IMPACT
Healthcare REIT

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IMPACT
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Dedicated to UK healthcare real estate

Interim report 2018

IMPACT Healthcare REIT

Dedicated to UK healthcare real estate

Who we are
Our policy is to invest in a diversified portfolio of UK healthcare real estate assets, in particular residential care homes, and to lease them on long leases to high-quality care home operators. Impact Healthcare REIT plc is a real estate investment trust, traded on the Specialist Fund Segment of the main market of the London Stock Exchange.

Our objective
We aim to provide shareholders with attractive long term and sustainable returns, primarily in the form of quarterly dividends. These dividends are underpinned by our secure and stable income, which comes from a growing tenant base that is financially sound and committed to providing high standards of care. We benefit from long leases with inflation-linked annual rent reviews. Through active asset management we also aim to deliver growth in net asset values over the medium term.

The opportunity
The UK's population is growing and ageing, increasing the long term demand for care, while the supply of suitable assets for providing that care has fallen over the past 20 years. As a well-capitalised landlord with an experienced Investment Adviser, we are well positioned to create sustainable value in this market.

We look to enhance the portfolio through carefully selected investments, which add attractive homes to the portfolio and diversify our tenant base. This offers the potential for income and capital growth for shareholders, while providing stability for residents and enhancing their homes wherever possible.

Our achievements so far
In the first half of 2018 we have:

- Acquired six homes, with 367 beds, adding a further two tenants. Committed to acquire a further home with 77 beds
- Committed to £5.2 million of capital improvement programmes which will add a further 58 beds and a deferred consideration agreement on a newly acquired home adding a further 38 beds, taking the total new beds through asset management to 188
- Fully invested or committed the remaining proceeds from the second equity raise secured in November 2017 of £32.6 million
- Put in place our first debt facility which will total £50.0 million, with Metro Bank.

Contents

Financial highlights	1
Operational highlights	2
Chairman's statement	4
Market drivers	6
Investment Adviser's report	8
Key performance indicators	16
EPRA performance measures	17
Principal risks	18
Directors' responsibilities	19
Condensed consolidated statement of comprehensive income	20
Condensed consolidated statement of financial position	21
Condensed consolidated statement of cash flows	22
Condensed consolidated statement of changes in equity	23
Notes to the condensed consolidated financial statements	24
Corporate information	37

Financial highlights

A positive first half of 2018

3.0p
DIVIDEND PER SHARE
3.0p dividend paid or declared for the first half of the year.

£184.3 million
PORTFOLIO VALUE
Portfolio independently valued at £184.3 million as at 30 June 2018, representing an uplift on 31 December 2017 valuation of 2.56% on a like-for-like basis.

£25.0 million
DEBT
The Group had £25.0 million of debt drawn as at 30 June 2018 representing a gross LTV of 11.2% of Total Assets.

79.0%
DIVIDEND COVER
Paid and declared dividends 79.0% covered by adjusted earnings per share of 2.37p for the first half of the year. EPRA earnings per share were 3.23p.

£14.49 million
CONTRACTED ANNUAL RENT
Contracted annual rent of £14.49 million as at 30 June 2018, an increase of £2.63 million or 22.1% since 31 December 2017.

8.84% (annualised)
EPRA NAV TOTAL RETURN
EPRA NAV total return annualised for the period to 30 June 2018 was 8.84% compared to 1.92% for the FTSE EPRA/NAREIT UK REITs Index.

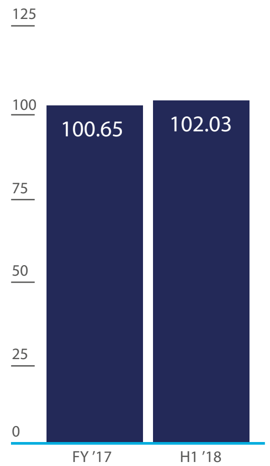
102.03p per share
NET ASSET VALUE
Net asset value of 102.03p per share as at 30 June 2018, an increase of 1.38p per share or 1.4% since 31 December 2017.

£8.48 million
PROFIT BEFORE TAXATION
Profit before taxation in the period to 30 June 2018 was £8.48 million, 4.41p per share.

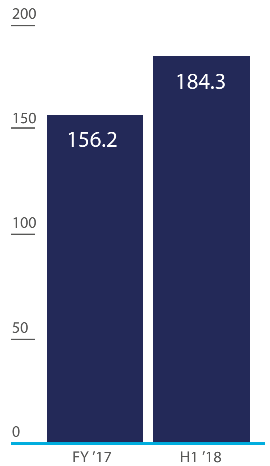
£198.0 million
MARKET CAPITALISATION
Market capitalisation as at 29 June 2018.

This is the Group's first full six month period to 30 June. Our period to 30 June 2017 related to trading from IPO on 7 March 2017. As a result we are not comparing trading performance against the prior interim period in these highlights.

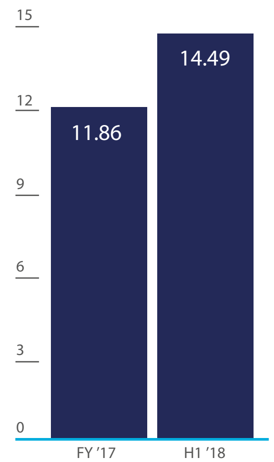
Net asset value per share (p)
102.03p (+1.4%)



Portfolio value (£m)
£184.3m (+18.0%)



Contracted annual rent (£m)
£14.49m (+22.1%)



Operational highlights

63
ASSETS IN THE PORTFOLIO
In the period ended 30 June 2018, we acquired six care homes, taking our portfolio to 63, adding two additional tenants. We have also committed to buy a further home.

+96 beds
ASSET MANAGEMENT PIPELINE
96 beds were approved for development in the period taking the total asset management activity to 188 beds since IPO or 7% of the seed portfolio. 63 of these beds are now operational with a further 21 beds due to be operational in Q3 2018.

7.57%
CONTRACTED YIELD
At 30 June 2018 the Group had a contracted rent roll of £14.49 million. The portfolio market value, together with committed capital expenditure at 30 June 2018 was £191.5 million, delivering an investor contracted yield of 7.57% (compared to an EPRA Net Initial Yield of 7.09%).

+367 beds
ASSET ACQUISITIONS
367 beds have been added in the half year through acquisitions, a 14.5% increase on the 31 December 2017 year end beds, with a further 77 beds in one home exchanged but not yet completed.

19.2 years
WAULT
We benefit from long leases, with a weighted average unexpired lease term (WAULT) of 19.2 years at 30 June 2018.

£0.46 million
RENT REVIEWS
£0.46 million increase in rent arose from rent reviews in the period, a 3.95% increase on the associated portfolio.

Post balance sheet highlights

+218 beds
ASSET ACQUISITION
On 3 August 2018 the Group exchanged contracts to acquire a portfolio of five care homes comprising 218 beds for a total consideration of £12.15 million (including costs). The homes will be managed by Careport Advisory Services, the Group's fourth tenant group.


Parkville Care Centre, one of three care homes acquired or exchanged with Prestige Group in a sale and leaseback transaction.


Fairview Court (above) and Fairview House were acquired in March 2018, adding a further 71 beds and a new tenant, Welford, to the portfolio.


A vacant assisted living unit at Turnpike Court was converted and fully refurbished, adding a further 25 beds to the portfolio.

Number of care homes by region and tenant

- Minster Care*
- Croftwood Care*
- Prestige Group
- Welford

* Part of the Minster Group


Roseville Care Centre was acquired in May 2018, adding a further 103 beds as part of the Prestige Group.

Chairman's statement

The Group had a positive first half of 2018 delivering on its commitment to secure attractive acquisitions that can deliver long term stable income to investors.

I am pleased to report another busy period for the Company with the addition of a further six homes in the period adding 367 beds and two new tenants, with a further home with 77 beds committed. The portfolio is now delivering a contracted yield of 7.57% with an annualised contracted rent roll of £14.5 million (up from £11.6 million in June 2017). Our portfolio which was independently valued at £184.3 million as at 30 June 2018 delivered like-for-like valuation uplift in the six month period of 2.56%. Dividend cover has fallen in the period to 79% as it has taken time to deploy the additional equity raised in November 2017, which is now fully committed.

Consistent with our approach and focus on encouraging asset management and enhancement on our existing portfolio, I am pleased we have committed a further £5.2 million in the half year on the standing portfolio. This will be invested in a portfolio of eight homes on a variety of refurbishment, enhancement and extension projects. £4.5 million has been committed on four properties that will add a further 58 beds, while a further £0.7 million has been committed on another four homes in refurbishment and enhancement projects that will improve both the quality of service to residents and the returns to investors. In addition we have committed to a deferred consideration agreement with one of our new tenants to deliver 38 beds.

With the additional funding secured from our first debt facility raised in the period we remain positive about our strong investment pipeline including a number of exciting opportunities which we continue to progress with our Investment Adviser.

Financial performance

At 30 June 2018, the unaudited Net Asset Value (NAV) was £196.1 million (or 102.03p per share). The NAV benefited from our right to receive the rent due from these assets as if they had been acquired on the day our shares were admitted to trading on the London Stock Exchange (7 March 2017).

Unaudited earnings per share (EPS) was 4.41p (basic diluted) and adjusted EPS was 2.37p, which is supported by cash receipts. Our focus during the period has been on bedding down the portfolio and advancing our asset management and acquisition plans. Looking forward, our priorities will include being as efficient as possible as an important part of generating enhanced returns for shareholders.

More information about our financial performance in the period can be found in the Investment Adviser's report on pages 8 to 15.

Dividends

For the 12 months following admission, we paid a dividend of 6.0p per share, equating to a yield of 6% on the 100p issue price, on an ungeared basis. Our current focus is on ensuring our annual dividends at the 6.0p level are covered by adjusted earnings and we have a strategy in place to deliver this. Once this is achieved we will review our longer term dividend policy.

Financing

The Group secured its first debt facility in the half year with terms agreed for a five year £50 million facility with Metro Bank at a rate of 2.65% above base rate. £30 million of this was secured in June with a £25 million term facility and a £5 million RCF, with a further £20 million RCF to follow. Consistent with the Group's hedging policy, a cap was put in place at 1% on 1 month LIBOR for the £25 million term facility for the duration of the loan. The £25 million term element was drawn at the half year, taking our gross LTV to 11.2%.

The Group continues to engage with a number of finance providers, to maximise our financing options.

Working with our tenants

As part of our acquisition strategy we have added two new tenants and six new homes and we continue to negotiate with a number more in our future pipeline. Choosing tenants that prioritise delivering a positive environment for residents and support a joint vision for continued asset improvement remains our focus and we are delighted and encouraged with the progress we are making.

We continue to focus on and prioritise further investment in our standing portfolio and the additional approvals in the quarter take our total commitment to over £13 million which will deliver enhanced assets and another 150 beds to our portfolio. With a deferred consideration agreement with one of our new tenants for 38 beds, we have a total of 188 beds to add to our portfolio.

David Brooks

It is with great sadness that we report the death of David Brooks our fellow director and Chairman of the Audit Committee. Firstly and foremost our thoughts are with David's family. I would like to record our appreciation for all David contributed to help shape the Company in its critical formative stages.

Going forward we will seek to appoint an additional member to the Board and will announce this in due course. In the interim Rosemary Boot has agreed to step in as Acting Chair of the Audit Committee.

The Investment Adviser

The board recognises the efforts of our Investment Adviser in delivering the achievements within the first half of 2018 and the strong pipeline of investment opportunities for the future. It has been a busy period with the preparation of our first full financial accounts, the acquisitions as reported, and the securing of new debt facilities.

Carne Global AIFM Solutions (C.I.) Limited is the Company's Alternative Investment Fund Manager.

Outlook

We believe our current portfolio gives us stable and secure cash flows that support our dividend policy. In the second half of 2018, we will continue to develop our asset management projects and pursue acquisition opportunities that will add complementary operators and locations to the portfolio.

It is impossible to predict the outcome of Brexit. We will continue to monitor its potential impact on our business.

Looking further ahead, the fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to relieve the pressure on adult social care and hospitals. Residential care homes will be an important part of the solution over the coming years and we see good prospects for the Group.

Our strategy is also to identify new properties and tenants who will diversify our investment base and continue to deliver strong economies of scale, with efficient operations alongside a good quality of care. We remain confident we will identify investments that, under our ownership, will provide value for money to our tenants' customers and residents, while delivering attractive and stable returns to our investors.

Rupert Barclay Chairman
9 August 2018

Market drivers

Since our IPO in March 2017, we have successfully implemented the Group's investment policy, bedding down a good quality portfolio with a strong tenant group, who provide a high standard of care. This has enabled us to deliver on our target of paying a dividend of 6.0p per share over the Group's first four quarters. The market fundamentals continue to be attractive and we believe the Group is well positioned to continue to add to its existing portfolio, both through further acquisitions and through capital enhancements to existing properties, with the aim of generating attractive and stable returns for shareholders.

A number of drivers influence the demand for, and provision of, care for the elderly making it a potentially attractive market for well-capitalised asset owners working in close partnership with well-managed operators who are committed to providing high standards of care. In particular:

1 People are living longer

The number of people more than 85 years old in the UK is forecast to double by 2040, rising from 1.6 million in 2018 to 3.2 million by 2040. In 2018, 14.7% of people aged over 85 required the kind of care which can only be provided in a residential setting, either a care home or long-stay hospital bed.

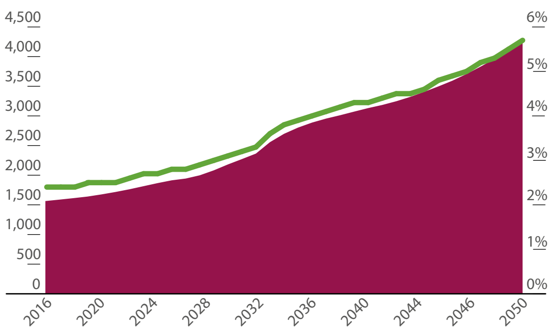
2 Capacity has shrunk from its peak

The number of available beds rose rapidly in the 1970s and 1980s, reaching a peak of 563,000 in 1996. It has declined 17% from that level, to 466,000 in 2018. Over that time period there has been a shift from a market dominated by government-provided beds, to beds provided by independent operators.

In the years ending March 2016 and March 2017, the number of available beds fell by 1,700 and 4,300 respectively. However, in the year to March 2018 there was a small net increase of 900 beds.

Population over 85 forecast to double in next 20 years

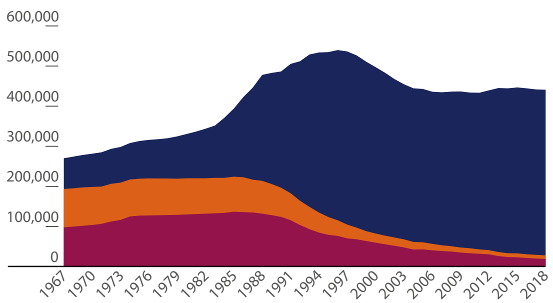
— People aged >85 as a % of total UK population
— UK population aged >85 (million)



Source: ONS

Capacity has declined over 20 years

— Local authority and NHS care homes
— NHS geriatric and EMI hospital long-stay
— Independent sector care homes



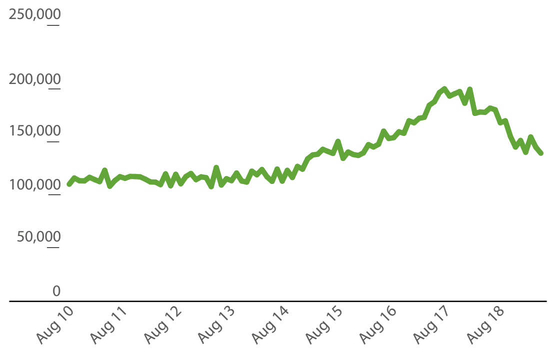
Source: LaingBuisson database

3 Severe pressure on the NHS

Since the government combined health and social care under one department earlier this year, there appears to have been some encouraging successes in tackling the problem of bed-blocking in the NHS. In the 12 months to March 2018, the NHS in England lost 1,979,260 bed days through delayed transfers, down from 2,254,821 bed days in the 12 months to March 2017. However, pressure on the NHS continues to be intense with Simon Stevens, the CEO of NHS England, stating in June 2018 that 350,000 patients who currently stay in hospital for more than three weeks, most of them elderly, occupy one in five hospital beds, or the equivalent of 36 hospitals.

Bed blocking: hospital days lost through delayed transfers in NHS

— Total delayed days



Source: NHS England

4 The growing importance of private pay

Approximately equal numbers of residents are now paid for either purely privately, or by a combination of local authorities and the NHS. A growing minority are funded through a combination of funding from local authorities with top-up payments from their families.

5 A growing market

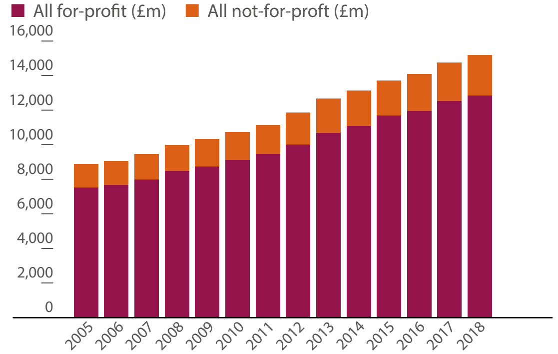
As a result of increasing demand, shrinking supply and a shift from government provision to independent providers, the independent sector has seen sustained and above-inflation growth. Since 2005, the revenues of for-profit independent providers have increased by 4.2% per annum, and for non-profit independent providers by 4.3% per annum.

Given the strength of the underlying market drivers, the Investment Adviser expects this growth to be sustainable going forward.

Market value of independent sector

Nursing and residential care of older people provided by the independent sector

■ All for-profit (£m) ■ All not-for-proft (£m)

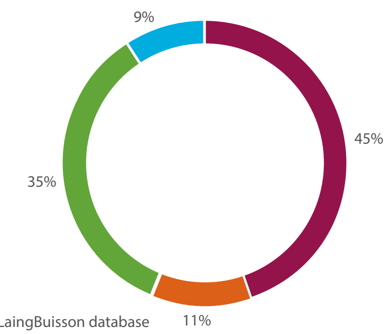


Source: LaingBuisson database and official sources

Market share by source of funding in volume terms

Residents in independent sector (for-profit and not-for-profit) care homes for older people and dementia (65+), UK March 2018

■ 'Pure' self-pay
■ Local authority with top-up
■ 'Pure' local authority
■ NHS



Source: LaingBuisson database

Investment Adviser's report

We remain confident that we have laid firm foundations for the further development of the Group to deliver attractive and sustainable value to shareholders through 2018 and for the longer term.

Investment policy and objectives

The Group's investment policy is to acquire, renovate, extend and redevelop high-quality healthcare real estate assets in the UK, and to lease those assets, under long-term full repairing and insuring leases to operators who are committed to providing high-quality care to their customers. The Group fully complied with this policy during the period and met all its investment objectives, as set out in its IPO prospectus dated January 2017.

Following approval from our board in the first half of 2018, we have added two additional policies to our list of investment policies: the Group aims for dividends to be covered by adjusted earnings; and the Group aims to minimise cash drag. Our progress towards delivering on all our investment policies is discussed opposite.

The Group has not generated any income from non-rental revenue (except interest received on cash balances) or sought alternative investments as permitted by the investment policy set out in the prospectus.

Investment activity

On 1 January 2018 the Group owned 57 properties, offering 2,527 beds, and had the proceeds from the secondary equity offering in November 2017 of £32.6 million to deploy. We have taken a deliberate and very selective approach to this exercise.

During the first six months of the year the Group completed the acquisition of a further 367 beds, increasing the size of the portfolio by 14.5%, and adding two new, high-quality tenants in the process, Prestige Group and Welford. In the period, the Group invested a total of £24.2 million in these acquisitions and made further capital investment into the existing portfolio. In addition, it committed £24.6 million to capital improvements and transactions which have either exchanged but not yet completed during the period, or in the case of the Careport acquisition, were exchanged post balance sheet. Therefore the proceeds of the secondary share issue are fully committed and we are now starting to deploy the Group's new debt facility.

The new acquisitions have been made on terms which are in line with those on which the Group acquired the seed portfolio in 2017, for which it paid a total of £153.3 million (including purchaser's costs) and achieved a net initial yield of 7.6% (including purchaser's costs). The average net initial yield on the Prestige, Welford and Careport acquisitions is 7.3%. We have also been consistent in putting in place leases which are based on those for the seed portfolio, with minimum fixed terms of 20 years, no tenant break rights, options to extend and annual rent adjustments at RPI with a floor of 2% and a cap of 4%.

Two of the properties which were acquired entered new leases with Minster. This constitutes a smaller related party transaction as defined in LR 11.1.10. The Board was satisfied that this transaction is fully compliant with the Company's related party policy.

We have a strong pipeline of further investment opportunities.

More information about the portfolio can be found on page 11.

Asset management

While under the terms of the leases, tenants are fully responsible for keeping the Group's buildings in good repair through regular repair and maintenance programmes, which we monitor carefully, we are also keen to work with tenants to find ways to invest in the estate in order to add beds and upgrade buildings.

We have planning permissions in place, or applications at an advanced stage, to add further beds across all existing tenant portfolios: 464 new beds at Minster and Croftwood; eight at Welford; and 38 at Prestige.

Investment policies	Status	Performance
Our target dividend is 6.0p per share per annum, payable quarterly.	Achieved	We have paid or declared dividends of 1.5p per quarter for the first five quarters since IPO.
We aim for our dividends to be covered by adjusted earnings.	Partially met	Paid and declared dividends were 79% covered by adjusted earnings per share for the first half of the year to 30 June 2018. We have an investment strategy in place to deliver this.
We have a conservative gearing policy. Borrowings as a percentage of our gross assets may not exceed 35% LTV at the time of drawdown.	Achieved	The Group's gross loan-to-value was 11.2% as at 30 June 2018. We continue to engage with finance providers for debt facilities within these gearing limits and we are seeking to align this funding with future acquisitions.
After acquiring the Seed Portfolio and some of the optional assets, we targeted annual rent receivable from our initial tenants of between £11.0 million and £11.6 million.	Achieved	Our contracted annual rent at the period end was £14.5 million, comprising £13.8 million passing rent plus a further £0.7 million in relation to rent commitments from funded capital improvements.
Minimise cash drag.	Partially met	We invested 95% of our net IPO proceeds within two months of admission, with cash rent calculated from the admission date. 98% was invested by June 2017 and we committed the remainder to fund income-increasing asset management initiatives. We raised a further £32.6 million in November 2017, all of which has now been invested or committed.
We manage risk by owning a diversified portfolio, with no single asset exceeding 15% of the Group's total gross asset value.	Achieved	The largest single asset is Freeland House, which was valued at £11.6 million at the period end, equating to 6.3% of our gross asset value.
We also manage risk by limiting our exposure to our tenants' customers. No single customer paying for care provided in our assets can account for more than 15% of our tenants' aggregate revenues.	Achieved	The largest single customer paying for care represents only 8.4% of the aggregate revenues of the tenant which leases the assets.
We grant leases that are linked to the Retail Prices Index (RPI), have an unexpired term of at least 20 years and are not subject to break clauses. We seek to amend any leases we acquire to obtain similar terms.	Achieved	The portfolio is leased on minimum 20-year terms, with no break clauses and upward-only rent increases at RPI, with a floor of 2% and a cap of 4%.
We will not speculatively develop assets, which means we will not develop a property which has not been leased or pre-leased.	Achieved	We did not undertake any speculative development in the period.
We may invest in forward funding agreements or forward commitments to pre-let developments, where we will own the completed asset.	Achieved	The 58 additional beds approved during the period, for development at existing homes, will enhance our rental income under a forward funding agreement through which we fund the tenant's capital expenditure in return for an accretive increase in rent, both in terms of contractual rent and portfolio valuation. In addition we have agreed 38 additional beds with a new tenant under a deferred consideration agreement.

Achieved Partially met Not met

Investment Adviser's report

In 2017, the Group committed £7.9 million to deliver a first phase of 92 new beds across the Minster and Croftwood portfolios. In the six months to 30 June 2018, the Group committed an additional £5.2 million to deliver a further 58 beds, giving a total of £13.1 million capex at 11 homes committed since IPO. In addition, Prestige agreed to reinvest some of the proceeds from the acquisition in creating 38 new beds at Parkville Care Centre. As at 30 June 2018, 63 of these new beds had become operational (38 at Parkville and 25 at Turnpike).

The additional rooms created by this capex, once they are all operational, are expected to increase rent on the 11 homes by £1.1 million from £2.8 million to £3.9 million.

Balance sheet management

The Group was launched in 2017 with a debt-free balance sheet and with the medium term intention of continuing to have a conservative balance sheet with maximum loan-to-value set at 35%.

We put in place the Group's first debt facility with Metro Bank PLC in June 2018. It is a £50 million facility, of which £30 million was secured and available at 30 June 2018. The facility has two elements: an interest-only term loan of £25 million; and a revolving credit facility of £25 million. We have hedged the term element of the facility against rises in the Bank of England base rate above 1.0% through purchasing a five-year cap.

Valuation

Starting from 1 January 2018 the Group decided to move the independent valuation of the Group's assets from a semi-annual to a quarterly exercise. On this basis, Cushman & Wakefield valued the portfolio as at 30 March 2018 and 30 June 2018, in accordance with the RICS Valuation – Professional Standards (the Red Book).

At 30 June 2018 the portfolio's independent valuation was £184.3 million, up from £156.2 million at 31 December 2017. After stripping out property additions and capital improvements, the underlying revaluation movement in the period was £4.0 million. This movement was driven by rent increases received during the period and asset management initiatives, rather than relying on yield compression.

Financial results

Total net rental income recognised for the period was £7.9 million. After taking into account administrative expenses and changes in the fair value of investment properties, profit before tax was £8.5 million. As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business. The small tax charge in the period relates to interest received on the Group's cash position.

This level of profit resulted in EPS for the period of 4.41p, EPRA EPS of 3.23p and adjusted EPS of 2.37p. These are all on a basic and diluted basis.

The board declared two dividends of 1.5p each in the period, the first on 1 February and the second on 27 April, bringing total dividends paid in the Group's first four quarters to 6.0p. On an adjusted earnings basis, dividends paid or declared for in the period were 79% covered. This reflects the fact that rent received from new investments was not received for the full period. We are confident that once the £24.6 million of additional capital which has been committed but not yet invested has been deployed the Group's dividends will be covered by adjusted earnings.

David Brooks

It was with great sadness that we heard of the sudden death of David Brooks in July. As a non-executive director and chairman of the audit committee he was very engaged with the Investment Adviser and we valued his wisdom, attention to detail and experience. He will be missed.

Impact Health Partners LLP Investment Adviser
9 August 2018

The portfolio

At 30 June 2018, the Group owned the assets listed in the table below:

Name of home	County	Address	Acquisition date[1]	Net purchase price £m	Beds	% of portfolio income
Minster Care				**107.28**	**1,603**	**57.57**
Abbeywell	Staffordshire	Dragon Square, Chesterton		4.95	45	2.78
Amberley	Cornwall	The Crescent, Truro		0.68	21	0.43
Ashgrove	Lincolnshire	North Sea Lane, Cleethorpes		2.15	56	1.29
Attlee	West Yorkshire	Attlee Street, Normanton		3.11	68	1.81
Broadgate	Nottinghamshire	Broadgate, Beeston		3.45	40	1.94
Carnbroe	Glasgow, Scotland	40 Paddock Street, Coatbridge	May 2018	3.60	74	2.10
Craigend	Glasgow, Scotland	Croftcroighn Road, Ruchazie		1.33	48	0.32
Diamond	Leicestershire	Bewcastle Grove, Leicester		2.69	44	1.51
Duncote Hall	Northamptonshire	Towcester		3.37	38	1.89
Duncote, The Lakes	Northamptonshire	Towcester		5.46	45	2.80
Emmanuel	Humberside	Southfield, Hessle		1.40	37	0.75
Eryl Fryn	Conwy, Wales	Bodafon Road, Craigside		1.54	29	0.86
Falcon	Nottinghamshire	Middle Street, Beeston		4.37	46	2.37
Freeland House	Oxfordshire	Wroslyn Road, Freeland		11.18	62	5.18
Grays Court	Essex	Church Street, Grays		5.77	87	3.02
Grenville	Norfolk	Horsbeck Way, Horsford, Norwich	May 2018	4.40	64	2.31
Hamshaw Court	Humberside	Wellsted Street, Hull		1.48	45	0.86
Ideal	Shropshire	Knowsley Drive, Bicton Heath		1.97	42	1.18
Karam Court	West Midlands	Mallin Street, Smethwick		3.71	47	1.94
Littleport Grange	Cambridgeshire	Grange Lane, Littleport		5.77	59	3.02
Meadows & Haywain	Suffolk	Brybank Road, Hanchett Village		4.95	65	2.59
Mowbray	Worcestershire	Victoria Road, Malvern		3.32	37	1.94
Mulberry Manor	South Yorkshire	Wortley Avenue, Swinton		1.80	49	1.08
Rydal	Durham	Rydal Road, Darlington		2.69	57	1.51
Saffron	Leicestershire	High Street, Barwell	Jun 2017	3.40	48	1.98
Shrubbery	Worcestershire	Shrubbery Avenue, Worcester		0.72	31	0.43
Sovereign	West Midlands	Chelmarsh, Daimler Green		3.30	60	1.73
Stansty House	Clwyd, Wales	Stansty Road, Wrexham		3.35	74	1.75
Three Elms	Lancashire	Station Road, Penketh		3.02	57	1.76
Waterside	Worcestershire	Leigh Sinton, Malvern		4.07	47	2.04
Woodlands	Greater Manchester	Ash Lane, Aspull		1.98	40	1.11
Wordsley	West Midlands	Mill Street, Brierley Hill, Wordsley		2.30	41	1.29
Croftwood Care				**52.87**	**1,077**	**34.36**
Ancliffe	Greater Manchester	Warrington Road, Wigan		1.83	40	1.24
Astbury Lodge	Cheshire	Randle Meadow, Great Sutton		1.59	41	1.08
Croftwood	Cheshire	Whitchurch Way, Runcorn		1.58	44	0.95
Crossways	Cheshire	Station Road, Lostock Gralam, Northwich		1.02	39	0.73
Elm House	Cheshire	Pillory Street, Nantwich		2.61	39	1.73
Florence Grogan	Cheshire	Shelley Road, Blacon, Chester		1.52	40	1.03
Garswood	Greater Manchester	Wentworth Road, Wigan		1.65	40	1.12
Gleavewood	Cheshire	Farm Road, Weaverham, Northwich		1.01	30	0.69
Golborne House	Cheshire	Derby Road, Golborne		1.67	40	1.14
Greenacres	Greater Manchester	Green Lane, Standish		1.59	40	1.08
Hourigan	Greater Manchester	Myrtle Avenue, Leigh		1.89	40	1.29
Ingersley Court	Cheshire	Lowther Court, Bollington		1.88	33	1.24
Lakelands	Greater Manchester	Grizedale Drive, Higher Ince		1.89	40	1.29
Leycester House	Cheshire	Edenfield Road, Mobberley, Knutsford		2.53	40	1.73
Loxley Hall	Cheshire	Lower Robin Hood Lane, Helsby		2.56	36	1.49
Lyndhurst	Greater Manchester	College Street, Leigh		1.44	40	0.98
New Milton House	Staffordshire	Station Road, Alsager		1.79	39	1.22
Parklands	Cheshire	Poynton Civic Centre, Park Lane, Poynton		1.64	40	1.18
The Cedars	Cheshire	Brookfield Drive, Holmes Chapel		0.88	27	0.56
The Elms	Cheshire	Elm Drive, Crewe		2.08	41	1.42
The Hawthorns	Cheshire	Hawthorne Street, Wilmslow		1.95	39	1.29
The Laurels	Cheshire	Walnut Drive, Winsford		1.22	40	0.81
Thorley	Greater Manchester	Hazelmere Gardens, Hindley		1.96	40	1.34
Turnpike Court	Cheshire	Middlewich Road, Elworth, Sandbach		2.69	53	1.73
Wealstone	Cheshire	Wealstone Lane, Upton		3.09	42	2.11
Westhaven	Merseyside	Queen's Road, Wirral		5.36	52	2.59
Whetstone Hey	Cheshire	Old Chester Road, Great Sutton		1.95	42	1.29
Prestige Group				**10.20**	**158**	**5.48**
Parkville Care Centre	North Yorkshire	Walpole Street, Middlesborough	March 2018	3.00	55	1.60
Roseville Care Centre	North Yorkshire	Blair Avenue, Ingleby Barwick	March 2018	7.20	103	3.88
Welford				**4.75**	**71**	**2.59**
Fairview Court/House[2]	Bristol	42 Hill Street, Kingswood	March 2018	4.75	71	2.50
Total				**175.10**	**2,909**	**100.00**
Total market value (per independent valuation)				**184.35**		

Note 1: May 2017 unless stated
Note 2: Treated as two properties

Working with tenants to create value

Littleport Grange

- The improvement works at Littleport Grange are close to completion with the new extension due to open to residents in August 2018.
- The new building will add 21 en-suite rooms to the beautiful Cambridgeshire period residence, bringing the total number of operational beds to 75.
- Set in extensive gardens, the residents of the home benefit from the outdoor space available, which will be further enhanced by the outdoor areas around the new development.
- Within the stunning exterior, Littleport Grange is a highly rated care home offering exceptional care for residents, including those with physical disabilities and dementia.

Working with tenants to create value

Parkville Care Centre

- Parkville Care Centre is a modern purpose-built care home in Middlesbrough which houses up to 93 residents in en-suite rooms.
- The home has been recently refurbished to include state-of-the-art specialist dementia care facilities.
- Multi-sensory rooms equipped with fibre optics, lighting and projectors create an interactive and engaging environment for residents.
- Research shows that this type of stimulation often results in improved motor performance and cognitive ability in people living with dementia.
- Parkville is now able to offer a service more acutely tailored to the needs of its residents.
- The home is rated Good by CQC which attests to the high quality of care provided by its staff.

Key performance indicators

The Group uses the following measures to assess its strategic progress

KPI and definition	Performance
1. EPRA Net Asset Total Return (NATR) The change in the EPRA net asset value over the period plus dividends paid.	8.84% for the period to 30 June 2018 annualised (period to 31 December 2017 annualised: 7.19%)
2. Dividend Dividends paid to shareholders and declared in relation to the period.	3.0p/share for the period to 30 June 2018 (period to 31 December 2017: 4.5p)
3. Gross loan-to-value The proportion of our gross asset value that is funded by borrowings.	11.2% as at 30 June 2018 (31 December 2017: 0.0%)
4. Adjusted earnings per share Reflects the sustainable earnings per share achievable by the Company, including rent paid but adjusts for all other rental income not supported by cash flows.	2.37p/share for the period to 30 June 2018 (period to 31 December 2017: 4.39p)
5. Total expense ratio (TER) The ratio of total administration costs expressed as a percentage of average net asset value throughout the period.	1.71% for the period to 30 June 2018 annualised (period to 31 December 2017 annualised: 1.74%)
6. Diversified portfolio Largest single asset as a percentage of the most recent valuation for the property portfolio.	6.30% as at 30 June 2018 (31 December 2017: 7.49%)
7. Diversified customer base Revenue from our tenants' largest single customer as a percentage of the total tenant revenue.	8.4% for the period to 30 June 2018 (period to 31 December 2017: 8.20%)
8. Weighted average unexpired lease term (WAULT) The average unexpired lease term of the property portfolio, weighted by annual passing rents.	19.2 years as at 30 June 2018 (as at 31 December 2017: 19.2 years)

EPRA performance measures

We provide these measures to aid comparison with other European real estate businesses

KPI and definition	Purpose	Performance
1. EPRA Earnings per share Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£6.21m/ 3.23p per share for the period to 30 June 2018 (period to 31 December 2017: 4.35p)
2. EPRA NAV per share Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long term investment strategy.	£196.18m/ 102.06p per share as at 30 June 2018 (as at 31 December 2017: 100.65p)
3. EPRA Triple Net Asset Value (NNNAV) EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt; and (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£195.16m/ 101.54p per share as at 30 June 2018 (as at 31 December 2017: 100.65p)
4.1 EPRA Net Initial Yield (NIY) Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	7.09% as at 30 June 2018 (as at 31 December 2017: 7.02%)
4.2 EPRA 'Topped-Up' NIY This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	7.09% as at 30 June 2018 (as at 31 December 2017: 7.02%)
5. EPRA vacancy rate Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.	A "pure" (%) measure of investment property space that is vacant, based on ERV.	0.00% as at 30 June 2018 (as at 31 December 2017: 0.00%)
6. EPRA cost ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure, to enable meaningful measurement of the changes in a company's operating costs.	20.91% for the period to 30 June 2018 (period to 31 December 2017: 24.68%)

Principal risks

The board considers the principal risks and uncertainties for the business are presented on pages 22 to 24 of our 2017 annual report and are unchanged during the period. However, the board has considered the recent addition of bank debt and updated the principal risks within financial risks to reflect this.

Property market risks

Investments in property are relatively illiquid. This may affect our ability to vary, dispose of or liquidate part of our portfolio in a timely fashion and at satisfactory prices, in response to changes in economic, real estate market or other conditions. This could have an adverse effect on our financial condition and results of operations, by reducing the profits and proceeds we realise.

Market conditions

Our investment objective allows us to invest in further assets, which may not be available on the terms required to generate our target returns (including the target dividend), or at all. Market conditions may also restrict the availability of investments and reduce our ability to identify and acquire suitable assets that would generate acceptable returns. Any delay in making investments will reduce our returns.

Several factors may affect our cash flows. These include:

- adverse market conditions in the healthcare sector;
- our tenants' local authority clients insisting on more generous payment terms; and
- increased regulatory responsibility and associated costs to tenants.

These may all materially affect our tenants' covenant strength and their ability to pay rent, resulting in a higher risk of default.

Financial risks

An element of our debt facilities are floating rate debt which remains uncapped, and will expose the business to underlying interest rate movements.

Our debt is secured over a security pool of properties, and will rank ahead of shareholders' entitlements. This means that if the Group were wound up, shareholders might not recover their initial investment.

If debt or equity are not available on acceptable terms, we may be unable to progress investment opportunities as they arise or continue to grow in line with our strategy.

Corporate risk

As an externally managed company, we rely on the Investment Adviser's services and reputation to execute our strategy and support our day-to-day relationships. As a result, our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff.

Taxation risk

If we breach any of the REIT regulations, we could lose our REIT status and become subject to UK corporation tax.

Political and economic risk

The vote to leave the EU in June 2016 has resulted in continuing political and economic uncertainty, which could have a negative effect on our performance.

A potential impact of Brexit relates to the recruitment of staff within our tenants' operations and we continue to monitor and discuss this with our tenants.

Directors' responsibilities

The directors confirm that to the best of their knowledge, this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the operating and financial review on pages 8 to 10 includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency rules of the United Kingdom's Financial Conduct Authority, namely:

- an indication of important events that have occurred during the first period of the financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first period of the financial year and any material changes in the related party transactions disclosed in the 2017 Annual Report as disclosed in note 14.

A list of the directors is shown on page 37.

Shareholder information is as disclosed on the Impact Healthcare REIT plc website.

For and on behalf of the board

Rupert Barclay Chairman
9 August 2018

Condensed consolidated statement of comprehensive income

	Notes	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
Gross Rental Income	5	7,864	2,247	9,392
Insurance/service charge income	5	155	57	57
Insurance/service charge expense	5	(155)	(57)	(57)
Net rental income	5	**7,864**	**2,247**	**9,392**
Administration and other expenses		(1,644)	(736)	(2,318)
Operating profit before changes in fair value of investment properties		6,220	1,511	7,074
Changes in fair value of interest rate derivatives	13	(76)	–	–
Changes in fair value of investment properties	9	2,339	1,471	2,378
Operating profit		**8,483**	**2,982**	**9,452**
Net finance (expense)/income		(7)	–	6
Profit before tax		**8,476**	**2,982**	**9,458**
Tax charge on profit for the period	6	(8)	–	(1)
Total profit and comprehensive income (attributable to shareholders)		**8,468**	**2,982**	**9,457**
Earnings per share – basic and diluted (pence)	7	**4.41p**	**1.95p**	**5.82p**

No operations were discontinued in the period.

Condensed consolidated statement of financial position

	Notes	As at 30 June 2018 (unaudited) £'000	As at 30 June 2017 (unaudited) £'000	As at 31 December 2017 (audited) £'000
Non-current assets				
Investment property	9	182,754	154,767	156,226
Interest rate derivatives	13	506	–	–
Trade and other receivables		3,259	–	1,651
Total non-current assets		**186,519**	**154,767**	**157,877**
Current assets				
Trade and other receivables		195	17	119
Cash and cash equivalents		36,160	7,154	38,387
Total current assets		**36,355**	**7,171**	**38,506**
Total assets		**222,874**	**161,938**	**196,383**
Current liabilities				
Trade and other payables		(1,044)	(1,725)	(1,221)
Total current liabilities		**(1,044)**	**(1,725)**	**(1,221)**
Non-current liabilities				
Bank borrowings	10	(24,063)	–	–
Trade and other payables		(1,668)	–	(1,712)
Total non-current liabilities		**(25,731)**	–	(1,712)
Total liabilities		**(26,775)**	**(1,725)**	**(2,933)**
Total net assets		**196,099**	**160,213**	**193,450**
Equity				
Share capital	11	1,922	1,602	1922
Share premium reserve	12	140,452	108,777	140,505
Capital reduction reserve		35,800	46,852	41,566
Retained earnings		17,925	2,982	9,457
Total equity		**196,099**	**160,213**	**193,450**
Net Asset Value per Ordinary Share (pence)	15	**102.03p**	**100.03p**	**100.65p**

Condensed consolidated statement of cash flows

	Notes	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
Cash flows from operating activities				
Profit for the period (attributable to equity shareholders)		8,468	2,982	9,457
Finance expense/(income) – net		7	–	(6)
Less changes in fair value of investment properties	9	(2,339)	(1,471)	(2,378)
Add: changes in fair value of interest rate derivatives	13	76	–	–
Increase in trade and other receivables		(1,683)	(17)	(1,770)
Increase in trade and other payables		(221)	1,725	2,933
Net cash flow from operating activities		**4,308**	**3,219**	**8,236**
Investing activities				
Purchase of investment properties	9	(22,810)	(153,296)	(152,154)
Acquisition costs capitalised	9	(604)	–	(1,184)
Capital improvements	9	(775)	–	(510)
Interest received		20	–	6
Net cash flow used in investing activities		**(24,169)**	**(153,296)**	**(153,842)**
Financing activities				
Proceeds from issue of Ordinary Share capital	11	–	160,172	192,767
Issue costs of Ordinary Share capital	12	(53)	(2,941)	(3,488)
Bank borrowings drawn	10	25,000	–	–
Loan arrangement fees paid		(943)	–	–
Interest rate cap premium paid	13	(582)	–	–
Interest paid bank borrowings		(22)	–	–
Dividends paid to equity holders	8	(5,766)	–	(5,286)
Net cash flow generated from financing activities		**17,634**	**157,231**	**183,993**
Net (decrease)/increase in cash and cash equivalents for the period		(2,227)	7,154	38,387
Cash and cash equivalents at the start of period		**38,387**	–	–
Cash and cash equivalents at end of the period		**36,160**	7,154	38,387

Condensed consolidated statement of changes in equity

Six months ended 30 June 2018 (unaudited)

	Notes	Share capital (unaudited) £'000	Share premium (unaudited) £'000	Capital reduction reserve (unaudited) £'000	Retained earnings (unaudited) £'000	Total (unaudited) £'000
1 January 2018		**1,922**	**140,505**	**41,566**	**9,457**	**193,450**
Total comprehensive income		–	–	–	8,468	8,468
Transactions with owners						
Dividend paid	8	–	–	(5,766)	–	(5,766)
Share issue costs	12	–	(53)	–	–	(53)
30 June 2018		**1,922**	**140,452**	**35,800**	**17,925**	**196,099**

From 7 November 2016 to 30 June 2017 (unaudited)

	Notes	Share capital	Share premium	Capital reduction reserve	Retained earnings	Total
7 November 2016		**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**2,982**	**2,982**
Transactions with owners						
Issue of management shares	11	50	–	–	–	50
Cancellation of management shares	11	(50)	–	–	–	(50)
Issue of Ordinary Shares	11	1,602	158,570	–	–	160,172
Share issue costs	12	–	(2,941)	–	–	(2,941)
Transfer to capital reduction reserve	12	–	(46,852)	46,852	–	–
30 June 2017		**1,602**	**108,777**	**46,852**	**2,982**	**160,213**

From 7 November 2016 to 31 December 2017 (audited)

	Notes	Share capital	Share premium	Capital reduction reserve	Retained earnings	Total
7 November 2016		**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**9,457**	**9,457**
Transactions with owners						
Issue of management shares	11	50	–	–	–	50
Cancellation of management shares	11	(50)	–	–	–	(50)
Issue of Ordinary Shares	11	1,922	190,845	–	–	192,767
Share issue costs	12	–	(3,488)	–	–	(3,488)
Transfer to capital reduction reserve	12	–	(46,852)	46,852	–	–
Dividends paid	8	–	–	(5,286)	–	(5,286)
31 December 2017		**1,922**	**140,505**	**41,566**	**9,457**	**193,450**

Notes to the condensed consolidated financial statements

1. Basis of preparation

General information
These unaudited condensed consolidated financial statements for the six month period ended 30 June 2018, are prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB") and IAS34 "Interim Financial Reporting" as adopted by the European Union, including the comparative information for the period from incorporation on 7 November 2016 to 30 June 2017 and for the period from incorporation on 7 November 2016 to 31 December 2017.

The condensed consolidated financial statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's Ordinary Shares are listed on the main market of the London Stock Exchange, in the Specialist Fund Segment. The registered address of the Company is disclosed in the Corporate information.

The condensed consolidated financial statements presented herein for the year to 31 December 2017 does not constitute full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group's annual report and accounts for the year to 31 December 2017 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2016.

Convention
The consolidated condensed financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern
The directors have considered the Group's financial position as well as the principal risks of the Group. These risks are set out on page 18. During the period the Group entered into an agreement to obtain a loan facility of £50 million of which £30 million is secured and available. £25 million is drawn and held in cash deposits, and £5 million remains undrawn at 30 June 2018. Refer to note 10 for further details.

All of the Group's property assets are let to tenants on long leases with annual rent reviews linked to RPI with a 2% floor and a 4% cap, providing a stable and long term income stream. This coupled with a visible and relatively stable cost base provide additional security when assessing the Group's financial position.

The directors have also considered the capital commitments of the Group and the post balance sheet investments.

The directors believe that there are currently no material uncertainties in relation to the Company's ability to continue for a period of at least 12 months from the date of the Company's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Interim Report is appropriate.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

Judgements
Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below.

Fair valuation of investment property
The value of investment property is determined by independent real estate valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Each property has been valued on an individual basis. The valuation experts use recognised valuation techniques in accordance with those recommended by the International Valuation Standard Committee and are compliant with IFRS 13.

The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths, and location.

Gains or losses arising from changes in the fair values are included in the consolidated statement of comprehensive income in the period in which they arise. In order to avoid double accounting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or lease income straight-lining assets or liabilities to the statement of comprehensive income.

Operating lease contracts – the Group as lessor
The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases when signed, are for between 20 and 25 years with a tenant only option to extend for one or two periods of 10 years. It has been assumed at this stage that the tenants do not exercise the option to extend.

Business combinations
The Group acquires subsidiaries that own property. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or deferred tax arises.

All acquisitions in the period have been judged not to be acquisitions of a business.

Notes to the condensed consolidated financial statements

3. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the period ended 31 December 2017 and are expected to be consistently applied during the year ended 31 December 2018.

In addition, the following accounting policies will apply for the year ended 31 December 2018 and therefore the current six month period ended 30 June 2018:

Borrowings:
All bank borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, all bank borrowings are measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates within finance costs in the consolidated statement of comprehensive income.

Interest rate derivatives:
Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the Group and its counterparties. Premiums payable under such arrangements are initially capitalised into the Condensed Group Statement of Financial Position.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole. Changes in fair value of interest rate derivatives are recognised within the Condensed Group Statement of Comprehensive Income in the period in which they occur.

The Company does not apply hedge accounting in accordance with IFRS 9.

IFRS 9 'Financial Instruments'
The IFRS 9 'Financial Instruments' standard which is effective for annual periods beginning on or after 1 January 2018 represents a change from the previous requirements under IAS 39 'Financial Instruments: Recognition and Measurement' in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The Group's financial assets and liabilities comprise of derivatives (which are classified and measured at fair value), as well as trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Under IFRS 9 financial instruments, trade and other receivables, trade and other payables and borrowings would be classified and measured at amortised cost. This is in line with the existing accounting policies already adopted for these financial instruments as IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement from IAS 39.

Accordingly, no adjustments have been made with regards to the measurement and classification of these financial instruments.

The Group's assessment in applying the new impairment approach to financial assets at amortised cost as required under IFRS 9 for expected credit losses has not resulted in any material changes given the Group's requirement for tenants to pay rental payments in advance. Therefore there is no restatement in the current period after the standard was adopted and becomes effective.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 is based on the principle that revenue is recognised when control passes to a customer. The majority of the Group's income is from tenant leases and is outside the scope of the new standard except for related insurance or service charges which are recovered from the tenants. The main impact of IFRS 15 has been to show service charge income and the related service charge expenses gross within rental income. The comparatives have not been restated as the transitional provisions within the standard have been used to retrospectively apply the standard with the cumulative effect before initial application of the standard being recognised at the date of initial application. This cumulative effect is £nil.

4. Standards issued but not yet effective

IFRS 16: Leases (effective 1 January 2019).

An analysis on the impact of this standard has been included in the Group's statutory accounts for the period ended 31 December 2017.

The Group is still assessing the full impact of the new guidance under IFRS 16 on variable lease payments (including rental uplifts), lease modifications (including renewal options and breaks) and lease incentives. It is not anticipated that this standard will result in restatement in the current period once the standard is adopted and becomes effective.

Notes to the condensed consolidated financial statements

5. Net rental income

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight line basis. During the prior period ended 31 December 2017, the Group benefited from an upfront premium to reflect a rent calculation from the date of admission. For accounting purposes, this premium is being reflected over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 2% on all leases. For accounting purposes these uplifts are also incorporated to recognise income on a straight line basis.

The elements are reported in the table below.

	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
Rental income cash received in the period	**6,212**	**3,605**	**9,453**
Rent received in advance of recognition[1]	44	(1,756)	(1,712)
Rent recognised in advance of receipt[2]	1,608	398	1,651
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment in the period	**1,652**	**(1,358)**	**(61)**
Gross rental income	**7,864**	**2,247**	**9,392**
Insurance/service charge income	155	57	57
Insurance/service charge expense	(155)	(57)	(57)
Net rental income	**7,864**	**2,247**	**9,392**

1 Rent received in relation to the period from admission to acquisition, deemed to be a premium over the term of the leases of the seed acquisition portfolio
2 Rent recognised in the period to reflect the minimum 2% uplift in rents over the term of the lease on a straight line basis

6. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the period ending 30 June 2018 and 30 June 2017, the Group did not have any non-qualifying profits except interest income on bank deposits.

7. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the time weighted average number of Ordinary Shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
Net attributable to ordinary shareholders			
Total comprehensive income	**8,468**	**2,982**	**9,457**
Adjusted for:			
Change in fair value of investment property during the period	(3,991)	(113)	(2,317)
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment	1,652	(1,358)	(61)
Change in fair value of interest rate derivative	76	–	–
EPRA earnings	**6,205**	**1,511**	**7,079**
Adjusted for:			
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment	(1,652)	1,358	61
Adjusted earnings	**4,553**	**2,869**	**7,140**
Average number of Ordinary Shares	192,206,831	152,989,751	162,552,476
Earnings per share (pence)[1]	**4.41p**	**1.95p**	**5.82p**
EPRA basic and diluted earnings per share (pence)[1]	**3.23p**	**0.99p**	**4.35p**
Adjusted basic and diluted earnings per share (pence)[1]	**2.37p**	**1.88p**	**4.39p**

1 There is no difference between basic and diluted earnings per share

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties and interest rate derivatives.

EPRA earnings have been adjusted to exclude the effect of straight lining of rental income in order for the board to consider the level of cash covered dividend.

Notes to the condensed consolidated financial statements

8. Dividends

	Dividend rate (pence per share)	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
First interim dividend for the period ended 31 December 2017 (ex-dividend – 10 August 2017)	1.5p	–	–	2,403
Second interim dividend for the period ended 31 December 2017 (ex-dividend – 16 November 2017)	1.5p	–	–	2,883
Third interim dividend for the period ended 31 December 2017 (ex-dividend – 8 February 2018)	1.5p	2,883	–	–
First interim dividend for the period ended 31 December 2018 (ex-dividend – 3 May 2018)	1.5p	2,883	–	–
Total dividends paid		**5,766**	**–**	**5,286**
Total dividends paid in respect of the period		1.5p	–	3.0p
Total dividends unpaid but declared in respect of the period		1.5p	1.5p	1.5p
Total dividends declared in respect of the period – per share		**3.0p**	**1.5p**	**4.5p**

No dividends were declared and paid as distribution to equity shareholders during the period from 7 November to 30 June 2017.

On 1 February 2018, the Company declared an interim dividend of 1.50 pence per Ordinary Share for the period from 30 September 2017 to 31 December 2017 and was paid in February 2018.

On 27 April 2018, the Company declared an interim dividend of 1.50 pence per Ordinary Share for the period from 31 December 2017 to 30 June 2018 and was paid in May 2018.

On 9 August 2018, the Company declared an interim dividend of 1.5 pence per share for the period from 1 April 2018 to 30 June 2018 payable in September 2018.

9. Investment property

In accordance with IAS 40: Investment Property, the properties have been independently fair valued by Cushman & Wakefield, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards ("the Red Book"). The valuers have sufficient current local and national knowledge of the particular property markets involved, and have the skills and understanding to undertake the valuations competently.

The valuation models prepared in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13.

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

All corporate acquisitions during the year have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	As at 30 June 2018 (unaudited) Total £'000	As at 30 June 2017 (unaudited) Total £'000	As at 31 December 2017 (audited) Total £'000
Opening value	156,165	–	–
Property additions	22,810	152,154	152,154
Acquisition costs capitalised	604	1,142	1,184
Capital improvements	775	–	510
Revaluation movement	3,991	113	2,317
Closing value per independent valuation report	**184,345**	**153,409**	**156,165**
Guaranteed rent reviews and initial lease rental payment net (debtor)/creditor	(1,591)	1,358	61
Closing fair value per condensed consolidated statement of financial position	**182,754**	**154,767**	**156,226**

1 Investment properties include freehold and long leasehold properties

Change in the fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the condensed consolidated statements:

	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
Revaluation movement	3,991	113	2,317
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment in the period	(1,652)	1,358	61
Change in fair value of investment properties	**2,339**	**1,471**	**2,378**

Notes to the condensed consolidated financial statements

10. Bank borrowings

A summary of the bank borrowings drawn in the period are shown below:

	As at 30 June 2018 (unaudited) Total £'000	As at 30 June 2017 (unaudited) Total £'000	As at 31 December 2017 (audited) Total £'000
At the beginning of the period	–	–	–
New bank borrowings agreed and drawn in the period	25,000	–	–
Total bank borrowings drawn	**25,000**	**–**	**–**

During the period, the Group signed a £50 million five year loan facility with Metro Bank PLC (the "Loan Facility") of which £30 million is secured and available at 30 June 2018. The Loan Facility has two elements: an interest only term loan of £25 million (the "Term Loan") which was fully drawn at 30 June 2018, and a revolving credit facility of £25 million (the "RCF"), £5 million of which was secured and available at 30 June 2018. This is the Group's first debt facility.

The Loan Facility has a margin of 265 basis points over Metro Bank PLC's published Base Lending Rate. The five year Term Loan is repayable without penalty after two years, and with a 1% penalty if prepaid within the first two years. Amounts drawn under the RCF can be repaid at any time without penalty. £25 million of the Term Loan and £5 million of the RCF are secured over a portfolio of 30 care homes held in a wholly-owned Group company.

The Group drew down £25 million of the Term Loan facility on 21 June 2018.

As at 30 June 2018, the Group remains within its maximum loan to value ("LTV") which is 35% of gross asset value of the Group as a whole.

Any fees associated with arranging the bank borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	As at 30 June 2018 (unaudited) Total £'000	As at 30 June 2017 (unaudited) Total £'000	As at 31 December 2017 (audited) Total £'000
Bank borrowings drawn: due after more than one year	**25,000**	**–**	**–**
Total bank borrowings	25,000	–	–
Less: unamortised costs	(937)	–	–
Total bank borrowings per the Condensed Group Statement of Financial Position	**24,063**	**–**	**–**

Included in the condensed consolidated statement of comprehensive income is loan finance costs of £27,375 which includes loan arrangement fees of £5,800.

11. Share capital

	Shares in issue	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
At the beginning of the period	–	1,922	–	–
Issue of management shares	50,002	–	50	50
Cancellation of management shares	(50,000)	–	(50)	(50)
Shares issued 7 March 2017	146,172,358	–	1,462	1,462
Shares issued 5 May 2017	14,000,000	–	140	140
Shares issued 13 November 2017	32,034,471	–	–	320
	192,206,831	**1,922**	**1,602**	**1,922**

The Company had 192,206,831 shares of nominal value of 1 pence each in issue at the end of the period (30 June 2017: 160,172,360, 31 December 2017: 192,206,831).

There were no shares issued during the six month period ended 30 June 2018.

12. Share premium

Share premium comprises share capital subscribed for in excess of nominal value less costs directly attributed to share issuances.

	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
At the beginning of the period	140,505	–	–
Shares issued 7 March 2017	–	144,710	144,710
Shares issued 5 May 2017	–	13,860	13,860
Shares issued 13 November 2017	–	–	32,275
Share issue costs	(53)	(2,941)	(3,488)
Transfer to capital reduction reserve	–	(46,852)	(46,852)
	140,452	**108,777**	**140,505**

Share issue costs in the six months ended 30 June 2018 includes incremental costs invoiced in the period in relation to the shares issued in November 2017. The costs had not been accrued at 31 December 2017.

Notes to the condensed consolidated financial statements

13. Interest rate derivatives

	As at 30 June 2018 (unaudited) Total £'000	As at 30 June 2017 (unaudited) Total £'000	As at 31 December 2017 (audited) Total £'000
At the beginning of the period	–	–	–
Interest cap costs paid	582	–	–
Changes in fair value of interest rate derivatives	(76)	–	–
	506	**–**	**–**

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group entered into an interest rate cap with the notional value of £25 million and a strike rate of 1% effective from 21 June 2018 with a termination date of 15 June 2023. The fair value of the interest rate cap is based on a floating reference of 1 month LIBOR.

The total premium payable in the year towards securing the interest rate cap was £570,000, plus associated costs at £12,000.

14. Transactions with related parties

Investment Adviser

The fees calculated and paid for the period to the Investment Adviser were as follows:

	Six months ended 30 June 2018 (unaudited) Total £'000	Period from 7 November 2016 to 30 June 2017 (unaudited) Total £'000	Period from 7 November 2016 to 31 December 2017 (audited) Total £'000
Impact Health Partners LLP	**1,173**	**547**	**1,609**

For the six month period ended 30 June 2018 the principals and finance director of Impact Health Partners LLP, the Investment Adviser, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the finance director of Impact Health Partners LLP and they own 5.20%, 0.33% and 0.02% respectively (either directly or through a wholly-owned company) of the total issued Ordinary Share capital of Impact Healthcare REIT plc. Mr Patel also (directly and indirectly) holds a majority 72.5% stake in Minster Care Group Limited (MCGL). Mr Cowley also holds a 20% interest in MCGL. 96% of the Group's rental income in the six months ended 30 June 2018 was received from MCGL or its subsidiaries. There were no trade receivables or payables outstanding at the period end.

Directors' interests

Paul Craig is a director of the Company. He is also the portfolio manager at Quilter Investors (formerly Old Mutual Global Investors), which has an interest in 39,617,784 Ordinary Shares of the Company through funds under management. The remaining directors are shareholders in the Company but do not hold significant interests in the Ordinary Share capital of the Company.

During the period the directors received dividends from the Company of £5,700. In addition, funds managed by Paul Craig received dividends from the Company of £1,188,534.

14. Transactions with related parties (continued)

Acquisition of new leases

The Company complies with the relevant provisions of the Listing Rules ("LR") and has adopted a related party policy consistent with LR 11. Minster is considered a related party under this policy and entering into new leases for Carnbroe and Grenville, two of the properties acquired by the Group in the six months ended 30 June 2018. This constitutes a smaller related party transaction as defined in LR 11.1.10. The Board is satisfied that this transaction is fully compliant with the Company's related party policy.

15. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the statement of financial position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. There are no adjustments between basic and EPRA NAV.

	As at 30 June 2018 (unaudited) Total £'000	As at 30 June 2017 (unaudited) Total £'000	As at 31 December 2017 (audited) Total £'000
Net assets per condensed consolidated statement of financial position	196,099	160,213	193,450
Mark to Market adjustment of derivatives	76	–	–
EPRA NAV	196,175	160,213	193,450
Issued share capital (number)	192,206,831	160,172,360	192,206,831
Basic NAV per share	**102.03p**	**100.03p**	**100.65p**
EPRA NAV per share	**102.06p**	**100.03p**	**100.65p**

16. Capital commitments

The Group has entered into Licences for Alterations and Deeds of Variation contracts for 10 of its properties by 30 June 2018. These agreements to improve the assets will add a further 104 beds once completed. The Group has committed to fund up to a maximum of £8.3 million in relation to the cost of improvements on these properties of which £1.2 million was funded by 30 June 2018.

The Group has committed to a further property acquisition and a deferred payment agreement for 115 beds. These are within the Prestige portfolio acquisition announced in January 2018. Total commitments under these contracts are £8.5 million.

Notes to the condensed consolidated financial statements

17. Contingent liabilities

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated at £8.4 million on the net purchase price of assets acquired since incorporation.

18. Controlling parties

The Company is not aware of any person who, directly or indirectly owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

19. Subsequent events

Acquisitions

On 3 August 2018, the board of directors announced that the Group had exchanged contracts to acquire five care homes comprising 218 beds for a total consideration of £12.15 million (including costs). All of the homes were built between 1999 and 2007 and have undergone a refurbishment programme between February 2016 and December 2017 of £1.39 million (£6,380 per bed).

The homes are currently managed by Careport Advisory Services ("Careport") under their Mariposa and Papillon brands. Careport, who have a long track record of turning around and stabilising care homes, will become the new tenant under new 25-year term leases with no break clauses and an option to extend to 35 years at the end of year 10. The leases are subject to annual RPI uplifts with a floor of 2% pa and a cap of 4% pa. Four of the homes are rated good by CQC and one is rated requires improvement.

Designed and produced by **Bruce Associates**

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Incorporated in the United Kingdom

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