
TRUSTWORTHINESS IS NOT SOMETHING WE ONLY STRIVE FOR IN THE INVESTMENT COMMUNITY, BUT FOR EACH COMPANY WITH WHOM WE DO BUSINESS AND, MOST IMPORTANTLY, THE CUSTOMERS WE ARE PRIVILEGED TO SERVE.



Dear Shareholder,

We are pleased to report that 2014 was another successful year for NHC. We continue to build on our rich 43-year history of being the leader in customer and investor satisfaction for the post-acute care industry. Although we continue to face unprecedented industry and regulatory challenges, 2014 produced solid operating results while continuing to provide exceptional patient-centered care.

We are excited about our future and the potential for NHC's continued growth and operating performance. NHC has positioned itself to effectively adapt to the transitional changes in the delivery of post-acute healthcare, payment and payor system changes and increased quality demands. We remain focused and are determined to be an active participant in the delivery of quality, cost-efficient healthcare.

EARNINGS AND FINANCIAL POSITION

Net operating revenues for the year ended December 31, 2014 totaled \$871,683,000 compared to \$788,957,000 for the year ended December 31, 2013, an increase of 10.5%. For the year ended December 31, 2014, net income available to common shareholders was \$44,699,000, or \$3.24 per share basic, compared to \$55,942,000, or \$4.05 per share basic, for the 2013 year. The newly constructed or leased skilled nursing facilities placed in service during the 2014 year and a decrease in non-operating income negatively impacted the 2014 financial results compared to the 2013 year.

Our occupancy and census mix continue to be strong at our skilled healthcare centers and homecare operations. In 2014, our occupancy remained above the national average at 88.9% and our number of homecare patients served increased from 18,995 in 2013 to 19,222 in 2014. Medicare, managed care, and private pay revenue accounted for 74% of our net patient revenue in 2014.

DIVIDENDS

During the second quarter of 2014, we increased our quarterly common share dividend to \$0.34 per share while our quarterly preferred share dividend remains at \$0.20.

DEVELOPMENT

In 2014, we are pleased to continue our disciplined and controlled growth strategy that enhances long-term shareholder value. In March, we began operating an additional 320 skilled nursing beds and 104 assisted living units in Missouri. In June, we opened an 83-unit

assisted living facility in Augusta, Georgia. In December, we completed the construction and renovation of a 52-bed skilled nursing facility in Kingsport, Tennessee. During 2014, we also opened our first geri-psychiatric hospital with 14 beds in Osage Beach, Missouri.

We have several development projects currently under construction that will begin operation during 2015. We anticipate a second quarter opening of the 92-bed skilled nursing facility and 60-unit assisted living facility located in Sumner County, Tennessee. A 60-bed memory care facility located in St. Peters, Missouri should begin operation in the fourth quarter of 2015.

In 2015, construction will continue or begin for a 90-bed skilled nursing facility and an 80-unit assisted living facility located in Nashville, Tennessee, a 112-bed replacement skilled nursing facility in Columbia, Tennessee, an 80-unit assisted living community in Garden City, South Carolina, and a 76-unit assisted living community in Bluffton, South Carolina. We expect all of these properties to begin operations during 2016.

CONCLUSION

Finally, in 2014, we were deeply honored to be recognized by *Forbes* Magazine as one of "America's 100 Most Trustworthy Companies."

Each year, GMI Ratings provides *Forbes* with a list of the 100 Most Trustworthy Companies in America. The list is based on GMI's AGR® (Accounting & Governance Risk) forensic accounting database, which is a tool designed to help investors assess the financial and governance integrity of companies.

We are proud to be on this list—but prouder of our partners and our leadership team who work tirelessly each day to ensure NHC is a world-class leader in the delivery of healthcare. Trustworthiness is not something we only strive for in the investment community, but for each company with whom we do business and, most importantly, the customers we are privileged to serve.

Thank you for your investment and your trust.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert G. Adams".

ROBERT G. ADAMS

Chairman/CEO
