

PRIMARY HEALTH PROPERTIES PLC

"A Dedicated Healthcare REIT"



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

Harry A Hyman
Managing Director
harry.hyman@nexusgroup.co.uk
25 February 2010

Private and Confidential

Full Year Results for 12 months to 31 December 2009

Snapshot



- **Dedicated healthcare REIT paying high quality dividend**
- **Invests in Primary Care property**
- **Only focused on property investment – not a mainstream developer nor a service provider**
- **Strength of covenant of GPs and NHS (90% of rent roll from NHS; balance 90% pharmacy)**
- **100% let at 31/12/09**
- **Supply matches demand in the sector**
- **Average remaining lease length of 17.3 years at 31/12/09**
- **Low risk profile**
- **<1% of market in the UK**
- **Defensive sub sector within real estate**
- **Component of EPRA index at around 1.5% of benchmark**
- **At a share price of £2.95 yield of 5.75% historic**
- **EPRA NAV 279.9p 31/12/09 (272.9p adjusted at 31/12/08)**
- **Triple Net 247.2p 31/12/09 (226.7p adjusted at 31/12/08)**

Group Financial Highlights



- **Successful capital raisings of £60.7 million net of expenses**
- **Payment of 17p of dividends during the year**
- **8.75p second interim dividend for 2009 declared and payable on 26 March 2010**
- **Operating profit before revaluation result and fair value gain/loss on derivatives rose from £4.7million to £7.9million**
- **Loan to value ratio reduced to 49% at 31 December 2009 against covenant of 70%**
- **Basic net asset value increased to 247.2p per share (31 December 2008 (Adjusted): 226.7p)**
- **EPRA net asset value of 279.9p per share (31 December 2008 (Adjusted): 272.9p)**
- **Borrowing facilities not due for renewal until 2013**

Group Operational Highlights



- Continued success of our strategy of investing in modern purpose built healthcare centres
- Increase in the portfolio from £316.9million to £341.9million
- Rental growth of approximately 3.12% per annum
- Rent roll at year end of £21.3million
- Important decision achieved on rent review appeal process during the year
- Portfolio 100% let
- Portfolio including commitments valued at £371million as at 31 December 2009 on an initial yield of 6.0%

The results in brief



	2009 £m	2008 £m
Revenue	21.3	19.6
Net Financing Costs	(10.1)	(10.5)
Operating profit before revaluation result and fair value gain/loss on derivative	7.9	4.7
Fair Value gain/loss on derivatives	1.3	(10.7)
Property revaluation gain/loss	1.6	(17.7)
Profit/loss before tax	10.8	(23.7)
Dividends Paid	5.8	5.5

Balance Sheet Highlights

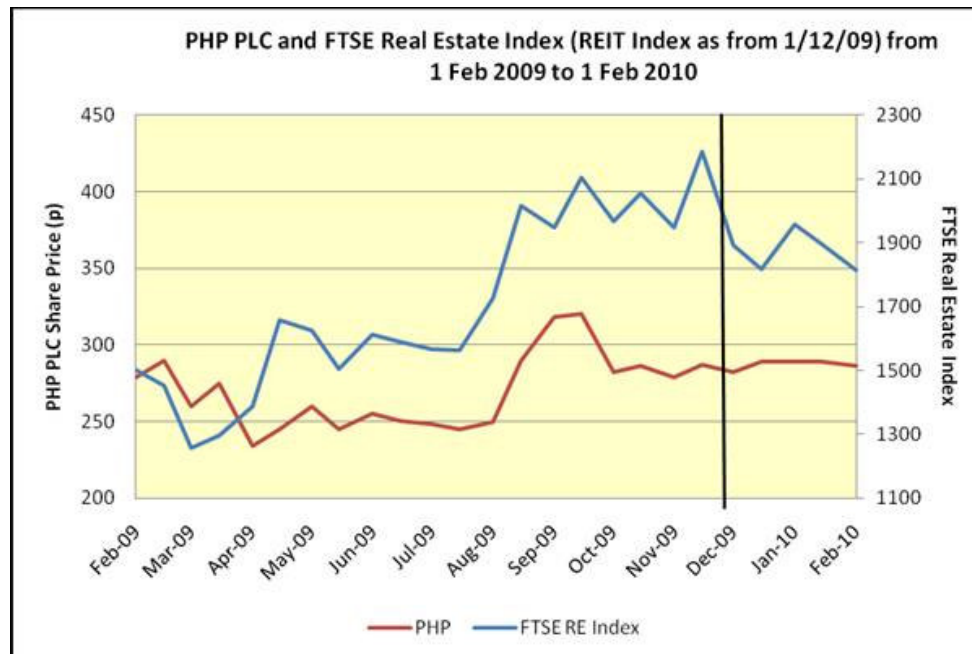


31/12/09 31/12/08

Net Assets	£152m	£78.3m
Net asset value per share	247.2p	226.7
EPRA net asset value per share	279.9p	272.9p
Investment portfolio including finance leases	£344.9m	£320.2m
Debt	£167.0m	£204m
Future minimum lease payments receivable	£369m	£356m
LTV	48%	64%

10 year share price performance

- PHP was best-performing UK REIT in 2008 (Estates Gazette)
- PHP was best performing property share over last decade (Property Week Dec 2009)



Source: Bloomberg

Port Talbot Resource Centre, Port Talbot, Wales

Tenants: Four GP Practices, PCT Accommodation, 2 Dental Practices, Pharmacy

Date of Purchase: September 2009

NIA: 60,000 sqft

Cost: £15.5m



The Paradigm Shift

From This:

Llandaff North, Cardiff
Tenant: 4 doctor practice
Date of Purchase: 1997
NIA: 473 sqm
Cost: c. £0.71m



To This:

Connah's Quay, Clwyd, North Wales
Tenants: 3 GP Practices, NHS Trust, Pharmacy
Due for completion: Feb 2010
NIA: 3,450 sqm
Cost: c. £10 m



The Paradigm Shift

From This:

Blackthorn Abbey, Netley, Nr Hamble

Tenant: 4 doctor practice

Date of Purchase: 1994

NIA: 233 sqm

Cost: £0.26m



To This:

Health Centre, Hamble

Tenants: Merged GP practice, Pharmacy, PCT

Date of construction: 2006

NIA: 1,186 sqm

Cost: £3.22 m



Sample Properties



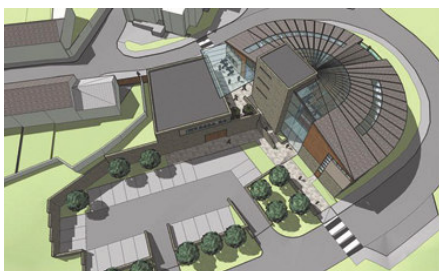
Frederick Treves House **Dorchester** **South West**

Tenant(s): 2 GP Practices,
dental suite, pharmacy
Date of Purchase: 2007
NIA: 2,100 sq m Cost: c.
£5.9m
Developed by: Haven Health
Properties



Cowbridge **Vale of Glamorgan**

Tenant(s): 2 GP Practices, NHS
Trust
Date of Delivery: 2010
NIA: 2,450 sq m Cost: c. £6.9m
Developed By: Brackley
Investments



Treharris **Wales**

Tenant(s): GP Practice, NHS
Dental service, community
Health Services, pharmacy
and office accommodation
Date of Delivery: 2010
NIA: 1,544 Cost: c. £4.7m
Developed By: Haven Health
Properties Limited



Culm Valley Integrated Centre for Health **Cullompton** **Devon** **EX15 1FE**

Tenant(s) PCT
Date of Purchase: April 2008
NIA: 22,500sq ft Cost: c. £7.6m
Developed By Haven Health



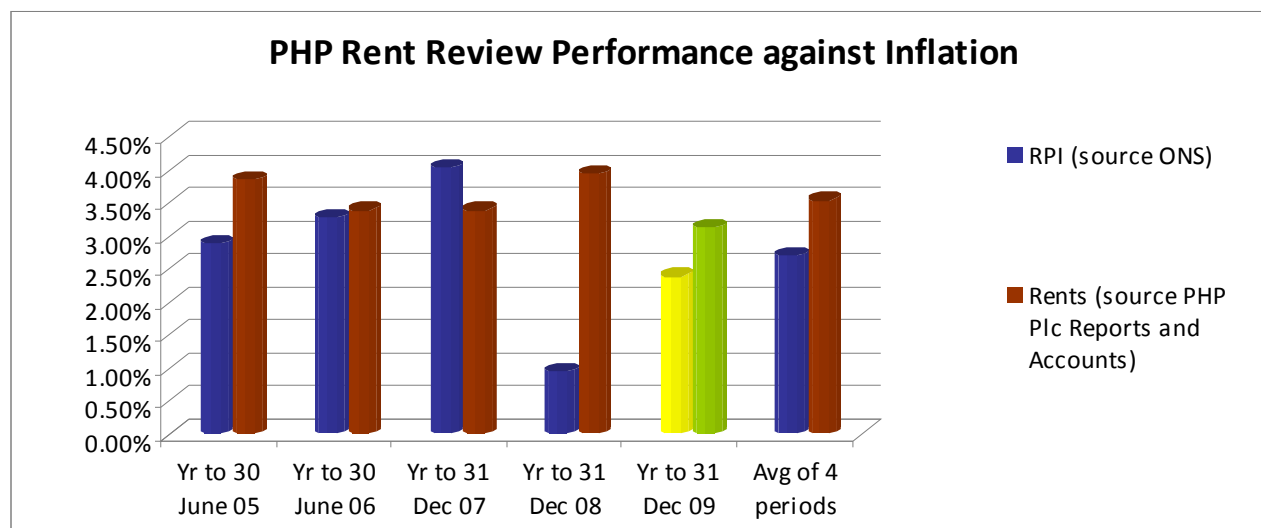
Portfolio Strength



- **Key characteristics**
 - **Average lease length of 17.3 years**
 - **Strong tenant covenant – 90% of rent roll paid for directly/indirectly by the Government**
 - **84% of leases subject to triennial rent reviews - effectively upward only rent reviews**
- **These characteristics result in high visibility cashflows, and yields which have not softened significantly relative to some other companies**
- **PHP's yield has softened from a cycle peak of just under 5.0% to 6.2% and back to 6.0% at the end of 2009**
- **PHP has outperformed the IPD index**

Rental Increases achieved

- 2009 increase in rents received 3% per annum (4% 2008)
- % of rent roll on fixed uplift – 1.65%
- % of rent roll index linked – 8.54%
- Balance open market effectively upwards only
- Historically rental increases have broadly tracked RPI increases – see below



Drivers for rental growth



- Reducing the NHS carbon footprint
- Specification creep – see Appendix
- Building regulations
- Replacement cost
- inflation

Connahs Quay, Primary Care Resource Centre



- Completion Summer 2010.
- Over 37,000 sq ft NIA
- Natural ventilation utilised wherever possible
- Clinical activities located to maximise use of natural lighting and ventilation
- PIR motion/ heat detectors
- Orientation of building to minimise climatic impact, e.g. solar gain
- 90% of materials achieve A or A+ in 'green guide to specification'
- Green 'sedum' roof increases thermal mass and reduces water runoff

Connahs Quay resource centre



Types of Leases – Full Repairing and Insuring (FRI)



Approximately 75% by rent roll of PHP's leases are FRI and the residue are TIR.

Full Repairing and Insuring (FRI)

- US "Triple Net" style
- Tenants demise includes all building, car park and landscaping
- Tenant accepts responsibility for all repairs and maintenance
- Tenant refunds PHP's cost of insuring building and 3 yrs loss of rent
- PCT/NHS refund tenants costs
 - Tenant receives "Current Market Rent" (CMR) plus 5% repairs allowance from PCT/NHS on quarterly basis
 - Tenant pays PHP CMR only
- Usual 3 yearly effective upwards only rent reviews`

Types of Leases – Tenants Internal Repairing (TIR)



- **Several small differences in division of responsibilities from property to property.**
- **Tenant demised internal surfaces of building**
- **Landlord retains structure, foundations and external hard landscaping**
- **Tenant responsibilities limited to internal redecoration, fixtures and fittings**
- **Landlord bears costs of insuring building and 3 yrs loss of rent**
- **PCT/NHS fund estimated costs of Landlords additional burden through rental payments**
 - **Tenant receives CMR plus 5% repairs allowance from PCT/NHS on quarterly basis**
 - **Tenant pays PHP CMR plus 5% repairs allowance, as rent**
- **Usual 3 yearly effective upwards only rent reviews**

Conventional Independent Valuation



- Portfolio valued every 6 months using Lambert Smith Hampton valuations
- Basis is aggregation of INDIVIDUAL values
- No “lotting premium” (“portfolio effect”) effect taken account of
- Length of leases 18 years + covenant ⇒ defensive characterisation
- Rental increases drive valuation increases so not dependent upon yield shift.
- Achieving good increases around 3% per annum on average
- Initial yield of 6%. True equated yield of some 6.25%

DCF Valuation



- The length of leases produces robust DCF valuations to underpin valuation of PHP
- Additional valuation based on discounted cash flow
- £368 m vs £342 m
- £26m increase
- Discounted using 7% per annum
- 2.5% rental growth per annum (2008: 3%)
- 1% growth in residual values per annum
- 70% from rents 30% from residual values

		0%	1%	2%	2.5%	3%
DCF Rate	6.0%	£355.4	£374.8	£396.6	£408.4	£420.9
	6.5%	£336.9	£355.4	£376.0	£387.2	£399.0
	7.0%	£319.8	£337.3	£356.8	£367.5	£378.7
	7.5%	£303.8	£320.5	£339.1	£349.2	£359.8
	8.0%	£289.0	£304.9	£322.6	£332.1	£342.2

What is the NHS?



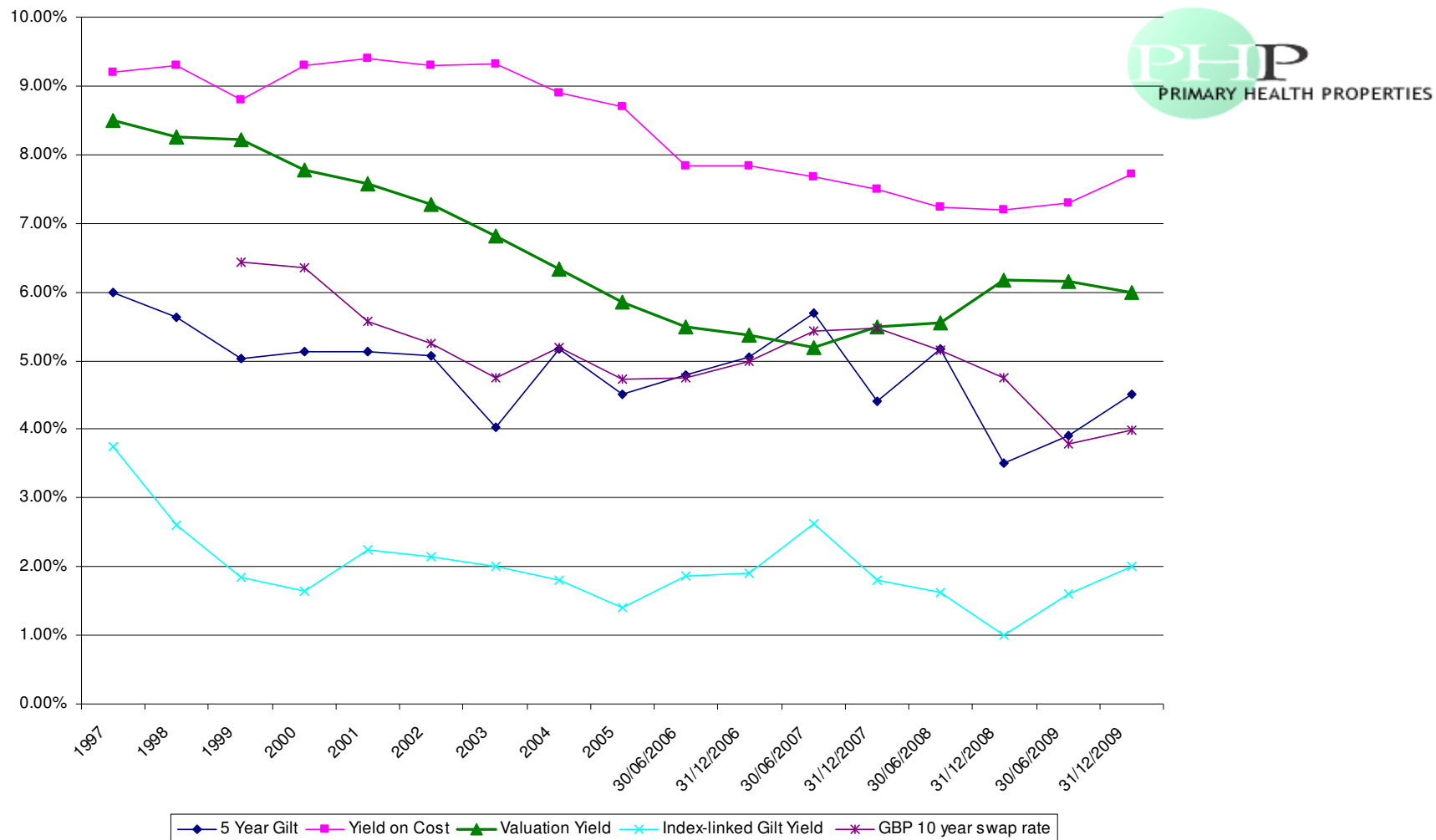
- Statutory responsibility of the Government delegated to the NHS
- NHS created in 1948
- Healthcare free at point of delivery for anyone in the UK
- A national service across the UK population of 60m
- Employs 1.4m people
- Budget this fiscal year £110 bn
- Role of primary care as the gatekeeper
- Role of the NHS GP as a physician – a generalist
- Commissioned by PCTs to deliver services
- Rent reimbursed to GP practices – effectively paid by Government

The market place

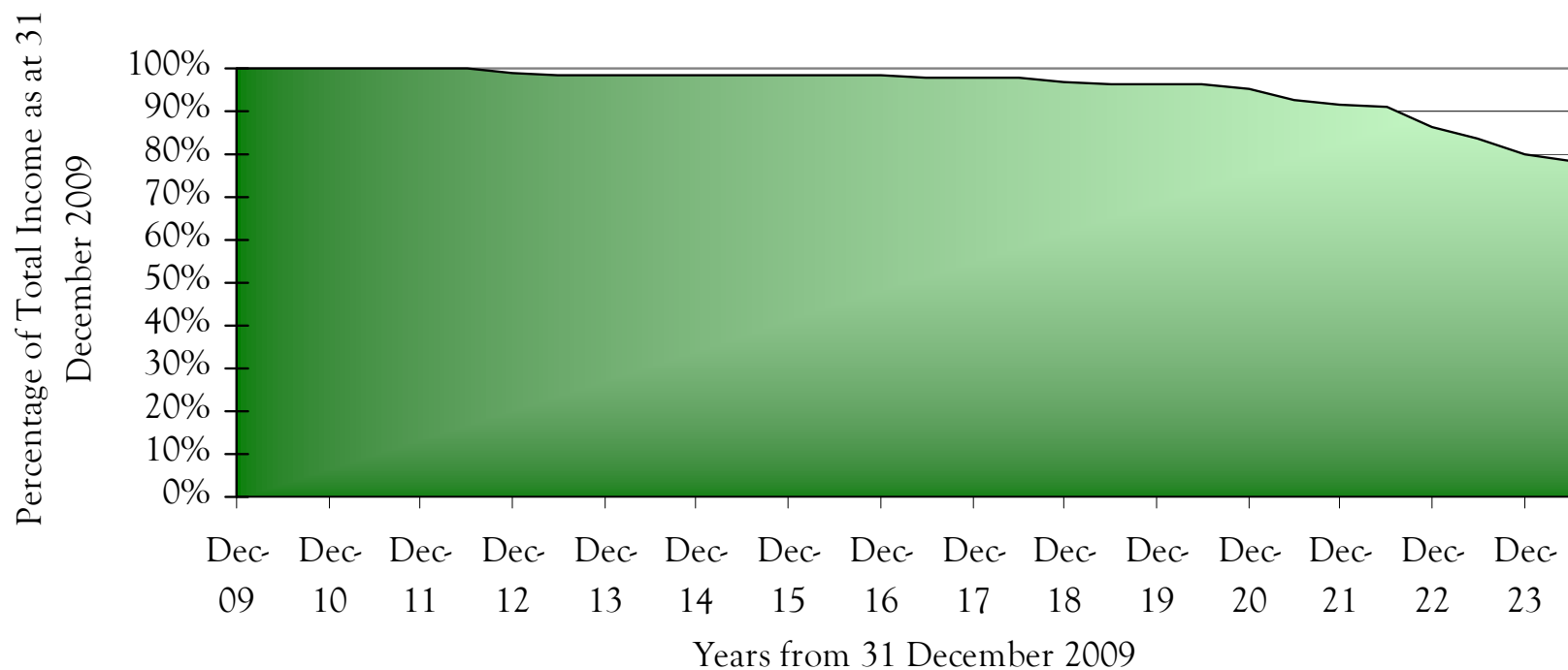


- The GP is the gatekeeper to the NHS
- 34,000 GPs in the UK
- 10,400 surgeries
- At least £6 billion of capital required to upgrade (Wanless 2002)
- Since 2001 3,000 premises replaced or substantially modified
- Paradigm shift
- 1 million patients visits to GP premises every working day
- Darzi report – polyclinics
- Moving 5% of activity from secondary care into primary care
- Cutbacks likely to affect secondary care more than primary care

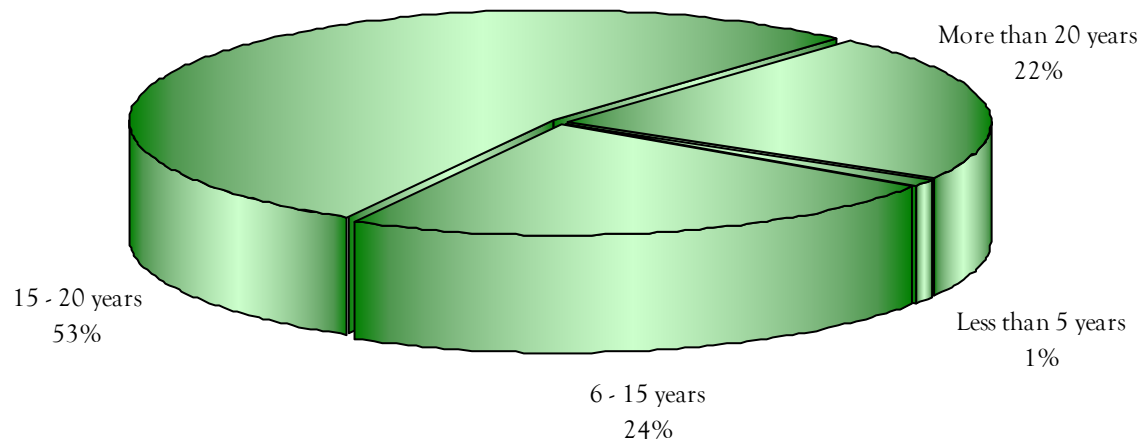
Yield on Cost and Value



Security of Income by Lease Expiry



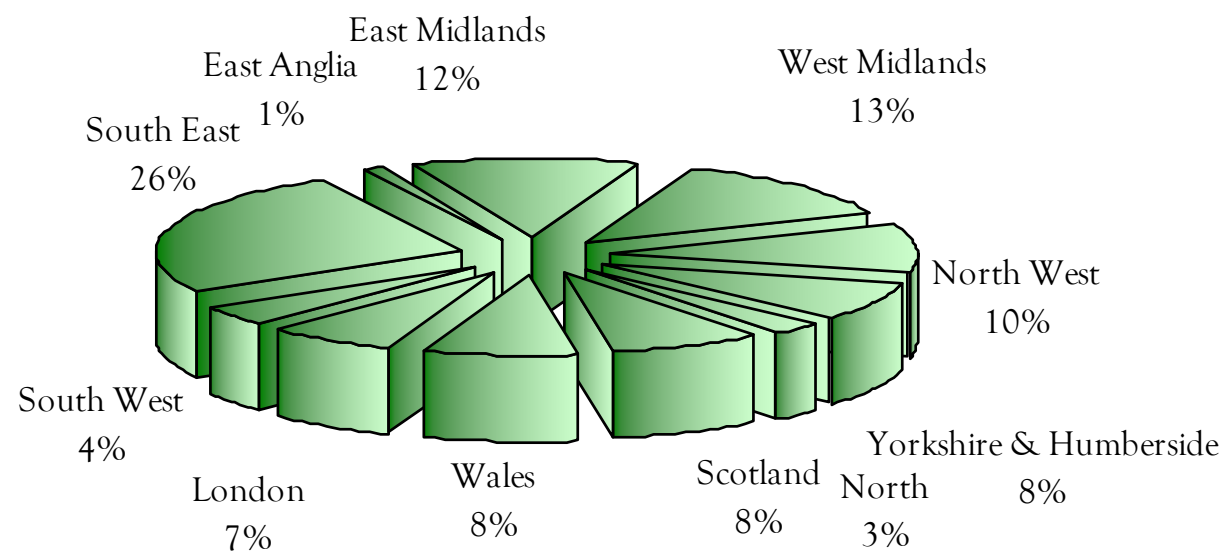
Analysis of Annual Rent by Term Unexpired



75% > 15 years income unexpired

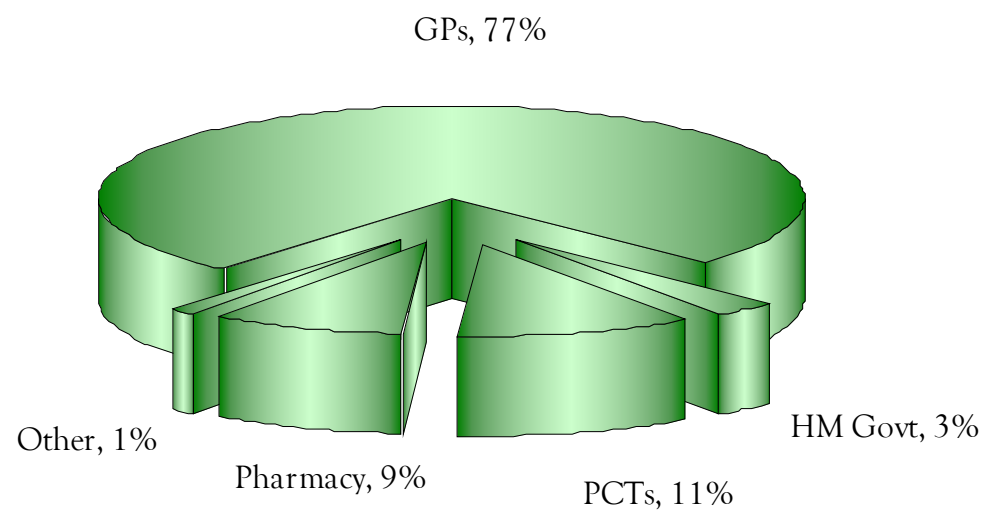
31 December 2009

Annual Rent by Region



31 December 2009

Covenant Analysis of Annual Rent



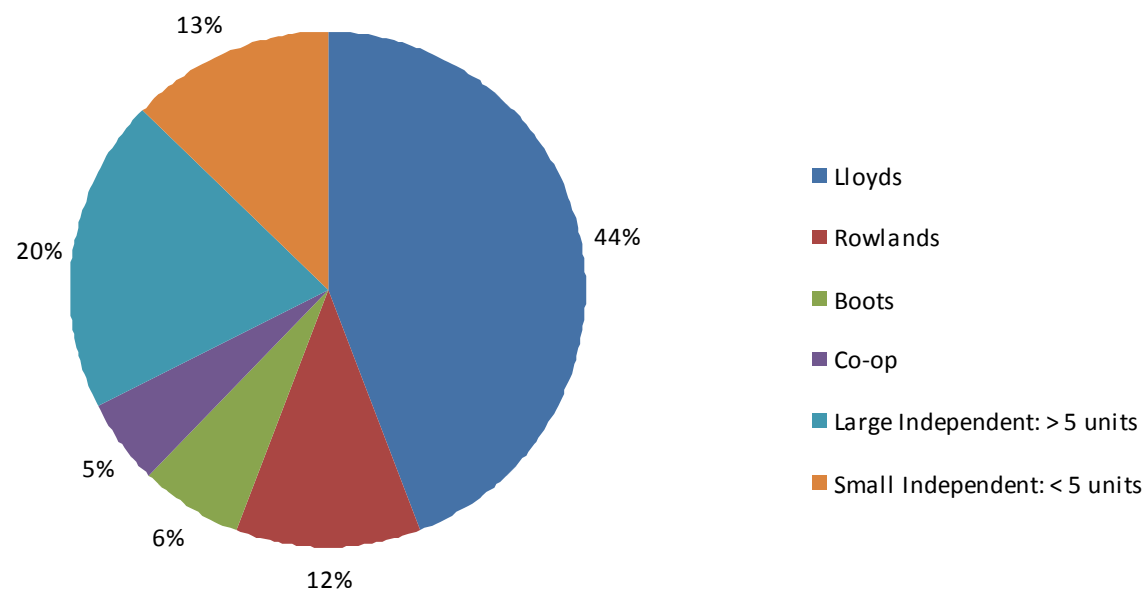
90% directly or indirectly from the Government

31 December 2009

Pharmacy Tenant Spilt By Rent

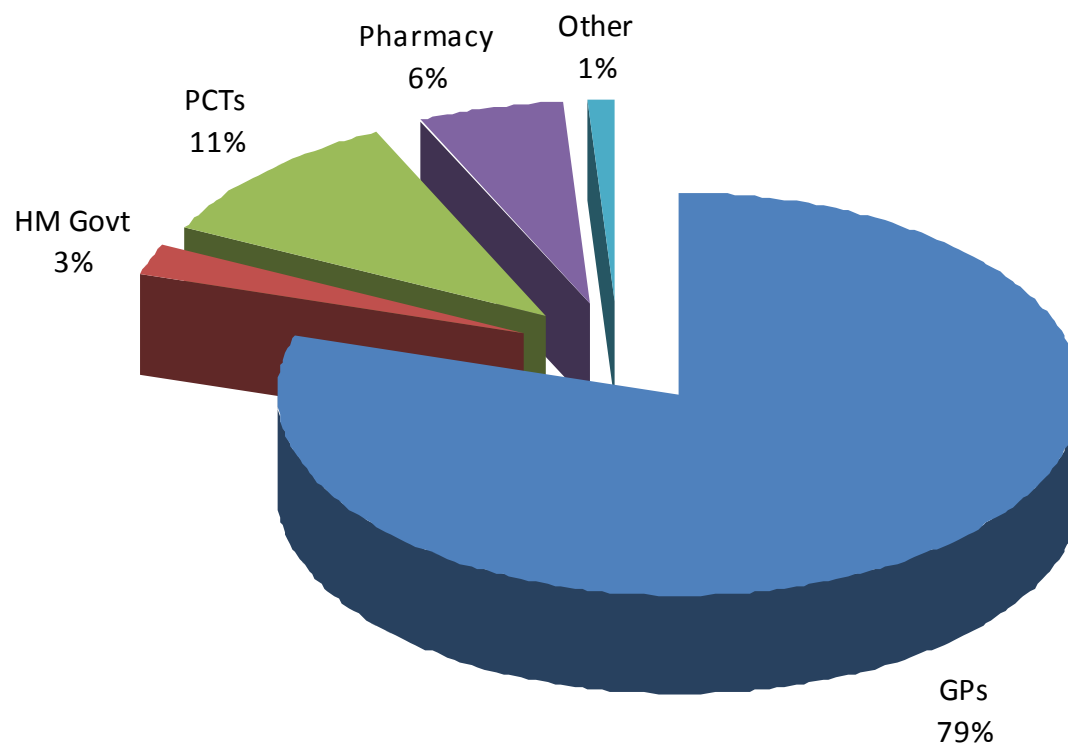


Rental Income by Pharmacy Operator



31 December 2009

Tenancy Split by Floor Area



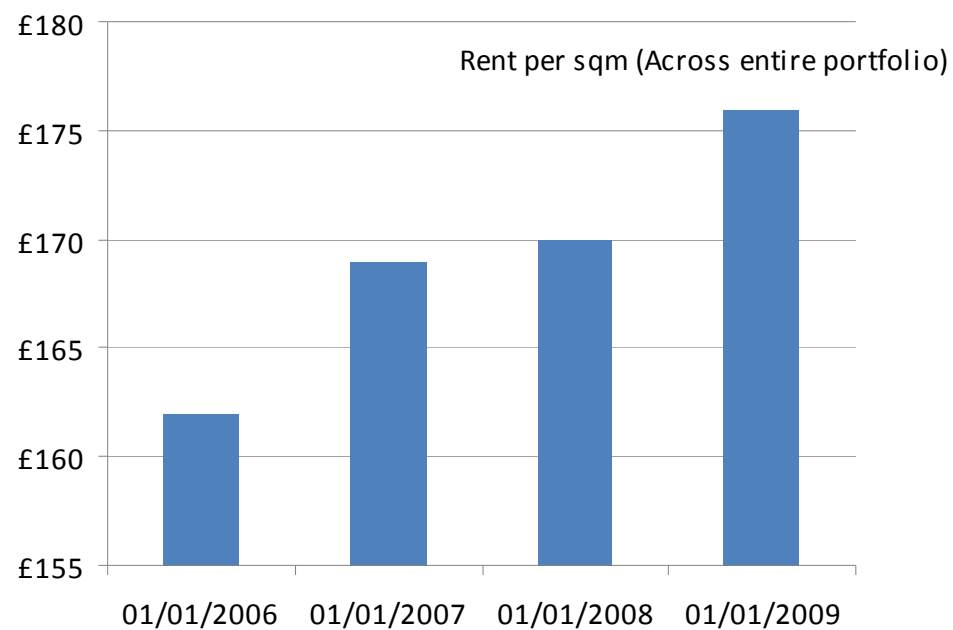
31 December 2009

Portfolio Rental Levels at 31 December 2009

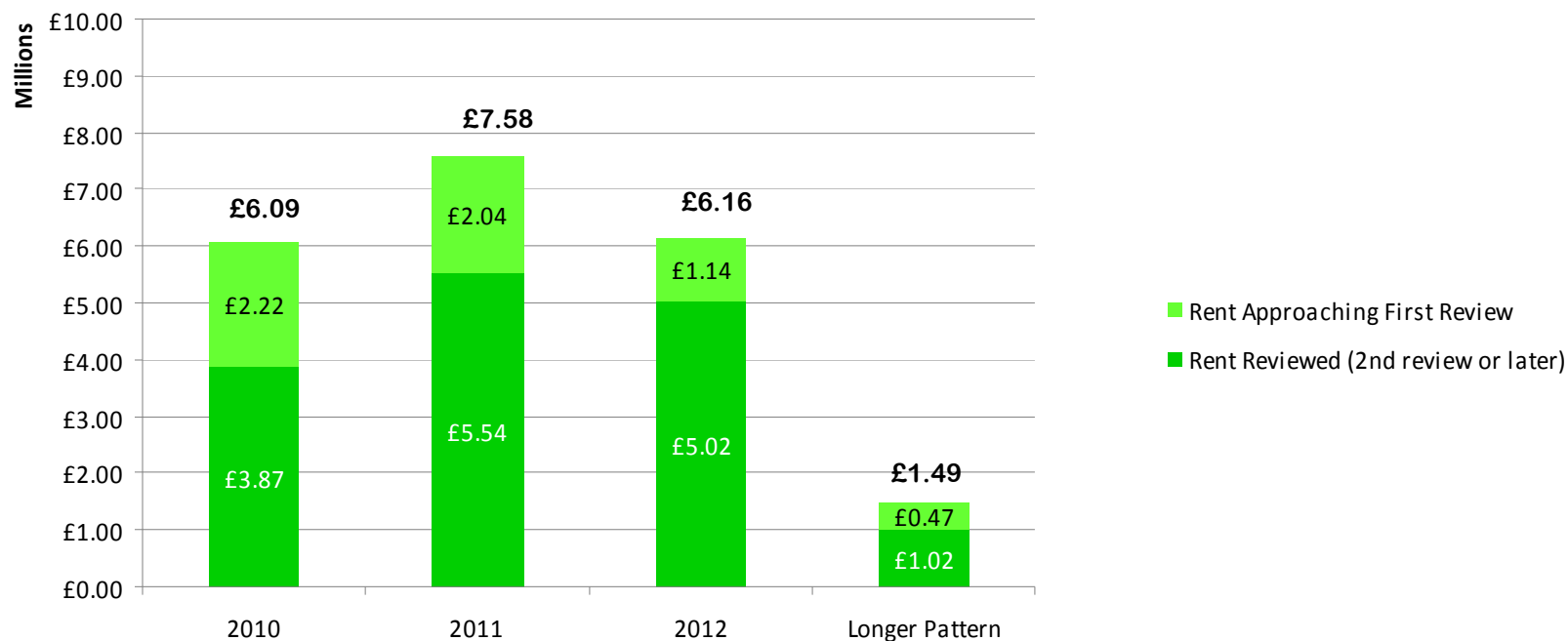


Tenant	Area (sqm)	Area (sq ft)	Rent (£psm)	Rent (£ psf)
NHS	111,365	1,198,744	171	15.87
Pharmacy	7,042	75,801	261	24.25
Other	1,349	14,515	165	15.31
Total	119,755	1,289,060	176	16.36

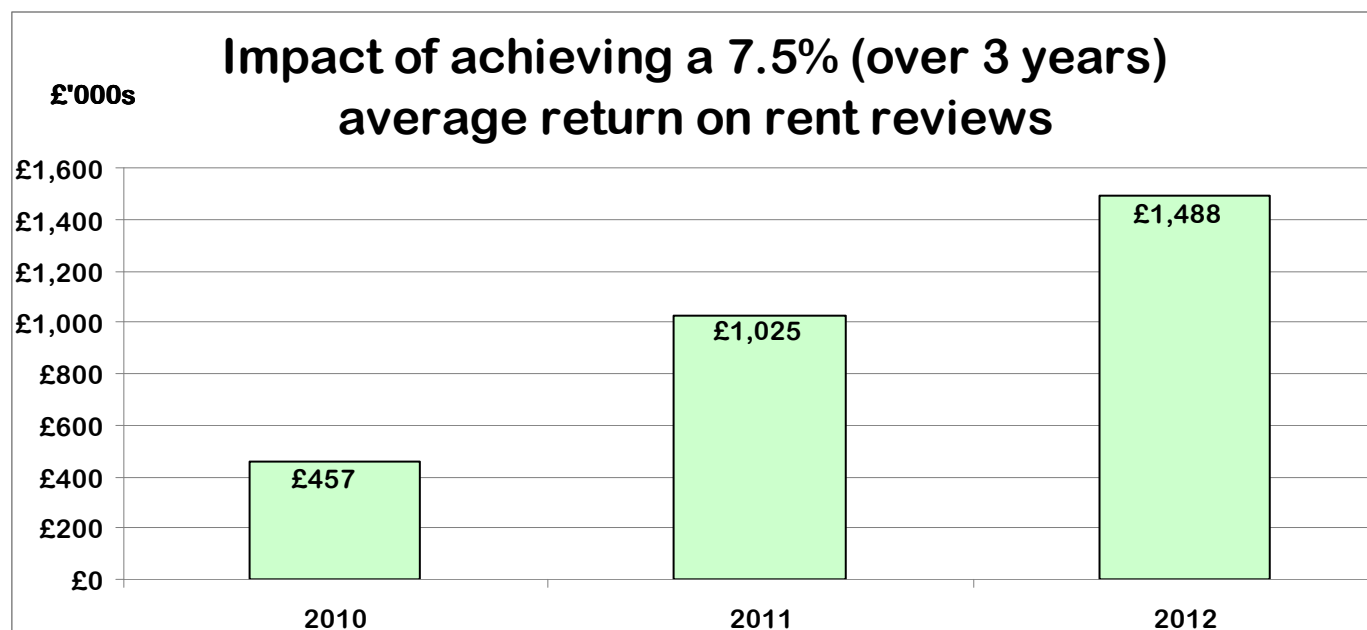
Rent per sqm & average lease length



Forthcoming Rent Reviews by Annual rent (£21.3m) at 31/12/09)



Cumulative Cash Flow



How Are Rents Assessed



- **Because of the reimbursement to the practice the NHS uses the District Valuer**
- **Values market rents for new developments**
- **Assesses Value for Money in new schemes**
- **Works with the NHS to approve the development of new primary care schemes**
- **Undertakes rent reviews on existing stock**
- **Challenge to appeals procedure now successfully achieved**
- **Should lead to improved process and rental growth prospects over time.**

Existing and proposed new banking facilities



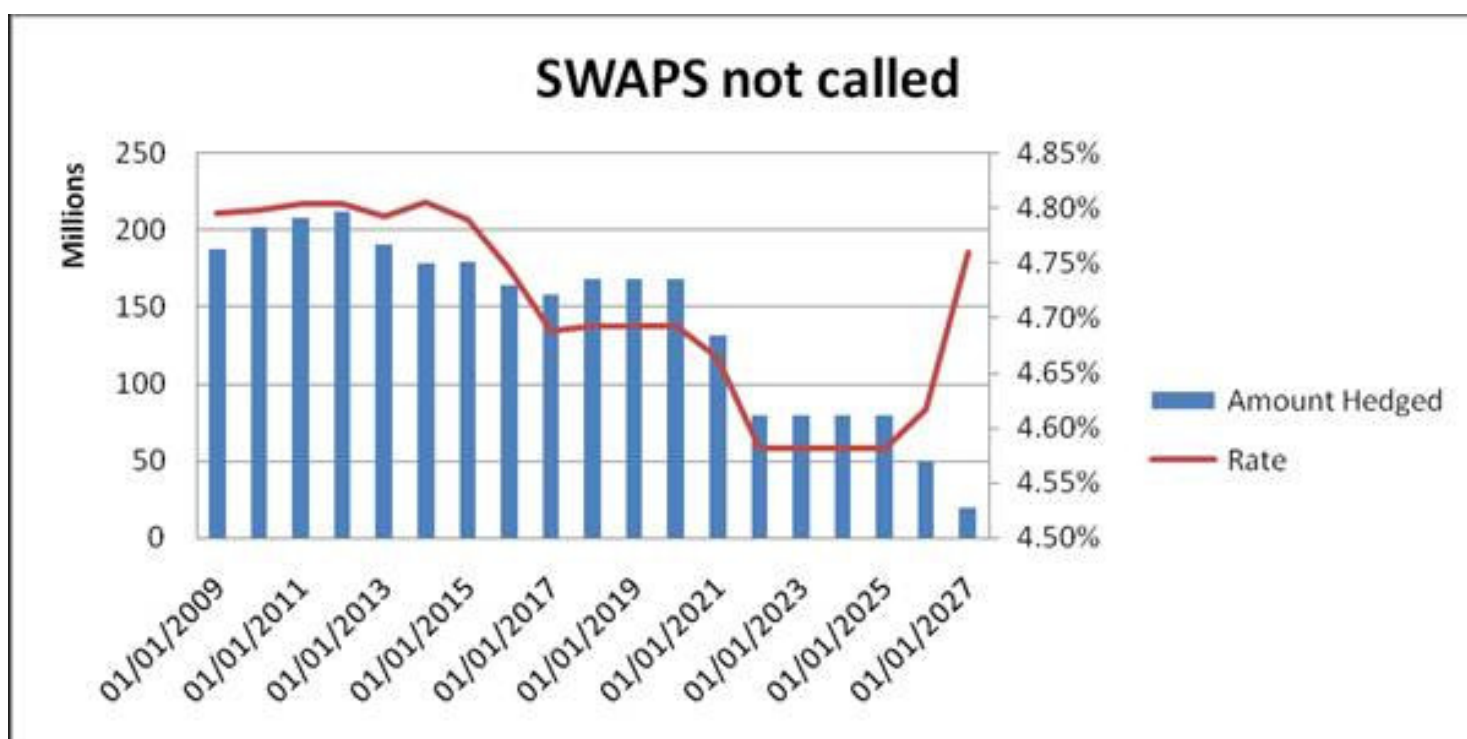
- **Total of £265m committed facilities – £255m to Jan 2013**
- **Term Loans:**
 - **RBS £140m interest only committed term loan to Jan 2013 – banker since 1996**
 - **Allied Irish Bank £50m interest only committed term loan to Jan 2013 – banker since 2004**
 - **Abbey Santander £65m committed term loan to Jan 2013 – new relationship in 2008**
- **Effective hedging policy – normally 70% hedged**
- **Discussions with existing and new banking partners on extra facilities**

Headroom and principal covenants

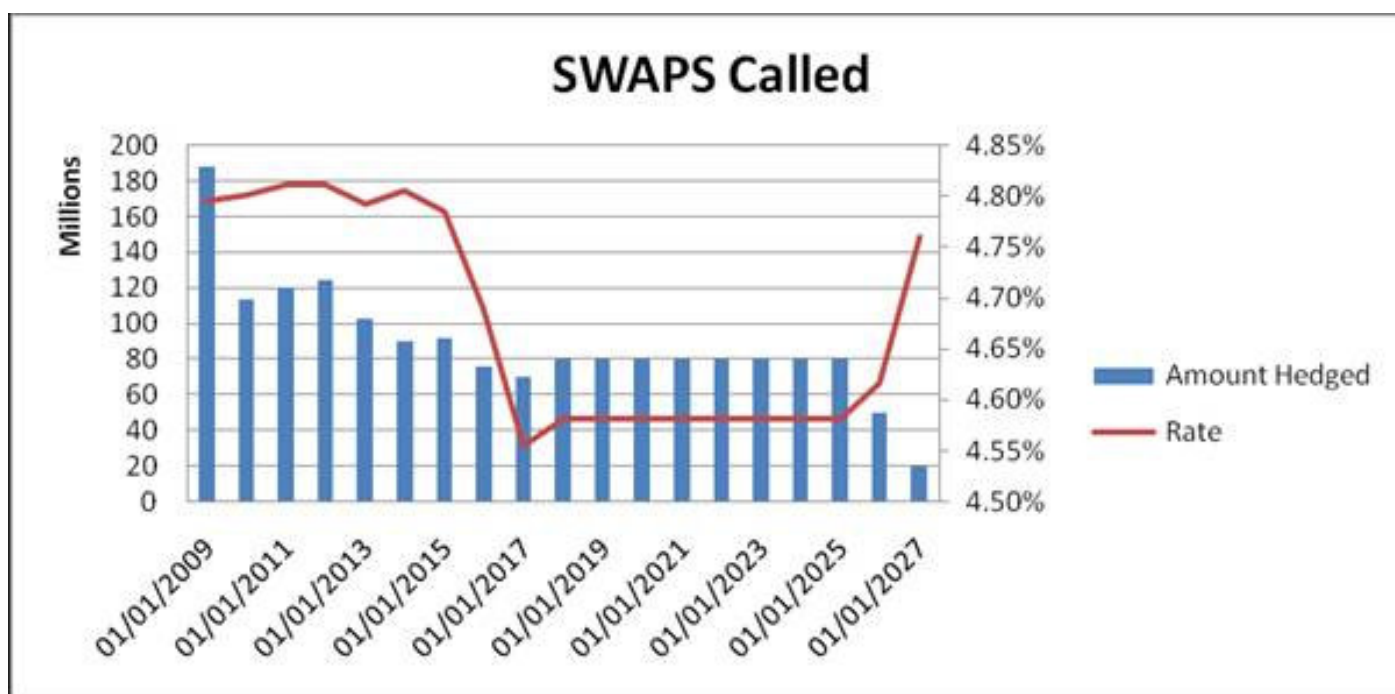


- **Borrowings at 31/12/09 £167m vs facilities of £265**
- **LTV at 31/12/09 49%**
- **Covenants of 75% LTV falling to 70% in March 2010**
- **Interest cover at 31/12/09 – 2.1x. Covenant of 1.3x**
- **At 31/12/09 commitments of £26m, resulting in headroom of £72m**
- **Maximum target leverage for Group is 70%**

Bank Debt Hedged - callable not called



Bank Debt Hedged – callable called

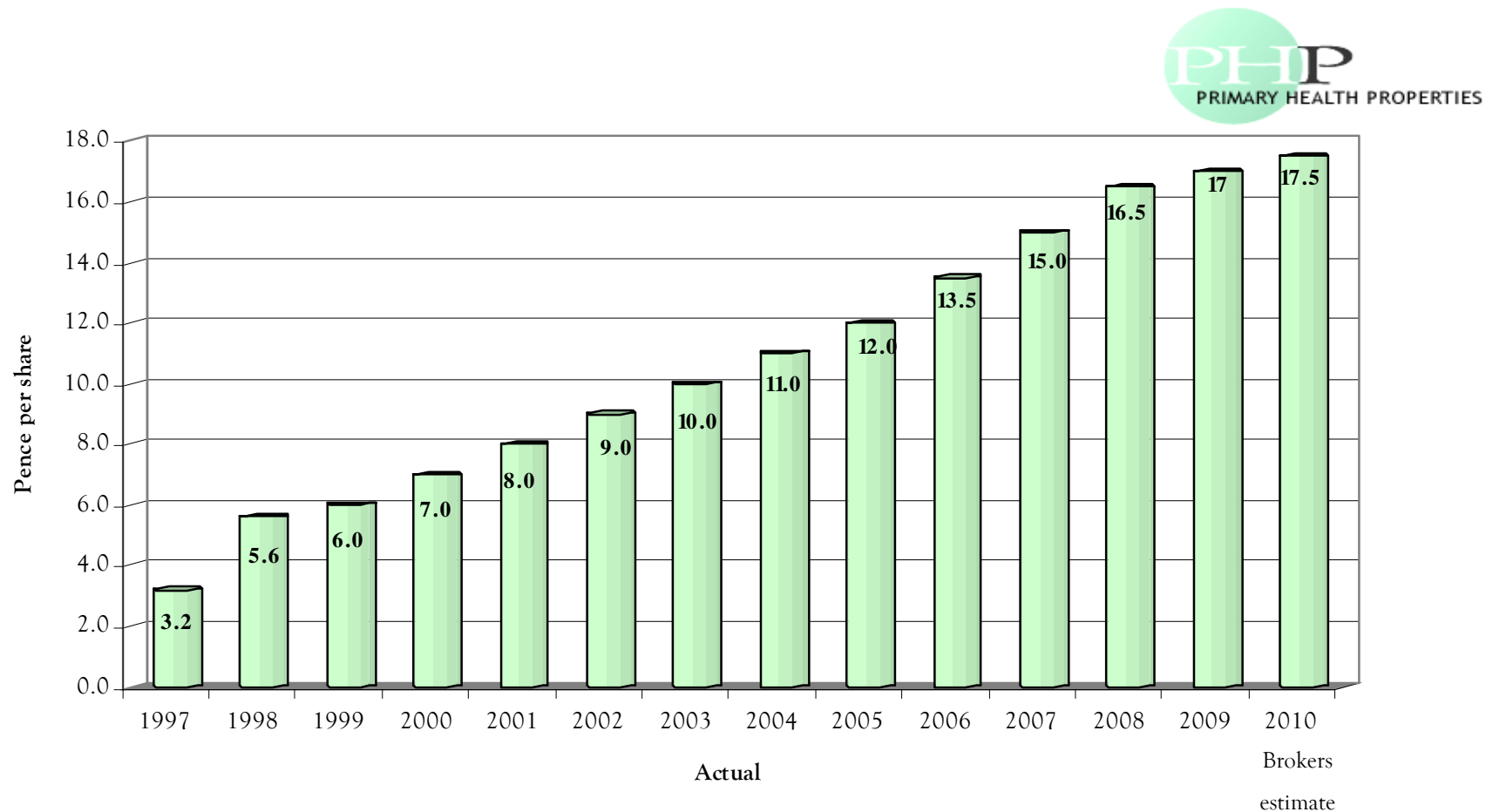


Dividend policy



- **12 year track record of progressive dividend policy**
- **Commitment to pay out substantially all available profits as dividends**
- **REIT status**
- **Dividend for 2009 of 17.0p (8.5p paid April 2009 8.5p November 2009) A historic dividend yield of 5.7% at 300p per share**
- **2009 dividend paid out of recurring profits and cash generated**
- **A person investing at IPO would have had his initial outlay entirely repaid through dividends**
- **First 2010 dividend declared of 8.75p payable 26 March 2010**

Annual Dividends



Total 133.8 to 30/04/09 + 8.75p March 2010

|||

PHP Board



- **Graeme Elliot (64) Non Executive Chairman**
- **Harry Hyman (53) Managing Director**
- **Mark Creedy Non Executive Director – former Managing Director of L&G Property fund management division**
- **Martin Gilbert (51) Non Executive Director (alternate William Hemmings 41)**
- **Jamie Hambro (59) Non Executive Director**
- **Alun Jones (60) Non Executive Director – SID and Chairman, Audit Committee (former partner of PWC)**
- **Dr Ian Rutter (53) Non Executive Director (practising GP)**

Major shareholders

Issued share capital 61,457,298 at 31/12/09



	Number of Shares	%
Nexus Group Holdings	3,750,185	6.1%
Blackrock	3,129,792	5.1%
Aberdeen	3,054,280	5.0%
Legal & General	1,892,326	3.1%

PHP History



- **Founded in 1994 by Harry Hyman**
- **Moved to AIM in 1996. Raised £16m equity and £4m from Convertible Loan Stock issued to RBS**
- **Moved to Main Market in 1998**
- **Placed 5% in 2001 at £1.46**
- **1.6 million shares issued 2002/3 at £1.00 per share re options exercised**
- **August 2004 loan stock converts into 3.4 million ordinary shares**
- **RBS shares placed October 2004**
- **Placing of 1 million shares in March 2005**
- **Subscription of 1.6 million shares September 2006**
- **Purchased Cathedral portfolio (22/12/06)**
- **Convert to a REIT (01/01/07)**
- **Placing announced 15/03/07 raised £40 million at 4.30p per share**
- **Share capital 33.5 million shares market cap of £94 million at £2.80 per share**
- **ADR programme incepted end March 2008**
- **March 2009 Placing of 1,679,354 shares raising £3.7m at 2.20p per share**
- **Sept 2009 placing of 19,033,667 shares and open offer of 7,053,289 open offer shares raising £57.5m net at £2.30p per share.**
- **Year end 31/12/09 issued share capital of 61,457,298 at £3 per share £184.4m market cap.**

Management: Managers



- **Nexus PHP Management Limited and J O Hambro Capital Management Limited act as joint managers to the Company. Management fees are 1% per annum of the first £50 million of the gross assets of the Group and 0.75% per annum thereafter.**
- **Incentive fee payable, based on performance (replaces options previously held). 15% of excess over total return hurdle of 8% per annum. No payment since 2007. No incentive payment in 2008 or 2009 and deficit of £56m needs to be earned back before any further payments will fall due.**
- **Total management fees for year ended 2009 £2.5 million (2008 £2.6m)**
- **Regularly reviewed by Management Engagement Committee**

Management: J O Hambro Capital Management



- **JOHCM provides administrative and accounting services to the Company and is the Company Secretary.**
- **JOHCM provides investment management services to a number of listed investment trusts, venture capital trusts, open ended investment companies and other funds.**
- **JOHCM is regulated by the Financial Services Authority**

Management: Nexus PHP Management Ltd



- Nexus offers financial and management services focusing on property and the healthcare and educational sectors.
- Nexus offers a full range of property management services including rent collection, insurance, alterations, and day to day management.
- Nexus also adds value to existing properties through rent reviews, lease re-gearing and renewals and supervision of developments.

Management: Personnel



- **Harry Hyman** Managing Director (53) is a PW qualified Chartered Accountant and member of the Association of Corporate Treasurers.
- 1984-1994 worked for a listed asset finance group, involved in extensive property development and structuring mezzanine property funding.
- Founder and Managing Director of Primary Health Properties PLC since its inception in 1994.

- **Tim Walker-Arnott** Property Director (57) Chartered Surveyor and a fellow of the Royal Institution of Chartered Surveyors
- Formerly a property director of NHP
- Joined Nexus in January 2006
- Responsible for management and acquisition of the PHP portfolio

Management: Personnel



- **Andrew Birch (43) Chartered Surveyor MRICS**
- Formerly head of property at Moss Pharmacy and Lloyds Pharmacy.
- Joined Nexus in 2007
- Responsible for all aspects of portfolio asset management.

- **Alastair Barlow joined Nexus in June 2006 on a year long 'sandwich' placement. Returned full time in June 2008.**
- On the APC training course for the RICS qualification
- Assists with the property management of the PHP Portfolio
- Identifies portfolio asset management opportunities

- **Jacqueline Denny joined Nexus in March 2009 as administrator**
- 10 years property management experience
- Manages database and rent collection

- **2 new hires planned for 2010**

Other Matters



- **Share Save Scheme. 49 members. 171,000 shares**
- **Dividend Reinvestment Plan**
- **Repurchase Authority in place**
- **Scrip dividend introduced**

Conclusion



- Low risk business model with 90% of rental income underpinned by Government funding
- Substantial number of acquisition opportunities at historic attractive valuations
- Positive yield gap
- Potential for geared upside on recovery of UK property
- Proven business model – 100% occupancy with no persistent voids
- Substantial benefits of being a REIT
- Demographic and political drivers – ageing population, cross party commitment to NHS
- Committed management team with firm alignment of shareholder interests through substantial shareholding
- Ethical sector with strong Government policy backing (Wanless, Darzi)
- Long term non-cyclical market
- Inflation hedge characteristics with progressive dividend policy

Appendices



Specification Creep

The Last Five Years;

- RICS Building Cost Indices
27% increase
- RPI c12% increase
- Health centre rental growth
say 3% p.a. or 16%

Current influences;

- Building Regulations
 - Part L 2006 8%
 - Part M 2004 2%
- Health Standards
- HBN36 2%
- Performance Guidelines for Planning Authorities 2007
 - Risk assessments 2%



Specification Creep



The Future

- **BREEAM 'Excellent'** **7-10%**
 - Sustainable source materials
 - Energy production and conservation (windmills, ground source heat pumps etc)
 - Grey water etc
- **Who pays and who gains?**
 - Building efficiencies should flow through to rent levels.
 - Current VOA guidance;
 - "Good design costs no more but may give;
 - Higher rent
 - Greater rental growth
 - Lower future repairs and service charges"

The Wanless Report (October 2002)



- **Nearly 80% of Primary Care premises are below recommended size**
- **Only 40% are purpose built**
- **50% are adapted residential buildings or converted shops**
- **Over 60% are over 30 years old**
- **One fifth are private rented, two thirds are owner occupied and the remainder are owned by the NHS**
- **Less than 5% of premises are co-located with a pharmacy**

The Wanless Report suggests that the entire Primary Care estate will be upgraded or replaced over the next 10 years at a cost of £5.9 billion

The Wanless Report (October 2002)

Derek Wanless and the Kings fund reviewed progress vs the 2002 report in September 2007 and reported that:



- December 2004 the Constructors Products Association reported that 510 one stop centres had been completed or were under construction and that 2,848 GP premises had been or were being modernized.
- The Department of Health has announced that over 625 new one stop primary care centres have been created since 2001 with plans for another 125 by end 2008.
- Since 2001 around 3,000 of GP surgeries have been substantially refurbished or replaced.
- The update did not think that the government would meet its objective of upgrading the remaining 7,500 by 2010/1

Disclaimer



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All data is sourced by the Company unless identified as otherwise.

February 2010