REPORT AND
FINANCIAL STATEMENTS

2018

McKay
Securities PLC

Contents

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 £460 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.

mckaysecurities.plc.uk

Financial Highlights

Profits and earnings

£43.44 million
Profit before tax (IFRS)
(2017: £17.59 million)

£9.07 million[1]
Adjusted profit before tax
(2017: £8.60 million)

9.6 pence[2]
EPRA diluted earnings per share
(2017: 8.4 pence)

Total property return

12.3%
(2017: 6.8%)

Proposed final dividend per share

7.2 pence
Up 14.2%
(2017: 6.3 pence), making the total dividend per share for the year 10.0 pence (2017: 9.0 pence)

Shareholders' funds

£306.44 million
(2017: £270.79 million)

322 pence[3]
EPRA net asset value per share
(2017: 303 pence)

326 pence[4]
Net asset value per share (IFRS)
(2017: 289 pence)

Debt to portfolio value (LTV)

31.9%
(2017: 31.6%)

Portfolio valuation

£460.15 million
(2017: £429.92 million)

£24.46 million
6.1%
Surplus
(2017: £7.07 million /1.7%)

[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

I am pleased to be able to report an exceptionally productive year for the Group, during which progress with our growth strategy has enabled the Board to recommend a 14.3% increase in the final dividend.

Before considering the year under review, I would like to reflect on the transformation of the business since the £86.70 million capital raising in 2014, and the support from shareholders at that time. Our strategic objective, as set out in the Prospectus, was to grow the capital value and recurring income from a portfolio of predominantly office and industrial properties through development, refurbishment and active management, whilst maintaining an appropriate level of gearing.

This has been, and continues to be, delivered to the letter. Since then our portfolio value as reported by our valuers has increased by 80.8% to £460.15 million, our recurring contracted rents have increased by 66.5%, the portfolio rental value (ERV) has increased by 76.0% and gearing (loan to value) has reduced from 44.5% to 31.9%.

The acquisition of eight properties at a cost of £74.24 million added a mix of value enhancing opportunities, and the disposal of twelve smaller and low growth assets realised net proceeds of £68.01 million. To date, the acquisitions have delivered a combined valuation surplus of 30.5% whilst the disposals have realised a substantial 22.1% surplus of £15.04 million. The growth in portfolio and rental value is all the more impressive considering the scale of disposals made, which has enabled the recycling of capital and the improvement of the overall quality of the portfolio.

Three major speculative development projects and four refurbishments have proved a great success, with a fourth development currently under way. The rental value of these assets has increased by 181.3%, and after £61.32 million of capital expenditure to date, these projects have delivered a 28.7% valuation surplus of £31.16 million.

Beyond the headlines, there has been a real desire to increase market awareness of the business and to enhance our reputation by exceeding tenants' expectations and providing engaging workspace to attract new occupiers.

Underpinning these property initiatives is a more robust financial base. Since 2014, all loan facilities have been renewed, the debt available to the Group has increased by £35.00 million to £190.00 million and the loan expiry profile has been extended. Our cost of debt is also now at a more competitive level following the cancellation of legacy interest rate swaps.

We have collectively been fortunate with the well executed selection of non-executive directors of the highest calibre to replace those standing down after admirable service and support, and to maintain an independent balance. Despite these changes, the Board has remained stable, fully engaged and enthusiastic at all times.

Management foresight has been endorsed with outstanding performance across all key metrics, delivering a 164.9% increase in adjusted profit before tax since March 2014 to £9.07 million for the current year and a 44.7% increase in shareholders' funds to £306.44 million.

The combination of property and financial progress has enabled us to achieve our objective of covering the cost of the dividend, which doubled on issue of the new shares, within three years. The cost of the dividend this year is over £9.00 million, compared with £3.90 million in 2013.

In relative terms, this success is highlighted by a total shareholder return (TSR) of 54.2%, driven by a 45.5% increase in the

Lombard Street, EC3
58,000 sq ft

Development completion: Summer 2018

share price since the capital raising, which is more than double the return delivered by the FTSE 350 Real Estate Index and the FTSE All Share Index over the same period.

In summary, the combination of shareholder support and the management of the business has delivered outperformance, significant shareholder value and leaves the Group in a strong position for the future.

Moving on to the year under review, we have been able to contribute to the progress above with the further release of reversionary potential built up in the portfolio since 2014 with a record year of lettings for the Group. Twenty six open market lettings were completed at or above March 2017 ERV, unlocking combined contracted income of £7.00 million pa.

A significant proportion of this contracted income resulted from letting progress with the speculative office schemes within our development programme. Clear focus on London and the South East remains core to the Group's success and ensures we remain acutely aware of occupier needs in order to deliver relevant and flexible space for today's businesses, as evidenced through our three latest developments in Reading, Redhill and London which have all attracted high quality tenants with strong covenants.

At 9 Greyfriars Road, Reading (39,620 sq ft), we achieved a single letting of the whole building, and at Prospero, Redhill (50,370 sq ft), we ended the period 91.8% let, having secured lettings to local and regional occupiers on a floor by floor basis. In March 2018, we were also very pleased to announce a pre-let of 30 Lombard Street, EC3 (58,000 sq ft) where the scheme and its globally recognised location resulted in the FTSE 100 wealth manager St. James's Place plc committing to a 15 year lease, without break, for the entire building. The lease, which remains conditional on completion of the building this summer, will commence in January 2019 and makes the largest single contribution to the increase in contracted rent over the year.

The completed schemes have created high quality assets, which enhance the income profile and resilience of the portfolio. They were the main contributors to a 23.3% (like for like) increase in contracted rents which ended the year at £27.05 million pa (March 2017: £23.42 million pa). They were also the main contributors to the 5.1% increase in gross rents received and the resulting 5.4% increase in adjusted profit before tax.

We have also increased the reversionary potential of the portfolio with planning consent for a 38.5% increase in floorspace at Brunel Road, Theale, Reading. Development of a speculative 134,150 sq ft warehouse scheme is now under way and we expect to generate strong interest from logistics occupiers drawn to its strategic location just off the M4 motorway. The increase in potential rental value for this asset, combined with refurbishment and asset management elsewhere in the portfolio, resulted in the portfolio ERV increasing by 6.7% to £33.15 million, outperforming the 1.9% increase in the IPD index. The £6.10 million pa differential to contracted rents still provides a substantial 22.6% portfolio reversion for future returns.

With the benefit of valuation gains from the development projects and elsewhere in the portfolio, including a strong 19.5% contribution from our industrial assets, the independent portfolio valuation of £460.15 million delivered a 6.1% (£26.46 million) surplus, also outperforming the IPD index increase of 5.3%.

Balance sheet gains were also generated with the sale of properties in Farnborough, Newbury and Egham. These disposals were in line with our policy of the targeted recycling of capital out of smaller and lower growth assets where we can capitalise on recent value add initiatives or, as in the case of the warehouse unit in Egham, aggressive market pricing. High levels of investor demand for warehouse assets resulted in a sale price reflecting a 4.2% yield for this unrefurbished unit, developed by the Group over forty years ago. Combined net sale proceeds of £26.80 million delivered a substantial 27.3% (£5.75 million) surplus over March 2017 book value.

The headroom created from disposals provided us with the ability to cancel the remaining £33.00 million interest rate swap. The swap predated the global financial crisis and its 5.17% coupon reflected the higher interest rate environment at that time. The cancellation cost to the Group was £13.35 million after a significant contribution from the counterparty bank. This removes the final legacy swap which will enhance earnings, further strengthen the balance sheet and improve the Group's debt profile. It also finally removes the negative value from the balance sheet.

Valuation and disposal gains helped offset portfolio expenditure and financing costs, maintaining a loan to value ratio of 31.9% (March 2017: 31.6%) and substantial headroom of £43.00 million to loan facilities, which we increased over the year by £15.00 million to £190.00 million. With supportive lenders, this provides us with robust financing for the immediate future.

With the benefit of the positive activity over the period, shareholders' funds increased by £35.65 million (13.2%) to £306.44 million, equivalent to IFRS NAV per share of 326 pence (March 2017: 289 pence). EPRA NAV per share increased by 6.3% to 322 pence (March 2017: 303 pence).

The Board

As reported at the end of the last financial year, Nigel Aslin and Viscount Lifford both retired during the period. They were an integral part of the Group's successful management through the last recession and the subsequent period of growth, and I would like to reiterate my thanks to them for their invaluable counsel and support over the years.

Dividend

The Board is recommending a 14.3% increase in the final dividend to 7.2 pence per share (March 2017: 6.3 pence). In reaching this recommendation the Board has taken into account the anticipated earnings growth in future periods from recent lettings and the swap cancellation, in addition to the adjusted profit before tax achieved for the year.

The final dividend will be paid as an ordinary dividend on 26th July 2018, and will take the total dividend for the year to 10.0 pence per share (2017: 9.0 pence), an increase of 11.1%.

Future prospects

This has been a year of major strategic progress for the Group, which will deliver further shareholder value as income from the pre-let at 30 Lombard Street, EC3 and other lettings make a full contribution. This progress also provides a strengthened platform to release the significant reversionary potential that remains within the portfolio and to capitalise on the Group's unique position in its core markets.

Since the EU referendum there have been concerns regarding the potential for a more cautious occupier market. This remains a risk but, as we have shown, the markets that we operate in and know well continue to prove robust and our assets are well placed to deliver further shareholder value.

Richard Grainger
Chairman
18th May 2018

Portfolio Properties

at 31st March 2018

		Area sq. ft
£15m and over – 60.9% of portfolio		
Brentford	The Mille, 1000 Great West Road (office)	96,700
Croydon	Corinthian House, Dingwall Road (office)	44,590
EC3*	30 Lombard Street (office under construction)	58,000
EC3*	Portsoken House, Minories (office and ancillary retail)	49,570
SW1	1 Castle Lane (office)	14,250
SW19	Wimbledon Gate, Worple Road (office and ancillary retail)	58,690
Poyle	McKay Trading Estate, Blackthorne Road (industrial)	73,955
Reading	Great Brighams Mead, Vastern Road (office)	84,840
Reading	9 Greyfriars Road (office)	39,620
Redhill	Prospero, London Road (office)	50,370
£10m to £15m – 18.5% of portfolio		
Crawley	Oakwood Trade Park, Gatwick Road (industrial)	52,400
Crawley	Pegasus Place, Gatwick Road (office)	50,790
EC2	66 Wilson Street (office)	11,890
Maidenhead	Switchback Office Park, Gardner Road (office)	37,155
Weybridge	Sopwith Drive, Brooklands (industrial)	63,140
Woking	1 Crown Square (office and ancillary retail)	50,735
Woking	The Planets, Crown Square (leisure)	98,255
£5m to £10m – 17.6% of portfolio		
Bracknell	Building 329, Doncastle Road (office)	32,955
Farnborough	Columbia House, 1 Apollo Rise (industrial)	40,755
Fleet	One Fleet, Ancells Road (office)	34,580
Folkestone	3 Acre Estate, Park Farm Road (industrial)	44,290
Leatherhead	Ashcombe House, 5 The Crescent (office)	17,450
SW1*	Parkside, Knightsbridge (residential)	2,900
Reading	20/30 Greyfriars Road (office)	33,345
Staines	Mallard Court, Market Square (office and ancillary 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 – 2.8% of portfolio		
Banbury	Lower Cherwell Street Industrial Estate (industrial)	40,060
Folkestone	5 Acre Estate, Park Farm Road (industrial)	60,535
Newbury	Strawberry Hill House, Bath Road (medical)	15,230
£2m and below – 0.2% of portfolio		
Chobham	Castle Grove Road (land)	–
Staines	2 Clarence Street (office)	3,440

Notes:
Percentages based on the Group valuation at 31st March 2018.
*Denotes leasehold properties


Banbury
London
Maidenhead
Poyle
Brentford
Windsor
Staines
Theale
Reading
Bracknell
Wimbledon
Croydon
Newbury
Weybridge
Fleet
Leatherhead
Woking
Farnborough
Redhill
Crawley
Folkestone
Office
Industrial
Other

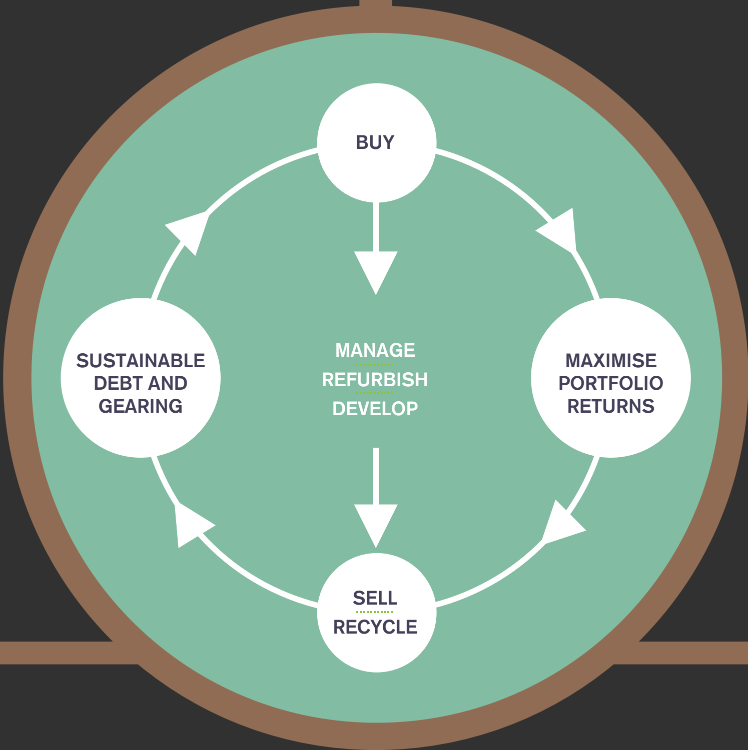
Business Objective, Strategy and Model

BUSINESS OBJECTIVE

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

BUSINESS STRATEGY

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



BUSINESS MODEL

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

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

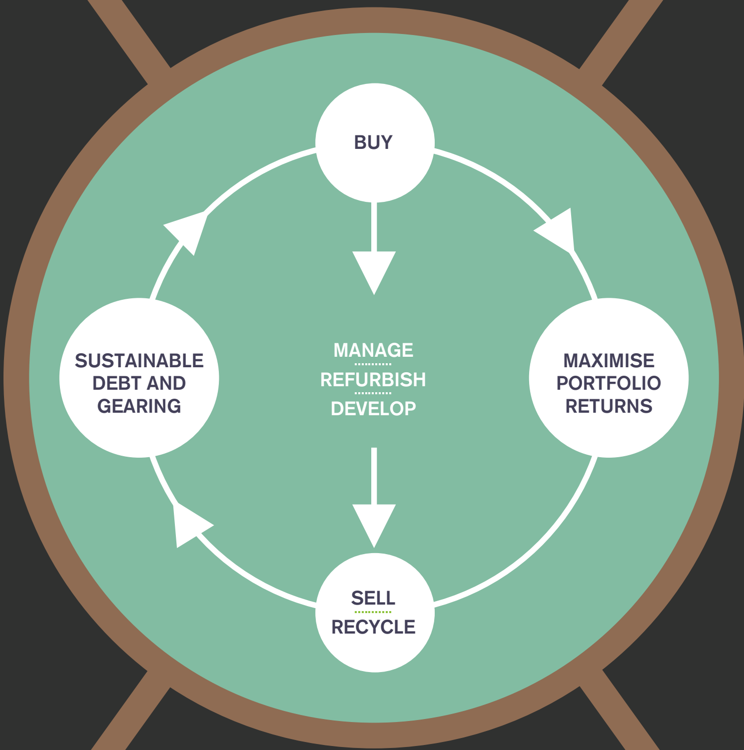
8 Acquisitions

£74m invested
31% capital growth
41% rental growth

LTV[1] from **45%** to **32%**

WACD[2] from **6%** to **4%**

EPRA NAV up **42%**



4 Refurbishments
4 Developments

Capex **£61m**

Capital growth **£31m** (29%)

ERV growth **£6m** (168%)

12 Disposals

£68m net proceeds
£15m realised gain[3]
22% surplus[3]

[1]LTV = Loan to value [2]WACD = Weighted average cost of debt [3]Over carrying value

Strategic Delivery 2014–2018

Acquisitions

The Planets,
Woking

Ashcombe House,
Leatherhead

Crown Square,
Woking

The Mille,
Brentford

9 Greyfriars Road,
Reading

Station Plaza,
Theale

Gainsborough House,
Windsor

Brunel Road,
Theale

Refurbishments

66 Wilson Street,
London EC2

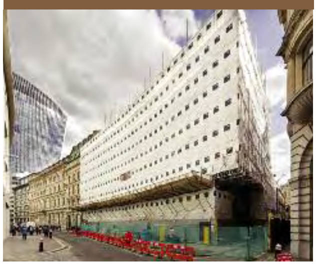
329 Bracknell

Strawberry Hill House,
Newbury

Switchback Office Park,
Maidenhead

Developments

30 Lombard Street,
London EC3



Prospero,
Redhill

9 Greyfriars Road,
Reading

Brunel Road,
Theale

"The combination of property and financial progress has enabled us to achieve our objective of covering the cost of the dividend, which doubled on issue of the new shares, within three years. The cost of the dividend this year is over £9.00 million, compared with £3.90 million in 2013"

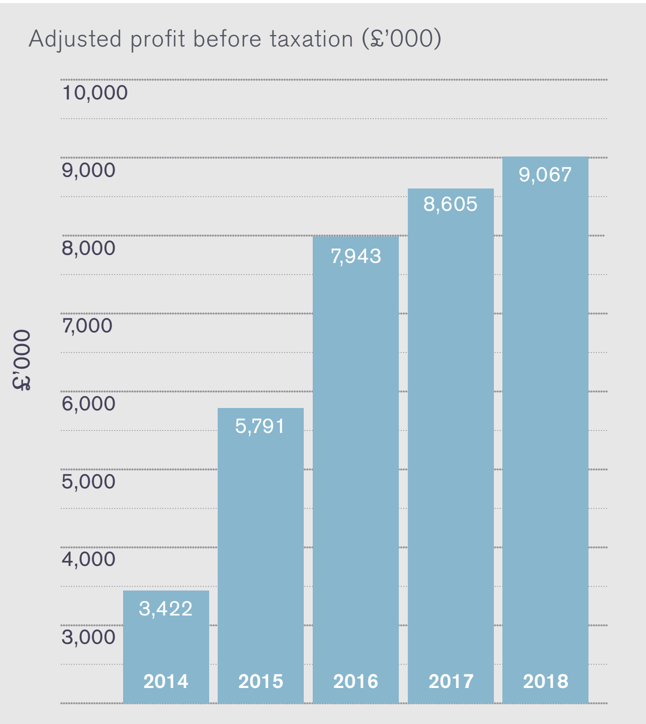
	Gains since March 2014
TSR	54%
EPRA NAV (per share)	42%
IFRS NAV (per share)	58%
Adjusted profit before taxation	165%
IFRS profit before taxation	13%
Contracted rent	67%
Portfolio ERV	76%
Portfolio value	81%
Annual dividend – cost (2013-2018)	141%
Annual dividend – pence (2013-2018)	18%

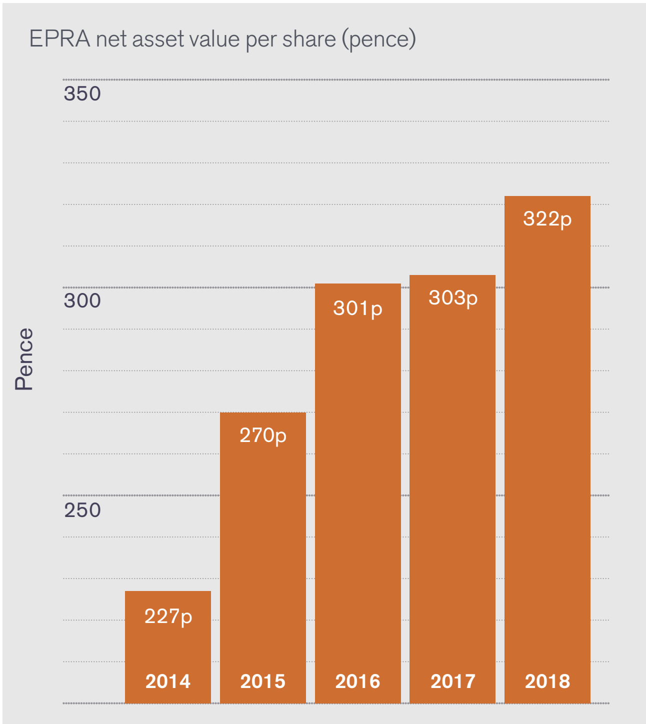
Strategic Delivery 2014–2018

Five Year Summary

Financial measure	2018	2017	2016	2015	2014
Gross rental income (£'000)	21,844	20,790	20,159	17,617	14,683
Net rental income from investment properties (£'000)	20,453	19,871	17,664	14,922	12,787
Profit before taxation (£'000)	43,443	17,594	53,160	33,282	38,290
Adjusted profit before taxation (£'000)	9,067	8,605	7,943	5,791	3,422
Investment properties (£'000)	460,150	429,915	401,170	352,760	254,550
Loans and other borrowings (£'000)	(144,598)	(134,100)	(113,701)	(91,302)	(37,266)
Total equity (£'000)	306,440	270,792	261,223	215,495	189,235
Ordinary dividends per share (pence)	10.0	9.0	8.8	8.7	8.6
Earnings per share – basic (pence)	46.3	18.8	57.2	36.1	75.0
Earnings per share – adjusted basic (pence)	9.7	9.2	8.5	5.3	6.2
Net asset value per share (pence)	326	289	280	233	206
EPRA net asset value per share (pence)[1]	322	303	301	270	227
Interest cover	2.0	2.0	1.9	1.8	1.5
Loan to value	32	32	29	26	15

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





Portsoken House
London EC3

329 Bracknell

Overview

McKay Securities remains the only Real Estate Investment Trust (REIT) exclusively focused on developing and investing solely in the established and proven office and industrial real estate markets of London and the South East. As at 31st March 2018, the Group owned 31 investment assets and 2 assets in development, with a combined value of £460.2 million (March 2017: 36 assets / £429.9 m). By value, 56.5% of the portfolio is in South East offices, 23.5% in London offices and 15.3% in South East industrial with a range of other sectors making up 4.7%.

This year heralded great success for the Group. By the end of the period we had let 9 Greyfriars Road, Reading (39,620 sq ft) to a single tenant, 91.8% of Prospero, Redhill (50,370 sq ft) on a multi-let basis and pre-let the whole of 30 Lombard Street, EC3 (58,000 sq ft) conditional on completing the building. These lettings contributed to a 23.3% increase in contracted rents (on a like for like basis) to £27.05 million pa (March 2017: £23.42 million pa) and a total return of 12.3% compared to the IPD benchmark of 10.5%.

The entire portfolio is now 89.4% let (March 2017:77.3%) and, excluding developments, is 92.6% let (March 2017: 93.3%). Through the development lettings our weighted average lease length to expiry has now increased to 6.9 years (March 2017: 5.2 years) and to 5.8 years to tenant's first break (March 2017: 4.3 years).

We have continued to capitalise on the supply constraints across all our markets, especially in the South East, and have delivered the right product in the right locations, generating ERV growth of 6.7% compared to IPD All Property of 1.9%. During the period we achieved 26 open market lettings totalling £7.0 million pa, 1.9% ahead of ERV. As a result, our South East office void rate has reduced from 19.2% to 7.9% and we continue to refurbish and improve our remaining portfolio voids wherever possible.

The Group's substantial rental reversion has been established predominantly through our ambitious development programme referred to above, which is now realising shareholder value. We remain well placed to benefit from supply constrained markets, with an enviable logistics development at Theale now commenced, and 22.6% reversionary potential portfolio to an ERV of £33.14 million pa.

Occupiers are focussed more than ever on the environment, health and wellbeing. Catering to these demands, sustainability is embedded in everything we do. Five years ago we launched our sustainability strategy and, with our external consultants, we continue to set ambitious short and long term targets centred on three core areas: creating sustainable buildings, managing sustainable buildings and engaging with stakeholders. Over the period we successfully achieved 90.0% of those targets and maintained our GRESB 'Green Star' status for the second year running. We continue to meet our strict criteria of developing buildings to a minimum of BREEAM Excellent and EPC B rating and we have reduced our carbon emissions by 14.0% year on year.

Market review

Our London and South East markets have proved resilient thanks to an historic undersupply of high quality office space, buoyed by consistent levels of demand. The pace of rental growth has levelled out, but shortfalls in certain centres provide the scope for further growth. Rent free incentives are stabilising after the 2017 spike in development completions, but the steady levels of take up highlight that fit for purpose buildings of the right size and in the right locations are letting.

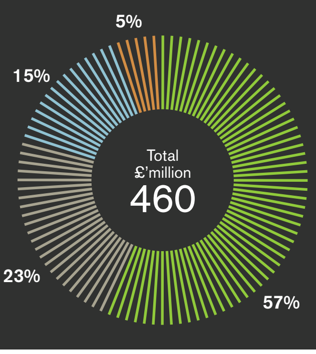
Real estate as an asset class continues to benefit from the low interest rate environment as investors search for income, particularly in the globally established London and the South East markets. Overseas and institutional investors have moved down the risk curve over the year, re-introducing a more apparent value gap between prime and secondary assets.

In 2017, central London investment totalled £17.0 billion (2016: £12.8 billion) which was only marginally below the record year of 2013, which saw turnover peak at £19.6 billion (source: Knight Frank) while the South East recorded its second highest year on record of £4.00 billion (2016: £2.80 billion) (source: BNP).

High quality office supply remains very constrained across all our markets. At the end of the period, the vacancy rate

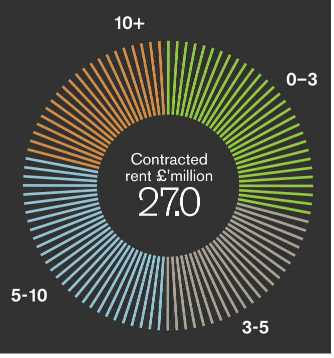
Location (by value)

	%
South East Offices	57
London Offices	23
South East Industrial	15
Other	5



Years to expiry (exc breaks)

Year	£m
0-3	7.8
3-5	6.0
5-10	7.4
10+	5.8
	27.0



of new and Grade A refurbished stock in London was just 2.0%, compared to the long term average of 2.3%. At the same time, the South East equivalent vacancy rate was 6.1%, significantly below the long term average of 7.8%.

The volume of South East office lettings has remained steady post the EU referendum and despite wider economic concerns. Take up for 2017 was 2.00 million sq ft, equalling 2016 and in line with the 10 year average of 1.99 million sq ft. Current active occupier demand is also being sustained; at the end of Q1 2018, including space under offer, this stood at 3.59 million sq ft which compares to the long term average of 3.90 million sq ft.

Set against this environment, and compounding the constrained supply, the speculative development pipeline is historically thin with just 0.48 million sq ft and 0.45 million sq ft of new development due to complete in 2018 and 2019 respectively, which compares to a 10 year average of 0.71 million sq ft pa.

While there was a resurgence of new buildings in the South East in 2016 and 2017 in response to the five year undersupply following the financial crisis, many of these were larger schemes which have proved incompatible with market demand for smaller buildings. Just four buildings make up 44.0% of the 1.79 million sq ft spike in development completions in 2017 and the remaining vacancy within these buildings creates a misleading supply picture in certain locations.

Building obsolescence is an increasingly important market driver with over 50% of buildings within the IPD index at least 25 years old. Tenants therefore have less choice for efficient new office space, and large buildings are not satisfying the pattern of demand and take up. In 2017, 82.6% of the South East office letting transactions were in the 5,000 – 20,000 sq ft size band which we have benefited from given our portfolio average of 6,700 sq ft per tenant.

Total occupational costs in prime West End of London locations are now circa £175.00 psf compared to central Reading of circa £60.00 psf. The rental discount has increased by 25.0% since 2007 and the cost of housing gap has also increased from a 20.0% discount to a 33.0% discount over the same period. The appeal of the South East will increase further with the Elizabeth Line (Crossrail) service to London and the quick access to Heathrow which the Western Rail Access to Heathrow (WRATH) will deliver.

Supply in the industrial and logistics market (15.3% of the portfolio) fell for a seventh successive year, leaving the availability rate at a new all time low of 4.4%. Take up, conversely, reached a record 9.80 million sq ft in the first quarter of 2018 and remains high to meet the exponential growth of e-commerce and the resultant need for last mile delivery to urban centres. This supply and demand imbalance supports the commencement of our speculative warehouse development at Theale, referred to below.

Acquisitions and disposals

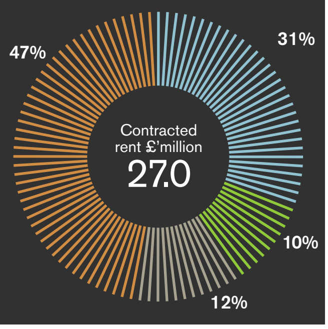
We continue to monitor the market closely and assess potential development acquisitions and investment opportunities where we can add value. Having invested heavily in prior years, we directed our capital resources over the year primarily into existing assets rather than compete in a relatively supply starved investment market. However, we are beginning to see the gap in pricing widen between prime and secondary assets which should present value add opportunities, provided stock is selected wisely.

We made three disposals in the period, realising a combined surplus over March 2017 book value of 27.3% (£5.75 million). The most notable sale was in Egham, where we capitalised on a very strong industrial market having added value with a recent lease extension, by disposing of Runnymede Focus - a 90,890 sq ft warehouse which was developed by the Group in 1974. It was let for a further seven years at a rent of £0.89 million pa and the sale for £19.91 million, representing a yield of 4.2%, realised a surplus over March 2017 book value of 35.3% (£5.12 million).

Two other sales consisted of the previously reported Pinehurst Park, Farnborough and Albion House in Newbury, which together delivered the remaining £0.63 million of surplus.

Tenant Net Worth

£'m	%
>35	31
15–35	10
7–15	12
<7	47



Source: Dun & Bradstreet

Brunel Road (CGI)
Theale

Development programme

Over the period development and refurbishment capital expenditure totalled £23.31 million.

In Reading town centre, two minutes walk from the station, 9 Greyfriars Road (39,620 sq ft) was completed in mid 2016. In July 2017 we let the whole of the building to Spaces, guaranteed by Regus Holdings plc on a 15 year lease (10 year tenant break). The headline rent of £1.21 million pa equated to £31.00 per sq ft, which was 3.3% ahead of March 2017 ERV. This letting to a major new co-working tenant was the third largest letting in the Thames Valley last year and was a strong endorsement for both the location and the product, providing a valuation surplus for the period of 37.6% (£5.40 million).

In Redhill, we completed the only new office development in the last eleven years at Prospero (50,370 sq ft) in late 2016. Since then, we have achieved record rents for the town (£30.00 – £31.00 per sq ft) and all four tenants (91.8% of the building with a combined contractual rent of £1.37 million pa), have committed to 10 years term certain. This is rare in a market now characterised by tenant flexibility and shorter leases, and shows great commitment to the quality and sustainability of the building by the new tenants. The only remaining vacant space is 4,112 sq ft on part of the first floor which is being marketed and generating good interest.

In the heart of the City of London, we remain on programme to deliver a brand new Grade A office development at 30 Lombard Street, EC3 (58,000 sq ft) in the summer. Ahead of this we have successfully exchanged contracts to pre-let the entire building to the FTSE 100 wealth manager, St. James's Place plc who will take occupation in January 2019. The lease, which remains conditional on practical completion, is for a term of 15 years at a gross rent of £3.76 million pa (£3.38 million pa net of ground rent), marginally ahead of ERV.

During the period we added to our development pipeline and topped up the reversionary potential of the portfolio by securing vacant possession and planning approval for a new 134,150 sq ft logistics warehouse at Junction 12 of the M4 at Theale, on the south side of Reading. Demolition of the former chilled warehouse unit has already commenced, and the new building, which will increase the floor area on the site by 38.5%, is programmed to complete in Spring 2019. Demand for well specified high quality industrial and logistics units with good motorway access, particularly to London, remains strong, and marketing is already generating positive interest.

Asset management

In our London and South East office markets, as well as the delivery of development lettings success, we also remain focused on the day to day rigorous asset management and refurbishment of our assets.

At the Mille (96,700 sq ft) in Brentford we continue to refurbish and improve the building and its environment. The works encouraged UBC, an existing serviced office tenant to commit to the two lower floors (16,624 sq ft) on 10 year leases without break at £0.33 million pa. These leases replaced legacy management profit share agreements which provided little return.

An example of the benefit of our focus on London and the South East was Benecol, an existing tenant at Switchback, Maidenhead, who needed to relocate closer to London. To accommodate this we accepted a surrender of their existing lease of a floor at Switchback and were able simultaneously to grant them a new lease at the Mille, thereby retaining them in the portfolio. These lettings contributed to a total of 34.0% of the floor space at the Mille being successfully let or having leases renewed in the last 12 months, creating a valuation gain over the period of 12.2%.

Croydon, with its excellent transport links to central London, is still proving very popular to occupiers as evidenced at Corinthian House (44,590 sq ft) which sits directly opposite East Croydon station. Our active asset management has continued to drive ERV growth of 16.8% over the period assisted by re-letting the 4th floor (4,497 sq ft) on expiry with no void, at a 47.4% rental increase to £28.00 per sq ft. We also took a surrender of the dated 7th floor (at £17.30 per sq ft) to enable its refurbishment and granted that tenant a new 10 year lease of the recently refurbished part 8th floor at £30.00 per sq ft.

Our average building size is 43,500 sq ft and 11 out of 16 (68.8%) of our South East buildings are multi let. We recognise that smaller tenants value flexibility, personality of building and co-working break out areas which is exactly what we have been providing at both 329 Bracknell and One Crown Square, Woking for many years now.

At One Crown Square (50,735 sq ft) we continue to upgrade and provide managed suites with associated co-working areas and communal kitchens. We concluded eight open market lettings in the period at a combined rent of £0.17 million pa which contributed to a 12.4% increase in ERV compared to the South East IPD rental growth index of 2.4%.

15.3% of the portfolio by value is South East industrial assets, both single let larger units and popular trade counter type properties. These assets have all continued to perform well in terms of rental and capital growth, enhanced by refurbishment and lease renewals where appropriate. At 3 Acre (44,290 sq ft) in Folkestone we upgraded the estate while simultaneously renewing and extending 40.0% of the tenants' leases, providing a valuation gain of 13.3% over the period.

At Oakwood Trade Park (52,400 sq ft) in Crawley which contains 16 fully let trade counter units, we accepted a surrender from an expanding tenant and simultaneously re-let the unit to a new occupier on a longer lease at an increased record rent for the estate of £15.00 psf. As a result, the ERV increased over the period by 15.2% and together with subsequent lease renewals, drove a valuation gain of 36.0%.

At Poyle, adjacent to Terminal 5 of Heathrow Airport, the McKay Trading Estate (73,955 sq ft) continues to represent the ideal stock for that market. This fully let estate achieved a 27.3% growth in ERV and a corresponding valuation gain of 22.1%.

The Group manages all assets in house resulting in strong tenant relationships and extremely thorough building knowledge. This proves advantageous when managing lease events, and at lease break and expiry, 25 out of 42 tenants were retained at contracted rents totalling £1.11 million pa. Whilst the retention rate of 59.5% was lower over the period (March 2017: 76.6%) in a number of instances, we chose to end leases to facilitate refurbishment work and the achievement of higher rents on the open market. Combined rent for retained tenants was 7.5% ahead of rent prior to the lease events.

Valuation

Knight Frank was appointed as Group Valuer after the March 2017 year end valuation, replacing Mellersh & Harding who had provided many years of exceptional service. Knight Frank's extensive strength across our markets makes them well placed to assist with the increasing size of the portfolio and to reaffirm the

Yields and occupancy

	£million pa	Yield[2]	Occupancy by floor area	Occupancy by rental value
Contracted rental income[1]	27.1	5.5%	87%	89%
Reversions	2.5			
Void properties	3.6		13%	11%
Portfolio reversion	6.1			
Total portfolio	**33.2**	**6.8%**	**100%**	**100%**

Notes:

[1] Contracted rental income at 31st March 2018, less ground rent
[2] Yield on portfolio valuation at 31st March 2018 with notional purchasers costs (6.75%) added

value of the Group's assets. They are also an accepted valuer by our lending banks, which will reduce the cost of valuations for loan purposes.

Knight Frank's independent valuation of the Group's assets totalled £460.15 million as at 31st March 2018 (March 2017: £429.92 m). This showed a surplus of £26.46 million (6.1%), outperforming IPD All Property capital growth of 5.3% over the same period, and a surplus of £17.78 million (4.7%) excluding developments.

The initial yield was 4.1% (March 2017: 4.6%) rising to a topped up yield of 5.6% at the expiry of rent free periods (March 2017: 5.1%), the equivalent yield was 5.8% (March 2017: 6.4%) and the reversionary yield at ERV was 6.8% (March 2017: 7.1%). These year on year movements have been driven by the strong development lettings which are still in rent free periods, generating a lower initial yield but a higher topped up yield. As expected the reversionary yield has reduced as the development lettings have added value but remains significant, driven by the new development at Theale Logistics Park as well as the investment portfolio voids and rental reversion.

The quality of buildings and locations in the portfolio was demonstrated by the rental growth outperformance against the IPD benchmark. Excluding developments, our South East office assets achieved rental growth of 4.0% (IPD: 2.4%), with London assets at 5.2% (IPD: 0.3%).

Turning to capital growth, again excluding developments, our South East offices were marginally lower than IPD at 3.0% versus 3.9% while our London assets achieved -0.5% capital growth versus IPD of 3.6%.

The industrial sector is widely accepted by the market as the strongest performer with IPD capital growth of 18.5% and rental growth of 6.3%. Our seven industrial assets outperformed both these measures with capital growth of 19.5% and rental growth of 11.4%. This excludes Runnymede Focus, Egham which achieved a sale price at the end of the period 35.3% ahead of March 2017 book value.

Total shareholder return

Total Shareholder Return (TSR) for the year to 31st March 2018 was 36.2%. This compares to a FTSE 350 Real Estate Index return of 7.9% and a FTSE All Share return of 1.2% for the same period. Recent increases in share price reverse the decline in the prior year resulting from the extreme movement in our share price following the EU referendum vote. Over a three year period the Group has delivered a 23.5% return compared to a 0.7% for the FTSE 350 Real Estate and 18.6% for the FTSE All Share.

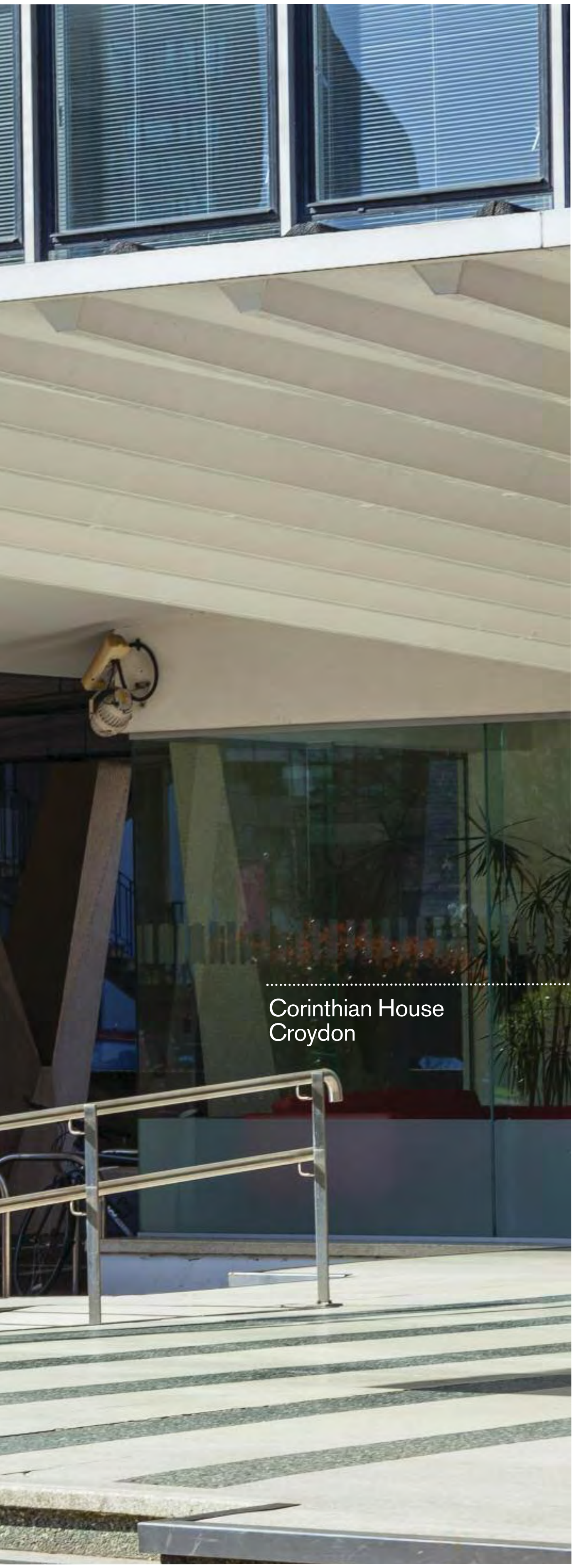
Key performance indicators:

	2018	2017	2016	2015	2014
Portfolio Capital Return (capital) (%)[1]	7.4	1.7	11.4	13.8	10.2
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) (%)	12.3	6.8	15.9	18.4	15.6
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]	9.4	3.6	14.7	22.7	10.1
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]	36.2	(8.6)	(0.8)	24.8	54.7
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.


CORINTHIAN HOUSE


Corinthian House
Croydon

Dividends

The final dividend of 7.2 pence per share (March 2017: 6.3 pps) will be paid on 26th July 2018 to those on the register on 1st June 2018. With the interim dividend of 2.8 pence per share, this takes the total dividend for the year to 10.0 pence per share, an increase of 11.1% on the previous year.

As a REIT, the Group is required to distribute at least 90.0% 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 20.0%. Over the period, the cost of cancelling interest rate hedging instruments has off-set the profits attributable to the PID. As a result, the final dividend will be paid as an ordinary dividend rather than a PID.

Income statement

Adjusted profit before tax increased by £0.46 million (5.4%) to £9.07 million (March 2017: £8.60 million) due primarily to a £1.05 million increase in property revenues. Gross rents benefitted from letting progress at the Group's developments at 9 Greyfriars Road, Reading and Prospero, Redhill, which will add further to subsequent periods, which will be further enhanced by the pre-let at 30 Lombard Street, EC3. In addition, recent lettings elsewhere in the portfolio including at One Crown Square, Woking and Castle Lane, London added to gross rents. These positives were offset to a degree by the loss of income at Pegasus Place, Crawley as a result of a tenant insolvency.

Profit before tax (IFRS) totalled £43.44 million (March 2017: £17.59 million). This included the unrealised surplus on valuation (including SIC15 adjustment) for the period of £25.07 million and the positive impact of the swap cancellation of £3.56 million.

Administration costs increased to £6.31 million (March 2017: £5.79 million). This 8.8% increase was primarily due to staff salaries rising in line with inflation and an increase in bonus payable.

The interest cost for the year of £6.74 million was similar to the prior year (March 2017: £6.34 million). This cost will reduce on a like for like basis going forward as a result of the cancellation of the Group's remaining £33.00 million legacy interest rate swap, carrying a coupon of 5.17%. The swap was cancelled on 28th March 2018 at a net cost to the Group of £13.35 million, with the full cost of cancellation offset by a lender contribution. Interest capitalised against projects during the year was comparable to the prior year at £1.66 million (March 2017: £1.82 million) but will reduce as the development programme matures.

The Group's weighted average cost of debt reduced to 4.06% prior to amortisation and finance lease interest (March 2017: 4.42%).

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the Consolidated Statement of Comprehensive Income.

One Crown Square
Woking

Balance sheet

Shareholders' funds increased from £270.08 million to £306.44 million over the period, principally due to the £26.46 million valuation surplus (£25.07 million excluding SIC15 adjustment).

EPRA NAV per share increased by 6.3% over the period to 322 pence (March 2017: 303 pence). NNNAV per share increased by 13.0% to 322 pence (March 2017: 285 pence) and IFRS NAV per share increased by 12.8% to 326 pence (March 2017: 289 pence). The cancellation of the remaining interest rate swap results in the EPRA and EPRA NNNAV per share now being equal at 322 pence.

The Group currently benefits from £190.00 million (March 2017: £175.00 million) of banking facilities, having refinanced the final of its four facilities in August 2017 and increased the existing Aviva loan by a further £10.00 million in March 2018. Drawn debt at the end of the period was £147.00 million (March 2017: £136.00 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2018 was 31.9% (March 2017: 31.6%). The ratio of aggregate net borrowings to tangible net worth was 48.0% (March 2017: 47.3%). Both ratios have remained constant, with capital expenditure of £23.30 million on the portfolio and the cost of the cancellation of the swap being offset by asset sales above book value and the valuation surplus achieved during the year.

Net cash inflow from operating activities was £7.50 million (March 2017: inflow £16.53 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.98x (March 2017: 1.96x).

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 2017: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has reduced over the period from £2.28 million to £2.16 million. The decrease in the deficit is mainly due to an increase in the discount rate from 2.3% to 2.4%. As a result of the triennial valuation for the period to 31st March 2017, which showed a funding level of 87.5% on a continuing valuation basis, the Group's annual contribution to the Scheme remains at £0.24 million. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

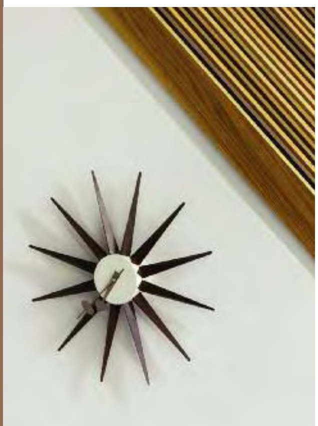
Financial risks

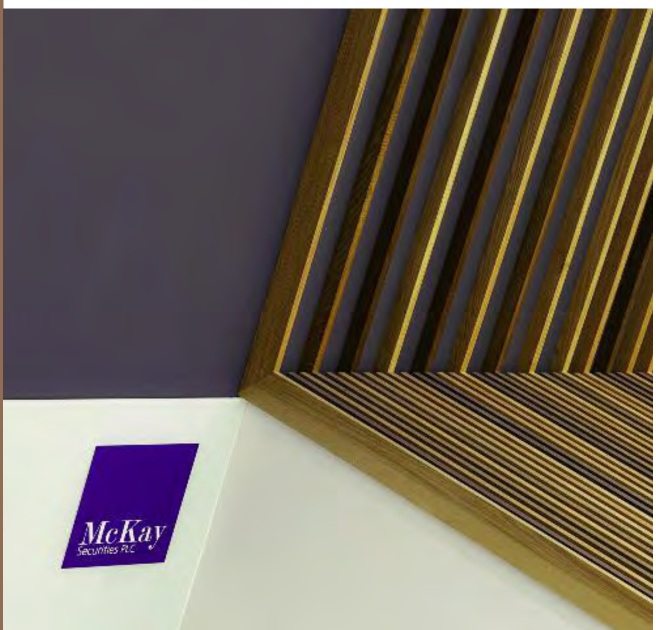
The financial risks are documented in the principal risks and uncertainty section of the Strategic Report on pages 24 to 27.

Signed on behalf of the Board of Directors.

S. Perkins
G. Salmon

18th May 2018

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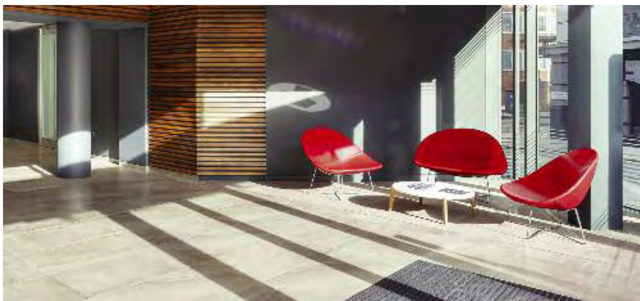
Securities PLC



Principal Risks and Uncertainties

RISK GOVERNANCE STRUCTURE

THE BOARD

The Board develops the Group's strategic approach to risk and maintains overall responsibility for monitoring the effectiveness of the Group's risk management and internal control systems.

THE AUDIT & RISK COMMITTEE

Membership:
Independent non-executive Directors.

The Audit & Risk Committee, on behalf of the Board, reviews the effectiveness of the Group's internal financial control and internal control risk management systems.

THE RISK SUB-COMMITTEE

Membership:
The executive Directors

The Risk Sub-committee maintains the Group's Risk Register, designs and maintains the Group's financial control and internal risk management systems and advises on future risk exposure 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 2018 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 on pages 25 to 27 along with an explanation of how these have been managed.

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 2023, 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.

During the year the Group successfully renegotiated and increased its facilities with two of its four long term lenders and cancelled its remaining interest rate swap. For more detailed information please see page 87.

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.

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.	The triggering of Article 50 and ongoing Brexit negotiations continue to maintain a climate of uncertainty that could impact on corporate decision making and increased sector risk.
FINANCIAL		
Interest rate rises Leading to lower profits.	The Board's policy is to borrow at both fixed and floating rates of interest.	The Group is currently fixed at £65m out of £147m of debt as at 31st March 2018.
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.	The Group's facilities of £190m are in line with current business plan. The Group re-negotiated one of its four facilities in August 2017 and a second in March 2018.
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).	Management kept up to date on requirements by tax advisors, including need to submit election for exemption.	Election made in March 2018.

Principal Risks and Uncertainties

continued

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 climate, 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. Regular appraisals of developments and refurbishments are carried out. Contractors are assessed for financial stability and historic performance. Design and build contracts are issued where appropriate, others are fully designed prior to commencement of works. The Group continually monitors planning and regulatory reform and takes advice from external advisors and industry specialists.	With one significant development due for completion in Summer 2018 and another in the development pipeline the Group's risk exposure remains constant.
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 in smaller lot sizes. 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 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. ▶
Legal and regulatory risk Non compliance with regulations and laws resulting in planning and project delays, fines and loss of reputation.	The Group employs experienced staff and external advisors to provide guidance on regulatory requirements. The Board approves and adopts the Group's policies for compliance with current legislation.	Continued compliance with regulation. ▶
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 and 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 to implement 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. Cyber fraud insurance is in place.	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.	All buildings have insurance to cover a terrorist incident and loss of rent. All three Executive Directors generally avoid travelling 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

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 investors and occupiers, ensuring it maintains compliance with legislation and meets best practice asset management and development standards.

During the financial year ended 31st March 2018, the Group continued to make progress with its ambitious sustainability strategy. This is focused on delivering across three areas: managing sustainable buildings; creating sustainable buildings; and engaging stakeholders. The strategy addresses the most material risks and opportunities associated with our core business activities and targets are set at the beginning of the financial year across all three focus areas.

The Group's sustainability advisor, JLL, provides ongoing support to implement the strategy and reviews progress made against the targets on a quarterly basis.

The Group's sustainability objectives

Five 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:

- improved the environmental performance of its operational portfolio, achieving a 14% year-on-year reduction in carbon emissions, 7% reductions in electricity and gas consumptions, and a 35% 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 35.4% in 2017/18;[2]
- continued to implement energy and water efficiency measures, prioritising improvement works at highest consuming properties and those with lower EPC ratings;
- Piloted a post-occupancy assessment for Prospero, Redhill, our high quality office development completed in 2016, to gain an understanding of the health and wellbeing performance of the building in operation;
- ensured that the design of the Aurum office development at 30 Lombard Street, London, is on track to achieve a BREEAM 'Excellent' certification and minimum EPC 'B' rating;
- updated the Group's Responsible Procurement Policy and pre-qualification questionnaires to ensure that suppliers are best placed to support the Group in reducing its environmental impacts and amplifying its socio-economic benefits;
- maintained GRESB 'Green Star' status for the second year running.

During the year, the Group successfully achieved 90% of its sustainability targets (5% are still in progress and 5% not achieved). Details of actions taken to meet targets are set out under each focus area below. In keeping with its commitment to continually improve its sustainability performance, the Group has set 19 targets for the financial year ending on 31st March 2019 (see page 33), and, furthermore, it will include sustainability factors in the annual performance targets of its employees. The Group also plans to review and refresh its sustainability strategy over of the course of the coming year, to ensure that it keeps apace with evolving market norms; technological developments; government policy and stakeholder requirements in this area.

[1] Like-for-like analysis takes into account heating degree days in the gas consumption trend calculations, and incorporates vacancy rates across the portfolio. Calendar year 2017 consumption is taken as an approximation of the financial year 2017/18 consumption. The water like-for-like analysis has excluded a very large proportion of the portfolio due to missing data, and should be viewed with significant caution.

[2] Calendar year 2017 recycling rate is taken as an approximation of the financial year 2017/18 rate.

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 active asset management approach forms the core of its day-to-day activities and is the area in which the Group has identified the most significant opportunities to enhance asset value by improving environmental performance.

Energy and water targets – year to March 2018	Status
Achieve a 4% reduction in like-for-like landlord controlled electricity consumption by the end of March 2018 against a 2016/17 baseline	Achieved
Achieve a 4% reduction in like-for-like landlord controlled gas consumption (adjusted for heating degree days) by the end of March 2018 against a 2016/17 baseline	Achieved
Achieve a 4% reduction in like-for-like landlord controlled carbon emissions by the end of March 2018 against a 2016/17 baseline	Achieved
Achieve a 3% reduction in like-for-like landlord controlled water consumption by the end of March 2018 against a 2016/17 baseline	Achieved
Continue to implement energy and water efficiency measures at the Group's major energy and water consuming assets	Achieved

Energy

During the year, the Group's landlord-procured gas and electricity consumptions both decreased by 7% on a like-for-like basis. This is due to the fact that several key improvements that were implemented across our highest consuming assets towards the end of 2016/17 have now had time to exert their impact. These reductions in energy consumption achieved at these assets have allowed the Group to reduce its like-for-like energy consumption by 7%, enabling it to avoid an estimated £56,000 in running costs. This, combined with the ongoing decarbonisation of the grid, has allowed the Group to reduce its carbon emissions by 14% during the year on a like-for-like basis.

Water

Absolute water consumption decreased by 17% during the year, whilst on a like-for-like basis there was a 35% reduction, with corresponding cost savings of around £12,500. Nonetheless it should be noted that water data from four large water-consuming properties had to be excluded from the like-for-like analysis due to missing data. The Group has targeted efficiency projects – such as the installation of low-flow taps and dual-flush WCs – at those assets with the highest water consumption and therefore expects to see performance improving at these properties as and when accurate data is obtained.

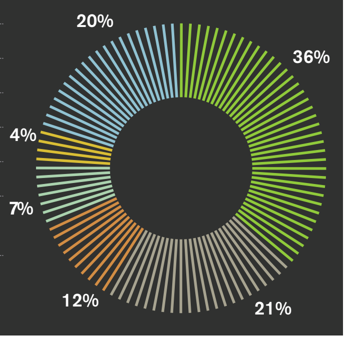
Environmental management programme

The Group has continued to develop and implement resource reduction strategies for five of its highest consuming assets (which together accounted for over 80% of the total absolute energy use during the year). The energy consumption profile of the five assets is shown below.

[3]Estimated based on a flat electricity rate of 0.105 £/kWh, and a flat natural gas rate of 0.035 £/kWh.

Assets within the Environmental Management Programme: Proportion of Total Energy Consumption (year to March 2018)

	sq ft
The Mille	96,700
One Crown Square	50,735
Portsoken House	49,570
Corinthian House	44,735
Mallard Court	21,860
Other managed assets in the like-for-like analysis	
Total consumption: 10,180,995 kWh	



During the year, the Group continued to research and explore new and innovative technology that could help to reduce energy consumption at the highest consuming assets. For example, a feasibility assessment was launched for a technology that could help to reduce HVAC energy use by up to 20%. It is anticipated that if the results of the feasibility studies are positive, the pilot project will be undertaken in the second half of 2018. In addition to this, the following were also undertaken:

- LED lighting upgrades to car parking areas at Pegasus Place, Mallard Court, Ancells Business Park, Switchback and the McKay Trading Estate in Poyle;
- replacement of the traditional wet heating system with a more efficient air conditioning system as part of ongoing refurbishment at Portsoken House; and
- continued installation of new controls to all AC units on refurbished floors at the Mille;

Only one of the assets in the Environmental Management Programme saw energy consumption increase over the period January-December 2017, and this caused by efforts to improve occupier wellbeing following tenant engagement. Cumulatively the five assets reduced their consumption by 10.5%. Further measures have been identified at these and other assets across the portfolio and are awaiting technical and financial appraisal.

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	£53,887
2018	£54,000 (estimated)

Renewable energy

Renewable energy target – year to March 2018	Status
Explore the feasibility of incorporating on-site renewable energy at a minimum of one of McKay Securities' operational assets	Achieved

The Group assessed the viability of installing solar photovoltaic panels (PV) at 17 sites during the year, identifying five assets which qualify for more detailed feasibility studies based on site characteristics; proposed PV area; energy and carbon emissions reductions; capital costs and ROI.

Waste

Waste targets – year to March 2018	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 44% by 31st March 2018	Not achieved

Of the 167 tonnes of waste generated by the Group during the year, 100% was diverted from landfill, meaning that the Group has maintained this commitment for the third consecutive year. However, the Group has not been able to meet its target for recycling; 59 tonnes were recycled, representing 35.4% of total waste. However, the Group has engaged with tenants on the issue of waste, and has introduced food waste recycling at a number of properties during the year. The Group remains determined to align its recycling rates with the Real Estate Environmental Benchmark (REEB) by achieving a 52% recycling rate by 2020. In the coming year the Group will continue to run a tenant engagement campaign to increase recycling rates and will conduct a waste audit to identify further recycling opportunities.

[4]January-March 2018 data is estimated.

EPC risk

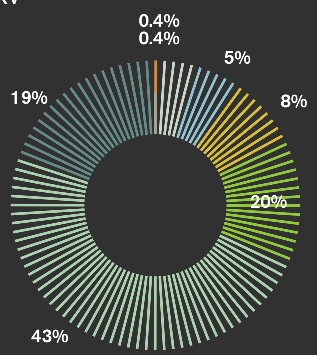
EPC risk target – year to March 2018	Status
Continue to review EPC risk associated with new purchases and identify improvement works for any assets with an E rating or lower. Also consider D rated assets.	Achieved

Over the last few years the Group has put significant effort into understanding and mitigating its portfolio EPC risk. The minimum energy efficiency standard (MEES), which originates from the Energy Act 2011, came into force on 1st April 2018, making it unlawful to let any properties with an EPC rating of F or G.

Having taken a proactive approach to managing EPC risk, less than 1% of the assets within the Group's portfolio (by ERV) are currently F or G rated.

McKay Securities Adjusted Sites
EPC Portfolio Breakdown by ERV

	%
No EPC held	4
A	5
B	8
C	20
D	43
E	19
F	0.4
G	0.4



Sustainable procurement

Sustainable procurement target – year to March 2018	Status
Conduct a review of major operational material spend categories and investigate establishing minimum sustainability procurement requirements based on the results	Achieved

Suppliers and contractors play a fundamental role in delivering the Group's sustainability vision and provide a way to amplify its positive impact beyond its direct operations. This year, the Group conducted an assessment of its top spend categories, and used the results to update its Responsible Procurement Policy and pre-qualification questionnaires with more ambitious requirements on aspects such as the "living wage"; the environmental credentials of key products purchased and the implementation of Environmental Management Systems (EMS). Among other changes, the Group has committed to auditing the key suppliers in the top five operational procurement categories to ensure compliance with the policy. The policy can be found in the Sustainability section of the Group website.

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:

Green buildings target – year to March 2018	Status
Ensure all new developments and major refurbishments achieve minimum BREEAM Excellent and an EPC rating of at least B	Achieved
Continue to monitor the compliance of contractors with development sustainability requirements and ensure that sustainability is consistently integrated as part of the tendering process	Achieved
Include information about assets' sustainability and health and wellbeing features within marketing materials, highlighting their benefits for occupiers	Achieved
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	Achieved

The Group has continued to monitor the compliance of its contractors with its development sustainability requirements, and this has helped it reach its ambitious target of achieving BREEAM 'Excellent' and EPC 'B' as a minimum for its new developments. The development of Aurum, 30 Lombard Street is on course to achieve BREEAM 'Excellent', and the Group's next planned development, an industrial project, is also being designed to achieve this level of performance.

The Group has showcased the high sustainability standards achieved at recently completed projects Prospero, Redhill, and 9 Greyfriars Road, Reading, allowing it to attract high-calibre occupants to these spaces. Greyfriars is now fully let, whilst Prospero is 91% let; Aurum, 30 Lombard Street, which is due for practical completion in summer 2018, has been fully pre-let.

Case study: post-occupancy assessment of Prospero, Redhill

In a bid to better understand the extent to which design intent is reflected in occupiers' actual experience, the Group carried out a post-occupancy assessment of Prospero, its completed office development in Redhill.

Based on the World Green Building Council (World GBC)'s Health, Wellbeing & Productivity Framework, the assessment involved a technical survey of the physical characteristics of the office using indoor environmental quality (IEQ) measurements and an occupier perception survey to gauge people's experience of working in the building.

Overall the findings were very positive:

- 72% of respondents believe that the building provides a space that is conducive to a healthy and productive work environment, and
- 78% of respondents believe that the building promotes sustainability and they have adopted environmentally beneficial behaviours as a result.

Two issues relating to the open plan areas, noise and temperature fluctuations, were identified for further attention. The Group is seeking ways to address these and will take on board the findings of the assessment in future office developments and refurbishment projects, if found to be relevant more widely to the rest of the portfolio.

"The office has created a more sociable space, helping staff to interact with each other where they didn't before the move"
– Office worker, Prospero

Engaging stakeholders

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

The Group's ability to deliver on its business and sustainability endeavours is, in part, dependent on its ability to communicate, support and gather feedback from its stakeholders. The Group's key stakeholders are its employees, occupiers, shareholders, financial providers, suppliers and communities.

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

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. To this end, the Group has developed and published a Stakeholder Engagement Policy, which can now be found on its website.

The Group seeks to maintain an open dialogue with investors and communicates its sustainability performance through annual reporting and presentations. During the year, the Group once again participated in the key investor-led sustainability survey for the real estate sector, the Global Real Estate Sustainability Benchmark (GRESB), and retained the coveted 'Green Star' status which it achieved in 2016. Actions implemented during the year will further strengthen the Group's response to a number of the GRESB criteria, so it can expect to further maintain or enhance its score.

During the year, the Group held Continuing Professional Development (CPD) sessions and organised tours of some of UK's most sustainable office and industrial buildings in order to develop the property team's understanding of sustainability issues, draw inspiration from other sites and learn about innovations in the sector.

The Group is currently working towards the launch of a tenant competition which will reward sustainable behaviours and result in increased tenant engagement, supporting both the Group's and the tenants' sustainability endeavours.

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 to March 2018, the Group made a total of £28,100 in charitable donations.This represents 0.31% of adjusted profit before tax (0.4% in 2017). Additionally, the Group has contributed to a community allotment within the local area of one of its properties following continued engagement with neighbouring residential properties. The Group was the main sponsor for the Mayor of Bracknell's charity event held in November 2017 for the Firefighters Charity.

Health & Safety

While not covered specifically through its sustainability targets, Health and Safety (H&S) is a critical element of the Group's stakeholder engagement programme.

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 programme of health and safety training has been implemented for employees, alongside a programme of training with the Group's contractors and consultants to ensure they are working to the same standard. For the year to March 2018, there have been no accidents of a nature reportable to HSE.

The Group's Diversity Policy and disclosure can be found on page 47.

Sustainability targets – year to March 2019

Building on the great work undertaken over the last year the Group has set itself the following targets to financial year to March 2019:

Managing Sustainable Buildings

Target	Deadline: 31st March 2019
Electricity consumption: Achieve a 12% reduction in like-for-like landlord controlled electricity consumption relative to a 2015/16 baseline.	Pilot an innovative energy-saving technology at one of the Group's major energy consuming assets.
Gas consumption: Achieve a 12% annual reduction in like-for-like landlord controlled gas consumption (adjusted for heating degree days) relative to a 2015/16 baseline.	Pilot an innovative water-saving technology at one of the Group's major water consuming assets.
Carbon emissions: Achieve a 12% reduction in like-for-like landlord controlled carbon emissions, against a 2015/16 baseline.	Continue to review EPC risk associated with new purchases and create improvement plans for any asset with an E rating or below, to bring it up to at least a D.
Water consumption: Achieve a 9% reduction in like-for-like landlord controlled water consumption, against a 2015/16 baseline.	Roll out phase two of the Group's Renewable Energy Review Strategy, which will involve conducting detailed studies into the feasibility of incorporating solar PV panels at five properties, and then select at least one property at which to take forward an installation subject to commercial viability.
Waste: Maintain 100% of operational waste diverted from landfill for landlord managed portfolio.	Continue to ensure compliance with the Group's Responsible Procurement Policy through the agreed annual auditing process..
Waste: Increase the recycling rate across all properties for which the Group has management control to 48% by 31st March 2019, in line with 'Good Practice' according to the Real Estate Environmental Benchmark (REEB).	

Creating Sustainable Buildings

Target	Deadline: 31st March 2019
Continue to monitor the compliance of contractors with McKay's Sustainability Requirements for Development and Refurbishment Projects, ensuring that sustainability is consistently integrated as part of the tendering process.	
Ensure all new developments and major refurbishments achieve minimum BREEAM Excellent and an EPC rating of at least B.	
Follow up on the results and recommendations of the post-occupancy evaluation of Prospero, Redhill, to ensure that all aspects of operational performance meet design intent.	

Engaging Stakeholders

Target	Deadline: 31st March 2019
Maintain or enhance GRESB performance relative to 2017.	
Hold a minimum of three sustainability related CPD sessions to increase awareness of key issues amongst employees.	
Continue to organise annual sustainable building tours to inform and inspire employees.	
Include information about asset's sustainability, including energy efficiency and health and wellbeing features, within marketing materials, highlighting their benefits to occupiers.	
Introduce building awards/competition to encourage uptake of sustainability practices amongst tenants.	

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 2017 to 31st March 2018 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.
The significant reduction in the overall footprint is partly due to a 7% reduction in energy consumption, combined with the ongoing decarbonisation of the grid.

Sources of Greenhouse Gas Emissions			**2017/18 (est.) tCO_2e**	**2016/17 (actual) tCO_2e**
Scope 1	Energy	Gas (EPRA sBPR fuels – Abs)	655	678
	Fugitive emissions	Refrigerant emissions	De minimis	De minimis
Scope 2	Energy	Landlord-controlled electricity (EPRA sBPR Elec – Abs)	1,221	1,454
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)	1,401	1,692
Total			3,277	3,823
Intensity				
tCO_2e / £m Adjusted profit before tax (Scopes 1 and 2 only)			0.207	0.248

Data Qualifying Notes

- This is the Group's fifth year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations.
- The Group's emissions for the year to March 2017 have been restated due to Q4 2016/17 data not being available at the time of reporting in 2017; this final period of data is estimated in every Annual Report.
- For the year to March 2018, 33% of energy consumption, and therefore carbon emissions, is estimated. Q4 2017/18 accounts for 94% of this estimated data.
- This statement 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, with the exception of Scope 2 dual reporting which is not yet being followed.
- An operational control consolidation approach has been adopted, together with emissions factors from the UK Government Conversion Factors for Company Reporting 2017.
- 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 2017/18 financial statements – page 80 of the 2018 Annual Report and Accounts.

Governance

Board of Directors

Richard Grainger ACA *Non-executive Chairman*
Aged 57. 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 Liberation Group.
A member of the Remuneration, Audit & Risk and Nomination Committees.

Jon Austen FCA *Senior Independent Director*
Aged 61. 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. A non-executive Director of Supermarket Income REIT plc. Chairman of the Audit & Risk Committee and a member of the Nomination and Remuneration Committees.

Nick Shepherd FRICS *Non-executive*
Aged 59. 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 52. 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. Chairman of the Nomination Committee and a member of the Audit & Risk and Remuneration Committees.

Simon Perkins MRICS *Chief Executive Officer*
Aged 53. 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 52. 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 43. 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.

Corporate Governance

Richard Grainger
Chairman

Dear Shareholder

I am pleased to introduce our Corporate Governance Report for the year ended 31st March 2018.

We continue to strive for high standards of corporate governance throughout the business and aim to work in the best interests of our shareholders and other stakeholders in a responsible and ethical manner. 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.

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.

We have complied with the requirements of the 2016 UK Corporate Governance Code (the 'Code') and are monitoring the proposals for a revised Code to be introduced by the FRC.

During the year we completed the managed succession plan to refresh the composition of the Board. As previously reported, Nigel Aslin and Viscount Lifford stepped down from the Board and Committees with Jeremy Bates taking over as Chairman of the Nomination Committee in April 2017.

The Audit & Risk Committee oversaw the important process of appointing Knight Frank LLP as valuer. Further details are set out in the Audit & Risk Committee Report on pages 44 and 45.

It was also an important year for the Remuneration Committee, and we were pleased to receive over 99% support for the Directors' Remuneration Policy at the 2017 AGM. This is covered in greater detail in the Remuneration Committee Report on pages 48 to 61.

Our Annual General Meeting will be held on 4th July 2018. 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

18th May 2018

Directors' Report

Introduction
The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2018. 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 31st March 2018

Profit and distribution
The profit for the year is set out in the Consolidated Profit and Loss and other Comprehensive Income Statement. Profit before tax is £43.4 million (2017: £17.6 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 7.2p per share, all of which will be paid as an ordinary dividend, making a total for the year of 10.0p per share (2017: 9.0 pence). If approved at the Annual General Meeting on 4th July 2018 the dividend will be paid on 26th July 2018 to shareholders recorded on the register at the close of business on 1st June 2018.

Activity and assets
The business of the Group is that of property investment and development in the United Kingdom. The subsidiary undertaking principally affecting the profits or net assets of the Group in the year is 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 2018. An increase in value of £25.1 million has been included in the Consolidated Profit and Loss and other Comprehensive Income Statement.

After taking into account retained profits and dividends paid during the year, basic net asset value per share at 31st March 2018 was 326 pence (2017: 289 pence).

Directors
The Board of Directors for the financial year to 31st March 2018 was:

R. Grainger[1]
S. Perkins
G. Salmon
T. Elliott
J. Austen
J. Bates
N. Shepherd

N. Aslin (to 22nd May 2017)
Viscount Lifford (to 18th September 2017)

[1]Independent on appointment as Chairman.

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 36 and 37. In accordance with the Company's Articles of Association and the UK Corporate Governance Code all the Directors being eligible will offer themselves for re-election at the 2018 AGM.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 53 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 57 and 58.

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

Substantial shareholdings

In addition to the Directors' interests referred to on page 58 of the Directors' Annual Remuneration Report, the Company has been notified in accordance with the UK Listing Authorities Disclosure Guidance and Transparency Rules of the following holdings of the Company's shares (see note 19 of the financial statements) as at 31st March 2018:

	Shares	%
Aberforth Partners LLP	12,214,575	13.00
Bank of Montreal* (BMO)	11,426,580	12.16
ING Groep N.V.	5,181,470	5.51
J.O. Hambro Capital Management UK	4,752,510	5.06

*the aggregate interest held by BMO includes 9.92% held by TR Property Investment Trust.

Notification since 31st March 2018:

	Shares	%
Bank of Montreal* (BMO)	11,448,147	12.18

Political donations

No political donations were made during the year (2017: nil).

Charitable donations

Details of charitable donations can be found in the Sustainability section of the Strategic Report on page 32.

Share capital

The issued share capital of the Company as at 31st March 2018 was 93,955,109 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-second Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 4th July 2018 at 3.00p.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 2017 to allot relevant securities up to a nominal amount of £6,253,896. 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 £6,263,673 and (ii) comprising equity securities up to a nominal amount of £12,527,347 (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 2019).

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 £1,879,102.

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 9,395,510 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.

As a result of the EU audit reforms, the Company is intending to change auditor for the year ending 31st March 2020.

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	80
4	Details of long term incentive plans	48-61

Throughout the year ended 31st March 2018 the Company has complied with the 2016 UK Corporate Governance Code (the "Code") 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 2018 the Board comprised up to three executive Directors, including Mr S. Perkins, Chief Executive Officer ('CEO') and up to six non-executive Directors, including Mr R. Grainger, (Non-executive Chairman), Mr J. Austen (Senior Independent Director), Mr J. Bates and Mr N. Shepherd. Their biographical details are set out on pages 36 and 37. Mr N. Aslin retired on 22nd May 2017 and Viscount Lifford retired on 18th September 2017. The composition of the Board complies with provision B.1.2 of the Code. 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 eleven 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 42.

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 44 and 45.

Nomination Committee

Mr J. Bates MRICS is Chairman of the Nomination Committee. The Committee met once 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 46 and 47.

Remuneration Committee

Mr N. Shepherd FRICS is Chairman of the Remuneration Committee which met three 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 48 to 61.

Risk management and internal control

The following should be read in conjunction with the principal risks and uncertainties on pages 24 to 27 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 Sub-committee, introduced in 2017 and consisting of the executive Directors, meets on a regular basis. It is responsible for identifying key risks and assessing their likely impact on the Group and maintaining the Risk Register. The Risk Sub-committee reports to the Audit & Risk Committee. Important areas include property, financial and corporate risks. Other important areas such as 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.

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 2018.

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 Group's website, www.mckaysecurities.plc.uk.

There is also an investor relations section on the Group's website, which includes annual and interim reports. The website also includes 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 Group's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations section of the Group'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 2018)

	Board (11 meetings)	Audit & Risk Committee (3 meetings)	Remuneration Committee (3 meetings)	Nomination Committee (1 meeting)
R. Grainger	11	3	3	1
S. Perkins	11	[1]3	[1]3	1
G. Salmon	11	[1]2	–	–
T. Elliott	11	[1]2	–	–
J. Austen	11	3	3	1
J. Bates	11	3	3	1
N. Shepherd	11	3	3	1
N. Aslin (to 22nd May 2017)	2	1	1	–
Viscount Lifford (to 18th September 2017)	6	1	2	–

[1]In attendance by invitation.

Signed by order of the Board
J. McKeown
Secretary

18th May 2018
Reading

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent 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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company 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 issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

S. Perkins
Chief Executive Officer

G. Salmon
Chief Financial Officer

18th May 2018

Audit & Risk Committee Report

Jon Austen
Chairman of the Audit & Risk Committee

Dear Shareholder

I am pleased to present the Audit & Risk Committee report for the year ended 31st March 2018.

The Committee continues to play a key role in maintaining the quality of our financial reporting and overseeing the adequacy and effectiveness of internal controls and risk management.

During the year, due to the increasing size and scale of the portfolio and the length of service of the Group's previous valuer, a decision was made to refresh this appointment and in mid 2017 an invitation was made to four valuation companies to tender for the Group's external valuation. Knight Frank LLP, was subsequently appointed, offering extensive strength and depth across our markets. Their first valuation was at 30th September 2017 for the interim results, followed up with the 31st March 2018 portfolio valuation, and we have been pleased with the transition.

The Committee has recommended to the Board that KPMG LLP be put forward for shareholder approval at the forthcoming AGM as auditors of the Group. Under EU audit reforms, the last period KPMG can act as auditor to the Group is for the year ending 31st March 2021. Consideration has already been given to the engagement of a replacement external auditor for the 2020 audit. This will be subject to a competitive tender process, anticipated to commence during 2018.

Jon Austen
Chairman of the Audit Committee

18th May 2018

Committee membership

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

J. Austen FCA – Chairman
J. Bates MRICS
R. Grainger ACA
N. Shepherd FRICS

N. Aslin FRICS (to 22nd May 2017)
Viscount Lifford (to 18th September 2017)

All 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 with full Committee attendance at all meetings. The table of attendance is set out in the Directors' Report on page 42.

The Chief Executive Officer, Chief Financial Officer and external auditors regularly attend by invitation. The Committee meets twice a year 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 in 2017 of a separate Risk Sub-committee was working well. The evaluation concluded that the Audit & Risk 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 Group'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 Group's risk management and internal control 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 remuneration and terms of engagement;
- reviewing and monitoring the external auditor's independence and objectiveness and the effectiveness of the audit process;
- reviewing the assumptions or qualifications in support of the going concern statement, and the longer term viability statement over an appropriate and justified period

Main activities of the Committee during the year

Significant judgements and Group valuer

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. This year due to the increasing size and scale of the portfolio and to the length of service of the Group's valuers consideration was given to refreshing this appointment. An invitation to tender for the Group's external valuation was sent out to four companies and included a request for valuations on two sample properties within the portfolio. Following a review of the tenders the successful candidate, Knight Frank LLP, was appointed and undertook a full valuation of the portfolio at the year end.

The valuation was reviewed along with its associated risks, and the Committee gained comfort from the valuer's methodology and other supporting market information.

Risk management and internal control

The Committee is responsible for reviewing the Group's risk management and internal control systems and in 2017 established the Risk Management Sub-committee whose key responsibilities include overseeing and advising on the current and future risk exposure of the Group, maintaining the Group's risk register and reviewing the effectiveness of the Group's internal financial control systems. The Risk Management Sub-committee met three times during the year and reported its findings to the Audit & Risk Committee. For further information on the Group's principal risks and uncertainties please see pages 24 to 27.

The Committee reviewed the requirement for an internal audit function and concluded that as there is a small management team operating from one location enabling close involvement of the executive Directors in the day to day operational matters of the Group, coupled with the comprehensive internal controls currently in place, no requirement to establish an internal audit function was needed at this time. This recommendation was made to the Board.

Whistleblowing policy

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

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.

KPMG rotate their engagement partner on a 5 year cycle designed to retain objectivity and independence. The Committee can confirm that it is satisfied that the external auditor remains independent. The KPMG audit fee was £71,940 with related assurance work of £19,394. Non-audit fees being tax services are provided by PwC and their fee was £65,136.

Whilst under the regulations the last year KPMG LLP can audit the Group is the year ending 31st March 2021, the Committee has given consideration to the engagement of an alternative external auditor for the 2020 audit. This will be subject to a competitive tender process and it is anticipated that this process will commence during 2018.

Nomination Committee Report

Jeremy Bates
Chairman of the Nomination Committee

Dear Shareholder

I am pleased to present my first report as Nomination Committee Chairman since my appointment on 1st April 2017.

During the year, as part of our succession plan, Nigel Aslin, and Viscount Lifford stepped down from the Board and its Committees on 22nd May 2017 and 18th September 2017 respectively, and Jon Austen became Senior Non-executive Director on Viscount Lifford's departure.

The composition of the Board now complies with the non-executive director independence requirements of Code provision B.1.2. of the UK Corporate Governance Code.

The Committee's focus for the coming year is to continue to support the Board and its Committees, to ensure they have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively.

Jeremy Bates
Chairman of the Nomination Committee

18th May 2018

Committee membership

Members of the Nomination Committee are:

J. Bates MRICS – Chairman
J. Austen FCA
R. Grainger ACA
N. Shepherd FRICS
S. Perkins MRICS

N. Aslin (to 22nd May 2017)
Viscount Lifford (to 18th September 2017)

The Nomination Committee met once in the last year with 100% attendance.

The majority of the members of the Committee are independent non-executive Directors.

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 Group'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;
- reviewing the equality and diversity policy of the Group;
- making recommendations to the Board concerning the re-election of Directors by shareholders; and
- annual review of the Nomination Committee Terms of Reference.

Succession planning

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

During the year the Committee completed the final phase of its planned programme to refresh the composition of the Board to comply with the 2016 UK Corporate Governance Code requirements for Board independence. Mr Nigel Aslin retired from the Board and its Committees on 22nd May 2017 and Viscount Lifford on 18th September 2017. Mr Jon Austen was appointed Senior Independent non-executive Director on the retirement of Viscount Lifford.

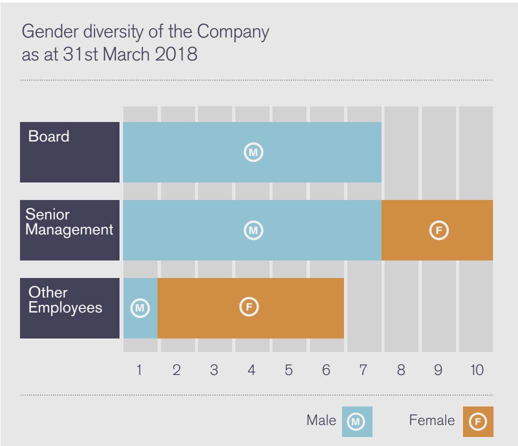
Non-executive Directors are appointed for an initial three year term and are subject to re-election at the Annual General Meeting. Any term beyond six years is subject to particularly rigorous review which will take into consideration the need for progressive refreshing of the Board. The longest serving non-executive Director is Richard Grainger, who joined the Board in May 2014.

Policy on diversity

The Group is committed to treating all employees equally and considers all aspects of diversity, including gender and ethnicity, 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 the Parker Review on ethnic diversity 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 Group 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 2018. 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 provide an effective and appropriate range of skills and experience, whilst demonstrating commitment and independence.

Re-election of Directors

As recommended under Code Provision B.7.1. of the 2016 UK Corporate Governance Code, all Directors of the Company, being eligible, will offer themselves for election at the 2018 AGM. The biographical details of the Directors are available on pages 36 and 37.

Nick Shepherd
Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31st March 2018, which has been prepared by the Remuneration Committee ("the Committee") and approved by the Board.

The report is divided into three sections:

- this Annual Statement for the year ended 31st March 2018, summarises remuneration outcomes and how the Remuneration Policy will operate for the year ending 31st March 2019;
- the Remuneration Policy Report, which details the Group's policy on the remuneration of executive and non-executive Directors which was last approved by shareholders at the 2017 AGM; and
- the Annual Report on Remuneration, which explains how the Remuneration Policy was implemented in the year ended 31st March 2018, and how the Remuneration Policy will operate for the year ending 31st March 2019.

As no changes are being proposed to the Remuneration Policy Report, given that it was approved by shareholders last year, only the Annual Statement and Annual Report on Remuneration will be subject to a vote (advisory) at the forthcoming 2018 AGM.

Committee activities during the year

The Committee met three times during 2017/18. The main Committee activities during the year (full details of which are set out in the relevant sections of the Annual Report on Remuneration) included:

- determining executive Directors' base salary levels for 2018/19 (i.e. Simon Perkins - £395,000, Giles Salmon £258,500, Tom Elliott - £226,600);
- setting the executive Directors' bonus targets for 2017/18 and agreeing the outturn in respect of the 2016/17 annual bonus;
- agreeing the structure of the annual bonus for 2018/19, including consulting with major shareholders and representative bodies in respect of bonus potential and performance metrics (see below);
- determining vesting of the 2015 PSP awards which reached the end of the 3 year performance period on 31st March 2018; and
- overseeing the grant of the PSP awards in 2017/18 which was made over shares worth 100% of salary to the executive Directors and which vest subject to the achievement of a blend of challenging absolute NAV per share growth targets and relative TSR targets.

Pay and performance

The strong financial performance for the year ended 31st March 2018 has been reflected in the payments made to the executive Directors under the annual bonus plan, amounting to 68% of salary. Performance against the EPS targets resulted in a bonus of 100% of that element (i.e. approx. 45% of salary) while performance against the NAV targets resulted in a bonus of 75% of that element (i.e. approx. 23% of salary). The excess annual bonus over 50% of salary will be deferred into shares for three years. Further details (including information regarding performance against the relevant targets and the operation of the deferred share element of the plan) are set out in the Annual Report on Remuneration.

In respect of the PSP awards granted in 2015, which vest in June 2018, three-year performance to 31st March 2018 against the NAV targets will result in 100% of that element vesting while performance against the relative TSR targets will result in 0% of that element vesting.

Proposed changes to policy implementation for the year ending 31st March 2019

At the 2017 AGM, the Directors' Remuneration Policy was approved by shareholders with over 99% support and I am pleased to report that the Policy implementation has progressed smoothly.

Following shareholder consultation, the Committee proposes to increase annual bonus potential to 100% of salary for 2018/19 as set out in the Policy. In doing so, the Committee has identified a select number of key strategic targets which are consistent with the Group's strategy, whilst retaining the focus on EPS and NAV, resulting in 45% of potential bonus based on EPS performance conditions, 30% based on NAV performance conditions and 25% based on strategic targets.

The strategic targets will be based on operational areas covering occupancy, tenant retention, rent collection, environmental and health & safety, and will be consistent with annual bonus targets for the general workforce. Disclosure of the targets, and the performance against the targets, will be included in the relevant Directors' Remuneration Report following the year end to the extent that they are not considered to be commercially sensitive.

The bonus deferral policy for executive Directors will continue, whereby any bonus in excess of 50% of salary is deferred into McKay shares for 3 years.

In respect of the operation of the rest of the Directors' Remuneration Policy for 2018/19:

- base salaries were increased in line with the general workforce rate of increase;
- pension provision will remain unchanged for existing executive Directors, although it is the Committee's intention that pension provision for the future appointment of executive Directors will be consistent with the general workforce;
- long term incentive awards will continue to be granted under the 2017 Performance Share Plan, with executive Directors receiving awards over shares worth 100% of base salary, with 40% of the award based on NAV performance targets and 60% based on relative TSR targets. For the 2018 grant of PSP awards, the NAV performance targets will be varied to exclude RPI. Rather than a performance range of RPI+6% (25% of this part of an award vests) increasing pro-rata to RPI+25% (100% of this part of an award vests), an NAV range of 12% to 35% will be set. The TSR targets - median (25% of this part of an award vests) to upper quartile (100% of this part of an award vests) as measured against a FTSE Real Estate sector group will remain unchanged;
- a two-year post vesting holding period will continue to apply to PSP awards after the three year performance period;
- malus and clawback provisions will continue to operate; and
- shareholding guidelines will remain at 200% of salary.

Conclusion

I hope you remain supportive of the approach to Policy implementation for 2018/19 which is a continuation of our considered and prudent approach to remuneration at McKay, and that you will therefore vote in favour of the remuneration-related resolution that will be tabled at the forthcoming AGM.

Nick Shepherd
Chairman of the Remuneration Committee

18th May 2018

A summary of the Remuneration Policy approved by shareholders at the 2017 AGM is as follows:

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To recruit and reward executives of the quality required and with 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 payable during the vesting 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	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 dividends payable falling between the grant and the release of shares.	Normal grant policy: Up to 100% of salary Maximum normal grant level: Up to 150% of salary Exceptional grant level: Up to 200% of salary	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.

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 was 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 this Remuneration Policy and 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 the Committee takes 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 Group'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.

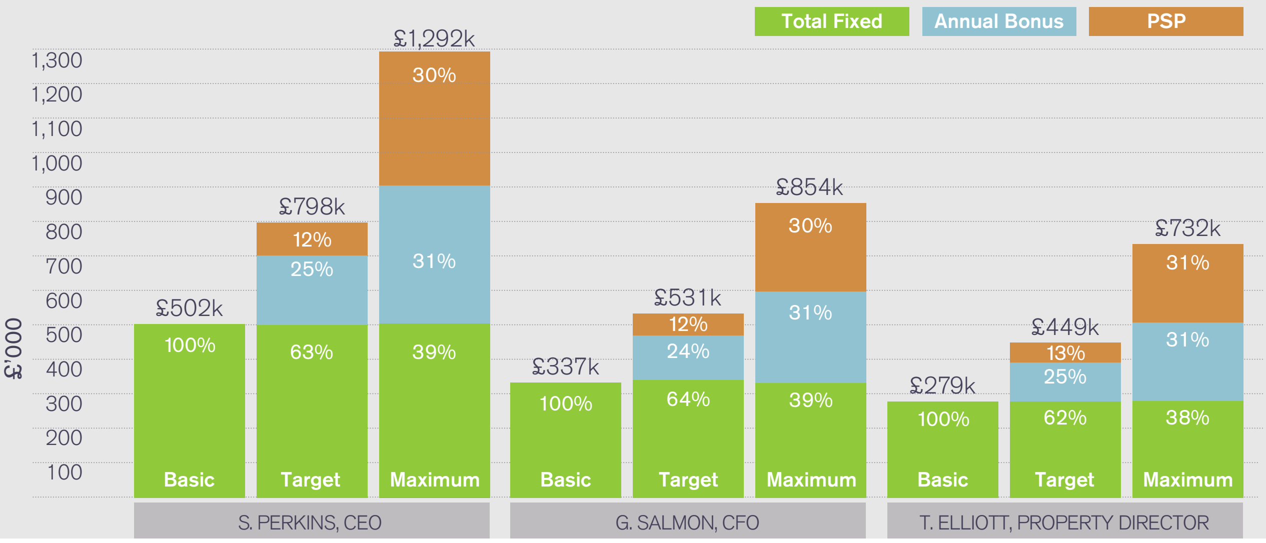
External appointments

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 basic (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 2018/19.
- Benefits measured as benefits provided in the year ended 31st March 2018 as set out in the single figure table.
- 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	395	28	79	502
G. Salmon	258	32	47	337
T. Elliott	227	25	27	279

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 100% 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 100% 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 Group'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
T. Elliott	8th July 2016

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
R. Grainger	1st May 2014
N. Aslin[1]	2nd May 2006
Viscount Lifford[2]	29th August 2006
N. Shepherd	21st January 2015
J. Austen	13th April 2016
J. Bates	17th January 2017

[1]Nigel Aslin retired from the Board on 22nd May 2017.
[2]Viscount Lifford retired from the Board on 18th September 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 prorated 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 prorating 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
J. Austen
J. Bates
R. Grainger

N. Aslin (to 22nd May 2017)
Viscount Lifford (to 18th September 2017)

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	3 out of 3
J. Austen	3 out of 3
J. Bates	3 out of 3
R. Grainger	3 out of 3
N. Aslin[1]	1 out of 1
Viscount Lifford[2]	2 out of 2

[1]Nigel Aslin retired from the Committee on 22nd May 2017.
[2]Viscount Lifford retired from the Committee on 18th September 2017.

External advisors

During the year the Committee received independent advice from FIT Remuneration Consultants LLP ("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 £50,072. 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 2018 (audited)

The remuneration of the Directors for the years 2018 and 2017 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	2018	384	28	77	259	154	902
	2017	376	27	66	106	115	690
G. Salmon	2018	251	32	45	170	99	597
	2017	246	31	40	69	71	457
T. Elliott	2018	220	25	26	149	77	497
	2017	–	–	–	–	–	–
Non-executive							
R. Grainger	2018	80	–	–	–	–	80
	2017	54	–	–	–	–	54
J. Austen	2018	44	–	–	–	–	44
	2017	28	–	–	–	–	28
J. Bates	2018	39	–	–	–	–	39
	2017	8	–	–	–	–	8
N. Shepherd	2018	44	–	–	–	–	44
	2017	37	–	–	–	–	37
N. Aslin[1]	2018	6	–	–	–	–	6
	2017	37	–	–	–	–	37
Viscount Lifford[2]	2018	19	–	–	–	–	19
	2017	37	–	–	–	–	37

[1]Nigel Aslin retired from the Board on 22nd May 2017.
[2]Viscount Lifford retired from the Board on 18th September 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 2018 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	40%	RPI + 3%	RPI + 10%	RPI + 8%	23% of salary (maximum: 30%)
EPS growth	60%	90%	110%	>110%	45% of salary (maximum: 45%)
Total					68%

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 18th June 2015 was subject to performance to the year ended 31st March 2018. The performance conditions attached to this award and actual performance against these conditions were 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 vesting percentage above, details of the shares under award and their estimated value (based on the share price at 31st March 2018 of £2.75 per share) is as follows:

Executive	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Estimated value £
S. Perkins	140,392	56,157	84,235	154,431
G. Salmon	90,196	36,078	54,118	99,216
T. Elliott	69,688	27,875	41,813	76,639

Details of PSP awards granted in the year (audited)

The following awards were granted to the executive Directors on 18th July 2017:

	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	£2.29	167,467	£383,499	25%	Three financial years
G. Salmon	Nil-cost option	100% of salary	£2.29	109,607	£251,000	25%	to 31st March 2020
T. Elliott	Nil-cost option	100% of salary	£2.29	96,070	£220,000	25%	

Details of outstanding share awards (audited)

	31st March 2017 Number of shares	Granted in 2017/18 Number of shares	Vested in 2017/18 Number of shares	Lapsed in 2017/18 Number of shares	31st March 2018 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
S. Perkins								
2014 PSP	137,004	–	54,802	82,202	–	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
2017 PSP		167,467	–	–	167,467	2.29	18.07.2020	17.07.2023
					489,502			
G. Salmon								
2014 PSP	84,317	–	33,727	50,590	–	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
2017 PSP		109,607	–	–	109,607	2.29	18.07.2020	17.07.2023
					318,644			
T. Elliott								
2014 PSP	43,003	–	17,201	25,802	–	2.27	11.06.2017	10.06.2020
2015 PSP	69,688	–	–	–	69,688	2.55	18.06.2018	17.06.2021
2016 PSP	96,618	–	–	–	96,618	2.07	16.06.2019	15.06.2022
2017 PSP		96,070	–	–	96,070	2.29	18.07.2020	17.07.2023
					262,376			
S. Perkins								
2016 Defered bonus	34,996	–	–	–	34,996	2.07	16.06.2019	15.06.2022
G. Salmon								
2016 Defered bonus	22,484	–	–	–	22,484	2.07	16.06.2019	15.06.2022

Statement of Directors' shareholdings and share interests (audited)

	Beneficially owned at 31st March 2017	Beneficially owned at 31st March 2018	Outstanding PSP performance awards	Outstanding deferred bonus awards	Shareholding as a % of salary[1]
S. Perkins	289,336	[2]304,138	489,502	34,996	257
G. Salmon	123,692	133,283	318,644	22,484	180
T. Elliott	n/a	17,187	262,376	–	40
R. Grainger	25,000	47,638			
J. Austen	10,000	10,000			
J. Bates	–	–			
N. Shepherd	15,575	15,575			
N. Aslin	90,000	n/a			
Viscount Lifford	100,000	n/a			

[1]Based on year end salaries and share price as at 31st March 2018 of £2.75 per share, and based on beneficially owned shares and vested PSP awards (using the net of tax numbers where awards are yet to be excercised).
[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 2018.

Percentage change in the remuneration of the Chief Executive Officer

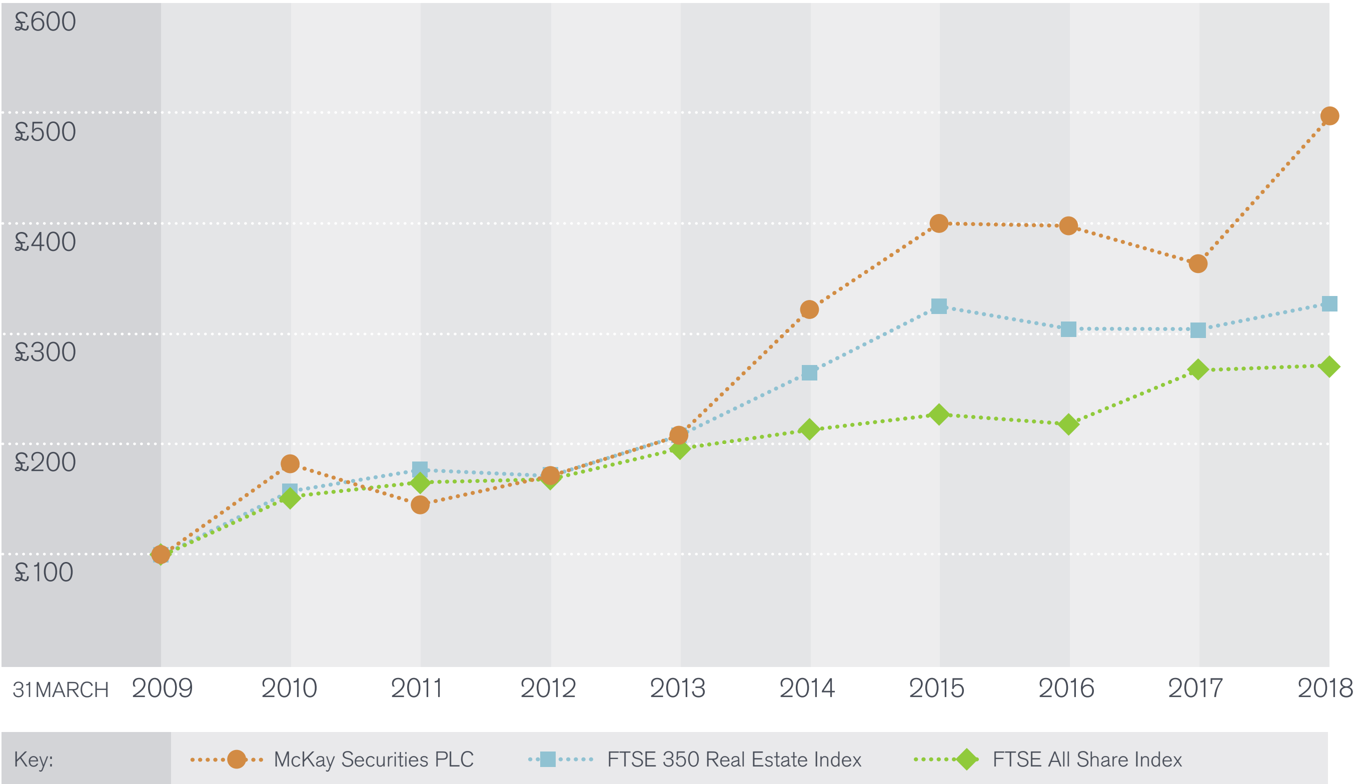
The table below shows the percentage change in the Chief Executive Officer's total remuneration (excluding the value of any long term incentives and pension benefits receivable in the year) between 2016/2017 and 2017/2018 compared to that of the average for all employees of the Group.

	% Change from 2016/2017 to 2017/2018		
	Remuneration	Benefits	Bonus
Chief Executive Officer	33%	4%	144%
Average employees	26%	18%	163%

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 nine 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 nine 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	2017/2018
Total remuneration (£'000)	£409	£309	£410	£413	£802	£1,139	£1,197	£690	£902
Annual bonus (% of salary)	38	0	10	13	45	55	70	28	68
LTIP vesting (% of max)	27	0	0	0	60	100	100	40	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.

	2016/2017	2017/2018	% change
Staff costs (£'m)	£4.1	£4.9	17%
Dividends (£'m)	[1]£8.4	£9.4	12%

£1.8 million of the staff costs in 2017/18 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 7.2 pence per share will be paid on 93.95 million shares (93.81 million for 2016/17).

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:

	Remuneration Policy Number of votes		Remuneration Report Number of votes	
Proxy votes cast in favour*	59,611,717	99.57%	58,447,742	97.65%
Proxy votes cast against	259,887	0.43%	1,405,582	2.35%
Total votes cast	59,871,604	100.00%	59,853,324	100.00%
Proxy votes withheld	13,792		32,072	

*includes discretionary votes of 29,215.

The disclosure on Directors' remuneration in the tables on pages 55 to 58 has been audited.

Implementation of the Remuneration Policy for the year ending 31st March 2019

Salaries

The executive Directors' salaries were reviewed by the Committee in February 2018 and it was concluded that they should be increased by 3% (reflecting the general workforce increase). Therefore, base salaries for 2018/19 will be Simon Perkins – £395,000, Giles Salmon – £258,500 and Tom Elliott – £226,600.

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.

Annual bonus scheme

The maximum bonus potential for 2018/19 will increase to 100% of basic salary. Performance will be based on NAV growth – 30% of salary, EPS growth – 45% of salary and 25% based on strategic targets including such areas as occupancy, tenant retention, rent collection and environmental, health and safety and will be consistent with those targets operated for the general workforce. Full disclosure of the targets, and performance against the targets will be included in the 2019 Directors' Remuneration Report to the extent that they are not considered to be commercially sensitive. Deferral and clawback provisions will continue to apply.

Performance Share Plan

PSP awards to be granted in the year ending 31st March 2019 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 2021
Absolute NAV per share growth (40% of award)	Growth of 12%	Growth of 35%	31st March 2021

Rather than a performance range of RPI +6% to RPI +25%, a range of 12% to 35% has been set for the 2018/19 PSP awards (i.e. RPI has been excluded). The Committee considers the revised targets to be simpler to measure and communicate, yet appropriately challenging.

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.

Fees for the Chairman and non-executive Directors

Following a review of time commitments and market data, the Chairman's fee will increase to £90,000 for 2018/19. In addition, the Chairman of the Remuneration Committee and Audit & Risk Committee will receive supplementary fees of £5,100 to reflect their additional time commitments and responsibilities. Therefore, fees for 2018/19 will be as follows:

	Fees as at 1st April 2017	Fees as at 1st April 2018
R. Grainger	£80,000	£90,000
J. Austen	£43,500	£44,800
J. Bates	£38,500	£39,700
N. Shepherd	£43,500	£44,800

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

18th May 2018

To the members of McKay Securities PLC only

1 Our opinion is unmodified

We have audited the financial statements of McKay Securities PLC ("the Company") for the year ended 31st March 2018 which comprise the Consolidated Profit and Loss and other Comprehensive Income, Group Statement of Financial Position, Company Statement of Financial Position, Group Cash Flow Statement, Company Cash Flow Statement, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

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 2018 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.

Basis for opinion:
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit & Risk Committee.

We were appointed as auditor by the Directors before 1947. The period of total uninterrupted engagement is for more than the 71 financial years ended 31st March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£4.6m (2017: £4.4m) 1% (2017: 1%) of total assets	
Coverage	100% (2017:100%) of total Group assets	
Risks of material misstatement		**vs 2017**
Recurring risks (Group and Parent Company)	Valuation of investment property	◀▶

2 *Key audit matters: our assessment of risks of material misstatement*

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017), in arriving at our audit opinion above, together with our key audit procedures to address the matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of investment property (Group and Parent Company) (Group: £446 million; 2017: £423 million; Parent Company: £387 million; 2017: 391 million) Refer to page 44 (Audit & Risk Committee Report), page 75 (accounting policy) and pages 82 to 83 (financial disclosures).	Investment properties represent 95% (2017: 96%) of gross assets of the Group and 88% (2017: 90%) of gross assets of the Parent Company. The portfolio comprises 33 (2017: 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 estimate the progress of development and forecast costs to complete. The unique nature of each property means that significant judgment is required in relation to these assumptions and this was a focus area for 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 assessing the results of the valuer's report by evaluating whether the 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 assessed the key assumptions used by the valuer 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 provided by management to the valuer and used in the valuations, such as rental income and occupancy to the Group's property management system and lease contracts. – Test of detail: For the major property under development, we assessed the progress of the development and leasing status and evaluated the forecast construction costs to complete, agreeing them to quantity surveyor reports and 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. Our response We found the valuation of investment properties to be acceptable (2017 result: acceptable).

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 £4.6 million (2017: £4.4 million), determined with reference to a benchmark of total Group assets, of which it represents 1% (2017: 1%).

In addition, we applied a lower materiality of £0.45 million (2017: £0.43 million), which is 5% of the profit before tax for the year adjusted for revaluation of investment properties, other property income, profit on disposal of investment properties, cancellation of derivatives, fair value gain on derivatives and share based payment expense. The lower materiality was applied on net rental income from investment properties, profit on disposal of investment properties, administration costs and net finance costs, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group.

Materiality for the Parent Company financial statements as a whole was set at £4.4 million (2017: £4.4 million), determined with reference to a benchmark of company total assets, of which it represents 1% (2017: 1%).

We agreed to report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £0.23 million (2017: £0.22 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

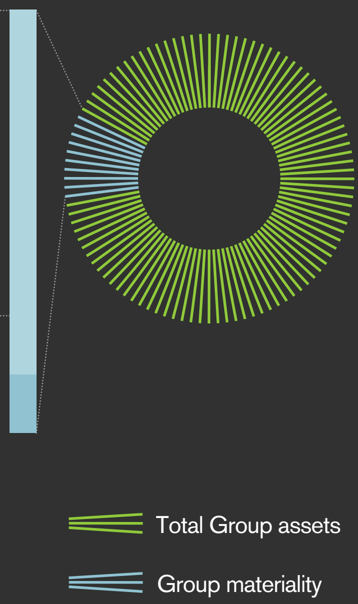
The Group team performed the audit of the Group as if it was a single aggregated set of financial information, this approach is unchanged from the prior year The audit of the Group was performed using the Group materiality level set out above.

Total Group assets
£467 million (2017: £440 million)

Group materiality
£4.6 million (2017: £4.4 million)

£4.6 million
Whole financial statements materiality
(2017: £4.4 million)

£0.23 million
Misstatements reported to the audit comittee
(2017: £0.22 million)



4 We have nothing to report on going concern
We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement on page 24 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 40 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report
The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report
Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report.
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Directors' Viability Statement on page 24 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Directors' Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Directors' Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures
We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the Annual Report describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6 We have nothing to report on the other matters on which we are required to report by exception
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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 43, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Kelly
(Senior Statutory Auditor)

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

18th May 2018

Consolidated Profit and Loss and other Comprehensive Income

For the year ended 31st March 2018

	Notes	2018 £'000	2017 £'000
Gross rents and service charges receivable	2	25,500	24,112
Other property income		792	1,648
Direct property outgoings		(5,838)	(5,888)
Net rental income from investment properties	**2**	**20,454**	**19,872**
Administration costs	3	(6,305)	(5,795)
Operating profit before gains on investment properties		**14,149**	**14,077**
Profit on disposal of investment properties		5,746	–
Revaluation of investment properties	11	25,066	7,617
Operating profit	**4**	**44,961**	**21,694**
Finance costs	6	(5,089)	(4,523)
Finance income	6	3,570	423
Profit before taxation		**43,442**	**17,594**
Taxation	7	–	–
Profit for the year		**43,442**	**17,594**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		(70)	(628)
Total comprehensive income for the year		**43,372**	**16,966**

Earnings per share	9		
Basic		46.25p	18.78p
Diluted		45.91p	18.63p

Adjusted earnings per share figures are shown in note 9.

Dividends	10		
Previous year's final dividend of 6.3p (2017: 6.1p) paid during the year		5,910	5,683
Interim dividend of 2.8p (2017: 2.7p) paid during the year		2,631	2,533
Proposed final dividend of 7.2p (2017: 6.3p)		6,765	5,910

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

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

Group Statement of Financial Position

As at 31st March 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investment properties — Valuation as reported by the valuers		460,150	429,915
— Adjustment for rents recognised in advance under SIC 15		(6,691)	(5,987)
— Assets held for sale		(11,925)	(5,500)
— Adjustment for grossing up of headleases	16	4,404	4,405
	11	445,938	422,833
Plant and equipment	12	42	62
Trade and other receivables*	14	5,861	4,730
Total non-current assets		451,841	427,625
Current assets			
Trade and other receivables*	14	1,617	2,186
Assets held for sale	11	11,925	5,500
Cash and cash equivalents		1,725	4,485
Total current assets		15,267	12,171
Total assets		467,108	439,796
Current liabilities			
Loans and other borrowings	15	–	(34,973)
Trade and other payables	15	(9,501)	(11,298)
Finance lease liabilities	16	(285)	(285)
Interest rate derivatives	15	–	(2,159)
Total current liabilities		(9,786)	(48,715)
Non-current liabilities			
Loans and other borrowings	15	(144,598)	(99,127)
Pension fund deficit	24	(2,164)	(2,284)
Finance lease liabilities	16	(4,120)	(4,120)
Interest rate derivatives	15	–	(14,758)
Total non-current liabilities		(150,882)	(120,289)
Total liabilities		(160,668)	(169,004)
Net assets		306,440	270,792
Equity			
Called up share capital	19	18,791	18,762
Share premium account		79,235	78,929
Retained earnings		80,622	55,172
Revaluation reserve		127,792	117,929
Total equity		306,440	270,792
Net asset value per share	22	326p	289p
EPRA net asset value per share	22	322p	303p

*Restated (see note 14)

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 18th May 2018 and were signed on its behalf by R. Grainger and S. Perkins

Company Statement of Financial Position

As at 31st March 2018

Registration number 421479

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investment properties — Valuation as reported by the valuers		402,850	399,835
— Adjustment for rents recognised in advance under SIC 15		(6,691)	(5,987)
— Assets held for sale		(11,925)	(5,500)
— Adjustment for grossing up of head leases		2,883	2,884
	11	387,117	391,232
Plant and equipment	12	42	62
Investments in subsidiaries	13	–	22,176
Trade and other receivables*	14	5,861	4,730
Total non-current assets		393,020	418,200
Current assets			
Trade and other receivables*	14	35,049	17,348
Assets held for sale	11	11,925	5,500
Cash and cash equivalents		1,725	4,485
Total current assets		48,699	27,333
Total assets		441,719	445,533
Current liabilities			
Loans and other borrowings	15	–	(34,973)
Trade and other payables	15	(9,536)	(37,561)
Finance lease liabilities		(180)	(180)
Interest rate derivatives	15	–	(2,159)
Total current liabilities		(9,716)	(74,873)
Non-current liabilities			
Loans and other borrowings	15	(144,598)	(99,127)
Pension fund deficit	24	(2,164)	(2,284)
Finance lease liabilities		(2,703)	(2,704)
Interest rate derivatives	15	–	(14,758)
Total non-current liabilities		(149,465)	(118,873)
Total liabilities		(159,181)	(193,746)
Net assets		282,538	251,787
Equity			
Called up share capital	19	18,791	18,762
Share premium account		79,235	78,929
Retained earnings		64,002	34,138
Revaluation reserve		120,510	119,958
Total equity		282,538	251,787

*Restated (see note 14)

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 18th May 2018 and were signed on its behalf by R. Grainger and S. Perkins

Group Cash Flow Statement

For the year ended 31st March 2018

	2018 £'000	2017 £'000
Operating activities		
Profit before tax	43,442	17,594
Adjustments for:		
Depreciation	34	32
Other non-cash movements	1,350	1,308
Profit on sale of investment properties	(5,746)	–
Movement in revaluation of investment properties	(25,066)	(7,617)
Net finance costs	1,519	4,100
Cash flow from operations before changes in working capital	15,533	15,417
(Increase)/decrease in debtors	(497)	8,339
Decrease in creditors	(1,373)	(1,178)
Cash generated from operations	13,663	22,578
Interest paid	(6,171)	(6,055)
Interest received	5	7
Cash flows from operating activities	7,497	16,530
Investing activities		
Proceeds from sale of investment properties	26,773	–
Purchase and development of investment properties	(25,031)	(18,478)
Purchase of other fixed assets	(14)	(3)
Cash flows from investing activities	1,728	(18,481)
Financing activities		
Increase in borrowings	9,908	19,989
Equity dividends paid	(8,541)	(8,216)
Cancellation of derivative	(13,352)	(5,076)
Cash flows from financing activities	(11,985)	6,697
Net (decrease)/increase in cash and cash equivalents	(2,760)	4,746
Cash and cash equivalents at the beginning of the year	4,485	(261)
Cash and cash equivalents at end of the year	1,725	4,485

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

Company Cash Flow Statement

For the year ended 31st March 2018

	2018 £'000	2017 £'000
Operating activities		
Profit before tax	38,545	27,760
Adjustments for:		
Depreciation	34	32
Other non-cash movements	1,345	1,302
Profit on sale of investment properties	(5,746)	–
Movement in revaluation of investment properties	(15,755)	(11,300)
Net finance costs	1,535	4,779
Cash flow from operations before changes in working capital	**19,958**	**22,573**
(Increase)/decrease in debtors	(18,770)	9,250
Increase/(decrease) in creditors	1,474	(16,025)
Cash generated from operations	**2,662**	**15,798**
Interest paid	(6,066)	(6,039)
Interest received	1,477	530
Cash flows from operating activities	**(1,927)**	**10,289**
Investing activities		
Proceeds from sale of investment properties	26,773	–
Purchase and development of investment properties	(15,607)	(12,237)
Purchase of other fixed assets	(14)	(3)
Cash flows from investing activities	**11,152**	**(12,240)**
Financing activities		
Increase in borrowings	9,908	19,989
Equity dividends paid	(8,541)	(8,216)
Cancellation of derivative	(13,352)	(5,076)
Cash flows from financing activities	**(11,985)**	**6,697**
Net (decrease)/increase in cash and cash equivalents	(2,760)	4,746
Cash and cash equivalents at the beginning of the year	4,485	(261)
Cash and cash equivalents at end of the year	**1,725**	**4,485**

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st March 2018

	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 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
Costs of share based payments	–	–	–	691	691
At 31st March 2017	**18,762**	**78,929**	**117,929**	**55,172**	**270,792**
Profit for the year	–	–	–	43,442	43,442
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	25,066	(25,066)	–
Transfer on disposal of investment properties	–	–	(15,203)	15,203	–
Actuarial loss on defined benefit pension scheme	–	–	–	(70)	(70)
Total comprehensive income for the year	**–**	**–**	**9,863**	**33,509**	**43,372**
Issue of new shares net of costs	29	306	–	(335)	–
Dividends paid in year	–	–	–	(8,541)	(8,541)
Deferred bonus	–	–	–	21	21
Costs of share based payments	–	–	–	796	796
At 31st March 2018	**18,791**	**79,235**	**127,792**	**80,622**	**306,440**

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31st March 2018

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
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
Costs of share based payments	–	–	–	691	691
At 31st March 2017	**18,762**	**78,929**	**119,958**	**34,138**	**251,787**
Profit for the year	–	–	–	38,545	38,545
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	15,755	(15,755)	–
Transfer on disposal of investment properties	–	–	(15,203)	15,203	–
Actuarial loss on defined benefit pension scheme	–	–	–	(70)	(70)
Total comprehensive income for the year	**–**	**–**	**552**	**37,923**	**38,475**
Issue of new shares net of costs	29	306	–	(335)	–
Dividends paid in year	–	–	–	(8,541)	(8,541)
Deferred bonus	–	–	–	21	21
Costs of share based payments	–	–	–	796	796
At 31st March 2018	**18,791**	**79,235**	**120,510**	**64,002**	**282,538**

The accompanying notes on pages 75 to 92 form an integral part of these financial statements.

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 and 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 £38,545,000 (2017: £27,760,000).

A number of accounting standards, amendments to and interpretations of standards become applicable for the first time this year.

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1st April 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its financial statements. The estimated impact of the adoption of these standards on the Group's equity as at 1st April 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1st April 2018 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 15 will not have a material impact on the Group's revenue recognition as all income streams are delivered on a continuing basis. The Group charges a gross rent and the Group may be required to present a net rent dependent on an assessment of whether the Group is acting as an agent or principle. Work on this is ongoing.

IFRS 16 will require the Group to bring its existing lease commitments onto the balance sheet with effect from 1st January 2018, this is not expected to have any material impact on the financial statements.

IFRS 9 will require the Group to make an assessment of Expected Credit Losses ('ECLs') on its debtors based on tenant payment history and the Directors assessment of the future credit risk relating to its trade receivables at the reporting date. The impact of this assessment is not material and as such there is not expected to be an adjustment to the Group's opening reserve position from the adoption of these standards.

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 24.

Basis of consolidation
The consolidated financial statements of the Company and its subsidiary (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 and Loss and other Comprehensive Income. The subsidiary company is 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 and are disclosed in the applicable policies and notes below.

Investment 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 and 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 and 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 and Loss and other Comprehensive Income.

1 Accounting policies continued

Investment 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 and 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 and Loss and other Comprehensive Income in the period incurred.

Assets held for sale
Properties held for sale are classified as non-current assets if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

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. This forms part of retained earnings.

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.

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 and 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 by using an effective interest rate.

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 and 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 and Loss and other Comprehensive Income. Actuarial gains and losses on scheme assets and liabilities are recognised in equity through the Profit and 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 and 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 and 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

	2018 £'000	2017 £'000
Gross rents receivable	21,545	20,672
SIC 15 adjustment (spreading of rental incentives)	299	118
Gross rental income	21,844	20,790
Service charges receivable	3,656	3,322
	25,500	24,112
Other property income	792	1,648
Direct property outgoings	(5,838)	(5,888)
	20,454	19,872

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	2018 £'000	2017 £'000
Directors' — remuneration	1,271	991
— bonus[1]	577	176
Staff — costs	977	1,342
— bonus	398	195
National Insurance	570	496
Pension costs — defined benefit scheme	50	57
— defined contributions	217	194
Share based payment accounting charge (IFRS 2)	796	691
	4,856	4,142
Depreciation (note 12)	34	32
Office costs	415	523
Legal and professional fees	938	1,073
General expenses	62	25
	6,305	5,795

[1]Amount charged to income in year to 31st March 2018.

The average number of persons employed by the Group and Company during the year was 19 (2017: 18).

Fees paid to auditor	2018 £'000	2017 £'000
Statutory audit services		
McKay Securities PLC audit	72	70
Subsidiary audits	2	2
Assurance services		
Interim review	19	19
Service charge audits	10	10
Taxation services		
Corporation tax compliance	–	47
	103	148
Future services – contracted fees		
XBRL tagging	–	7

Details of Directors' remuneration can be found on page 55 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.

	2018 £'000	2017 £'000
Profit before tax	43,442	17,594
Cancellation of derivatives	13,352	5,076
Change in fair value of derivatives	(16,917)	(5,491)
Movement in revaluation of investment properties	(25,066)	(7,617)
Other property income (see note 2)	(792)	(1,648)
Profit on disposal of investment properties	(5,746)	–
IFRS 2 adjustment to share based payments	795	691
Adjusted profit before tax	9,068	8,605

6 Net finance costs

	2018 £'000	2017 £'000
Interest on bank overdraft and loans	5,633	5,269
Commitment fee	240	381
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	590	410
Capitalised interest (note 8)	(1,659)	(1,822)
	5,089	4,523
Cancellation of derivatives	13,352	5,076
Change in fair value of derivatives	(16,917)	(5,491)
Interest receivable	(5)	(8)
	(3,570)	(423)
Net finance costs	1,519	4,100

7 Taxation

	2018 £'000	2017 £'000
Total tax in the Consolidated Profit and Loss and other Comprehensive Income	–	–

Reconciliation to effective rate of tax:

Profit on ordinary activities before tax	43,442	17,594
Tax charge on profit at 19% (2017: 20%)	8,254	3,519
Effects of:		
REIT tax exemption	(8,254)	(3,519)
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 £1,658,692 (2017: £1,821,970) and relates to works to London, 30 Lombard Street, EC3; and Theale, Brunel Road.

Total development interest capitalised amounts to £12,549,320 (2017: £10,890,628).

9 Earnings per share

	2018 p	2017 p
Basic earnings per share	46.25	18.78
Cancellation of derivatives	14.22	5.42
Change in fair value of derivatives	(18.02)	(5.86)
Movement in revaluation of investment properties	(26.69)	(8.13)
Other property income	(0.84)	(1.76)
Profit on disposal of investment properties	(6.12)	–
Share based payments	0.85	0.74
Adjusted earnings per share	**9.65**	**9.19**

Basic earnings per share on ordinary shares is calculated on the profit in the year of £43,442,000 (2017: £17,594,000) and 93,925,375 (2017: 93,659,703) shares, being the weighted average number of ordinary shares in issue during the year.

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares in issue	93,925,375	93,659,703
Number of shares under option	1,516,011	1,453,249
Number of shares that would have been issued at fair value	(808,206)	(656,745)
Diluted weighted average number of ordinary shares in issue	**94,633,180**	**94,456,207**

	2018 p	2017 p
Basic earnings per share	46.25	18.78
Effect of dilutive potential ordinary shares under option	(0.34)	(0.15)
Diluted earnings per share	45.91	18.63
Cancellation of derivatives	14.11	5.37
Change in fair value of derivatives	(17.88)	(5.81)
Movement in revaluation of investment properties	(26.49)	(8.07)
Other property income	–	(1.74)
Profit on disposal of investment properties	(6.07)	–
EPRA diluted earnings per share	**9.58**	**8.38**

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 94,633,180 (2017: 94,456,207) 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, the cancellation of derivatives and the movement in revaluation of investment properties. The EPRA measure includes all of these adjustments except surrender premiums included in other property income, which are added back.

10 Dividends

The final dividend is not included in the accounts as a liability as at 31st March 2018, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2017 and interim for 2018 paid in the year are included in the Consolidated Statement of Changes in Equity on page 73.

	2018 £'000	2017 £'000
Ordinary dividends		
Previous year's final dividend of 6.3p paid during the year	5,910	5,683
Interim dividend of 2.8p (2017: 2.7p) paid during the year	2,631	2,533
Total recognised in financial statements	**8,541**	**8,216**
Proposed final dividend of 7.2p (2017: 6.3p)	**6,765**	**5,910**

11 Investment properties

	Group Freehold £'000	Group Long Leasehold £'000	Group Total £'000	Company Freehold £'000	Company Long Leasehold £'000	Company Total £'000
Valuation						
At 1st April 2017	368,718	59,615	428,333	368,718	28,014	396,732
Additions – development	4,738	20,023	24,761	4,738	2,113	6,851
Revaluation surplus/(deficit)	17,217	9,247	26,464	17,217	(64)	17,153
Adjustment for rents recognised in advance under SIC 15	(726)	22	(704)	(726)	22	(704)
Disposals	(20,990)	–	(20,990)	(20,990)	–	(20,990)
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	–	–
Book value as at 31st March 2018	368,957	88,906	457,863	368,957	30,085	399,042
Adjustment for grossing up of headlease liabilities	–	(4,404)	(4,404)	–	(2,883)	(2,883)
Adjustment for rents recognised in advance under SIC 15	6,293	398	6,691	6,293	398	6,691
Valuation as at 31st March 2018	375,250	84,900	460,150	375,250	27,600	402,850

	Group Freehold £'000	Group Long Leasehold £'000	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)
Headlease 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

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2018. These valuations, were carried out by Knight Frank LLP, Chartered Surveyors and Valuers. The prior year valuation was 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 £319 million (2017: £302 million) for the Group and £269 million (2017: £269 million) for the Company.

The amount of interest capitalised during the year was £1,658,692 (2017: £1,821,970). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

11 Investment properties continued

Investment property valuation method and assumptions
The fair value of the property portfolio has been determined using income capitalisation techniques, whereby contracted and market rental values are capitalised with a market value 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 £25.1 million (2017: £7.6 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:

	London Offices Income Capitalisation	South East Offices Income Capitalisation	South East Industrial Income Capitalisation
Valuation technique			
Fair value	£107,950,000	£260,100,000	£70,450,000
ERV (per sq ft pa) – average	£56.57	£27.65	£10.26
ERV (per sq ft pa) – range	£10.00-£80.00	£15.00-£43.50	£4.50-£15.00
True equivalent yield – average	4.70%	6.73%	5.46%
True equivalent yield – range	4.35%-5.69%	5.44%-8.41%	4.91%-7.29%
Capital value per sq ft	£806	£364	£149

A further £21.65 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 93.

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Sensitivity analysis				
Change in value of investment properties	£22.3m	£(22.3)m	£(22.7)m	£24.8m

12 Plant and equipment

	2018 Group £'000	2018 Company £'000	2017 Group £'000	2017 Company £'000
Cost				
Opening	214	211	429	426
Additions	14	14	3	3
Disposals	(10)	(10)	(218)	(218)
Closing	**218**	**215**	**214**	**211**
Depreciation				
Opening	152	149	338	335
Charge for year	34	34	32	32
Disposals	(10)	(10)	(218)	(218)
Closing	**176**	**173**	**152**	**149**
Net book value	**42**	**42**	**62**	**62**

13 Investments

	Shares in subsidiary undertakings £'000	Total £'000
Company		
At 1st April 2017	22,176	22,176
Liquidation of Acreway Limited	(22,176)	(22,176)
At 31st March 2018	–	–

At 31st March 2018 McKay Securities PLC had the following wholly owned subsidiary undertaking which operates in England and is registered in England and Wales: 20 Greyfriars Road, Reading, Berkshire, RG1 1NL. Acreway Limited was liquidated during the year, resulting in a final distribution to the Parent Company.

Baldwin House Limited

The above subsidiary is included in the consolidation.

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

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

14 Trade and other receivables

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Current – restated				
Trade receivables	–	–	–	–
Amounts due from subsidiary undertakings	–	33,436	–	15,308
SIC 15 lease incentives	830	830	1,244	1,244
Other debtors and prepayments	787	783	942	796
	1,617	35,049	2,186	17,348
Non-current – restated				
SIC 15 lease incentives	5,861	5,861	4,730	4,730

During the year the presentation of lease incentives assets were reviewed. These assets were previously reported as current. This balance has now been reallocated between its current and non-current portion. The Group and Company Statement of Financial Position have therefore both been retrospectively restated by £4,730,000. This restatement has had no impact on the Consolidated Profit and Loss and other Comprehensive Income, total assets or net assets.

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

	2018 £'000	2017 £'000
Less than three months due	–	–
Between three and six months due	–	–
Between six and twelve months due	–	–
	–	–

The Group holds no collateral in respect of these receivables.

15 Liabilities

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Trade and other payables				
Rent received in advance	4,238	4,220	5,328	5,311
Other taxation and social security costs	967	1,020	1,969	1,969
Amounts owed to subsidiary undertakings	–	–	–	26,286
Other creditors and accruals	4,296	4,296	4,001	3,995
	9,501	9,536	11,298	37,561

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 4 days (2017: 8 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:

	2018 £'000	2017 £'000
Group and Company		
Secured bank loans	147,000	136,000
Bank facility fees	(2,402)	(1,900)
	144,598	134,100

The bank loans are secured against land and buildings with a carrying amount of £395,125,000 (2017: £386,490,000).

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Repayable in:				
Less than 1 year	–	–	34,973	34,973
1-2 years	–	–	–	–
2-5 years	80,639	80,639	45,099	45,099
5-10 years	–	–	–	–
Greater than 10 years	63,959	63,959	54,028	54,028
	144,598	144,598	134,100	134,100

	2018 £'000	2017 £'000
Changes in liabilities arising from financing activities		
Current loans as at 1st April 2017	34,973	–
Non-current loans as at 1st April 2017	99,127	113,701
Total loans as at 1st April 2017	134,100	113,701
Increase in borrowings	9,908	19,989
Facility fee amortisation	590	410
Total loans as at 31st March 2018	144,598	134,100

During the year the Group refinanced one of its facilities and increased another, as a result facilities increased from £175 million to £190 million.

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:

	2018 £'000	2017 £'000
Expiring in less than 1 year	–	–
Expiring in 1 – 2 years	–	–
Expiring in 2 – 5 years	43,000	39,000
Expiring in 5 – 10 years	–	–
	43,000	39,000

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 were used to reduce exposure to interest rate fluctuations.

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 2018						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	147,000	–	–	–	82,000	65,000
Finance lease liabilities	26,369	–	285	285	855	24,944
Trade payables	5,209	5,209	–	–	–	–
	178,578	**5,209**	**285**	**285**	**82,855**	**89,944**
Derivative financial liabilities						
Interest rates used for hedging	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
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**

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. The remaining swap was cancelled on 28th March 2018 for £13,352,210.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £367,500 (2017: £340,000). 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 2017 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

15 Liabilities continued

Interest rate derivatives

The remaining swap was cancelled on 28th March 2018 in full at a cost to the Group of £13,352,210.

As at 31st March 2017	Amount £'000	Rate	Maturity	[1,2]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%	(18,310)	1,393	(16,917)

[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 was split between current and non-current liabilities according to the expected timing of cashflows as follows:

Group and Company	2018 £'000	2017 £'000
Current	–	(2,159)
Non-current	–	(14,758)
	–	(16,917)

	2018	2017
Weighted average cost of borrowing	4.06%	4.42%

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 and 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.

In both 2018 and 2017 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

	Minimum lease payments 2018 £'000	2017 £'000
Group finance lease liabilities are payable as follows:		
Within one year	285	285
In second to fifth years inclusive	1,142	1,142
Later than five years	24,943	25,227
	26,370	**26,654**
Less future finance charges	(21,966)	(22,249)
Present value of lease obligations	**4,404**	**4,405**

The above finance lease liabilities relate to investment properties with a carrying value of £84,900,000 (2017: £55,630,000). 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:

	2018 £'000	2017 £'000
Not later than one year	21,142	20,991
Later than one year but not later than five years	58,060	59,964
Later than five years	28,424	20,877
	107,626	**101,832**

18 Share based payments

During the year to 31st March 2018, 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 2018 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	18th July 2017	16th June 2016	18th June 2015
Share price	£2.26	£2.07	£2.55
Term	3 years	3 years	3 years
Risk free rate	0.26%	0.27%	0.80%
Dividend yield	0%	4.27%	3.35%
Volatility – Company	29.0%	21.27%	18.6%
TSR fair value	£1.42	£0.77	£1.43
NAV fair value	£2.26	£1.81	£2.35

19 Called up share capital

	2018 Issued £	Number of shares	2017 Issued £	Number of shares
Ordinary 20 pence shares in issue				
At 1st April	18,761,690	93,808,450	18,631,645	93,158,225
Issue of shares in year	29,332	146,659	130,045	650,225
At 31st March	**18,791,022**	**93,955,109**	**18,761,690**	**93,808,450**

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) 2018 £'000	2017 £'000
Subsidiary undertakings		
Acreway Limited (liquidated 10th February 2018)	–	26,286
Baldwin House Limited	(33,436)	(15,308)
	(33,436)	10,978

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 48 to 61.

22 Net asset value per share

	31st March 2018 Net assets £'000	Shares '000	Net asset value per share p	31st March 2017 Net assets £'000	Shares '000	Net asset value per share p
Basic	306,440	93,955	326	270,792	93,808	289
Number of shares under option	1,200	1,593	(4)	1,036	1,431	(4)
Diluted/EPRA NNNAV	**307,640**	**95,548**	**322**	**271,828**	**95,239**	**285**
Adjustment to fair value of derivatives	–	–	–	16,918	–	18
EPRA NAV	**307,640**	**95,548**	**322**	**288,746**	**95,239**	**303**

23 Commitments and contingent liabilities

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Capital expenditure committed but not provided for	10,703	190	24,255	1,140

These commitments relate to the Group's two current developments.

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 2017. 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 2017 actuarial valuation the scheme was 88% 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 2017 and updated by First Actuarial in order to assess the liabilities of the scheme at 31st March 2018. Scheme assets are stated at their market value at 31st March 2018.

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:

	2018	2017
Inflation	3.1%	3.1%
Salary increases	n/a	n/a
Rate of discount	2.4%	2.3%
Pension in payment increases	3.0%	3.0%

The mortality assumptions adopted at 31st March 2018 imply the following life expectancies for members currently aged 60:

Male = 26.3 years

	£'000	£'000
The fair value of scheme assets are as follows:		
Equities	723	743
Gilts	59	70
Corporate and overseas bonds	40	46
Absolute return portfolios	4,575	4,533
Cash	77	46
Other	57	162
	5,531	5,600

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	5,600	5,413
Expected return on scheme assets	127	176
Actuarial gain	(23)	175
Employer contributions	240	240
Benefits paid	(413)	(404)
Market value of assets at end of year	5,531	5,600

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:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Market value of scheme assets	5,531	5,600	5,413	5,829	5,464
Value of defined benefit obligation	(7,695)	(7,884)	(7,252)	(7,769)	(7,153)
Deficit in scheme	(2,164)	(2,284)	(1,839)	(1,940)	(1,689)
Gains/(losses) on scheme liabilities					
Due to experience	(109)	191	45	8	(9)
Due to change of basis	87	(994)	(304)	725	450
Experience gains/(losses) on scheme assets	(50)	(57)	(57)	(67)	(69)

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

	2018 £'000	2017 £'000
Value of defined benefit obligation at start of period	7,884	7,252
Interest cost	177	233
Benefits paid	(413)	(404)
Actuarial gains: experience differing from that assumed	109	(191)
Actuarial gains: changes in demographic assumptions	25	–
Actuarial gains: changes in financial assumptions	(87)	994
Value of defined benefit obligation at end of period	7,695	7,884

24 Pensions continued

Sensitivity analysis

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

Analysis of the amount charged to operating profit:

Operating profit	2018 £'000	2017 £'000
Current service cost	–	–
Analysis of the amount (credited)/charged to finance costs/(income)		
Expected return on pension scheme assets	(127)	(176)
Interest on pension scheme liabilities	177	233
Net return	50	57
Total charge to profit and loss	50	57

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

	2018 £'000		2017 £'000	
Difference between expected and actual return on assets	23	0% of scheme assets	(175)	3% of scheme assets
Experience gains and losses arising on the scheme liabilities	47	1% of the present value of the scheme liabilities	803	10% 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	70	1% of the present value of the scheme liabilities	628	8% of the present value of the scheme liabilities

Analysis of the movement in the balance sheet deficit:

	2018 £'000	2017 £'000
Deficit in scheme at beginning of year	(2,284)	(1,839)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(50)	(57)
Contributions	240	240
Actuarial gain/(loss)	(70)	(628)
Deficit in scheme at end of year	(2,164)	(2,284)

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.

Carrying value
The value of an asset based on prior valuation with the addition of any subsequent capital expenditure.

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, NAV and NNNAV 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/MSCI
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	2018
Annual Report posted to shareholders	5th June
Annual General Meeting	4th July
Final dividend	26th July
Interim announcement	November
Interim Statement posted to shareholders	December
	2019
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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