McKay
Securities PLC

REPORT AND FINANCIAL STATEMENTS
2017

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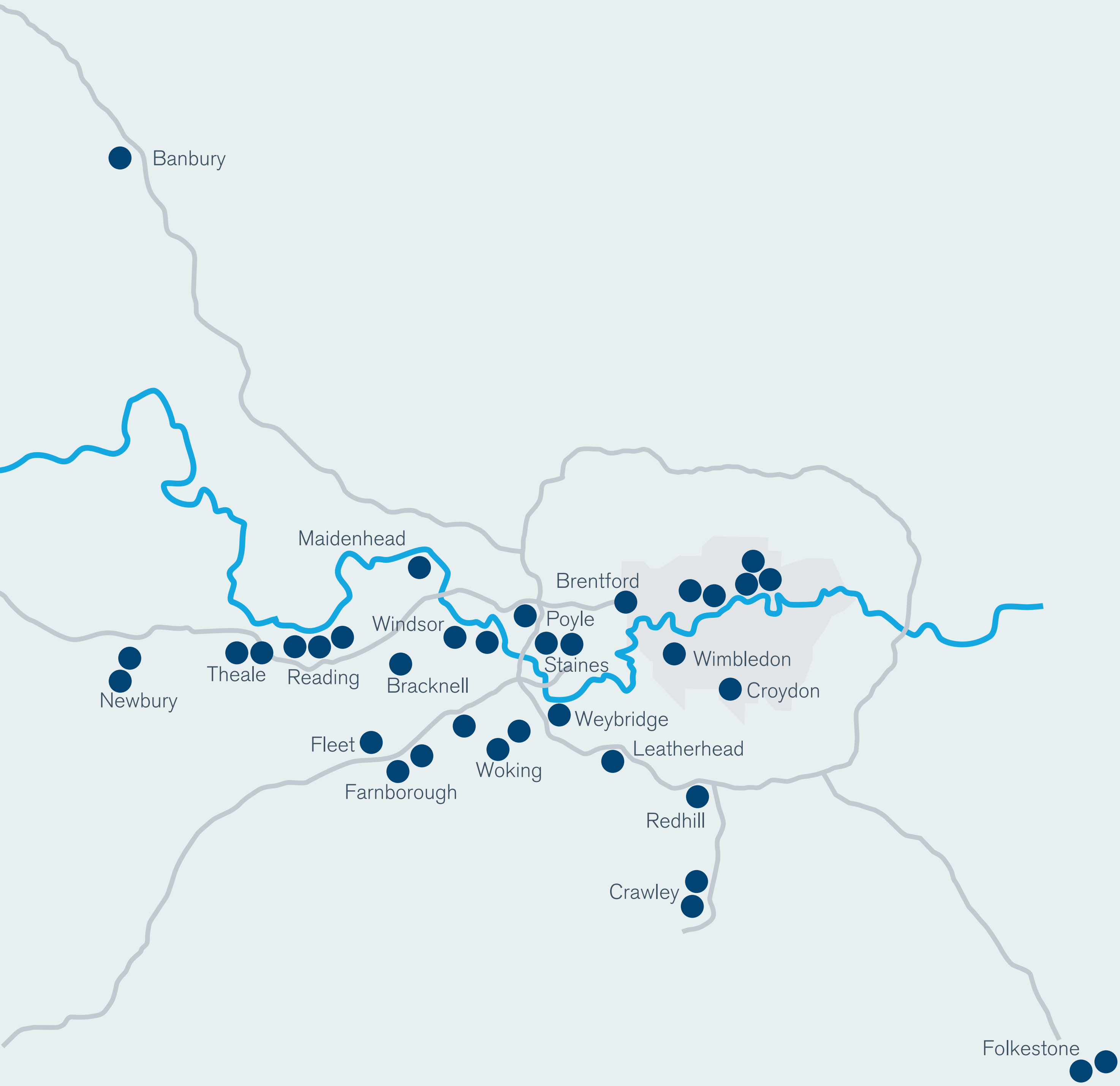


McKay Securities PLC is the only UK REIT focused exclusively on London and the South East England office and industrial markets. It specialises in the development and refurbishment of quality commercial buildings within established and proven markets. Completed projects are generally retained for growth within the Group's portfolio, valued at £430 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.

FINANCIAL HIGHLIGHTS

PROFITS AND EARNINGS

£17.59 million
Profit before tax (IFRS)
(2016: £53.16 million)

£8.60 million [1]
Adjusted profit before tax
(2016: £7.94 million)

8.4 pence [2]
EPRA earnings per share
(2016: 7.8 pence)

SHAREHOLDERS' FUNDS

£270.79 million
(2016: £261.22 million)

303 pence [3]
EPRA net asset value per share
(2016: 301 pence)

289 pence [4]
Net asset value per share
(2016: 280 pence)

VALUATION

£429.92 million
(2016: £401.17 million)

£7.07 million (1.7%)
Surplus
(2016: £35.31 million. 9.7%)

TOTAL PORTFOLIO RETURN

6.8%
(2016: 15.9%)

DEBT TO PORTFOLIO VALUE (LTV)

31.6%
(2016: 28.9%)

PROPOSED FINAL DIVIDEND PER SHARE

6.3 pence
(2016: 6.1 pence)
Up 3.3%, making the total dividend per share for the year 9.0 pence (2016: 8.8 pence)

[1] See note 5 in Financial Statements
[2] See note 9 in Financial Statements
[3] See note 22 in Financial Statements
[4] See note 22 in Financial Statements

In this, my first year as Chairman, I am pleased to be able to report on another positive year for the Group, which continues to benefit from its exclusive focus on London and the South East. I took on the role with the business in good shape, and despite market volatility surrounding the EU referendum, these results show further gains coming through from the funds invested following the 2014 Capital Raising.

Richard Grainger
Chairman

Our refurbishment programme and proactive asset management activities over the period have continued to release the substantial portfolio potential that we have built up, with rental and capital growth out-performing the market. In addition, two of our three development projects reached completion and our third scheme remains on track for delivery next year. As a result of this progress, our rental income and portfolio value have reached historic highs for the Group, contributing to increases in shareholders' funds, profits and dividend.

To achieve our objective of delivering attractive and sustainable returns to shareholders over the long term, our focus has been on building a resilient portfolio in our core London and South East markets. Selective capital investment has continued to improve the quality and scale of the portfolio in established and proven locations, whilst retaining diversity across our core office and industrial sectors.

We also continue to aim for the highest standards of building management and occupier relations. Our refurbishment and development projects offer choice and flexibility in high quality, contemporary business space, with top environmental credentials. These are all essential design characteristics for an increasingly discerning occupier market. This focus on product and delivery contributed to 35 lettings over the period, of which 26 were new open market lettings with a combined rental value of £1.90 million pa, 6.4% ahead of estimated rental value (ERV). These lettings contributed to growth in contracted rental income, which ended the period up 11.0% (£2.32 million pa) at £23.42 million pa. In addition, the success of our refurbishment projects and other portfolio activity resulted in a 3.9% increase in the portfolio ERV to £32.68 million pa.

The full benefit of these lettings to our gross rental income, which increased by 3.1% to £20.79 million, will be seen next year. In addition, the £9.26 million difference between contracted rents and the full portfolio ERV represents the substantial further potential in our portfolio for growth in income and earnings.

Rents to be generated by our three office developments represent over half of this potential. The schemes in Reading (39,620 sq ft) and Redhill (50,370 sq ft) completed during the year, adding top quality new floor space to the portfolio in excellent locations. At the year-end we were 20% let at Redhill, and there is encouraging interest in the remaining space at both buildings. The redevelopment of 30 Lombard Street, our City of London scheme, remains on programme for delivery in mid-2018 and is progressing well. Demolition completed in February and construction of the lift core and steel frame is under way. This is a prime development with many attractive fundamental characteristics aside from its highly sought after location. We look forward to launching our marketing programme this month, and expect interest for either the whole building or individual floors.

As anticipated at the end of last year, the pace of capital growth seen in our markets in recent periods was not sustained. Commercial property has remained an attractive asset class to a wide range of investors, but the IPD Index showed small declines in capital values across most sectors over the period. Despite these more challenging market conditions, our asset selection and proactive management resulted in the open market valuation of the portfolio of £429.92 million (March 2016: £401.17 million) generating a valuation surplus of 1.7% (£7.07 million). This outperformed the IPD Monthly Index (All Property) which showed a deficit of 1.8%.

9 Greyfriars
Reading
39,620 sq ft

Development
Completion: July 2016

As a result of our strong operational performance, the 3.1% increase in gross rental income referred to earlier added £0.63 million to our profits, despite the loss of £1.03 million of income from property disposals made in the last financial year. As administration and non-recoverable property costs were held at similar levels to last year, adjusted profit before tax increased by 8.3% (£0.66 million) to £8.60 million (March 2016: £7.94 million). Profit before tax (IFRS), which includes unrealised movements in the value of the property portfolio and hedging instruments and other non-recurring items, was £17.59 million (March 2016: £53.16 million), reflecting the lower valuation contribution this year.

The increase in adjusted profit before tax, our measure of recurring earnings, achieved our ambitious target of a covered dividend within three years of doubling the share capital in 2014. This measure is set to increase over time as the portfolio reversion is crystallised, although earnings will be eroded by the carrying cost of the development properties until they are let.

With the benefit of the valuation surplus, shareholders' funds increased by 3.7% to £270.79 million. NAV per share (EPRA) increased by 0.7% to 303 pps.

Our financing position remains strong with supportive lenders and flexible loan facilities. In order to help reduce our cost of debt, in December 2016 we took the opportunity to further reduce the notional amount of our remaining interest swap from £45.00 million to £33.00 million. This was achieved at a cost of £5.1 million, with a negotiated contribution made by the counterparty bank, resulting in annualised savings at current rates of £0.50 million. Our weighted average cost of debt if fully drawn at current rates would be a competitive 3.7%

Dividend

The Board is recommending a 3.3% increase in the final dividend to 6.3 pence per share (March 2016: 6.1 pence). This will be paid as an ordinary dividend on 27th July 2017. This takes the total dividend for the year to 9.0 pence per share (2016: 8.8 pence).

This recommendation reflects the letting progress over the period, whilst recognising the importance of generating further income from the development programme. The Board intends to maintain a progressive dividend policy, with the scale and pace of increase dependent on growth in recurring earnings.

The Board

Over the year, we were pleased to announce the strengthening of the Board with the appointments of Jon Austen and Jeremy Bates as non-executive Directors, and Tom Elliott as an executive Director. These appointments add relevant and extensive experience and will be of great benefit as we continue to implement our growth plans. They also mark the end of the current phase of our succession planning, overseen by Nigel Aslin as Chairman of the Nomination Committee.

As a result, Nigel retires from the Board today and Viscount Lifford in September, having both served for over ten years. I would like to thank them for their invaluable support and counsel over the years. They have been an integral part of the Group's successful management through the challenges of the recession and the subsequent period of growth and leave with the Group in good health.

Future Prospects

We have created a strong platform from which we can continue to deliver capital and income growth from the extensive potential within our existing portfolio, underpinned by sound financing and sector and geographical diversity in the most resilient regions of the UK. Recent letting progress and further crystallisation of the portfolio's income potential provide the opportunity to increase earnings by a significant margin.

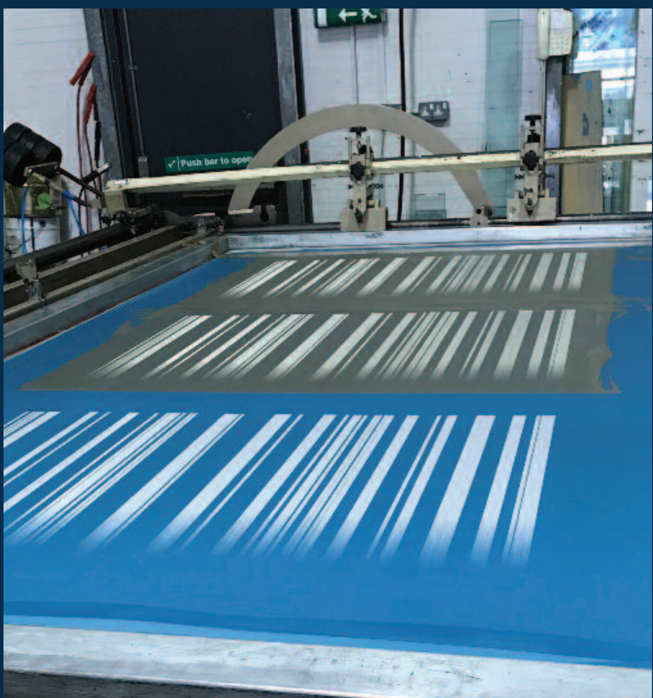
Despite the EU referendum and the imminent General Election, our markets and assets continue to prove robust, leaving us well placed to continue to deliver portfolio gains and further shareholder value.

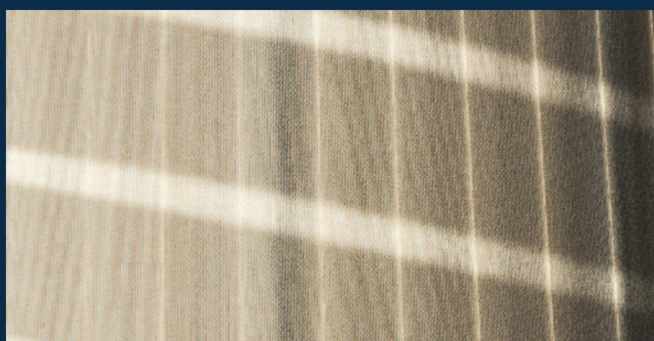
Richard Grainger
Chairman
19th May 2017









THEMILL


PORTFOLIO PROPERTIES
at 31st March 2017

		Area sq. ft
£15m and over –44.9% of portfolio		
Brentford	The Mille, 1000 Great West Road (office)	96,700
EC3*	Portsoken House, Minories (office and retail)	49,570
EC3*	30 Lombard Street (office under construction)	58,000
SW1	1 Castle Lane (office)	14,250
SW19	Wimbledon Gate, Worple Road (office and retail)	58,690
Reading	Great Brighams Mead, Vastern Road (office)	84,840
Redhill	Prospero, London Road (office)	50,370
£10m to £15m - 32.1% of portfolio		
Crawley	Pegasus Place, Gatwick Road (office)	50,790
Croydon	Corinthian House, Dingwall Road (office)	44,590
EC2	66 Wilson Street (office)	11,890
Maidenhead	Switchback Office Park, Gardner Road (office)	37,155
Poyle	McKay Trading Estate, Blackthorne Road (industrial)	73,955
Reading	9 Greyfriars Road (office)	39,620
Reading	20/30 Greyfriars Road (office)	33,345
Runnymede	Runnymede Focus, Windsor Road (industrial)	90,890
Weybridge	Sopwith Drive, Brooklands (industrial)	63,140
Woking	1 Crown Square (office and retail)	50,735
Woking	The Planets, Crown Square (leisure)	98,255
£5m to £10m – 18.8% of portfolio		
Bracknell	Building 329, Doncastle Road (office)	32,955
Crawley	Oakwood Trade Park, Gatwick Road (industrial)	52,400
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)	17,450
SW1*	Parkside, Knightsbridge (residential)	2,900
Staines	Mallard Court, Market Square (office and retail)	21,860
Theale	Brunel Road (industrial)	96,850
Theale	Station Plaza, Station Road (office)	41,420
Windsor	Gainsborough House, 59-60 Thames Street (office)	18,660
£2m to £5m – 3.8% 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)	60,535
Newbury	Strawberry Hill House, Bath Road (medical)	15,230
£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)	3,440

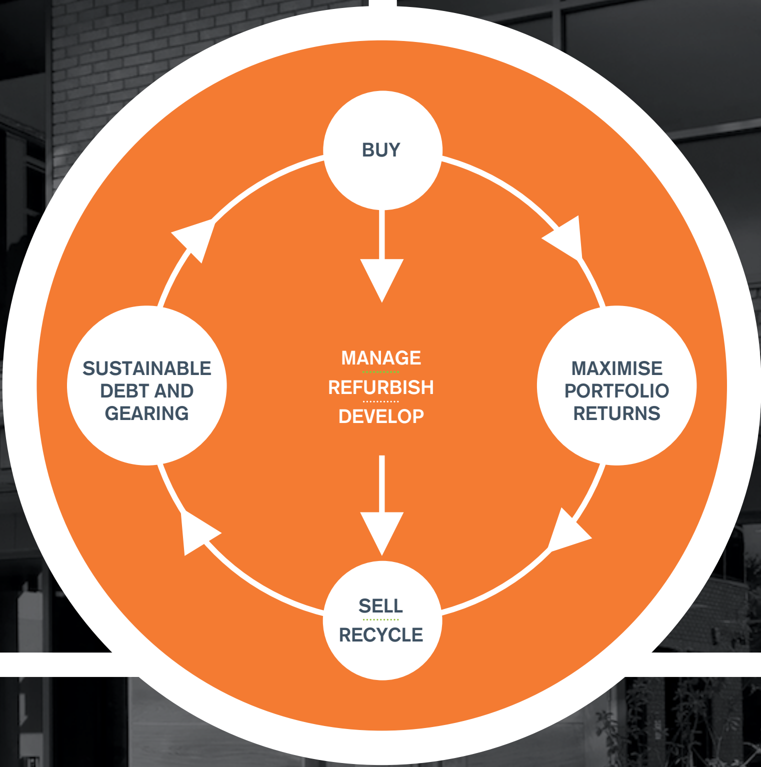
Notes:
Percentages based on the Group valuation at 31st March 2017.
*Denotes leasehold properties

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.
- Implementation of refurbishment, development and other property initiatives to enhance portfolio returns.
- Flexible financing and strong banking relationships.
- Active in-house management of assets to maximise property returns.
- Disposal of mature assets to recycle capital.

Overview

McKay Securities is the only Real Estate Investment Trust (REIT) focused entirely on London and the South East. Our track record demonstrates careful guardianship of our shareholder capital while having sufficient agility, market knowledge and experience to outperform the markets in which we operate. We manage our assets in-house, resulting in productive tenant relationships as well as in depth knowledge of each property.

The Group's 36 assets were externally valued at £429.92 million at 31st March 2017, consisting of 33 investment properties (£374.57 million) and three development properties (£55.35 million). By value the portfolio is 18.4% in London and 81.6% in the South East, with 78.0% of the portfolio in the office sector, 17.2% industrial and 4.8% in a range of other uses. The portfolio generated a total property return for the year of 6.8%, outperforming the IPD Monthly Index (All Property) return of 3.3%.

The £86.7 million of capital raised in early 2014 was committed by April 2015, strategically invested into eight new acquisitions in a rising investment market, and the delivery of four refurbishments and three development projects into the supply constrained office markets of London and the South East. The acquisitions and completed refurbishment projects have delivered a combined 32.3% profit over cost to date, and rental growth of 25.9%. The development projects, covered in more detail below, are making good progress and are set to add to this strong performance. These assets, combined with performance elsewhere in the portfolio, have delivered a 43.0% increase in contracted rents and a 72.5% increase in the full estimated rental value (ERV) of the portfolio since March 2014.

Furthermore, the office markets in which we operate are set to benefit considerably from the completion of national infrastructure projects, including Crossrail (2019) which will link the M4 corridor with central London and Canary Wharf and the Western Rail Access to Heathrow route (2024), improving access to Europe's busiest airport which sits in the heart of our South East market.

Our principal focus this year has been on retaining and increasing income through active management and our refurbishment and development programme. To that end, despite the EU referendum at the beginning of the period, our net contracted rent grew by 11.0% to £23.42 million (March 2016: £21.10 million) and the portfolio ERV grew, on a like for like basis, by 3.9% to £32.68 million (March 2016: £31.44 million). The difference between contracted rent and ERV represents the substantial portfolio reversion and the potential to increase income by a further 39.5% by continued letting progress.

The portfolio void (by ERV) reduced over the period to 5.5% (March 2016: 7.2%) and to 22.7% (March 2016: 25.9%) including the three development properties.

The weighted average lease length to expiry reduced marginally to 5.18 years (March 2016: 5.45 years) and to 4.28 years (March 2016: 4.45 years) to the first lease break.

Four years ago we introduced a sustainability strategy with annual targets, reflecting our commitment to operate in an environmentally responsible manner. Last year we achieved 80% of the annual targets and have set further challenging targets for 2017/18. We were also awarded our first GRESB (Global Real Estate Sustainability Benchmark) Green Star, which is the highest benchmark award, and our completed development projects achieved our high BREEAM and EPC target levels.

Our sustainability strategy also addressed the implications of the Energy Act 2011, which will make it illegal to let any property with an EPC rating of F or below from 2018. Our proactive approach over the last four years has resulted in having only 1% of our assets (by ERV) rated F or G, and mitigation measures are in place to reduce this further.

Market review

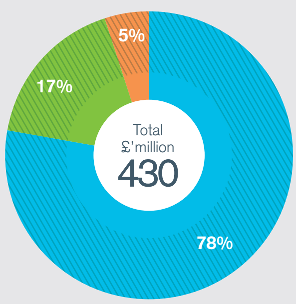
The London and South East markets have proved to be resilient in a year dominated by the EU referendum. Two positive market fundamentals have underpinned this stability. Firstly, on the leasing side, there are still low levels of new supply which have helped sustain rental values, while on the investment side, commercial property is still delivering attractive yields relative to other asset classes in a prolonged low interest rate environment.

Throughout 2016, take up levels have been robust despite the uncertainty over Europe, but in many cases landlords are having to retain flexibility to accommodate a greater number of smaller deals, as some larger requirements are being postponed. Our portfolio is well placed for this market dynamic given our relatively small average building size of 44,000 sq ft and our willingness to deliver choice and flexibility in this evolving occupier market. We also have a deliberate policy of owning and procuring buildings capable of multiple occupation.

This increase in smaller transactions was clearly seen in the South East office market which accounts for 59.6% of our portfolio (by value). Take up in this market was steady at 1.96 million sq ft in 2016 compared to the 5-year average of 1.90 million sq ft and the 10-year average of 2.03 million sq ft. However, this quantum was the result of 127 different transactions in 2016 compared to the 5-year average of 109 and the 10-year average of 113. This trend looks set to continue in 2017, which has started positively with a first quarter take up of 554,321 sq ft across 41 transactions.

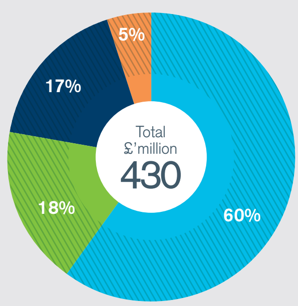
Sector (by value)

	%
Offices	78
Industrial	17
Other	5



Location (by value)

	%
South East Offices	60
London Offices	18
South East Industrial	17
Other	5



The supply of good quality office accommodation remains limited in the South East. At the end of the period, total availability stood at 8.83 million sq ft (March 2016: 9.04 million sq ft) which is 10.3% of the total market (March 2016: 10.5%), of which 6.81 million sq ft was either new or Grade A. This means that if a tenant wants to find either a new or Grade A quality office, the choice will be limited to 7.9% of the entire floor space in the South East. If that requirement is specifically for new space, such as our schemes at Redhill (50,370 sq ft) and Reading (39,620 sq ft) which completed in the period, then the percentage choice falls to just 2.7%. Set against this historically low supply is 3.82 million sq ft of named occupier demand, which is just 2.5% below the long term average (source: Strutt & Parker).

The City of London occupational market remains supported by balanced supply and demand and an increasingly diverse tenant base. The EU referendum has raised concerns over future occupier demand, but it has also limited the commencement of new schemes. Although supply has increased marginally, availability in the City core and fringe at the end of the period remains 16.9% below the long term average. Added to this, current named demand of 4.54 million sq ft is 24.4% higher than March 2016, and 14.9% ahead of its long term average.

Within the City core, there is forecast to be only one other new development of similar size band (50,000 sq ft – 80,000 sq ft) to 30 Lombard Street completing in 2018. The City core has a total pipeline of new and Grade A supply of 3.62 million sq ft scheduled to complete up to the end of 2018. Of this, 39.5% (1.43 million sq ft) is already pre-let or under offer. The balance of 2.19 million sq ft compares favourably with average annual take up of 1.70 million sq ft, and a low current vacancy rate of 3.3%. The recent increase in occupier demand is encouraging, and if maintained, will continue to support rental levels and letting prospects generally for this prime development (source: Knight Frank).

Acquisitions and disposals

The investment market remains competitive and, despite the EU referendum uncertainty, prices for prime assets in London and some regional locations remain above those achieved at the peak of the previous cycle in 2007. As a result, our focus has primarily been on delivering value from the existing portfolio and opportunistic sales. Nonetheless, in a market covering the whole of London and the South East, there will be value add acquisition opportunities, and we continue to appraise potential acquisitions on this selective basis.

In February 2017, we exchanged unconditional contracts to sell the freehold interest in our last remaining asset at Pinehurst Park, Farnborough for £5.88 million, representing an 11.5% premium to book value. The purchaser, who hopes to undertake a residential conversion, has paid a non-returnable deposit of £1.00 million. We will retain income until completion of the sale in November 2017. At that point, from initial purchase of the entire site in 2012 for £3.50 million, we will have generated net disposal proceeds of £6.36 million, representing a 71.9% return on cost, and rental income totalling £3.34 million.

We remain committed to recycling capital from opportunistic sales, particularly of our smaller and more mature assets into both acquisitions and existing opportunities within the portfolio.

Development programme

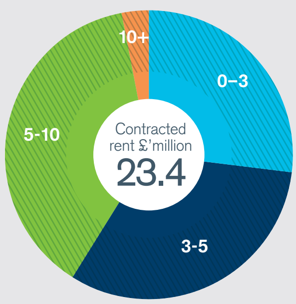
Over the period we completed two of our three speculative office schemes; both of which are excellent additions to the portfolio. In central Reading, 9 Greyfriars Road (39,620 sq ft) completed in July 2016. This remains the only office building outside central London to be awarded the top BREEAM sustainability rating of 'Outstanding', and offers occupiers attractive, high quality, environmentally friendly business space just a three minute walk from the upgraded future Crossrail station. Our marketing campaign has attracted encouraging interest over the period, as prospective occupiers appreciate the combination of proximity to the station, on-site parking, and affordable rents for a top-quality building with a high standard of finish. Since the end of the period, this level of interest has been maintained with constructive discussions ongoing, and we hope to be able to make further letting announcements in due course.

In November 2016 we completed Prospero (50,370 sq ft), Redhill's first new office development for 10 years. This building has also been well received by the market, offering four large flexible floors, flooded with daylight through floor to ceiling windows. Within three months of completion we signed a 10-year lease of the top floor (10,643 sq ft) at a new rental high for the town of £31 psf. Good interest and regular inspections continue on the remaining space.

Our only remaining development on site is 30 Lombard Street, in the heart of the City of London. Construction works are progressing well and the scheme remains on target to complete in mid-2018. It will provide 58,000 sq ft of exceptional quality office space and has been designed to offer an attractive prospect to either a single occupier, looking for a core City and globally recognised address, or to a number of occupiers. It will provide regular floor plates over lower ground and nine upper floors and a large roof terrace. We look forward to launching the full marketing campaign shortly.

Years to expiry (exc breaks)

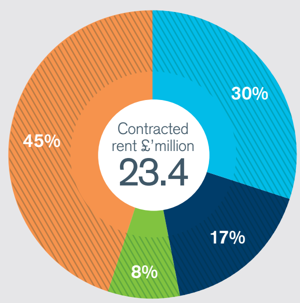
Year	£m
0-3	6.3
3-5	7.3
5-10	8.8
10+	1.0
	23.4



Tenant Net Worth

£'m	%
>35	30
15–35	17
7–15	8
<7	45

Source: Dun & Bradstreet



The Mille
Brentford
96,700 sq ft

Prospero
Redhill
50,370 sq ft

Development
Completion:
November 2016

Prospero
Redhill

In addition to our three existing schemes, we continue to work on a number of future opportunities within the portfolio. Next in the pipeline is the potential to refurbish or redevelop one of our industrial assets – a 96,850 sq ft warehouse next to Junction 12 of the M4 at Theale, on the western outskirts of Reading. We purchased the property in April 2015 with a lease in place until February 2021 and a tenant break option in 2018. The industrial sector (which includes warehouse properties) has witnessed the strongest IPD returns this year, principally due to the continued increase of internet retailing which generates large requirements for last-mile delivery in the South East. This asset gives us the opportunity to create a product perfectly suited to satisfy this strong demand and we will be submitting planning applications shortly for the redevelopment of the site for up to four warehouse units totalling 135,000 sq ft.

Refurbishment and asset management

At the prominent Mille office building in Brentford (96,950 sq ft) we completed the refurbishment of the 4th (part), 6th and 7th floors (20,554 sq ft) and reception. We subsequently secured the letting of the newly refurbished part 4th floor (3,930 sq ft) at £26.00 psf, which is a 30.0% increase in ERV from acquisition in 2014, and another letting of over half of the 7th floor (4,732 sq ft) at £25.00 psf. The Mille is proving to be an attractive option for tenants who require both the proximity to central London and M4 access at occupational costs which are less than half those of nearby Hammersmith and Chiswick.

The rolling refurbishment of the reception, common areas and office floors at One Crown Square, Woking (52,115 sq ft) continues to attract multiple tenants. As with 329 Bracknell, we have responded to demand for smaller units and engaging communal break out areas – creating a co-working environment yet with direct control and management from the landlord. We signed nine new leases at this asset during the year at a combined contracted rent of £0.34 million pa, in line with an ERV of £24.00 psf. The most significant was the letting of the entire 6th floor (7,850 sq ft) on a ten-year term with no break options. The building is now 89.5% let by ERV.

We completed the refurbishment of Building Five, Switchback Office Park in Maidenhead in September 2016. This is the last of six buildings in our rolling refurbishment programme, providing 8,375 sq ft over two floors. During the refurbishment, we pre-let the upper floor on a 10-year lease at a rent of £0.11 million pa, equating to £26.75 psf. This is the highest rent achieved at the Park, leaving just the ground floor unit of 4,133 sq ft (out of the whole Park of 37,155 sq ft) to be let.

Small floors in the rapidly improving Victoria sub market in central London continue to be in high demand, as evidenced at Castle Lane, SW1 (14,250 sq ft). We have been actively managing leases and re-letting throughout the building, with minimal voids, taking rents from an ERV of £57.50 psf in March 2016 to the latest letting of £64.00 psf on the first floor. We have also secured a residential planning consent to protect future flexibility and value.

The 11.0% increase in net contracted rent for the portfolio was attributable in part to these new lettings, but also to the rigorous asset management by the team through lease regears, renewals and rent reviews. At Wimbledon Gate, SW19 (58,690 sq ft) we settled the February 2016 rent review during the period at £2.35 million pa which was an increase of £0.80 million pa (51.6%).

This fully endorsed our strategy of holding this high quality office asset for growth, having developed it in 2005. This is an increasingly popular London sub-market with good transport connections that continues to benefit from the recent growth in central London rents.

At Gainsborough House (18,660 sq ft), we completed a lease renewal with the existing tenant of this attractive office building in central Windsor. This extended their term by 10 years at an increased rent of £0.58 million pa (12.5% uplift) with no capital expenditure incurred by the Group. The rent achieved was 4.8% ahead of ERV.

Across the entire portfolio, the activity referred to above contributed to a total of 35 lettings over the period, 26 of which were open market lettings at a combined contracted rent of £1.90 million pa (6.4% ahead of ERV). The balance, being nine lease renewals, contributed to a tenant retention rate of 76.6% at lease break option and expiry, securing a combined contracted rent of £1.87 million pa, at a substantial 11.6% increase over the passing rent prior to these lease events.

We also benefitted from a one-off contribution to our income this year of £1.65 million. This was compensation paid by adjoining landowners for the potential impact of their redevelopment proposals on the rights to light of our two central Reading office properties.

Valuation

The independent valuation of the Group's portfolio as at 31st March 2017 totalled £429.92 million (March 2016: £401.17 million), resulting in a surplus for the 12 months of 1.7% (£7.07 million) overall and 2.5% excluding the three development properties. This compared favourably to the market benchmark (IPD Monthly (All Property) Index) which returned negative capital growth of -1.8%. Our total portfolio return was 6.8%, outperforming the IPD Monthly (All Property) index of 3.4%.

Our greatest exposure (59.6% of the portfolio) is in the South East office sector, where our investment properties achieved capital growth of 3.6% compared to IPD of -2.6% and ERV growth of 5.8% compared to IPD of -1.7%. Our London office investment properties also outperformed the benchmark with capital growth of 2.5% (IPD City of London -2.1%) and ERV growth of 3.2% (IPD: 2.5%).

The only sector where we fell short of the index was our industrial assets (17.2% of the portfolio) where our surplus was 0.4% (IPD: 6.1%). This was mainly due to a 13.4% valuation deficit at Brunel Road, Theale where, as previously outlined, the tenant's break option early next year has had a negative impact on value.

The combined deficit for our three development properties was 3.5%. Prospero at Redhill returned a surplus as a result of letting progress, and 9 Greyfriars Road, Reading was little changed. At 30 Lombard Street, EC3 the valuation deficit of 12.4% was mainly due to an outward shift in yield and void assumptions in the first half of the year following the EU referendum, being the least advanced of the three schemes.

The portfolio initial yield of 4.6% (March 2016: 4.5%), increases to 5.1% (March 2016: 5.0%) on the expiry of letting incentives. Our significant potential to grow income is demonstrated by our reversionary yield, which would be 7.1% (March 2016: 7.4%) calculated using current capital values against ERV. The equivalent yield was 6.4% (March 2016: 6.3%), highlighting that our valuation gains were as a result of higher contracted rents and ERVs.

This valuation performance was achieved despite a lack of market momentum, as indicated by the IPD Index movements. Performance therefore relied on our pro-active asset management and well placed refurbishments. Examples in the portfolio are the significant lease regear at Windsor which generated 17.3% capital growth; 17.0% growth from the rolling refurbishment at Woking; and 13.2% from the rent review at Wimbledon.

Total shareholder return

Total Shareholder Return (TSR) for the three years to 31st March 2017 was 13.2%. This compares to a FTSE 350 Real Estate Index return of 14.6%. For the year to 31st March 2017, the sharp relative decline in share price following the EU referendum vote resulted in a negative TSR of 8.6% which compares to a FTSE 350 Real Estate negative return of 0.3%. Our share price reaction to the referendum result proved to be extreme and recent gains have outperformed the sector.

Dividends

The final dividend of 6.3 pence per share (March 2016: 6.1 pps) will be paid on 27th July 2017 to those on the register on 2nd June 2017. With the interim dividend of 2.7 pence per share,

Yields and occupancy

	£million pa	Yield[2]	Occupancy by floor area	Occupancy by rental value
Contracted rental income[1]	23.4	5.1%	86%	77%
Reversions	1.8			
Void properties	7.4		14%	23%
Portfolio reversion	9.2			
Total portfolio	**32.6**	**7.1%**	**100%**	**100%**

Notes:

[1] Contracted rental income at 31st March 2017, less ground rent
[2] Yield on portfolio valuation at 31st March 2017 with notional purchasers costs (6.75%) added


9
GREYFRIARS

this takes the total dividend for the year to 9.0 pence per share, an increase of 2.3% on the previous year.

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%. The cost of cancelling interest rate hedging instruments over the period is treated as an exemption and 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.

Income statement

Adjusted profit before tax increased by £0.66 million (8.3%) to £8.60 million (March 2016: £7.94 million) due primarily to a £0.63 million (3.1%) increase in gross rental income. A small decrease in administration costs was in part offset by an increase in property outgoings. Interest costs were steady.

This increase in gross rental income came as a result of the letting progress and asset management initiatives referred to above and in previous periods, offset by £0.95 million less income as a result of disposals last year.

Profit before tax (IFRS) totalled £17.59 million (March 2016: £53.16 million). This included the unrealised surplus on valuation (including SIC15 and other adjustments) for the period of £7.62 million, an improvement of £0.42 million in the negative value of the interest rate hedging instruments and the £1.65 million rights of light compensation payment.

Administration costs decreased by 1.4% to £5.80 million (March 2016: £5.88 million). Staff pay increases of circa 2% were offset by a lower bonus cost for the period.

The interest cost for the year of £6.34 million was the same as last year. Interest capitalised against projects during the year was comparable to the prior year at £1.82 million (March 2016: £1.88 million) as the development programme continues. As a result, interest payable totalled £4.52 million (March 2016: £4.46 million).

The Group's weighted average cost of debt for the period reduced from 4.78% for the six months to 30th September 2016 to 4.42% (prior to amortisation and finance lease interest). Contributing to this was the decision made in December 2016 to reduce the notional value of the Group's interest rate hedging instrument by a further £12.00 million to £33.00 million at a net cost to the Group of £5.08 million, with the cost of cancellation offset by a lender contribution. This reduction reduces annualised interest cost by £0.50 million at current rates.

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the profit for the year.

Balance sheet

Shareholders' funds increased from £261.22 million to £270.79 million over the period, principally due to the £7.62 million valuation surplus (£7.07 million excluding SIC15 and other adjustments).

EPRA NAV per share increased by 0.7% over the period to 303 pence (March 2016: 301 pence). EPRA NNNAV per share increased by 2.9% to 285 pence (March 2016: 277 pence) and basic NAV per share increased by 3.2% to 289 pence (March 2016: 280 pence). The reduction in the difference between EPRA NAV and basic NAV (from 21p to 14p) is a consequence of the reduction in the notional value of the hedging instrument and the lender contribution.

Key performance indicators:

	2017	2016	2015	2014	2013
Portfolio Capital Return (capital) (%)[1]	1.7	11.4	13.8	10.2	2.2
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) (%)	6.8	15.9	18.4	15.6	8.6
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]	3.6	14.7	22.7	10.1	7.6
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]	(8.6)	(0.8)	24.8	54.7	21.3
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.

Lombard Street, EC3 (C.G.I.)
58,000 sq ft

The Mille
Brentford

The Group currently benefits from £175.00 million of banking facilities, having refinanced three of the four facilities in 2015. The fourth facility is in the process of being refinanced ahead of expiry at the end of the year. Drawn debt at the end of the period was £136.00 million (March 2016: £116.00 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2017 was 31.6% (March 2016: 28.9%). The ratio of aggregate net borrowings to tangible net worth was 47.3% (March 2016: 40.9%). Both ratios have increased due to ongoing project expenditure of £20.06 million over the period, but remain at low levels relative to loan covenants which will continue to be carefully monitored.

Net cash inflow from operating activities was £16.50 million (March 2016: inflow £3.30 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.96x (March 2016: 1.86x).

The interest rate hedging instrument of £33.00 million, coupled with the long dated £55.00 million fixed loan, give the Group £88.00 million of fixed or hedged debt (March 2016: £100.00 million). This equates to 64.7% fixed or hedged on the current drawings of £136.00 million.

The negative mark to market valuation of the hedging instrument at 31st March 2017 improved by £0.42 million to £16.92 million. Although the mark to market valuation is negative, this represents a non-cash timing difference. The Group closely monitors the market for these instruments and regularly reviews the strategic options for these products.

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 2016: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has increased over the period from £1.84 million to £2.28 million. 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, is not affected by the increase in the deficit. The increase in the deficit is in the main due to the fall in the gilt curve during the year, resulting in the discount rate applied reducing from 3.3% to 2.3%. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members. The Scheme is currently subject to a triennial valuation for the year to 31st March 2017.

Financial risks

The financial risks are documented in the principal risks and uncertainty section of the Strategic Report on pages 20 to 22.

Signed on behalf of the Board of Directors.

S. Perkins
G. Salmon

19th May 2017

FIVE YEAR SUMMARY

Financial measure	2017	2016	2015	2014	2013
Gross rental income (£'000)	20,790	20,159	17,617	14,683	16,097
Net rental income from investment properties (£'000)	19,871	17,664	14,922	12,787	14,373
Profit/(loss) before taxation (£'000)	17,594	53,160	33,282	38,290	1,745
Adjusted profit before taxation (£'000)	8,605	7,943	5,791	3,422	5,418
Investment properties (£'000)	429,915	401,170	352,760	254,550	212,935
Loans and other borrowings (£'000)	(134,100)	(113,701)	(91,302)	(37,266)	(94,209)
Total equity (£'000)	270,792	261,223	215,495	189,235	71,933
Ordinary dividends per share (pence)	9.0	8.8	8.7	8.6	8.5
Earnings per share – basic (pence)	18.8	57.2	36.1	75.0	3.8
Earnings per share – adjusted basic (pence)	9.2	8.5	5.3	6.2	11.8
Net asset value per share (pence)	289	280	233	206	157
EPRA net asset value per share (pence)	303	301	270	227	238
Interest cover	2.0	1.9	1.8	1.5	1.9
Loan to value	32	29	26	15	44

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

Wimbledon Gate
Worple Road
58,690 sq ft

PRINCIPAL RISKS AND UNCERTAINTIES

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 & Risk Committee is responsible for assessing those risks relating to internal control and risk management systems which are discussed within the Directors' Report on page 23. To that end the Company has introduced a Risk Committee comprising the executive Directors who regularly review material risks to the Group.

An ongoing process for identifying, evaluating and managing the principal risks faced by the Group was in place throughout the year to 31st March 2017 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
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, global growth and elections increase risk. ▲
FINANCIAL		
Interest rate rises Leading to lower profits.	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.	Group currently fixed or hedged at £88m as against £136m drawnings as at 31st March 2017. ▲
Lack of liquidity Increasing the cost of borrowing and the ability to borrow.	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.	Group's Facilities of £175m are in line with current business plan. The Group is currently re-financing one of it's four facilities. ▲
Breach of financial covenants on bank borrowings As a result of rental or capital movement.	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 Losing a significant tenant that materially impacts profits.	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.	Credit control environment remains constant. ▶
Taxation REIT non-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. ▶
BEPs (Base erosion and profit shifting).	Tax advisors appointed and keeping Management up-to-date on requirements.	Final legislation is still outstanding and elections are yet to be confirmed. ▲

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 London and the South East 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.	Market conditions remain generally unchanged.
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 two significant redevelopment / refurbishment projects completed the Group's risk exposure reduces.
Reduction in rental values Exposure to volatility of 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.
Reduction in capital values Exposure to volatility of capital 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 & Risk Committee and approved by the Board. The Group retains a borrowing headroom should there be an overall decline in capital values. Constant review by Management of tenant covenant, lease length and asset management of buildings to preserve/increase capital values.	Increased uncertainty in macro environment has increased the volatility of capital values.

PRINCIPAL RISKS AND UNCERTAINTIES
continued

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 including fraud and bribery.	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.	No significant main factors to increase risk.
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.	Sector employment opportunities remain constant.
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.
IT/Cyber Cyber attack resulting in IT systems failure.	Antivirus software and firewalls protect IT systems. Data and programmes are regularly backed up and back ups are secured off site. Implementation of the Group's Business Continuity Plan. Consideration being given to cyber fraud insurance.	Increase in global incidents of this nature.
Terrorism Terrorist attack impacting a building from the Group's portfolio resulting in loss of income or building costs. Terrorist attack affecting employees travelling.	All buildings have insurance to cover a terrorist incident and loss of rent. All three Executive Directors do not travel together.	Government advises that the threat level indicates the likelihood of a terrorist attack in the UK. The threat to the UK from international terrorism is severe.

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, 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 2022, 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.

The Group is currently refinancing one of the four banking facilities that expires in the year to 31st March 2018. The Directors have confidence that there are alternative debt providers if necessary.

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 2017, the Group continued to progress its ambitious sustainability strategy focused on delivering across three areas: managing sustainable buildings, creating sustainable buildings and engaging our 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 targets for the year under review.

The Group's sustainability objectives

Four years on from the launch of its sustainability strategy, the Group has continued to implement sustainable practices across its portfolio with notable results. Over the course of the past financial year, the Group has:

- Obtained a BREEAM 'Outstanding' certification and EPC 'A' rating for the refurbishment of 9 Greyfriars Road, Reading, making it currently the most sustainable office building available in the South East market.
- Obtained a BREEAM 'Excellent' certification and EPC 'A' rating for Prospero, its completed office development in Redhill.
- Improved the environmental performance of its operational portfolio, achieving a 13% reduction in carbon emissions, a 19% reduction in gas consumption and an 11% reduction in water consumption on a like-for-like basis.[1]
- Continued to divert 100% of operational waste from landfill and engaged with tenants to increase recycling rates from 25% in 2015/16 to 32% in 2016/17.
- Implemented an Energy Reduction Programme across five assets to identify and deliver cost saving opportunities, including the delivery of training to property managers to maximise building efficiency.
- Collected and benchmarked environmental data for our Lombard Street, EC3 construction site in order to assess and manage the impact of our development activity.
- Increased its employees' knowledge and awareness of sustainability through a series of green building tours.
- Achieved GRESB 'Green Star' status for the first time having improved its score by 28 points in comparison to 2014.

The Group has successfully achieved 80% of its 2017 targets, while 5% were partially achieved, 5% have not been achieved, and 10% were N/A.[2] The Group is committed to continually improve its sustainability performance and has defined 24 new targets to support the delivery of each of its sustainability objectives in the year to 31st March 2018 (see pages 29 to 30).

[1] Like-for-like analysis takes into account heating degree days in the gas consumption trend calculations, and incorporates vacancy rates across the portfolio.
[2] Two targets are classed as N/A as their successful completion was predicated on the Group having had new occupiers in place for an extended period at 9 Greyfriars Road, Reading and Prospero, Redhill.

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 2017, the Group set 13 targets relating to this objective:

Energy and Water Targets	Status
Achieve a 4% reduction in like-for-like landlord controlled electricity consumption by the end of March 2017 against a 2015/16 baseline	Not achieved
Achieve a 4% reduction in like-for-like landlord controlled gas consumption (adjusted for heating degree days) by the end of March 2017 against a 2015/16 baseline	Achieved
Achieve a 4% reduction in like-for-like landlord controlled carbon emissions by the end of March 2017 against a 2015/16 baseline	Achieved
Achieve a 3% reduction in like-for-like landlord controlled water consumption by the end of March 2017 against a 2015/16 baseline	Achieved

Energy and Water Targets	Status
Continue to implement energy and water efficiency measures at the Group's major energy and water consuming assets	Achieved
For landlord procured energy, investigate the cost of switching 100% to a low carbon energy tariff	Achieved
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	N/A

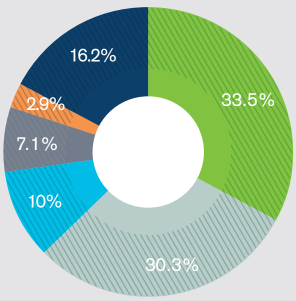
During 2016/17 the Group landlord controlled gas consumption decreased by 19% but electricity consumption rose by 4% on a like-for-like basis.[1] This is due to the fact that several key improvement initiatives across our highest consuming assets are pending, while others were integrated towards the end of 2016/17, and have not yet had a significant impact on electricity consumption. However, the impressive reductions in gas consumption has allowed the Group to reduce its overall energy consumption by 5%, enabling it to avoid £26,719 in running costs. This, combined with the ongoing decarbonisation of the grid, has allowed the Group to reduce its carbon emissions by 13% during 2016/17 on a like-for-like basis. Over the past year, absolute energy use has also fallen by 24% to 7,795,462 kWh.[3] This is in part due to changes in the nature of the portfolio since the baseline year of 2015/16, with some of the largest consuming assets no longer included in the calculations.

The Group has continued to develop and implement resource reduction strategies for its five highest consuming assets (which together account for over 80% of total energy use). The five assets enrolled on the programme are: The Mille, Brentford; Corinthian House, Croydon; Mallard Court, Staines–upon-Thames; One Crown Square, Woking and Portsoken House, EC3. A diagram illustrating their contribution to total energy consumption is provided below.

[3]Inclusive of tenants usage, where available.

Top 5 Consuming Assets:
Proportion of Total Energy Consumption

	%
The Mille	33.5
One Crown Square	30.3
Portsoken House	10.0
Corinthian House	7.1
Mallard Court	2.9
The Rest	16.2



In 2016 site visits were carried out at each of these high consuming assets and an energy reduction project tracker was created to record identified energy conservation measures and progress made to date. For each asset, practical and actionable energy-saving measures that are no or low cost have been identified. Measures implemented during the financial year ending March 2017 included:

- Remedial works to power correction units and the introduction of LED lighting on various floors, the reception and external areas at The Mille, Brentford.
- Additional LED lighting to the 8th floor, and external areas of Corinthian House, Croydon.
- Installation of more efficient air conditioning units at Mallard Court, Staines-upon-Thames.
- Introduction of LED lighting through office refurbishments on the 5th and 6th floors and common parts areas of the 3rd and 4th floors at 1 Crown Square, Woking.
- Introduction of LED lighting in car park areas of Mallard Court, Staines-upon-Thames.

In spite of these measures three out of five of our largest assets saw energy consumption increase over the period January-December, 2016. Further measures have been identified at these and other assets across the portfolio and are awaiting technical and financial appraisal. Moreover, energy reduction training was delivered to M&E consultants and contractors following site visits to ensure best-in-class asset management and identify key areas for performance improvement. There is therefore optimism that the Group will begin to experience improved energy reductions in 2017.

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
2015	£68,449
2016	£61,516
2017	£49,000 (estimated)

The forecasted reduction in 2016/17 corresponds to the sale of Bartley House, Hook and the demolition of 30 Lombard Street, EC3; both of which were amongst the portfolio's largest energy consumers.

Absolute water consumption decreased by 23% in the 2016/17 financial year, whilst on a like-for-like basis there was an 11% reduction, with corresponding cost savings of around £5,000. The Group has targeted those assets with the highest water consumption with efficiency projects including the installation of low-flow taps and dual-flush WCs. The Group will also monitor the environmental performance of recently completed new developments and major refurbishments to check that actual performance is reflective of the design intent. Common parts data is being gathered from 9 Greyfriars Road, Reading and Prospero, Redhill, but the Group will have to wait until both assets are fully let to obtain any meaningful information around the existence, or absence of a performance gap.

Waste Target	Status
Maintain 100% of operational waste diverted from landfill for the landlord managed portfolio	Achieved
Increase the recycling rate across all properties for which the Group has management control to 41% by 2017, and 52% by 2020, in line with the Real Estate Environmental Good Practice Benchmark (REEB)	Partially achieved
Engage with occupiers to facilitate improved resource recycling rates	Achieved

Total waste generation in the 2016/17 financial year was 346 tonnes,[3] 100% of which was diverted from landfill, which means that the Group has maintained this commitment for a second consecutive year. Furthermore, the recycling rate increased from 25% in 2015/16 to 32% in 2016/17, and in spite of missing the 41% 2017 target, the Group remains determined to align its recycling rates with the REEB benchmark, establishing a 52% recycling rate by 2020. A 2018 target has been set, which takes into account the long term target to 2020. To support this, the Group re-negotiated its waste contract and engaged with tenants to improve recycling rates, organising a series of roadshows across the Group's multi-tenanted sites to garner enthusiasm and support for this initiative. The Group is confident that as engagement expands across the managed portfolio, recycling rates will improve in 2017/ 18 and beyond.

[4]January-March 2017 data was estimated.

Occupier Engagement Targets	Status
Engage with occupiers who have green lease clauses to ensure their effectiveness	Achieved
Implement 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. During 2016/17 the Group engaged with tenants who have "green" clauses in their leases, and will continue to do so on an ongoing basis, incorporating feedback into asset-level strategies.

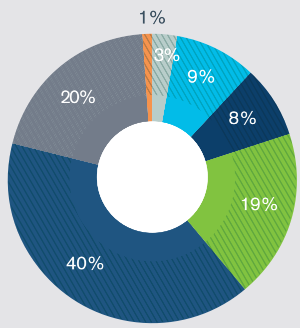
Last year the Group also produced a fit-out guide, including guidance on sustainability for occupiers undertaking works. The aim is to ensure that an occupier's fit-out complements the base build and minimises conflict with the building's operational performance. The Group is eager to promote the use of standard finishes across its assets and include some basic minimum procurement standards within the tenant fit-out guide. In 2016 the Group assisted tenants at Building 329, Bracknell with the procurement of their fit-out, and will proceed to engage with tenants on the implementation of the fit-out guidance as and when further fit-outs are undertaken.

EPC Risk Targets	Status
Continue to review EPC risk associated with new purchases and identify improvement works for any assets with an E rating or lower	Achieved

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: to that end only 1% of the assets within the portfolio (by ERV) are currently rated F or G. The Group continues to manage EPC risk through the implementation of ongoing improvement plans at all higher risk properties, specifically focusing on E-rated assets, to ensure this does not adversely impact on its business activities post-2018. For instance, following a host of improvement initiatives at 1 Crown Square, Woking, McKay will be recommissioning EPC assessments across several of the units currently in possession of an E rating.

McKay Securities Adjusted Sites
EPC Portfolio Breakdown by ERV

	%
No EPC held	3
A	0
B	9
C	8
D	19
E	40
F	20
G	1



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 2017, the Group set four targets relating to this objective:

Green Building Targets	Status
Ensure all new developments and major refurbishments achieve minimum BREEAM Very Good and an EPC rating of at least C	Achieved
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	Achieved
Install smart meters at all new developments and major refurbishments starting on site from April 2016	Achieved
Pilot a post-occupancy assessment of the performance of one building which includes a review of sustainability performance	N/A

After several years of exceeding its minimum standards, the Group has decided to increase the ambition of its major refurbishments and new developments, and will now seek to achieve BREEAM 'Excellent' and EPC 'B' as a minimum requirement. Two significant projects were completed by the Group in 2016: the major refurbishment of 9 Greyfriars Road, Reading (39,620 sq ft) and the construction of Prospero, a new office building in Redhill (50,370 sq ft). Both projects achieved an EPC 'A' rating; while Prospero achieved a BREEAM 'Excellent' rating and 9 Greyfriars Road a BREEAM 'Outstanding' (see case study for further details).

The Prospero office building features LED lighting in office areas; automatic lighting controls; boasts excellent natural light and is designed to achieve the highest levels of insulation and low U values. Its electricity consumption is expected to be 60% lower than a typical UK office building and internal energy costs are estimated to be £1.59 per sq ft, compared to a typical UK office building of £4.77 per sq ft. The asset offers excellent public transport connectivity as well as facilities for cyclists.

Case study: A BREEAM 'Outstanding' Award for 9 Greyfriars Road

9 Greyfriars Road is a striking office building located in the heart of Reading town centre. In 2016 it became the first building to be awarded a BREEAM 'Outstanding' rating outside London and this achievement, combined with an EPC A rating, has put 9 Greyfriars Road in the spotlight as the most sustainable office building available in the South East market.

The building boasts a range of cutting edge features to deliver better environmental performance and promote the health and wellbeing of its occupiers, including:

- High levels of natural light and the provision of a controllable thermal environment to boost employee productivity.
- Passive design to improve thermal comfort and reduce running costs.
- Air source heat pumps contribute to summer and winter thermal regulation.
- Water efficient features and the use of insulation materials with a BRE Green Guide rating of A or A+.
- A new terrace with carefully selected plants.
- Excellent transport connections, facilities for cyclists and a sustainable travel plan.

Waste production was minimised during the construction project through the retention of the building structure, and 92% of waste was recycled and re-processed on site.

All in all, 9 Greyfriars Road offers increased quality, efficiency and comfort at a competitive quoting rent of £34.50 psf. Ongoing commissioning will ensure optimum performance during occupancy.

"Securing an 'Outstanding' BREEAM rating along with an EPC A demonstrates the commitment of McKay and its project team in providing a high quality, sustainable building at a competitive cost. The building offers tenants a high specification and a flexible working environment, with the benefit of low running costs" – Simon Perkins, CEO, McKay Securities PLC.

Once we have had tenants in place for a sufficient period of time at 9 Greyfriars, Reading and Prospero, Redhill, we have committed to trialling post-occupancy monitoring on one of these buildings to gather data and insights on their sustainability performance in use.[5] 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. In the context of growing interest in office occupiers' health, wellbeing and productivity, during 2016 the Group supported the development of the Stoddart Review, an independent study which revealed that offices which are designed around the needs of users could deliver productivity gains of between 1 and 3.5 per cent and provide businesses with a key differentiator in an increasingly competitive landscape for recruiting and retaining talented employees.[6] Going forwards, the Group will include information about its assets' health and wellbeing features within marketing materials, highlighting their benefits for occupiers.

During 2016/17 the Group proceeded to plan for smaller refurbishment projects at six assets, where we will take the opportunity to identify and introduce more sustainable technical building equipment and other features where applicable. Following the work undertaken in 2015/16 to investigate the potential for introducing photovoltaic (PV) systems at a small number of assets, we decided to install PV at Oakwood Trade Park, Crawley and Prospero, Redhill.

The Group has also introduced a Responsible Procurement Policy which is now part of our tendering process for property development and management, and we are rolling out requirements for suppliers on smaller schemes. The Group's Sustainability Steering Group has also continued to meet on a quarterly basis, assessing the Group's ongoing sustainability performance and discussing new initiatives to develop the Group's sustainability aspirations.

[5] This target has been published as N/A as the Group has not had occupants in the buildings for a sufficient period of time to carry out a post-occupancy assessment.
[6] For further information, see http://stoddartreview.com.

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 implement an action plan based on outcome of recent customer satisfaction survey	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. The Group launched its first independent customer satisfaction survey in 2016 to gain insight into the issues that are important to its occupiers. This survey highlighted good levels of overall satisfaction, and also identified scope to improve performance. To this end, the Group has developed an action plan and is in the process of implementing it across its portfolio. For instance, at Building 329, Bracknell, we increased the number of staff on front of house following indications from tenants that they wanted a greater presence.

The survey also revealed that the majority of occupiers (65%) think it important or very important that the building meets sustainability requirements and welcome further initiatives to encourage more sustainable business practices. This finding adds strength to our current initiatives to engage with tenants on green leases; fit-outs and waste recycling rates, as well as our focus on creating sustainable buildings by targeting high levels of environmental performance and health and wellbeing features on our new development and refurbishment projects.

Investor Engagement Target	Status
Maintain or enhance GRESB performance relative to 2016	Achieved

The Group seeks to maintain an open dialogue with investors and communicates its sustainability performance through annual reporting and presentations. Moreover, the Group participates 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 GRESB in 2015 and once more in 2016 with its score improving materially each time. In 2016 the Group achieved the coveted 'Green Star' status for the first time. Actions implemented in 2016/17 will further strengthen the Group's response to a number of the GRESB criteria, so it can expect to maintain or enhance its score again this year.

Employee Engagement Target	Status
Provide sustainability training for employees, including annual sustainable building tours	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 in March 2017. 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 reflect legislation and latest best practice; a copy of the General Statement is available on the Group's website and has been shared with all suppliers and employees. Implementation of the Group's H&S is managed by the Safety Management Group (SMG). 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 program 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 2017, there have been no accidents 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 2017, the Group made a total of £30,700 in charitable donations.This represents 0.4% of adjusted profit before tax (0.4% in 2016).

The Group's Diversity Policy and disclosure can be found on page 43.

2017/18 Sustainability Targets

Building on the great work undertaken over the last year the Groups has set itself the following targets for 2017/18:

Managing Sustainable Buildings

Target	Deadline
Electricity consumption: In 2017/18 achieve a 4% reduction in like-for-like landlord controlled consumption relative to a 2016/17 baseline. Achieve a 16% reduction by the end of March 2020 relative to a 2015/16 baseline.	March 2018 March 2020
Gas consumption: In 2017/18 achieve a 4% annual reduction in like-for-like landlord controlled consumption (adjusted for heating degree days) relative to a 2016/17 baseline. Achieve a 16% reduction by the end of March 2020 relative to a 2015/16 baseline.	March 2018 March 2020
Carbon emissions: In 2017/18 achieve a 4% annual reduction in like-for-like landlord controlled emissions relative to a 2016/17 baseline. Achieve a 16% reduction by the end of March 2020 relative to a 2015/16 baseline.	March 2018 March 2020
Water consumption: In 2017/18 achieve a 3% reduction in like-for-like landlord controlled consumption against a 2016/17 baseline. Achieve a 12% reduction by the end of March 2020 relative to a 2015/16 baseline.	March 2018 March 2020

Target	Deadline
Waste: Maintain 100% of operational waste diverted from landfill for landlord managed portfolio.	March 2018
Waste: In 2017/18 increase recycling rate across all properties for which the Group has management control to 44%. By March 2020 improve the recycling rate to 52%, in line with the Real Estate Environmental Good Practice Benchmark (REEB).	March 2018 March 2020
Continue to implement **energy and water efficiency measures** at the Group's major energy and water consuming assets.	March 2018
Continue to review **EPC risk** associated with new purchases and prioritise improvement works for any asset with an E rating or lower. Also consider D rated assets.	March 2018
Explore the feasibility of incorporating **on-site renewable energy** at a minimum of one of McKay Securities' operational assets.	March 2018
Conduct a review of major operational material spend categories and investigate establishing minimum **sustainability procurement requirements** based on the results	March 2018

Creating Sustainable Buildings

Target	Deadline
Continue to monitor the compliance of contractors with **development sustainability requirements** and ensure that sustainability is consistently integrated as part of the tendering process.	March 2018
Ensure all new developments and major refurbishments achieve minimum **BREEAM** Excellent and an **EPC rating** of at least B.	March 2018
Include information about assets' sustainability and health and wellbeing features within marketing materials, highlighting their benefits for occupiers.	March 2018
Pilot a **post-occupancy sustainability assessment** of either 9 Greyfriars, Reading or Prospero, Redhill with one tenant who has been in place for a minimum of six months.	March 2018

Engaging Stakeholders

Target	Deadline
Maintain or enhance **GRESB performance** relative to 2016.	March 2018
Hold a minimum of three sustainability related **CPD sessions** to increase awareness of key issues amongst employees.	March 2018
Continue to organise annual sustainable building tours to inform and inspire employees.	March 2018
Develop and publish stakeholder engagement policy.	March 2018
Introduce building awards/competition to encourage uptake of sustainability practices.	March 2018

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 2016 to 31st March 2017 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			2016/17 (est.) tCO_2e	2015/16 (actual) tCO_2e
Scope 1	Energy	Gas (EPRA sBPR fuels – Abs)	428	788
	Fugitive emissions	Refrigerant emissions	De minimis	De minimis
Scope 2	Energy	Landlord-controlled electricity (EPRA sBPR Elec – Abs)	1418	1781
Scope 3	Energy	Landlord-obtained energy (if sub-metered to tenants), all transmission and distribution losses, and tenant-obtained energy where applicable and tenant has provided data (EPRA sBPR 3.6)	1190	1429
Total			3036	3999
Intensity				
tCO2e / £m Adjusted profit before tax (Scopes 1 and 2 only)			0.215	0.322

Data Qualifying Notes

- This is the Group's fourth year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations. The Group's emissions for 2015/16 have been restated due to Q4 2015/16 data not being available at the time of reporting in 2016; this final period of data will always need to be estimated. As a result of this restatement, the total emissions for 2015/16 have increased 3%, and the level of estimation has decreased from 30% to 8%.
- For 2016/17, 25% of energy consumption, and therefore carbon emissions, is estimated. Q4 2016/17 accounts for 98% of this estimated data.
- An operational control consolidation approach has been adopted, together with emissions factors from the UK Government Conversion Factors for Company Reporting 2016.
- 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.
- Adjusted profit before tax value as reported in 2016/17 financial statements – page 74 of the Report and Financial Statements.

The Mille
Brentford
96,700 sq ft

GOVERNANCE

BOARD OF DIRECTORS

Richard Grainger ACA *Non-executive Chairman*
Aged 56. Appointed Chairman in July 2016, having been 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 and Liberation Group. A member of the Remuneration, Audit & Risk and Nomination Committees.

Viscount Lifford *Senior Independent Director*
Aged 68. Appointed a non-executive Director in September 2006. Director of Rathbones Brothers PLC until October 2006. Trustee of the Portman Estates. A member of the Remuneration, Audit & Risk and Nomination Committees.

Jon Austen FCA *Non-executive*
Aged 60. Appointed a non-executive Director in July 2016. Chartered Accountant and formerly Group Financial Director of Terrace Hill plc and having implemented its reverse takeover of Urban&Civic plc was Group Finance Director of Urban&Civic plc to July 2016. Chairman of the Audit & Risk Committee and a member of the Nomination and Remuneration Committees.

Nigel Aslin FRICS *Non-executive*
Aged 68. Appointed a non-executive Director in May 2006. Chartered Surveyor and former Partner responsible for Strutt & Parker's Thames Valley office. A member of the Remuneration, Audit & Risk and Nomination Committees. Retired as Chairman of the Nomination Committee on 1st April 2017.

Nick Shepherd FRICS *Non-executive*
Aged 58. Appointed a non-executive Director in January 2015. Chartered Surveyor and former Senior Partner of Drivers Jonas until 2010. Vice Chairman of Deloitte UK until May 2013. Chairman of the Property Income Trust for Charities. Non-executive Chairman of Riverside Capital Group. Chairman of the Remuneration Committee and a member of the Audit & Risk and Nomination Committees.

Jeremy Bates MRICS *Non-executive*
Aged 51. Appointed a non-executive Director in January 2017. Chartered Surveyor and a Director of Savills UK Limited, Head of UK Transactional Services and European Head of Worldwide Occupier Services. Appointed Chairman of the Nomination Committee on 1st April 2017. Member of the Audit & Risk and Remuneration Committees.

Simon Perkins MRICS *Chief Executive Officer*
Aged 52. 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.

Giles Salmon FCA *Chief Financial Officer*
Aged 51. Joined the Company in May 2011 and appointed as Chief Financial Officer in August 2011. Previously at BAA Lynton, managing the Airport Property Partnership.

Tom Elliott MRICS *Property Director*
Aged 42. Joined the Company in September 2016 after 11 years with Land Securities Group PLC, where his latest role was Head of Investment for the London Portfolio. Appointed a Director in April 2017.

Dear Shareholder

I am pleased to introduce our 2017 Corporate Governance Report. This is my first year as Chairman having succeeded David Thomas at the conclusion of the 2016 Annual General Meeting and I look forward to building upon his solid work.

Sound corporate governance is embedded into the culture of the Company and continues to be an essential part of the Board's stewardship and the delivery of our business strategy over the long term. We continue to strive for high standards throughout the business and aim to work in the best interests of our shareholders and all our stakeholders in a responsible and ethical manner.

I can confirm that we have complied with the requirements of the 2014 UK Corporate Governance Code (the 'Code') and are following the 2016 Code; although we are not required to report under the 2016 Code this year.

During the year we have continued to focus on the managed succession plan to refresh the composition of the Board. In 2017 we promoted Tom Elliott to executive Director and Jon Austen and Jeremy Bates joined the Board as independent non-executives, further strengthening the independence of our non-executive Directors. Having concluded our succession planning Nigel Aslin and Viscount Lifford, who have both served on the Board for over 10 years, are stepping down during 2017. More information can be found on this and the change of responsibilities of Directors within the Nomination Committee Report on pages 42 and 43.

The Board and its Committees operate under a clear mandate with specific Terms of Reference for each Committee, a schedule of matters reserved for the Board and a clear division of written responsibilities between myself as Chairman and the Chief Executive Officer. I am satisfied that the Board has the appropriate balance of skills, experience and independence to add value to board decision making and debate. Board meetings are conducted in an open and transparent manner, with all Directors engaging in open and honest debate.

This year we are focusing on strengthening the Group's approach to risk and to this end we have created a Risk Committee comprising the executive Directors who will report to the Audit & Risk Committee. The Risk Committee will focus on identifying, evaluating and monitoring the key risks and how these risks impact on the Group. Details of the Principal Risks and Uncertainties are set out on pages 20 to 22.

In 2017 the Remuneration Committee reviewed the Company's remuneration policy and engaged with its major shareholders for their views on the proposed amendments. At this year's Annual General Meeting we will propose the renewal of our existing Directors' remuneration policy and the Company's long term incentive plans for all employees. Details of the remuneration policy are set out in the Remuneration Committee report on pages 44 to 57.

Our Annual General Meeting will be held on 6th July 2017. It is always a welcome opportunity for the Board to engage with shareholders and details of all business to be transacted is included within the Notice of Meeting.

Richard Grainger
Chairman

19th May 2017

DIRECTORS' REPORT

Introduction

The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2017. As permitted under legislation (Companies Act 2006 Section 414C (11)) some of the matters in this report have been included in following pages of the Annual Report:

Sections of the report and audited financial statements for the year ended 2017

Profit and distribution

The profit for the year is set out in the Consolidated Profit or Loss and other Comprehensive Income. Profit before tax is £17.6 million (2016: £53.2 million).

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 6.3p per share, all of which will be paid as an ordinary dividend, making a total for the year of 9.0p per share (2016: 8.8 pence). If approved at the Annual General Meeting on 6th July 2017 the dividend will be paid on 27th July 2017 to shareholders recorded on the register at the close of business on 2nd June 2017.

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.

Property valuations

The Group's properties were valued by an external professional valuer at 31st March 2017. An increase in value of £7.6 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 2017 was 289 pence (2016: 280 pence).

Directors

The Board of Directors for the financial year to 31st March 2017 was:

R. Grainger (Non-executive Chairman from 14th July 2016)
D. Thomas (Non-executive Chairman to 14th July 2016)
S. Perkins
G. Salmon
N. Aslin
Viscount Lifford
N. Shepherd
J. Austen (from 1st July 2016)
J. Bates (from 18th January 2017)
S. Mew (to 21st September 2016)

Mr T. Elliott joined the Board on 1st April 2017.

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

Biographical details of the Directors are set out on pages 32 and 33. In accordance with the Company's Articles of Association and the UK Corporate Governance Code. Mr J. Bates and Mr T. Elliott having been appointed since the 2016 AGM will retire and being eligible offer themselves for re-election at the 2017 AGM and all other Directors being eligible will offer themselves for re-election.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 44 to 57, 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 54 and 55.

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 55 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 22nd May 2017:

	Shares	%
Aberforth Partners LLP	11,327,738	12.08
Bank of Montreal	10,347,209	11.03
Fidelity Investment Funds	8,718,532	9.29
J.O. Hambro Capital Management UK	4,752,510	5.07

Political donations

No political donations were made during the year (2016: nil).

Charitable donations

Details of charitable donations can be found in the Sustainability section of the Strategic Report on page 28.

Share capital

The issued share capital of the Company as at 31st March 2017 was 93,808,450 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 seventy-first Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 6th July 2017 at 2.30p.m.

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 2016 to allot relevant securities up to a nominal amount of £6,210,548. 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 £6,253,896 and (ii) comprising equity securities up to a nominal amount of £12,507,793 (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 2018).

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 £1,876,168.

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 9,380,845 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.

Disclosures required under Listing Rule 9.8.4R

Section	Information	Page
1	Interest capitalised and tax relief	74
2	Publication of unaudited financial information	None
4	Details of long term incentive plans	44-57
5 + 6	Waiver of emoluments and future emoluments by a Director	None
7	Non pre-emptive allotments of equity for cash	None
9	Non pre-emptive allotments of equity for cash by major subsidiary	None
10	Contracts of significance involving a Director	None
11	Contracts of significance involving a controlling shareholder	None
12 + 13	Waiver of dividends or future dividends of a shareholder	None
14	Agreements with controlling shareholder	None

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 2017 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 2017 the Board comprised up to three executive Directors, including Mr S. Perkins, Chief Executive Officer ('CEO') and up to seven non-executive Directors, including Mr R. Grainger, (Non-executive Chairman), Viscount Lifford (Senior Independent Director), Mr N. Aslin, Mr J. Austen, Mr J. Bates and Mr N. Shepherd. Their biographical details are set out on pages 32 and 33. Mr D. Thomas retired on 14th July 2016. 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 thirteen 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 39.

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 is 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 should they arise. 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 & Risk Committee

Mr J. Austen FCA is Chairman of the Audit & Risk Committee, which met three times in the last year. Mr J. Austen 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 & Risk Committee Report on pages 40 and 41.

Nomination Committee

Mr N. Aslin FRICS was Chairman of the Nomination Committee until 1st April 2017. Mr J. Bates MRICS succeeded Mr Aslin from 1st April 2017. The Committee met four times in the last year and its responsibilities and activities, including the appointment of new Directors, their induction and the performance evaluation of the Board are set out in the Nomination Committee Report on pages 42 and 43.

Remuneration Committee

Mr N. Shepherd FRICS is Chairman of the Remuneration Committee which met four times in the last year. The Committee members, the Directors' Remuneration Policy and the Directors' Annual Remuneration Report are set out in the Directors' Remuneration Report on pages 44 to 57.

Risk management and internal control

The following should be read in conjunction with the principal risks and uncertainties on pages 20 to 22 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 & Risk Committee reviews the effectiveness of the Company's internal financial control and internal control risk management systems on behalf of the Board.

The Risk Committee meets on a regular basis and is responsible for identifying key risks and assessing their likely impact on the Group and report to the Audit & Risk Committee. Important areas cover property, financial and corporate risks. Other important areas such as risk management, corporate taxation, legal matters, 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 2017.

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 Company's Annual General Meeting. Shareholders are given at least 20 working days notice of the Annual General Meeting. The Chairmen of the Audit & Risk Committee, Nomination Committee and Remuneration Committee attend the Annual General Meeting to answer questions. Shareholders are given the opportunity of voting separately on each proposal and are informed of proxy voting figures and these figures are posted on the Company's website, www.mckaysecurities.plc.uk.

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 8.30am and 4.30pm Monday to Friday.

Table of Board meeting attendance (for the financial year to 31st March 2017)

	Board (13 meetings)	Audit & Risk Committee (3 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (4 meetings)
R. Grainger	13	3	4	4
S. Perkins	13	[1]3	[1]2	4
G. Salmon	13	[1]3	[1]1	–
N. Aslin	13	3	3	4
Viscount Lifford	13	3	3	4
N. Shepherd	13	3	4	4
J. Austen (from 1st July 2016)	10	3	3	3
J. Bates (from 18th January 2017)	2	1	1	1
D. Thomas (to 14th July 2016)	5	1	–	1
S. Mew (to 21st September 2016)	7	–	–	–

[1]In attendance by invitation.

Signed by order of the Board
J. McKeown
Secretary

19th May 2017
Reading

AUDIT & RISK COMMITTEE REPORT

JON AUSTEN
CHAIRMAN OF THE AUDIT & RISK COMMITTEE

Dear Shareholder

I am pleased to present my first report as Audit & Risk Committee Chairman having been appointed following the Annual General Meeting in July 2017 when my predecessor, Richard Grainger, became Chairman of the Company. Richard remains a Committee member. As a Chartered Accountant and former Group Finance Director of a listed company I am well qualified for the role of Committee Chairman as I have the recent and relevant financial experience required by the UK Corporate Governance Code.

During the last year, the Committee continued to play 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 discussions with management and reporting developments in risk management we now report as the Audit & Risk Committee and have created a Risk Committee comprising the executive Directors to regularly review material risks to the Group and report to the Audit & Risk Committee. This additional Committee will further support our robust approach to effective risk management.

This year we have updated our policy for the use of the external auditor for non-audit services in line with European Regulation on the provision of non-audit services as a public interest entity and the Ethical Standard to ensure the continued independence and objectivity of the Company's auditor and have transferred the Company's tax services to an alternative provider, PwC.

Finally, I would like to welcome Jeremy Bates to the Committee following his appointment to the Board and its Committees in January 2018 and thank Nigel Aslin, who has now stepped down from the Committee, and Viscount Lifford, who will be stepping down in September 2017, for their advice and support during their tenure.

Jon Austen
Chairman of the Audit Committee

19th May 2017

Committee membership

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

J. Austen FCA – Chairman (from 14th July 2017)
R. Grainger ACA – Chairman (to 14th July 2017)
Viscount Lifford
N. Shepherd FRICS
J. Bates MRICS (from 18th January 2017)
N. Aslin FRICS (to 22nd May 2017)
D. Thomas FCA (to14th July 2016)

The majority of the members of the Committee are independent.

Jon Austen and Richard Grainger are identified as having recent and relevant financial experience and the Committee believes as a whole it has competence relevant to the sector in which the Group operates.

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 39.

The Chief Financial Officer, Chief Executive Officer and external auditors regularly attend Committee meetings by invitation. Twice a year during the Committee meetings the Committee meets separately with the external audit engagement partner to provide the opportunity to discuss matters without executive management being present.

The Committee evaluates its performance during the year via an internally prepared questionnaire completed by all members and feedback is provided at a meeting of the Committee. The evaluation during the year concluded that the introduction of a separate Risk Committee regularly reviewing risks to the Group for consideration by the Committee provided a deeper insight into potential future risks to the Group and underpinned future strategies to mitigate risks where possible. For more information on the principal risks and uncertainties to the Group please see pages 20 to 22. The evaluation concluded that the Committee continued to operate in an efficient and effective way.

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;

- developing and reviewing policy on the engagement of the external auditor to supply non-audit services; and
- reviewing the assumptions or qualifications in support of the going concern statement, and the longer term viability statement over an appropriate and justified period.

Significant judgements

The Committee focused on the significant judgement in the Report and Financial Statements in respect of the Group's property valuation. The valuation of the Group's portfolio is undertaken by an external professional valuer and the assumptions and judgements are discussed and reviewed with the Committee. The external auditor has an in-house department of chartered surveyors who independently review the valuation of the portfolio and have direct access to the Group's valuers.

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 & Risk Committee reviews arrangements by which staff of the Company may in confidence raise concerns 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. This enables the close involvement of the executive Directors with the day to day operational matters of the Group. Coupled with the Internal Controls currently in place, 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 ending 31st March 2021.

KPMG rotate the engagement partner on a 5 year cycle designed to retain objectivity and independence. The KPMG audit fee was £80,740, with related assurance work of £19,420. Taxation related fees totalled £54,536.

The Committee has reviewed the Group's policy on non-audit services in line with the European Regulation on the provision of non-audit services as a public interest entity and the Ethical Standard and recommended to the Board that KPMG be retained for audit services and the Group move the provision of tax services to an alternative provider to ensure the continued independence and objectivity of the Company's auditor. The Board agreed to this recommendation and PwC have been appointed to provide tax services to the Group from 1st April 2017.

The Committee can confirm that it is satisfied the external auditor remains independent.

NOMINATION COMMITTEE REPORT

NIGEL ASLIN
FORMER CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholder

As previously announced, I stepped down as Chairman of the Nomination Committee on 1st April 2017 and was succeeded by Jeremy Bates. However, as this report covers the period from 1st April 2016 to date it is appropriate for me introduce the Nomination Committee Report this year, particularly as there has been considerable change.

These changes include the appointment of two non-executive Directors, the departure of the Chairman and the Property Director, and various Committee changes.

As part of our succession plan to refresh the Board and its Committees, and thereby comply with the UK Corporate Governance Code on the independence of Board members, Jon Austen and Jeremy Bates joined the Board and its Committees on 1st July 2016 and 18th January 2017 respectively, as independent non-executive Directors. Both have a wealth of experience in their areas of expertise; Jon in finance as a qualified chartered accountant and former Group Finance Director with Urban&Civic Plc and Jeremy, a qualified surveyor and Director of Savills UK Limited and we welcome them both to the Board.

On 14th July 2016, at the conclusion of the Annual General Meeting, David Thomas stood down as Chairman of the Company and was succeeded by Richard Grainger. At the same time Jon Austen took over as Chairman of the Audit & Risk Committee and Nick Shepherd took over as Chairman of the Remuneration Committee.

In September 2016, we were pleased to welcome Tom Elliott, who joined us from Land Securities PLC. Tom was appointed to the Board as an executive Director on 1st April 2017, replacing Steven Mew who resigned from the Board on 21st September 2016.

Finally, Viscount Lifford and I will both be stepping down from the Board and its Committees during 2017 having served for over ten years. I stand down from the Board and Committees as of 22nd May, and Viscount Lifford will be stepping down from the Board and its Committees in September 2017. His role as Senior Independent non-executive Director will be undertaken thereafter by Jon Austen. I have enjoyed my time with McKay tremendously and was delighted to be able to oversee this final phase of Board changes.

Following this completion of succession planning, the Board will have the appropriate balance of skills, experience, independence and knowledge to enable it to discharge its duties and responsibilities effectively and therefore be compliant with Section B of the UK Corporate Governance Code.

Nigel Aslin
Former Chairman of the Nomination Committee

19th May 2017

Committee membership

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

J. Bates MRICS	–	Chairman (from 1st April 2017)
N. Aslin FRICS	–	Chairman (to 1st April 2017 and Committee member to 22nd May 2017)

J. Austen FCA (from 1st July 2016)
R. Grainger ACA
Viscount Lifford
N. Shepherd FRICS
S. Perkins MRICS
D. Thomas FCA (to 14th July 2016)

The Committee met four times in the last year. Attendance of the Committee meetings is set out in the table in the Directors' Report on page 39.

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
- reviewing the equality and diversity policy of the Company; and making recommendations to the Board concerning the re-election of Directors by shareholders.

Succession planning

The Nomination Committee considers the succession planning for Directors and other senior executives and ensures a formal, rigorous and transparent procedure for the appointment of new Directors.

Main activities of the Committee during the year

During 2016 the Committee focused on the final phase of its planned programme to refresh the composition of the Board and comply with the UK Corporate Governance Code requirements for Board independence.

Independent executive search consultants Spencer Stuart were engaged with regard to the appointments of Mr J. Austen, Mr T. Elliott and Mr J. Bates. Spencer Stuart has no other connection nor provided any other services to the Company. A description of the role and capabilities required for each appointment was prepared and a list of potential candidates was compiled. Each list comprised of male and female candidates and their skills, experience and background were assessed. A shortlist of three candidates for each position was interviewed by the Chairman of the Committee and the CEO. The selected candidate was then invited to meet with the Committee and recommended to the Board for appointment.

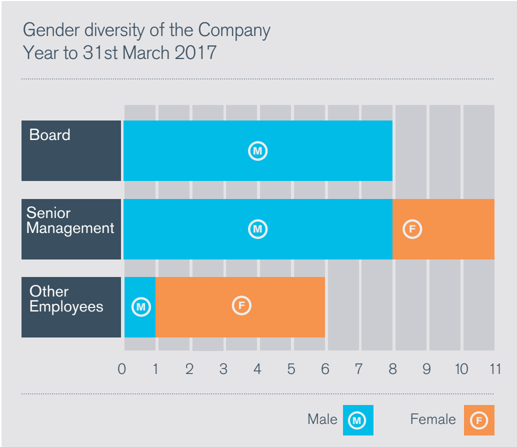
Following the notification in March 2016 by Mr S. Mew of his decision to leave the Company, Spencer Stuart was engaged in the search for his replacement. A list was drawn up from a diverse pool of male and female potential candidates with the required expertise, experience and knowledge in the sector. After a series of interviews, the Company announced in July 2016 the appointment of Mr Tom Elliott. Mr Elliott joined McKay from Land Securities Group PLC in September 2016 and was invited to join the Board as an executive Director on 1st April 2017.

Policy on diversity

The Company is committed to treating all employees equally and considers all aspects of diversity, including gender, when considering recruitment at any level of the business. The Board supports the principle of the Hampton-Alexander review for greater female representation on the Board and ensures that any list of candidates for any Board position includes both male and female candidates with a wide range of backgrounds. However, the Board is mindful that the right balance of skills and experience of the candidate is key and therefore all candidates are considered on merit and no diversity targets are set.

The Board takes overall responsibility for the development of equality and diversity and ensures that progress is reviewed and further actions taken as necessary.

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 2017. 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 and demonstrated commitment to their roles, providing a range of skills, experience and independence.

Re-election of Directors

The Board has reviewed its approach to the re-election of Directors at the Company's Annual General Meeting ('AGM') and notwithstanding that it is not in the FTSE 350, has decided to adopt Code Provision B.7.1. of the 2014 UK Corporate Governance Code. Therefore, all Directors of the Company will be subject to re-election at the 2017 AGM. Mr J. Bates and Mr T. Elliott having been appointed since the last AGM, being eligible, will offer themselves for election. The biographical details of the Directors are available on pages pages 32 and 33.

NICK SHEPHERD
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

I was very pleased to take over the role of Remuneration Committee Chairman from Viscount Lifford following last year's AGM.

At the 2017 AGM we will be tabling a binding resolution to seek shareholder approval to renew our existing Directors' remuneration policy, for which shareholder approval was obtained in 2014. Binding resolutions will also be tabled to seek approval for: (i) the renewal of our existing Performance Share Plan which is reaching the end of its 10 year life, and (ii) the establishment of a Deferred Share Bonus Plan which will operate in conjunction with our existing annual bonus plan, thereby allowing the continuation of our policy of deferring a portion of our executive Directors' annual bonus into shares. In addition, the regular advisory resolution to approve the Annual Report on Remuneration will also be tabled.

As we are seeking shareholder approval for the renewal of our policy (and as required by the relevant Regulations), this Report is split into three sections:

- this introductory letter,
- the proposed new Directors' Remuneration Policy, and
- the Annual Report on Remuneration

Policy renewal

In contemplation of the need to renew our existing policy, the Remuneration Committee conducted a full review of our current approach to senior executive remuneration. Following the conclusion of this review, the Committee believes that the current structure should be retained, albeit with certain minor changes that (i) reflect developments in best practice that have occurred since our existing policy was established and (ii) ensure that our policy is directly aligned with McKay's circumstances and strategic objectives.

Our review was conducted in an environment of unprecedented focus on executive remuneration. The Committee continues to keep abreast of all relevant developments in market and best practice in this area, while also ensuring that the policies and practices it adopts are appropriate for McKay and have the overriding aim of aligning the long term interests of our executive Directors and shareholders. We conducted a consultation with our major shareholders as part of the policy review process and were pleased that the responses we received were supportive of our proposals.

McKay continues to deliver growth based on clear strategic objectives. McKay is delivering growth in adjusted profit before tax, gross rental income, Earnings per Share and property portfolio value. Key redevelopment schemes in Reading and Redhill are completed and being marketed, with the redevelopment of 30 Lombard Street, EC3 on schedule for completion in mid 2018. We are well financed and have the ability to generate growth from our programme of development and refurbishment projects and management initiatives within our existing portfolio. While we accept that the world is a more uncertain place than it was a few years ago, McKay is in good shape to continue to deliver value for our shareholders.

This strong performance has been driven by the commitment of our senior executive team, headed by Simon Perkins (CEO) and Giles Salmon (CFO) and further enhanced by the appointment of Tom Elliott in September 2016 (who joined the Board in April 2017). It is therefore important that we continue to offer remuneration packages that ensure the retention and incentivisation of this strong team, albeit in a considered and prudent manner.

The underlying current structure of our existing executive Directors' remuneration policy can be summarised as follows:

Base salary
- Set to recruit and reward executives of the quality required and with the appropriate skills to manage and develop the Group successfully

Pension
- Maximum 20% of base salary

Other benefits
- Includes car allowance, private medical and life insurance

Annual bonus
- 75% of salary opportunity
- Payable subject to absolute NAV per share (as to 60% of the bonus) and absolute EPS (40% of bonus) growth targets
- Any bonus in excess of 50% of salary is deferred into shares for 3 years*
- Malus/clawback provisions operate for one year post payment*

LTIP
- Regular annual awards under the Performance Share Plan
- Policy award level of 100% of salary that vest three years later subject to absolute NAV per share growth targets (as to 40% of the award) and relative TSR targets (60% of award)
- Two year post vesting holding period applies for 2015 awards onwards*
- Malus/clawback provisions operate for one year post vesting*

Share ownership guidelines
- 200% of salary*

*feature introduced/enhanced voluntarily by McKay since the existing policy was established to ensure policy continued to take due account of best practice developments and which will be formalised as part of this policy review process.

As noted above, we are not proposing any material changes as part of the policy renewal process. The main features of our new policy are as follows:

Base salary
- No change to underlying approach
- To reflect best practice, an overriding cap on base salaries of £500,000 per executive will be included, although this should not be viewed as any indication of likely salary levels over the policy period

Pension
- No change

Other benefits
- No change save that, to reflect best practice, an overriding cap on the value of benefits of £75,000 per executive will be included (NB current benefit levels are substantially below this cap and are not expected to increase materially during the life of the new policy)

Annual bonus
- 75% of salary opportunity will be retained for 2017/18
- Flexibility will be reserved to increase bonus opportunity to up to a more market standard 100% of salary over 2018/19 and/or 2019/20 if the Committee considers it appropriate to do so
- Flexibility will be reserved to use such financial and non-financial metrics as the Committee considers appropriate. However, for 2017/18 the bonus will continue to be payable based on absolute NAV per share and absolute EPS growth targets save that the weighting will be changed to 40:60 from the current 60:40 to reflect McKay's focus on income generation and its REIT status. The bonus targets will be set in light of internal and external forecasts
- The Committee will also retain the flexibility to adjust the bonus outturn if it believes that this outturn does not reflect overall performance and/or shareholders' experience
- Any bonus in excess of 50% of salary will continue to be deferred into shares for 3 years, with awards made under the proposed new Deferred Share Bonus Plan. To reflect market practice and further align the interests of management and shareholders, dividends declared over the shares during the deferral period will be accrued
- Malus/clawback provisions will continue to operate but, to reflect best practice, their application will be extended to three years post payment (from the current one year)

LTIP
- Annual awards will continue to be made under the proposed new Performance Share Plan with a policy award level of 100% of salary (with a "normal" maximum of 150% and an "exceptional circumstances" maximum of 200%)
- Awards will continue to vest after three years subject to performance targets. Flexibility will be reserved to use such financial and non-financial metrics as the Committee considers appropriate. For the 2017/18 grants, these targets will continue to be based on absolute NAV per share growth (as to 40% of the award) and relative TSR (60% of award). As with the bonus targets, the PSP targets will be set in light of internal and external forecasts, with the Committee also retaining the flexibility to adjust the vesting outturn if it believes that this outturn does not reflect overall performance and/or shareholders' experience
- The two year post vesting holding period will continue to apply, as will malus/clawback save that (as with the bonus and to reflect best practice) their application will be extended to three years post vesting (from the current one year)

Share ownership guidelines
- Remain at 200% of salary

Finally, as part of the policy review process, we also reviewed the fees payable to the Company Chairman. The current fee of £61,500 was found to be substantially below the appropriate rate given the size and complexity of the role. As such, we have agreed to increase the Chairman's fee to £90,000 (which would still be conservatively positioned), with this increase made on a phased basis over the next two years i.e. £80,000 for 2017/18, increasing to £90,000 in 2018/19 (assuming the Committee considers this second increase appropriate at the relevant time).

Furthermore, again to reflect market practice, we are introducing the concept of paying NEDs supplementary fees to reflect additional responsibilities (e.g. chairing Board Committees). Again, the NEDs' fees will remain conservatively positioned following the introduction of this approach.

Other committee activities during the year

In addition to undertaking the policy review, the Committee addressed the following other matters during the course of, and in relation to, the 2016/17 financial year:

- Determining the executive Directors' base salary levels for 2017/18 (Simon Perkins – £383,500, Giles Salmon – £251,000, Tom Elliott – £220,000)
- Agreeing the termination arrangements of Steven Mew who left the Board on 21st September 2016, full details of which are set out on page 55
- Setting the executive Directors' bonus targets for 2016/17 and agreeing the ultimate outturn. The targets were a blend of challenging absolute NAV per share (as to 60% of the bonus) and absolute EPS (40% of bonus) growth targets. Based on performance against these targets (which is more fully described on page 55 bonuses of 28% of salary were payable to Simon Perkins and Giles Salmon
- Determining vesting of the 8th grant of the PSP award (awarded in 2014) which reached the end of the 3 year performance period on 31st March 2017, as described more fully on page 53
- Overseeing the final grant under the 2007 PSP in 2016/17 which was made over shares worth 100% of salary to Simon Perkins and Giles Salmon which vest subject to the achievement of a blend of challenging absolute NAV per share growth targets (as to 40% of the award) and relative TSR targets (60% of award)
- Agreeing the terms upon which Tom Elliott joined the Board
- Appointing FIT Remuneration Consultants as new independent advisors to the Committee

Conclusion

I hope you are supportive of the approach we intend to adopt going forward – which is a continuation of our prudent/responsible approach to remuneration at McKay, with the minor changes outlined above ensuring that our policy continues to reflect best practice and the Company's evolving strategy – and that you will therefore vote in favour of the four remuneration-related resolutions that are to be tabled at the forthcoming AGM.

Nick Shepherd
Chairman of the Remuneration Committee

19th May 2017

Introduction

The Directors' Remuneration Policy Report and the Directors' Annual Remuneration Report set out the information required by Part 4 of Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"). The report also satisfies the relevant requirements of the Listing Rules of the Financial Conduct Authority, and describes how the Board has applied the principles and complied with the provisions relating to Directors' remuneration in the UK Corporate Governance Code.

The auditors have reported on certain sections of the Annual Report on Remuneration and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those sections subject to audit are clearly indicated.

The Remuneration Committee has been established by the Board and is responsible for the remuneration of the executive Directors and the Chairman. The Committee's terms of reference are available in full on the Company's website or from the Company Secretary on request.

The table below summarises the Committee's future policy on the remuneration of executive Directors which, if approved by shareholders at the forthcoming Annual General Meeting on 6th July 2017, will replace the existing policy for which shareholder approval was obtained at the 2014 Annual General Meeting, and will become binding immediately thereafter. The material differences between the existing and proposed new policy (which has also been designed with due account taken of the UK Corporate Governance Code) are explained in the statement by the Committee Chairman and in the table below. It is currently intended that the policy will remain valid until the 2020 Annual General Meeting.

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 incentivise executive Directors of the quality required and with the appropriate skills to manage and develop the Group successfully. When determining the structure of remuneration, the Committee ensures that

(i) inappropriate risk-taking is neither encouraged nor rewarded and

(ii) the Company's policies and practices support the long term success of the Company with a sensible balance struck between fixed and performance linked pay and the use of different performance metrics measured over differing periods.

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. and the market generally. Paid on a monthly basis.	The Committee is guided by the general salary 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. However, a formal cap on salaries will apply such that no incumbent executive Director's base salary shall be increased beyond £500,000.	N/A
Benefits	To provide appropriate levels of benefits to executives of the quality required and appropriate skills to manage and develop the Group successfully.	The Company typically provides: ● Car allowance (paid monthly) ● Medical insurance ● Life assurance The Committee reserves the discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice. Where appropriate, the Company will meet certain costs relating to executive Director relocations (which are not subject to the benefits cap).	The aggregate value of any benefits provided to any single Director will not exceed £75,000.	N/A
Pension	To provide appropriate levels of pension provision to executives of the quality required and appropriate skills to manage and develop the Group successfully.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance (or all) can be paid as a cash supplement.	Up to 20% of salary	N/A
Annual bonus	To incentivise and reward the delivery of the Company's strategic objectives.	Annual bonus plan levels and the appropriateness of measures are reviewed annually as close as is practicable to the commencement of each financial year to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Committee considers it to be necessary in its opinion to make appropriate adjustments. Annual bonus plan outcomes are paid in cash up to 50% of salary, with 3 year deferral into shares for outcomes greater than 50% of salary. The number of shares subject to vested deferred share awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of any deferral period. Malus/clawback provisions apply in the event of material misstatement, error or misconduct up to three years following the relevant payment date.	Up to 100% of salary. For 2017/18, the maximum bonus opportunity will be 75% of salary.	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. Where a sliding scale of targets is used, attaining the threshold level of performance for any measure will not typically produce a pay-out of more than 30% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance. The Committee will also retain the flexibility to adjust the bonus outturn based upon a formulaic assessment of performance against the targets if it believes that this outturn does not reflect overall performance and/or shareholders' experience.
Performance Share Plan ('PSP')	To incentivise and reward the delivery of the Company's strategic objectives. and to provide further alignment with shareholders through the use of shares and to aid retention.	Awards under the PSP may be granted as nil/nominal cost options or conditional awards which vest to the extent performance conditions are satisfied over a period of at least three years. A two year posting vesting holding period will also normally apply. Part/all of vested awards may also be settled in cash. The PSP rules allow that the number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of any vesting period. Clawback and malus provisions apply in the event of material misstatement, error or misconduct up to three years following the relevant vesting date.	Normal grant policy: Up to 100% of salary pa Maximum normal grant level: Up to 150% of salary pa Exceptional grant level: Up to 200% of salary pa	The Committee may set such performance conditions on PSP awards as it considers appropriate, whether financial or non-financial and whether corporate, divisional or individual. Performance periods may be over such periods as the Committee selects at grant, which will not be less than, but may be longer than, three years. No more than 25% of awards vest for attaining the threshold level of performance conditions.

Non-executive Director fees	To attract and retain a high-calibre Chairman and non-executive Directors by offering appropriate fees.	The fees paid to the Chairman and non-executive Directors are set by reference to comparability with other similarly sized companies within the sector and the market generally. The fees payable to the non-executive Directors are determined by the Board, with the Chairman's fees determined by the Committee. The Chairman and non-executive Directors will not participate in any cash or share incentive arrangements. The Company reserves the right to provide benefits including travel and office support. Fees are paid on a monthly basis	When determining fee increases, the Company is guided by the general increase for the broader employee population and market conditions but on occasion may need to recognise, for example, change in responsibility, time commitment and/or market movements. The aggregate fees and any benefits of the Chairman and non-executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees.	N/A

Notes

1. Executive Directors are required to build a holding of shares in the Company to the value of 200% of 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 and PSP are based on performance against targets that are aligned with the Company's short, medium and long term strategic plan. Where appropriate, a sliding scale of targets is set for each metric to encourage continuous improvement and the delivery of stretch performance.
4. There are currently no material differences in the broad structure of remuneration arrangements for the executive Directors and the general employee population, aside from participation rates in incentive schemes. While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. To the extent that the Group's pay policy for Directors differs from its pay policies for groups of staff, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the executive Directors' remuneration policy.
5. 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.
6. The Regulations and related investor guidance encourages companies to disclose a cap within which each element of the Directors' remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' remuneration policy, these will operate simply as caps and are not indicative of any aspiration.
7. While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for Directors and in exceptional circumstances their families, may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.
8. The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

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 the operation of our remuneration practices. 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 (subject to issues of commercial sensitivity).

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 takes due account of employees' views when determining the design of the Company's senior executive remuneration policy although, reflecting typical current practice, the Committee does not formally consult with employees when determining remuneration of the executive Directors.

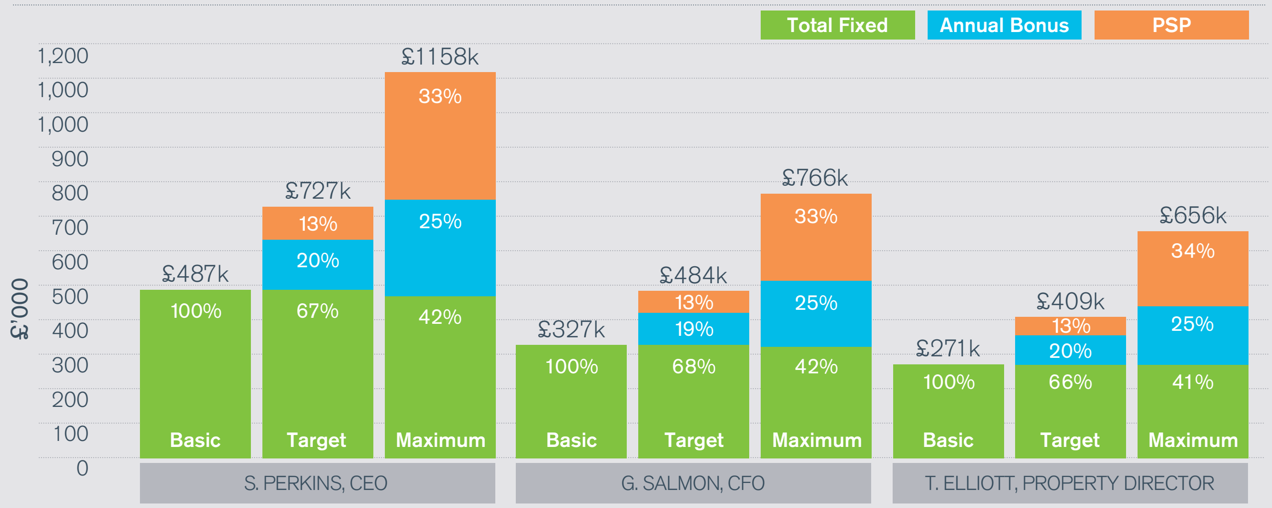
External appointments

The Company's policy is to permit an executive Director to serve as a non-executive Director elsewhere when this does not conflict with the individual's duties to the Company, and where an executive Director takes such a role they may be entitled to retain any fees which they earn from that appointment. Such appointments are subject to approval by the Chairman. At present no executive Director holds any such external appointments.

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 only), target and maximum levels.

Value of the gross remuneration packages at different levels of performance.



Basic

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid in 2017/18.
- Benefits measured as benefits paid in the year ended 31 March 2017 as set out in the single figure table (an estimated figure is used for Tom Elliott).
- Pension measured as the defined contribution or cash allowance in lieu of Company contributions of up to 20% of salary.

£,000	Base Salary	Benefits	Pension	Total Fixed
S. Perkins	384	27	77	487
G. Salmon	251	31	45	327
T. Elliott	220	25	26	271

Target

Based on what the Director would receive if performance was on target (excl. share price appreciation and dividends):

- Annual Bonus: consists of the on-target bonus (50% of maximum opportunity of 75% of salary used for illustrative purposes).
- PSP: consists of the threshold level of vesting (25% vesting) of awards of 100% of salary under PSP.

Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):

- Annual Bonus: consists of maximum bonus of 75% of base salary.
- PSP: consists of the face value of awards of 100% of salary under PSP.

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 (which are available for inspection at the Company's head office) are subject to six months' notice by the executive Director. The service contracts are dated as follows:

Executive Director	Date of service contract
S. Perkins	16th March 2004
G. Salmon	2nd May 2011
S. Mew[1]	16th March 2004
T. Elliott[2]	8th July 2016

[1]Steven Mew left the Board on 21st September 2016.
[2]Tom Elliott joined the Board on 1st April 2017.

The non-executive Directors have rolling terms of appointment, providing for them to retire by rotation in accordance with the Articles of Association. In line with the UK Corporate Governance Code all Directors will submit themselves for re-election annually. The terms of appointment for the non-executive Directors are dated as follows:

Non-Executive Director	Date of service contract
D. Thomas[1]	31st August 2005
N. Aslin[2]	2nd May 2006
Viscount Lifford	29th August 2006
R. Grainger	1st May 2014
N. Shepherd	21st January 2015
J. Austen[3]	13th April 2016
J. Bates[4]	17th January 2017

[1]David Thomas left the Board on 14th July 2016.
[2]Nigel Aslin will leave the Board on 22nd May 2017.
[3]Jon Austen joined the Board on 1st July 2016.
[4]Jeremy Bates joined the Board on 18th January 2017.

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 increase once expertise and performance has been proven and sustained. The caps on fixed pay in the policy table will not apply to a new recruit, as provided for in the Regulations. The annual bonus potential would be limited to 100% 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.

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 up to 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 normally be pro-rated and paid at the normal pay-out 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 normally 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. Deferred share awards would normally vest on cessation (save where "good leaver" status is not conferred).

Committee role and membership

The Committee consists solely of non-executive Directors. The members of the Committee who served during the year are:

N. Shepherd – Chairman
N. Aslin
J. Austen (from 1st July 2016)
R. Grainger
Viscount Lifford
J. Bates (from 18th January 2017)
D. Thomas (to 14th July 2016)

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
N. Shepherd	4 out of 4
N. Aslin	3 out of 4
Viscount Lifford	3 out of 4
J. Austen[1]	3 out of 3
R. Grainger	4 out of 4
J. Bates[2]	1 out of 1
D. Thomas[3]	0 out of 0

[1]Jon Austen joined the Committee on 1st July 2016.
[2]David Thomas left the Committee on 14th July 2016.
[3]Jeremy Bates joined the Committee on 18th January 2017.

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 originally 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 £2,480. 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.

During the year the Committee undertook a review of its advisors, resulting in the appointment of FIT Remuneration Consultants LLP ("FIT"). From its appointment, the Committee received independent advice from FIT on a range of remuneration issues. FIT has no other connection nor does it provide any other services to the Company. Total fees paid to FIT in respect of its services to the Committee during the year were £50,590. FIT 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.

Directors' remuneration for the year ended 31st March 2017 (audited)

The remuneration of the Directors for the years 2017 and 2016 was as follows

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. Perkins	2017	376	27	66	106	115	690
	2016	358	23	68	251	497	1,197
S. Mew[1]	2017	125	9	21	–	–	155
	2016	255	24	45	179	354	857
G. Salmon	2017	246	31	40	69	71	457
	2016	230	22	41	162	303	758
Non-executive							
R. Grainger[2]	2017	54	–	–	–	–	54
	2016	36	–	–	–	–	36
D. Thomas[3]	2017	21	–	–	–	–	21
	2016	59	–	–	–	–	59
Viscount Lifford	2017	37	–	–	–	–	37
	2016	36	–	–	–	–	36
N. Aslin	2017	37	–	–	–	–	37
	2016	36	–	–	–	–	36
N. Shepherd	2017	37	–	–	–	–	37
	2016	36	–	–	–	–	36
J. Austen[4]	2017	28	–	–	–	–	28
	2016	–	–	–	–	–	–
J. Bates[5]	2017	8	–	–	–	–	8
	2016	–	–	–	–	–	–

[1]Steven Mew left the Board on 21st September 2016. Details of his termination arrangements can be found on page 55.
[2]Richard Grainger became Company Chairman on 14th July 2016.
[3]David Thomas left the Board on 14th July 2016.
[4]Jon Austen joined the Board on 1st July 2016.
[5]Jeremy Bates joined the Board on 18th January 2017.

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 2017 was based on performance against NAV per share 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 + 3%	0% of salary (maximum: 45%)
EPS growth	40%	90%	110%	108%	28% of salary (maximum: 30%)
Total					28%

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 11th June 2014 is subject to performance to the year ended 31st March 2017. 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 NAV per share growth of RPIX + 6% to 25% (full vesting) over three financial years	RPIX + 6%	RPIX + 25%	>RPIX + 25%	40%
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	<Median	0%
Total vesting						40%

Based on the estimated vesting percentage above, details of the shares under award and their estimated value (based on the share price at 31st March 2017 of £2.10 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. Perkins	137,004	54,802	82,202	115
G. Salmon	84,317	33,727	50,590	71

Steven Mew's unvested PSP awards lapsed when he ceased employment.

Details of PSP awards granted in the year (audited)

The following award was granted to the executive Directors on 16th June 2016:

	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. Perkins	Nil-cost option	100% of salary	£2.07	181,643	£376,000	25%	Three financial years
G. Salmon	Nil-cost option	100% of salary	£2.07	118,841	£246,000	25%	to 31st March 2019

Details of outstanding share awards (audited)

	31st March 2016 Number of shares	Granted in 2016/17 Number of shares	Vested in 2016/17 Number of shares	Lapsed in 2016/17 Number of shares	31st March 2017 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
S. Perkins								
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
2016 PSP		181,643	–	–	181,643	2.07	16.06.2019	15.06.2022
					459,039			
S. Mew								
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
					–			
G. Salmon								
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
2016 PSP		118,841	–	–	118,841	2.07	16.06.2019	15.06.2022
					293,354			
S. Perkins								
2013 Defered bonus	15,208	–	15,208	–	–	1.49	24.07.2016	23.07.2019
2016 Defered bonus	–	34,996	–	–	34,996	2.07	16.06.2019	15.06.2022
					34,996			
S. Mew								
2013 Defered bonus	10,827	–	–	10,827	–	1.49	–	–
					–			
G. Salmon								
2013 Defered bonus	9,012	–	9,012	–	–	1.49	24.07.2016	23.07.2019
2016 Defered bonus	–	22,484	–	–	22,484	2.07	16.06.2019	15.06.2022
					22,484			

Statement of Directors' shareholdings and share interests (audited)

	Beneficially owned at 31st March 2016	Beneficially owned at 31st March 2017	Outstanding PSP performance awards	Outstanding deferred bonus awards	[1]Shareholding as a % of salary
S. Perkins	210,000	[2]289,336	459,039	34,996	162
S. Mew	134,719	n/a	n/a	n/a	n/a
G. Salmon	87,366	123,692	293,354	22,484	106
D. Thomas	151,642	n/a			
Viscount Lifford	70,000	100,000			
N. Aslin	90,000	90,000			
R. Grainger	10,000	25,000			
N. Shepherd	6,925	15,575			
J. Austen	n/a	10,000			
J. Bates	n/a	–			

[1]Based on share price as at 31st March 2017 of £2.10 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 200% of salary.

Payments within the year to past Directors
No payments were made to past Directors in the year ended 31st March 2017.

Loss of office payments
Steven Mew left the Board on 21st September 2016, having served notice to terminate his employment on 21st March 2016. In accordance with his service contract, he continued to receive salary, pension and other benefits up to his termination date. It was agreed that his 2015/16 bonus should be paid entirely in cash. His outstanding deferred share bonus awards and PSP awards lapsed upon his termination. He received no bonus for the year to 31st March 2017.

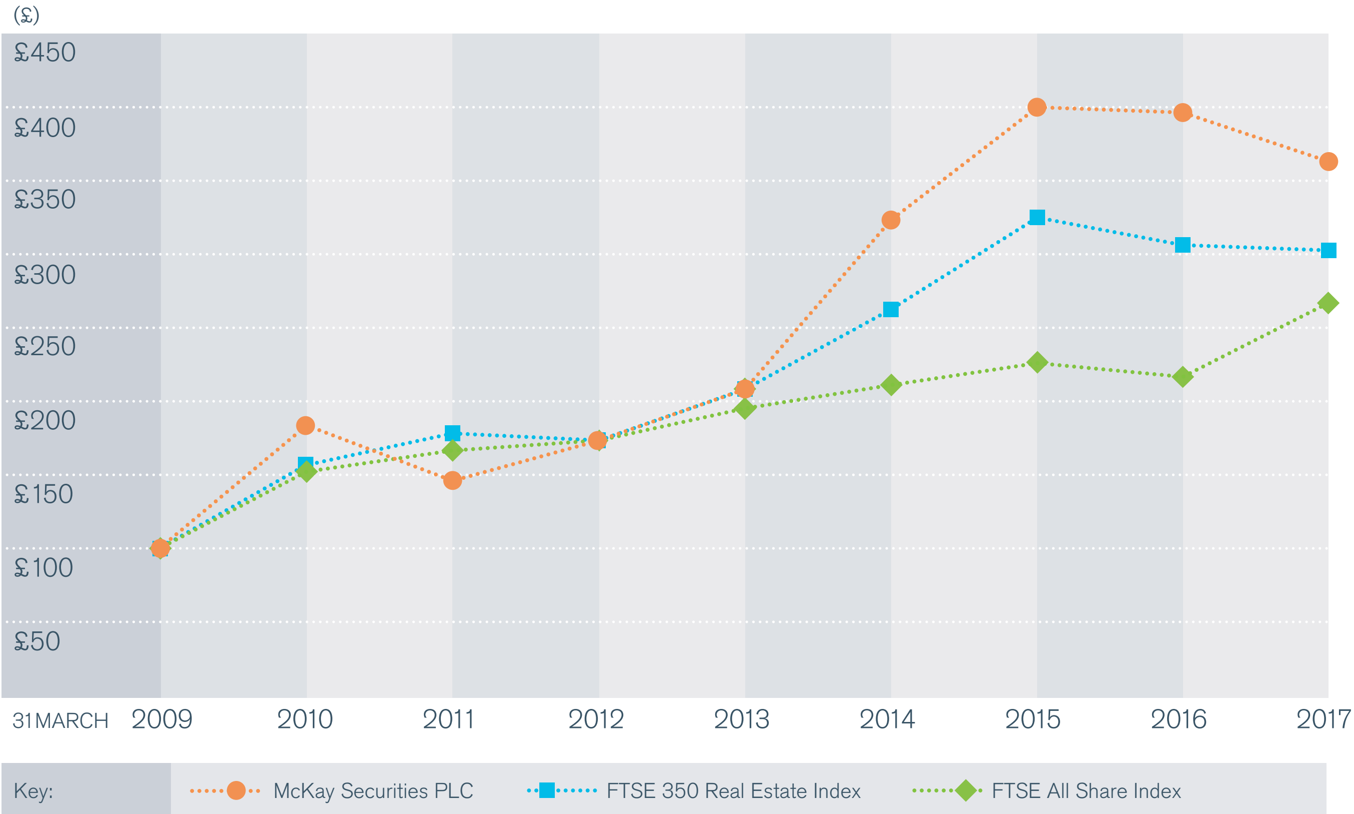
Percentage change in the remuneration of the Chief Executive Officer
The table below shows the percentage change in the Chief Executive Officer's total remuneration (excluding the value of any long term incentives and pension benefits receivable in the year) between 2015/2016 and 2016/2017 compared to that of the average for all employees of the Group.

	% Change from 2015/2016 to 2016/2017		
	Remuneration	Benefits	Bonus
Chief Executive Officer	-21%	17%	-58%
Average employees	9%	14%	-50%

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 eight 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 eight 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.

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Total remuneration (£'000)	£409	£309	£410	£413	£802	£1,139	£1,197	£690
Annual bonus (% of salary)	38	0	10	13	45	55	70	28
LTIP vesting (% of max)	27	0	0	0	60	100	100	40

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	2016/2017	% change
Staff costs (£'m)	£4.2	£4.1	(2.4)%
Dividends (£'m)	[1]£8.2	£8.4	2.3%

£1.1 million of the staff costs in 2016/17 figures relate 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 6.3 pence per share will be paid on 93.81 million shares (93.16 million for 2015/16).

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*	63,895,935	99.66%
Proxy votes cast against	217,937	0.44%
Total votes cast	64,113,872	100.00%
Proxy votes withheld	6,000	

*includes discretionary votes of 65,500.

The disclosure on Directors' remuneration in the tables on pages 52 to 55 has been audited.

Implementation of the Remuneration Policy for the year ending 31st March 2018

Salaries

The executive Directors' salaries were reviewed by the Committee in February 2017 and it was concluded that they should be increased by 2% (reflecting the general workforce increase). Therefore, base salaries for 2017/18 will be Simon Perkins – £383,500 and Giles Salmon – £251,000. Tom Elliott's base salary on joining the Board was £220,000.

Benefits in kind and pension

The Company will continue to operate 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 53.

Annual bonus scheme

The maximum bonus potential for 2017/18 will remain at 75% of basic salary. Performance will continue to be based on NAV growth per and absolute growth in EPS, with a revised weighting of 40:60 applied. Retrospective disclosure of the targets and performance against them will be incorporated within next year's Annual Remuneration Report as the Committee considers the targets commercially sensitive at this time. Deferral and clawback provisions will continue to apply.

Fees for the Chairman and non-executive Directors

As explained on page 46, the Chairman's fee will increase to £80,000 for 2017/18. In addition, the Chairman of the Remuneration Committee and Audit Committee will receive supplementary fees of £5,000 to reflect their additional responsibilities. Therefore, fees for 2017/18 will be as follows:

	Fees as at 1st April 2016	Fees as at 1st April 2017
R. Grainger	£36,900	£80,000
Viscount Lifford	£36,900	£38,500
N Aslin	£36,900	£38,500
N. Shepherd	£36,900	£43,500
J. Austen	£36,900	£43,500
J. Bates	£36,900	£38,500

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 per share growth (40% of award)	Growth of 6% in excess of RPIX	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. Clawback provisions will continue to apply, as will a two year post vesting holding period.

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
Nick Shepherd
Chairman of the Remuneration Committee

19th May 2017

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES
For the year ended 31st March 2017

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. Perkins
Chief Executive Officer

G. Salmon
Chief Financial Officer

19th May 2017

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 2017 set out on pages 62 to 86.

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 2017 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.

Overview		
Materiality: group financial statements as a whole	£4.4m (2016:£4.1m) 1% (2016: 1%) of total assets	
Lower materiality applied to certain items.	£0.43m (2016:£0.40m)	
Coverage	100% (2016:100%) of group profit before tax	
Risks of material misstatement		**vs 2016**
Recurring risks	Valuation of investment property	◀▶

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 2016):

	The risk	Our response
Valuation of investment property £423 million (2016: £399 million). *Refer to page 40 (Audit & Risk Committee Report), page 69 (accounting policy) and page 76 (financial disclosures).*	Investment properties represent 96% (2016: 96%) of gross assets of the Group. The portfolio comprises 36 (2016: 36) properties which are externally valued by a qualified independent valuer and held at fair value at the balance sheet date. Each property is unique and the fair value requires significant judgement 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 costs 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 procedures included: – **Valuer's competence and experience**: we assessed the valuer's objectivity, professional qualifications and capabilities through discussions with the valuer and reading their valuation report. – **Methodology choice**: we held discussions with the Group's external property valuer to determine the valuation methodology used. We used our own property valuation specialist to assist us in critically assessing the results of the valuer's work 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. – **Benchmarking assumptions**: with the assistance of our own property valuation specialist, we held discussions with the Group's external property valuer to understand movements in property values. For a sample of properties, we challenged the key assumptions upon which these 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 to industry benchmarks. – **Test of detail**: we compared a sample of key inputs used in the valuations, such as rental income and occupancy to the Group's property management system and lease contracts. For major properties under development, we assessed the progress of the development and leasing status and agreed the forecast costs to complete included in the valuations to management's project appraisals. **Assessing transparency:** we considered the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing 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 £4.4 million (2016: £4.1 million), determined with reference to a benchmark of total Group assets, of which it represents 1%.

In addition, we applied materiality of £0.43 million (2016: £0.40 million) to Net Rental Income from Investment Properties, Administration costs and 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 & Risk Committee any corrected or uncorrected misstatements exceeding £0.22 million (2016: £0.21 million), or £21,000 (2016: £20,000) for misstatements relating to procedures performed to the lower materiality. In addition we reported any other identified misstatements that warranted reporting on qualitative grounds.

The Group consists of a number of components, all of which are accounted for at the Group's head office. The Group audit team performed the audit of the all these components at the Group level as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% (2016: 100%) of total Group revenue, Group profit before taxation, and total Group assets.

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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 5 years to March 2022; 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 & Risk Committee Report does not appropriately address matters communicated by us to the Audit & Risk 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 23, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on page 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 37, 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.

Richard Kelly
(Senior Statutory Auditor)

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

19th May 2017

FINANCIAL STATEMENTS 2017

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March 2017

	Notes	2017 £'000	2016 £'000
Gross rents and service charges receivable	2	24,112	23,689
Other property income		1,648	–
Direct property outgoings		(5,888)	(6,025)
Net rental income from investment properties	**2**	**19,872**	**17,664**
Administration costs	3	(5,795)	(5,878)
Operating profit before gains on investment properties		**14,077**	**11,786**
Profit on disposal of investment properties		–	9,106
Revaluation of investment properties	11	7,617	34,564
Operating profit	**4**	**21,694**	**55,456**
Finance costs	6	(4,523)	(4,478)
Finance income	6	423	2,182
Profit before taxation		**17,594**	**53,160**
Taxation	7	–	–
Profit for the year		**17,594**	**53,160**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		(628)	(15)
Total comprehensive income for the year		**16,966**	**53,145**

	Notes	2017	2016
Earnings per share	9		
Basic		18.78p	57.17p
Diluted		18.63p	56.36p

Adjusted earnings per share figures are shown in note 9.

	Notes	2017 £'000	2016 £'000
Dividends	10		
Previous year's final dividend of 6.1p (2016: 6.0p) paid during the year		5,683	5,546
Interim dividend of 2.7p (2016: 2.7p) paid during the year		2,533	2,515
Proposed final dividend of 6.3p (2016: 6.1p)		5,910	5,683

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 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Investment properties — Valuation as reported by the valuers		429,915	401,170
— Adjustment for rents recognised in advance under SIC 15		(5,987)	(5,869)
— Assets held for sale		(5,500)	–
— Adjustment for grossing up of head leases	16	4,405	3,745
	11	422,833	399,046
Plant and equipment	12	62	91
Total non-current assets		422,895	399,137
Current assets			
Trade and other receivables	14	6,916	15,641
Assets held for sale	11	5,500	–
Cash and cash equivalents		4,485	–
Total current assets		16,901	15,641
Total assets		439,796	414,778
Current liabilities			
Loans and other borrowings	15	(34,973)	–
Trade and other payables	15	(11,298)	(10,938)
Finance lease liabilities	16	(285)	(286)
Interest rate derivatives	15	(2,159)	(2,944)
Bank overdraft		–	(261)
Total current liabilities		(48,715)	(14,429)
Non-current liabilities			
Loans and other borrowings	15	(99,127)	(113,701)
Pension fund deficit	24	(2,284)	(1,839)
Finance lease liabilities	16	(4,120)	(4,121)
Interest rate derivatives	15	(14,758)	(19,465)
Total non-current liabilities		(120,289)	(139,126)
Total liabilities		(169,004)	(153,555)
Net assets		270,792	261,223
Equity			
Called up share capital	19	18,762	18,632
Share premium account		78,929	77,708
Retained earnings		55,172	54,571
Revaluation reserve		117,929	110,312
Total equity		270,792	261,223
Net asset value per share	22	289p	280p
EPRA net asset value per share	22	303p	301p

These financial statements were approved by the Board of Directors on 19th May 2017 and were signed on its behalf by R. Grainger and S. Perkins

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31st March 2017

Registration number 421479

	Notes	2017 £'000	2016 £'000
Non-current assets			
Investment properties	11	391,232	371,302
Plant and equipment	12	62	91
Investments	13	22,176	23,806
Total non-current assets		413,470	395,199
Current assets			
Trade and other receivables	14	22,078	23,096
Assets held for sale	11	5,500	–
Cash and cash equivalents		4,485	–
Total current assets		32,063	23,096
Total assets		445,533	418,295
Current liabilities			
Loans and other borrowings	15	(34,973)	–
Trade and other payables	15	(37,561)	(45,149)
Finance lease liabilities		(180)	(180)
Interest rate derivatives	15	(2,159)	(2,944)
Bank overdraft		–	(261)
Total current liabilities		(74,873)	(48,534)
Non-current liabilities			
Loans and other borrowings	15	(99,127)	(113,701)
Pension fund deficit	24	(2,284)	(1,839)
Finance lease liabilities		(2,704)	(2,704)
Interest rate derivatives	15	(14,758)	(19,465)
Total non-current liabilities		(118,873)	(137,709)
Total liabilities		(193,746)	(186,243)
Net assets		251,787	232,052
Equity			
Called up share capital	19	18,762	18,632
Share premium account		78,929	77,708
Retained earnings		34,138	27,054
Revaluation reserve		119,958	108,658
Total equity		251,787	232,052

These financial statements were approved by the Board of Directors on 19th May 2017 and were signed on its behalf by R. Grainger and S. Perkins

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2017

	2017 £'000	2016 £'000
Operating activities		
Profit before tax	17,594	53,160
Adjustments for:		
Depreciation	32	18
Other non-cash movements	1,308	1,101
Profit on disposal of investment properties	–	(9,106)
Movement in revaluation of investment properties	(7,617)	(34,564)
Net finance costs	4,100	2,296
Cash flow from operations before changes in working capital	15,417	12,905
Decrease/(increase) in debtors	8,339	(5,027)
(Decrease)/increase in creditors	(1,178)	1,177
Cash generated from operations	22,578	9,055
Interest paid	(6,055)	(5,810)
Interest received	7	11
Cash flows from operating activities	16,530	3,256
Investing activities		
Proceeds from sale of investment properties	–	33,207
Proceeds from sale of investments	–	793
Purchase and development of investment properties	(18,478)	(37,660)
Purchase of other fixed assets	(3)	(45)
Cash flows from investing activities	(18,481)	(3,705)
Financing activities		
Increase in borrowings	19,989	21,986
Equity dividends paid	(8,216)	(8,061)
Swap cancellation fee	(5,076)	(13,165)
Cash flows from financing activities	6,697	760
Net increase in cash and cash equivalents	4,746	311
Cash and cash equivalents at the beginning of the year	(261)	(572)
Cash and cash equivalents at end of the year	4,485	(261)

COMPANY CASH FLOW STATEMENT

For the year ended 31st March 2017

	2017 £'000	2016 £'000
Operating activities		
Profit before tax	27,760	51,972
Adjustments for:		
Depreciation	32	18
Other non-cash movements	1,302	1,085
Profit on disposal of investment properties	–	(5,568)
Movement in revaluation of investment properties	(11,300)	(36,572)
Net finance costs	4,779	2,553
Cash flow from operations before changes in working capital	22,573	13,488
Decrease/(increase) in debtors	9,250	(11,318)
(Decrease)/increase in creditors	(16,025)	2,685
Cash generated from operations	15,798	4,855
Interest paid	(6,039)	(5,982)
Interest received	530	959
Cash flows from operating activities	10,289	(168)
Investing activities		
Proceeds from sale of investment properties	–	13,292
Returns from investment in subsidiary	–	19,319
Purchase and development of investment properties	(12,237)	(32,847)
Purchase of other fixed assets	(3)	(45)
Cash flows from investing activities	(12,240)	(281)
Financing activities		
Increase in borrowings	19,989	21,986
Equity dividends paid	(8,216)	(8,061)
Swap cancellation fee	(5,076)	(13,165)
Cash flows from financing activities	6,697	760
Net increase in cash and cash equivalents	4,746	311
Cash and cash equivalents at the beginning of the year	(261)	(572)
Cash and cash equivalents at end of the year	4,485	(261)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March 2017

	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 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 properties	–	–	(9,004)	9,004	–
Actuarial loss on defined benefit pension scheme	–	–	–	(15)	(15)
Total comprehensive income 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)
Cost of share based payments	–	–	–	644	644
At 31st March 2016	**18,632**	**77,708**	**110,312**	**54,571**	**261,223**
Profit for the year	–	–	–	17,594	17,594
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	7,617	(7,617)	–
Actuarial loss on defined benefit pension scheme	–	–	–	(628)	(628)
Total comprehensive income for the year	**–**	**–**	**7,617**	**9,349**	**16,966**
Issue of new shares net of costs	130	1,221	–	(1,351)	–
Dividends paid in year	–	–	–	(8,216)	(8,216)
Deferred bonus	–	–	–	128	128
Cost of share based payments	–	–	–	691	691
At 31st March 2017	**18,762**	**78,929**	**117,929**	**55,172**	**270,792**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2017

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 31st March 2015	18,486	75,917	65,125	27,984	187,512
Profit for the year	–	–	–	51,972	51,972
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)
Cost of share based payments	–	–	–	644	644
At 31st March 2016	**18,632**	**77,708**	**108,658**	**27,054**	**232,052**
Profit for the year	–	–	–	27,760	27,760
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	11,300	(11,300)	–
Actuarial loss on defined benefit pension scheme	–	–	–	(628)	(628)
Total comprehensive income for the year	–	–	11,300	15,832	27,132
Issue of new shares net of costs	130	1,221	–	(1,351)	–
Dividends paid in year	–	–	–	(8,216)	(8,216)
Deferred bonus	–	–	–	128	128
Cost of share based payments	–	–	–	691	691
At 31st March 2017	**18,762**	**78,929**	**119,958**	**34,138**	**251,787**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

1 Accounting policies

Basis of preparation

The Group and 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 £27,760,000 (2016: £51,972,000).

A number of accounting standards, amendments to and interpretations of standards become applicable for the first time this year. None had any material impact on the financial statements.

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.

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 subsidiary.

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

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.

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 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 Statement of Financial Position. 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 assets and 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 deductible, or taxable and deductible 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

	2017 £'000	2016 £'000
Gross rents receivable	20,672	19,413
SIC 15 adjustment (spreading of rental incentives)	118	746
Gross rental income	20,790	20,159
Service charges receivable	3,322	3,530
	24,112	23,689
Other property income	1,648	–
Direct property outgoings	(5,888)	(6,025)
	19,872	17,664

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

Other property income relates to rights of lights compensation received in respect of two properties in the portfolio.

3 Administration costs

Group	2017 £'000	2016 £'000
Directors' — remuneration	991	1,150
— bonus[1]	176	464
Staff — costs	1,342	792
— bonus	195	419
National Insurance	496	473
Pension costs — defined benefit scheme	57	57
— defined contributions	194	257
Share based payment accounting charge (IFRS 2)	691	624
	4,142	4,236
Depreciation (note 12)	32	18
Office costs	523	542
Legal and professional fees	1,073	1,059
General expenses	25	23
	5,795	5,878

[1]Amount charged to income in year to 31st March 2017.

The average number of persons employed by the Group and Company during the year was 18 (2016: 17).

Fees paid to auditor	2017 £'000	2016 £'000
Statutory audit services		
McKay Securities PLC audit	70	70
Subsidiary audits	2	3
Assurance services		
Interim review	19	19
Service charge audits	10	6
Taxation services		
Corporation tax compliance	47	42
	148	140
Future services – contracted fees		
XBRL tagging	7	5

Details of Directors' remuneration can be found on page 52 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.

	2017 £'000	2016 £'000
Profit before tax	17,594	53,160
Change in fair value of derivatives	(415)	(2,171)
Movement in revaluation of investment properties	(7,617)	(34,564)
Other property income (see note 2)	(1,648)	–
Profit on disposal of investment properties	–	(9,106)
IFRS 2 adjustment to share based payments	691	624
Adjusted profit before tax	8,605	7,943

6 Net finance costs

	2017 £'000	2016 £'000
Interest on bank overdraft and loans	5,269	5,450
Commitment fee	381	207
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	410	413
Capitalised interest (note 8)	(1,822)	(1,877)
	4,523	4,478
Fair value gain on derivatives	(415)	(2,171)
Interest receivable	(8)	(11)
	(423)	(2,182)
Net finance costs	4,100	2,296

7 Taxation

	2017 £'000	2016 £'000
Total tax in the Consolidated Profit or Loss and other Comprehensive Income	–	–

Reconciliation to effective rate of tax:		
Profit on ordinary activities before tax	17,594	53,160
Tax charge on profit at 20% (2016: 20%)	3,519	10,632
Effects of:		
REIT tax exemption	(3,519)	(10,632)
Permanent differences	–	–
Other timing differences	–	–
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 £1,821,970 (2016: £1,877,139) and relates to works to London, 30 Lombard Street, EC3; Reading, 9 Greyfriars Road; and Redhill, London Road.

Total development interest capitalised amounts to £10,890,628 (2016: £9,068,658).

9 Earnings per share

	2017 p	2016 p
Basic earnings per share	18.78	57.17
Change in fair value of derivatives	(0.44)	(2.34)
Movement in revaluation of investment properties	(8.13)	(37.17)
Other property income	(1.76)	–
Profit on disposal of investment properties	–	(9.79)
Adjusted profit for share based payments	0.74	0.67
Adjusted earnings per share	**9.19**	**8.54**

Basic earnings per share on ordinary shares is calculated on the profit in the year of £17,594,000 (2016: £53,160,000) and 93,659,703 (2016: 92,983,951) shares, being the weighted average number of ordinary shares in issue during the year.

	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares in issue	93,659,703	92,983,951
Number of shares under option	1,453,249	1,722,237
Number of shares that would have been issued at fair value	(656,745)	(399,554)
Diluted weighted average number of ordinary shares in issue	**94,456,207**	**94,306,634**

	2017 p	2016 p
Basic earnings per share	18.78	57.17
Effect of dilutive potential ordinary shares under option	(0.15)	(0.81)
Diluted earnings per share	18.63	56.36
Change in fair value of derivatives	(0.44)	(2.30)
Movement in revaluation of investment properties	(8.07)	(36.65)
Other property income	(1.74)	–
Profit on disposal of investment properties	–	(9.65)
EPRA diluted earnings per share	**8.38**	**7.76**

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 94,456,207 (2016: 94,306,634) 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 2017, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2016 and interim for 2017 paid in the year are included in the Consolidated Statement of Changes in Equity on page 67.

	2017 £'000	2016 £'000
Ordinary dividends		
Previous year's final dividend of 6.1p paid during the year	5,683	5,546
Interim dividend of 2.7p (2016: 2.7p) paid during the year	2,533	2,515
Total recognised in financial statements	**8,216**	**8,061**
Proposed final dividend of 6.3p (2016: 6.1p)	**5,910**	**5,683**

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 2016	343,439	55,607	399,046	343,438	27,864	371,302
Additions – development	13,753	7,918	21,671	13,753	377	14,130
Revaluation surplus/(deficit)	11,522	(4,448)	7,074	11,523	(518)	11,005
Adjustment for rents recognised in advance under SIC 15	4	(122)	(118)	4	(122)	(118)
Head lease adjustment	–	661	661	–	413	413
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	–	–
Book value as at 31st March 2017	**368,718**	**59,615**	**428,333**	**368,718**	**28,014**	**396,732**
Adjustment for grossing up of headlease liabilities	–	(4,405)	(4,405)	–	(2,884)	(2,884)
Adjustment for rents recognised in advance under SIC 15	5,567	420	5,987	5,567	420	5,987
Valuation as at 31st March 2017	**374,285**	**55,630**	**429,915**	**374,285**	**25,550**	**399,835**

	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**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2017. 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 £302 million (2016: £280 million) for the Group and £269 million (2016: £255 million) for the Company.

The amount of interest capitalised during the year was £1,821,970 (2016: £1,877,139). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

Assets held for sale consist of Pinehurst Park, Farnborough for which the Group has exchanged unconditional contracts to complete in November 2017. As the Group will continue to receive rental income and retains managerial responsibility for the property until completion, the risks and rewards of ownership are not considered to have transferred by 31st March 2017.

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 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. 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 £7.6 million (2016: £34.6 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:

Valuation technique	London Offices Income Capitalisation	South East Offices Income Capitalisation	South East Industrial Income capitalisation
Fair value	£78,900,000	£256,225,000	£73,990,000
ERV (per sq ft pa) – average	£55.97	£25.97	£8.94
ERV (per sq ft pa) – range	£10.00-£81.00	£5.00-£43.33	£4.48-£13.09
True equivalent yield – average	5.07%	7.44%	6.85%
True equivalent yield – range	4.63%-6.19%	5.47%-10.01%	5.29%-8.19%
Capital value per sq ft	£589	£332	£131

A further £20.80 million has been designated other and not included in the analysis above.

Definitions for ERV and True Equivalent Yield are provided in the glossary on page 87.

	Change in ERV		Change in equivalent yield	
Sensitivity analysis	+5%	-5%	+0.25%	-0.25%
Increase/(decrease) in value of investment properties	£18.8m	£(19.3)m	£(18.0)m	£20.3m

12 Plant and equipment

	2017 Group £'000	2017 Company £'000	2016 Group £'000	2016 Company £'000
Cost				
Opening	429	426	394	391
Additions	3	3	46	46
Disposals	(218)	(218)	(11)	(11)
Closing	214	211	429	426
Depreciation				
Opening	338	335	331	328
Charge for year	32	32	18	18
Disposals	(218)	(218)	(11)	(11)
Closing	152	149	338	335
Net book value	62	62	91	91

13 Investments

	Other investments £'000	Shares in subsidiary undertakings £'000	Investment in associated undertaking £'000	Total £'000
Company				
At 1st April 2016 and 31st March 2017	–	22,176	–	22,176

At 31st March 2017 McKay Securities PLC had the following wholly owned subsidiary undertakings all of which operate in England and are registered in England and Wales: 20 Greyfriars Road, Reading, Berkshire, RG1 1NL

Acreway Limited (in liquidation) Baldwin House 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 not worth less than the current book value.

14 Trade and other receivables

	2017 Group £'000	Company £'000	2016 Group £'000	Company £'000
Trade receivables	–	–	14	14
Amounts due from subsidiary undertakings	–	15,308	–	11,898
SIC 15 lease incentives	5,974	5,974	5,869	5,869
Other debtors and prepayments	942	796	9,758	5,315
	6,916	22,078	15,641	23,096

All the above debtors are receivable within one year except for lease incentives of £4,730,000 (2016: £4,702,000), 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:

	2017 £'000	2016 £'000
Less than three months due	–	9
Between three and six months due	–	4
Between six and twelve months due	–	1
	–	14

The Group holds no collateral in respect of these receivables.

15 Liabilities

	2017 Group £'000	Company £'000	2016 Group £'000	Company £'000
Trade and other payables				
Rent received in advance	5,328	5,311	4,866	4,845
Other taxation and social security costs	1,969	1,969	80	–
Amounts owed to subsidiary undertakings	–	26,286	–	34,810
Other creditors and accruals	4,001	3,995	5,992	5,494
	11,298	37,561	10,938	45,149

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 8 days (2016: 25 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:

	2017 £'000	2016 £'000
Group and Company		
Secured bank loans	136,000	116,000
Bank facility fees	(1,900)	(2,299)
	134,100	113,701

The bank loans are secured against land and buildings with a carrying amount of £386,490,000 (2016: £368,750,000).

	2017 Group £'000	Company £'000	2016 Group £'000	Company £'000
Repayable in:				
Less than 1 year	34,973	34,973	–	–
1-2 years	–	–	29,942	29,942
2-5 years	45,099	45,099	29,806	29,806
5-10 years	–	–	–	–
Greater than 10 years	54,028	54,028	53,953	53,953
	134,100	134,100	113,701	113,701

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:

	2017 £'000	2016 £'000
Expiring in less than 1 year	–	–
Expiring in 1 – 2 years	–	5,000
Expiring in 2 – 5 years	39,000	54,000
Expiring in 5 – 10 years	–	–
	39,000	59,000

15 Liabilities continued

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.

The Group is currently refinancing one of the four facilities.

Financial instrument maturity

		Contractual cash flows				
	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
At 31st March 2017						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	136,000	–	35,000	–	46,000	55,000
Finance lease liabilities	26,654	–	285	285	855	25,229
Trade payables	5,969	5,969	–	–	–	–
	168,623	**5,969**	**35,285**	**285**	**46,855**	**80,229**
Derivative financial liabilities						
Interest rates used for hedging	19,523	–	1,561	1,514	4,214	12,234
	19,523	**–**	**1,561**	**1,514**	**4,214**	**12,234**
At 31st March 2016						
Non-derivative financial liabilities						
Bank overdraft	261	261	–	–	–	–
Secured bank loans	116,000	–	–	30,000	31,000	55,000
Finance lease liabilities	26,940	–	286	286	855	25,513
Trade payables	6,072	6,072	–	–	–	–
	149,273	**6,333**	**286**	**30,286**	**31,855**	**80,513**
Derivative financial liabilities						
Interest rates used for hedging	26,478	–	2,038	2,009	5,599	16,832
	26,478	**–**	**2,038**	**2,009**	**5,599**	**16,832**

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 £340,000 (2016: £290,000). 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 2016 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.

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.

As at 31st March 2017	Amount £'000	Rate	Maturity	[1]Next credit break	
Interest rate swaps	33,000	5.17%	Sept 2032	Sept 2022	

	Amount £'000	Rate	Fair value before BCVA £'000	[3]BCVA £'000	Fair value £'000
Interest rate swaps	33,000	5.17%	(18,311)	1,393	(16,917)

As at 31st March 2016	Amount £'000	Rate	Maturity	[1]Next credit break	
Interest rate swaps	45,000	5.17%	Sept 2032	Sept 2022	

	Amount £'000	Rate	Fair value before BCVA £'000	[3]BCVA £'000	Fair value £'000
Interest rate swaps	45,000	5.17%	(24,422)	2,013	(22,409)

[1]Credit breaks are triggered by the bank and require the prevailing mark to market value to be paid or received.
[2]Call options are triggered by the bank and require no payment by either party.
[3]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:

Group and Company	2017 £'000	2016 £'000
Current	(2,159)	(2,944)
Non-current	(14,758)	(19,465)
	(16,917)	(22,409)

	2017	2016
Weighted average cost of borrowing	4.42%	4.35%

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. Interest rate swaps 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 2017 of £48,000,000 (2016: £16,000,000).

In both 2017 and 2016 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

Group finance lease liabilities are payable as follows:	2017 £'000	Minimum lease payments 2016 £'000
Within one year	285	286
In second to fifth years inclusive	1,142	1,142
Later than five years	25,227	25,512
	26,654	26,940
Less future finance charges	(22,249)	(22,533)
Present value of lease obligations	4,405	4,407

The above finance lease liabilities relate to investment properties with a carrying value of £55,630,000 (2016: £52,160,000). 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:

	2017 £'000	2016 £'000
Not later than one year	20,991	19,044
Later than one year but not later than five years	59,964	58,285
Later than five years	20,877	19,208
	101,832	96,537

18 Share based payments

During the year to 31st March 2017, the Group had one share based payment arrangement, which is described below. In the case of the PSP awards, the expected volatility was determined by calculating historical volatility of the Group's share price.

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 2017 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	16th June 2016	18th June 2015	11th June 2014
Share price	£2.07	£2.55	£2.27
Term	3 years	3 years	3 years
Risk free rate	0.27%	0.80%	1.13%
Dividend yield	4.27%	3.35%	3.79%
Volatility – Company	21.27%	18.6%	17%
TSR fair value	£0.77	£1.43	£1.36
NAV fair value	£1.81	£2.35	£2.03

19 Called up share capital

	2017 Issued £	Number of shares	2016 Issued £	Number of shares
Ordinary 20 pence shares in issue				
At 1st April 2016	18,631,645	93,158,225	18,485,197	92,425,988
Issue of shares in year	130,045	650,225	146,448	732,237
At 31st March 2017	**18,761,690**	**93,808,450**	**18,631,645**	**93,158,225**

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) 2017 £'000	2016 £'000
Subsidiary undertakings		
Acreway Limited (in liquidation)	26,286	26,286
Baldwin House Limited	(15,308)	(11,899)
Celina Holdings Limited (liquidated)	–	8,524
	10,978	22,911

On liquidation of its subsidiary, Celina Holdings Limited, the Company received a dividend and return of a capital holding totalling £6.9 million.

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 44 to 57.

22 Net asset value per share

	31st March 2017 Net assets £'000	Shares '000	Net asset value per share p	31st March 2016 Net assets £'000	Shares '000	Net asset value per share p
Basic	270,792	93,808	289	261,223	93,158	280
Number of shares under option	1,036	1,431	(4)	863	1,552	(3)
Diluted/EPRA NNNAV	271,828	95,239	285	262,086	94,710	277
Adjustment to fair value of derivatives	16,918	–	18	22,410	–	24
EPRA NAV	288,746	95,239	303	284,496	94,710	301

23 Commitments and contingent liabilities

	2017 Group £'000	Company £'000	2016 Group £'000 Restated	Company £'000 Restated
Capital expenditure committed but not provided for	24,255	1,140	31,038	7,419

The capital commitments at 31st March 2016 have been restated. The 2016 Report and Financial Statements disclosed that there were no commitments.

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 2017. Scheme assets are stated at their market value at 31st March 2017.

The actuarial valuation due as at 1st April 2017 is currently in progress but not yet completed.

The Scheme has been closed to new entrants since 1989.

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:

	2017	2016
Inflation	3.1%	2.8%
Salary increases	n/a	n/a
Rate of discount	2.3%	3.3%
Pension in payment increases	3.0%	2.7%

The mortality assumptions adopted at 31st March 2017 imply the following life expectancies for members currently aged 60:

Male = 26.6 years

	£'000	£'000
The fair value of scheme assets are as follows:		
Equities	743	1,695
Gilts	70	533
Corporate and overseas bonds	46	437
Absolute return portfolios	4,533	2,166
Cash	46	300
Other	162	282
	5,600	5,413

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	5,413	5,829
Expected return on scheme assets	176	178
Actuarial gain/(loss)	175	(431)
Employer contributions	240	240
Benefits paid	(404)	(403)
Market value of assets at end of year	5,600	5,413

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:

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Market value of scheme assets	5,600	5,413	5,829	5,464	5,604
Value of defined benefit obligation	(7,884)	(7,252)	(7,769)	(7,153)	(7,823)
Deficit in scheme	(2,284)	(1,839)	(1,940)	(1,689)	(2,219)
Gains/(losses) on scheme liabilities					
Due to experience	191	45	8	(9)	19
Due to change of basis	(994)	(304)	725	450	(599)
Experience gains/(losses) on scheme assets	(57)	(57)	(67)	(69)	212

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

	2017 £'000	2016 £'000
Value of defined benefit obligation at start of period	7,252	7,769
Interest cost	233	235
Benefits paid	(404)	(403)
Actuarial gains: experience differing from that assumed	(191)	(45)
Actuarial gains: changes in demographic assumptions	–	(78)
Actuarial loss/(gains): changes in financial assumptions	994	(226)
Value of defined benefit obligation at end of period	7,884	7,252

24 Pensions continued

Sensitivity analysis

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

Analysis of the amount charged to operating profit:

Operating profit	2017 £'000	2016 £'000
Current service cost	–	–
Analysis of the amount (credited)/charged to finance costs/(income)		
Expected return on pension scheme assets	(176)	(178)
Interest on pension scheme liabilities	233	235
Net return	57	57
Total charge to profit or loss	57	57

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

	2017 £'000		2016 £'000	
Difference between expected and actual return on assets	(175)	3% of scheme assets	431	8% of scheme assets
Experience gains and losses arising on the scheme liabilities	803	10% of the present value of the scheme liabilities	(349)	5% 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	–	0% of the present value of the scheme liabilities
Total	628	8% of the present value of the scheme liabilities	82	1% of the present value of the scheme liabilities

Analysis of the movement in the balance sheet deficit:

	2017 £'000	2016 £'000
Deficit in scheme at beginning of year	(1,839)	(1,940)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(57)	(57)
Contributions	240	240
Actuarial gain/(loss)	(628)	(82)
Deficit in scheme at end of year	(2,284)	(1,839)

The last active member reached retirement age in May 2013.

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 efficiency 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.

Equivalent yield
The internal rate of return from an investment property, based on the value of the property assuming the current rent passing reverts to ERV and assuming the property becomes fully reoccupied over time. It assumes that rent is received quarterly in advance.

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

Financial calendar	2017
Annual Report posted to shareholders	7th June
Annual General Meeting	6th July
Final dividend	27th July
Interim announcement	November
Interim Statement posted to shareholders	December
	2018
Interim dividend	January
Financial year end	March
Preliminary announcement	May/June

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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 03456 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.

*Lines are open 8.30am to 5.30pm, Monday to Friday, excluding Bank Holidays.

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FSC – Forest Stewardship Council

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ISO 14001 – A pattern of control for an environmental management system against which an organisation can be credited by a third party.

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