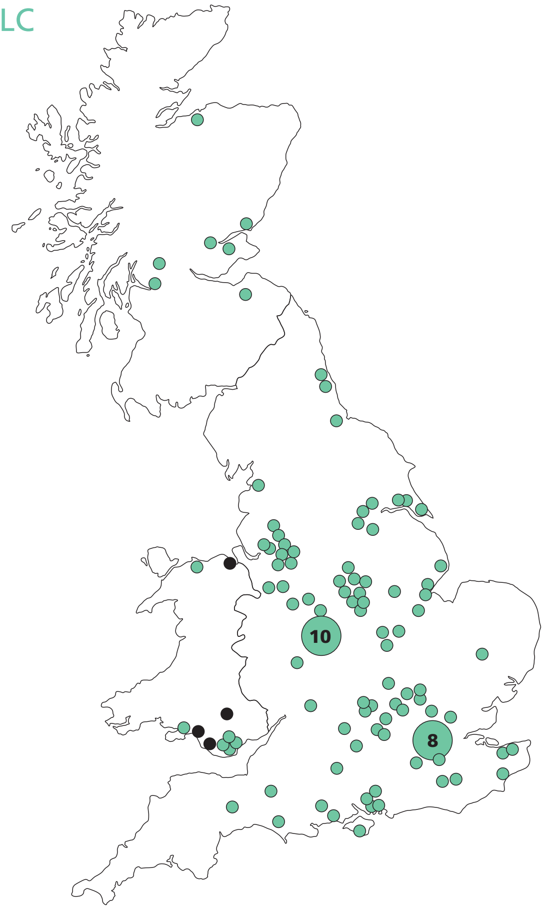
Primary Health Properties PLC

Half year report for the six months ended 30 June 2009

The objective of the Group is to generate rental income and capital growth through investment in primary health care property in the United Kingdom leased principally to GPs, Primary Care Trust ('PCTs'), Health Authorities and other associated health care users.

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



PHP's properties

PHP has 111 completed properties and four in the course of development.

Visit the Group's website **www.phpgroup.co.uk** for more information on properties contained within the portfolio.

- Investment properties
- Properties in the process of development

Primary Health Properties PLC

Results highlights

- Interim cash dividend of 8.5p for the period ended 30 June 2009
- Portfolio 100% let
- Rental growth of approximately 4% per annum
- Important decision achieved on rent review appeal process
- Rent roll growth from £19.6m to £20.1m including £0.3m of rental increases
- Basic net asset value increased to 243.7p per share (31 December 2008: 233.1p)
- EPRA net asset value of 289.9p per share (31 December 2008: 317.6p)
- Acquisition or delivery of £6.9m of assets
- Portfolio including commitments is now £352.9m
- 115 primary care centres (111 completed and four in the course of development)
- Placing raised £3.7m gross in March 2009
- Committed borrowing facilities not due for renewal until 2013

Operating and financial review

Overview

The challenging economic environment continues to have a negative impact on the value of commercial property. However, the niche primary care market in which we operate still has good fundamentals and there is continued demand for the provision of modern primary health care facilities, from both tenants and investors. The Group has an excellent portfolio of modern properties with secure long leases and high quality tenants, backed by the Government. Our buildings are all used in the delivery of primary care which is in the front line of delivery of NHS services. Spending on healthcare through the NHS remains at the heart of the Government's and the Opposition's policy agenda. The medium term outlook for rental growth is also enhanced by the High Court judgment in March 2009 which will encourage a fairer, more robust and more transparent system for reviewing rent.

The Board remains committed to increasing the Group's portfolio on a prudent basis, actively managing assets through refurbishment, enhancement and redevelopment, increasing revenue from existing leases and delivering returns for shareholders. We believe that the business is well positioned to weather the current uncertainty in the banking and money markets, and we remain confident in the prospects for the Group.

Trading performance

An analysis of the trading performance for the six months ended 30 June 2009 is set out below:

	Six months to 30 June 2009 £m	**Six months to 30 June 2008 £m**	**Year to 31 Dec 2008 [2] £m**
Annualised rent roll [1]	**20.1**	18.6	19.6
Operating profit before revaluation result and financing	**8.5**	7.0	14.7
Net finance costs	**(5.3)**	(4.4)	(10.0)
Operating profit before revaluation result, fair value gain/(loss) on derivatives and UK-REIT charges	**3.2**	2.6	4.7
Fair value gain/(loss) on derivatives	**3.0**	1.6	(10.7)
Revaluation loss including write downs	**(8.0)**	(4.7)	(17.7)
Loss before tax	**(1.8)**	(0.5)	(23.7)
Taxation	**-**	(0.2)	(0.2)
Loss after tax	**(1.8)**	(0.7)	(23.9)
Dividends paid	**2.9**	2.8	5.5

1 On completed properties
2 Restated as described in note 1 to the financial statements

The underlying profit attributable to the business before the revaluation result and fair value gain on derivatives referred to below, was £3.2m for the period (30 June 2008: £2.6m) an increase of 23%. The property and derivative revaluation results are unrealised and do not affect the positive operating cash flow of the business. The results for the Group for the six months ended 30 June 2009 show a loss after taxation of £1.8m, compared with a loss after taxation of £23.9m for the six months to 31 December 2008 and a loss after taxation of £0.7m for the six months to 30 June 2008. However, this result is after a revaluation deficit on the property portfolio of £8.0m (six months to 31 December 2008 deficit of £13.0m and six months to 30 June 2008 deficit of £4.7m). The results also include a mark to market gain on certain callable swaps (see page 11) of £3.0m (six months to 30 June 2008: £1.6m), partially reversing the mark to market loss of £12.3m on such swaps arising in the last six months of 2008.

High Court verdict

On 31 March 2009, the Group announced that, in a landmark judgment in the High Court, it had made a successful challenge to the dispute resolution procedures to be followed when determining the level of rent to be reimbursed by the Department of Health for GP's leasehold premises. The Board believes that when the judgment is acted upon by the NHS a fairer, more robust and more transparent system for reviewing rent will be implemented with the effect that, at least in some cases, the rent determined on appeal may be higher than would otherwise have been the case under the previous system. The greater independence and transparency in determining rent review disputes as a result of the High Court decision is likely to improve the process and rental growth prospects over time.

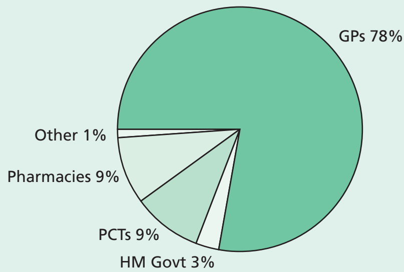
Rental growth

Rental growth achieved on rent reviews concluded in 2008 averaged approximately 12% over the 3 year rent review cycle, an annualised rate approaching 4%. The Board is pleased to report that the actual rental growth achieved in the first half of the year has not been materially different from that experienced in 2008, which in view of declining rents in other sectors, is considered to be a significant achievement. The portfolio is 100% let and tenants are in place for all properties under construction.

Operating and financial review continued

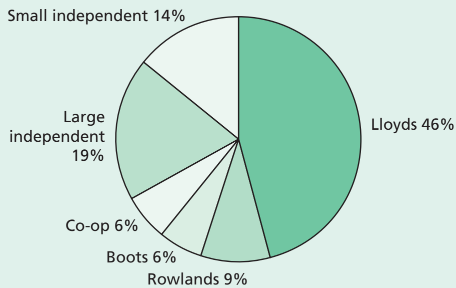
Analysis of annualised rent by tenant

The pie chart shows the percentage of the Group's portfolio by rent roll derived from each major tenant class: GPs, PCTs, Health Authorities, pharmacy operators and others. Some 99% of rent comes directly or indirectly from GPs, PCTs, Health Authorities and pharmacy operators.



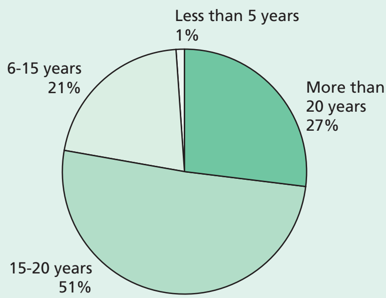
Analysis of pharmacies tenant rent

The pie chart shows the breakdown of the 9% of total rent received from pharmacy operators by well known brands (67%), large independents with over three units (19%) and small independents with three or less units (14%).



Analysis of annualised rent by unexpired lease term

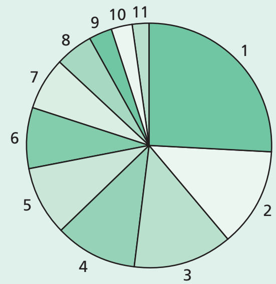
The pie chart demonstrates that the Group has in excess of 78% of leases with a life of 15 years or longer.



Analysis of rental income by geographic region

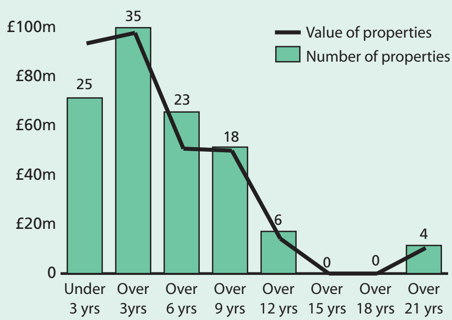
This chart demonstrates that the portfolio is broadly diversified across the UK.

1. South East 26%
2. East Midlands 13%
3. West Midlands 13%
4. North West 11%
5. Yorkshire & Humberside 9%
6. Scotland 8%
7. London 7%
8. South West 5%
9. North 3%
10. Wales 3%
11. East Anglia 2%



Analysis of portfolio by age of buildings

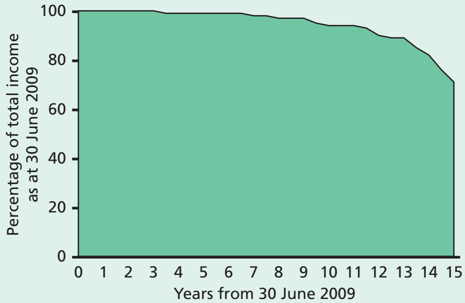
The chart shows a breakdown of the portfolio by value and number of assets in age groupings. The few older buildings have all been subject to extensive refurbishment within the last 15 years. Approximately 77% of the portfolio by value comprises purpose built health centres which are under nine years old. Approximately 97% of the properties are under 15 years old.



Operating and financial review continued

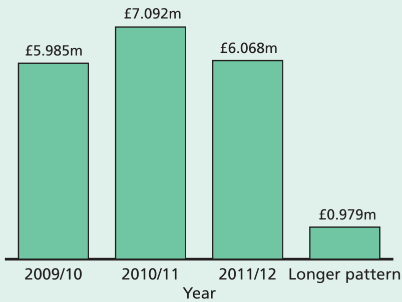
Security of income by term certain

The graph shows that by year 15, the Group would still be receiving 71% of its current income, taking no account of any lease renewals or rent reviews during the period.



Forthcoming rent reviews

The chart shows the annual amounts of rent falling due for review in each of the next three years. £1m of rent is reviewed on a longer pattern and £0.685m is reviewed annually.



Acquisitions and disposals

The Group purchased the following properties during the six months ended 30 June 2009. There were no disposals during the period.

Property	Acquisition cost £m	Occupational tenants
Hugglescote	2.7	GP practice and pharmacy
Sale Medical Centre	4.2	GP practice and pharmacy
New commitments were entered into as follows:		
Cowbridge	6.0	GP surgery and pharmacy

Hugglescote Surgery, Coalville, Leicestershire

(opened by the then Secretary of State of Health, Alan Johnson, in February 2009)

Tenant:	GP practice and pharmacy
Purchase:	February 2009
NIA:	9,000 sqft
Cost:	£2.7m
Developer:	Haven Health Properties

Firs Way Health Centre
Sale, Cheshire

Tenants:	GP practice and pharmacy
Purchase:	May 2009
NIA:	16,000 sqft
Cost:	£4.2m
Developer:	Brackley Investments

Operating and financial review continued

New Primary Care Resource Centre, Port Talbot, South Wales

(due for delivery in September 2009)

Tenants:	Four GP practices, PCT accommodation, two dental practices, pharmacy
Expected date of completion:	September 2009
NIA:	60,000 sqft
Cost:	£15.9m
Developer:	Haven Health Properties

Portfolio

The table below sets out the portfolio as at 30 June 2009.

	30 June 2009 £m	30 June 2008 £m	31 Dec 2008 £m
Investment properties	**314.2**	319.1	314.4
Properties in the course of development	**1.5**	3.8	2.5
Total investment properties	**315.7**	322.9	316.9
Finance leases	**3.0**	2.9	3.0
Total owned and leased	**318.7**	325.8	319.9
Development loans	**-**	-	0.3
Total owned and leased (including development loans)	**318.7**	325.8	320.2
Committed	**34.2**	26.9	34.0
Total owned, leased and committed	**352.9**	352.7	354.2
Closing annualised rent roll (on completed properties)	**20.1**	18.6	19.6

Property valuation

The freehold, leasehold and development properties of the Group have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2009.

During the six months ended 30 June 2009 there has been a slight weakening of yields resulting in a valuation reduction of 1.9% compared to a reduction of 3.9% in the prior six month period to 31 December 2008. At 30 June 2009, the initial yield on the portfolio was 6.06% (31 December 2008: 5.97%, 30 June 2008: 5.55%) and the expected reversionary yield was 6.25% (31 December 2008: 6.16%, 30 June 2008: 5.75%). At the date of this report the Joint Managers believe that there has been no further deterioration in yields and that, given the length of lease, security of income and effective covenant backed by the Government, further material weakening is unlikely.

Discounted cash flow property valuation

In addition to the market value exercise performed by Lambert Smith Hampton, the Joint Managers monitor the value of the Group's completed investment portfolio based on a discounted cash flow analysis. On this basis, the valuation of delivered assets as at 30 June 2009 is £379m compared to the market value of £317m (31 December 2008: £367m compared to the market value of £316m). The difference of £62m represents an additional 176p of net asset value per share.

Operating and financial review continued

The assumptions used in the discounted cash flow analysis are:

- A discount rate of 7%;
- An average annual increase in the individual property rents at review of 3%; and
- Capital growth in residual values of 1% per annum.

Comparative values using the discount rates below are as follows:

Discount rate	Value
6.50%	£400m
7.50%	£360m

Net assets and financing

	30 June 2009	30 June 2008	31 Dec 2008
Net assets	**£85.9m**	£125.4m	£78.3m
EPRA net asset value [1]	**289.9p**	358.4p	317.6p
Net asset value per share	**243.7p**	373.4p	233.1p

1 EPRA net asset value is calculated as balance sheet net assets including the valuation result on trading properties, excluding fair value adjustments for debt and related derivatives ("EPRA" is the European Public Real Estate Association).

Borrowings

At 30 June 2009, Group borrowings were £207m in aggregate. At the date of this half year report, aggregate facilities were £265m of which £255m was on a term loan basis and £10m available on an overdraft basis. The term facilities are not due for renewal/replacement until 2013. The Board is satisfied with the pricing and term of its existing facilities.

The loan to value ratio at 30 June 2009 was 66% and interest cover was 1.9 times.

Hedging

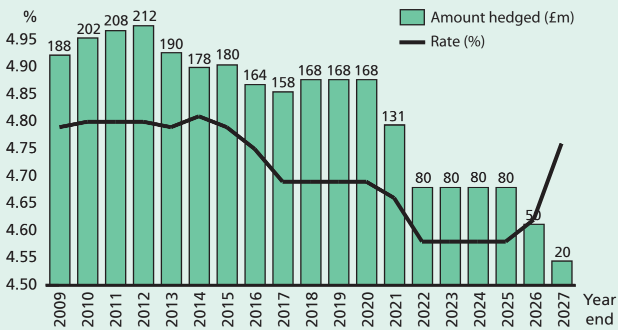
The amount of fixed rate cover in place at 30 June 2009 (including £88m of callable swaps) was £193m. The callable swaps were not called on 11 August 2009; the next call date is 11 November 2009.

Basis rate swaps totalling £200m were in place during the six months ended 30 June 2009.

All swaps are taken out in order to mitigate exposure to interest rate risk, but under accounting rules only certain swaps qualify as "effective" hedges and the mark to market movement on these is matched against the hedged liability in the Balance Sheet. Due to the rise in market rates for money for the six months to 30 June 2009, the value of the Group's "effective" interest rate swaps increased by £9.1m (25.8p per share), partially offsetting losses recorded in previous periods. This gain is included in the total comprehensive income result on page 20. This increase was a significant factor in the uplift in the net asset value from 233.1p to 243.7p, despite the Group reporting an operating loss for the six months ended 30 June 2009, which included a gain on the callable swaps of £3.0m (30 June 2008: gain of £1.6m). The mark to market value fluctuates with movements in term interest rates, and in the case of the callable swaps, which do not qualify as being effective under the hedge accounting rules and the gain or loss on which flows through the Statement of Comprehensive Income, with market volatility.

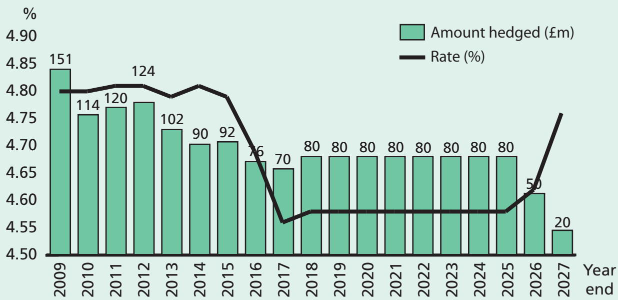
Finance and interest rate hedging (assuming callable swaps are not called)

This chart shows the level of bank borrowings economically hedged by interest rate swaps for each financial year to 31 December 2027. Shown in £m.[1]



Finance and interest rate hedging

This chart shows the level of bank borrowings covered by effective hedges for each financial year to 31 December 2027. Shown in £m.[1]



1 The charts above show the weighted average amount hedged throughout each financial year for the period to 31 December 2027. The charts assume that the term loans to the Group which expire in 2013 will be renewed.

Operating and financial review continued

Performance incentive scheme

There is no performance incentive fee payable for the six months to 30 June 2009 (six months to 30 June 2008: £nil). There is a deficit of £60m to be made up in net asset value before any further performance incentive fee becomes payable under the terms of the joint management agreement. Details of management fees payable to the Joint Managers are shown in note 11 to the financial statements.

Placing

On 24 March 2009, the Group raised £3.7 million gross, by way of a placing of 1,679,354 new ordinary shares of 50p each at a price of 220p per Placing share (the "Placing"). The Placing was taken up by institutional and other investors. The proceeds have been used for general working capital purposes.

Interim dividend

On 15 April 2009, the Group paid an ordinary cash dividend of 8.5p per Ordinary Share in respect of the six months ended 31 December 2008. The Board is now intending to pay a cash interim dividend in respect of 2009 of 8.5p payable to Ordinary Shareholders on the register on 9 October 2009 and payable on 20 November 2009. No Property Income Distributions ("PIDS") have been paid since 1 January 2007, when the Board advised that dividends would either be cash, PIDs or a combination of the two.

Scrip dividend scheme

The Board proposes, subject to shareholders approval, that the authority to offer shares in lieu of a cash dividend (the "scrip dividend scheme") be renewed for this cash interim dividend and any future dividends. Details will be included in the circular and notice of general meeting to be posted to shareholders.

Principal risks and uncertainties

There have been no changes to the principal risks and uncertainties of the Group which remain as disclosed on pages 17 to 19 of the Annual Financial Report for the year ended 31 December 2008.

The Board regularly monitors the Loan to Value ("LTV") ratio which stood at 66% at 30 June 2009 compared to the 75% currently required under the banking covenants, which reduce to 70% in March 2010. As part of its strategy for the Group, the Board has a range of options open to it to manage this ratio. Notwithstanding the possibility of further property valuation reductions, it believes that these options give it adequate confidence to continue to prepare the financial statements on a going concern basis. This is the case notwithstanding the required reduction in banking covenant LTV in March 2010.

Outlook

Spending on healthcare through the NHS remains at the heart of the Government's and the Opposition's policy agenda. Although the levels of increase in expenditure we have seen are unlikely to be matched in the next few years, Primary Care, where the Group has all of its assets, remains very much at the forefront of policy initiatives within the NHS.

PHP's property investment portfolio remains very attractive, particularly in today's market. It is 100% let, with 90% of the rent roll effectively paid for by the Government, and has an unexpired weighted average lease length of some 17.75 years. Recent rent review results have been encouraging as has the change to the review appeals process.

In the light of this and the cash generating abilities of the Group, the Board remains satisfied with the prospects and current funding position of the Group and looks forward to the future with confidence.

G A Elliot
Chairman

17 August 2009

Group statement of comprehensive income
for the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated[3])
Rental income		**10,407**	9,095	19,312
Finance lease income		**149**	126	379
Rental and related income		**10,556**	9,221	19,691
Administrative expenses: recurring		**(2,069)**	(2,102)	(4,229)
non-recurring		**-**	(90)	(794)
Operating profit before net valuation loss on property portfolio		**8,487**	7,029	14,668
Net valuation loss on property portfolio	3	**(8,033)**	(4,724)	(17,707)
Operating profit/(loss) before financing		**454**	2,305	(3,039)
Finance income	5	**53**	1,949	2,024
Finance costs	6	**(5,356)**	(6,369)	(12,069)
Fair value gain/(loss) on derivatives	6	**3,001**	1,608	(10,655)
Loss before tax		**(1,848)**	(507)	(23,739)
Current taxation	7	**-**	(28)	-
Conversion to UK-REIT charge	7	**-**	(160)	(160)
Taxation expense		**-**	(188)	(160)
Loss for the period [1]		**(1,848)**	(695)	(23,899)
Other comprehensive income				
Movement in cash flow hedging reserve		**9,098**	4,818	(16,350)
Total comprehensive income for the period [1]		**7,250**	4,123	(40,249)

	Notes	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)
Loss per share				
• basic and diluted	4	**(5.4p)**	(2.1p)	(71.2p)
Adjusted earnings per share [2]				
• basic and diluted	4	**9.2p**	8.0p	16.2p

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.

3 Restated as described in note 1 to the financial statements.

Group balance sheet
at 30 June 2009

	Notes	At 30 June 2009 £000 (unaudited)	At 30 June 2008 £000 (unaudited)	At 31 Dec 2008 £000 (audited) (restated)
Non current assets				
Investment properties	3	**315,749**	322,919	316,862
Development loans		**-**	33	282
Net investment in finance leases		**2,991**	2,889	2,989
Derivative interest rate swaps		**-**	6,522	-
		318,740	332,363	320,133
Current assets				
Derivative interest rate swaps		**-**	-	454
Trade and other receivables		**1,945**	4,353	1,808
Net investment in finance leases		**41**	52	50
Cash and cash equivalents		**153**	4,022	675
		2,139	8,427	2,987
Total assets		**320,879**	340,790	323,120
Current liabilities				
Derivative interest rate swaps		**(10,462)**	(1,200)	(13,917)
Corporation tax payable		**(29)**	(57)	(29)
UK-REIT conversion charge payable		**(1,490)**	(1,413)	(1,559)
Deferred rental income		**(4,677)**	(4,212)	(4,275)
Trade and other payables		**(3,530)**	(2,426)	(3,817)
		(20,188)	(9,308)	(23,597)
Non-current liabilities				
Term loans		**(207,216)**	(202,683)	(204,088)
UK-REIT conversion charge payable		**(1,708)**	(3,093)	(2,226)
Derivative interest rate swaps		**(5,825)**	(277)	(14,923)
		(214,749)	(206,053)	(221,237)
Total liabilities		**(234,937)**	(215,361)	(244,834)
Net assets		**85,942**	125,429	78,286

	Notes	At 30 June 2009 £000 (unaudited)	At 30 June 2008 £000 (unaudited)	At 31 Dec 2008 £000 (audited) (restated)
Equity				
Share capital		**17,633**	16,794	16,794
Share premium		**50,431**	48,009	48,009
Capital reserve		**1,618**	1,618	1,618
Cash flow hedging reserve		**(5,825)**	6,245	(14,923)
Retained earnings		**22,085**	52,763	26,788
Total equity [1]		**85,942**	125,429	78,286
Net asset value per share	10			
• basic		**243.7p**	373.4p	233.1p
• EPRA net asset value per share [2]		**289.9p**	358.4p	317.6p

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

2 See definition on page 10.

These financial statements have been prepared in accordance with the accounting policies set out in the Annual Financial Report for the year ended 31 December 2008.

Group cash flow statement
for the six months ended 30 June 2009

	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)
Operating activities			
Loss before tax	**(1,848)**	(507)	(23,739)
Less: Finance income	**(53)**	(1,949)	(2,024)
Plus: Finance costs	**5,356**	6,369	12,069
Plus: Fair value (gain)/loss on derivatives	**(3,001)**	(1,608)	10,655
Operating profit/(loss) before financing	**454**	2,305	(3,039)
Adjustments to reconcile Group operating profit/(loss) to net cash flows from operating activities:			
Revaluation loss on property	**8,033**	4,724	17,707
Plus: Goodwill impairment	**-**	90	90
(Increase)/decrease in trade and other receivables	**(216)**	(459)	1,577
Increase/(decrease) in trade and other payables	**(675)**	188	786
Cash generated from operations	**7,596**	6,848	17,121
UK REIT conversion charge instalment	**(587)**	(553)	(1,322)
Net cash flow from operating activities	**7,009**	6,295	15,799
Investing activities			
Payments to acquire investment properties	**(6,919)**	(35,025)	(41,465)
Interest received on developments	**7**	206	262
Bank interest received	**2**	134	160
Other interest received	**45**	-	20
Acquisition of SPCD companies	**-**	(7,988)	(7,846)
Net cash flow used in investing activities	**(6,865)**	(42,673)	(48,869)

	Notes	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)
Financing activities				
Proceeds from issue of shares (net of expenses)	2	**3,261**	-	-
Term bank loan drawdowns		**16,340**	54,245	69,900
Term bank loan repayment		**(13,390)**	(10,500)	(24,150)
Swap interest received		**-**	1,676	1,835
Swap interest paid		**(1,840)**	-	-
Interest paid		**(2,182)**	(6,112)	(12,160)
Equity dividends paid		**(2,855)**	(2,771)	(5,542)
Net cash flow from financing activities		**(666)**	36,538	29,883
(Decrease)/increase in cash and cash equivalents for the period		**(522)**	160	(3,187)
Cash and cash equivalents at start of period		**675**	3,862	3,862
Cash and cash equivalents at end of period		**153**	4,022	675

Group statement of changes in equity

	Share capital £000	Share premium £000	Capital reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Six months ended 30 June 2009 (unaudited)						
1 January 2009	16,794	48,009	1,618	(14,923)	26,788	78,286
Loss for the period	-	-	-	-	(1,848)	(1,848)
Income and expense recognised directly in equity:						
Transfer to Group Statement of Comprehensive Income on cash flow hedges	-	-	-	3,301	-	3,301
Fair value gains on cash flow hedges taken to equity	-	-	-	5,797	-	5,797
Total Comprehensive Income	-	-	-	9,098	(1,848)	7,250
Placing proceeds (net of expenses)	839	2,422	-	-	-	3,261
Dividends paid:						
Second interim dividend for period ended 31.12.08 (8.5p)	-	-	-	-	(2,855)	(2,855)
30 June 2009	**17,633**	**50,431**	**1,618**	**(5,825)**	**22,085**	**85,942**
Six months ended 30 June 2008 (unaudited)						
1 January 2008	16,794	48,009	1,618	1,427	56,229	124,077
Loss for the period	-	-	-	-	(695)	(695)
Income and expense recognised directly in equity:						
Transfer to Group Statement of Comprehensive Income on cash flow hedges	-	-	-	(1,621)	-	(1,621)
Fair value gains on cash flow hedges taken to equity	-	-	-	6,439	-	6,439
Total Comprehensive Income	-	-	-	4,818	(695)	4,123
Dividends paid:						
Third interim dividend for period ended 31.12.07 (8.25p)	-	-	-	-	(2,771)	(2,771)
30 June 2008	**16,794**	**48,009**	**1,618**	**6,245**	**52,763**	**125,429**
Year ended 31 December 2008 (audited) (restated)						
1 January 2008	16,794	48,009	1,618	1,427	56,229	124,077
Loss for the year	-	-	-	-	(23,899)	(23,899)
Income and expense recognised directly in equity:						
Transfer to Group Statement of Comprehensive Income on cash flow hedges	-	-	-	(1,535)	-	(1,535)
Fair value losses on cash flow hedges taken to equity	-	-	-	(14,815)	-	(14,815)
Total Comprehensive Income	-	-	-	(16,350)	(23,899)	(40,249)
Dividends paid:						
Third interim dividend for period ended 31.12.07 (8.25p)	-	-	-	-	(2,771)	(2,771)
First interim dividend for year ended 31.12.08 (8.25p)	-	-	-	-	(2,771)	(2,771)
31 December 2008	**16,794**	**48,009**	**1,618**	**(14,923)**	**26,788**	**78,286**

Notes to the financial statements

1. Accounting policies

General information

The financial information contained in this report does not constitute statutory accounts within the meaning of section 435 Companies Act 2006. The auditors' report on the full financial statements under section 235 Companies Act 1985, for the year ended 31 December 2008 did not contain a statement under section 237(2) or (3) of the Companies Act 1985. This audit report, which was unqualified, was delivered to the Registrar of Companies together with the financial statements for the year ended 31 December 2008.

Basis of preparation/Statement of compliance

The half year report for the six months ended 30 June 2009 has been prepared in accordance with IAS 34 'Interim Financial Reporting' and reflects the accounting policies set out in the Group's financial statements at 31 December 2008 which have been prepared in accordance with IFRS as adopted by the European Union, with the exception of the amendment to IAS 40 Investment Property which has been adopted in this half year report (see below). Since then, the Group has adopted International Accounting Standard (IAS) 1 (revised) and chosen to present one 'Comprehensive Statement of Income' for the Group. It has also applied IAS 40 as explained in Note 3. Certain other new standards, amendments to standards and interpretations are mandatory for the first time from 1 January 2009, but are not currently relevant for the Group.

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 2008.

Restatement

During the period it was established that a swap interest accrual of £895k had been omitted from the December 2008 accounts. The prior year balances have been restated to correct this error. The December 2008 trade and other payables balance has been increased by £895k and the bank swap interest income figure has been decreased by the same amount. As a result of the above adjustment, the December 2008 basic loss per share figure increased from 68.5p per share to 71.2p per share and the adjusted earnings per share figure reduced from 18.8p to 16.2p. The retained earnings decreased from £27.7m to £26.8m. There is no impact on the financial statements for the six months ended 30 June 2008.

Notes to the financial statements continued

Convention

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

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business and one geographical segment, being investment in property in the United Kingdom leased principally to GPs, Primary Care Trusts, Health Authorities and other associated health care users.

2. Placing

On 23 March 2009, the Company issued a further 1,679,354 new Ordinary Shares of 50p each at a price of 220p per share, via a placing, raising £3.7m gross (£3.3m net of expenses).

3. Investment and development properties

The freehold, leasehold and development properties have been independently valued at fair value by Lambert Smith Hampton, Chartered Surveyors and Valuers, as at 30 June 2009.

In this financial period the Group has adopted the improvements to IAS40 as enacted in the IFRS Improvements Standard (May 2008). The amendment has been applied prospectively for investment properties under construction from 1 January 2009. Consequently, investment properties under construction have been valued at fair value by Lambert Smith Hampton as at 30 June 2009. In determining the fair value, the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. In the case of the Group's portfolio under construction, where the sites are prelet and construction risk remains with the builder/developer, the valuers have used the special assumptions that, as at the valuation date, the developments have been completed satisfactorily, the agreements of leases have been completed and the rents and other tenants' lease obligations have commenced. A fair value decrease of £1m in respect of investment property under construction has been recognised in the Statement of Comprehensive Income. Prior period figures in respect of properties under construction or development have not been restated because any adjustment is deemed to be immaterial. Historically, properties under construction or development were included in the Balance Sheet at cost. A provision for impairment was made, if necessary, to reduce the carrying value to the recoverable amount. No such impairment was deemed necessary for the year ended 31 December 2008.

The revaluation loss for the six months ended 30 June 2009 amounted to £8.0m. The revaluation loss for the year ended 31 December 2008 amounted to £17.7m and that for the six months ended 30 June 2008 amounted to £4.7m.

Property additions (including capitalised interest costs of £0.5m relating to contracts) for the six months ended 30 June 2009 amounted to £6.9m. There were no properties disposed of in the six months to 30 June 2009. Commitments at 30 June 2009 amounted to £34.2m (31 December 2008: £34.0m).

Property additions for the six months ended 30 June 2008 amounted to £42.3m. There were no property disposals during this period.

Notes to the financial statements continued

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.

	Net loss attributable to Ordinary Shareholders			[1] Number of Ordinary Shares			Pence per share		
	Six mths ended 30 June 2009 £000 (unaudited)	Six mths ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)	Six mths ended 30 June 2009 (unaudited)	Six mths ended 30 June 2008 (unaudited)	Year ended 31 Dec 2008 (audited)	Six mths ended 30 June 2009 (unaudited)	Six mths ended 30 June 2008 (unaudited)	Year ended 31 Dec 2008 (audited) (restated)
Loss per share									
Basic loss per share	(1,848)	(695)	(23,899)	34,487,079	33,587,094	33,587,094	(5.4)	(2.1)	(71.2)
Adjusted loss per share									
Adjustments to remove:									
Goodwill impairment	-	90	90						
REIT Conversion charge	-	160	160						
Other non recurring items	-	-	704						
Net valuation losses on valuation of property	8,033	4,724	17,707						
Fair value (gain)/loss on derivatives [2]	(3,001)	(1,608)	10,655						
Adjusted basic and diluted earnings per share [3]	3,184	2,671	5,417	34,487,079	33,587,094	33,587,094	9.2	8.0	16.2

1 Weighted average number of Ordinary Shares in issue during the period.

2 In view of the continuing volatility in the mark to market adjustment 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/loss in the calculation of adjusted earnings.

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

5. Finance income

	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)
Interest income on financial assets			
Not at fair value through profit or loss			
Bank interest	2	134	164
Development loan interest	7	194	262
Other interest	44	-	63
Bank swap interest	-	1,621	1,535
	53	1,949	2,024

Due to underlying interest rates falling below the level at which the Group has fixed its debt, bank swap interest became payable in the six months ended 30 June 2009 and, as a result of the reduction in interest rates, bank loan interest paid was substantially reduced. Net finance costs were £5.3m (year ended 31 December 2008: £10.0m, six months to 30 June 2008: £4.4m).

Notes to the financial statements continued

6. Finance costs

	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)
Interest expense on financial liabilities			
Not at fair value through profit or loss			
(i) Interest paid			
Bank loan interest paid	2,002	6,033	11,874
Bank swap interest	3,301	-	-
Other interest paid	3	40	44
Notional UK-REIT interest	50	296	151
	5,356	6,369	12,069
At fair value through profit or loss			
(ii) Derivatives			
Net fair value gain/(loss) on derivatives	3,001	1,608	(10,655)

The fair value gain (31 December 2008: loss) on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. A further fair value gain on hedges which meet the hedge effectiveness criteria under IAS39 of £9.1m (31 December 2008: loss of £16.3m) is accounted for directly in equity.

	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited) (restated)
Total net finance costs	5,303	4,420	10,045
Weighted average finance cost %	5.15	4.73	5.25

7. Taxation

	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited)
Taxation in the Statement of Comprehensive Income:			
Current tax			
UK Corporation tax on non property income	-	28	-
Charge on conversion to UK-REIT [1]	-	160	160
Taxation expense in the Statement of Comprehensive Income	-	188	160

1 Conversion to a UK-REIT means that the Group is no longer subject to UK Corporation tax. This enabled the Group to release deferred tax liabilities in respect of the property acquisitions made in the prior period at the expense of incurring a conversion charge of £5.2m which is payable over four years. At 30 June 2009, £3.2m remains to be paid.

8. Dividends paid

	Number of shares dividend paid upon (unaudited)	Six months ended 30 June 2009 £000 (unaudited)	Six months ended 30 June 2008 £000 (unaudited)	Year ended 31 Dec 2008 £000 (audited)
Second interim dividend for the period ended 31 December 2008 (8.50p) paid 28 March 2009	33,587,094	**2,855**	-	-
First interim dividend for the period ended 31 December 2008 (8.25p) paid 20 November 2008	33,587,094	-	-	2,771
Third interim dividend for the period ended 31 December 2007 (8.25p) paid 28 March 2008	33,587,094	-	2,771	2,771
		2,855	2,771	5,542

Notes to the financial statements continued

The Board intends to pay an interim cash dividend of 8.5p per Ordinary Share for the six months to 30 June 2009, payable on 20 November 2009, amounting to £2.9m.

9. Performance incentive scheme

The performance incentive fee is calculated on an annual basis, using the audited financial statements.

No performance incentive fee is payable to the Joint Managers for the period ended 30 June 2009 (six months to 30 June 2008 and to 31 December 2008: £nil).

10. Net asset value calculations

There is no difference between the normal and adjusted net asset values as at 30 June 2008, 31 December 2008 and 30 June 2009, due to the release of all deferred tax liabilities on conversion to UK-REIT status.

Net asset values have been calculated as follows:

	30 June 2009 £000 (unaudited)	**30 June 2008 £000** (unaudited)	**31 Dec 2008 £000** (audited) (restated)
Net assets per Group Balance Sheet	**85,942**	125,429	78,286
Derivative interest rate swaps (net)	**15,914**	(5,045)	28,840
Basis swaps	**373**	-	(454)
EPRA net asset value	**102,229**	120,384	106,672
	Number of shares	**Number of shares**	**Number of shares**
Ordinary Shares:			
Issued share capital	**35,266,448**	33,587,094	33,587,094
Basic net asset value per share	**243.7p**	373.4p	233.1p
EPRA net asset value per share	**289.9p**	358.4p	317.6p

11. Related party transactions

There have been no changes to the related party arrangements or transactions as reported in the statutory Annual Financial Report for the year ended 31 December 2008. Note 3 of the Annual Financial Report includes details of the management fees payable. Management fees payable in accordance with the Joint Management Agreement described in the Annual Financial Report of £0.7m were paid to Nexus PHP Management Limited (six months to 30 June 2008: £0.7m and 12 months to 31 December 2008: £1.4m) and to J O Hambro Capital Management Limited £0.7m (six months to 30 June 2008: £0.6m and 12 months to 31 December 2008: £1.2m).

Independent review report to Primary Health Properties PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Group Statement of Comprehensive Income, Group Balance Sheet, Group Cash Flow Statement, Group Statement of Changes in Equity and the related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE 2410") issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards "IFRS" as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

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

Scope of review

We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
Registered Auditor
London

17 August 2009

Directors' responsibility statement

The Directors confirm that 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 and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Financial Report.

The Directors of Primary Health Properties PLC are listed in the Annual Financial Report for the year ended 31 December 2008. A list of current Directors is shown on page 33. Shareholder information is as disclosed in the Annual Financial Report and is also available on the PHP website www.phpgroup.co.uk.

G A Elliot
Chairman

17 August 2009

Corporate profile

Directors

G A Elliot (Chairman)
A R Jones (Chairman of Audit Committee and Senior Independent Director)
H A Hyman (Managing Director)
M P Creedy
M J Gilbert (W J C Hemmings: alternate)
J D Hambro
Dr I P Rutter OBE

Company Secretary and Registered Office

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* calls cost 10p per minute plus network charges

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Auditors

Ernst & Young LLP
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Corporate profile continued

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Primary Health Properties PLC

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