Interim Results – six months ended 30 June 2016

Investing in the future of integrated healthcare

Primary Health Properties PLC (PHP.L)
A dedicated healthcare REIT
www.phpgroup.co.uk

AGENDA

- Introduction
- Financial results
- Successful equity issue
- Strong sector fundamentals
- Positive outlook
- Appendices

INTRODUCTION

Overview of Primary Health Properties PLC ("PHP")

- UK Real Estate Investment Trust ("REIT")
- Leading investor in flexible, modern primary healthcare accommodation
- 292 properties located across the UK; 91% of income from UK government
- Tenants include GPs, NHS & pharmacy operators; 3.2m patients registered at PHP properties
- 20 consecutive years of dividend growth
- Conditional contract signed for first investment in Republic of Ireland
- Solid capital base to enable conversion of pipeline of acquisition opportunities




Highlights

Further earnings and dividend growth

- EPRA earnings £12.6m (+27.3%)
- Total dividend paid 2.5625 p (+2.5%)
- Dividend fully covered
- 20th successive year of dividend growth

Successful £150m equity issue

- Issue at 100p per share oversubscribed
- 14% premium to Dec '15 EPRA NAV
- £54m invested in new properties
- Group LTV reduced to 53%; cost of debt lowered

Sector fundamentals support further growth

- GP Forward View published April 2016
- GP budget increased by more than 25%
- £500m to develop workforce and care delivery
- £900m funding pool for estates projects

Positive outlook for continued growth

- NHS starting to approve new development
- Strong transaction pipeline in UK and Eire
- Ability to capture attractive yield spread
- Stable values, low volatility

FINANCIAL RESULTS

Key performance indicators

Performance	Six months ended 30th June 2016	Six months ended 30th June 2015	Change
Net rental income (£'m)	32.2	30.6	5.2%
EPRA earnings (£'m)	12.6	9.9	27.3%
EPRA earnings per share (pence)	2.4	2.2	9.1%

Position	30 June 2016	31 December 2015	Change
Investment property (£'bn)	1.2	1.1	7.9%
EPRA NAV per share (pence)	90.4	87.7	3.1%
Loan to value	53.0%	62.7%	-9.7%

Management	Six months ended 30th June 2016	Year ended 31 December 2015	Change
EPRA cost ratio	11.5%	11.5%	-
Average cost of debt	4.49%	4.67%	-0.18%
Growth on rent review	1.0% p.a.	0.9% p.a.	+0.1%

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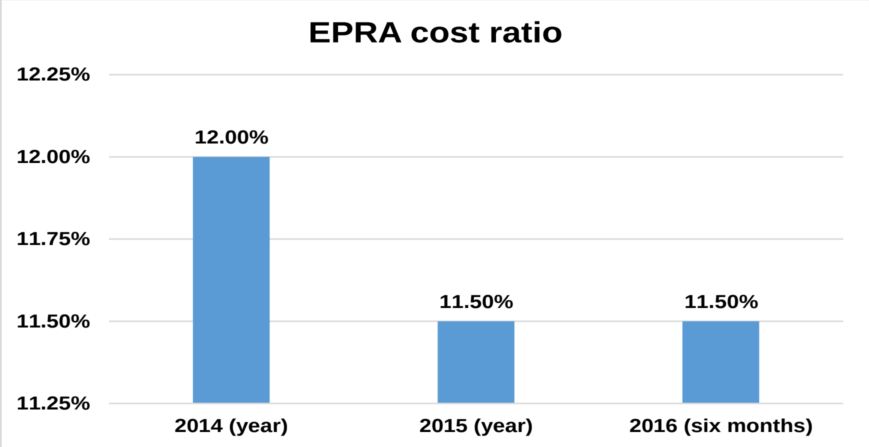
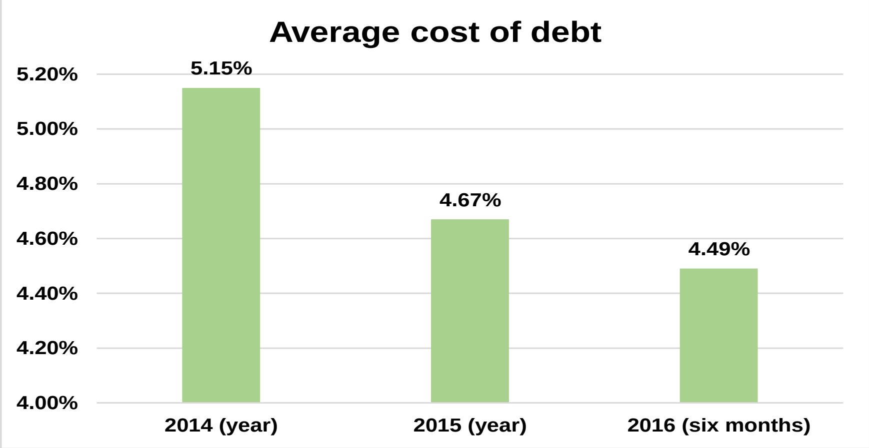
Efficient management and funding

- Efficient cost base as portfolio grows
  - EPRA cost ratio maintained at 11.5% (31 Dec 2015: 11.5%)
  - Lowest cost ratio in UK listed property sector



- Average financing costs reduced
  - Average cost of debt reduced by 18 basis points to 4.49%
  - £88m nominal swaps re-couponed from 4.79% to 0.87% effective Nov ‘16



Continued growth in shareholder returns

- Income return
  - 20th successive year of dividend growth
  - 2.5625p per share paid in H1 2016, a 2.5% increase over total paid in H1 2015 (2.5p[1])
  - H1 2016 dividend fully covered (Year ended 31 Dec 15: 98%)
  - Third quarterly dividend to be paid in August 2016: 1.28125p per share[2]

- Capital return

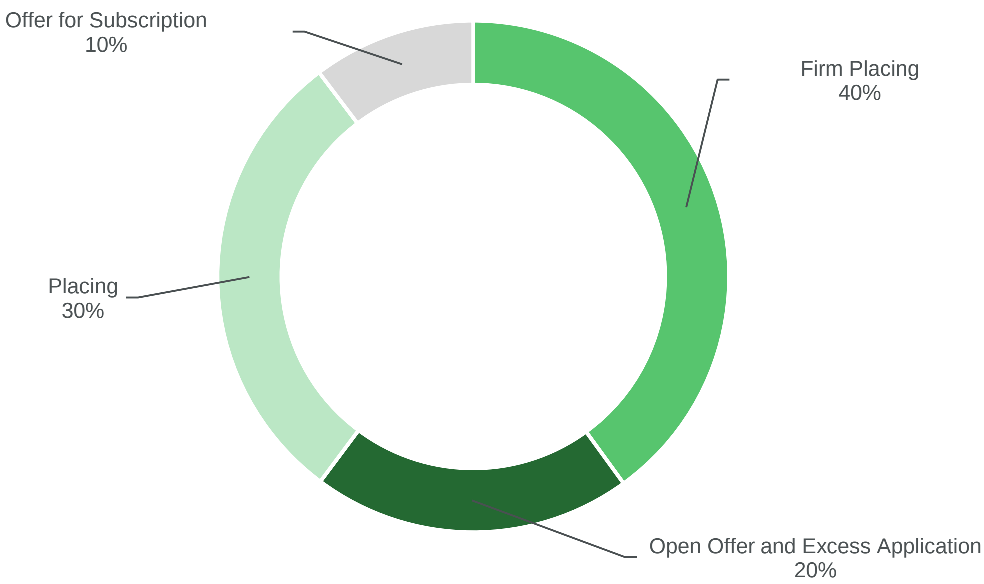
Return	Six months to 30 June 2016	One year to 30 June 2016	Three years to 30 June 2016
Total property return	4.2%	8.5%	8.8% p.a.
Total NAV return	6.0%	12.6%	12.2% p.a.
Total shareholder return	0.5%	14.2%	45.2%
FTSE REIT Index – total return	-11.8%	-8.3%	35.7%

1) Updated to reflect the Company's four for one share sub-division undertaken in November 2015
2) Record date 15 July 2016, payment date 26 August 2016

SUCCESSFUL EQUITY ISSUE

Successful equity issue

- Oversubscribed issue; gross proceeds of £150 million
- Issued at 100 pence per share – 14% premium to 31 Dec 15 EPRA NAV
- Tiered structure to allow existing shareholders demand to be satisfied
- Introduces new institutional investors to shareholder register
- Adds substantial fire power at key point in healthcare market



Use of Proceeds – continued investment

1

Completed acquisitions and developments

- £66.5 million invested in new acquisitions and funding development commitments in six months to 30 June 2016:

Property	Cost
Investment property acquisitions	£54.0m
Funding development commitments	£12.5m

- Conditional contract signed for first investment in Republic of Ireland at €6.7m

Investment acquisitions add £3.0m to annual rent roll

2

Acquisition Pipeline

- Strong pipeline of opportunities being pursued in both the UK and Republic of Ireland, including both standing let investment and development opportunities in both territories:

Region	No. of pipeline opportunities	Est. acq'n/dev't cost
UK	16	£82.1m
Republic of Ireland	10	€91.4m

Estimated pipeline of c.£158.9m[1]

Total rent roll of c£7.9m[1]

3

Asset management

- Active management of existing assets to create additional value
- Five projects completed to date or on site include:

Property	Asset management cost
Burton Latimer Medical Centre, Northants	£0.7m
Winchcombe Medical Centre, Cheltenham	£0.8m

- 28 projects in advanced stages, £15.4m capex, additional rent £1.02m, additional WAULT 13.4 years

5 projects in period – capex £1.5m, additional rent £0.2m, additional WAULT 12 years

[1] Using €:£ exchange rate of 1.19 – 25 July 2016

Secure, long term property portfolio

- 292 healthcare centres – 289 completed and owned, 3 under development
- Portfolio value (incl. commitments): £1.2bn – net initial yield 5.21%
- Average lot size: £4.1m; average age of buildings – 11 years
- Annual contracted rent roll: £66.9m[1]; 99.7% occupancy rate
- Average unexpired lease term – 14.1 years

Capital value	No. of assets	Value (£'m)	% of portfolio
£10m +	17	255.8	21.4%
£5 - £10m	41	281.7	23.5%
£3 - £5m	93	358.7	29.9%
£1 - £3m	139	300.2	25.0%
£0 - £1m	2	1.8	0.2%
Total	**273**	**1,198.2**	**100.0%**

(1) Including development properties

Investment acquisition

Bingham Medical Centre, Bingham

- **Tenants:** GP Practice
- **Date acquired:** April 2016
- **WAULT:** 18.7 years
- **Date built:** 2013
- **Size:** 1,300m²
- **Patient list size:** 11,400

Development funding

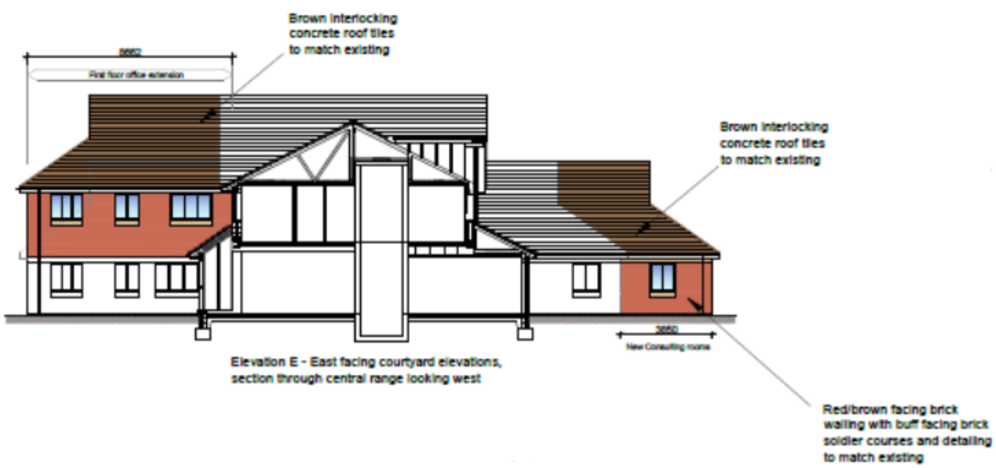
Two Rivers Medical Centre, Ipswich

- **Tenants:** 16 GP practice and pharmacy
- **Date completed:** July 2016
- **WAULT:** 25 years
- **Size:** 1,990m² (NIA)
- **Acquisition Cost:** £6.6m
- **Patient list size:** 25,000

Asset Management Project

South Coast of England – Completion due February 2017

An 85 sqm surgery extension of a purpose built medical centre for an 8 GP practice serving 15,000 patients and 20 sqm pharmacy extension. Enables existing practices to merge operations onto one central site within the town. Together with a minor refurbishment program, the project will keep the property fit for purpose for the new 24 year lease term. Expected to cost of £0.5m to generate £0.02m additional income for an additional lease term of 14 years.



Use of Proceeds – debt management

- Debt facility management
  - Balance of proceeds used to pay down revolving credit facilities
  - Group Loan to Value initially reduced LTV to 49%
  - Group LTV at 30 June stood at 53% (31 Dec 15: 62.7%)
- Interest rate management
  - Interest rate swap contracts for a nominal of £88m re-couponed
  - Interest rate lowered to 0.87% from 4.79%
  - One off cost of £14.5 million, discount to MtM
  - Total interest to be saved of £16.4 million (Nov ‘16 to Aug ‘21)

[1] Using €:£ exchange rate of 1.19 – 25 July 2016

Secure Long Term Funding

	30 June 2016 £m	31 December 2015 £m
Total debt facilities		
Secured	**592.3**	645.2
Unsecured	**157.5**	157.5
	749.8	802.7
Average maturity of debt facilities	**5.6 years**	5.8 years
Net debt		
Drawn debt	**634.8**	692.7
Cash on deposit	**(6.0)**	(2.9)
	628.8	689.8
Headroom	**121.0**	112.9
Total collateral	**1,187.0**	1,100.6
Group Loan to Value ratio	**53.0%**	62.7%
Development commitments – cost to complete[1]	**11.2**	21.8

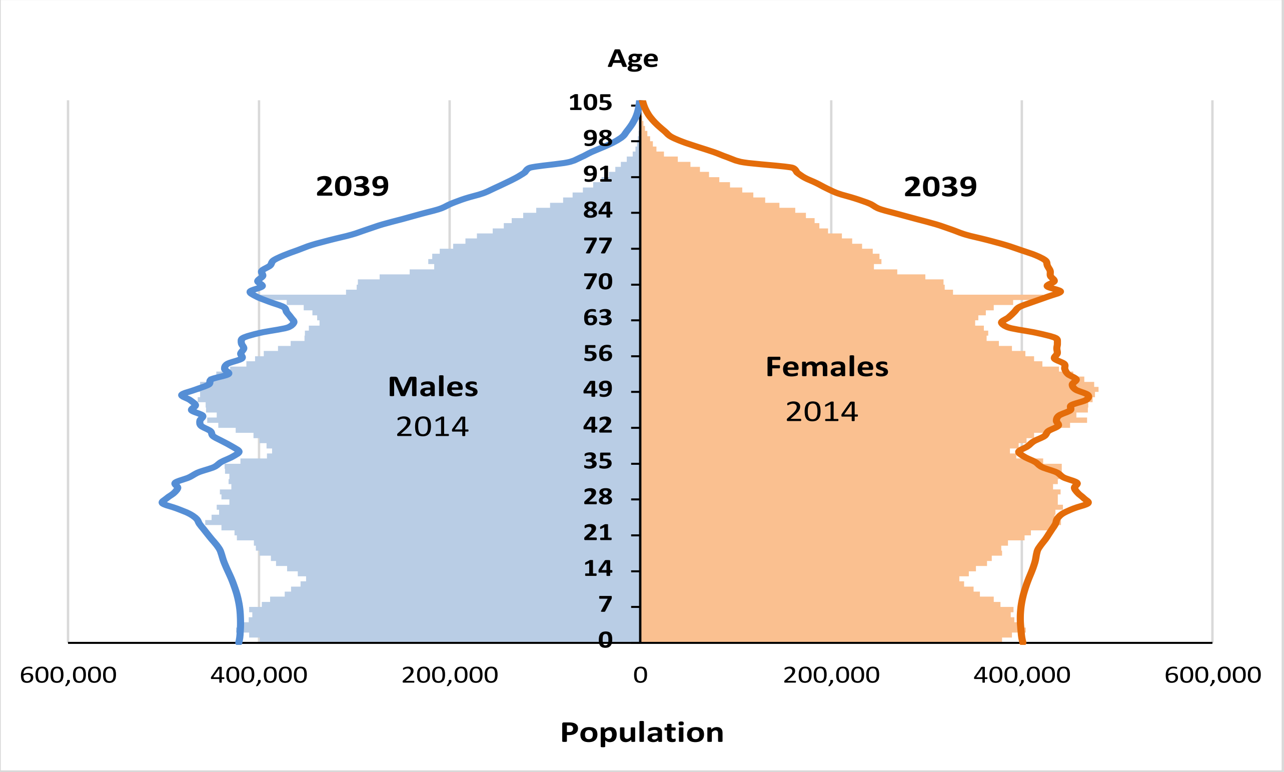
(1) Not reflected in total collateral balance

PHP

STRONG SECTOR FUNDAMENTALS

Demand for healthcare services increasing

- Ageing population, declining health
  - 12.4 million currently aged over 65, projected to increase by 10% over next 15 years
  - Increasing incidence of chronic disease, projected to affect 2.9 million by 2018



1) Source: ONS

Positive long-term demand drivers in UK

Government commitment

- Government targets 24/7 access to GP services by 2020
  - Over 1.3 million GP visits per day[1]
  - Additional funding of £10bn per annum[2]
  - Primary care spend to rise 4% to 5% per annum

NHS England GP Forward View

- Published April 2016, to increase GP budget by 25%
- To recruit 5,000 more GPS over 5 years
- Commitment to out of hours care, developing clinical hubs and urgent care services

Environment & Technology Transformation Fund

- £900m pool for investment in primary care premises
- Opportunity for PHP to deploy capital into existing and newly procured assets

Demographic drivers of demand

- UK population to grow by 12% to 71 million by 2035
  - 11.4 million currently aged over 65
  - To rise by 10% over next 15 years
- Increasing incidence of chronic disease
  - Projected to affect 2.9 million by 2018

Inadequate Supply

- 50% of primary care premises more than 30 years old[3]
- In recent survey of GPs[4]:
  - 67% of GPs stated their premises too small to deliver extra/additional services
  - 62% of GPs stated their premises too small to provide vital training and education
  - 53% said current premises had seen no investment or refurbishment in the last 10 years

[1] NHS Analytical Service
[2] November 2015 Spending Review
[3] Savills/EC Harris
[4] British Medical Association

Opportunity in Republic of Ireland

Government support

- DoHI aim to implement “single-tier health service”
- Health Service Executive, executive agency of DoHI, majority occupier in new centres
- Healthcare budget saw further increase in 2016, up 7% (€880m) on the 2015 budget

Demographic drivers of demand

- Population of 4.6 million, projected to rise to 5.2 million by 2031[1]
- Population ageing and increasing incidence of chronic disease[2]
- DoHI further widened access to primary care; now free for over 70’s and under 12’s

Opportunity for PHP

- Large, modern, integrated primary care centres built or being constructed
- HSE typically represent 60% to 75% of income for 20 – 25 year lease terms
- Remaining space let to GPs, pharmacy and associated healthcare users
- 5 yearly rent reviews linked to CPI
- First conditional acquisition contract signed by PHP
- Pipeline of rent producing and development assets

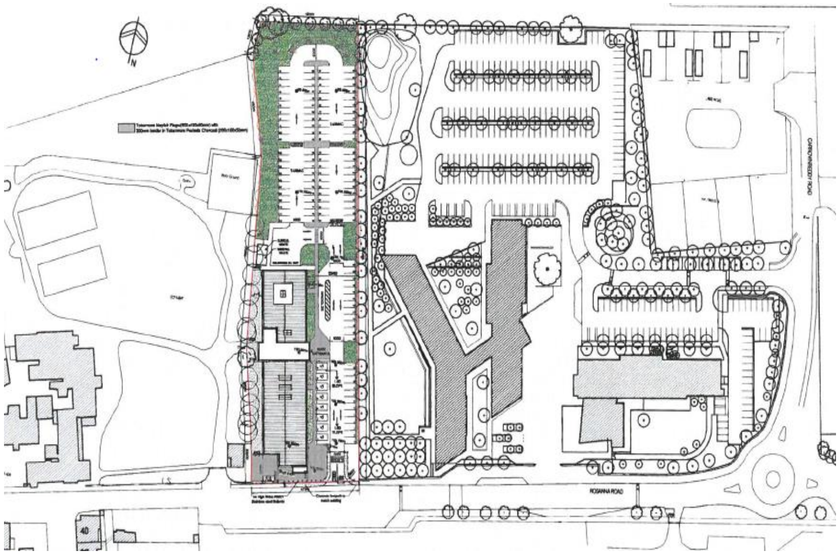
Risk	Mitigating factor
Underlying rental covenant	HSE/Irish Government typically represents 60%-75% of rent roll
Leases linked to CPI – upwards/downwards	Irish economy fastest growth rate in Europe (7% y-o-y Q3Y15)
Tax structure outside of REIT	Use of tax free structure removes potential tax leakage as for REIT
Investment and cash flows denominated in Euro	Asset and liability to be matched using Euro denominated debt
Availability of finance following financial crisis	Appetite to lend is good; discussions ongoing with lenders
Pricing of investments to reflect risk	Attractive yields; lower cost of funding; yield spread greater compared to UK

[1] Source: Central Statistics Office Ireland
[2] Health Service Executive Corporate Plan 2015-2017

Investment acquisition

Primary Care Centre, Republic of Ireland

- **Tenants:** HSE (75% of income), GP's (3%), Pharmacy (22%)
- **Planned construction completion:** August 2016
- **Date to be acquired:** August 2016
- **Size:** 2,430 m²
- **Acquisition Cost: €**6.6m



POSITIVE OUTLOOK

Positive yield gap

Market conditions provide attractive yield spread

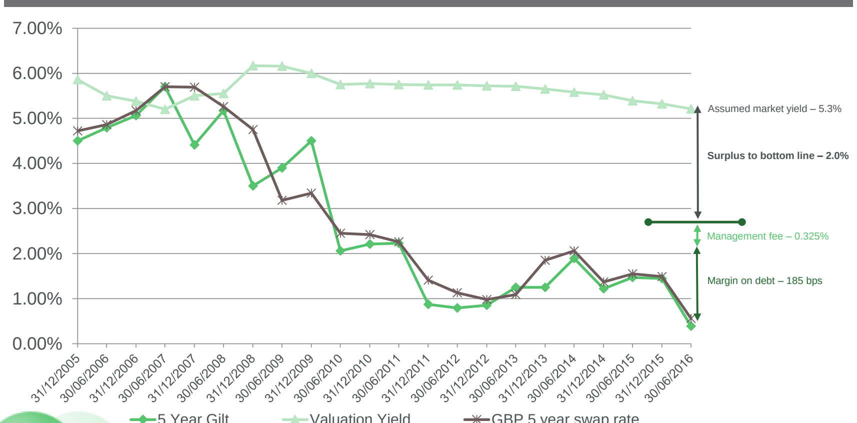
1 Earnings growth from operational actions

- Positive yield gap on acquisitions in UK and ROI
- Asset management contribution
- Rental growth from reviews
- Management fee reductions – EPRA cost ratio 11.5%

2 Active management of funding

- Refinancing debt on improved terms driving down cost of debt
- Widening sources of debt and providers
- Maintaining appropriate leverage given portfolio characteristics

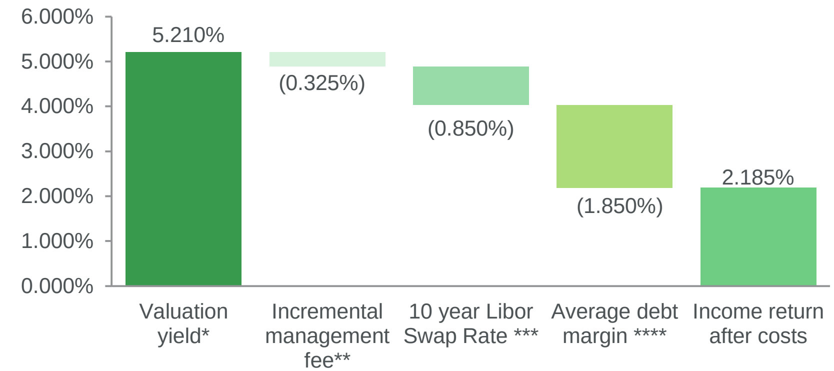
Attractive market conditions for PHP



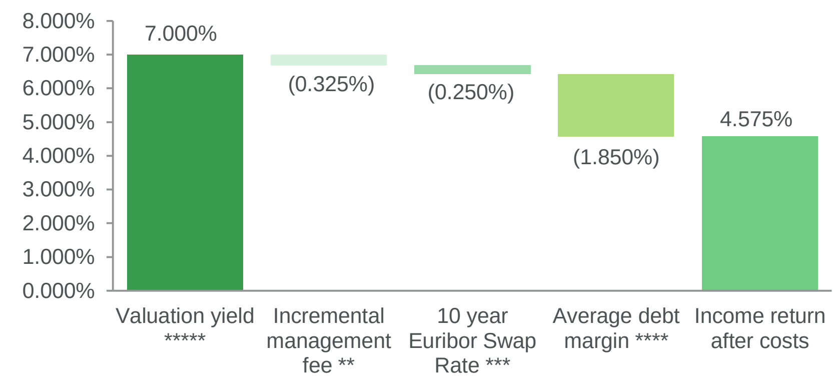
Source: Company data, JC Rathbone, Debt Management Office

Illustrative yield gap on property investment

1. Net margin over funding cost – UK Acquisitions



2. Net margin over funding cost – Republic of Ireland



* PHP portfolio valuation yield 30 June 2016 (used as proxy for market purchases)
** Per management contract
*** Sourced from JC Rathbone – 25 July 2016
**** Company incremental margin on current debt facilities
***** Based on pipeline transactions

Positive outlook

Low risk, long term, non-cyclical market	➢ Development opportunities emerging in UK ➢ New pool of opportunity in Republic of Ireland, priced very attractively ➢ Majority of rents in both jurisdictions funded by government for long lease terms
Strong, high quality and growing cash flows	➢ Positive yield gap between acquisition yield and funding costs ➢ Effectively upward-only or indexed rent reviews ➢ Simple cost structure enhance earnings
Efficient management and reducing cost of funds	➢ Stable cost base, EPRA cost ratio 11.5%; will continue to fall as portfolio grows ➢ Average cost of debt reduced and interest rate markets back to historic lows ➢ Underlying investment characteristics make PHP attractive to investors
Sector demand factors dictate continued development of healthcare premises	➢ Healthcare demand increasing due to ageing population ➢ Unwavering political support in UK and Ireland and promotion of integrated care ➢ Primary care estate is ageing and in need of replacement
Stable, increasing returns	➢ Growing shareholder return through dividend increase and capital appreciation ➢ Excellent dividend track record; quarterly dividend in 2016 (Feb, May, Aug, Nov) ➢ Strong yield characteristics, low volatility

APPENDICES

Income Statement

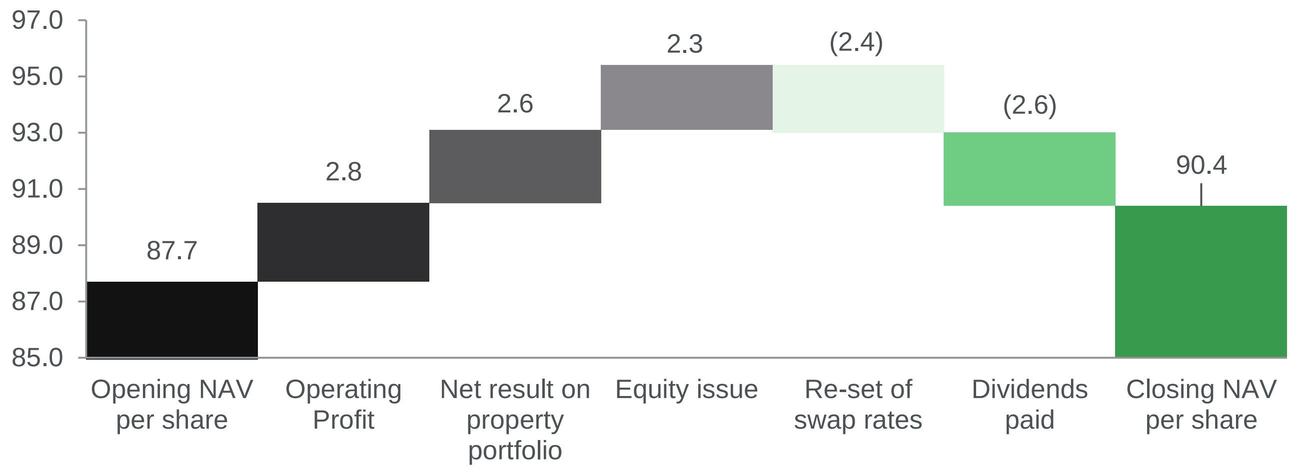
	30 June 2016 £m	30 June 2015 £m
Net rental income	**32.2**	**30.6**
Administrative expenses	(3.5)	(3.4)
Operating profit before revaluation gain and financing	**28.7**	**27.2**
Net financing costs	(16.1)	(17.3)
EPRA earnings	**12.6**	**9.9**
Net result on property portfolio	15.5	23.9
Fair value (loss)/gain on interest rate derivatives	(4.5)	2.2
Fair value (gain)/loss on convertible bond	1.8	(3.6)
Profit before tax	**25.4**	**32.4**
EPRA earnings per share	**2.4 p**	**2.2p**[1]

1) Restated to reflect the Company's four for one share sub-division undertaken in November 2015

Balance Sheet

	30 June 2016	31 December 2015
EPRA Net Assets	£539.9m	£391.6m
EPRA net asset value per share	90.4p	87.7p
Property portfolio[1]	£1,187.0m	£1,100.6m
Net Debt	£628.8m	£689.8m
LTV	53.0%	62.7%
Future minimum lease payments receivable[2]	£917m	£899m

EPRA NAV per share (pence)

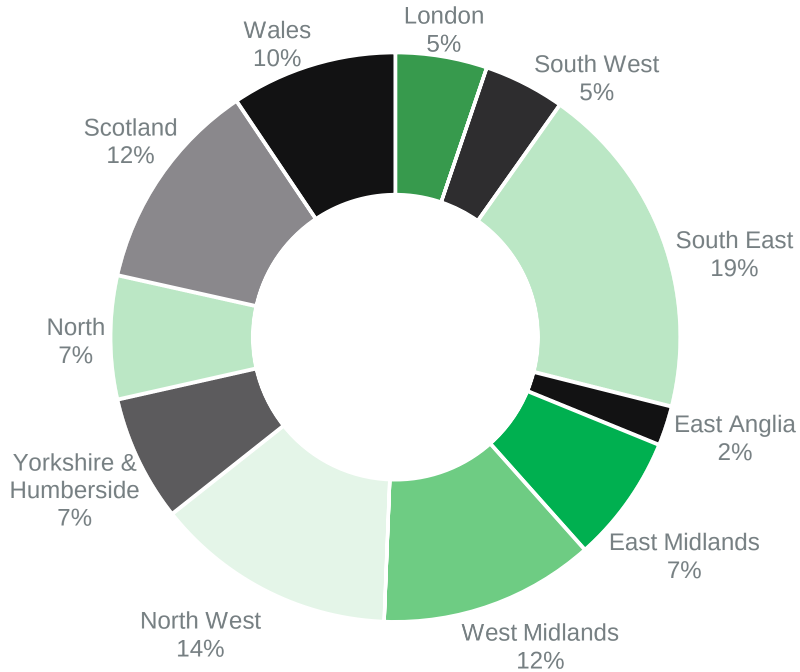


1) Book value i.e. net of development property commitments to be paid £11.2 m (31 December 2015: £21.8m)
2) Completed assets only. Does not reflect any uplift on review

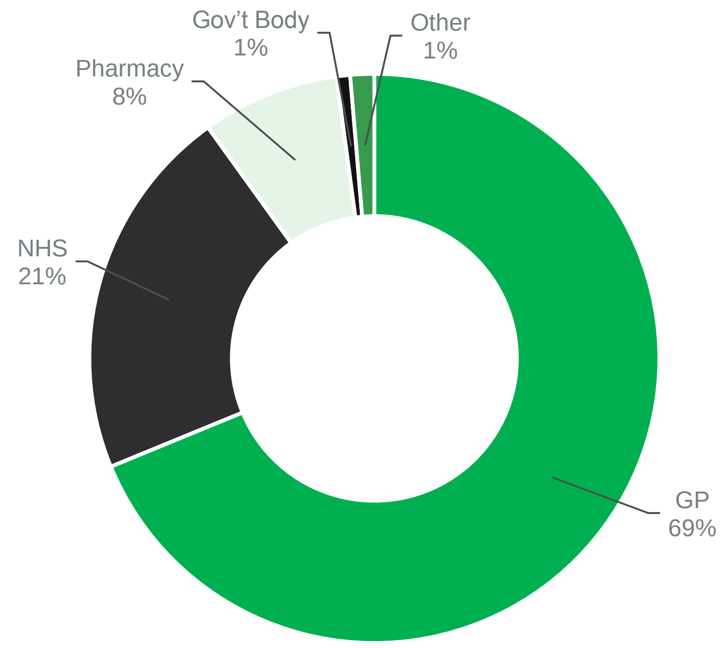
Portfolio analysis by rent

- 289 completed assets spread across the UK
- 91% of rental income directly or indirectly from UK Government

Wide geographical spread



Strong rental covenant



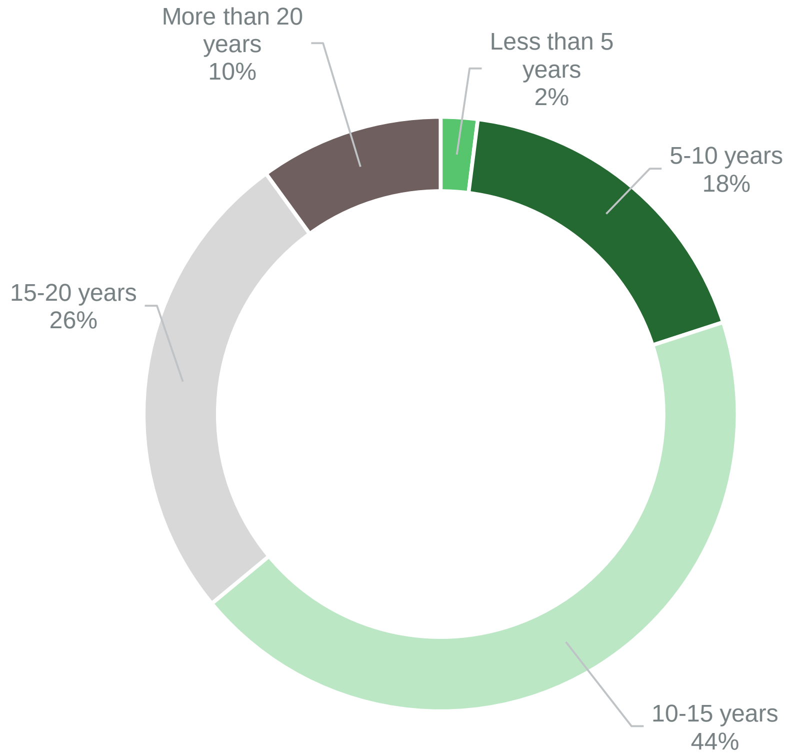
Long leases with growth potential(1)

- 40% of rent with more than 15 yrs remaining
- 82 reviews completed in H1 2016 generated additional rent of £0.1m p.a.
- Average increase 1.0% p.a. (2015: 0.9%)
- Effectively upward only rent roll(2)
  - 6% on fixed uplift (ave. 2.65% p.a.)
  - 19% index linked (ave. 1.6% p.a.)
  - 75% reviewed to open market

Drivers of Rental Growth

- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost
- Building cost

Analysis of leases unexpired by rent roll



(1) Data for completed properties only
(2) Rental agreements have upward and downward provisions however a review can only be instigated by the landlord

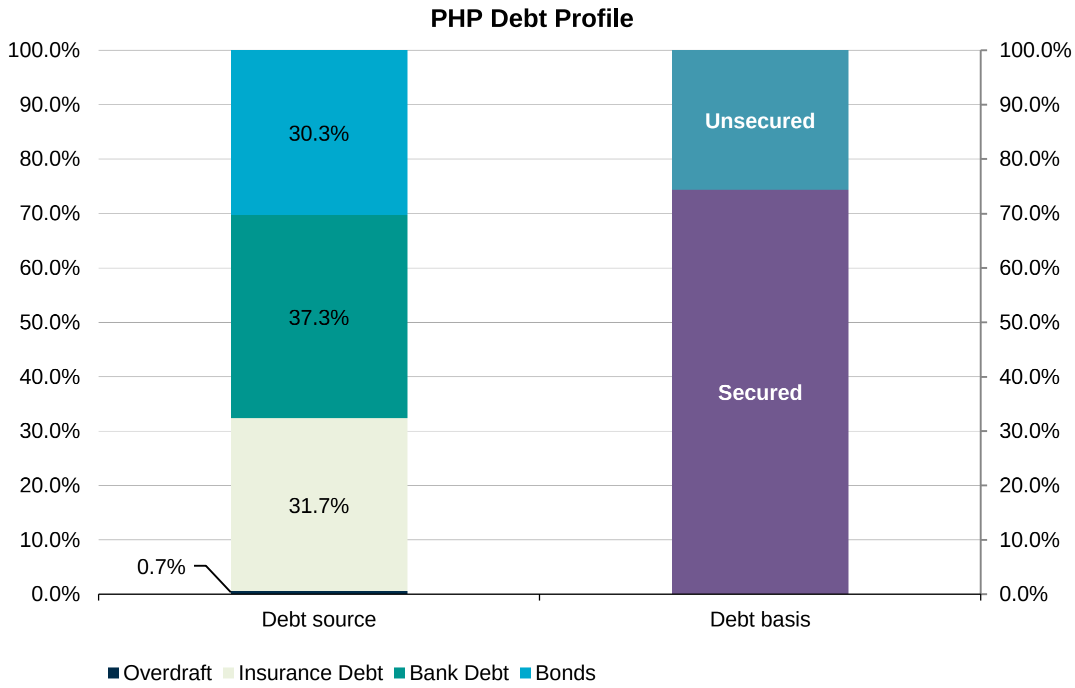
Spread of Funding Sources

	Secured Facilities								Unsecured facilities[1]	
Provider	RBS/ Santander	HSBC	Barclays/ AIB	Aviva	Aviva	Secured Bond	Aviva	Aviva	Retail Bond	Convertible Bond
Tenor	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Amortising	Amortising	Bullet	Bullet
Expiry	Aug-17	Jul-20	Jan-21	Nov-18	Dec-22	Dec-25	Oct-29	Jan-32	Jul-19	May-19
Facility	£115m	£50m	£115m	£75m	£25m	£70m	£113m	£24m	£75m	£83m
Drawn	£115m	£nil	£55m	£75m	£25m	£70m	£113m	£24m	£75m	£83m
Collateral[2]	£303m	£51m	£200m	£125m	£40m	£119m	£182m	£44m	-	-
Passing Rent	£17m	£3m	£11m	£7m	£2m	£7m	£10m	£2m	-	-
LTV Max	55%	55%	60%	65%	70%	74%	75%	n/a	-	-
LTV actual	38%	-	27%	60%	63%	59%	62%	56%	-	-
ICR Min	1.4x	1.4x	1.5x	1.4x	1.1x	1.4x	1.0x	1.0x	-	-
ICR actual	1.7x	5.2x	7.2x	2.2x	2.4x	3.4x	1.7x	1.6x	-	-

(1) Excludes overdraft
(2) Includes only assets mortgaged to the applicable facility

Borrowing Facilities

- Total facilities available to PHP: £749.8m[(1)]
- Available headroom: £109.8m (after development commitments)
- 26% of net debt on an unsecured basis – Retail Bond and Convertible Bond



(1) Includes £5m overdraft
(2) Weighted average maturity date

Advisers and fee base

- Enhances service quality and information management
- Reduced Group's overhead costs
  - Average fee rate for services of advisers reduced to 50 bps (2014: 55 bps)
  - Including overheads, EPRA cost ratio reduced to 11.5% (2014: 12.0%)
- Scope for further reductions
  - Admin fees on fixed basis upwards/downwards RPI adjustment (cap at +/- 5%)
  - Fixed admin fee from 1 May 2016 - £0.9m
- Incremental fee rates for advisory fee

Gross asset value	Fee rate
First £250m	0.500%
Between £250m and £500m	0.475%
Between £500m and £750m	0.400%
Between £750m and £1bn	0.375%
Between £1bn and £1.25bn	0.325%
Above £1.25bn	0.300%

Contact details

Harry Hyman	Phil Holland
Managing Director	Finance Director
harry.hyman@nexusgroup.co.uk	phil.holland@nexusgroup.co.uk

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July 2016