McKay
Securities PLC

REPORT AND FINANCIAL STATEMENTS 2016

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McKay Securities PLC is the only Real Estate Investment Trust (REIT) focused entirely on South East England and London. It specialises in the development and refurbishment of quality commercial buildings within established and proven markets. Completed projects are generally retained for growth within the Group's portfolio, valued at £401 million.

Properties are actively managed to maximise income and capital returns. As a result, there is a recurring rental stream underpinning growth in profits which are further enhanced from time to time by the sale of investment properties.

Prospero
Redhill

FINANCIAL HIGHLIGHTS

PROFITS AND EARNINGS

£53.16 million
Profit before tax
(2015: £33.28 million)

£7.94 million
Adjusted profit before tax
(2015: £5.79 million)

7.76 pence
EPRA earnings per share
(2015: 5.22 pence)

SHAREHOLDERS' FUNDS

£261.20 million
(2015: £215.50 million)

301 pence
EPRA net asset value per share
(2015: 270 pence)

280 pence
Net asset value per share
(2015: 233 pence)

VALUATION

£401.17 million
(2015: £352.76 million)

£35.31 million (9.7%)
Surplus
(2015: £42.71 million (13.8%))

TOTAL PROPERTY RETURN

15.9%
(2015: 18.4%)

DEBT TO PORTFOLIO VALUE (LTV)

28.9%
(2015: 25.9%)

PROPOSED FINAL DIVIDEND PER SHARE

6.1 pence
Up 1.7%
(2015: 6.0 pence), making the total dividend per share for the year 8.8 pence (2015: 8.7 pence)

CHAIRMAN'S STATEMENT

DAVID THOMAS
CHAIRMAN

This has been a year of major progress for the Group towards our objective of being able to deliver attractive and sustainable returns to shareholders over the long term, as a result of expanding the business and focusing entirely on the office and industrial markets of London and the South East.

Our major investment in property acquisitions, refurbishments and development projects over the last few years increased our scale to coincide with a time of growth in rental and capital values across our markets. By positioning our assets to take best advantage of these positive market trends, we have generated significant growth in value and earnings this year from an improved and more resilient portfolio. In addition, progress with the development programme has enhanced the prospects of the release of further gains over the years ahead. Both of these initiatives improve the chances of crystallising the full rental potential of the portfolio.

The value of the Group's property portfolio exceeded £400 million, ending the period up £48.41 million to £401.17 million. The valuation surplus for those properties retained over the period was 9.7% (£35.31 million), which was another positive result after the 13.8% (£42.71 million) portfolio surplus last year. Our refurbishment projects and active management continued to generate gains, supporting our business model of investing in our assets to provide attractive, modern business space. In a number of cases, these improvement works resulted in new rental highs being achieved, contributing to like for like growth in portfolio rental value of 8.5%.

The increase in overall portfolio value was achieved despite a net reduction in the number of assets from 40 to 36. We took advantage of strong market demand and special purchasers to secure a 37.1% (£9.11 million) surplus on the sale of 5 properties, realising net proceeds of £33.31 million. This was in line with our strategy of recycling capital from mature and small assets for reinvestment into both the existing portfolio and new properties. Continuing our selective approach to acquisitions, we purchased a warehouse unit (96,850 sq ft) off-market at Brunel Road, Theale, near Junction 12 of the M4 motorway, at the beginning of the period. This was at a cost of £11.33 million, yielding 6.6% on a rent of £0.75 million pa. This adds to the range of refurbishment and development options available within the portfolio.

The gains made on valuation and disposal contributed to a £45.73 million increase in shareholders' funds, which ended the period at £261.22 million. NAV per share (EPRA) increased by 11.5% to 301pps (March 2015: 270pps).

Our recent investment in the portfolio has also generated a marked increase in earnings and profit for the year. Gross rental income for the period increased by £2.54 million (14.4%) to £20.16 million (March 2015: £17.62 million). Recent acquisitions contributed £1.72 million to this increase, along with £1.53 million in additional rent secured from our refurbishment programme and other lettings, offset by disposals and portfolio vacancies.

This higher level of income was the primary contributor to a 37.2% uplift in adjusted profit before tax which increased to £7.94 million (March 2015: £5.79 million). This is our measure of recurring profit, excluding unrealised movements in the value of the property portfolio and hedging instruments, profit on the sale of investment properties, and non-cash items.

Profit before tax (IFRS) including these movements increased by 59.7% to £53.16 million (March 2015: £33.28 million). The increase over last year was due to the higher surplus on disposals and a positive movement in the value of hedging instruments.

The scale of transformation of the portfolio since our equity raise in February 2014 is highlighted by the 87.1% increase in the portfolio's estimated rental value (ERV) from £16.80 million pa

CHAIRMAN'S STATEMENT
continued

9 Greyfriars Road, Reading

Acquired for refurbishment:
May 2014

at 31st March 2013 to £31.44 million pa at the end of the period. The unrealised proportion of ERV (reversion), which provides an indication of the future earnings potential of the portfolio, also increased significantly from £0.80 million pa to £10.34 million pa over the same period.

Of this reversion, our current development programme (covered in more detail in the Property and Finance Review) accounts for £5.85 million pa. This programme consists of speculative office schemes at 9 Greyfriars Road, Reading (38,200 sq ft) and London Road, Redhill (48,050 sq ft), which are both due to complete shortly, and 30 Lombard Street, EC3 (58,000 sq ft) due to complete in 2018. Void and higher finance costs post completion will have a negative impact on earnings, but, once let, these assets will crystallise a significant proportion of the reversion, creating a step change in future profits.

The Reading and Redhill schemes are now close to completion and present well. Marketing campaigns are being progressed and initial feedback is positive. They are both in prime town centre locations, close to mainline railways stations with direct access into central London. We expect these properties and our portfolio generally to benefit from the ripple effect of higher rents from London and those occupiers looking for more cost effective solutions. Constrained supply in both towns and consistent levels of occupier demand and take up, particularly for new and Grade A buildings of up to 60,000 sq ft, leave these schemes well placed to secure future lettings.

During the year, we also completed a restructure of our loan facilities (May 2015) to provide funding certainty for these and other portfolio initiatives. This has strengthened our balance sheet with extended loan expiries, a reduction in the level of historic interest rate swaps, a lower cost of debt, and an increase in loan facilities to £175.00 million (March 2015: £150.00 million).

Dividend

The Board is recommending a 1.7% increase in the final dividend to 6.1 pence per share (March 2015: 6.0 pence). This will be paid as an ordinary dividend on 28th July 2016. It takes the total dividend for the year to 8.8 pence per share (2015: 8.7 pence), and dividend cover to 96.9% on recurring earnings. This recommendation reflects the Board's intention to maintain a progressive dividend policy whilst re-establishing dividend cover from recurring earnings.

The Board

On 14th April 2016 we made an announcement regarding the appointment of a new Chairman and a new independent non-executive Director. These changes mark an important stage in our succession planning, and I am pleased that Richard Grainger, who joined the Board in May 2014, will be succeeding me as Chairman. This will take place at the conclusion of this year's Annual General Meeting, at which point I will also stand down as a Director.

I am also pleased to welcome Jon Austen to the Board, with effect from 1st July 2016, as an independent non-executive Director. Having qualified as a Chartered Accountant in 1981, Jon has gained extensive experience in the property sector in a number of senior finance roles, most recently as Group Finance Director of Urban&Civic plc.

We have also announced that Steven Mew will resign from the Board and leave at the end of September 2016. We wish him well and are actively recruiting his replacement.

It has been a privilege to serve as Chairman for the last nine years and as a member of the Board for eleven years. I would like to convey my thanks to all the team at McKay and to our shareholders for their continuous support over the years, and wish the Group well for the future.

Future Prospects

Global and UK economic prospects are less encouraging since the beginning of 2016, and the forthcoming EU referendum has created additional uncertainty for both investors and occupiers within our London and South East markets. We anticipate that this uncertainty will be prolonged in the event of a vote to leave the EU.

As our markets move from recovery phase, the pace and scale of further portfolio returns are dependent on stable market conditions and continued active management of the range of opportunities available to us. Of particular importance is the letting of our development projects at Reading and Redhill, as costs during the letting phase will impact adversely on profits.

In line with our continuing strategy, these development projects and other portfolio vacancies are in established South East and London markets and are presented in prime condition. These strong characteristics enhance the prospects of securing lettings to crystallise our significant portfolio reversion and to generate future returns.

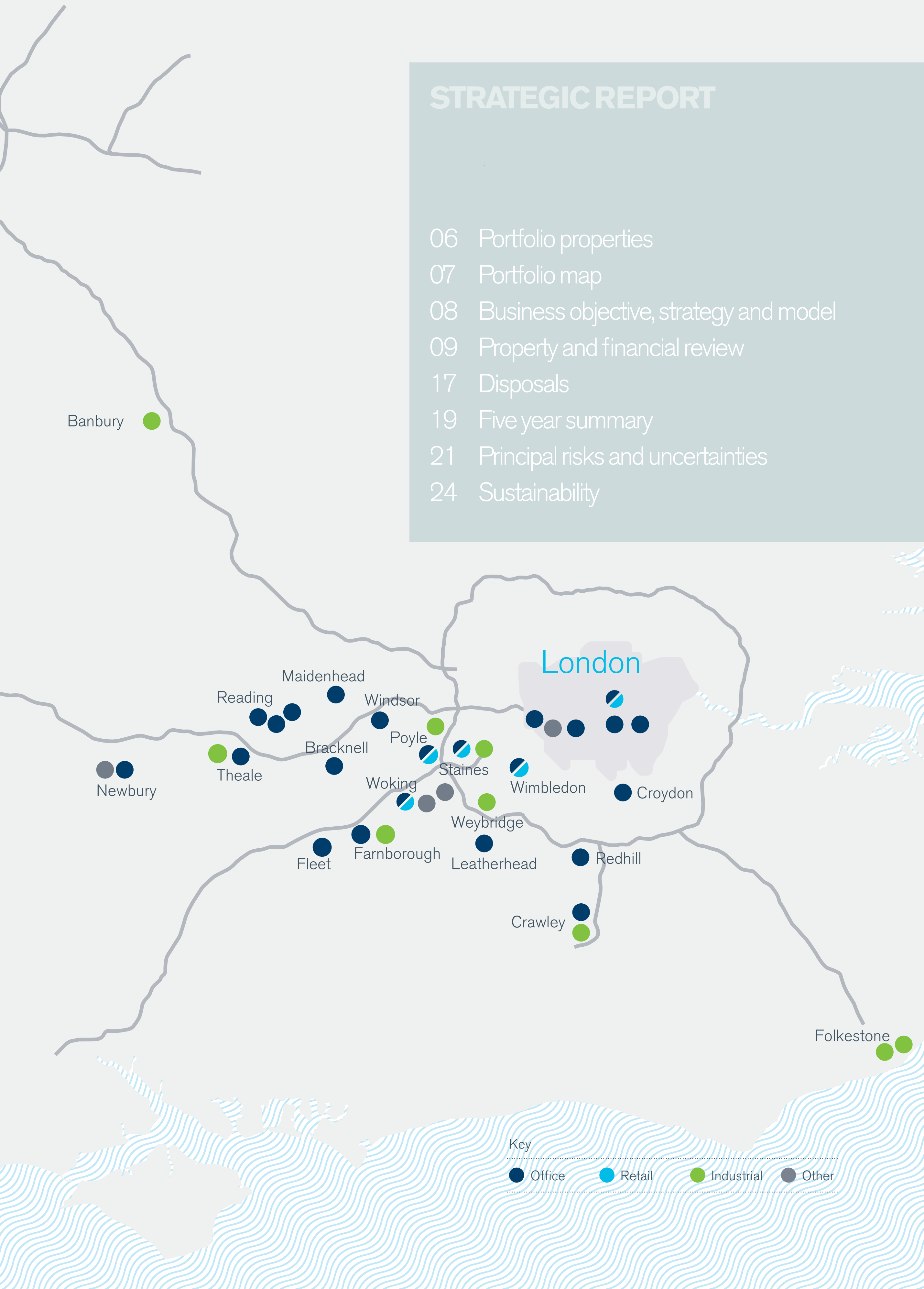
D.O. Thomas
Chairman
24th May 2016

PORTFOLIO PROPERTIES
at 31st March 2016

		Area sq. ft
£15m and over –37.1% of portfolio		
Brentford	The Mille, 1000 Great West Road (office)	96,950
EC3*	Portsoken House, Minories (office and retail)	49,200
EC3*	30 Lombard Street (office under construction)	58,000
SW19	Wimbledon Gate, Worple Road (office and retail)	58,690
Reading	Great Brighams Mead, Vastern Road (office)	84,840
£10m to £15m - 36.5% of portfolio		
Crawley	Pegasus Place, Gatwick Road (office)	50,790
Croydon	Corinthian House, Dingwall Road (office)	44,445
EC2	66 Wilson Street (office)	11,890
SW1	1 Castle Lane (office)	14,250
Maidenhead	Switchback Office Park, Gardner Road (office)	37,450
Poyle	McKay Trading Estate, Blackthorne Road (industrial)	73,450
Reading	9 Greyfriars Road (office under construction)	38,200
Reading	20/30 Greyfriars Road (office)	33,345
Redhill	Prospero, London Road (office under construction)	48,050
Runnymede	Runnymede Focus, Windsor Road (industrial)	91,185
Theale	Brunel Road (industrial)	96,850
Woking	The Planets, Crown Square (leisure)	98,255
£5m to £10m – 22.0% of portfolio		
Bracknell	Building 329, Doncastle Road (office)	33,600
Crawley	Oakwood Trade Park, Gatwick Road (industrial)	52,600
Farnborough	Columbia House, 1 Apollo Rise (industrial)	40,755
Farnborough	Pinehurst Park, Farnborough Road (office)	50,200
Fleet	One Fleet, Ancells Road (office)	34,580
Leatherhead	Ashcombe House, 5 The Crescent (office)	17,340
SW1*	Parkside, Knightsbridge (residential)	2,800
Staines	Mallard Court, Market Square (office and retail)	22,150
Theale	Station Plaza, Station Road (office)	41,540
Weybridge	Sopwith Drive, Brooklands (industrial)	63,140
Windsor	Gainsborough House, 59-60 Thames Street (office)	18,660
Woking	1 Crown Square (office and retail)	52,115
£2m to £5m – 3.9% of portfolio		
Banbury	Lower Cherwell Street Industrial Estate (industrial)	40,060
Folkestone	3 Acre Estate, Park Farm Road (industrial)	44,290
Folkestone	5 Acre Estate, Park Farm Road (industrial)	60,260
Newbury	Strawberry Hill House, Bath Road (medical)	12,040
£2m and below – 0.5% of portfolio		
Chobham	Castle Grove Road (land)	–
Newbury	Albion House, Oxford Road (office)	6,720
Staines	2 Clarence Street (office)	3,435

Notes:
Percentages based on the Group valuation at 31st March 2016.
*Denotes leasehold properties

PORTFOLIO MAP
London and the South East of England



STRATEGIC REPORT

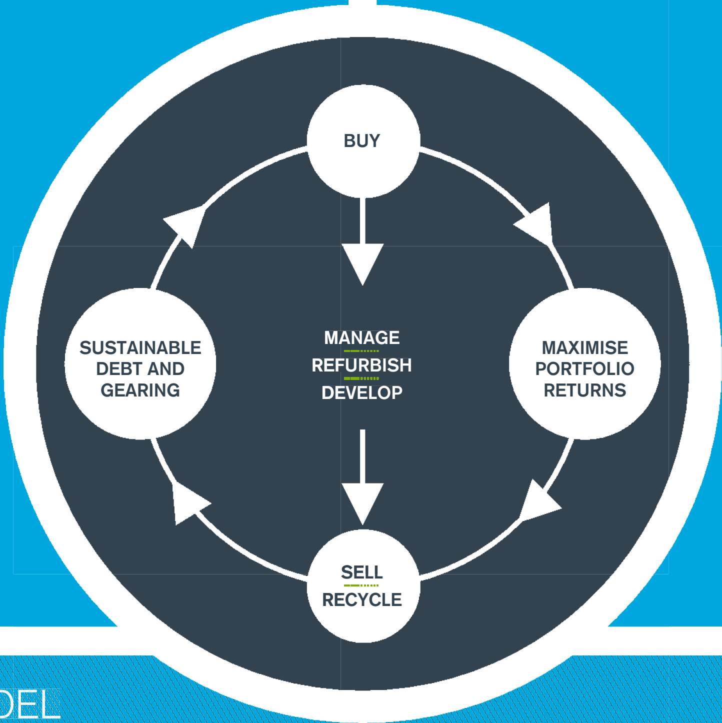
Business Objective, Strategy and Model

BUSINESS OBJECTIVE

Our primary business objective is to deliver attractive and sustainable returns to shareholders over the long term, with exposure to those property markets where the benefit of our skills and experience will be most productive.

BUSINESS STRATEGY

To achieve this, our strategy is to apply entrepreneurial property initiatives to generate income and capital gains, primarily from office and industrial properties in London and South East England in order to maximise total portfolio return. An integral part of the strategy is to provide quality business space attractive to occupiers and to maintain loan facilities to support these initiatives.



BUSINESS MODEL

Delivery of this strategy is based on a clear business model proven through recent property cycles. The key elements of the model are:

- Acquisition of property assets that meet identified criteria with the potential to add value.
- Active in-house management of assets to maximise property returns.
- Implementation of refurbishment, development and other property initiatives to enhance portfolio returns.
- Disposal of mature assets to recycle capital
- Flexible financing and strong banking relationships

STRATEGIC REPORT
Property and Financial Review

Overview
With one acquisition and five disposals over the period, the portfolio totalled 36 properties at 31st March 2016, valued at £401.17 million. The average lot size increased to £11.14 million (March 2015: £8.82 million). The 33 properties within the investment portfolio, totalling 1.44 million sq ft with 209 tenants, were valued at £358.35 million. The three properties within the development programme, totalling 0.14 million sq ft, were valued at £42.82 million.

The portfolio consists predominantly of office and industrial properties located entirely within the South East and London, accounting for 81.9% and 18.1% of the portfolio respectively (by value). Continued growth in capital and rental values from the portfolio was achieved over the period through the successful implementation of our business model, as set out opposite. Contracted rental income from the portfolio (net of ground rents) at the year-end increased by 2.9% to £21.10 million pa (March 2015: £20.50 million pa), and by 5.9% excluding acquisitions and disposals. 52.1% (March 2015: 54.5%) of contracted rental income was payable at the year-end by tenants with a net worth in excess of £7.50 million (source: Dun & Bradstreet), highlighting the continued financial strength of our tenants.

The rental value of the portfolio (ERV), as estimated by external valuers at 31st March 2016, increased overall by 4.1% to £31.44 million pa (March 2015: £30.19 million pa). Excluding acquisitions and disposals the ERV increased by 8.5%.

The reversionary potential of the portfolio, being the difference between contracted rental income and ERV, increased by 6.7% to £10.34 million pa (March 2015: £9.69 million pa). Crystallisation of this reversion would increase contracted rents by 49.0%. This significant potential consists of void properties of £2.27 million pa, development properties of £5.85 million pa, and potential rental uplifts at lease expiry and rent review of £2.22 million pa.

The portfolio void (by ERV) reduced over the period to 7.2% (March 2015: 7.4%). With the inclusion of development properties, the total portfolio void reduced to 25.8% (March 2015: 26.8%).

The weighted average lease term of the portfolio reduced slightly to 5.5 years and 4.5 years to expiry and lease break respectively (March 2015: 5.8 years and 5.0 years).

Market review
Our focus on the office and industrial markets of London and South East England continued and we benefitted from their out-performance relative to other UK markets. Within our markets, a constrained supply of modern floorspace and the delivery of new buildings commanding higher rents, contributed to higher rental values. Capital values have also increased over the period, underpinned by low interest rates and continued demand from a range of UK and overseas buyers attracted by the prospects of further growth in rental values. However, erosion of market confidence by uncertainty over the outcome of the EU referendum to be held in June 2016 contributed to a slowdown in the pace of capital growth and the volume of investment transactions during the second half of the period.

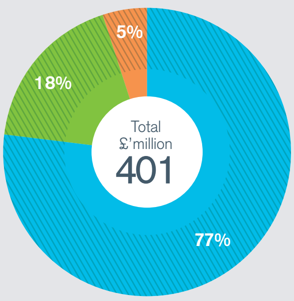
The increase in occupational costs in central London has also continued to benefit our holdings in outer London and beyond, as the ripple effect of higher rents has spread out from the centre. We anticipate this continuing, particularly with the improved east to west travel time and accessibility to be delivered by Crossrail, now named the Elizabeth Line, when it opens in 2018/2019. Improved access is also likely to encourage an increasing number of occupiers faced with rising occupational costs to look beyond central London.

The largest proportion of our portfolio is within the South East office market, which accounts for 58.4% of the portfolio (by value). Variations remain across the different centres within this market, but prime rental values generally increased over the period as occupiers were prepared to pay higher rents to secure modern business space from a limited choice of new and Grade A buildings.

Despite a pick-up in development completions, the supply of office space in this market reduced by a further 17.4% over the year to end the period at 9.04 million sq ft. Of this, 6.32 million sq ft was either new or Grade A floorspace, representing a low vacancy rate of 7.4% (2015: 8.1%). Vacant new floorspace alone was 2.29 million sq ft providing an even lower vacancy rate of 2.7% (2015: 2.6%). These levels remain historically low and are set

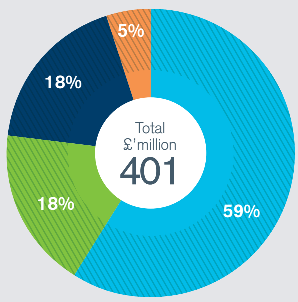
Sector (by value)

	%
Offices	77
Industrial	18
Other	5



Location (by value)

	%
South East Offices	59
London Offices	18
South East Industrial	18
Other	5



Property and Financial Review - continued

to remain low, as older floorspace continues to be converted into residential use and letting transactions erode the development pipeline which remains limited by risk appetite, debt availability and viability.

Lettings across this market in 2015 totalled 2.13 million sq ft which was 39.2% up on 2014. Of this, over 70% was for new and Grade A quality and for units of up to 60,000 sq ft. This highlights the continuing importance to office occupiers of upgrading to efficient modern floor space and supports our office development schemes in Reading and Redhill.

At the end of the period, named demand of 4.21 million sq ft was 7.4% higher than at this stage last year, and 7.7% ahead of the five-year average. A general increase in the number of viewings was being reported with building obsolescence and consolidation being the main drivers. While letting volumes are likely to be held back in the short term by the EU referendum, rental values in these markets are protected by the limited choice available and the potential demand from lease breaks and expiries over the next three years totalling an estimated 16.58 million sq ft. As over half the South East office stock is more than 20 years old, these lease events are likely to maintain market momentum (source: Strutt & Parker).

Within the City of London, which includes our development scheme at 30 Lombard Street, EC3, supply reduced to 4.80 million sq ft (March 2015: 6.00 million sq ft) and to 1.70 million sq ft for new and refurbished floorspace (March 2015: 2.70 million sq ft). Vacancy rates of 4.8% and 1.7% respectively are significantly below average levels and limit occupier choice.

This level of supply compares with lettings over the last twelve months of 6.90 million sq ft, of which, 3.40 million sq ft was for new and refurbished floorspace. This imbalance between demand and limited supply contributed to the increase in City rental values seen over the period. Low vacancy rates have generated a response from developers and there is now increasing supply, but accompanied by pre-let activity. Of the 7.01 million sq ft of floorspace under construction, 2.88 million sq ft is already committed. Assuming the five-year average level of new/refurbished lettings, the remaining uncommitted development pipeline combined with current availability, still results in a shortfall in supply (source: Knight Frank).

Acquisitions and disposals

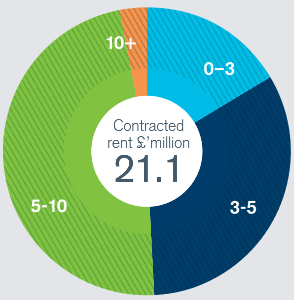
Throughout the year, we continued to analyse potential acquisition opportunities that met our geographical and sector requirements, and to consider the disposal of smaller properties in particular, with limited potential for further gains.

Having invested £62.51 million in seven acquisitions in 2014/2015 as the market was beginning to recover, this year we experienced greater competition, and as a result, higher entry prices. Also, the 1% increase in stamp duty now takes acquisition costs, and the required return to break even, to circa 6.8%. As a result of maintaining a selective approach, one acquisition was made early in the period at a cost of £11.33 million. This was a warehouse distribution facility (96,850 sq ft) at Brunel Way, Theale with excellent access to Junction 12 of the M4 motorway. The property, constructed in 1984, is let at a rent of £0.75 million pa (£7.74 psf) to 2020, providing a yield of 6.6% with a tenant only break clause in January 2018, subject to a twelve month rent penalty payable by the tenant if exercised. If the tenant exercises this break, it will provide an extended period of rental cover to consider refurbishment or redevelopment to release value from this well located asset.

Five disposals were made, realising net proceeds of £33.31 million, incorporating a £9.11 million (37.1%) surplus over valuation, secured tax free due to our REIT status. The large surplus was achieved due to one off situations at Bicester, Hook and Reading where we were able to negotiate strong off market prices for these smaller assets, and at Blackfriars Road, SE1 where there was considerable market competition due to the potential for income growth on rent review in 2017. The sale price of £21.50 million achieved for the two properties on Blackfriars Road realised a significant uplift over historic cost of £7.40 million, helped by the upgrading and repositioning through comprehensive refurbishment in 2012.

Years to expiry (exc breaks)

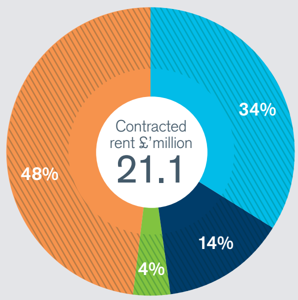
Year	£m
0-3	3.5
3-5	6.9
5-10	10.1
10+	0.6
	21.1



Tenant Net Worth

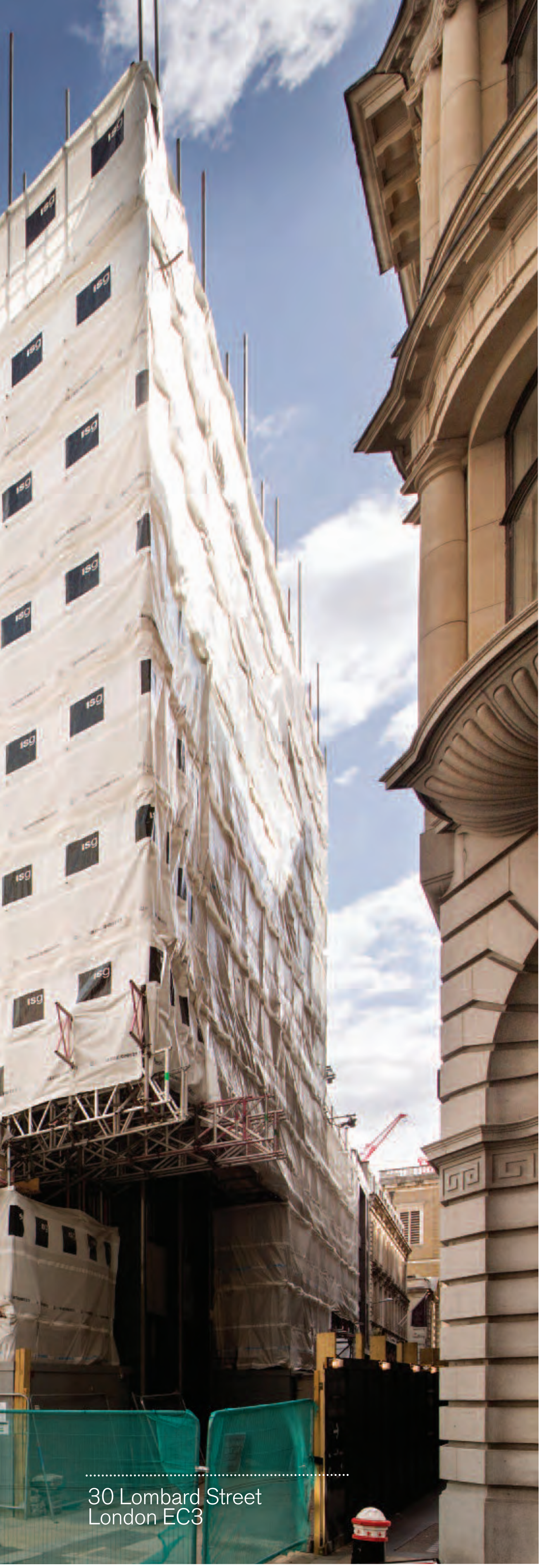
£'m	%
>35	34
15–35	14
7–15	4
<7	48

Source: Dun & Bradstreet




M4 Junction 12
First Great Western main line
Arlington Business Park
Brunel Road
London and M25
Bristol and South Wales


Waitrose
Brunel Road
Theale


30 Lombard Street
London EC3

Development programme

Good progress was made with our three speculative office development schemes over the period. The schemes, totalling 144,300 sq ft once completed, represent 9.1% of the portfolio by area and contribute £5.85 million pa to the total portfolio reversion of £10.34 million pa.

The comprehensive refurbishment of 9 Greyfriars Road, Reading (38,200 sq ft) is on programme to complete in late May 2016. The building has been repositioned to offer top quality modern floorspace, enhancing the excellent location less than five minutes walk from the recently upgraded railway station.

At Redhill, the construction of a new top quality 48,050 sq ft office building also remains on programme, scheduled for completion in July 2016.

Both schemes are being actively marketed and quoting rents will be fixed on scheme completion.

In the City of London, demolition of 30 Lombard Street, EC3 is well underway. The existing 1960s office building (35,820 sq ft) is to be replaced with a striking new office building (58,000 sq ft) programmed for completion in mid-2018. A pre-completion marketing campaign will commence in the summer once the existing building has been demolished to improve awareness of the project and to improve the chances of an early letting of this prime scheme.

Refurbishment projects

At 329 Bracknell (33,600 sq ft), the success of the units refurbished in 2014 and rents achieved justified further upgrading works to vacant suites on the second floor. These works have completed and the building is 83% let at improving rents. The four remaining void units, with an ERV of £0.20 million, are attracting encouraging interest.

The refurbishment of Unit 6 (4,520 sq ft), Switchback Office Park, Maidenhead was let prior to completion on a 15-year lease, without break, at a new benchmark rent of £26.00 psf for refurbished floorspace at the Park. The tenant relocated from Unit 5 (8,641 sq ft) which is now being refurbished prior to full marketing on completion in the summer.

By committing to these two refurbishment projects, we invested in the potential to reposition these assets to attract occupiers at higher rentals, and to appeal to institutional and other active investors. It was therefore encouraging to achieve these higher rentals which supported a combined 27.5% increase in ERV to £1.57 million pa and a valuation surplus of 26.6% over the period.

Works to convert Strawberry Hill House, Newbury from office use to medical centre completed at the end of March 2016, enabling commencement of the 25-year Government backed pre-let to two local GP practices. The rent of £0.26 million pa, payable from commencement, doubles the office ERV prior to conversion. As the portfolio reversion is crystallised, the sale of this non-core asset will be kept under review now that development gains from the project have been released.

The rolling refurbishment of Portsoken House, EC3 continued over the period with completion of works to upgrade the ground (1,714 sq ft) and 5th (5,066 sq ft) floors and the finalising of proposals for further improvements to the reception and other common areas. Both refurbished floors attracted good interest and let well, with the 5th floor securing a contracted rent of £0.25 million pa, equivalent to £49.00 psf. This marked a significant increase in rental value and contributed to a 57.0% increase in ERV and a 23.5% valuation surplus for the period for the building.

At The Mille, Brentford and 1 Crown Square, Woking, good progress was made with the management of these multi-let recent additions to the portfolio, and the refurbishment of vacant floorspace and common areas is now underway. Both buildings were under-managed prior to acquisition in 2014 and require capital investment to release further value.

Letting progress at the above properties and elsewhere in the portfolio contributed to a total of 44 open market lettings over the period, with a combined contracted rent of £2.28 million pa; 14.6% ahead of ERV as at 31st March 2015.

At lease break and expiry, 30 out of 58 tenants were retained at contracted rents totalling £1.20 million pa. Whilst the retention rate of 50.8% was lower over the period (March 2015: 64.9%), this has facilitated refurbishment work and the achievement of higher rents on the open market. Combined rents for those retained tenants were 1.8% ahead of rents prior to lease event and 1.1% below ERV.

Valuation

The independent valuation of the Group's portfolio as at 31st March 2016 totalled £401.17 million (March 2015: £352.76 million), resulting in a surplus for the period of 9.7% (£35.31 million) overall and 11.7% excluding the acquisition of Brunel Road, Theale and the three development properties. This out-performed capital growth of 5.9% in the IPD Monthly (All Property) Index.

On a sector basis (excluding acquisitions/developments) the surplus for South East offices was 10.3% (IPD: 10.1%), London offices 22.1% (IPD: 12.7%), and South East industrials 10.9% (IPD: 10.1%). The total portfolio return was 15.9% (IPD: 11.7%).

The portfolio initial yield of 4.5% (March 2015: 4.8%), increases to 5.0% (March 2015: 5.5%) on the expiry of letting incentives.

At ERV, the reversionary yield would be 7.4% (March 2015: 8.1%). The equivalent yield was 6.3% (March 2015: 6.6%). These changes partly reflected further market yield shift, but also the effect of the disposal of properties with higher valuation yields.

The surplus reported for the first half of the year to 30th September 2015 was 7.1%. This compares with 3.0% for the second half, with the pace of gain slower as anticipated due to less yield compression. The enhanced importance of value generation through successful development, refurbishment and active management is highlighted by our out-performance and the strong valuation gains secured where we have invested in properties to capture and enhance market rental growth and uplifts at forthcoming rent reviews.

Total shareholder returns

Total Shareholder Return (TSR) for the three years to 31st March 2016 was 91.6%, primarily due to the price per share increasing over the period from £1.45 to £2.40. This compares to a FTSE All Share return of 11.4% and a FTSE 350 Real Estate Index return of 46.5% for the same period. For the year to 31st March 2016, share prices have dropped back and the Group delivered a negative TSR of 0.8% which compares to a FTSE All Share negative return of 3.9% and FTSE 350 Real Estate negative return of 6.4%.

Dividends

The final dividend of 6.1 pence per share (31st March 2015: 6.0 pps) will be paid on 28th July 2016 to those on the register on 3rd June 2016. With the interim dividend of 2.7 pence per share, this takes the total dividend for the year to 8.8 pence per share, an increase of 1.2% on the previous year. This will be paid as an ordinary dividend. This generates a yield of 3.7% on the share price at the end of the period.

As a REIT, the Group is required to distribute at least 90% of rental income profits arising each financial year by way of a Property Income Distribution (PID). Subject to exemptions, this is paid after deduction of withholding tax, at present 20%. Over the period, the cost of cancelling interest rate hedging instruments has off-set the profits attributable to the PID. As a result, the final dividend will be paid as an ordinary dividend rather than a PID.

Yields and occupancy

	£million pa	Yield[2]	Occupancy by floor area	Occupancy by rental value
Contracted rental income[1]	21.1	5.0%	85%	74%
Reversions	2.2			
Void properties	8.1		15%	26%
Portfolio reversion	10.3			
Total portfolio	**31.4**	**7.4%**	**100%**	**100%**

Notes:

[1] Contracted rental income at 31st March 2016, less ground rent
[2] Yield on portfolio valuation at 31st March 2016 with notional purchasers costs (6.75%) added

Portsoken House
London EC3

Property and Financial Review - continued

Income statement

The £2.15 million increase (37.2%) in adjusted profit before tax to £7.94 million (March 2015: £5.79 million) was due primarily to a significant increase in rental income. A small increase in administration costs was in part compensated for by a reduction in property outgoings.

Gross rental income, whilst £2.54 million higher than the previous year, benefited from £1.53 million in new lettings and £1.72 million from acquisitions in the previous and current year, offset by an £0.71 million reduction as a result of disposals and portfolio vacancies.

Profit before tax (IFRS) totalled £53.16 million (March 2015: £33.28 million) and included the unrealised surplus on valuation for the period of £34.56 million, the £9.11 million realised profit on disposal of investment properties and an improvement in the negative value of the interest rate hedging instruments of £2.17 million.

Administration costs of £5.88 million (March 2015: £5.44 million) increased mainly due to additional staff related costs of £0.28 million after a full year with additional employees.

Interest cost for the year of £6.34 million was an increase on the prior year (March 2015: £5.26 million) as a result of expenditure on developments and acquisitions, offset by disposals. Interest capitalised against projects during the year increased to £1.88 million (March 2015: £0.67 million) due to progress with the development programme. As a result, interest payable totalled £4.46 million (March 2015: £4.59 million).

The Group's weighted average cost of debt reduced from 5.78% to 4.35% (prior to amortisation and finance lease interest), reflecting the new debt structure post the refinancing completed in May 2015 referred to below.

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the Consolidated Profit or Loss and other Comprehensive Income.

Balance sheet

Shareholders' funds increased from £215.49 million to £261.22 million over the period, principally due to the £34.56 million valuation surplus (£35.31 million excluding SIC15 adjustment) and the £9.11 million profit on disposals achieved during the period.

In May 2015 the Group completed a refinancing of debt facilities. The facilities were increased from £155.00 million to £175.00 million. Of this, £55.00 million was secured on a 15 year term at a fixed rate of 4.13% with a new lender, Aviva Commercial Finance Ltd. The remaining £120.00 million was provided by three of the Group's existing clearing banks. The weighted average length of debt increased from 1.6 years to 9.1 years at the point of refinancing.

Key performance indicators:

	2016	2015	2014	2013	2012
Portfolio Capital Return (capital) (%)[1]	11.4	13.8	10.2	2.2	(0.1)
The annual valuation and realised surpluses from the Group's investment portfolio expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.					
Total Portfolio Return (capital and income) (%)	15.9	18.4	15.6	8.6	6.5
The portfolio capital return referred to above and net rental income from investment properties for the year expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.					
Net Asset Value Return (%)[2]	14.7	22.7	10.1	7.6	6.9
The growth in adjusted net asset value per Ordinary share plus dividends reinvested per Ordinary share expressed as a percentage of the adjusted net asset value per share at the beginning of the year.					
Total Shareholder Return (TSR) (%)[3]	(0.8)	24.8	54.7	21.3	18.0
The growth in the value of an Ordinary share plus dividends reinvested during the year expressed as a percentage of the share price at the beginning of the year.					

Notes:

[1] This measures both realised and unrealised movements in portfolio values over the year.

[2] This is a common sector measure as movements are heavily influenced by changes in the value of the portfolio and the extent of borrowings.

[3] This indicates movements in the value of a shareholders' investment, although not directly related to the profitability of the Group.

DISPOSALS

£33.8 million of disposals during the year

Sale price:
£3.8 million

Bartley House
Hook

Date:
March 2016

25% surplus over March 2015 book value

Sale price:
£7.9 million

McKay Trading Estate
Bicester

Date:
March 2016

124% surplus over March 2015 book value

Sale price:
£21.5 million

202 & 203 Blackfriars Road
London

Date:
December 2015

21% surplus over March 2015 book value

Sale price:
£0.6 million

Hosier Street
Reading

Date:
September 2015

9% surplus over March 2015 book value

Property and Financial Review - continued

As part of the refinancing, the notional value of the Group's hedging instruments was reduced from £80.00 million to £45.00 million, at a net cost to the Group of £13.16 million, equivalent to a reduction in EPRA NAV of 14.3 pence per share. The full cost of cancellation was offset to a degree by lender contributions, resulting in an increase in NNNAV of 2.6 pence per share. Having reduced the notional value of hedging instruments on a managed basis over the last five years from £155.00 million, this now leaves the Group with a competitive cost of debt, £100.00 million of debt that is either fixed or hedged and we are confident that the revised financial platform supports the expenditure plans we have in place.

EPRA NAV per share at the year end of 301 pence increased by 11.5% over the period (March 2015: 270 pence). NNNAV per share increased by 20.4% to 277 pence (March 2015: 230 pence) and basic NAV per share increased by 20.2% to 280 pence (March 2015: 233 pence). These gains were a direct result of the unrealised valuation gains and the realised profit on disposals during the year. The EPRA NAV percentage gain was lower than the EPRA NNNAV and Basic NAV gain due to the 14 pence per share swap cancellation cost incurred in May 2015.

Drawn debt at the end of the period was £116.00 million (March 2015: £91.50 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2016 was 28.9% (March 2015: 25.9%). The ratio of aggregate net borrowings to tangible net worth, was 40.9% (March 2015: 36.1%). Both ratios have increased but remain at low levels relative to loan covenants. The increases are due in part to capital expenditure of £25.05 million over the period. With forecast expenditure of £36.78 million (including capitalised interest) to complete the three current projects within the development programme over the next two years, compliance will continue to be carefully monitored.

Net cash outflow from operating activities was £9.90 million (March 2015: inflow £5.00 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.9x (March 2015: 1.8x).

At the end of the period the negative mark to market valuation of the remaining £45.00 million hedging instrument at 31st March 2016 was £22.41 million. Gains achieved at the refinancing in May 2015 and market movements since then result in a positive movement for the year of £2.17 million. The Group closely monitors the market for these instruments and regularly reviews the suitability and strategic options for these products. Although the mark to market valuation is negative, this represents a non cash timing difference.

As a REIT, the Group is tax exempt in respect of capital gains and all qualifying rental income, which covers the majority of the Group's activities. Any residual income has been offset by relevant costs, and there is therefore no tax charge for the period (March 2015: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has reduced from £1.94 million to £1.84 million. The reduction in the deficit is in the main due to the Group's annual contribution to the Scheme of £0.24 million, which includes part payment towards the deficit over a 7-year recovery plan. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

Financial risks

The financial risks are documented in the principal risks and uncertainty section of the Strategic Report on pages 21 to 23.

Signed on behalf of the Board of Directors.

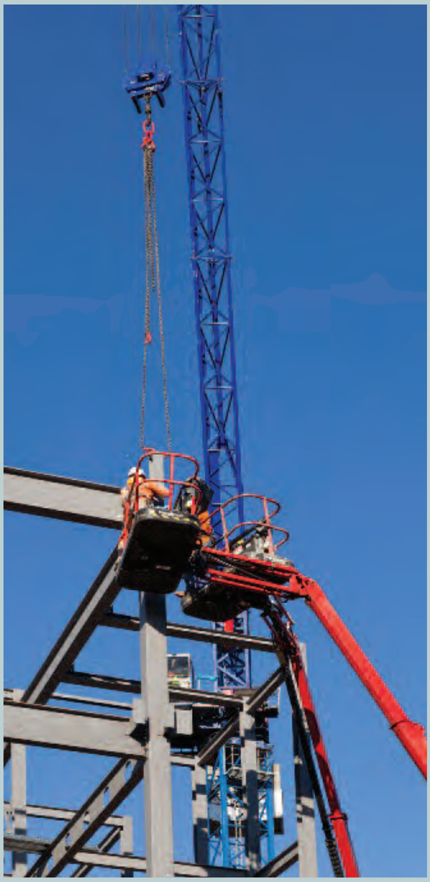
S.C. Perkins
G.P. Salmon

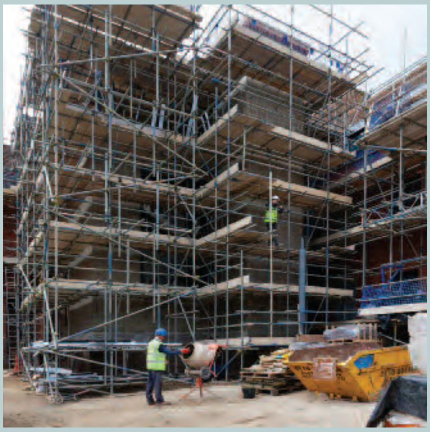
24th May 2016

Five Year Summary

	2016	2015	2014	2013	2012
Financial					
Gross rental income (£'000)	20,159	17,617	14,683	16,097	15,498
Net rental income from investment properties (£'000)	17,664	14,922	12,787	14,373	13,989
Profit/(loss) before taxation (£'000)	53,160	33,282	38,290	1,745	(11,560)
Adjusted profit before taxation (£'000)	7,943	5,791	3,422	5,418	5,003
Investment properties (£'000)	401,170	352,760	254,550	212,935	213,227
Loans and other borrowings (£'000)	(113,701)	(91,302)	(37,266)	(94,209)	(100,124)
Total equity (£'000)	261,223	215,495	189,235	71,933	74,160
Ordinary dividends per share (pence)	8.8	8.7	8.6	8.5	8.4
Earnings per share – basic (pence)	57.2	36.1	75.0	3.8	(25.2)
Earnings per share – adjusted (pence)	7.8	5.3	6.2	11.8	10.8
Net asset value per share (pence)	280	233	206	157	162
EPRA net asset value per share (pence)	301	270	227	238	229
Interest cover	1.9	1.8	1.5	1.9	1.9
Gearing to shareholders' funds (%)	45	43	19	127	132
Loan to value	29	26	15	44	47

The above figures are extracted from previous accounts based on accounting standards effective at those dates.
[1]Excludes fair value of interest rate derivatives.






THE MILLE


ONE
CROWN
SQUARE

PRINCIPAL RISKS AND UNCERTAINTIES

This year sees the introduction of the Viability Statement which can be found on page 23. The Going Concern statement is alongside the Viability Statement.

The Board is responsible for determining the nature and extent of the Group's principal risks to achieve its strategic objectives and to safeguard the Group's assets. The Audit Committee is responsible for assessing those risks relating to internal control and risk management systems which are discussed within the Directors' Report on page 36.

An ongoing process for identifying, evaluating and managing the principal risks faced by the Group was in place throughout the year to 31st March 2016 and up to the date of approval of the Annual Report and Financial Statements. A robust assessment of the principal risks facing the Group has been carried out and the principal risks are listed below along with an explanation of how these have been managed.

PRINCIPAL RISKS AND THEIR IMPACT	HOW RISK IS MANAGED	RISK EXPOSURE CHANGE IN THE YEAR
PROPERTY		
Portfolio strategy Strategy at odds with economic conditions and occupier demand.	The Board continually reviews its strategy against its objectives, taking into consideration the economic conditions, the property market cycle and occupier demand. The Group focuses entirely on South East England and London in established and proven markets. An experienced and proven acquisition team with a wide network of contacts and advisors ensure the Group is well placed to view and assess potential investment opportunities. All investment opportunities are subject to full due diligence procedures including physical, legal and environmental considerations.	Greater uncertainty towards the end of the period due to the referendum on future membership of the EU. Market prospects less clear after period of recovery.
Development/refurbishment Delays, overruns or other contractual disputes leading to increased costs, delayed delivery and reduced profitability. Failure of contractor. Construction cost inflation. Planning constraints.	The Board is regularly presented with details of capital expenditure and progress on developments, including appraisals and sensitivity analysis. The Group continually monitors planning and regulatory reform and takes advice from external advisors and industry specialists.	With three significant redevelopment / refurbishment projects underway the Group's risk exposure continues.
Reduction in rental values	Developing, refurbishing and managing the portfolio in order to offer new and Grade A space to attract and retain quality tenants. Actively managing the portfolio, identifying appropriate rental values alongside lease length and maintaining an open dialogue and good relationship with tenants.	Occupier demand remains stable. Supply constraints in the Group's markets have contributed to improved rental values.

PRINCIPAL RISKS AND UNCERTAINTIES
continued

PRINCIPAL RISKS AND THEIR IMPACT	HOW RISK IS MANAGED	RISK EXPOSURE CHANGE IN THE YEAR
FINANCIAL		
Interest rate rises	The Group's policy is to borrow at both fixed and floating rates of interest. This, combined with interest rate hedging instruments, manages the Group's exposure to interest rate fluctuations	The refinancing in May 2015 increased the level of fixed debt to £100m. The Group was £116m drawn at 31st March 2016
Lack of liquidity	This is managed through a mixture of short and long term bank facilities to provide sufficient funds are available to cover potential liabilities arising against projected cash flows.	The refinancing in May 2015 increased the Group's Facilities to £175m
Breach of financial covenants on bank borrowings	Compliance with bank covenants is closely monitored by the Board which regularly reviews various forecast models to help its financial planning.	Throughout the period the Group complied with all such covenants.
Major tenant default	This is monitored using Dun & Bradstreet checks for new tenants together with on-going credit checks and internal credit control. The Board receives regular information on rental arrears and rent collection activities.	
Reduction in property values	An open market valuation of the Group's properties is undertaken at the year end and half year by independent external Valuers in accordance with RICS guidelines and analysed by the Group's Auditors. Valuations are then reviewed by the Audit Committee and approved by the Board. The Group retains headroom should there be an overall decline in capital values. The Group perceives Brexit as a risk to property values.	Market uncertainty regarding future EU membership
REIT compliance	As a REIT, the Group is required to distribute at least 90% of rental income profits each year. It is tax exempt in respect of capital gains. Internal monitoring is in place to monitor compliance with the appropriate rules.	Throughout the period the Group complied with the regulations.

PRINCIPAL RISKS AND THEIR IMPACT	HOW RISK IS MANAGED	RISK EXPOSURE CHANGE IN THE YEAR
CORPORATE		
Reputational Risk – Adverse publicity/inaccurate media reporting. – Major incident at a property. – Actions by directors or staff.	The Group retains an external investor and public relations consultancy. Press releases are approved by the Chief Executive Officer prior to release. The Group produces a staff handbook that sets out an employee code of conduct and other guidelines.	▶
Retention/Recruitment Failure to retain or attract key individuals could impact on major decision making and the future prosperity of the Group.	Reviews are undertaken with staff on a regular basis to maintain a positive and encouraging working environment. The remuneration package is at market levels to attract and retain individuals with the skills, knowledge and experience required for the business.	Requirement to recruit replacement Property Director. ▲
Health & Safety Accidents to employees, contractors, occupiers and visitors to properties resulting in injury, litigation or the delay of refurbishment/redevelopment projects.	The Safety Management Group (SMG) meets regularly to review the Health and Safety risk profile and implement any new management systems required. These meetings review the Group's Fire Risk Assessments, Safety Inspections, and contractors' insurance and safe working practices. The SMG is supported by specialist external advisors.	There were no significant issues to report in the year. ▶
Macro economic environment Lack of economic growth and a recessionary environment leading to reduced tenant demand and higher voids.	Whilst the Board recognises it has limited control over many external risks, it monitors economic indicators and tailors delivery of the Group's strategy accordingly. Current macro economic issues such as Brexit, China's growth and elections are perceived by the Board to increase risk	Potential disruption from EU referendum. ▲

Key
Risk exposure in the last year has: ▲ Increased ▶ Unchanged ▼ Reduced

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code (September 2014), the Directors have assessed the viability of the Group beyond the 12 month period required by the Going Concern provision.

The principal risks to the continued operation of the Group have been reviewed and subjected to qualitative and quantitative analysis. Scenario testing, based on current economic circumstances, has been undertaken, including consideration of the implications of a decline in income, a decline in capital values and increasing interest costs.

A five year period has been used for this assessment, with particular focus on years one to three. This time frame is considered appropriate as it complies with the Group's internal modelling and is a reasonable period for matters including the assessment of income generation and the availability of debt funding.

Based upon the robust risk assessment described above, the Directors have a reasonable expectation that the Group will be able to continue operations and meet its foreseeable liabilities as they fall due over the period to March 2020, subject to any significant events beyond its control.

Going concern

The Group prepared cash flow forecasts which show that the Group has sufficient facilities to meet forecast outgoings and expects to comply with all covenants for the forseeable future.

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Our approach to sustainability

Operating in a responsible and sustainable manner is central to protecting and adding long term value to the business. Sustainability is a core element of the Group's strategy to deliver quality business space that is attractive to both owners and occupiers, ensuring it maintains compliance with legislation and meets best practice asset management and development standards.

During the financial year ending 31st March 2016, the Group continued to progress its ambitious sustainability strategy focused on delivering across three areas: managing sustainable buildings, creating sustainable buildings and engaging stakeholders. This strategy aims to address the most material risks and opportunities associated with its core business activities. Targets are set at the beginning of the financial year for each of the three areas to drive improvement in the Group's overall sustainability performance.

The Group's sustainability advisor, JLL, has provided ongoing support to implement the strategy and review progress made against the sixteen targeted actions for the year under review.

The Group's sustainability objectives

Since the launch of its sustainability strategy in 2013, the Group has made significant progress in implementing sustainable practices across its entire business. Notable achievements include:

- Establishing a baseline for energy use, carbon emissions, water use and waste generation and using this information as a starting point for setting improvement goals and targets.
- Implementing resource reduction strategies at the Group's six most resource-intensive assets.
- Developing sustainable clauses for its lease precedent and a fit-out guide to encourage occupiers to adopt sustainable practices as part of any works during occupation of the property.
- Developing sustainability requirements for contractors, in line with BREEAM requirements, in order to reduce the environmental impacts arising from construction sites, and integrating these within the Group's development requirements.
- Incorporating information about sustainable building features within marketing material, drawing attention to potential benefits for corporate image as well as financial advantages.
- Adopting sustainable principles and practices within all business activities, from pre-acquisition to ongoing management and development operations.
- Raising stakeholder awareness of the Group's sustainability position, by participating in key industry initiatives such as GRESB and externally communicating yearly progress.

The Group has successfully met 93% of its 2016 targets in the year under review, whilst a further 7% are currently in progress. There is one further existing target with a revised end date of 2017.

The Group is committed to continually improve its sustainability performance and has outlined 20 more targets as a focus of activity for each of its three sustainability objectives in the year to 31st March 2017 (see page 28).

Managing sustainable buildings

Objective: To add value to the Group's portfolio by improving the efficiency of the buildings and reducing their environmental impact.

The Group's business strategy is focused on maintaining and enhancing its portfolio of properties to maximise income and capital return. This approach to active asset management forms the core of its day-to-day activities and is the area in which the Group has the most significant ongoing environmental and social impacts.

Sustainable asset management is synonymous with best practice asset management and the Group is continually looking to improve the environmental performance of its portfolio in the strong belief that this will contribute to its short, medium and long term value. For the year to 31st March 2016, the Group set nine targets relating to this objective:

Energy and Water Targets	Status
Continue to deliver an energy and water reduction programme at its major energy and water consuming properties	Achieved
Achieve a 6% reduction in like-for-like landlord controlled electricity consumption by the end of March 2016 against a 2013/14 baseline	Achieved
Achieve a 6% reduction in like-for-like landlord controlled gas consumption (adjusted for heating degree days) by the end of March 2016 against a 2013/14 baseline	Achieved
Achieve a 6% reduction in like-for-like landlord controlled carbon emissions by the end of March 2016 against a 2013/14 baseline	Achieved
Achieve a 5% reduction in like-for-like landlord controlled water consumption by the end of March 2016 against a 2013/14 baseline	Achieved

During 2015, the Group continued to develop and implement resource reduction strategies for its six most resource-intensive assets (which together account for approximately two-thirds of total energy use). The six assets enrolled on the programme are: The Mille, Brentford; Bartley House, Hook; Corinthian House, Croydon; Mallard Court, Staines-upon-Thames; One Crown Square, Woking and Portsoken House, EC3. A table illustrating their performance is shown below.

Asset	kWh consumption (Jan-Dec, 2014)	kWh consumption (Jan-Dec, 2014)	% change in energy consumption
Bartley House	592,961	594,140	0.2%
Corinthian House	801,081	781,699	-2.4%
One Crown Square[1]	1,693,840	1,470,402	-13.2%
Mallard Court	438,324	391,147	-10.8%
Portsoken House	795,954	790,704	-0.7%
The Mille	2,834,998	2,883,542	1.7%

[1]Data for this asset is only available from April 2014. The % change figure is therefore provided on a like for like basis (April-December 2014 vs April-December 2015).

For each asset, practical and actionable energy-saving measures have been identified. Where appropriate these have been implemented and the Group is already seeing positive results. Energy use has declined at two thirds of the assets in the programme, and in some cases there have been substantial reductions. For example, at One Crown Square, Woking, energy use dropped by over 13% when compared to the same period the previous year, following the upgrading of the existing light fittings to LEDs with PIR (Passive Infrared) controls and a review of the HVAC building control system. At The Mille, Brentford lighting to the internal common areas has been upgraded to LED together with the installation of PIR's on the staircases during the year under review and the Group has seen electricity use drop by 13% in the first three months of 2016, compared to the same period in 2015.

Over the last two years, energy consumption has reduced across the whole portfolio in both absolute terms and like for like terms against the targets set. Absolute energy use has fallen by 9.2% to 10,327,802 kWh; this is in part due to changes in the nature of the portfolio since the baseline year of 2013/14, with some of the largest consuming assets no longer in the calculations, but also achieving efficiency savings across a large proportion of assets under the Group's operational control. However, on a like-for-like basis (and taking account of heating degree days in the gas consumption trend calculations), energy consumption was reduced even further – by 10.5% from 5,819,251 kWh to 5,208,231 kWh, equivalent to a £26,399 reduction in running costs.

With further energy saving projects across the portfolio being progressed, the Group expects to see further reductions in energy use over the coming years.

Energy data collected has been used to produce the Group's mandatory carbon reporting and CRC liability calculations.

The Group's CRC liabilities are

Year to March	CRC Liabilities
2013	£60,660
2014	£34,344
2015	£68,449
2016	£61,837 (estimated)

The fall in the Group's CRC liabilities during the year to 31st March 2014 and the rise seen thereafter, is mainly due to changes in the nature of the Group's portfolio; in particular, the sale of one major property in 2013 and the subsequent purchase of eight new properties during 2014/15.

Absolute water consumption decreased by 1.8% in the 2015/16 financial year, whilst on a like-for-like basis there was a 7% reduction, with corresponding cost savings of £1,290.

Waste Target	Status
Maintain 100% waste diverted from landfill	Achieved

Total waste generation in the 2015/16 financial year was 297.9 tonnes[2], 100% of which was diverted from landfill, which was a positive outcome for the Group's second full year of data collection.

[2]For 6 assets, March 2016 data was estimated in the absence of that month's data. For a further 2 assets, January-March 2016 data was estimated.

Occupier Engagement Targets	Status
Develop green lease clauses for incorporation into all new leases from 1st January 2016 onwards (including a provision to prevent tenants negatively impacting the EPC rating)	Achieved
Develop occupier fit-out guidance to encourage retention of sustainability benefits of the base build in operation	Achieved

One of the Group's key objectives has been to work with occupiers to improve sustainability across the portfolio. Sustainability clauses have been included within the Group's lease precedent. Through these provisions the Group aims to work with occupiers to develop joint plans to improve the sustainability of its assets. These clauses help ensure that any sustainability features incorporated into the buildings' base build are not impacted by an occupier's activity, which may in turn have an adverse impact on the buildings' Energy Performance Certificate (EPC) rating.

This year the Group has also produced a fit-out guide, including guidance on sustainability for occupiers undertaking works. The aim is to ensure that an occupier's fit-out complements the base build and minimises conflict with the building's operational performance. The guide also highlights further sustainability improvements and the aspects of a fit-out which can have a positive influence on occupier health and wellbeing.

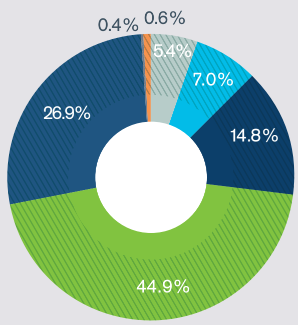
EPC Risk Targets	Status
Review EPC risk associated with new purchases and plan out improvement works as necessary	Achieved

STRATEGIC REPORT
Sustainability - continued

Over the last few years the Group has put significant effort into understanding and mitigating its portfolio EPC risk. The Energy Act 2011 will make it illegal to let any properties with an EPC rating of F or G from 2018. Whilst this will represent a significant challenge for many property owners, the Group has put itself in a very strong position, having taken a proactive approach to managing this risk; only 1% by ERV of the assets within the portfolio are currently rated F or G. The Group will continue to manage EPC risk through the implementation of ongoing improvement plans at all higher risk properties, including for the coming period E rated assets, to ensure this does not adversely impact on its business activities post 2018.

Portfolio EPC ratings by % ERV

	%
No EPC held	5.4
A	0.0
B	7.0
C	14.8
D	44.9
E	26.9
F	0.4
G	0.6



Data Note: The above chart and table excludes 11 buildings or part buildings comprising 23% of the total portfolio ERV as they form part of the Group's current refurbishment and development programme and will achieve EPC ratings above the minimum threshold post the works.

Creating Sustainable Buildings

Objective: To achieve best practice green building standards in order to deliver quality buildings.

The refurbishment and development of buildings are key intervention points for incorporating sustainability requirements and standards. For the year to 31st March 2016, the Group set four targets relating to this objective:

Green Building Targets	Status
A minimum requirement for BREEAM Very Good and an EPC rating of C will be set on all new developments and major refurbishments	Ongoing
Investigate the opportunities and costs (feasibility) of achieving zero carbon for a new development	Achieved
Monitor the compliance of contractors with development sustainability requirements and trial the collection of environmental performance data from one construction site	In progress
Pilot a post-occupancy assessment of the performance of a completed development which includes a review of sustainability performance	2017 deadline

The Group's development activities have been focused on three major projects for the year ending 31st March 2016. These are all targeting BREEAM Very Good or better.

The comprehensive refurbishment of 9 Greyfriars Road, Reading (39,925 sq ft) is targeting BREEAM Excellent and an EPC rating of A; if achieved the building will be the first in Reading to hold both of these green building credentials. This highly sustainable office building will not only have much lower operating costs when compared to an average office building, it has also been carefully designed to incorporate features that positively enhance occupier wellbeing and productivity such as a roof terrace, secure bike storage, showers and lockers.

A similar approach to design has been taken at the Group's 48,000 sq ft new office development in central Redhill, being marketed as Prospero. The Group has again targeted BREEAM Excellent and an EPC A rating.

Following occupation of these buildings, post-occupancy monitoring will be carried out to gather data and insights on the buildings' performance in use. A comprehensive set of indicators has been developed by the Group to ensure that the office space it creates is not only environmentally efficient but also enhances occupier wellbeing and business efficiency. For this reason, the target relating to post-occupancy assessments has been extended to 31st March 2017.

Meanwhile, demolition work is underway at 30 Lombard Street, EC3. The existing 1960's building is to be replaced with a new high quality office building in keeping with this prime City location and is programmed for completion in mid-2018. A 'SmartWaste' system is to be piloted to track performance against a range of environmental indicators including the amount of construction waste reused or recycled.

During the year under review, the Group investigated the potential for introducing photovoltaic (PV) systems at Corinthian House, Croydon and Mallard Court, Staines-upon-Thames to reduce running costs to the common building areas, as well as its three major developments. Consultants were commissioned to estimate how much energy could be generated by installing PV on all suitable roof areas as well as potential carbon and cost savings. Following this review a decision has been taken to install 1,400 sq ft of solar PV at Prospero.

Engaging stakeholders

Objective: To maintain an active dialogue with key stakeholders about sustainability performance.

The Group's ability to deliver on its business and sustainability endeavours is, in part, dependent on its ability to communicate, support and gather feedback from its stakeholders. The Group's key stakeholders are its employees, occupiers, shareholders, financial providers, suppliers and communities. For the year under review, three targets were set in relation to engaging with these stakeholders.

The Group remains committed to providing stakeholders with a clear, transparent and balanced account of its sustainability journey, and it recognises the benefits that this offers customers, stakeholders and the Group itself.

Occupier Engagement Target	Status
Develop and roll out a customer satisfaction survey which includes sustainability questions	Achieved

Openness and transparency is helping to transform the way in which the Group operates, by strengthening its relationships with customers and stakeholders, and supporting the improvement of its product and service. This year the Group launched its first independent customer satisfaction study to gain insight into the issues that are important to its occupiers. Whilst the survey revealed moderately high levels of overall satisfaction have been achieved, it also identified scope to raise satisfaction levels across a range of services and the Group is drawing up an action plan.

The study also revealed that the majority of occupiers (65%) think it important or very important that the building meets sustainability requirements and would welcome further initiatives to encourage more sustainable business practices, such as recycling.

Investor Engagement Target	Status
Improve our GRESB score relative to 2014/15	Achieved

The Group seeks to maintain an open dialogue with investors and has participated in the key investor-led sustainability survey for the real estate sector, the Global Real Estate Sustainability Benchmark (GRESB), to enable its performance to be compared with that of its peers. Having trialled participation in 2014, the Group participated fully in 2015, with its score improving materially in just 12 months, achieving a score just short of the coveted Green Star status. An action plan has been put in place to work towards securing this status for 2016. The Group also communicates its sustainability efforts to investors through its annual reporting and investor presentations.

Employee Engagement Target	Status
Organise green building tours for employees which build sustainability awareness	Achieved

To help develop the Group's property team's understanding of current sustainability issues, tours of some of London's most sustainable buildings were undertaken during the period. Employees have been able to hear more about lessons learned, and how these lessons can be applied to help achieve sustainable outcomes on the Group's own projects.

While not covered specifically through its sustainability targets, Health and Safety (H&S) is a critical element of the Group's engagement programme. The Group engages with occupiers, employees and suppliers on H&S. Implementation of its policy and procedures continues on the basis of statutory compliance as an absolute minimum and where considered beneficial to the business, enhanced by best practice.

The Group's H&S Policy and Procedures were updated during the period under review to reflect legislation and latest best practice; a copy of the General Statement is available on the Group's website and is being shared with suppliers and employees. Implementation of the Group's H&S is managed by the Safety Management Group (SMG), which is chaired by Steven Mew. The SMG meets monthly where it reviews any legislative changes that may affect the Group and its portfolio and takes appropriate action on any risks highlighted to actively reduce the Group's risk profile. A programme of health and safety training has been implemented for employees, alongside a programme of training with the Group's contractors and consultants to ensure they are working to the same standard. For the period to 31st March 2016, there has been one accident of a nature reportable to HSE.

The Group's main community engagement takes place through the planning process and its community investment activities. These community investment activities are co-ordinated by its Charity Committee, and focus on supporting local, children's charities. For the year ending 31st March 2016, the Group made a total of £28,915 in charitable donations. This represents 0.4% of adjusted profit before tax (0.5% in 2015).

A report on the Group's Mandatory Greenhouse Gas Emissions and diversity disclosure can be found on pages 34 and 35 respectively.

Sustainability - continued

2016/17 Sustainability Targets

Building upon results achieved this year, the Group has established 20 new sustainability targets for the year to March 2017.

Managing Sustainable Buildings

Target	Deadline
Electricity consumption: 1 Year Target – achieve a 4% annual reduction in like-for-like landlord controlled consumption by the end of March 2017, relative to a 2015/16 baseline.	March 2017
Electricity consumption: 4 Year Target – achieve a 16% reduction in like-for-like landlord controlled consumption by the end of March 2020, relative to a 2015/16 baseline.	March 2020
Gas consumption: 1 Year Target – achieve a 4% annual reduction in like-for-like landlord controlled consumption (adjusted for heating degree days) by the end of March 2017, relative to a 2015/16 baseline.	March 2017
Gas consumption: 4 Year Target – achieve a 16% reduction in like-for-like landlord controlled consumption (adjusted for heating degree days) by the end of March 2020, against a 2015/16 baseline.	March 2020
Carbon emissions: 1 Year Target – achieve a 4% annual reduction in like-for-like landlord controlled emissions by the end of March 2017, relative to a 2015/16 baseline.	March 2017
Carbon emissions: 4 Year Target – achieve a 16% reduction in like-for-like landlord controlled emissions by the end of March 2020, against a 2015/16 baseline.	March 2020
Water consumption: 1 Year Target – achieve a 3% reduction in like-for-like landlord controlled consumption by the end of March 2017 against a 2015/16 baseline.	March 2017
Water consumption: 4 Year Target – achieve a 12% reduction in like-for-like landlord controlled consumption by the end of March 2020, against a 2015/16 baseline.	March 2020
Waste: Maintain 100% of operational waste diverted from landfill for landlord managed portfolio.	March 2017

Target	Deadline
Waste: 1 year Target – increase recycling rate to 41% for managed waste by March 2017, across all properties for which the Group has management control.	March 2017
Waste: 4 Year Target – improve recycling rate to 52% for managed waste by March 2020, in line with the Real Estate Environmental Good Practice Benchmark (REEB).	March 2020
Waste: Engage with occupiers to facilitate improved resource recycling rates.	March 2017
Continue to implement energy and water efficiency measures at the Group's major energy and water consuming assets.	March 2017
For landlord procured energy, investigate the cost of switching 100% to a low carbon energy tariff.	March 2017
Where there is landlord access to energy, water and waste data (either through landlord-controlled utility purchase, smart meters or occupier willingness to share data), monitor environmental performance of new developments and major refurbishments once in operation.	March 2017
Implement occupier fit-out guidance to encourage retention of sustainability benefits of the base build in operation.	March 2017
Engage with occupiers who have green lease clauses to ensure their effectiveness.	March 2017
Continue to review EPC risk associated with new purchases and identify improvement works for any assets with an E rating or lower.	March 2017

Creating Sustainable Buildings

Target	Deadline
Install smart meters at all new developments and major refurbishments starting on site from April 2016.	March 2017
Continue to monitor the compliance of contractors with development sustainability requirements, and continue to trial the collection of construction-related environmental data from at least one development project in 2016/17.	March 2017
Ensure all new developments and major refurbishments achieve minimum BREEAM Very Good and an EPC rating of at least C.	March 2017
Pilot a post-occupancy assessment of the performance of one building which includes a review of sustainability performance.	March 2017

Engaging Stakeholders

Target	Deadline
Maintain or enhance GRESB performance relative to 2015.	March 2017
Provide sustainability training for employees, including annual sustainable building tours.	March 2017
Develop and implement an action plan based on outcome of recent customer satisfaction survey.	March 2017

GOVERNANCE

Station Plaza
Theale

BOARD OF DIRECTORS

David Thomas FCA
Non-executive Chairman

Aged 71. Appointed Chairman in July 2007, having been appointed a non-executive Director in September 2005. Chartered Accountant. Chairman of Exterity Ltd. A member of the Audit, Nomination and Remuneration Committees.

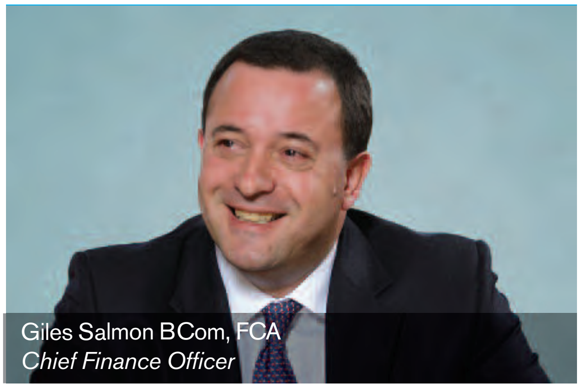
Steven Mew DipPropInv, MRICS
Property Director

Aged 48. Joined the Company in September 2001 having spent 12 years with property consultants, Gooch Webster. Appointed a Director in August 2002.

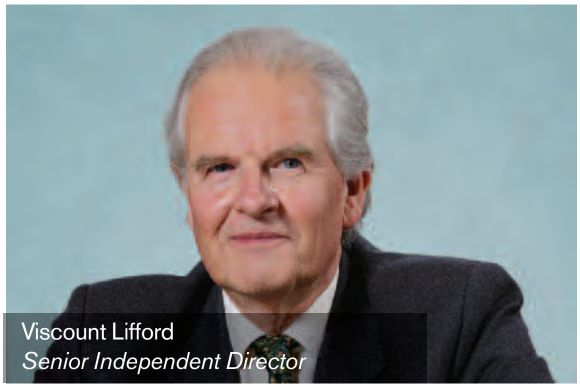
Richard Grainger BA, ACA
Non-executive

Aged 55. Appointed a non-executive Director in May 2014. Chairman of Close Brothers Corporate Finance Limited until 2009 and Chairman of Safestore Plc until December 2013. Chairman of Harrington Brooks and a non-executive Director of Palmer & Harvey. Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Aged 51. Joined the Company in August 2000 after ten years with business park developer, Arlington Securities PLC. Appointed a Director in April 2001 and Chief Executive Officer in January 2003. Member of the Nomination Committee.



Aged 50. Joined the Company in May 2011 and appointed as Chief Finance Officer in August 2011. Previously at BAA Lynton managing the Airport Property Partnership.



Aged 67. Appointed a non-executive Director in September 2006. Director of Rathbones Brothers PLC until October 2006. Trustee of the Portman Estates. Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Aged 67. Appointed a non-executive Director in May 2006. Chartered Surveyor and former Partner responsible for Strutt & Parker's Thames Valley office. Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees.

Aged 57. Appointed a non-executive Director in January 2015. Chartered Surveyor and former Senior Partner of Drivers Jonas until 2010 when the business was sold to Deloitte. Vice Chairman of Deloitte UK until the end of 2014. Chairman of the Property Income Trust for Charities. Non-executive Chairman of Riverside Capital Group. A member of the Remuneration, Audit and Nomination Committees.

CORPORATE GOVERNANCE REPORT

DAVID THOMAS
NON-EXECUTIVE CHAIRMAN

Dear Shareholder

I am pleased to present our 2015 Corporate Governance and to be able to confirm that we have complied with the requirements of the 2014 UK Corporate Code (the 'Code'), effective for the first time this year.

Sound corporate governance remains an essential part of the Board's stewardship and the delivery of our business strategy over the long-term, and we continue to strive for high standards throughout the business. We aim to work in the best interest of our shareholders and all our stakeholders in a responsible and ethical manner.

Those who have served over nine years on the Board are not considered to be independent by the Code. As part of continued succession planning, we are working to refresh the composition of the Board on a managed basis. This will enable compliance with the Code and allow the Board and its Committees to maintain an appropriate balance of skills and experience to discharge their duties and responsibilities effectively.

As announced on 14th April 2016 and referred to earlier in the Chairman's Statement on page 5 I will be standing down as non-executive Chairman and Director at the conclusion of this year's Annual General Meeting. I will be succeeded by Mr Richard Grainger who joined the Board as an independent non-executive Director in May 2014 and his biography can be seen on page 30.

I am delighted to welcome Jon Austen, who will be joining the Board and the Audit, Remuneration and Nomination Committees as an independent non-executive Director on 1st July 2016. Jon has extensive experience in the property sector with senior finance roles at London and Edinburgh Trust PLC, Pricoa Property Plc and Goodman Ltd. He was Group Finance Director of Terrace Hill plc from 2008 to 2014 and, having implemented the reverse takeover of Urban&Civic and associated capital raising in 2014, he has since been Group Finance Director of Urban&Civic plc.

There will also be a change in Chairmanship of the Audit and Remuneration Committees, also effective as at the conclusion of the 2016 Annual General Meeting. Nick Shepherd, an independent non-executive Director since January 2015, will become Chairman of the Remuneration Committee, and Jon Austen will become Chairman of the Audit Committee.

Further details of the work of the Nomination Committee is set out on pages 40 and 41.

In addition, in accordance with the Code we have introduced a Viability Statement on page 23; this sets out the Board's approach to the long term viability of the Group.

Our Annual General Meeting will be held on 14th July 2016 which is always a welcome opportunity for the Board to meet with shareholders.

D.O. Thomas
Chairman

24th May 2016

DIRECTORS' REPORT

Introduction
The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2016.

Profit and distribution
The profit for the year is set out in the Consolidated Profit or Loss and other Comprehensive Income. Profit before tax was £53,160,000 (2015: £33,282,000).

On 1st April 2007 the Group converted to Real Estate Investment Trust (REIT) status. Under the REIT regime the Company will, in the normal course of business, be required to pay at least 90% of its income profits arising in each accounting period, by way of a Property Income Distribution (PID) but in addition may also make distributions to shareholders by way of non PID dividend payments.

The Directors have recommended a final dividend of 6.1p per share, all of which will be paid as an ordinary dividend, making a total for the year of 8.8p per share (2015: 8.7 pence). If approved at the Annual General Meeting on 14th July 2016 the dividend will be paid on 28th July 2016 to shareholders recorded on the register at the close of business on 3rd June 2016.

The Government has announced changes to dividend taxation from 6th April 2016. Further details can be found on the Company's website www.mckaysecurities.plc.uk.

Activity and assets
The business of the Group is that of property investment and development in the United Kingdom. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 13 of the Annual Report and Financial Statements.

Strategic Report
A review of the business and likely future developments including key performance indicators and principal risks and uncertainties affecting the Group are given in the Strategic Report on pages 8 to 23.

Property valuations
The Group's properties were valued by an external professional valuer at 31st March 2016. An increase in value of £34.56 million has been included in the Consolidated Profit or Loss and other Comprehensive Income.

After taking into account retained profits and dividends paid during the year, basic net asset value per share at 31st March 2016 was 280 pence (2015: 233 pence).

Directors
The Board of Directors for the financial year to 31st March 2016 was:

D.O. Thomas (Non-executive Chairman)
S.C. Perkins
G.P. Salmon
S.R. Mew
N. Aslin
Viscount Lifford
R.S. Grainger
N.J. Shepherd
A.E.G. Gulliford (to 27th May 2015)

Details of the Chairmen and members of the Nomination Committee, Audit Committee and Remuneration Committee are provided in each of the Committee Reports.

Biographical details of the Directors are set out on pages 30 and 31. In accordance with the Company's Articles of Association and the UK Corporate Governance Code. Mr N. Aslin and Viscount Lifford having served on the Board for more than nine years will offer themselves for annual re-election. Mr J. Austen to be appointed to the Board from 1st July 2016 will retire and being eligible, offers himself for election at this AGM.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 43 to 53, no Director had a material business interest during the year in any contract with the Company. Details of the Directors' interests in the ordinary shares of the Company and share options are provided in the Directors' Annual Remuneration Report on pages 50 and 51.

Directors' and officers' liability insurance
In accordance with Article 140 of the Articles and to the extent permitted by the Companies Acts, the Company maintains Directors' and Officers' liability insurance, which is reviewed annually.

Substantial shareholdings
In addition to the Directors' interests referred to on page 51 of the Directors' Annual Remuneration Report, the Company has been notified in accordance with the UK Listing Authorities Disclosure and Transparency Rules of the following notifiable interests in its issued share capital (see note 19 of the financial statements) as at 24th May 2016:

	Shares	%
Aberforth Partners LLP	9,416,121	10.11
T.R. Property Investment Trust PLC	6,020,099	6.46
Fidelity Investment Funds	5,161,670	5.54
J.O. Hambro Capital Management UK	4,752,510	5.10

Political donations
No political donations were made during the year (2015: nil).

Charitable donations
Details of charitable donations can be found in the Sustainability section of the Strategic Report on page 27.

Financial instruments
The Group's financial instruments comprise borrowings, interest rate hedging instruments, cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. Information regarding the Group's financial instruments is given in the Strategic Report and in note 15 of the Financial Statements.

Share capital

The issued share capital of the Company as at 31st March 2016 was 93,158,225 ordinary shares of 20 pence each. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements or restrictions on share transfers or voting rights. The Company has employee share schemes in which the voting rights in respect of the shares are exercisable by the employees.

The rules about the appointment and replacement of Directors are contained in the Company's Articles. Changes to the Articles must be approved by shareholders in accordance with the Articles and applicable legislation. The Company's Articles will be available for inspection at the Annual General Meeting and in accordance with applicable legislation.

Annual General Meeting

The seventieth Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 14th July 2016 at 12.00 noon.

At the forthcoming Annual General Meeting the following special resolutions will be proposed which constitute special business:

Power to allot shares

The Directors were granted authority at the last Annual General Meeting held in 2015 to allot relevant securities up to a nominal amount of £6,161,732. That authority will apply until the conclusion of this year's Annual General Meeting. At this year's Annual General Meeting shareholders will be asked to grant an authority to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company (i) up to a nominal amount of £6,210,548 and (ii) comprising equity securities up to a nominal amount of £12,421,096 (after deducting from such limit any shares or rights allotted or granted under (i)), in connection with an offer by way of a rights issue, (the "Section 551 authority"), such Section 551 authority to apply until the end of the next Annual General Meeting (or, if earlier, until close of business on 30th September 2017).

Two special resolutions will also be proposed to grant the Directors power to make non-pre-emptive issues for cash consideration with rights issues and otherwise up to a total nominal amount of £1,863,164.

Market purchase of shares

A special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 9,315,822 ordinary shares and sets the minimum and maximum prices which may be paid.

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Some of the Group's banking arrangements may be terminable upon a change of control of the Company.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is proposed at the forthcoming Annual General Meeting.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all reasonable steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given in accordance with Section 418(2) of the Companies Act 2006.

The Group's carbon footprint

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, quoted companies are required to report their annual emissions in their Directors' report. This Mandatory Greenhouse Gas Emissions Reporting statement covers the reporting period 1st April 2015 to 31st March 2016 and has been prepared in line with the main requirements of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard and ISO 14064-1:2006.

Sources of Greenhouse Gas Emissions			2015/16 (est) tCO_2e	2014/15 (actual) tCO_2e
Scope 1	Energy	Gas (EPRA sBPR fuels – Abs)	719	968
	Fugitive emissions	Refrigerant emissions	de minimis	N/A
Scope 2	Energy	Landlord–controlled electricity (EPRA sBPR Elec Abs)	1,442	1,814
Scope 3	Energy	Landlord–obtained energy (if sub–metered to occupiers), all transmission and distribution losses, and occupier-obtained energy where applicable and tenant has provided data (EPRA sBPR Elec – Abs)	1,707	1,958
Total			3,868	4,740
Intensity				
tCO_2e / £m Adjusted profit before tax (Scopes 1 and 2 only)			272	480

Data qualifying notes

- This is the Group's third year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations. The Group's emissions for 2014/15 have been restated due to Q4 2014/15 data not being available at the time of reporting in 2015; this final period of data will always need to be estimated. As a result of this restatement, the total emissions for 2014/15 have increased and the level of estimation has decreased from 32% to 5%.
- For 2015/16, 30% of energy consumption, and therefore carbon emissions, is estimated. Q1 2016 accounts for 67% of this estimated data. The majority of the balance comes from 30 Lombard Street, EC3 where data has been estimated while the major development project proceeds.

- An operational control consolidation approach has been adopted, together with emissions factors from the UK Government Conversion Factors for Company Reporting 2015.
- Within Scope 1 emissions, refrigerant-related emissions for the period were calculated as de minimis, due to very minimal refrigerant top-ups being recorded for this time period, and there were no such top-ups at all in the previous year (owned fleet does not apply).
- Adjusted profit before tax value as reported in 2015/16 financial statements – page 70 of the 2016 Annual Report and Financial Statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. In addition, they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and a Corporate Governance Statement that comply with such applicable law and regulations.

The Directors consider the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Throughout the year ended 31st March 2016 the Company has complied with the 2014 UK Corporate Governance Code (the "Code") save for Director independence, details of which can be found at www.frc.org.uk.

The Role of the Board

The Board of Directors (the "Board") formulates strategy and is responsible for the management of the Group. A schedule of matters specifically reserved for the Board, the content of which is reviewed annually, has been adopted and includes the approval of the dividend policy, major capital expenditure, investments and disposals.

The Board

For the year to 31st March 2016 the Board comprised three executive Directors, including Mr S.C. Perkins, Chief Executive Officer ('CEO') and five non-executive Directors, being Mr D.O. Thomas, (Non-executive Chairman), Viscount Lifford (Senior Independent Director), Mr N. Aslin, Mr R.S. Grainger and Mr N.J. Shepherd. Their biographical details are set out on pages 30 and 31. Mr A.E.G. Gulliford retired on 27th May 2015. The non-executive Chairman and non-executive Directors are considered by the Board to be independent in that they have no business or other relationship with the Group that might influence their independence or judgment.

The Board formally met ten times during the period and is provided with full and timely information in order to discharge its duties. Attendance at Board and Committee Meetings is set out in the table on page 37.

The roles of the Chairman and CEO are, and will continue to be, separate. The Chairman is responsible for the leadership of the Board and its effectiveness. He ensures a constructive relationship exists between the executive and non-executive Directors. Responsibility for the day to day running of the Company and the implementation of the Company's strategy is delegated to the CEO with the support of the executive Directors. The division of responsibilities between the Chairman and the CEO are set out in writing and approved by the Board.

The Board is satisfied that no individual or group of Directors has unfettered powers of discretion and that the Board and its Committees have an appropriate balance of skills and experience and are of sufficient size to discharge their duties. The Board has access to the advice and services of the Company Secretary and independent legal advice at the Company's expense, if required. Continuing professional development training is available for Directors as necessary.

The Board has adopted a policy and effective procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest. Only Directors who have no interest in the matter being considered will be able to make the relevant decision and, in taking the decision, the Directors must act in a way they consider in good faith will be the most likely to promote the success of the Company.

Committees
There are three Committees that make their recommendations to the Board, all of which have clear terms of reference that comply with the Code; these are reviewed annually and are available on the Company's website, www.mckaysecurities.plc.uk.

Audit Committee
Mr R.S. Grainger ACA is Chairman of the Audit Committee, which met three times in the last year. Mr R.S. Grainger is identified as having recent and relevant financial experience as required by the Code. The Committee's responsibilities and activities are set out in the Audit Committee Report on pages 38 and 39.

Remuneration Committee
Viscount Lifford is Chairman of the Remuneration Committee which met twice in the last year and its members, policy and activities are set out in the Directors' Remuneration Report on pages 43 to 53.

Nomination Committee
Mr N. Aslin FRICS is Chairman of the Nomination Committee which met once in the last year and its responsibilities and activities are set out in the Nomination Committee Report on pages 40 and 41.

Risk management and internal control
The following should be read in conjunction with the Principal Risks and Uncertainties on pages 21 to 23 of the Strategic Report. The Board is responsible for establishing and reviewing the Group's system of internal control to safeguard shareholders' investment and the Group's assets. The Audit Committee reviews the effectiveness of the Company's internal financial control and internal control risk management systems on behalf of the Board.

The executive Directors and senior management meet on a regular basis and are responsible for identifying key risks and assessing their likelihood to impact on the Group. Important areas including financial covenants on bank borrowing, tenant default, liquidity and interest rate movements on bank borrowings are discussed in further detail within the Strategic Report on pages 16 and 18. Other important areas such as risk management, corporate taxation, legal matters, fraud, defined benefit pension scheme, detailed insurance cover and contracts including maintenance and property management all come under the direct control of the executive Directors and are reviewed on an ongoing basis and reported to the Board on a regular basis.

Identification of business risks
The Group has an established system of internal financial control which is designed to ensure the maintenance of proper accounting records and the reliability of financial information used within the business. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Annual and long term revenue, cash flow and capital forecasts are updated quarterly during the year. Results and forecasts are reviewed against budgets and regular reports are made to the Board on all financial and treasury matters.

The Directors confirm that they have specifically reviewed the framework and effectiveness of the system of internal control for the year ended 31st March 2016.

Relations with shareholders
The UK Stewardship Code, aims to enhance the quality of engagement between the Company and its institutional shareholders. The Board recognises the importance of maintaining an ongoing relationship with the Company's shareholders and achieves this through regular dialogue with shareholders. The Directors meet with current and prospective shareholders and shareholders have an opportunity to question the Board at the Group's Annual General Meeting. Shareholders are given at least 20 working days notice of the Annual General Meeting. The Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee attend the Annual General Meeting to answer questions. Shareholders are given the opportunity of voting separately on each proposal and proxy votes are announced after each resolution and posted on the Company's website, www.mckaysecurities.plc.uk.

In addition, there is also an investor relations section on the Company's website, which includes annual and interim reports, stock exchange releases, details of the Group's portfolio and day to day contact details.

The Company has a share account management and dealing facility for all shareholders via Equiniti Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations section of the Company's website. The Shareview dealing service is also available by telephone on 03456 037 037 between 8.00am and 6.00pm Monday to Friday.

Table of attendance (for the financial year to 31st March 2016)

	Board (10 meetings)	Audit Committee (3 meetings)	Remuneration Committee (2 meetings)	Nomination Committee (1 meeting)
D.O. Thomas	10	3	2	1
S.C. Perkins	10	[1]3	[1]2	1
S.R. Mew	10	[1]2	–	–
G.P. Salmon	10	[1]3	–	–
N. Aslin	10	3	2	1
Viscount Lifford	10	3	2	1
R.S. Grainger	10	3	2	1
N.J. Shepherd	10	3	2	1
A.E.G. Gulliford (to 27th May 2015)	1	1	1	–

[1]In attendance by invitation.

Signed by order of the Board
J.S. McKeown
Secretary

24th May 2016
Reading

AUDIT COMMITTEE REPORT

RICHARD GRAINGER
CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

On behalf of the Board I am pleased to present the Audit Committee Report. Over the year, the Committee has played a key role for the Board in maintaining the quality of our financial reporting and overseeing the adequacy and effectiveness of internal controls and risk management. As a result of regular discussion with management and frequent engagement with the external auditor, the Committee has continued to work in an efficient and effective way.

An important addition to the Strategic Report this year is the Viability Statement set out on page 23. This is a requirement under the 2014 Corporate Governance Code and the discussion and assessment of this requirement has contributed to the review of risks facing the Group.

As previously announced, I will be stepping down as Chairman of the Audit Committee at the conclusion of the 2016 Annual General Meeting and will be succeeded by Mr Jon Austen. I will remain a member of the Committee.

Richard Grainger
Chairman of the Audit Committee

24th May 2016

Committee membership

The Audit Committee (the "Committee") consists solely of non-executive Directors. The members of the Committee are:

R.S. Grainger ACA – Chairman
Viscount Lifford
D.O. Thomas FCA
N. Aslin FRICS
N.J. Shepherd FRICS
A.E.G Gulliford FRICS (to 27th May 2015)

Richard Grainger is identified as having recent and relevant financial experience as required by the Code. The Committee met three times in the last year. Attendance of the Committee is set out in the table in the Directors' Report on page 37. The Chief Finance Officer, Chief Executive Officer and external auditors regularly attend Committee meetings by invitation.

Committee role and responsibilities

The main role and responsibilities of the Committee are set out within its Terms of Reference which are reviewed annually and are available on the Company's website, www.mckaysecurities.plc.uk.

These responsibilities include:

- monitoring and assessing the integrity of the financial statements of the Group including its annual and half yearly reports;
- reviewing the Company's internal control and risk management systems and reviewing annually the requirement for an internal audit function;
- recommending to the Board for shareholder approval at the Annual General Meeting the appointment of the external auditor and to approve their remuneration and terms of engagement;
- reviewing and monitoring the external auditor's independence and objectiveness and the effectiveness of the audit process; and
- developing and reviewing policy on the engagement of the external auditor to supply non-audit services.

The Committee discharges its responsibilities by holding regular meetings with the external auditor, including bi-annual meetings to review half yearly reports and financial statements. In addition, the Committee meets the external auditor at least once a year to discuss its remit and any issues arising from the audit.

The UK Corporate Governance Code states that where requested by the Board the Committee provides advice on whether the Report and Financial Statements taken as a whole is fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's performance, business model and strategy. At the request of the Board the Committee has considered the Annual Report and Financial Statements 2016 and taking into account management reports the Committee concluded it was fair, balanced and understandable and provided the necessary information for shareholders to assess the Group's performance business model and strategy and advised the Board accordingly.

The Committee focused on the significant judgement in the Report and Financial Statements in respect of the Group's property valuation. The valuation was reviewed along with its associated risks, and the Committee gained comfort from the valuer's methodology and other supporting market information.

Whistleblowing policy

The Audit Committee reviews arrangements by which staff of the Company may in confidence raise concerns that may be in respect of financial reporting or other matters. These detailed procedures are set out in the Company's Staff Handbook and the Company's policy is available on the Company's website www.mckaysecurities.plc.uk.

Internal audit

The Group has a small management team operating from one location. Accordingly the Board exercises close control over the Group's activities. This enables the close involvement of the executive Directors with the day to day operational matters of the Group. Therefore the Committee recommended to the Board that, at the present time, there is no requirement to establish an internal audit function.

External auditor

The Committee has recommended to the Board that KPMG LLP be put forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

The Board is aware of the FRC guidance and EU audit reforms in respect of auditor appointment and will conform with this guidance. KPMG were appointed over 20 years ago. Although there has not been a tender process in that period fees are negotiated on an annual basis.

The last year KPMG can audit the Group is for the year ended 31st March 2020.

KPMG rotate the engagement partner on a 5 year cycle designed to retain objectivity and independence. The KPMG audit fee was £79,250, with related assurance work of £18,720. Taxation related fees totalled £46,410. The Committee keeps under review the ratio of audit to non audit fees to ensure that the independence and objectivity of the external auditor are not put at risk. The Committee can confirm that it is satisfied the external auditor remains independent.

NOMINATION COMMITTEE REPORT

NIGEL ASLIN
CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholder

During the year, the Committee made further progress with succession planning in order to continue to refresh the Board and its Committees. The work of the Committee has been particularly important this year, being focused on the selection and appointment of a Chairman to succeed David Thomas, who stands down at the end of this year's AGM after nine years in the role. As a consequence of planning over previous periods, the Committee was in a position to recommend the appointment of Richard Grainger as Chairman as an internal candidate with excellent knowledge of the business and past experience.

At that time, Richard will stand down as Chairman of the Audit Committee and will be succeeded by Jon Austen, a qualified accountant with experience in senior financial roles, who joins the Board and its Committees as an independent non-executive Director on 1st July 2016. The Committee has also considered the challenge over the year ahead of the review of the Group's remuneration policy. To provide continuity through this review and its implementation, Nick Shepherd will succeed James Lifford as Chairman of the Remuneration Committee, also at the conclusion of the AGM. James will continue in his role as Senior Independent Director.

The Committee continues its review of the composition of the Board and Committees, to maintain the appropriate balance of skills needed to operate in an effective fashion. Considerable progress has been made with this succession planning over the period, and, once this is complete, it is intended that the Board and Committees will also fully comply with the independence requirements of the UK Corporate Governance Code.

Nigel Aslin
Chairman of the Nomination Committee

24th May 2016

Committee membership

Members of the Nomination Committee (the "Committee") are:

N. Aslin FRICS - Chairman
Viscount Lifford
D.O. Thomas FCA
R.S. Grainger ACA
N.J. Shepherd FRICS
S.C. Perkins MRICS
A.E.G Gulliford FRICS (to 27th May 2015)

The Committee met once in the last year. Attendance of the Committee is set out in the table in the Directors' Report on page 37.

Committee role and responsibilities

The main roles and responsibilities of the Committee are set out within its Terms of Reference which are reviewed annually and are available on the Company's website, www.mckaysecurities.plc.uk.

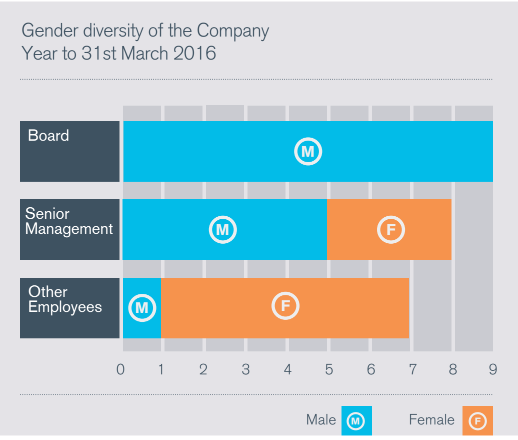
These responsibilities include:

- regularly reviewing the structure, size and composition of the Board;
- membership of Board Committees;
- succession planning for directors and other senior executives;
- identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- reviewing the results of the board performance evaluation process that relate to the composition of the Board; and
- making recommendations to the Board concerning the re-election by shareholders of directors under the annual re-election provisions of the Code or the retirement by rotation provisions in the Company's articles of association.

Policy on diversity

When considering recruitment the Committee considers all aspects of diversity, including gender. The Committee considers that the right balance of skills and experience are key to an effective Board and therefore all candidates are considered on merit and no diversity targets are set.

The gender diversity of the Company is set out below:



Our operations are based solely in the UK and are low risk in relation to human rights issues. No human rights concerns have arisen during the period.

Board performance appraisal

A formal annual appraisal of the Board, its Committees and individual Directors was undertaken during February and March 2016. All appraisals consisted of an internally run exercise using an appraisal questionnaire on a range of benchmarks. It concluded that the Board operated in an effective manner with open and transparent dialogue and a high level of challenging and constructive debate. The review confirmed that the Board would continue to allow sufficient time in order to conduct property site visits as it was agreed that these added value to strategic discussions. The Chairman assessed the individual Directors' questionnaires and the Senior Independent Director assessed the questionnaire completed by the Chairman. Feedback was provided to all Directors. The appraisals concluded that each individual Director continued to be effective, providing a range of skills, experience and independence.

Re-election of Directors

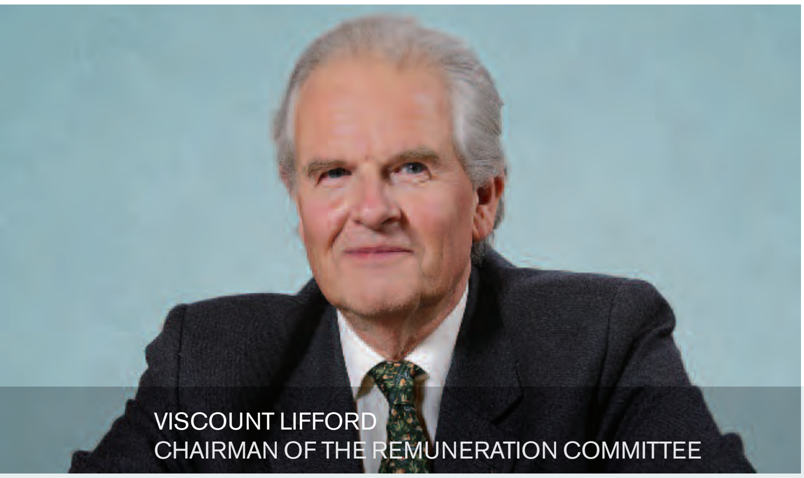
In accordance with the Articles of Association and the UK Corporate Governance Code any Director:

- who has been appointed by the Board since the last AGM, or
- who held office at the time of the two preceding AGMs and did not retire at either of them, or
- who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting

shall retire from office and may offer himself for re-election.

Mr J. Austen, appointed since the last AGM, will retire and being eligible, offers himself for election. Mr N. Aslin and Viscount Lifford will be offering themselves for re-election having served on the Board for more than nine years. The biographical details of the Directors are available on pages 30 and 31. The Board are of the opinion that Mr N. Aslin and Viscount Lifford retain their independence in both character and judgement.

REMUNERATION



Dear Shareholder

I am pleased to introduce our Report on Directors' Remuneration for the year ended 31st March 2016.

No changes are proposed to the Directors' Remuneration Policy Report following approval at the 2014 AGM. This is set out on pages 43 to 46 for ease of reference.

Resolutions at the forthcoming AGM will include approval of the Directors' Annual Remuneration Report which provides details of the remuneration earned by Directors in the year ended 31st March 2016 and how the Policy will be operated in the year ending 31st March 2017.

Performance and reward

Over the year remuneration continued to be based on a combination of fixed pay and performance related pay linked to the Group's annual bonus scheme and Performance Share Plan (PSP).

For the year under review, the performance targets of the bonus scheme were partially met. This results in a bonus payment equivalent to 70% of basic salary for executive Directors, of which 20% is to be awarded in nil cost shares with a 3 year vesting period.

The 7th grant of the PSP (awarded in 2013) reached the end of the 3 year performance period on 31st March 2016. In this case, targets were fully achieved, resulting in 100% of the award vesting.

Further detail is provided in the Directors' Annual Remuneration Report.

Remuneration policy for 2016/17

Following a review of the existing Directors' Remuneration Policy, the Committee concluded that the Policy remains appropriate and should continue to operate for 2016/17 without change to the general composition. Specifically, it was decided that:

- the structure and quantum of the annual bonus, based on growth in NAV per share and EPS, continues to be appropriate and aligned to shareholders' interests; and
- the annual grant of PSP awards, subject to relative TSR and absolute NAV growth performance conditions, continues to incentivise executives to deliver the Company's long-term strategic objectives.

However, the Committee has retained the following additions from prior years:

- the share ownership guidelines for executive Directors will be formalised and increased. For grants awarded in 2015 and beyond, executive Directors will be required (rather than encouraged in the past) to retain at least 50% of the net of tax shares which vest until a shareholding of at least 200% of salary (100% of salary previously) is achieved;
- the introduction of a two year post vesting hold period for PSP awards granted in 2015 and beyond;
- a reduction in the level of the threshold PSP vesting from 30% to 25% of the potential grant; and
- final adjustments to executive Director salary levels in light of the significant change in size and complexity of the business.

I will be stepping down as Chairman of the Committee at the conclusion of the 2016 AGM but will remain a member. Nick Shepherd, who succeeds me as Chairman, will be well placed to oversee and implement the three year review of the Directors' Remuneration Policy Report.

I hope that the Company will receive your support to approve the resolution at this year's AGM.

Viscount Lifford
Chairman of the Remuneration Committee

24th May 2016

REMUNERATION
Directors' Remuneration Policy Report

The Directors' Remuneration Policy Report was approved by shareholders at the 2014 AGM and it is intended that it will operate for a three year period and be reviewed in advance of the 2017 AGM. Decisions made by the Committee remain in accordance with the Policy and no changes are to be proposed at the 2016 AGM.

Policy overview

The policy of the Committee is to align the interests of the executive Directors with those of shareholders by structuring the levels of basic salary and remuneration to attract, retain and motivate executive Directors of the quality required and with the appropriate skills to manage and develop the Group successfully. When determining the structure of the remuneration, the Committee is cognisant of the potential for executive remuneration policies to encourage undue risk taking, but is satisfied that the Group's policy is appropriate in this regard, with a sensible balance between fixed and performance linked pay and the use of different performance metrics measured over differing periods.

How the views of shareholders are taken into account

The Remuneration Committee considers shareholder feedback received each year following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

In addition, the Remuneration Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the remuneration policy. Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the Directors' Remuneration Report.

How the views of employees are taken into account

When determining salaries and other elements of remuneration for our executives we take account of general pay movement and employment conditions elsewhere in the Group, as well as the relevant general markets.

The Committee will consider employees' views when determining the design of the Company's senior executive remuneration policy.

Remuneration policy for Directors

The table below sets out the remuneration policy which has operated since it was approved at the 2014 AGM.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To recruit and reward executives of the quality required and appropriate skills to manage and develop the Group successfully.	Reviewed annually by the Committee, on the basis of the performance of the individual executive Director and comparability with other similarly sized companies within the sector. Paid on a monthly basis.	There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population and market conditions but on occasions may need to recognise, for example, a change in the scale, scope or role and/or market movements.	N/A
Benefits	To provide market competitive benefits.	The Company typically provides: ● Car allowance (paid monthly) ● Medical insurance ● Life assurance	There is no prescribed maximum	N/A
Pension	To provide market competitive benefits.	The Company provides contributions to a money purchase pension scheme and/or a cash allowance in lieu of pension	Up to 20% of salary	N/A
Annual bonus	To incentivise and reward delivery of the Company's annual strategic plan.	Payable in cash up to 50% of salary 3 year deferral for amounts greater than 50% of salary. Annual bonus targets are set by the Remuneration Committee at the beginning of the relevant financial year. Details of the performance targets set for the year under review and performance against them is provided in the Directors' Remuneration Report.	Up to 75% of salary	Based on a combination of growth in NAV per share and growth in EPS targets. 30% of the bonus opportunity is payable for achieving threshold, increasing on a straight line basis to 100% payout for maximum performance. A clawback mechanism applies in the event of material misstatement, error or misconduct.
Performance Share Plan ('PSP')	To incentivise and reward the delivery of the Company's strategic objectives. To provide further alignment with shareholders through the use of shares and to aid retention.	Annual grant of conditional awards, which vest subject to continued employment and satisfaction of challenging performance conditions. Dividends that would be payable on the unvested share awards may be paid out at the end of the vesting period based on the proportion of the award that actually vests.	Normal grant policy: Up to 100% of salary pa Maximum grant level Up to 150% of salary pa Exceptional grant level: Up to 200% of salary pa	Performance is measured over 3 years based on a combination of relative Total Shareholder Return ('TSR') and absolute NAV growth. 30% of the award (reduced to 25% for 2016 and future PSP awards) vests for achieving threshold, increasing on a straight . line basis to 100% vesting for maximum performance. 2 year hold period post vesting. A clawback mechanism applies in the event of material misstatement, error or misconduct.
Non-executive Director fees	To attract and retain a high-calibre Chairman and non-executive Directors by offering a market competitive fee level.	Fees are paid on a monthly basis. Fee levels are recommended by the Board within the levels sets in the Articles of Association, to reflect the responsibility of each role and time commitments required. The Chairman and non-executive Directors are not eligible for any other benefits.	As for the executive Directors there is no prescribed maximum annual increase. The Board, excluding non-executives, is guided by the general increase for the broader employee population and market conditions but on occasions may need to recognise, for example, change in responsibility, and/or time commitments.	N/A

Notes

1. Executive Directors are now required to build a holding of shares in the Company to the value of 200% of basic salary.
2. The Committee operates incentive plans according to their respective rules and where relevant in accordance with the Listing Rules. Consistent with market practice, the Committee retains discretion over a number of areas relating to the operation and administration of the plan. These include, but are not limited to, determining who participates, the timing of awards, award levels, setting performance targets, amending performance targets (if an event occurs, in exceptional circumstances, to enable the targets to fulfil their original purpose), assessing performance targets, treatment of awards on a change of control, treatment of awards for leavers and adjusting awards (e.g. as a result of a change in capital structure).
3. The annual bonus is based on performance against a combination of NAV and EPS growth targets, aligned with the Company's annual strategic plan. A sliding scale of targets is set for each metric to encourage continuous improvement and challenge the delivery of stretch performance.
4. The Committee considers that the mix of EPS, NAV and TSR performance conditions in the incentive arrangements provides an appropriate balance between focussing management on achieving short and long-term goals and company-specific financial and relative stock market out-performance.
5. There are no material differences in the structure of remuneration arrangements for the executive Directors and the general employee population, aside from participation rates in incentive schemes.
6. For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of the prior year's annual bonus or the vesting/exercise of share awards granted in the past). Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Remuneration scenarios for executive Directors

The charts below illustrate how the composition of the executive Directors' remuneration packages varies at three performance levels, namely, at minimum (i.e. fixed pay), target and maximum levels under the policy set out below.

Service contracts

The executive Directors' service contracts are terminable by the Company on not less than one year's notice. In each case the contracts are subject to six months' notice by the executive Director. The service contracts are dated as follows:

Executive Director	Date of service contract
S.C. Perkins	16th March 2004
S.R. Mew	16th March 2004
G.P. Salmon	2nd May 2011

The non-executive Directors have rolling terms of appointment, providing for them to retire by rotation in accordance with the Articles of Association. All Directors will submit themselves for re-election at least once every three years. Any non-executive Director who has served on the Board for more than nine years from the date of their first election will retire and submit himself for re-election annually. The terms of appointment for the non-executive Directors are dated as follows:

Non-Executive Director	Date of service contract
A.E.G. Gulliford (retired 27th May 2015)	19th April 2004
D.O. Thomas	31st August 2005
N. Aslin	2nd May 2006
Viscount Lifford	29th August 2006
R.S. Grainger	1st May 2014
N.J. Shepherd	21st January 2015

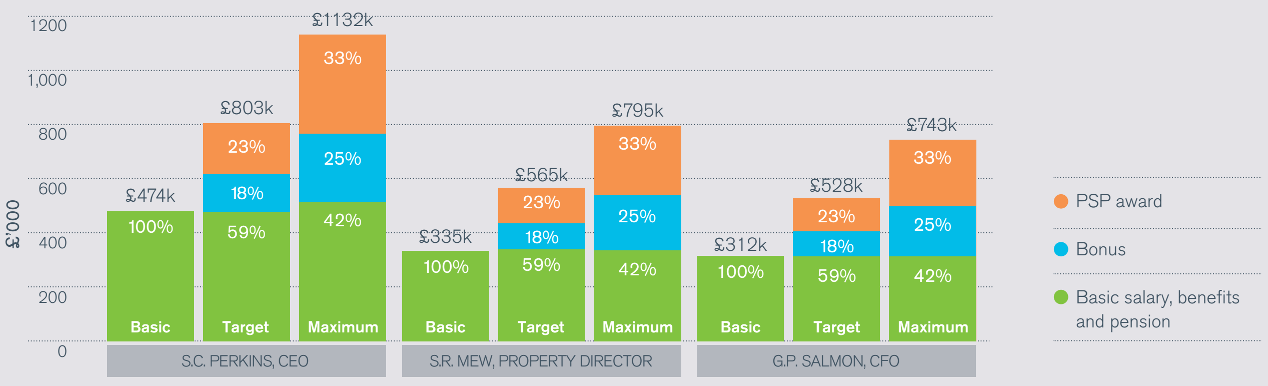
Approach to recruitment and promotions

The remuneration package for a new executive Director would be set in accordance with the terms of the Company's prevailing approved remuneration policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential would be limited to 75% of salary and grants under the PSP would be limited to 100% of salary (up to 200% of salary in exceptional circumstances). In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its original terms. For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Value of the gross remuneration packages at different levels of performance for the financial year ending 31st March 2016



Notes

1. Salaries are based on those applying on 1st April 2016.
2. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the year ending 31st March 2016.
3. The value of pension receivable is taken to be 20%, 18% and 18% of salary respectively.
4. The target level of bonus is taken to be 50% of the maximum bonus opportunity.
5. The target level of vesting under the PSP is taken to be 50% of the maximum of the face value of the award at grant.
6. The impact of share price movement and dividend accrual has been excluded.

Approach to leavers

There are no predetermined provisions for compensation within the executive Directors' service contracts in the event of loss of office. The Committee considers all proposals for the early termination of the service contracts for executive Directors and senior executives and would observe the principle of mitigation. It has been the Committee's general policy that the service contracts of executive Directors (none of which are for a fixed term) should provide for termination of employment by giving 12 months' notice or by making a payment of an amount equal to 12 months' basic salary and pension contributions in lieu of notice. It is the Committee's general policy that no executive Director should be entitled to a notice period or payment on termination of employment in excess of the levels set out in his or her service contract.

Annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated and normally paid at the normal payout date. Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, "good leaver" status may be applied. For good leavers, awards will normally vest on the date of cessation, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the performance period actually served, although the Remuneration Committee has the discretion to disapply the application of time pro-rating if it considers it appropriate to do so.

Directors' Annual Remuneration Report

Committee role and membership

The Committee consists solely of non-executive Directors. The members of the Committee (who all served throughout the year) are:

Viscount Lifford – Chairman
Mr D.O. Thomas
Mr N. Aslin
Mr R.S. Grainger
Mr N.J. Shepherd
Mr A.E.G Gulliford (to 27th May 2015)

No member has any personal interest in the matters decided by the Committee, nor any day to day involvement in the running of the business and therefore all members are considered by the Company to be independent. The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided.

The terms of reference of the Remuneration Committee are available on the Company's website www.mckaysecurities.plc.uk.

Details of the Committee members' attendance at Committee meetings during the financial year are as follows:

Committee member	Number of meetings attended
Viscount Lifford	2 out of 2
D.O. Thomas	2 out of 2
N. Aslin	2 out of 2
R.S. Grainger	2 out of 2
N.J. Shepherd	2 out of 2
A.E.G Gulliford	1 out of 2

External advisors

During the year the Committee received independent advice from New Bridge Street (part of Aon plc) on a range of remuneration issues. New Bridge Street was appointed by the Committee and neither New Bridge Street nor any other part of Aon plc have any other connection or provided any other services to the Company. Total fees paid to New Bridge Street in respect of its services to the Committee during the year were £20,016.

New Bridge Street is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial.

The Chief Executive attends meetings by invitation, but is not involved in the discussion of his own remuneration.

Implementation of the Remuneration Policy for the year ending 31st March 2017

Salaries

The executive Directors' salaries were reviewed by the Committee in February 2016 and increases of 5%, 3% and 7% have been awarded to the Chief Executive Officer, Property Director and Chief Finance Officer respectively from April 2016. These increases compare with potential awards of up to 10% following consultation last year with major investors and representative bodies.

	Salary as at 1st April 2015	Salary as at 1st April 2016	Percentage increase
S.C. Perkins	£358,000	£376,000	5%
S.R. Mew	£255,000	£263,000	3%
G.P. Salmon	£230,000	£246,000	7%

Benefits in kind and pension

The Company continues to operates a policy whereby executive Directors are offered a car allowance, medical insurance, life assurance and pension contributions, or cash in lieu of pension contributions (further details of which are set out on page 44).

Annual bonus scheme

The maximum bonus potential for the year ending 31st March 2017 will remain at 75% of basic salary. Performance will continue to be based on NAV growth per share (60%) and absolute growth in EPS (40%).

Disclosure of prior year target

The bonus targets for the year ended 31st March 2015 were:

Earnings growth	Threshold	£5.65 million
	Maximum	£7.80 million
	Actual	£5.79 million
	Result	32%
NAV growth	Threshold	£2.38 pps
	Maximum	£2.54 pps
	Actual	£2.77 pps
	Result	100%

Fees for the Chairman and non-executive Directors

The Chairman and non-executive Directors' fees were increased by 4%, effective from 1st April 2016. A summary of the fees is as follows:

	Fees as at 1st April 2015	Fees as at 1st April 2016	Percentage increase
D.O. Thomas	£59,100	£61,500	4%
Viscount Lifford	£35,500	£36,900	4%
N Aslin	£35,500	£36,900	4%
R.S. Grainger	£35,500	£36,900	4%
N.J. Shepherd	£35,500	£36,900	4%
A.E.G. Gulliford	£35,500	n/a	n/a

Performance Share Plan

PSP awards to be granted in the year ending 31st March 2017 will be subject to the following targets:

Performance condition	Threshold target (25% vesting)	Stretch target (100% vesting)	End of performance period
Relative total shareholder return against a bespoke group of quoted real estate companies (60% of award)	Median	Upper quartile	31st March 2020
Absolute NAV growth (40% of award)	Average annual growth of 6% in excess of RPIX	Average annual growth of 25% in excess of RPIX	31st March 2020

Consistent with previous years, executive Directors will receive a PSP award equivalent in value to 100% of salary conditional on performance criteria. Clawback provisions will continue to apply.

In line with the 2014 UK Corporate Governance Code, the Remuneration Committee has decided, prior to the next policy review in 2017, to require the Directors to hold PSP vested shares relating to grants made in 2015 onwards, for a further two years, subject to the need to finance any costs of acquisition and associated tax liabilities.

The Remuneration Committee has further decided to formalise the requirement for executive Directors to hold 200% of their basic salary in shares by retaining at least half of the post tax quantum of PSP vested shares until that target is achieved.

Directors' remuneration		Fees/salary fees £'000	Benefits £'000	Pension including salary supplement £'000	Annual bonus £'000	Value of long term incentives £'000	Total remuneration £'000
Executive							
S.C. Perkins	2016	358	23	68	251	497	1,197
	2015	311	29	60	170	569	1,139
S.R. Mew	2016	255	24	45	179	354	857
	2015	222	20	40	121	405	808
G.P. Salmon	2016	230	22	41	162	303	759
	2015	191	24	34	105	337	692
Non-executive							
D.O. Thomas	2016	59	–	–	–	–	59
	2015	56	–	–	–	–	56
Viscount Lifford	2016	36	–	–	–	–	36
	2015	34	–	–	–	–	34
N. Aslin	2016	36	–	–	–	–	36
	2015	34	–	–	–	–	34
R.S. Grainger	2016	36	–	–	–	–	36
	2015	31	–	–	–	–	31
N.J. Shepherd	2016	36	–	–	–	–	36
	2015	7	–	–	–	–	7
A.E.G. Gulliford	2016	9	–	–	–	–	9
	2015	34	–	–	–	–	34

Notes

1. Taxable benefits
Benefits comprise car allowance, medical insurance and life assurance.

2. Annual bonus payments
The annual bonus for the year ended 31st March 2016 was based on performance against NAV targets (60% of the bonus potential) and EPS targets (40% of the bonus potential).

Metric	Weighting	Threshold	Maximum	Actual	% outturn
NAV growth	60%	RPI + 3%	RPI + 10%	>RPI + 10%	45% of salary (maximum: 45%)
EPS growth	40%	90%	112.5%	107%	25% of salary (maximum: 30%)
Total	100%				70% of salary

Bonus payments (cash or shares) are subject to clawback. Overpayments may be reclaimed in the event of performance achievements being found to be materially misstated or erroneous, or in the event of misconduct.

3. Long term incentives
The PSP award granted on 20th June 2013 is subject to performance to the year ended 31st March 2016. The performance conditions attached to this award and actual performance against these conditions is as follows:

Metric	Weighting	Performance condition	Threshold target	Maximum target	Actual performance	Vesting level
NAV growth	40%	Average annual NAV growth of RPIX + 6% (25% vesting) over three financial years	RPIX + 6%	RPIX + 25%	>RPIX+25%	100%
Relative TSR	60%	Relative TSR performance against a group of quoted real estate sector companies over three financial years. 30% of this part of the award for achieving threshold performance, increasing on a straight line basis to full vesting for achieving for achieving the stretch target.	Median	Upper quartile	Upper quartile	100%
Total vesting						100%

Based on the estimated vesting percentage above, details of the shares under award and the estimated value (based on the share price at 31st March 2016 of £2.3975 per share) is as follows:

Executive	Number of shares at grant	Estimated number of shares to vest	Estimated number of shares to lapse	Estimated value £000
S.C. Perkins	207,274	207,274	–	497
S.R. Mew	147,569	147,569	–	354
G.P. Salmon	126,458	126,458	–	303

Directors' Annual Remuneration Report - continued

Details of PSP awards granted in the year

The following award was granted to the executive Directors on 18th June 2015:

	Number of Type of award	Basis of award granted	Share price at date of grant	Number of shares over which award was granted	Face value of award £'000	% of face value that would vest at threshold performance	Vesting determined by performance over
S.C. Perkins	Nil-cost option	100% of salary	£2.55	140,392	£358	25%	Three financial
S.R. Mew	Nil-cost option	100% of salary	£2.55	100,000	£255	25%	years to
G.P. Salmon	Nil-cost option	100% of salary	£2.55	90,196	£230	25%	31st March 2018

Details of outstanding share awards

	31st March 2015 Number of shares	Granted in 2015/16 Number of shares	Vested in 2015/16 Number of shares	Lapsed in 2015/16 Number of shares	31st March 2016 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
S.C. Perkins								
2012 PSP	227,724	–	227,724	–	–	1.28	13.06.2015	13.06.2018
2013 PSP	207,274	–	–	–	207,274	1.44	20.06.2016	19.06.2019
2014 PSP	137,004	–	–	–	137,004	2.27	11.06.2017	10.06.2020
2015 PSP		140,392	–	–	140,392	2.55	18.06.2018	17.06.2021
					484,670			
S.R. Mew								
2012 PSP	162,121	–	162,121	–	–	1.28	13.06.2015	13.06.2018
2013 PSP	147,569	–	–	–	147,569	1.44	20.06.2016	19.06.2019
2014 PSP	97,709	–	–	–	97,709	2.27	11.06.2017	10.06.2020
2015 PSP		100,000	–	–	100,000	2.55	18.06.2018	17.06.2021
					345,278			
G.P. Salmon								
2012 PSP	134,942	–	134,942	–	–	1.28	13.06.2015	13.06.2018
2013 PSP	126,458	–	–	–	126,458	1.44	20.06.2016	19.06.2019
2014 PSP	84,317	–	–	–	84,317	2.27	11.06.2017	10.06.2020
2015 PSP		90,196	–	–	90,196	2.55	18.06.2018	17.06.2021
					300,971			
S.C. Perkins								
2012 Defered bonus	15,611	–	15,611	–	–	1.32	23.07.2015	22.07.2018
2013 Defered bonus	15,208	–	–	–	15,208	1.49	24.07.2016	23.07.2019
					15,208			
S.R. Mew								
2012 Defered bonus	11,114	–	11,114	–	–	1.32	23.07.2015	22.07.2018
2013 Defered bonus	10,827	–	–	–	10,827	1.49	24.07.2016	23.07.2019
					10,827			
G.P. Salmon								
2012 Defered bonus	8,490	–	8,490	–	–	1.32	23.07.2015	22.07.2018
2013 Defered bonus	9,012	–	–	–	9,012	1.49	24.07.2016	23.07.2019
					9,012			

The last ESOS grant (2005) expired on 29th June 2015.

Statement of Directors' shareholdings and share interests

	Beneficially owned at 31st March 2015	Beneficially owned at 31st March 2016	Outstanding PSP performance awards	Outstanding deferred bonus awards	[1]Shareholding as a % of salary
S.C. Perkins	196,765	[2]210,000	484,670	15,208	141
S.R. Mew	56,295	134,719	345,278	10,827	127
G.P. Salmon	51,496	87,366	300,971	9,012	91
D.O. Thomas	136,686	151,642			
Viscount Lifford	60,000	70,000			
N. Aslin	70,300	90,000			
R.S. Grainger	–	10,000			
N.J. Shepherd	–	6,925			
A.E.G. Gulliford	40,292	n/a			

[1]Based on share price as at 31st March 2016 of £2.3975 per share.
[2]Beneficial holdings, as defined by the Companies Act, would include a further 5,602 shares.

Executive Directors are now required to build up a holding of shares in the Company to the value of 100% of salary, increasing to 200% of salary for PSP grants awarded in 2015 and beyond.

Payments within the year to past Directors

No payments were made to past Directors in the year ended 31st March 2016.

Loss of office payments

No Director left in the year and no compensation for loss of office was paid. The principles governing compensation for loss of office payments are set out on page 46.

Percentage change in the remuneration of the Chief Executive Officer

The table below shows the percentage change in the Chief Executive Officer's total remuneration (excluding the value of any long-term incentives and pension benefits receivable in the year) between FY2014/2016 and FY2015/2016 compared to that of the average for all employees of the Group.

	% Change from FY2014/2015 to FY2015/2016		
	Remuneration	Benefits	Bonus
Chief Executive Officer	5%	0%	28%
Average employees	4%	0%	29%

Comparison of TSR performance and pay

The chart below shows the Group's TSR compared to the FTSE Real Estate Index and the FTSE All Share Index over the past six years.

This chart shows the value of £100 invested in the FTSE Real Estate Index and the FTSE All Share Index. These indices have been chosen by the Remuneration Committee as they are considered to be an appropriate benchmark against which to assess the relative performance of the Group.

Source: Thomson Reuters

The total remuneration figures for the Chief Executive Officer during each of the last six financial years are shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and PSP awards based on three year performance periods ending just after the relevant year end. The annual bonus payout and PSP vesting level, as a percentage of the maximum opportunity are also shown for each of these years.

	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Total remuneration (£'000)	£365	£410	£413	£802	£1,139	£1,197
Annual bonus (% of salary)	0	10	13	45	55	70
LTIP vesting (% of max)	0	0	0	60	100	100

Relative Importance of the spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends.

	2015/2016	2014/2015	% change
Staff costs (£'m)	£4.2	£4.0	7%
Dividends (£'m)	£8.2	[1]£8.0	2.5%

£1.6 million of the staff costs figures relates to pay for the executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share based awards are accounted for. The dividend figures relate to amounts payable in respect of the relevant financial year.

[1]The final dividend of 6.1 pence per share will be paid on 93.16 million shares (92.43 million for 2014/15).

Statement of shareholder voting

At last year's AGM, the Directors' Remuneration Report resolution was carried on a show of hands and received the following proxy votes from shareholders:

	Number of votes	
Proxy votes cast in favour*	67,107,537	98.22%
Proxy votes cast against	1,218,795	1.78%
Total votes cast	68,326,332	100.00%
Proxy votes withheld	667,569	

*includes discretionary votes of 19,500.

The disclosure on Directors' remuneration in the tables on page 48 to 51 has been audited.

The Directors' Annual Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

By Order of the Board
Viscount Lifford
Chairman of the Remuneration Committee

24th May 2016

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES
For the year ended 31st March 2016

We confirm that to the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Report of the Directors, incorporating the Chairman's Statement and the Strategic Review, includes a fair review of the development and performance of the business and the position of the Group, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors consider the Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

S.C. Perkins
Chief Executive Officer

G.P. Salmon
Chief Finance Officer

24th May 2016

REPORT OF THE INDEPENDENT AUDITOR

To the members of McKay Securities PLC only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of McKay Securities PLC for the year ended 31st March 2016 set out on pages 58 to 83.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31st March 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows (unchanged from 2015):

Valuation of investment properties £399 million (2015: £350 million) risk vs 2015

Refer to page 38 (Audit Committee Report), page 65 (accounting policy) and pages 72 to 73 (financial disclosures)

- the risk – Investment Properties represent 96% (2015: 97%) of gross assets of the Group. The portfolio comprises 36 (2015: 40) properties which are externally valued by qualified independent valuers and held at fair value at the balance sheet date. Each property is unique and the fair value requires significant judgment and estimation, in particular over the key assumptions of the estimated rental value and the yield. The key assumptions will be impacted by a number of factors including location, quality and condition of the building and tenant credit rating. Valuing investment properties under development can be further complicated by the need to forecast cost to complete. Whilst comparable market transactions provide good valuation evidence, the unique nature of each property means that a key factor in the property valuations are assumptions with significant judgments on which we focused our audit.
- our response – In this area our procedures included discussions with the Group's external property valuers to understand movements in property values within the portfolio and to determine the valuation methodology used. We included our own property valuation specialist to assist us in:
- critically assessed the competence and experience of the external property valuers used by the Group by assessing their objectivity, professional qualifications and resources;
- critically assessing the results of their report by checking that the valuations were in accordance with the RICS Valuation Professional Standards 'the Red Book' and IFRS and that the methodology adopted was appropriate by reference to acceptable valuation practice;
- critically assessing the historical accuracy of the valuations by comparing disposal proceeds to the recent valuations;
- challenging the key assumptions upon which the valuations were based including those relating to forecast rents, yields, vacant periods and irrecoverable expenditure by making a comparison to our own understanding of the market; and
- challenging the results of their report by comparing the change in the valuation to industry benchmarks; and
- for major properties under development, agreeing significant project costs to signed contracts, assessing the progress of development and leasing status and recalculating the forecast costs to complete included in the valuations. We also considered the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing these properties.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £4.1 million (2015: £7.2 million), determined with reference to a benchmark of total group assets, of which it represents 1%, reflecting industry consensus levels (2015: 2%).

In addition, this year we applied materiality of £0.40 million to Net Rental Income from Investment Properties, Administration costs and Net Finance Costs, for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole can be reasonably expected to influence the company's members' assessment of the financial performance of the Group.

We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £0.21 million (2015: £0.36 million), in addition to other identified misstatements that warranted reporting on qualitative grounds

Audits for group reporting purposes were performed by the Group team at each of the four (2015: four) reporting components of the Group which represented 100% (2015: 100%) of total Group assets, group revenue and group profit before tax. The Group team determined the component materialities, which ranged from £0.06 million to £0.24 million (2015: £0.45 million to £0.77 million), having regard to the mix of size and risk profile of the Group across the components.

REPORT OF THE INDEPENDENT AUDITOR
continued

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statement.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability Statement on page 23, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the four years to March 2020; or;
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 54, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on pages 32 to 37 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Shaun Kirby
(Senior Statutory Auditor)

for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

24th May 2016

FINANCIAL STATEMENTS 2016

329 Bracknell

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March 2016

	Notes	2016 £'000	2015 £'000
Gross rents and service charges receivable	2	23,689	21,409
Direct property outgoings		(6,025)	(6,487)
Net rental income from investment properties	2	17,664	14,922
Administration costs	3	(5,878)	(5,439)
Operating profit before gains on investment properties		11,786	9,483
Profit on disposal of investment properties		9,106	679
Revaluation of investment properties	11	34,564	42,097
Operating profit	4	55,456	52,259
Net finance costs – finance costs	6	(4,478)	(19,802)
– finance income	6	2,182	32
Profit on disposal of associated undertaking	13	–	793
Profit before taxation		53,160	33,282
Taxation	7	–	–
Profit for the year		53,160	33,282
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		(15)	(493)
Total comprehensive income for the year		53,145	32,789
Earnings per share	9		
Basic		57.17p	36.08p
Diluted		56.36p	35.48p

Adjusted earnings per share figures are shown in note 9.

	Notes	2016 £'000	2015 £'000
Dividends	10		
Previous year's final dividend of 6.0p (2015: 5.9p) paid during the year		5,546	5,414
Interim dividend of 2.7p (2015: 2.7p) paid during the year		2,515	2,496
Proposed final dividend of 6.1p (2015: 6.0p)		8,198	5,546

The total comprehensive income for the year is all attributable to the equity holders of the parent company.

GROUP STATEMENT OF FINANCIAL POSITION
As at 31st March 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Investment properties — Valuation as reported by the valuers		401,170	352,761
— Adjustment for rents recognised in advance under SIC 15		(5,869)	(6,342)
— Adjustment for grossing up of head leases		3,745	3,785
	11	399,046	350,204
Plant and equipment	12	91	63
Investments	13	–	793
Total non-current assets		399,137	351,060
Current assets			
Trade and other receivables	14	15,641	10,339
Cash and cash equivalents		–	–
Total current assets		15,641	10,339
Total assets		414,778	361,399
Current liabilities			
Trade and other payables	15	(10,938)	(9,938)
Finance lease liabilities	16	(286)	(286)
Interest rate derivatives	15	(2,944)	(6,164)
Bank overdraft		(261)	(572)
Total current liabilities		(14,429)	(16,960)
Non-current liabilities			
Loans and other borrowings	15	(113,701)	(91,302)
Pension fund deficit	24	(1,839)	(1,940)
Finance lease liabilities	16	(4,121)	(4,121)
Interest rate derivatives	15	(19,465)	(31,581)
Total non-current liabilities		(139,126)	(128,944)
Total liabilities		(153,555)	(145,904)
Net assets		261,223	215,495
Equity			
Called up share capital	19	18,632	18,486
Share premium account		77,708	75,917
Retained earnings		54,571	36,340
Revaluation reserve		110,312	84,752
Total equity		261,223	215,495
Net asset value per share	22	280p	233p
EPRA net asset value per share	22	301p	270p

These financial statements were approved by the Board of Directors on 24th May 2016 and were signed on its behalf by D.O. Thomas and S.C. Perkins

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31st March 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Investment properties	11	371,302	291,000
Plant and equipment	12	91	63
Investments	13	23,806	23,806
Total non-current assets		395,199	314,869
Current assets			
Trade and other receivables	14	23,096	39,320
Cash and cash equivalents		–	–
Total current assets		23,096	39,320
Total assets		418,295	354,189
Current liabilities			
Trade and other payables	15	(45,149)	(35,118)
Finance lease liabilities	16	(180)	–
Interest rate derivatives	15	(2,944)	(6,164)
Bank overdraft		(261)	(572)
Total current liabilities		(48,534)	(41,854)
Non-current liabilities			
Loans and other borrowings	15	(113,701)	(91,302)
Pension fund deficit	24	(1,839)	(1,940)
Finance lease liabilities	16	(2,704)	–
Interest rate derivatives	15	(19,465)	(31,581)
Total non-current liabilities		(137,709)	(124,823)
Total liabilities		(186,243)	(166,677)
Net assets		232,052	187,512
Equity			
Called up share capital	19	18,632	18,486
Share premium account		77,708	75,917
Retained earnings		27,054	27,984
Revaluation reserve		108,658	65,125
Total equity		232,052	187,512

These financial statements were approved by the Board of Directors on 24th May 2016 and were signed on its behalf by D.O. Thomas and S.C. Perkins

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2016

	2016 £'000	2015 £'000
Operating activities		
Profit before tax	53,160	33,282
Adjustments for:		
Depreciation	18	44
Other non-cash movements	1,101	1,354
Profit on disposal of investment properties	(9,106)	(679)
Movement in revaluation of investment properties	(34,564)	(42,097)
Net finance costs	2,296	19,769
Profit on disposal of associated undertaking	–	(793)
Cash flow from operations before changes in working capital	12,905	10,880
Increase in debtors	(5,027)	(3,439)
Increase in creditors	1,177	2,704
Cash generated from operations	9,055	10,145
Interest paid	(5,810)	(5,227)
Interest received	11	32
Cash flows from operating activities	3,256	4,950
Investing activities		
Proceeds from sale of investment properties	33,207	6,886
Proceeds from sale of investments	793	–
Purchase and development of investment properties	(37,660)	(60,949)
Purchase of other fixed assets	(45)	(94)
Cash flows from investing activities	(3,705)	(54,157)
Financing activities		
Proceeds from issue of share capital	–	510
Increase in borrowings	21,986	53,935
Equity dividends paid	(8,061)	(7,910)
Swap cancellation fee	(13,165)	–
Cash flows from financing activities	760	46,535
Net decrease/(increase) in cash and cash equivalents	311	(2,672)
Cash and cash equivalents at the beginning of the year	(572)	2,100
Cash and cash equivalents at end of the year	(261)	(572)

COMPANY CASH FLOW STATEMENT
For the year ended 31st March 2016

	2016 £'000	2015 £'000
Operating activities		
Profit before tax	51,972	26,987
Adjustments for:		
Depreciation	18	44
Other non-cash movements	1,085	1,212
Profit on disposal of investment properties	(5,568)	(679)
Movement in revaluation of investment properties	(36,572)	(36,171)
Net finance costs	2,553	18,382
Cash flow from operations before changes in working capital	13,488	9,775
Increase in debtors	(11,318)	(6,738)
Increase in creditors	2,685	3,063
Cash generated from operations	4,855	6,100
Interest paid	(5,982)	(5,262)
Interest received	959	1,664
Cash flows from operating activities	(168)	2,502
Investing activities		
Proceeds from sale of investment properties	13,292	6,886
Returns from investment in subsidiary	19,319	–
Purchase and development of investment properties	(32,847)	(58,501)
Purchase of other fixed assets	(45)	(94)
Cash flows from investing activities	(281)	(51,709)
Financing activities		
Proceeds from issue of share capital	–	510
Increase in borrowings	21,986	53,935
Equity dividends paid	(8,061)	(7,910)
Swap cancellation fee	(13,165)	–
Cash flows from financing activities	760	46,535
Net increase/(decrease) in cash and cash equivalents	311	(2,672)
Cash and cash equivalents at the beginning of the year	(572)	2,100
Cash and cash equivalents at end of the year	(261)	(572)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2016

	Attributable to equity holders of the parent company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 31st March 2014	18,352	75,541	37,354	57,988	189,235
Profit for the year	–	–	–	33,282	33,282
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	42,097	(42,097)	–
Other	–	–	–	(19)	(19)
Transfer on disposal of investment in associated undertaking	–	–	1,417	(1,417)	–
Transfer on disposal of investment properties	–	–	3,884	(3,884)	–
Actuarial loss on defined benefit pension scheme	–	–	–	(493)	(493)
Total comprehensive profit for the year	**–**	**–**	**47,398**	**(14,628)**	**32,770**
Issue of new shares net of costs	134	376	–	–	510
Dividends paid in year	–	–	–	(7,910)	(7,910)
Fair value of share based payments	–	–	–	890	890
At 31st March 2015	**18,486**	**75,917**	**84,752**	**36,340**	**215,495**
Profit for the year	–	–	–	53,160	53,160
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	34,564	(34,564)	–
Transfer on disposal of investment in associated undertaking	–	–	–	–	–
Transfer on disposal of investment properties	–	–	(9,004)	9,004	–
Actuarial loss on defined benefit pension scheme	–	–	–	(15)	(15)
Total comprehensive profit for the year	**–**	**–**	**25,560**	**27,585**	**53,145**
Issue of new shares net of costs	146	1,791	–	(1,937)	–
Dividends paid in year	–	–	–	(8,061)	(8,061)
Fair value of share based payments	–	–	–	644	644
At 31st March 2016	**18,632**	**77,708**	**110,312**	**54,571**	**261,223**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2016

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 31st March 2014	18,352	75,541	25,071	48,584	167,548
Profit for the year	–	–	–	26,987	26,987
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	36,171	(36,171)	–
Other	–	–	–	(20)	(20)
Transfer on disposal of investment properties	–	–	3,883	(3,883)	–
Actuarial loss on defined benefit pension scheme	–	–	–	(493)	(493)
Total comprehensive income for the year	**–**	**–**	**40,054**	**(13,580)**	**26,474**
Issue of new shares net of costs	134	376	–	–	510
Dividends paid in year	–	–	–	(7,910)	(7,910)
Fair value of share based payments	–	–	–	890	890
At 31st March 2015	**18,486**	**75,917**	**65,125**	**27,984**	**187,512**
Profit for the year	–	–	–	51,972	51,177
Other comprehensive income:					
Transfer of property from subsidiary	–	–	7,278	(7,278)	–
Transfer surplus on revaluation of properties	–	–	36,572	(36,572)	–
Transfer on disposal of investment properties	–	–	(317)	317	–
Actuarial loss on defined benefit pension scheme	–	–	–	(15)	(15)
Total comprehensive income for the year	**–**	**–**	**43,533**	**8,424**	**51,957**
Issue of new shares net of costs	146	1,791	–	(1,937)	–
Dividends paid in year	–	–	–	(8,061)	(8,061)
Fair value of share based payments	–	–	–	644	644
At 31st March 2016	**18,632**	**77,708**	**108,658**	**27,054**	**232,052**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st March 2016

1 Accounting policies

Basis of preparation
The Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

In accordance with Section 408 Companies Act 2006 a separate Profit or Loss and other Comprehensive Income for McKay Securities PLC (the Company) is not presented. The profit for the year after tax of the Company is £51,972,000 (2015: £26,987,000).

During the financial year, the following accounting standards and guidance were adopted by the Company, none of these had any material impact on the financial statements:

IFRS 10 – Consolidated Financial Statements;

IFRS 12 – Disclosure of Interests in Other Entities;

IAS 27 (revised) – Separate Financial Statements;

IAS 32 (amended) – Financial Instruments: Presentation of Offsetting Financial Assets and Financial Liabilities; and

IAS 36 (amended) – Impairment of Assets on Recoverable Amounts Disclosures for Non-Financial Assets.

None of the new standards or amendments to existing standards or interpretations, which are endorsed but not yet effective, have been adopted, or are expected to have any material impact on the financial statements.

The financial statements are prepared on a going concern basis as explained in the Principal Risks and Uncertainties and Viability Statement on page 23.

Significant judgements and estimates
In the process of preparing the Group's financial statements management is required to make judgements, estimates and assumptions when applying accounting policies that may affect the reported amounts of revenues, expenses, assets and liabilities. Any judgements, estimates and associated assumptions used in the preparation of the financial statements are based on management's best information at the time, however actual outcomes may differ from estimates used. Not all accounting policies require estimates and assumptions, however management consider them significant in applying to valuations, for which qualified external advisors are used, of investment properties, financial instruments, share-based payments and defined benefit pension obligations and are disclosed in the applicable policies and notes below.

Basis of consolidation
The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for investment property and derivative financial instruments which are measured at fair value through the Profit or Loss and other Comprehensive Income. Subsidiary companies are those entities under the control of the Company. Control means being exposed or have rights to variable returns from its involvement and has the ability to affect those returns through its power over the Company.

Intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

Properties
The Group's properties are held as investments to earn rental income and for capital appreciation and are stated at fair value at the balance sheet date. The value, reflecting market conditions, is determined at each reporting date by independent external valuers and any gain or loss arising from a change in value is recognised in the Profit or Loss and other Comprehensive Income and transferred to the revaluation reserve in the Group Statement of Financial Position. Any accrued rent receivable recognised as a separate asset in accordance with the Group's accounting policy on lease incentives is deducted from the external valuation.

Properties purchased are recognised on legal completion in the accounting period and measured initially at cost including transaction costs. Sales of properties are recognised on unconditional exchange of contracts in the accounting period when the significant risks and rewards of ownership have been transferred. Gains and losses arising on the disposal of investment properties are recognised in the Profit or Loss and other Comprehensive Income, being the difference between net sale proceeds and the carrying value of the property.

Subsequent expenditure on investment properties is capitalised only when it increases the future economic benefits associated with the property. All other expenditure is charged to the Profit or Loss and other Comprehensive Income.

1 Accounting policies continued

Properties continued
Interest and other outgoings less rental income relating to investment properties in the course of development are capitalised, and added to the cost of the property. Interest capitalised is calculated on development outgoings, including material refurbishments to investment property, using the weighted average cost of general Group borrowings for the year. A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to prepare the property for use are completed.

Properties held under long leases where the Group has substantially all the risks and benefits of ownership are accounted for as finance leases and carried at the lower of fair value or present value of future minimum lease payments. The present value of the future minimum lease payments is recognised as a liability with a corresponding asset added to the carrying value of the leasehold property. The minimum lease payments are apportioned between finance charges in the Profit or Loss and other Comprehensive Income and the reduction of the Group Statement of Financial Position liability. Contingent rents are charged as an expense in the Profit or Loss and other Comprehensive Income in the period incurred.

Plant and equipment
Plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write off the cost less estimated residual value over their useful lives, which are estimated to be between 3 and 5 years.

Cash and cash equivalents
Cash comprises cash at bank and short term deposits held on call. Cash equivalents comprise investments with minimal risk to changes in value that are readily convertible into cash with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Trade and other receivables and payables
Trade and other receivables are recognised at invoice cost unless an impairment provision has been made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Trade and other payables are recognised at invoice cost.

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

Reserves
The revaluation reserve represents the unrealised surpluses and deficits arising on revaluation of the Group's properties and is not available for distribution until realised through sale.

Segmental analysis
All of the Group's revenue is derived from the ownership of investment properties located in South East England and central London. The management team works within a single structure which includes the executive Directors acting as chief operating decision maker. Responsibilities are not defined by type or location, each property being managed individually and reported on for the Group as a whole directly to the Board of Directors. Properties under development generate no revenue and are treated as investment properties in the portfolio. The Directors therefore consider there to be only one reporting segment.

1 Accounting policies continued

Revenue
The Group has entered into commercial property leases on its investment property portfolio. The Directors consider, based on the terms and conditions, the significant risks and rewards of ownership of the properties are retained and therefore account for the leases as operating leases. Rental income receivable under operating leases less initial direct costs on arranging the leases is recognised on a straight line basis over the non-cancellable term of the lease.

The aggregate value of incentives for lessees to enter into lease agreements, usually in the form of rent free periods or capital contributions, is recognised over the lease term or to tenant option to break as a reduction of rental income.

Premiums received from tenants to terminate leases are recognised as income from investment properties when they arise.

Service charges and other such receipts arising from expenses recharged to tenants, with the Group acting as principal, are recognised in the period that the expense can be contractually recovered and included gross in income from investment properties.

Interest received on short term deposits is recognised in finance income as it accrues.

Borrowing costs
Interest on borrowings, including interest on finance leases, is recognised in the Profit or Loss and other Comprehensive Income in the period during which it is incurred, except for interest capitalised in accordance with the Group's policy on properties under development (see Properties above). Costs incurred on putting in place borrowing facilities are recognised in finance costs over the term of the facility.

Derivative financial instruments
The Group uses derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk. The differences between interest payable by the Group and interest payable to the Group by the swap counterparties are dealt with on an accruals basis.

At each reporting date the instruments are stated at fair value in the Group Statement of Financial Position which is the estimated amount that the Group would receive or pay to terminate the instruments based on the current interest rate yield structure. The Group has not applied hedge accounting for any financial instrument in place and any movement in fair value is recognised in the Profit or Loss and other Comprehensive Income.

Share-based payments
The Group operates an equity-settled share-based performance plan outlined in the Directors Remuneration Report under which Directors and employees are able to acquire shares in the Company. The fair value cost benefit of the employee services received for the options granted is recognised over the vesting period in employee costs within administration expenses with a corresponding amount recognised in equity. The charge is measured using valuation models and assumptions outlined in note 18 with adjustment for when non-market conditions are not expected to be met.

Post employment benefits
The Group operates two pension schemes. The defined benefit scheme is based on final pensionable pay and has been closed to new entrants since 1989. The assets of the scheme are held separately from those of the Group and are measured at fair value, the scheme obligations being calculated at discounted present value, with any net surplus or deficit recognised in the Group balance sheet. Current service cost and interest on scheme liabilities less the expected return on scheme assets are recognised as an expense in the Profit or Loss and other Comprehensive Income. Actuarial gains and losses on scheme liabilities are recognised in equity through the Profit or Loss and other Comprehensive Income. The assumptions used by a qualified actuary are outlined in note 24.

The Group contributes to eligible employees' defined contribution personal pension plans and does not accept any responsibility for the benefits gained from these plans. The contributions are recognised as an expense in the Profit or Loss and other Comprehensive Income as incurred but the Group does not recognise any gains or losses arising from movements in the value of the personal pension plans.

1 Accounting policies continued

Taxation

Any tax charge recognised in the Profit or Loss and other Comprehensive Income comprises current and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

Current tax is the expected tax liability on the results for the year adjusted for items that are not taxable or deductable, or taxable and deductable in other periods, together with any adjustment in respect of previous years calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be paid or recovered on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Tax liabilities are recognised for all taxable temporary differences and tax assets to the extent that future taxable profits will be available against which the asset can be utilised.

The Group converted to REIT status on 1st April 2007 and as a consequence substantially all the Group's activities as a property rental business are exempt from tax, including rental profits and gains on rental property disposals.

2 Net rental income from investment properties

	2016 £'000	2015 £'000
Gross rents receivable	19,413	17,005
SIC 15 adjustment (spreading of rental incentives)	746	612
Gross rental income	20,159	17,617
Service charges receivable	3,530	3,792
	23,689	21,409
Direct property outgoings	(6,025)	(6,487)
	17,664	14,922

Rent receivable under the terms of the leases is adjusted, in accordance with SIC 15, for the effect of any incentives given.

3 Administration costs

Group	2016 £'000	2015 £'000
Directors' — remuneration	1,150	1,006
— bonus[1]	464	396
Staff — costs	792	714
— bonus	419	294
National Insurance	473	350
Pension costs	314	307
Share based payment accounting charge (IFRS 2)	624	890
	4,236	3,956
Depreciation (note 12)	18	44
Office costs	542	418
Legal and professional fees	1,059	978
General expenses	23	43
	5,878	5,439

[1]Amount charged to income in year to 31st March 2016.

The average number of persons employed by the Group and Company during the year was 17 (2015: 16).

Employee costs	2016 £'000	2015 £'000
Salaries	2,825	2,409
Social security costs	473	350
Pension costs – defined benefit scheme	57	67
– defined contributions	257	240
Share based payment accounting charge	624	890
	4,236	3,956

Fees paid to auditor	2016 £'000	2015 £'000
Statutory audit services		
McKay Securities PLC audit	70	67
Subsidiary audits	3	4
Assurance services		
Interim review	19	18
Service charge audits	6	6
Taxation services		
Corporation tax compliance	42	39
VAT advice	–	–
	140	134
Future services – contracted fees		
XBRL tagging	5	4

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Details of Directors' remuneration can be found on page 48 in the Directors' Annual Remuneration Report.

4 Operating profit

Operating profit is identified in the income statement and represents the profit on activities before finance costs, share of associated undertakings and taxation.

5 Adjusted profit before tax

Adjusted profit before tax is the Group's preferred measure to provide a clearer picture of recurring profits from core rental activities before tax, adjusted as set out below.

	2016 £'000	2015 £'000
Profit before tax	53,160	33,282
Change in fair value of derivatives	(2,171)	15,187
Movement in revaluation of investment properties	(34,564)	(42,097)
Profit on disposal of investment properties	(9,106)	(679)
Profit on disposal of associated undertaking and revaluation movements	–	(793)
IFRS 2 adjustment to share based payments	624	890
Adjusted profit before tax	7,943	5,790

6 Net finance costs

	2016 £'000	2015 £'000
Interest on bank overdraft and loans	5,657	4,896
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	413	100
Fair value loss on derivatives	–	15,188
Capitalised interest (note 8)	(1,877)	(667)
	4,478	19,802
Fair value gain on derivatives	(2,171)	–
Interest receivable	(11)	(32)
	(2,182)	(32)
Net finance costs	2,296	19,770

7 Taxation

	2016 £'000	2015 £'000
Total tax in the Profit or Loss and other Comprehensive Income	–	–

Reconciliation to effective rate of tax:		
Profit on ordinary activities before tax	53,160	33,282
Tax charge on profit at 20% (2015: 21%)	10,632	6,989
Effects of:		
REIT tax exemption	(10,632)	(8,015)
Permanent differences	–	1,021
Other timing differences	–	5
Tax for period (as above)	–	–

8 Capitalised interest

Interest relating to investment properties in the course of development is dealt with as explained in note 1.

Interest capitalised during the year amounted to £1,877,139 (2015: £666,590) and relates to refurbishment works to London, 30 Lombard Street EC3; Newbury, Strawberry Hill House; Reading, 9 Greyfriars Road; and Redhill, London Road.

Total development interest capitalised amounts to £9,068,658 (2015: £7,191,519).

9 Earnings per share

	2016 p	2015 p
Basic earnings per share	57.17	36.08
Change in fair value of derivatives	(2.34)	16.46
Movement in revaluation of investment properties	(37.17)	(45.63)
Profit on disposal of investment properties	(9.79)	(0.74)
Associated undertaking disposals and revaluation	–	(0.86)
Adjusted profit for share based payments	0.67	0.97
Adjusted earnings per share	**8.54**	**6.28**

Basic earnings per share on ordinary shares is calculated on the profit in the year of £53,160,000 (2015: £33,282,000) and 92,983,951 (2015: 92,255,120) shares, being the weighted average number of ordinary shares in issue during the year.

	2016 Number of shares	2015 Number of shares
Weighted average number of ordinary shares in issue	92,983,951	92,255,120
Number of shares under option	1,722,237	2,233,578
Number of shares that would have been issued at fair value	(399,554)	(672,668)
Diluted weighted average number of ordinary shares in issue	**94,306,634**	**93,816,030**

	2016 p	2015 p
Basic earnings per share	57.17	36.08
Effect of dilutive potential ordinary shares under option	(0.81)	(0.60)
Diluted earnings per share	56.36	35.48
Change in fair value of derivatives	(2.30)	16.19
Movement in revaluation of investment properties	(36.65)	(44.87)
Profit on disposal of investment properties	(9.65)	(0.72)
Associated undertaking disposals and revaluation	–	(0.86)
EPRA diluted earnings per share	**7.76**	**5.22**

EPRA diluted earnings per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the year of 94,306,634 (2015: 93,816,030) shares, which takes into account the number of potential ordinary shares under option.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, surrender premiums received, the change in the fair value of derivatives and the movement in revaluation of investment properties. The EPRA measure includes all of these adjustments except for surrender premiums which are added back.

10 Dividends

The final dividend is not included in the accounts as a liability as at 31st March 2016, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2015 and interim for 2016 paid in the year are included in the Consolidated Statement of Changes in Equity on page 63.

Ordinary dividends	2016 £'000	2015 £'000
Previous year's final dividend of 6.0p paid during the year	5,546	5,414
Interim dividend of 2.7p (2015: 2.7p) paid during the year	2,515	2,496
Total recognised in financial statements	**8,061**	**7,910**
Proposed final dividend of 6.1p (2015: 6.0p)	**8,198**	**5,546**

11 Investment properties

	Group Freehold	Group Long Leasehold	Group Total £'000	Company Freehold £'000	Company Long Leasehold £'000	Company Total £'000
Valuation						
At 1st April 2015	306,259	43,945	350,204	291,000	–	291,000
Transfer	–	–	–	–	22,025	22,025
Additions – acquisitions	11,337	–	11,337	11,337	–	11,337
– development	16,704	9,342	26,046	16,704	1,429	18,133
Revaluation surplus	32,783	2,528	35,311	32,782	4,602	37,384
Adjustment for rents recognised in advance under SIC 15	641	(168)	473	(600)	(168)	(768)
Disposals	(24,285)	–	(24,285)	(7,785)	–	(7,785)
Amortisation of grossed up headlease liabilities	–	(40)	(40)	–	(24)	(24)
Book value as at 31st March 2016	**343,439**	**55,607**	**399,046**	**343,438**	**27,864**	**371,302**
Adjustment for grossing up of headlease liabilities	–	(3,745)	(3,745)	–	(2,471)	(2,471)
Adjustment for rents recognised in advance under SIC 15	5,571	298	5,869	5,571	298	5,869
Valuation as at 31st March 2016	**349,010**	**52,160**	**401,170**	**349,009**	**25,691**	**374,700**

	Group Freehold £'000	Group Long leasehold £'000	Group Total £'000	Company Freehold £'000
At 1st April 2014	215,304	37,341	252,645	201,916
Additions – acquisition	51,710	–	51,710	51,710
– development	7,398	2,602	10,000	7,411
Revaluation surplus	38,709	3,999	42,708	36,736
Adjustment for rents recognised in advance under SIC 15	(655)	43	(612)	(566)
Disposals	(6,207)	–	(6,207)	(6,207)
Amortisation of grossed up headlease liabilities	–	(40)	(40)	–
Book value as at 31st March 2015	**306,259**	**43,945**	**350,204**	**291,000**
Adjustment for grossing up of headlease liabilities	–	(3,785)	(3,785)	–
Adjustment for rents recognised in advance under SIC 15	6,211	131	6,342	4,970
Valuation as at 31st March 2015	**312,470**	**40,291**	**352,761**	**295,970**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2016. These valuations, were carried out by Mellersh and Harding, Chartered Surveyors and Valuers. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £280 million (2015: £257 million) for the Group and £255 million (2015: £220 million) for the Company.

The amount of interest capitalised during the year was £1,877,139 (2015: £666,590). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

11 Investment properties continued

Investment property valuation method and assumptions
The fair value of the property portfolio has been determined using income capitalisation techniques, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3 for investment properties during the year.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £34.6 million (2015: £42.1 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

	London Offices Income Capitalisation	South East Offices Income Capitalisation	South East Industrial Income capitalisation
Valuation technique[1]			
Fair value	£72,910,000	£234,100,100	£73,480,000
ERV (per sq ft pa) – average	£55.12	£24.61	£8.76
ERV (per sq ft pa) – range	£9.48-£81.00	£5.00-£38.08	£4.48-£13.50
True equivalent yield – average	5.02%	7.43%	6.82%
True equivalent yield – range	4.62%-6.17%	5.48%-11.88%	5.55%-8.08%
Capital value per sq ft	£546	£303	£131

A further £20.68 million has been designated other and not included in the analysis above.

[1]For properties under development, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium

Definitions for ERV and True equivalent yield are provided in the glossary on page 84.

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Sensitivity analysis				
Increase/(decrease) in value of investment properties	£17.2m	£(18.6)m	£(17.9)m	£20.0m

12 Plant and equipment

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Cost				
Opening	394	391	492	489
Additions	46	46	94	94
Disposals	(11)	(11)	(192)	(192)
Closing	**429**	**426**	**394**	**391**
Depreciation				
Opening	331	328	479	476
Charge for year	18	18	44	44
Disposals	(11)	(11)	(192)	(192)
Closing	**338**	**335**	**331**	**328**
Net book value	**91**	**91**	**63**	**63**

13 Investments

	Other investments £'000	Shares in subsidiary undertakings £'000	Investment in associated undertaking £'000	Total £'000
Company				
At 1st April 2015 and 31st March 2016	–	23,806	–	23,806

	Other investments £'000	Shares in subsidiary undertakings £'000	Investment in associated undertaking £'000	Total £'000
Group				
At 1st April 2014	–	–	–	–
Revaluation	793	–	–	793
At 31st March 2015	793	–	–	793
Disposals	(793)	–	–	(793)
At 31st March 2016	–	–	–	–

At 31st March 2016 McKay Securities PLC had the following wholly owned subsidiary undertakings all of which operate in England and are registered in England and Wales with the exception of Celina Holdings Limited which is registered in Gibraltar:

Acreway Limited Baldwin House Limited Celina Holdings Limited

All subsidiaries are included in the consolidation.

The principal activity of the subsidiary undertakings is property investment and development.

The Directors are of the opinion that the investment in the subsidiary undertakings is worth not less than the current book value.

Other investments comprised listed securities held by the Group, stated at fair values based on quoted market prices consistent with level 1 of the valuation hierarchy.

14 Trade and other receivables

	2016 Group £'000	Company £'000	2015 Group £'000	Company £'000
Trade receivables	14	14	54	54
Amounts due from subsidiary undertakings	–	11,898	–	30,824
SIC 15 lease incentives	5,869	5,869	6,342	4,970
Other debtors and prepayments	9,758	5,315	3,942	3,472
	15,641	23,096	10,338	39,320

All the above debtors are receivable within one year except for lease incentives of £4,702,000 (2015: £5,228,000), accrued in accordance with SIC 15. The carrying amounts are a reasonable approximation of the fair values estimated as the present value of future cash flows.

Group trade receivables that were past due but not impaired are as follows:

	2016 £'000	2015 £'000
Less than three months due	9	37
Between three and six months due	4	10
Between six and twelve months due	1	7
	14	54

The Group holds no collateral in respect of these receivables.

15 Liabilities

	2016 Group £'000	Company £'000	2015 Group £'000	Company £'000
Trade and other payables				
Rent received in advance	4,866	4,845	3,864	3,504
Other taxation and social security costs	80	–	1,962	1,914
Amounts owed to subsidiary undertakings	–	34,810	–	26,035
Other creditors and accruals	5,992	5,494	4,112	3,665
	10,938	45,149	9,938	35,118

The fair value of current liabilities is estimated as the present value of future cash flows which approximate their carrying amounts due to the short term maturities.

Creditor days for the Group were 25 days (2015: 12 days).

Loans and other borrowings

The analysis of bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2016 £'000	2015 £'000
Group and Company		
Secured bank loans	116,000	91,500
Bank facility fees	(2,299)	(198)
	113,701	91,302

The bank loans are secured against land and buildings with a carrying amount of £368,750,000 (2015: £240,100,000).

	2016 Group £'000	Company £'000	2015 Group £'000	Company £'000
Repayable in:				
Less than 1 year	–	–	–	–
1-2 years	29,942	29,942	70,500	70,500
2-5 years	29,806	29,806	20,802	20,802
5-10 years	–	–	–	–
Greater than 10 years	53,953	53,953	–	–
	113,701	113,701	91,302	91,302

15 Liabilities continued

Borrowing facilities
The Group has various undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent had been met were as follows:

	2016 £'000	2015 £'000
Expiring in less than 1 year	–	–
Expiring in 1 – 2 years	5,000	49,500
Expiring in 2 – 5 years	54,000	14,000
Expiring in 5 – 10 years	–	–
	59,000	63,500

Liquidity risk
Liquidity risk is managed through committed bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows. The Group's facilities are revolving, allowing the Group to apply cash surpluses to temporarily reduce debt.

Exposure to credit and interest rate risks arise in the normal course of the Group's business. Derivative financial instruments are used to reduce exposure to interest rate fluctuations.

Credit risk
Credit evaluations are performed on all tenants looking to enter into lease or pre-lease agreements with the Group. Credit risk is managed by tenants paying rent in advance. Outstanding tenants' receivables are regularly monitored.

At the statement of financial position date there were no significant concentrations of credit risk, except for the low risk lease commitments which were either government departments or held a top credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivative financial instruments on the Group Statement of Financial Position.

The Group has no exposure to currency risks.

Market risk
The Group is exposed to market risk through changes in interest rates or availability of credit.

Interest rate risk
The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Participating swaps and interest rate swaps have been entered into to achieve this purpose. The swap matures in 2032, and has a swap rate of 5.17%. Provision is made within the terms of the financial instruments for the counterparty bank to terminate the instruments by invoking credit breaks, the next of which is in 2022. If such a credit break were exercised, a payment would be made between the parties dependent on market value at that time. The Group does not hold or issue derivative financial instruments for trading purposes.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £290,000 (2015: £199,000). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swaps, at the year end. The comparative figure for 2015 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

15 Liabilities continued

Interest rate derivatives

The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Interest rate swaps have been entered into to achieve this purpose.

The Group does not hold or issue derivative financial instruments for trading purposes.

	Amount £'000	Rate	Maturity	[3]Next credit break	
As at 31st March 2016					
Interest rate swaps	45,000	5.17%	Sept 2032	Sept 2022	

	Amount £'000	Rate	Fair value before BCVA £'000	[5]BCVA £'000	Fair value £'000
Interest rate swaps	45,000	5.17%	(24,422)	2,013	(22,409)
As at 31st March 2015					
Interest rate swaps	75,000	5.17%	(39,297)	3,731	(35,566)
Interest rate swaps	5,000	4.65%	(2,282)	103	(2,179)
	80,000		(41,579)	3,834	(37,745)

[1]£5 million interest rate swap was terminated on 24th April 2015 at a cost of £2.13 million.
[2]£30 million of the £75 million interest rate swap was terminated on 7th May 2015 at a cost of £11.03 million.
[3]Credit breaks are triggered by the bank and require the prevailing mark to market value to be paid or received.
[4]Call options are triggered by the bank and require no payment by either party.
[5]BCVA – Bilateral Credit Valuation Adjustment is now required by IFRS 13 to be incorporated in the mark to market valuations.

The fair value of interest rate derivatives has been split between current and non-current liabilities according to the expected timing of cashflows as follows:

	2016 £'000	2015 £'000
Current	(2,944)	(6,164)
Non-current	(19,465)	(31,581)
	(22,409)	(37,745)

	2016	2015
Weighted average cost of borrowing	4.35%	5.78%

The Group does not hedge account its interest rate derivatives and states them at fair value in the statement of financial position based on quotations from the Group's banks, any movement passing through the Statement of Profit or Loss and other Comprehensive Income. All financial liabilities are classed as level 2 in accordance with the fair value hierarchy stated in IFRS 13. The fair value of these level 2 contracts are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.

There are no liabilities at maturity and no material unrecognised gains or losses.

The Group had a deficit of hedging instruments over drawn loans and other borrowings at 31st March 2016 of £16,000,000 (2015: £11,500,000).

In both 2016 and 2015 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

16 Obligations under finance leases

	2016 £'000	Minimum lease payments 2015 £'000
Group finance lease liabilities are payable as follows:		
Within one year	286	286
In second to fifth years inclusive	1,142	1,142
Later than five years	25,512	25,771
	26,940	27,199
Less future finance charges	(22,533)	(22,792)
Present value of lease obligations	4,407	4,407

The above finance lease liabilities relate to investment properties with a carrying value of £52,160,000 (2015: £40,290,000). The terms of these lease agreements are for periods of between 99 and 125 years. There are no restrictions imposed by the lease agreements. No contingent rents are payable.

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in event of default.

17 Operating leases

The Group leases out all of its investment properties under operating leases.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2016 £'000	2015 £'000
Not later than one year	19,044	18,292
Later than one year but not later than five years	58,285	58,924
Later than five years	19,208	30,938
	96,537	108,154

18 Share based payments

During the year to 31st March 2016, the Group had two share based payment arrangements, which are described below. In the case of the PSP awards, the expected volatility was determined by calculating historical volatility of the Group's share price.

2001 Executive Share Option Scheme
The options are exercisable after three years but before 10 years, subject to certain performance criteria. If the performance criteria have not yet been met by the third anniversary of the date of grant the options lapse. The performance criteria, where applicable, are based on an increase in NAV equal to or greater than the RPIX over the same period plus 6%.

	Number of options	Weighted average exercise price
At 31st March 2015	294,642	280p
Lapsed during year	294,642	
At 31st March 2016	–	

There were no options granted in the year.

There are no equity-settled options outstanding at 31st March 2016.

Performance Share Plan
The performance targets for PSP awards are a combination of TSR and absolute NAV performance over a three year period. If the performance criteria have not been met at the end of the vesting period then the awards will lapse.

The nil cost awards outstanding at 31st March 2016 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	18th June 2015	11th June 2014	20th June 2013
Share price	£2.55	£2.27	£1.42
Term	3 years	3 years	3 years
Risk free rate	0.80%	1.13%	0.71%
Dividend yield	3.35%	3.79%	5.99%
Volatility – Company	18.6%	17%	20%
TSR fair value	£1.43	£1.36	£0.61
NAV fair value	£2.35	£2.03	£1.19

19 Called up share capital

	2016 Issued £	Number of shares	2015 Issued £	Number of shares
Ordinary 20 pence shares in issue				
At 1st April 2015	18,485,197	92,425,988	18,351,670	91,758,348
Issue of shares in year	146,448	732,237	133,527	667,640
At 31st March 2016	**18,631,645**	**93,158,225**	**18,485,197**	**92,425,988**

20 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders and to maintain an appropriate capital structure to minimise the cost of capital. The current capital structure of the Group comprises a mix of equity and debt. Equity comprises issued share capital, reserves and retained earnings, as disclosed in the Group Balance Sheet.

The Group uses a number of key metrics to manage its capital structure:

- gearing
- bank covenant gearing
- LTV

The Board monitors the ability of the Group to pay dividends out of available cash and distributable profits.

21 Related party transactions

	Balance owed to/(owing from) 2016 £'000	2015 £'000
Subsidiary undertakings		
Acreway Limited (in liquidation)	26,286	26,035
Baldwin House Limited	(11,899)	(20,447)
Celina Holdings Limited (in liquidation)	8,524	(10,378)
	22,911	**(4,790)**

There were no transactions with Directors, who are considered key management personnel, other than remuneration, details of which are provided in the Directors' Annual Remuneration Report on pages 43 to 53.

22 Net asset value per share

	31st March 2016 Net assets £'000	Shares '000	Net asset value per share p	31st March 2015 Net assets £'000	Shares '000	Net asset value per share p
Basic	261,223	93,158	280	215,495	92,426	233
Number of shares under option	863	1,552	(3)	1,433	2,125	(3)
Diluted/EPRA NNNAV	**262,086**	**94,710**	**277**	**216,928**	**94,551**	**230**
Adjustment to fair value of derivatives	22,410	–	24	37,745	–	40
EPRA NAV	**284,496**	**94,710**	**301**	**254,673**	**94,551**	**270**

23 Commitments and contingent liabilities

	2016 Group £'000	Company £'000	2015 Group £'000	Company £'000
Capital expenditure committed but not provided for	–	–	–	–

There were no capital commitments for the Group at the year end.

24 Pensions

The Group and Company operates a defined benefit pension scheme in the UK providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Group, being invested with insurance companies and managed funds. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the attained age method. The most recent actuarial valuation was as at 31st March 2014. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 5.0% per annum.

The Group contributes £240,000 per annum into the Scheme.

At the 31st March 2014 actuarial valuation the scheme was 82% funded on the continuing valuation basis. A recovery plan and schedule of contributions has been agreed designed to address this shortfall.

The IAS 19 valuation for the pension scheme disclosures is based on the most recent actuarial valuation at 31st March 2014 and updated by First Actuarial in order to assess the liabilities of the scheme at 31st March 2016. Scheme assets are stated at their market value at 31st March 2016.

24 Pensions continued

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2016	2015
Inflation	2.8%	2.9%
Salary increases	n/a	n/a
Rate of discount	3.3%	3.1%
Pension in payment increases	2.7%	2.8%

The mortality assumptions adopted at 31st March 2016 imply the following life expectancies for members currently aged 60:

Male = 26.5 years

	£'000	£'000
The fair value of scheme assets are as follows:		
Equities	1,695	2,120
Gilts	533	521
Corporate and overseas bonds	437	365
Cash	582	553
Other	2,166	2,270
	5,413	5,829

The asset split is approximated using the current fund splits for each manager.

Changes in the value of scheme assets over the year		
Market value of assets at start of year	5,829	5,464
Expected return on scheme assets	178	232
Actuarial (loss)/gain	(431)	291
Employer contributions	240	242
Benefits paid	(403)	(400)
Market value of assets at end of year	5,413	5,829

The amount included in the Group and Company Statement of Financial Position arising from the liabilities in respect of the defined benefits scheme is as follows:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Market value of scheme assets	5,413	5,829	5,464	5,604	5,465
Value of defined benefit obligation	(7,252)	(7,769)	(7,153)	(7,823)	(7,305)
Deficit in scheme	(1,839)	(1,940)	(1,689)	(2,219)	(1,840)
Gains/(losses) on scheme liabilities					
Due to experience	45	8	(9)	19	(52)
Due to change of basis	(304)	725	450	(599)	(730)
Experience gains/(losses) on scheme assets	(57)	(67)	(69)	212	(71)

Analysis of changes in the value of the defined benefit obligation over the period:

	2016 £'000	2015 £'000
Value of defined benefit obligation at start of period	7,769	7,153
Interest cost	235	299
Benefits paid	(403)	(400)
Actuarial (gains)/losses: experience differing from that assumed	(45)	(8)
Actuarial (gains)/losses: changes in demographic assumptions	(78)	(2)
Actuarial (gains)/losses: changes in financial assumptions	(226)	727
Value of defined benefit obligation at end of period	7,252	7,769

24 Pensions continued

Sensitivity analysis

Assumption	Change in assumption	Change in defined benefit obligation
Discount rate	+/-0.5% p.a.	-5%/+6%
RPI inflation	+/-0.5% p.a.	+4%/-4%
Assumed life expectancy	+1 year	+4%

Analysis of the amount charged to operating profit:

Operating profit	2016 £'000	2015 £'000
Current service cost	–	–
Analysis of the amount (credited)/charged to finance costs/(income)		
Expected return on pension scheme assets	(178)	(232)
Interest on pension scheme liabilities	235	299
Net return	57	67
Total charge to profit or loss	57	67

Analysis of the amount recognised directly in equity via other comprehensive income:

	2016 £'000		2015 £'000	
Difference between expected and actual return on assets	431	8% of scheme assets	(291)	5% of scheme assets
Experience gains and losses arising on the scheme liabilities	(349)	5% of the present value of the scheme liabilities	719	9% of the present value of the scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	–	0% of the present value of the scheme liabilities	(2)	0% of the present value of the scheme liabilities
Total	82	1% of the present value of the scheme liabilities	426	6% of the present value of the scheme liabilities

Analysis of the movement in the balance sheet deficit:

	2016 £'000	2015 £'000
Deficit in scheme at beginning of year	(1,940)	(1,689)
Movement in year:		
Current service cost		–
Net interest/return on assets	(57)	(67)
Contributions	240	242
Actuarial gain/(loss)	(82)	(426)
Deficit in scheme at end of year	(1,839)	(1,940)

The last active member reached retirement age in May 2013. The Group continues to contribute £240,000 per annum.

GLOSSARY

Adjusted EPS
Earnings per share based on profits and adjusted to exclude certain items as set out in note 9.

Adjusted profit before tax
Profit before tax adjusted to exclude certain non-recurring items as set out in note 5.

Book value
The amount at which assets and liabilities are reported in the accounts.

BREEAM
Building Research Establishment Assessment Method. An environmental standard that rates the sustainability of buildings in the UK.

Contracted rent
Rent payable under the terms of a lease, less ground rent, with no allowance for the value of incentives granted at lease commencement.

CRC
Carbon Reduction Commitment. A mandatory emissions reduction standard in the UK and covers all forms of energy excluding transportation fuels.

Diluted figures
Reported amount adjusted to include the effects of potential shares issuable under employee share schemes.

Dun and Bradstreet
Provider of business information and risk management insight.

Earnings per share (EPS)
Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

EPC
Energy Performance Certificate. Certificates carry ratings which measure the energy and carbon emission efficency of the property using a grade from an 'A' to a 'G'.

EPRA
Standard calculation methods for adjusted EPS and NAV as set out by the European Public Real Estate Association (EPRA) in their Best Practice and Policy Recommendations.

Estimated Rental Value (ERV)
The valuers estimated amount for which floor space should let on the date of valuation on appropriate lease terms net of ground rents payable. Also known as MRV.

Extensible Business Reporting Language (XBRL)
A computer language for electronic transmission of business and financial information.

GRESB
Global Real Estate Sustainability Benchmark.

Industrial property
Term used to include light industrial, industrial and distribution warehouse property falling with classes B1c, B2 and B8 of the Town & Country Planning Use Classes Order. The terms does not include retail warehousing, falling within class A1 of the Order.

Initial yield
Net rents payable at the valuation date expressed as a percentage of the value of property assets after allowing for notional purchasers' costs.

Interest cover
The number of times Group net interest payable is covered by underlying profit before interest and taxation.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a pre-determined amount of time.

IPD
Investment Property Databank. Leading provider of independent statistical analysis to the commercial property sector.

Loan to value (LTV)
Drawn debt divided by the value of property assets.

Net asset value (NAV) per share
Total equity divided by the number of ordinary shares in issue at the period end.

Net debt
Total borrowings less cash credit balances.

Property Income Distribution (PID)
PID dividend payments are taxable as letting income in the hands of shareholders who pay tax. They are paid after deduction of withholding tax at the basic rate.

REIT (Real Estate Investment Trust)
A tax efficient structure for the management of property. It must be publicly quoted with 75% of its profits and assets derived from a qualifying property rental business which is exempt from tax on income and gains.

Rental value growth
Increase in rental value, as determined at the valuation date, over the period on a like-for-like basis.

Reversion
Potential uplift in rental value to market rent, as determined at the valuation date, likely to arise from a rent review, lease renewal or letting.

RPIX
Retail Prices Index excluding mortgage interest.

Shareholders' funds
Total equity of the Group.

SIC 15
The IFRS treatment in respect of letting incentives. It requires the Group to offset the value of incentives granted to lessees against the total rent due over the length of the lease, or to a break clause if earlier.

Stamp duty land tax
Government tax levied on certain legal transactions including the purchase of property.

Total shareholder return (TSR)
The growth in the value of an Ordinary share plus dividends reinvested during the year expressed as a percentage of the share price at the beginning of the year.

True equivalent yield
The constant capitalisation rate, which, if applied to all cash flows from an investment property, including current net reversions and such items as voids and expenditure, equates to the market value having taken into account notional purchasers costs and assuming rents paid quarterly in advance.

Weighted average unexpired lease term (WAULT)
The average lease term remaining to expiry across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date.

COMPANY AND SHAREHOLDER INFORMATION

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Annual General Meeting	14th July
Final dividend	28th July
Interim announcement	November
Interim Statement posted to shareholders	December
	2017
Interim dividend	January
Financial year end	March
Preliminary announcement	May/June

Secretary
J.S. McKeown A.C.I.S.

Registered Office
20 Greyfriars Road, Reading
Berkshire RG1 1NL
Tel: 0118 950 2333

Registered Number
421479

Website
www.mckaysecurities.plc.uk

Registered Auditor
KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

Corporate Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Registrar and Transfer Office
Equiniti Limited
Aspect House, Spencer Road
Lancing
West Sussex BN99 6DA
UK: 0371 384 2101*
Overseas: 44(0) 121 415 7047

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars. The Company has a share account management and dealing facility for all shareholders via Equiniti Limited Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations sections of the Company's website. The Shareview Dealing service is also available by telephone on 08456 037 037 between 8.30am and 4.30pm Monday to Friday.

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. Dividend mandate forms are available from the registrars. This method also avoids the risk of dividend cheques being delayed or lost in the post.

Financial information about the Company including the Annual and Interim reports, public announcements and share price data are available from the Company's website at www.mckaysecurities.plc.uk and on the Internet at www.morningstar.co.uk.

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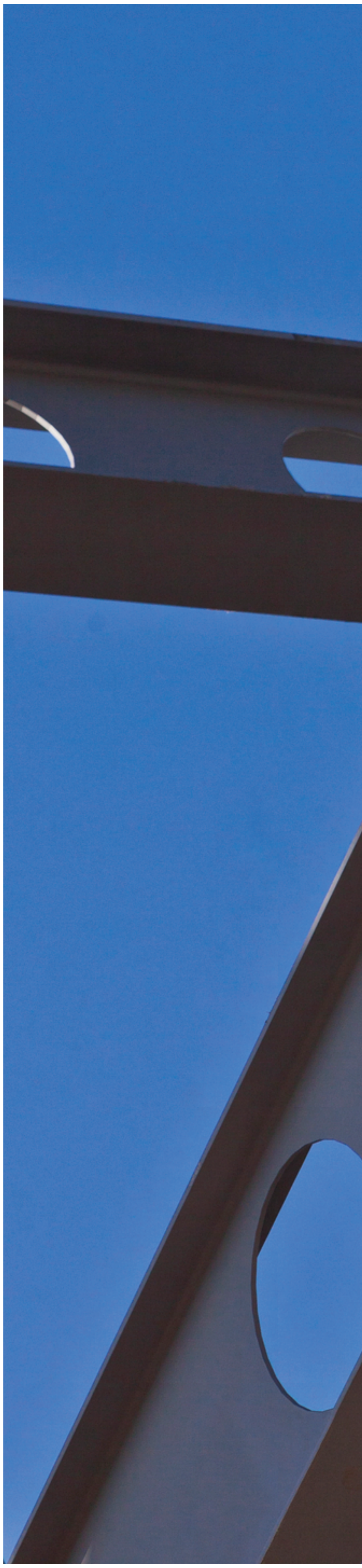

McKay Securities PLC
20 Greyfriars Road
Reading
Berkshire RG1 1NL

T: 0118 950 2333
www.mckaysecurities.plc.uk

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20 Greyfriars Road, Reading
Berkshire RG1 1NL
Tel: 0118 950 2333

Registered Number
421479

Website
www.mckaysecurities.plc.uk

Registered Auditor
KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

Corporate Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Registrar and Transfer Office
Equiniti Limited
Aspect House, Spencer Road
Lancing
West Sussex BN99 6DA
UK: 0371 384 2101*
Overseas: 44(0) 121 415 7047

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