Early loan repayment fee	825	-	1,564
Plus: Fair value (gain)/loss on derivatives and amortisation of cash flow hedging reserve	(9,446)	785	2,922
Operating profit before financing	17,331	14,074	25,857
Adjustments to reconcile Group operating profit to net cash flows from operating activities:			
Profit on sale of finance lease	(641)	-	-
Revaluation gain on property portfolio	(240)	(631)	1,768
Increase in trade and other receivables	(102)	(488)	(133)
(Decrease)/increase in trade and other payables	(1,195)	634	7,940
Cash generated from operations	15,153	13,589	35,432
Taxation paid	-	-	-
Net cash flow from operating activities	15,153	13,589	35,432
Investing activities			
Payments for investment properties	(22,720)	(12,937)	(42,221)
Proceeds from disposal of asset held on a finance lease	3,768	-	-
Payments to acquire Apollo	-	-	(3,298)
Interest received on development funding	-	-	237
Bank interest received	27	56	199
Net cash flow used in investing activities	(18,925)	(12,881)	(45,083)

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Financing activities			
Proceeds from issue of shares (net of expenses)	65,814	18,399	18,399
Term bank loan drawn down	80,063	36,335	75,685
Term bank loan repayments	(79,614)	(19,792)	(100,101)
Proceeds of Retail Bond issue (net of costs)	-	-	73,671
Temporary offset of proceeds of share issue against revolving bank loan	(50,250)	(18,399)	-
Swap interest payable	(3,875)	(3,238)	(6,736)
Non utilisation fees	(418)	(176)	(714)
Loan arrangement fees paid	(1,273)	(2,280)	(2,655)
Interest paid	(7,862)	(4,701)	(10,670)
Loan breakage costs	(2,279)	-	-
Equity dividends paid (net of scrip dividend)	(7,006)	(5,969)	(12,209)
Net cash flow from financing activities	(6,700)	179	34,670
Movement in cash and cash equivalents for the period	(10,472)	887	25,019
Cash and cash equivalents at start of period	25,096	77	77
Cash and cash equivalents at end of period	14,624	964	25,096

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 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 and amortisation of cash flow hedging reserve	-	-	-	-	8,707	-	8,707
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)	-	-	-
Less share issue expenses	-	(5)	-	-	-	-	(5)
30 June 2013	**48,922**	**58,786**	**1,618**	**107,191**	**(18,470)**	**62,133**	**260,180**
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 raising	3,115	-	-	15,885	-	-	19,000
Expenses of capital raising	-	-	-	(601)	-	-	(601)
Dividends paid:							
Second interim dividend for period ended 31 December 2011 (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**	**66,374**	**(25,910)**	**51,579**	**185,688**

	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 2012 (audited)							
1 January 2012	**34,136**	**54,430**	**1,618**	**57,405**	**(26,892)**	**47,423**	**168,120**
Profit for the year	-	-	-	-	-	1,130	1,130
Income and expense recognised directly in equity:							
Fair value movement on interest rate swaps and amortisation of cash flow hedging reserve	-	-	-	-	(285)	-	(285)
Total comprehensive income	-	-	-	-	(285)	1,130	845
Proceeds from capital raising	3,115	-	-	15,885	-	-	19,000
Expenses of capital raising	-	-	-	(601)	-	-	(601)
Share issue as part of consideration for Apollo	616	3,325	-	-	-	-	3,941
Dividends paid:							
Second interim dividend for the year ended 31 December 2011 (9.25p)	-	-	-	(5,969)	-	-	(5,969)
Scrip dividends in lieu of second interim cash dividend (net of expenses)	54	292	-	(346)	-	-	-
First interim dividend for the year ended 31 December 2012 (9.25p)	-	-	-	(6,240)	-	-	(6,240)
Scrip dividends in lieu of interim cash dividends (net of expenses)	96	565	-	(661)	-	-	-
Share issue expenses	-	(6)	-	-	-	-	(6)
31 December 2012	**38,017**	**58,606**	**1,618**	**59,473**	**(27,177)**	**48,553**	**179,090**

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 2012 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 33.

These condensed interim financial statements of the Group for the six months ended 30 June 2013 were approved and authorised for issue by the Board on 22 August 2013.

Basis of preparation/Statement of compliance

The half-year report for the six months ended 30 June 2013 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 2012 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 2012.

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 strong. In the period the Group has finalised the refinancing of £70 million of bank debt facilities into a new four year interest only facility. This helps maintain the average maturity of the Group's banking facilities to over five years. The Group's loan to value ratio is currently 52.8% and the Group's interest cover test is currently 1.51 times, well below the maximum Group banking covenant of 1.3 times. The Group also raised £65.8 million, net of costs, from the issue of new equity in the period. 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.

Changes in accounting policies

In the current financial year, the Group has adopted the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income". Otherwise, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit and loss and those that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively.

IFRS 13 has impacted the measurement criteria of fair value for certain assets and liabilities and also introduced new disclosures as set out in note 13. No retrospective changes were necessary as a result of the addition of the standard.

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 2013 in accordance with IAS 40: Investment Property.

The revaluation gain for the six months ended 30 June 2013 amounted to £0.2 million. The revaluation loss for the year ended 31 December 2012 amounted to £1.8 million and the gain for the six months ended 30 June 2012 amounted to £0.6 million.

Property additions, including acquisitions, for the six months ended 30 June 2013 amounted to £22.7 million. No properties were disposed of in the six months to 30 June 2013. Commitments outstanding at 30 June 2013 amounted to £13.8 million (31 December 2012: £19.9 million).

Property additions for the 12 months ended 31 December 2012 and the six months ended 30 June 2012 amounted to £99.1 million and £13.0 million respectively. Property disposals for the 12 months ended 31 December 2012 amounted to £0.5 million.

3. Property

	Investment properties freehold £000 (unaudited)	Investment long leasehold £000 (unaudited)	Investment properties under construction £000 (unaudited)	Total £000 (unaudited)
As at 1 January 2013	513,345	93,371	15,731	622,447
Acquisitions	3,473	9,453	-	12,926
Additions	209	481	9,103	9,793
Impact of lease incentive adjustment	1,120	202	-	1,322
Transfer from properties in the course of development	2,466	8,275	(10,741)	-
Revaluation gain for the period	62	89	89	240
As at 30 June 2013	**520,675**	**111,871**	**14,182**	**646,728**

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 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Net profit attributable to Ordinary Shareholders			
Basic profit	13,580	4,156	1,130
Adjusted profit - Adjustments to remove:			
Net (gain)/loss on revaluation of property	(240)	(631)	1,768
Fair value (gain)/loss on derivatives [1]	(9,446)	785	2,922
Profit on termination of finance lease	(641)	-	-
Provision for early loan repayment fees [4]	825	-	1,564
Non recurring expenses: Project costs	200	-	-
Non-recurring income: adjustment to recognise fixed rental uplifts [5]	(537)	-	-
Taxation	(1)	-	(1)
Adjusted basic and diluted earnings [2]	3,740	4,310	7,383
Number of Ordinary Shares [3]	78,221,562	70,413,807	72,675,900
Earnings per share [2]	17.4p	5.9p	1.6p
Earnings per share - Adjusted [1 2]	4.8p	6.1p	10.2

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 (gain)/loss 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 2013, the Group issued 64,036 Ordinary Shares following the scrip dividend issue and on 13 June 2013, 21.7 million Ordinary Shares were issued by way of a firm placing, open offer and offer for subscription.

4 The provision for early loan repayment fees is considered a one-off exceptional item following the acquisition of Apollo and its subsidiary. Directors believe that it is appropriate to remove the charge in the calculation of adjusted earnings.

5 In the period an adjustment was made to rental income to recognise fixed rental uplifts within the Group's property portfolio in accordance with IFRS. An amount of £0.537 million related to periods before 1 January 2013.

5. Finance income

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Interest income on financial assets not at fair value through profit or loss			
Bank interest	32	57	206
Development loan interest	132	65	257
Other interest	8	53	55
	172	175	518

6. Finance costs

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Interest expense on financial liabilities			
(i) Interest paid			
Bank loan interest payable	5,725	5,433	10,296
Swap interest payable	3,788	3,219	6,860
Other interest payable	12	10	-
Bond interest payable	1,990	-	1,789
Bank facility non utilisation fees	395	206	733
Bank charges and loan commitment fees	635	440	1,082
	12,545	9,308	20,760
(ii) Derivatives			
Net fair value (gain)/loss on interest rate swaps	(9,896)	113	1,577
Amortisation of cash flow hedging reserve	450	672	1,345
	(9,446)	785	2,922

The fair value gain on derivatives recognised in the Condensed Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply.
A fair value gain on derivatives which meet the hedge effectiveness criteria under IAS39 of £8.2 million (30 June 2012: gain of £0.3 million) is accounted for directly in equity, together with amortisation of the hedging reserve of £0.5 million (30 June 2012: £0.7).

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

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Finance income (note 5)	(172)	(175)	(518)
Finance costs	12,545	9,308	20,760
Net finance costs	12,373	9,133	20,242

7. Taxation

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £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)

8. Dividends paid

	Six months ended 30 June 2013 £000 (unaudited)	Six months ended 30 June 2012 £000 (unaudited)	Year ended 31 Dec 2012 £000 (audited)
Second interim dividend for the period ended 31 December 2012 (9.50p) paid 22 April 2013 (2012: 9.25p)	7,006	5,969	5,969
Scrip dividend in lieu of second interim cash dividend	217	346	346
First interim dividend for the period ended 31 December 2012: (9.25p) paid 26 October 2012	-	-	6,240
Scrip dividend in lieu of first interim cash dividend	-	-	661
	7,223	6,315	13,216
Per share	9.50p	9.25p	18.50p

The Board proposes to pay an interim cash dividend of 9.50p per Ordinary Share for the six months to 30 June 2013, payable on 1 November 2013. 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 14.7% (30 June 2012: 16.0%). This equates to an annualised rate of 0.9% of gross real estate assets (30 June 2012: 1.0%). Of the total £2.9 million of administrative expenses, fees of £2.3 million were payable to the Joint Advisors as shown in note 12.

During the year the Group incurred non-recurring project costs of £0.2 million.

No performance incentive fee is payable to the Joint Advisors for the period ended 30 June 2013 (six months to 30 June 2012 and year ended 31 December 2012: £nil). Under the terms of the management agreement there is a deficit of some £59.8 million to be made up in the net asset value before any further performance incentive fee becomes payable.

10. Bank and other borrowings reconciliation

	Bank borrowing		Retail Bond	Total
	Drawn down £000 (unaudited)	Headroom £000 (unaudited)	Drawn down £000	facility £000 (unaudited)
As at 1 January 2013	331,016	105,000	75,000	511,016
Term bank loans drawn	50,250	(50,250)	-	-
Term bank repayments	-	-	-	-
Temporary offset of proceeds of share issue against revolving bank facility	(50,250)	50,250	-	-
Repayment of Aviva loans	(310)	-	-	(310)
	(310)	-	-	(310)
	330,706	105,000	75,000	510,706
Repayment of Allied Irish Banks PLC loan	(27,000)	-	-	(27,000)
Repayment in full of Aviva loans (Apollo)	(52,305)	-	-	(52,305)
Draw down from Barclays Bank PLC on new revolving credit facility	29,813	40,187	-	70,000
	(49,492)	40,187	-	(9,305)
Total term loans as at 30 June 2013	**281,214**	**145,187**	**75,000**	**501,401**

Notes to the Condensed Financial Statements

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 2013 £000 (unaudited)
Term loans drawn: due within one year	617
Term loans drawn: due in greater than one year	280,597
Total term loans drawn	281,214
Less: Unamortised borrowing costs	(3,893)
Total term loans due in greater than one year	276,704
Total term loans per the Condensed Group Balance Sheet	**277,321**

11. Net asset value calculations

Net asset values have been calculated as follows:

	30 June 2013 £000 (unaudited)	30 June 2012 £000 (unaudited)	31 Dec 2012 £000 (audited)
Net assets per Condensed Group Balance Sheet	260,180	185,688	179,090
Derivative interest rate swaps liability (net)	34,594	49,266	52,834
EPRA net asset value	294,774	234,954	231,924

	Number of shares	Number of shares	Number of shares
Ordinary Shares:			
Issued share capital	97,844,276	74,609,070	76,034,208
Basic net asset value per share	265.9p	248.9p	235.6p
EPRA net asset value per share	301.3p	314.9p	305.0p

12. Related party transactions

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

	30 June 2013 £000 (unaudited)	30 June 2012 £000 (unaudited)	31 Dec 2012 £000 (audited)
Nexus TradeCo Limited	1,439	1,236	2,497
J O Hambro Capital Management Limited	842	851	1,669
	2,281	**2,087**	**4,166**

13. Financial Instruments' fair value disclosure

The Group held the following financial instruments at fair value at 30 June 2013. 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 hierachy, 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 2013 using:

Recurring fair value measurements	Level 1 (1) £'000	Level 2 (2) £'000	Level 3 (3) £'000	Total £'000
2013 - Financial assets				
Derivative interest rate swaps	-	203	-	203
2013 - Financial liabilities				
Derivative interest rate swaps	-	(34,797)	-	(34,797)

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

14. Called up share capital

	30 June 2013 £000 (unaudited)	30 June 2012 £000 (unaudited)	31 Dec 2012 £000 (audited)
Issued and fully paid at 50p each	48,922	37,305	38,017
At beginning of year	38,017	34,136	34,136
Scrip issues in lieu of second interim cash dividends	32	54	54
Scrip issues in lieu of first interim cash dividends	-	-	96
Proceeds from capital raisings	10,873	3,115	3,115
Shares issued in consideration of Apollo acquisition	-	-	616
	48,922	**37,305**	**38,017**

On 13 June 2013, the Group completed a share issue at a price of 315 pence per share. 21,746,032 shares were issued, generating net cash proceeds of £65.8 million.

On 20 December 2012, the Company issued 1,231,395 new Ordinary Shares at 50 pence each at an agreed price of 320 pence per share as part of the consideration for the acquisition of Apollo Medical Partners Limited ("Apollo").

On 24 May 2012, the Group completed a small share placing at a price of 305 pence per share. 6,229,509 shares were issued, generating net cash proceeds of £18.4 million.

15. Contingent liabilities

The terms and conditions agreed on acquiring 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 £1.21 million at the interim balance sheet date. The new lettings would add value to the property portfolio.

16. Post balance sheet events

On 2 July 2013, PHP announced that it had agreed to acquire the entire issued share capital of Primary Health Care Centres Limited, an investor in primary care and pharmacy properties in the UK. The consideration payable was approximately £10.5m, including transaction costs of £0.3 million and was settled in cash upon completion. The acquisition has added 11 high quality, fully let properties across the UK, generating a total annual rent roll of £1.7 million, with a weighted average lease length of 19.3 years.

On 1 August 2013, PHP announced that it had acquired a single purpose company whose sole asset is a substantial modern medical centre near to the centre of Edinburgh. The Gracemount Medical Centre was acquired for £6.35 million and is fully let, jointly to the Scottish Ministers and a GP Practice. On the same day, PHP announced that a wholly-owned subsidiary had entered into a forward commitment to develop a new primary care centre to be built in Bradford. The completed property will cost £2.2 million with completion anticipated in mid 2014.

On 7 August 2013, PHP announced that a wholly-owned subsidiary had completed the acquisition of three modern, purpose built medical centres for a total consideration of £9.55 million located in Surrey, West Sussex and Ayrshire. The Ayrshire property is under construction and will be completed in September 2013.

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 2013 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 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 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 2013 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
London 22 August 2013

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 Conduct 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 changes in the related party transactions described in the last Annual Financial Report that could have been a material effect on the financial position or performance of the Company in the period.

The Directors of Primary Health Properties PLC are listed in the Annual Financial Report for the year ended 31 December 2012. A list of current Directors is shown on page 68. Shareholder information is as disclosed in the Annual Financial Report and is also available on the PHP website, www.phpgroup.co.uk.

For and on behalf of the Board
Graeme Elliot
Chairman
22 August 2013

Board of Directors
Graeme Elliot (Chairman)
Alun Jones (Chairman of Audit Committee and Senior Independent Director)
Harry Hyman
(Managing Director)
Mark Creedy
James Hambro
William Hemmings
Dr Ian Rutter OBE

Corporate Profile and Advisers

Directors
Graeme Elliot (Chairman)
Alun Jones (Chairman of Audit Committee and Senior Independent Director)
Harry Hyman
(Managing Director)
Mark Creedy
James Hambro
William Hemmings
Dr Ian Rutter OBE

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Environmental Consultant
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Property Valuer
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www.johncooperphotography.com

PHP Primary Health Properties

Primary Health Properties PLC

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