McKay Securities Plc

Annual Report and Financial Statements 2019

Introduction & Contents

McKay is a specialist in the development, refurbishment and management of commercial property – ideally positioned to deliver quality, innovation and growth.

We take great pride in creating environments where our occupiers can realise their ambitions and grow their business in a long term partnership.

See more on **page 22**

What's inside this report?

GRESB
2018

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Our Vision

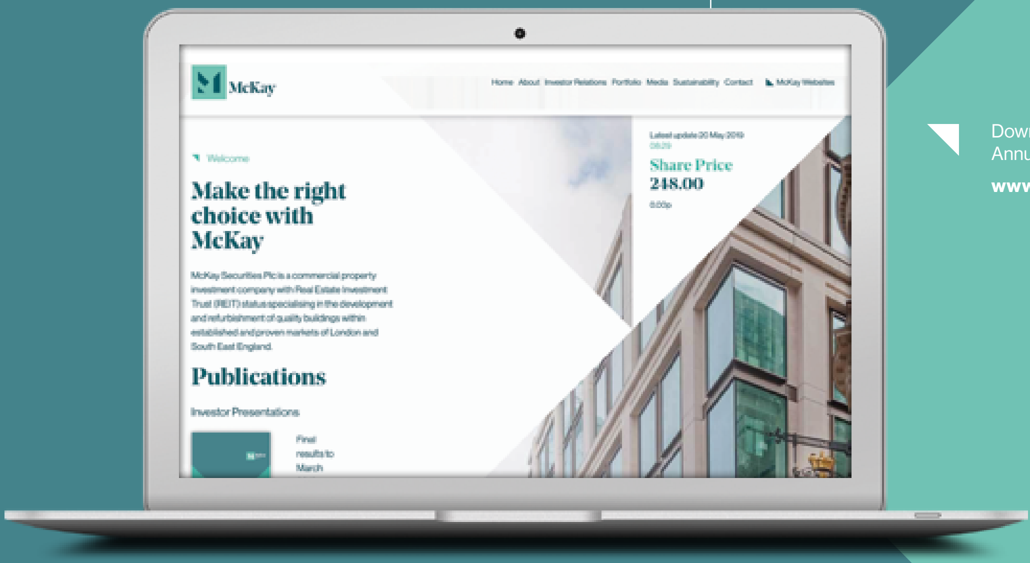
Our vision is to build upon our reputation and status as the leading property specialist for occupiers and investors, focused entirely on London and the South East – and build a business based on markets that we know and understand.

Our Mission

Our mission is to develop, refurbish and manage commercial property; working in partnership with occupiers to deliver quality, innovation and growth.

We provide the very best environments for our customers to thrive and businesses to grow.

We deliver sustainable returns by operating an effective and established business model.



Download the 2019 McKay Annual Report from

www.mckaysecurities.plc.uk

Highlights

Operational

- Completion of 30 Lombard Street, EC3, triggering commencement of the 15 year pre-let to St. James's Place plc
- Commencement of construction of a 134,430 sq ft distribution warehouse unit at Theale Logistics Park
- 19 open market lettings at a combined contracted rent of £1.29 million pa, 8.1% ahead of ERV
- 74.0% occupier retention rate

Financial

Profits and earnings

£13.19m

Profit before tax (IFRS)
(2018: £43.44 million)

£9.27m[1]

Adjusted profit before tax
(2018: £9.07 million)

8.8p[2]

EPRA earnings per share
(2018: 9.6 pence)

Total property return

5.4%[4]

(2018: 12.3%)

Shareholders' funds

£311.08m

(2018: £306.44 million)

326p[3]

EPRA net asset value per share
(2018: 322 pence)

331p[3]

Net asset value per share (IFRS)
(2018: 326 pence)

Debt to portfolio value (LTV net debt)

33.3%

(2018: 31.6%)

Proposed final dividend per share

7.4p up 2.8%

(2018: 7.2 pence), making the total dividend per share for the year 10.2 pence (2018: 10.0 pence)

Portfolio valuation

£482.70m

(2018: £460.15 million)

£6.47m
1.4%

Surplus[5]
(2018: £24.46 million / 6.1%)

1. See note 5 in financial statements
2. See note 9 in financial statements
3. See note 22 in financial statements
4. See KPIs on pages 24 and 25
5. See note 11 in financial statements

Year in Review

£15.00psf

Record rent
Oakwood Trade Park, Crawley

Portsoken House, EC3
Innovative refurbishment of 8th floor lets on PC £0.19m pa

£67.50psf

Record rent
Castle Lane, SW1

12,720sq ft

Pegasus 2, Crawley
Refurbishment of entire building begins

£0.21m pa

UBC lease completes
The Mille, Brentford

Sustainability Award
GRESB 3 Star

Mallard Court, Staines-upon-Thames
Refurbishment of 11,390 sq ft begins

Portsoken House, EC3
Innovative refurbishment of 2nd floor lets on PC £0.28m pa

Switchback Office Park, Maidenhead
3 lease renewals signed, 66% rental increase

18 tenants

329 Bracknell
Fully let

8

Lease renewals signed at Lower Cherwell Street Industrial Estate, Banbury

Conditional exchange for the sale of The Planets, Woking

91.0%

Portfolio occupancy
(exc developments)

Completion of enabling works for Theale Logistics Park

Practical completion of 30 Lombard Street, EC3 and St. James's Place plc lease begins at net contracted rent of

£3.40m pa

74.0%

Tenant retention

Chairman's Statement

This has been another successful year of delivery for the Company, during which we have continued to build on the growth strategy put in place at the beginning of 2014.

Richard Grainger
Chairman
20th May 2019

Dear Shareholder

This has been another successful year of delivery for the Company, during which we have continued to build on the growth strategy put in place at the beginning of 2014. Since then, we have delivered an 89.6% increase in portfolio value from £254.55 million to £482.70 million, and a 46.9% increase in shareholders' funds from £211.79 million to £311.08 million. Valuation gains from our portfolio and development programme combined with the profitable disposal and recycling of assets totalling £67.97 million over the same period have enabled us to maintain a stable loan to value ratio that sits well within our target range. Shortly after the year end we were also able to improve our future investment firepower by £55.00 million with an increase in our loan facilities.

Our focus on the office, industrial and logistics sectors in the UK's strongest economic regions combined with our in-house development, refurbishment and management skills, continued to deliver shareholder value. We are seeing the changing needs of business, building obsolescence and the loss of space to alternative uses combining to underpin a steady level of occupier demand and investor appetite. With historically constrained levels of supply and a limited development pipeline, capital and rental values within these markets have so far proved remarkably resilient and stable.

It is not surprising that capital values have remained high for prime, well let assets, as investors seek security in these uncertain times. In this climate, we have been quite happy investing in our existing portfolio assets to extract value while being on the lookout for additional earnings enhancing acquisitions which also offer the potential to add value through McKay's repositioning skills. There are signs that pricing for this more opportunistic stock is becoming more realistic and we now have greater headroom to capitalise on this.

We took advantage of this strong pricing at the end of the prior year to sell three properties, and during the year have exchanged contracts for the sale of The Planets, Woking, conditional on planning consent. Despite the loss of £1.32 million of income from the properties sold last year and a further £0.75 million from the transition of property into development, adjusted profit before tax for the year increased by 2.3% to £9.27 million (March 2018: £9.07 million). As set out in more detail in the Property and Financial Review, this loss of income was offset by income contributions from our recently completed development schemes and interest savings as a result of the cancellation of our remaining legacy interest rate hedging facilities at the end of last year.

EPRA net asset value per share increased by 1.2% to 326 pence (March 2018: 322 pence) predominantly due to the £6.47 million (1.4%) surplus generated by the independent valuation of the property portfolio at the end of the period of £482.70 million (March 2018: £460.15 million).

This surplus and the 2.1% (£0.69 million pa) increase in portfolio rental value ("ERV"), which ended the year at £33.83 million pa (March 2018: £33.15 million), both outperformed the MSCI IPD (All property) benchmark which delivered movements for each of 0.2%.

Our three main priorities over the year to maintain delivery of our growth strategy have been:

- The continued implementation of our development programme
- The release of the substantial income potential generated within the portfolio
- Capitalising on our progress to date by improving our scope for further growth

Good progress has been made in all three areas.

Our development priority was the delivery of the two remaining active schemes at 30 Lombard Street, EC3 and at Theale Logistics Park on the outskirts of Reading, following the successful completion and letting of our office developments in Reading and Redhill last year.

£228.15m

increase in portfolio value since 31st March 2014

£99.29m

increase in shareholders' funds since 31st March 2014

Chairman's Statement continued

In March 2018 we announced that the whole of the 30 Lombard Street (58,585 sq ft) scheme had been pre-let to St. James's Place plc on a 15 year lease at a contracted rent of £3.40 million pa (net of ground rent), with upward only rent reviews every five years. Construction works completed in January 2019, triggering commencement of the lease and the new tenant is now fitting out for occupation this summer. This was a complex construction project and the end result is a striking office headquarters building that has enhanced the streetscape of this core City of London location. Securing a financially strong tenant on a long lease, ahead of forecast, has also created a valuable high-quality asset which contributed to the valuation surplus again this year.

This has further de-risked our development programme with ongoing construction now limited to our warehouse distribution scheme at Theale Logistics Park (134,430 sq ft). With excellent access adjacent to Junction 12 of the M4 motorway, low site cover and low passing rent, we identified the strong value-add potential when we purchased what was a dated chilled distribution unit on the site in 2015. It provided the scope for either refurbishment or redevelopment at lease expiry in 2021, or earlier if the tenant exercised a break option in January 2018. We achieved planning consent for a high bay warehouse and a 38.5% increase in floor area in 2017 and, with the benefit of a 12 month rent penalty when the break clause was exercised and encouraging market conditions, we took the decision at the end of last year to progress redevelopment. Demolition has now been completed and the contractor is on site with completion expected by December 2019. The improved specification and the substantial increase in floor area have increased the rental potential by 92.2% to £1.48 million pa in a sector that has seen strong demand driven by the growth of e-commerce, and our marketing campaign continues to generate interest.

The development programme has proven to have been well timed. The three completed office schemes are now let at a total contracted rent of £5.99 million pa, representing 22.0% of portfolio contracted rent.

Our second priority area has been generating additional income from vacant properties and securing increases to ERV at lease expiry and rent review. This income potential, which totalled £4.66 million pa at the beginning of the period, has been built up as a result of positioning portfolio assets to benefit from rental growth in our markets. To release this income potential, we have continued with the selective refurbishment and direct management of the portfolio and implemented innovative and thorough letting campaigns. Office occupiers in particular increasingly expect choice and flexibility, and the increase in the serviced office sector over the last few years has resulted in a far wider range of occupational solutions on offer. In this evolving market we have continued to demonstrate our ability to design and deliver the right product with the completion of 19 open market lettings, at a combined contracted rent of £1.29 million pa, exceeding March 2018 ERV by 8.1%.

We also pride ourselves on working in partnership with a diverse range of occupiers to deliver the very best business environments, with sustainability at the heart of our projects and the management of our buildings.
We will be emphasising the "McKay way" to prospective and existing occupiers to highlight our commitment to create the right environment with high standards of customer service in directly managed buildings, offering flexibility and value for money. This operational approach contributed to high approval ratings in our most recent occupier survey. It also played an important part in our high occupier retention rate at lease break and lease expiry, when 74.0% of occupiers remained in occupation and a £0.21 million pa (31.6%) increase in passing rent was achieved.

Having achieved these rental gains, the portfolio reversion has been topped up with several lease expiries over the period, as well as increases in ERV mainly driven by refurbishment and achieved rents. These expiries have provided us with a number of excellent refurbishment opportunities to improve occupier appeal and to achieve higher rental values including schemes at Crawley, Staines and Croydon, which are all well established markets with constrained supply. With the trend to greater flexibility in lease terms, our track record of cost effective refurbishment will be of increasing value.

Taking this portfolio activity into account, we ended the period with contracted rents up slightly to £27.22 million pa (March 2018: £27.05 million) compared with the portfolio ERV of £33.83 million pa. The difference maintains the opportunity to increase contracted rents by a substantial £6.61 million pa (24.3%), of which the development at Theale represents £1.48 million pa.

Our third area of priority over the year has been to capitalise on our strategic progress to date, by improving our scope for further growth. Since 2014, we have invested £63.05 million into acquisitions, and £90.02 million in capital expenditure on the development programme and other portfolio projects. This investment has added significant value to the portfolio, allowing us to increase our borrowings without pushing up gearing beyond acceptable levels. This, and the ability to add completed development schemes into the security pool, enabled us to increase our loan facilities by £55.00 million shortly after the year end to £245.00 million. This has provided us with substantial firepower and secured low margins for another five years.

Dividend

The Board is recommending a 2.8% increase in the final dividend to 7.4 pence per share (March 2018: 7.2 pence). The final dividend will be paid as an ordinary dividend on 25th July 2019 and will take the total dividend for the year to 10.2 pence per share (2018: 10.0 pence), an increase of 2.0%.

Outlook

The deferral of a Brexit solution has extended uncertainty over the future pace of economic growth and the trading environment for the year ahead. The occupier is at the heart of all we do, and much will depend on how this delay affects business confidence.

However, our focus on the office, industrial and logistics markets of London and the South East provides us with exposure to the two strongest and most resilient economic regions of the UK. This, combined with the substantial income potential still to be released from the portfolio with a range of development and refurbishment initiatives and our additional headroom, leaves us well placed to deliver future shareholder value.

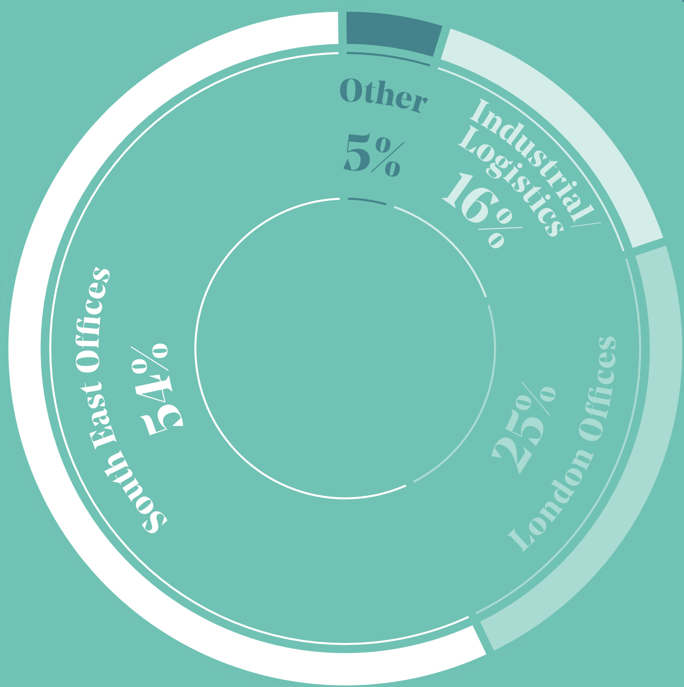
Richard Grainger
Chairman
20th May 2019

At a Glance

As the only REIT specialising in the office and industrial markets of London and the South East, McKay offers a unique proposition for investors.

Our portfolio

(31st March 2019)



33
Properties

£482.70m
Portfolio value

1,474,471 sq ft
Internally managed

See more on **page 20**

Geographic locations

Key Office Industrial Other

Business Model

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.

Key resources

Our properties:
We focus on quality office and industrial business space within the proven and established markets of London and the South East

Our occupiers:
We partner with our occupiers to provide the very best environments for teams to thrive and businesses to grow. Property management is run in-house giving direct tenant/landlord relationships and high tenant retention

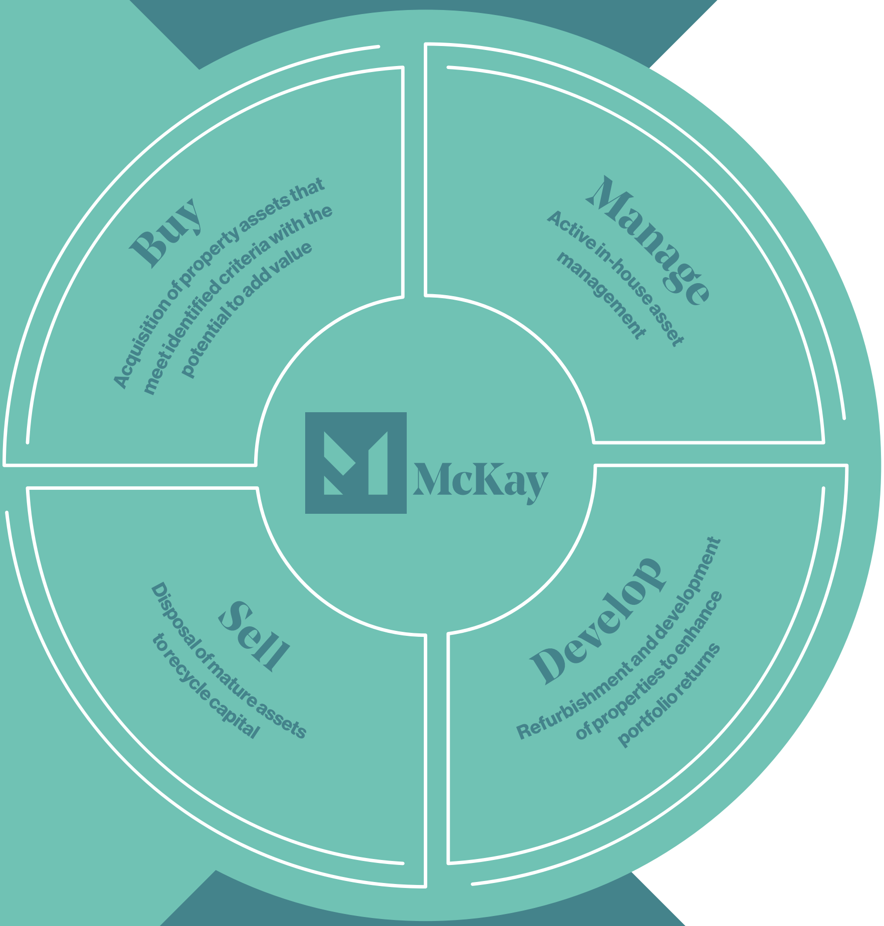
Our suppliers:
Our geographical focus means we know the local supply chains well. We operate a responsible procurement policy and work in partnership with our suppliers

Our team:
Our experienced team are experts in their field and we actively manage our assets to maximise property returns. The focus on just London and the South East means we know our markets intimately

Respected brand:
We take pride in everything we do and have developed a reputation for quality, innovation, ambition and growth, an approach stretching back to formation in 1946

Financial flexibility:
Strong banking relationships and a robust balance sheet allow flexibility to invest in the portfolio throughout the cycle

What we do:



Strategic priorities

Delivery of development programme

Release of portfolio income potential by capturing reversion

Scope for future growth

We create value through investment in our property portfolio to maximise income and capital returns.

Occupiers

We offer our occupiers choice and flexibility and quality business space.

£13.79m

development and refurbishment capital expenditure (2018: £23.31m)

Investors

We aim to deliver attractive and sustainable returns to shareholders.

7.4p

final dividend (up 2.8%)

Environment

We are committed to our sustainability objectives.

44%

Reduction over four years in carbon emissions

GRESB Green Star status 3 years running

Strategy

Our strategy is to apply entrepreneurial property initiatives to generate income and capital gains, primarily from office and industrial properties in London and the South East to maximise total portfolio return.

Strategic priorities

Delivery of development programme

See KPIs and Remuneration Policy on **pages 24 and 54**

Release of portfolio income potential by capturing reversion

See KPIs and Remuneration Policy on **pages 24 and 54**

Scope for future growth

See KPIs and Remuneration Policy on **pages 24 and 54**

2018/2019 progress	Key metrics	Looking forward	Risks
• 30 Lombard St., EC3 completed – 100% let • Prospero, Redhill completed – 94% let • Theale Logistics Park – demolition completed and contractor appointed	• Development surpluses enhance NAV, TPR and PCR • Lettings ahead of forecast enhance NAV, TPR and PCR • Well managed programme could impact TSR **Link to remuneration** • Development performance directly impacts on short and long term incentive plan measures of NAV, EPS and strategic targets	• Complete last letting at Prospero, Redhill • Complete and let Theale Logistics Park • Identify and progress new schemes	• Market downturn • Delays in construction • Health and safety events • Availability of finance • Availability of new opportunities
• Fully fitted space successfully trialled at Portsoken House, EC3 • Developed and enhanced our occupier services offer • £1.29 million pa contracted rent from open market lettings • 74% tenant retention rate • 32% increase in contracted rent on renewal	• Lettings, lease renewals and rent reviews improve earnings and reduce voids, which enhances NAV, TPR and PCR • Strong occupier relationships support high tenant retention rates, minimising voids and refurbishment expenditure which enhances TPR and PCR **Link to remuneration** • Releasing portfolio income reversion directly impacts on short and long term incentive plan measures of NAV, EPS and strategic targets	• Rollout of McKay fit out at selected portfolio voids • Trial the latest smart technology and development of community portal and building management app • Improve occupier engagement and rollout of the McKay offer • Maintain high tenant retention rate	• Market downturn • Investment in technology and fit-out not providing the required returns • Tenant default
• Monitor the market closely for potential acquisitions • Utilise value gains to secure increase in debt facilities • Capture value from portfolio initiatives • Recycle disposal proceeds effectively	• Capacity for future growth provides scope for gains in all KPIs, and should enhance TSR **Link to remuneration** • Provides a general incentive for the workforce to deliver future incentive-based gains • Enhancing of future prospects should impact on long term incentive plan measure of TSR	• Utilise increase in debt facilities to add value • Maintain banking relationships • Secure earnings and value-enhancing acquisitions	• Lack of suitable investment opportunities • Overpricing restricting purchasing • Covenant compliance

Strategy
continued

Portsoken House, EC3
Innovative fully fitted our refurbishment of common areas, 2nd and 8th floors complete and now 100% let.

See more on **page 20**

We create value through investment in our property portfolio.

Theale Logistics Park
New distribution warehouse under construction five miles from Reading adjacent to Junction 12 of the M4.

Practical completion December 2019

134,430 sq ft

The Mille
12 storey landmark office building with rolling refurbishment programme and strong tenant retention.

96,750 sq ft

See more on **page 20**

Mallard Court, Staines-upon-Thames
1st and 3rd floors currently under refurbishment to provide innovative office accommodation in the town centre.

11,390 sq ft

See more on **page 20**

30 Lombard Street, EC3
Practical completion in January 2019, this prime City core new office development is now fully let for 15 years.

58,590 sq ft

See more on **page 20**

Market Context

Why London and the South East?

McKay is a specialist in the development, refurbishment and management of quality buildings within the established and proven markets of London and South East England.

It is the only REIT focused entirely on these markets.

1 in 3

UK businesses are in London or the South East

38%

combined contribution to the UK economy of London and South East

Regional strength

London and the South East are the most dynamic of the UK's twelve regions, dominating in terms of population, business prosperity and productivity, with:

- 27% of the total UK population
- 34% of all UK businesses
- 35% of the total UK disposable household income
- the two highest ranking by earnings, productivity and GVA; all ahead of the UK average
- 38% of total UK GVA

Regional diversity

Exposure to the economies of both London and the South East provides regional strength and diversity across a wide range of business sectors, minimising reliance on any one sector. This diversity is supported by:

- a high concentration of leading universities
- the UK's two leading international airports
- efficient road and rail networks
- the Elizabeth Line and other planned infrastructure projects

Regional focus

With a portfolio invested in the office and distribution/warehousing sectors, the breadth and stability of demand from this diverse economy provides a strong operating platform. This is further underpinned by favourable market characteristics of limited choice of modern business space and a constrained development pipeline.

Number of businesses by UK regions (VAT and/or PAYE) ('000)

Source: ONS

> **We continue to build up our portfolio in well established business centres at the heart of the UK's economy.**

Simon Perkins
Chief Executive

McKay Trading Estate, Poyle 73,955 sq ft
Multi-let estate development by McKay, benefiting from the freight throughput of Heathrow Airport.

Property Portfolio
At 31st March 2019

			Area sq ft
£15m and over – 61.7% of portfolio	**Brentford**	**The Mille, 1000 Great West Road** (office)	**96,700**
	Croydon	**Corinthian House, Dingwall Road** (office)	**44,590**
	EC3[1]	**30 Lombard Street** (office)	**58,590**
	EC3[1]	**Portsoken House, Minories** (office and ancillary retail)	**49,570**
	SW19	**Wimbledon Gate, Worple Road** (office and ancillary retail)	**58,690**
	SW11	**Castle Lane** (office)	**14,250**
	Poyle	**McKay Trading Estate, Blackthorne Road** (industrial)	**73,955**
	Reading	**Great Brighams Mead, Vastern Road** (office)	**84,840**
	Reading	**9 Greyfriars Road** (office)	**38,490**
	Redhill	**Prospero, London Road** (office)	**50,370**
£10m to £15m – 18.3% 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)	**50,190**
	Woking	**The Planets, Crown Square** (leisure)	**98,255**
£5m to £10m – 17.7% of portfolio	**Bracknell**	**Building 329, Doncastle Road** (office)	**32,800**
	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**
	Folkestone	**5 Acre Estate, Park Farm Road** (industrial)	**60,535**
	Leatherhead	**Ashcombe House, 5 The Crescent** (office)	**17,450**
	SW1[1]	**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 under construction)	**134,430**
	Theale	**Station Plaza, Station Road** (office)	**41,420**
	Windsor	**Gainsborough House, 59-60 Thames Street** (office)	**18,660**
£2m to £5m – 2.0% of portfolio	**Banbury**	**Lower Cherwell Street Industrial Estate** (industrial)	**40,060**
	Newbury	**Strawberry Hill House, Bath Road** (medical)	**15,230**
£2m and below – 0.3% of portfolio	**Chobham**	**Castle Grove Road** (land)	**–**
	Staines	**2 Clarence Street** (office)	**3,440**

Percentages based on the valuation at 31st March 2019

1. Denotes leasehold properties

Top five assets

The top five properties represent 42% of the portfolio by value

30 Lombard Street, EC3
58,590 sq ft

The Mille, Brentford
96,700 sq ft

Great Brighams Mead, Reading
84,840 sq ft

Portsoken House, EC3
49,570 sq ft

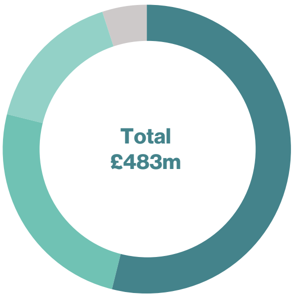
Wimbledon Gate, SW19
58,690 sq ft

Property and Financial Review

Table 1

Location and sector (by value)

at 31st March 2019



South East Offices	**54%**
London Offices	**25%**
Industrial/Logistics	**16%**
Other	**5%**

Overview

McKay is a specialist in the development, refurbishment and management of commercial property, with Real Estate Investment Trust ("REIT") status. We adopt a proactive approach to the release of value from our assets using in-house skills, and manage completed projects internally. Our headquarters in Reading sits at the heart of our portfolio of 33 assets, ending the period valued at £482.70 million (March 2018: £460.15 million).

The sector and location breakdown of these assets is shown in table 1, highlighting that we remain entirely focused on the office, industrial and logistics markets of London and the South East, where we have a clear expertise. These are the most dynamic regions of the UK, dominating in terms of population, business prosperity and productivity, and provide a strong platform for our continued growth.

The rent and occupancy profile of the portfolio at the end of the period is shown in table 2. Contracted rental income and the rental value of the portfolio ("ERV") both increased over the period, with the difference of £6.61 million representing the significant 24.3% reversionary potential still to be released from the portfolio. Occupancy has reduced slightly, ending the period at 88.0% (March 2018: 89.3%) and at 91.0% (March 2018: 92.6%) excluding developments.

Occupational demand for office, industrial and logistics space within London and the South East has proved stable over the period, despite the continuing political uncertainly. The historically constrained supply of modern business space looks set to result in future shortfalls of available space across a number of centres, supporting current rents and increasing the prospects for future rental growth.

We recognised the potential for successful development in these supply constrained markets in 2014 and embarked on the development of three office schemes with the benefit of the £86.70 million capital raise at that time. Having completed and let the schemes in Reading and Redhill last year, we achieved practical completion of the last of the three schemes at 30 Lombard Street, EC3 in January 2019 which triggered commencement of the 15 year lease to St. James's Place plc for the entire building. These three schemes are now 98.0% let overall, on 10-15 year leases with a combined contracted rent of £5.99 million pa.

Sustainability has been of increasing importance to us, our occupiers and our supply chain for a number of years. We continue to evolve our sustainability strategy, which has ensured that the importance of creating and managing environmentally sustainable buildings has been integrated into our business since its adoption in 2014. In September 2018 we were delighted to be awarded our highest ever Green Star award by the Global Real Estate Sustainability Benchmark ("GRESB"), maintaining our status for the third year running as amongst the most sustainable companies in the commercial property sector.

Market review

The South East office market, which represents the largest sector in our portfolio (54.3% by value), is currently experiencing its lowest levels of both vacancy and supply for ten years. The vacancy rate across the market of 7.6% has almost halved from 14.2% five years ago and the vacancy rate for new floorspace of 1.9% (1.75 million sq ft) is now at an historic low. The supply of new stock shows no signs of alleviating this, with speculative development completions estimated to add just 0.5 million sq ft in 2019 and 0.4 million sq ft in 2020, well below the ten year annual average of 0.70 million sq ft. Building obsolescence is also restricting the supply of modern accommodation in this

Table 2

Portfolio yields and reversions

	31st March 2019			31st March 2018		
	£m pa	**Yield[2]**	**Occupancy[3]**	£m pa	Yield[2]	Occupancy[3]
Current rental income[1]	21.24	4.1%		19.66	4.0%	
Contracted rental income[1]	27.22	5.3%	88.0%	27.05	5.5%	89.3%
Uplifts at rent review/lease expiry	2.53			2.55		
Void properties (exc developments[3])	2.60		9.0%	2.11		7.4%
Void (developments)	1.48		3.0%	1.44		3.3%
Portfolio reversion	6.61			6.10		
Total portfolio ERV	**33.83**	**6.6%**		**33.14**	**6.8%**	
Equivalent yield		5.7%			5.8%	

1. Net of ground rents
2. Yield on portfolio valuation with notional purchaser's costs (6.75%) added
3. By ERV

Five year summary

Financial measure	2019	2018	2017	2016	2015
Gross rental income (£'000)	**21,608**	21,844	20,790	20,159	17,617
Net rental income from investment properties (£'000)	**19,096**	20,453	19,871	17,664	14,922
Profit before taxation (£'000)	**13,190**	43,443	17,594	53,160	33,282
Adjusted profit before taxation (£'000)	**9,272**	9,067	8,605	7,943	5,791
Investment properties (£'000)	**482,700**	460,150	429,915	401,170	352,760
Loans and borrowings (£'000)	**(163,176)**	(144,598)	(134,100)	(113,701)	(91,302)
Total equity (£'000)	**311,083**	306,440	270,792	261,223	215,495
Ordinary dividends per share (pence)	**10.2**	10.0	9.0	8.8	8.7
Earnings per share – basic (pence)	**14.0**	46.3	18.8	57.2	36.1
Earnings per share – adjusted basic (pence)	**9.9**	9.7	9.2	8.5	5.3
Net asset value per share (pence)	**331**	326	289	280	233
EPRA net asset value per share (pence)	**326**	322	303	301	270
Interest cover	**2.1**	2.0	2.0	1.9	1.8
Loan to value	**33**	32	32	29	26

£6.61m pa

24% portfolio reversion

329 Bracknell
Comprehensive refreshment incorporating co-working breakout space and kitchens with smaller suites to suit tenant demand.

32,800 sq ft

net matter

"The building itself has provided us with the image required to support our business needs and growth plans – it's been great in that sense."

Property and Financial Review continued

market, with 50.1% of the stock within the relevant MSCI IPD ("IPD") index now older than the generally held building design life of 25 years.

Despite the political uncertainty, office take-up in the South East in 2018 totalled 2.44 million sq ft, which was the highest for the last five years and comfortably above the ten year average of 1.92 million sq ft. A number of larger lettings that had been in the market for some time completed during the year, with these occupiers recognising the need to commit to protect against future supply constraints. However, 77.5% of 2018 take up was for unit sizes below 60,000 sq ft, maintaining the long term trend for smaller lettings which supports our continued focus on this area of the market. Whilst take up in Q1 2019 of 0.36 million sq ft was 16.2% below the ten year average, named demand at the end of the quarter of 3.02 million sq ft was only 6.7% lower than Q4/2018, of which 0.50 million sq ft was under offer.

Our four central London office properties accounted for 25.0% of our portfolio at the end of the period, all of which are fully let. Market conditions in London have remained stable, as new supply is constrained by uncertainty while demand and take up have remained broadly in line with long term averages. Current availability in central London stands at 14.24 million sq ft compared to the ten year average of 16.12 million sq ft, showing a low vacancy rate of 6.2% (ten year average: 7.1%).

The industrial and logistics sector remains buoyant with occupier demand being driven by the exponential rise of the e-commerce sector and supply constrained by a scarcity of land on which to build conveniently located warehouses. Total supply in the South East of 4.50 million sq ft reflects a low vacancy rate of 4.5%, the lowest of any core region in the UK. This provides just 1.1 years' supply based on current levels of take up. These market dynamics continue to support the development of our 134,430 sq ft distribution warehouse at Theale Logistics Park on the outskirts of Reading.

There has undoubtedly been more caution generally in the investment market over the year given the protracted Brexit negotiations. Within our markets, fewer investment opportunities and stable yields suggest distressed sellers have been limited. Investment volumes within the South East office market totalled £2.80 billion in 2018 compared to the five year average of £3.57 billion. Local authorities remained the largest single investor group, accounting for 33.0% of the total volume.

The weight of money seeking office investment opportunities in central London was still evident in 2018, with investment totalling £16.31 billion. This trend has been maintained in Q1 2019 with investment turnover totaling £5.04 billion, significantly ahead of the ten year quarterly average of £3.76 billion.

Development programme

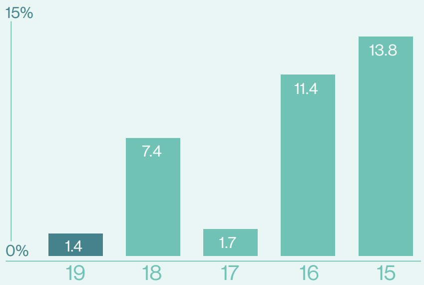
Practical completion of our new build 58,590 sq ft City core office scheme at 30 Lombard Street, EC3 was achieved in January 2019. The building had been pre-let to St. James's Place plc in March 2018, and completion triggered commencement of the 15 year lease of the entire building. The net contracted rent of £3.40 million pa, equating to £65.00 per sq ft overall, was in line with ERV.

Theale Logistics Park, our 134,430 sq ft distribution warehouse development at Junction 12 of the M4 motorway, is now under construction with completion due in December 2019. In the period, demolition of the old warehouse was completed, after which further planning conditions had to be resolved. During this time, we were able to negotiate a more favourable build contract which was signed in early April 2019.

This self-contained, innovatively designed distribution warehouse, with a large secure 72 metre yard, will provide best in class supply to meet growing industrial and distribution occupier demand, in a location which is already favoured by a number of blue chip companies. The marketing campaign is already under way with interesting leads, but tenant commitment within this sector is more likely once the building is fully, or substantially, built out.

Key performance indicators:

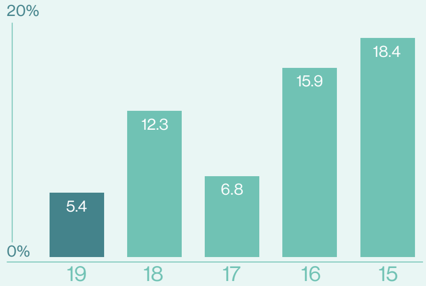
Portfolio Capital Return (capital) (%) ("PCR")



The annual valuation and realised surpluses from the Company's investment portfolio expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.

Link to strategy:

Total Portfolio Return (capital and income) (%) ("TPR")



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.

Link to strategy:

Asset management

Following the letting success of our recent developments the focus over the year has been on releasing the substantial portfolio reversion and strengthening relationships with our occupiers to assist with retention at lease break and expiry.

The occupational market in both London and the South East is witnessing increasing demand for flexibility and convenience. For tenants, there is the perceived flexibility of serviced offices at one end of the spectrum countered by the desire for identity, branding and a sense of ownership at the other. We have the assets and skills to offer a middle ground and can provide tenants with the benefits of a traditional lease across a range of unit sizes and lease lengths, whilst managing our buildings in-house and giving occupiers direct access to their landlord.

Having recognised this trend a number of years ago, we have evolved a flexible offer at One Crown Square, Woking (50,190 sq ft) and 329 Bracknell (32,800 sq ft) where we continue to deliver rental growth. This year saw 7.1% and 4.1% rental value growth respectively for these buildings compared to the IPD benchmark of 1.9%, driven by strong tenant demand for this model which is being actively applied elsewhere within the portfolio.

At Portsoken House, EC3, as part of the refurbishment of the vacant floors (part 8th floor: 3,260 sq ft and 2nd floor: 5,146 sq ft) we fitted out the space to give potential occupiers the convenience of immediate occupation while also providing better value space compared to the equivalent serviced office market. With the trade-off of minimal letting incentives, we let both floors before practical completion at rents 8.2% ahead of ERV on the part 8th floor (£0.19 million pa) and 9.0% ahead on the 2nd floor (£0.28 million pa).

In a number of cases, this flexible offer is combined within a building with longer lease arrangements. This has worked to our advantage at The Mille, where we completed the ten year pre-let of the entire 2nd floor (8,312 sq ft at a contracted rent of £0.21 million pa) to serviced office provider UBC, which was previously operating under a legacy loss making management agreement on the 3rd floor. This in turn has enabled us to progress a refurbishment of the 3rd floor into four smaller suites of c. 2,000 sq ft each, which is the most sought after unit size in the Brentford market.

At the end of the period, the rental value of the 9.0% portfolio void (excluding developments) totalled £2.60 million pa, of which 58.1% was undergoing refurbishment. The two most significant projects to begin during the period were at Pegasus Place, Crawley and at Mallard Court, Staines-upon-Thames. Pegasus Place is a campus of three office buildings developed by the Company in 2003, where we are carrying out a major overhaul of Pegasus Two (12,720 sq ft), to enable a multi-letting campaign at top Crawley rents. Completion of the refurbishment is due in July and good interest is already apparent.

At Mallard Court, in the centre of Staines-upon-Thames, we are carrying out a wholesale refurbishment of two of the three office floors (11,390 sq ft) as well as upgrading the reception. Where this was previously a traditional multi-let building with a manned reception, the refurbishment will deliver a modern, unmanned, smart building incorporating the latest technology with an occupier app enabling mobile-device control of heating, cooling, lighting and access. Completion is due shortly and marketing is under way.

Our South East industrial and logistics assets represented 15.6% of the portfolio (by value) at the end of the period and continue to deliver strong returns. Our seven existing industrial and logistics assets are 91.9% let and lease renewals and other management initiatives have continued to improve the value and quality of these holdings.

Across the portfolio as a whole over the year, this activity resulted in a total of 19 open market lettings with a combined contracted rent of £1.29 million pa, which was 8.1% ahead of ERV. In addition, we achieved a high tenant retention rate of 74.0% of tenants at lease break and expiry, including the renewal of 21 leases at a 31.6% (£0.21 million pa) increase to the prior contracted rent.

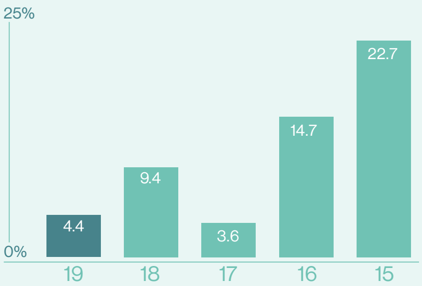
With the lack of new and Grade A supply in the South East office market, we continue to work up our pipeline of refurbishment and development initiatives which include Great Brighams Mead, Reading and Station Plaza, Theale. Great Brighams Mead is a standalone 84,840 sq ft office headquarters building exceptionally well located just a few minutes' walk from the recently upgraded railway station. The Company developed and let the building to Hutchison 3G for 21 years in 2001. The potential exists at expiry in 2022 to refurbish and benefit from the recent uplift in central Reading rents and the opening of the Elizabeth Line, which is set to strengthen Reading's position as the capital of the Thames Valley.

Station Plaza is an estate of three office buildings totalling 41,420 sq ft situated opposite Theale railway station, purchased in 2014 with an income yield of 10.1%. The existing 20 year lease, which expires in July 2019, is currently generating a rent of £0.90 million pa (£21.82 psf) which compares to recent Grade A Theale rents in excess of £30.00 psf. The property has attracted a wide range of freehold and leasehold interest and a number of options are being reviewed, including refurbishment plans to refresh the buildings to create a vibrant estate next to the station.

Acquisitions and disposals

We continued to monitor potential investment properties both on and off market over the year but did not make acquisitions despite appraising many opportunities. We remain of the view that there will be better value available as the market continues to mature, and we are well placed to take advantage of any weakness or attractive prospects that become available.

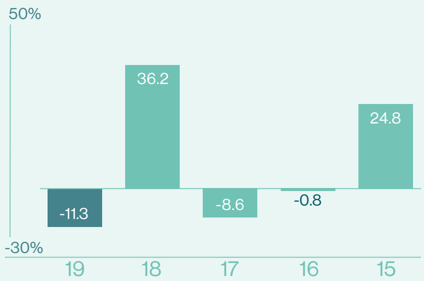
Net Asset Value Return (%) ("NAV")



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.

Link to strategy:

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.

Link to strategy:

Property and Financial Review continued

Having recycled £67.97 million from twelve disposals between 2015 and 2018 into new and existing portfolio properties, this has been a quieter year. However, we continue to keep a number of sales under review, particularly where we can take advantage of one-off pricing or reinvest into new assets with better growth prospects

The only disposal activity over the period was announced in March 2019 following the exchange of conditional contracts for the sale of The Planets (98,255 sq ft) in Woking town centre. It is let to Woking Borough Council until 2020, operating as a conference centre, amusement arcade, bingo hall and hotel. The asset has delivered an income yield in excess of 8.0%, and was purchased in 2014 with the intention to redevelop a mixed use scheme including offices on expiry of the lease. Having reviewed a range of scenarios with our professional team, it was clear that the most viable option would be residential use. To maximise value, we designed a 35-storey scheme and presented it to Woking Council and, with approval in principle for its height and massing, we offered the site to the residential market rather than redevelop beyond our recognised area of expertise and focus. Completion of the sale is conditional on the buyer gaining planning consent, and the price will be determined by the number of units consented.

Valuation

Knight Frank's independent valuation of the Company's property portfolio as at 31st March 2019 totalled £482.70 million (March 2018: £460.15 million). This delivered a surplus of £6.47 million (1.4%) for the 12 month period, with the first half contributing 1.7% and the second half -0.3%.

Tables 3 and 4 show the portfolio capital and rental values as determined by our valuers against the corresponding IPD benchmarks. Overall portfolio capital and rental growth outperformed IPD All Property, and the

Table 3
Capital value movement

12 months to 31st March 2019	2019 portfolio valuation £m	2018 portfolio valuation £m	12 month[1] movement	IPD[2] movement
London offices	57.20	56.25	0.5%	2.6%
South East offices	261.90	260.10	-1.7%	1.4%
Total offices	**319.10**	**316.35**	**-1.3%**	**1.6%**
Industrial/Logistics	65.65	60.85	7.8%	10.7%
Other	24.55	21.65	12.1%	–
Total (excluding developments)	**409.30**	**398.85**	**0.7%**	**0.2%[3]**
Developments[4]	73.40	61.30	4.9%	–
Total portfolio	**482.70**	**460.15**	**1.4%**	**0.2%**

1 Valuation movements (%) after allowing for capex incurred during the period
2. IPD monthly index allocations, IPD London = City segment
3 IPD monthly index (All property)
4 Theale Logistics Park and Lombard Street, EC3

Table 4
Rental value movement

12 months to 31st March 2019	2019 portfolio ERV £m pa	2018 portfolio ERV £m pa	12 month[1] movement	IPD[2] movement
London offices	3.68	3.62	1.5%	1.2%
South East offices	20.27	19.76	2.6%	1.9%
Total offices	**23.95**	**23.38**	**2.4%**	**1.5%**
Industrial/Logistics	3.85	3.78	1.9%	4.5%
Other	1.15	1.16	-0.3%	–
Total (excluding developments)	**28.95**	**28.32**	**2.2%**	**0.2%[3]**
Developments[4]	4.88	4.83	1.2%	–
Total portfolio	**33.83**	**33.15**	**2.1%**	**0.2%**

1. Segments analysed by IPD geographical area, exc dev
2. IPD monthly index – movement by segment where applicable, IPD London = City segment
3. IPD monthly index (All property)
4. Theale Logistics Park and Lombard Street, EC3

portfolio total return of 5.4% outperformed the IPD All Property return of 5.0%.

Through our asset selection and refurbishment initiatives, the rental value of our largest weighting, South East offices, outperformed the benchmark, but the capital growth underperformed. There are two reasons for this. Firstly, as anticipated with future pipeline opportunities at Great Brighams Mead, Reading and Station Plaza, Theale, values have declined by 7.8% and 18.1% respectively as the leases approach expiry. The subsequent uplift in value following refurbishment will see values enhanced. Secondly, at Pegasus Place, Crawley and One Crown Square, Woking we suffered tenant defaults which led to capital value declines of 5.4% and 8.2% respectively, which will be recovered on re-letting.

Our South East industrial and logistics portfolio saw capital growth of 7.8% compared to the IPD benchmark of 10.7%. Our two largest assets by value in this sector, The McKay Industrial Estate at Poyle, next to Heathrow, and Oakwood Trade Park in Crawley, increased in value by 12.8% and 11.1% respectively. The overall performance was below the benchmark due to lease expiries over the period and other properties holding their value after a strong performance last year.

Although rental growth of 1.5% in our London offices outperformed IPD, capital growth was marginally lower due to characteristics of the small number of assets in this sector.

The Planets in Woking (within "Other") saw strong capital value growth of 20.2% to reflect the uplift in the conditional sale price over the March 2018 book value.

Development properties over the year consisted of Brunel Road, Theale and 30 Lombard Street, EC3. Much of the value created by the pre-letting of 30 Lombard Street was included within the 2018 valuation, but the 4.9% overall valuation surplus incorporated further gains primarily due to lease completion.

Dividends

The final dividend of 7.4 pence per share (March 2018: 7.2 pps) will be paid on 25th July 2019 to those on the register on 31st May 2019. With the interim dividend of 2.8 pence per share, this takes the total dividend for the year to 10.2 pence per share, an increase of 2.0% on the previous year.

As a REIT, the Company 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%. Previous losses attributed to the cost of cancelling interest rate hedging instruments has offset 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

Profit before tax ("IFRS") totalled £13.19 million (March 2018: £43.44 million). This included the unrealised surplus on valuation (including SIC 15 adjustment) for the period of £4.83 million (March 2018: £25.07 million).

Adjusted profit before tax, our measure of recurring profit, increased by £0.20 million (2.3%) to £9.27 million (March 2018: £9.07 million) primarily due to lower interest costs as a result of cancelling the remaining interest rate swap in March 2018. Adjusted basic earnings per share increased by 2.1% to 9.85 pps (March 2018: 9.65 pps).

Gross rents, including SIC 15 adjustments, increased on a like-for-like basis (excluding sales and developments) by 6.6% (£1.31 million). However, overall gross rents reduced by 1.1% (£0.24 million) to £21.61 million (March 2018: £21.84 million) due to the loss of income of £1.32 million from the profitable disposals made last year and the loss of £0.75 million of rental income following commencement of redevelopment at Theale Logistics Park. These anticipated reductions were partially offset by a rental contribution of £0.53 million from 30 Lombard Street, EC3 following the lease commencement in January 2019, in addition to further significant rental contributions from Prospero, Redhill (£0.78 million) and The Mille, Brentford (£0.25 million).

Administration costs reduced to £6.25 million (March 2018: £6.31 million), primarily due to a reduced cost of bonus offsetting the inflationary rise in salaries.

The interest cost for the year reduced to £6.13 million (March 2018: £6.74 million), despite the average debt in the period increasing to £157.96 million (March 2018: £144.82 million). This significant reduction reflects the benefit of cancelling the £33.00 million remaining swap in March 2018, which carried a coupon of 5.17%. The cancellation also contributed to the weighted average cost of debt reducing to 3.34% prior to amortisation and finance lease interest (March 2018: 4.06%).

Balance sheet

Shareholders' funds increased from £306.44 million to £311.08 million over the period, principally due to the £6.47 million valuation surplus (£4.83 million excluding SIC 15 adjustment).

EPRA NAV per share increased by 1.2% over the period to 326 pence (March 2018: 322 pence). NNNAV per share also increased by 1.2% to 326 pence (March 2018: 322 pence) and IFRS NAV per share increased by 1.5% to 331 pence (March 2018: 326 pence).

At the year end, debt facilities totalled £190.00 million (March 2018: £190.00 million). Drawn debt at the end of the period was £165.00 million (March 2018: £147.00 million). The gearing ratio of drawn debt to portfolio value (LTV: net debt basis) as at 31st March 2019 was 33.3% (March 2018: 31.6%). The increase in drawings over the year was primarily a result of £13.79 million of capital expenditure being invested on portfolio development and refurbishment projects.

On 8th April 2019, we announced an increase in available facilities from £190.00 million to £245.00 million. Building on our strong relationships with our banking group, three bilateral facilities (£125.00 million) were replaced by one club facility of £180.00 million. The club comprises Barclays, Lloyds, NatWest and Santander, all contributing equally. The facility is for five years and at commencement contributed to a weighted average length of debt of 6.6 years and a low weighted average cost of debt, if fully drawn, of 3.0%.

The current £65.00 million facility with Aviva and the new club facility provides £80.00 million of headroom over our current drawings to support operational flexibility, deliver further portfolio initiatives and provide increased scope for new investments.

Net cash inflow from operating activities was £8.42 million (March 2018: inflow £7.50 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 2.08x (March 2018: 1.98x).

As a REIT, the Company is tax exempt in respect of qualifying capital gains and qualifying rental income, which covers the majority of the Company's activities. Any residual income has been offset by allowable costs, and there is therefore no tax charge for the period (March 2018: nil).

Defined benefit pension scheme

Under the application of accounting standard IAS19, the Company's pension deficit reduced over the period from £2.16 million to £2.11 million. The decrease in the deficit was mainly due to the contributions paid into the scheme compensating for the increase in scheme liabilities resulting from a lower discount rate.

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, our annual contribution to the scheme remains at £0.24 million. The scheme was closed to new entrants in the 1980s, and now consists of six pensioners and no active members.

Financial risks

The financial risks are documented in the Principal Risks and Uncertainties section of the Strategic Report on page 38.

S. Perkins
Chief Executive

G. Salmon
Chief Financial Officer
20th May 2019

Sustainability

A new sustainability vision

We have again made great progress against our sustainability targets this year, fully achieving 89%.

68

2018 GRESB score

GRESB 2018

44%

reduction in CO_2e since 2015/16

Introduction

As well as working hard to achieve our targets, another important action undertaken this year has been the in-depth review and reframing of our sustainability strategy. Our existing sustainability framework of Creating Sustainable Buildings, Managing Sustainable Buildings, and Engaging Stakeholders has served us well since it was first launched in 2013. However, as we were developing and moving forward into the next ambitious phase of our business strategy, we felt it was timely to look also at our sustainability ambitions over the next 5-10 years. The pace of technological, social and environmental change is breathtaking and therefore there is also rapid change in tenant, community and shareholder expectations in this area. We want to make sure our business is future-proofed, resilient and able to respond to these changing expectations. We completed our detailed sustainability strategy development process in March 2019 and will set out our new strategy later in the sustainability update together with our new sustainability targets for 2019/20.

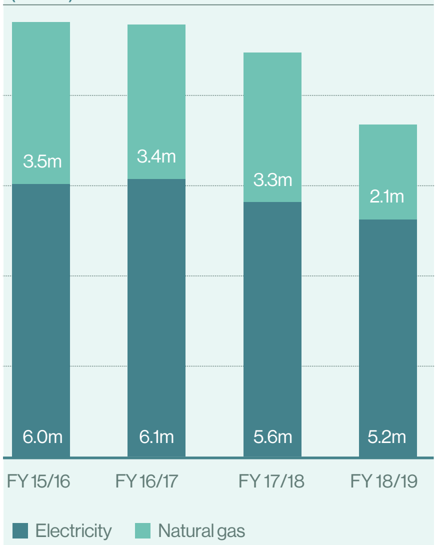
In the meantime, the following pages provide an update on all our activities and achievements during 2018/19 against our existing objectives and targets.

Our progress to date

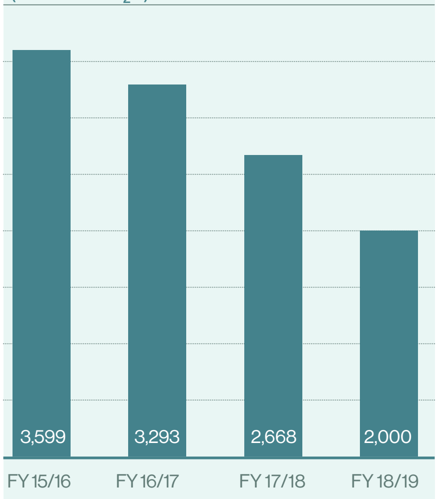
Since the launch of our sustainability strategy in 2013, the Company has delivered some notable achievements, including:

- High sustainability ratings for all new developments and major refurbishments, including a BREEAM 'Outstanding' rating for 9 Greyfriars Road, Reading and BREEAM 'Excellent' ratings for Prospero, Redhill and 30 Lombard Street, EC3
- A **13%** reduction in like-for-like landlord-controlled electricity consumption and a **41%** reduction in like-for-like landlord-controlled gas consumption between 2015/16 and 2018/19
- A **31%** reduction in like-for-like landlord-controlled water consumption in the same period
- A **44%** reduction in carbon footprint over four years (far surpassing our original target which was to reach a 16% reduction by March 2020). A great leap forward was made in the 2018/19 period in particular, as we agreed

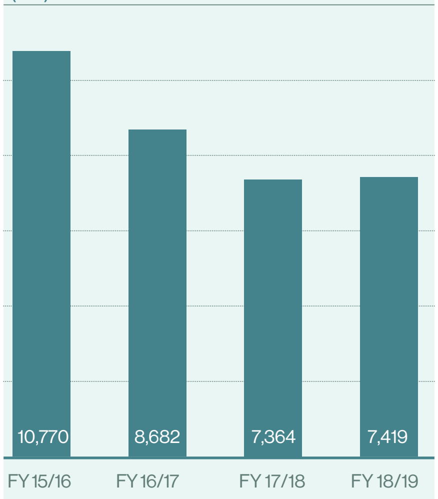
Like-for-like energy consumption (MWh)



Like-for-like greenhouse gas emission (tonnes CO_2e)



Like-for-like water consumption (m^3)

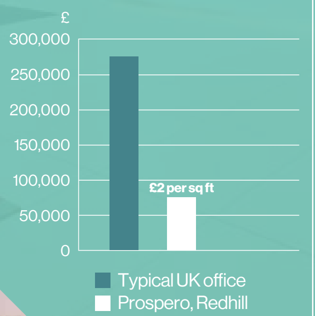


supply contracts for renewable electricity across the portfolio such that all landlord-supplied electricity is now zero carbon, which equates to an **84%** reduction in carbon footprint from 2017/18
- An Environmental Management Programme running over a period of several years for the five most resource intensive assets in the portfolio, where the Company has implemented energy and water saving measures. Energy consumption at those five assets has been reduced by **26%**
- Significant improvement in our GRESB score, from 37 in 2014 to 68 in 2018, equivalent to a three-star rating

Creating sustainable buildings

As well as the importance of a low carbon development, evidence of the connection between healthy office buildings and workforce productivity continues to build, pushing developers to integrate health and wellbeing features into building design and corporate occupiers to specify space which demonstrates these credentials. Within McKay's own portfolio, demand for sustainable buildings has been evidenced by the positive market response to our recent office developments in Redhill and Reading. The fact that 78% of our occupiers rank the total cost of occupancy as one of the most important attributes of a building also underlines the significance of promoting a design and management approach that balances a reduction in resource consumption with an increase in occupier wellbeing.

Composition of total annual predicted energy bill



A sustainability success story

- Prospero, Redhill achieved BREEAM 'Excellent' and EPC 'A' ratings upon completion in November 2016. The building features significant levels of natural light, LED lighting and a highly energy efficient building envelope
- These design features meant that electricity consumption was predicted to be 60% lower than a typical UK office building, thereby reducing annual occupancy costs and greenhouse gas emissions
- This was already a great news story for McKay and for tenants, but energy modelling on the building in-use has revealed that its real energy performance even surpasses these excellent design stage expectations, enabling us to save around £20,000 this year on our electricity bill in spite of an increase in the unit cost

Sustainability continued

Progress against development targets

New development targets	Status
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.	Achieved
Ensure all new developments and major refurbishments achieve minimum BREEAM 'Excellent' and an EPC rating of at least 'B'.	Achieved
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.	Achieved

In the year ending March 2019, we completed one new office development at 30 Lombard Street, EC3 and embarked upon the development of the Theale Logistics Park in Reading. McKay maintains a commitment to ensure that all new developments and major refurbishments achieve minimum BREEAM 'Excellent' and an EPC rating of at least 'B'. Our development standards also help ensure that all five of the material issues for our portfolio identified in our recent strategy review are managed for our development pipeline. For both the 2019 developments our Sustainability Requirements for Development were included in the tendering process, forming a pre-requisite to appointment of contractors and involving engagement on an ongoing basis with contractors to support their implementation.

Managing sustainable buildings

We set ourselves two targets in relation to occupier engagement for completion during the year ending March 2019. One of these was already achieved, and the other was still in progress as at the end of March, as we were holding off designing the building awards until we had received customer feedback through our occupier survey.

Progress against occupier engagement targets

Occupier engagement targets	Status
Include information about assets' sustainability, including energy efficiency and health and wellbeing features, within marketing materials, highlighting their benefits for occupiers.	Achieved
Introduce a building awards/ competition to encourage uptake of sustainability practices amongst tenants.	In progress

Occupier survey

In late 2018 and early 2019, we sent a satisfaction survey to 118 occupiers, receiving responses from 27%. We asked occupiers to rate their overall satisfaction with McKay as a landlord, as well as a range of other aspects including:

- McKay's understanding of their business needs
- Their experience of the leasing process
- Quality of relationship with McKay's management teams
- Presentation of the property
- Their own sustainability priorities

The survey captured both quantitative and qualitative feedback and provided very useful insights on McKay's current performance as a landlord and areas for further action.

We were particularly proud that 85% of responses stated they would be very or highly likely to recommend McKay as a landlord. Moreover, 94% indicated that they were satisfied with McKay's understanding of their business needs, with 75% rating this attribute as 'strong' or 'exceptional'. McKay's approach to occupier engagement and the quality of its relationships with customers was also indexed well, suggesting that McKay's overall approach to customer service is working well and should be maintained.

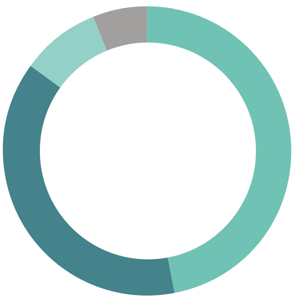
In terms of sustainability, employee health, wellbeing and productivity stood out as being of greatest importance to occupiers. Occupiers' assessment of the relative importance of these issues has been reflected within McKay's sustainability strategy review, and objectives have been set to steer future action in relation to each one.

Monitoring and improving the environmental performance of our portfolio

By taking action to increase efficiencies wherever possible within our assets, particularly the largest contributors to our environmental footprint, we have made significant improvements in the energy and water consumption and carbon emissions of our portfolio over the last few years as shown in the charts in the introduction and in the table overleaf.

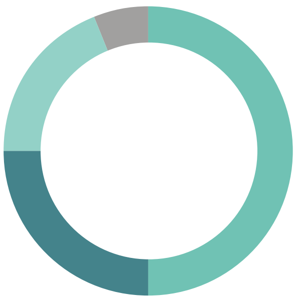
Snapshot of occupier survey results

How likely are you to recommend McKay as a landlord?



Highly likely	47%
Very likely	38%
Likely	9%
Somewhat likely	6%
Unlikely	0%

How well does McKay understand your business needs?



Strong understanding	50%
Exceptional understanding	25%
Good understanding	19%
Little understanding	6%
No understanding	0%

Progress against environmental performance targets

Environmental performance targets[1]	Status	Performance
Achieve a 12% reduction in like-for-like landlord-controlled electricity consumption relative to a 2015/16 baseline.	Achieved	13% reduction
Achieve a 12% annual reduction in like-for-like landlord-controlled gas consumption (adjusted for heating degree days) relative to a 2015/16 baseline.	Achieved	41% reduction
Achieve a 12% reduction in like-for-like landlord-controlled carbon emissions, against a 2015/16 baseline.	Achieved	44% reduction
Achieve a 9% reduction in like-for-like landlord-controlled water consumption, against a 2015/16 baseline.	Achieved	31% reduction
Maintain 100% of operational waste diverted from landfill for landlord-managed portfolio.	Achieved	100% diversion
Increase the recycling rate across all properties for which the Company has management control to 48% by 31st March 2019, in line with 'Good Practice' according to the Real Estate Environmental Benchmark ("REEB").	Not achieved	35% rate

1. Like-for-like analysis takes into account occupancy rates across the portfolio in the gas, electricity and water consumption trend calculations. It also incorporates 'heating degree day' analysis to normalise gas 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. Calendar year 2018 recycling rate and disposal routes are taken as an approximation of the financial year 2018/19 recycling rate and disposal routes

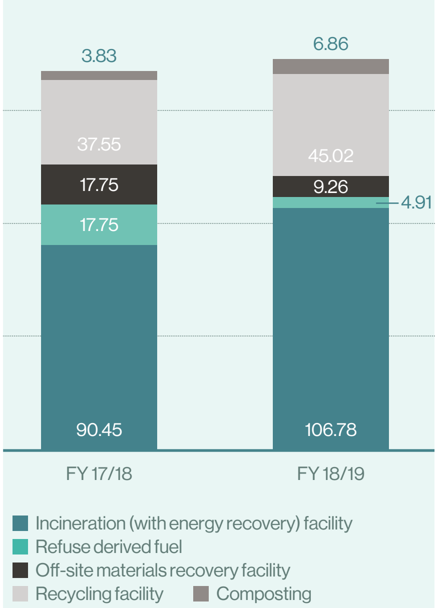
We also continue to send zero waste direct to landfill across our portfolio as per the chart illustrating our waste disposal routes. Unfortunately, as the table to the right shows, we have not been able to increase the recycling rate of the properties where we have management control in line with the REEB for 'Good Practice', so our waste recycling rate is still lower than our target.

We are already working to improve on this. In autumn 2018 we commissioned a waste review to identify potential solutions to boost recycling rates across our directly managed portfolio and followed up on the recommendations in early 2019 through engagement with waste contractors. We hope that with due attention to this aspect we will be able to improve recycling rates in line with our target.

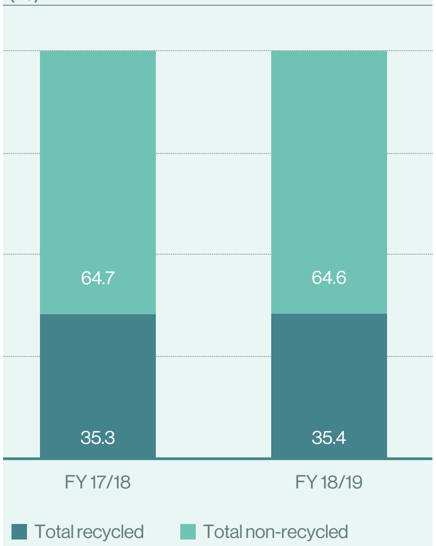
Progress against environmental management targets

Environmental management targets	Status
Pilot an innovative energy-saving technology at one of the Company's major energy consuming assets.	Achieved
Pilot an innovative water-saving technology at one of the Company's major water consuming assets.	Achieved
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' rated EPC.	Achieved
Roll out phase two of the Company'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.	Achieved

Waste: Disposal routes
(tonnes)



Waste: Recycling rate
(%)



Sustainability continued

Employee training

To engage and inspire our workforce to create and manage sustainable buildings, we organise Continuing Professional Development ("CDP") on these themes. In the year to March 2019, this included two separate training sessions on both environmental and health and wellbeing certification standards. Following these sessions, we have introduced health and wellbeing initiatives for occupiers at 329 Bracknell as a pilot project, including the offer of weekly exercise classes with a personal trainer.

We are also organising further building tours for our employees to explore examples of successful tenant engagement programmes focused on sustainability.

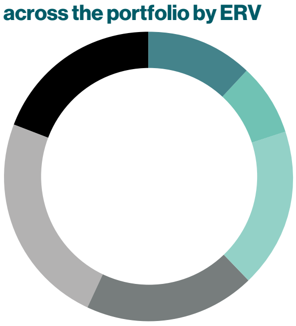
One of the reasons for the observed improvements in energy and water performance across the portfolio is that McKay implemented a rolling programme of upgrades and improvements across the portfolio.

As part of any refurbishment programme, energy and water efficiency upgrades are made wherever the cost-effective opportunity arises. The most significant reductions in energy consumption between 2015/16 and 2018/19 have been achieved at The Mille, Brentford and One Crown Square, Woking, due to the upgrades carried out to multiple aspects of HVAC and lighting, among a raft of other improvements.

Recent upgrades at Corinthian House, Croydon have included individually mounted PIR urinal flushing sensors and sensor hand basin taps installed in newly refurbished toilets, replacing old automatic cistermiser flushing and traditional taps. We will look to roll out this new water-saving technology across the portfolio wherever we are refurbishing toilets. We have also benefited from an award-winning new lift system created by Kone, called NMX, which is 28% more energy efficient than the current equivalent, and includes an EcoDisc hoisting motor and regenerative drive, standby power saving and LED lighting.

Our improvement programme also helps us to manage 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 in England and Wales with an EPC rating of 'F' or 'G'. Having taken a proactive approach to managing EPC risk, working with our asset managers and development team to improve our EPCs at every opportunity, less than 0.5% of the assets within the Company's portfolio (by ERV) are currently 'F' or 'G' rated.

Breakdown of EPC rating across the portfolio by ERV



No EPC held	12%
A	8%
B	18%
C	19%
D	24%
E	19%
F	0%
G	0%

As well as increasing our assets' energy efficiency, we have also been proactive in assessing the viability of installing renewable energy systems within its existing sites. In 2018/19, we commissioned some more detailed technical and commercial feasibility studies on assets where initial surveys had indicated potential for installing solar photovoltaic panels ("PV") and we are now reviewing the results of these assessments.

Engaging our stakeholders

We have continued to make good progress in this area of our strategy, and details are provided below.

Progress against stakeholder targets

Investor and employee engagement targets	Status
Maintain or enhance GRESB performance relative to 2017.	Achieved
Hold a minimum of two sustainability-related CPD sessions to increase awareness of key sustainability issues amongst employees.	Achieved
Continue to organise annual sustainable building tours to inform and inspire employees.	Achieved
Continue to ensure compliance with the Company's Responsible Procurement Policy through the agreed annual auditing process.	Achieved

Industry benchmarking

We continue to participate in the GRESB and in 2018 were particularly proud to obtain a GRESB score of 68, a six-point increase on our 2017 performance and an improvement of over 30 points since our first year of participation in 2014. Reflecting the ongoing evolution of our approach and delivery of management and performance targets, we have now moved from a 2-star to 3-star GRESB rating.

Health and safety management

Although not forming part of our sustainability targets, health and safety ("H&S") is a critical element of the Company's oversight of the portfolio, and as such, is a key item to update on here. The Company's H&S Policy and Procedures reflect legislation and latest best practice; a copy of the General Statement is available on the Company's website and has been shared with all suppliers and employees. Implementation of the Company's H&S is managed by the Safety Management Company ("SMG"). The SMG meets monthly when it reviews any legislative changes that may affect the Company and its portfolio and takes appropriate action on any risks highlighted to actively reduce the Company's risk profile. A programme of health and safety training has been implemented for employees, alongside a programme of training with the Company's contractors and consultants to ensure they are working to the same standard. For the year to March 2019, there have been no accidents of a nature reportable to Health and Safety Executive.

Modern slavery and sustainable procurement
The Modern Slavery Act 2015 ("the Act") was introduced with the objective of reducing human trafficking and slavery. The Company is not obliged to report under the Act as its turnover is well below the £36 million turnover threshold. Despite this, the Company has in place a number of policies supporting a zero-tolerance approach to slavery, human trafficking, as well as bribery and corruption which accord with the Act's objectives. These include our policies on responsible procurement, health and safety, equal opportunities and other staff policies in place in respect of bullying, harassment, grievance and whistleblowing. As part of the regular review of these policies, the Company will look to improve and enhance this framework.

Suppliers and contractors play a fundamental role in delivering McKay's sustainability objectives and we updated our Responsible Procurement Policy and pre-qualification questionnaires with more ambitious social and environmental requirements in 2017/18. Building on that, over the past year, we have created a supplier assessment questionnaire covering aspects such as the Real Living Wage, environmental policies and management procedures and the use of products with lower environmental impact and we have sent that out to a sample of our suppliers to check on their performance.

Supporting local communities
At present, McKay engages with local communities principally through the planning process and its community investment activities. Community investment activities are co-ordinated by our Charity Committee and focus on supporting local children's charities.

Low carbon design in practice at Theale Logistics Park

Theale Logistics Park will be a new, high quality, 134,430 sq ft industrial/ distribution unit located next to Junction 12 of the M4 in Reading. McKay is undertaking works to deliver a self-contained, high specification warehouse unit. The project is on track to achieve BREEAM 'Excellent' for Industrial New Construction, Core and Shell, and boasts a range of integral features designed to reduce carbon emissions and resource consumption, as well as lower our impact on the surrounding environment, and support occupier health and wellbeing.

For example, building materials with high Green Guide ratings and responsible sourcing certification have been specified, and we have selected prefabricated steel frames to reduce resource consumption and waste. The site falls within the Berkshire Biodiversity Action Plan area, and wildlife friendly planting will be installed as well as bird and bat boxes. Most significantly, an 800 sq ft array of PV panels will be installed on the building, providing an annual electrical output of 7,875 kWh and reducing building CO_2 emissions by 21%.

The office areas have been designed to maximise daylight levels, thereby supporting better occupier health and wellbeing, as well as reducing lighting requirements. Indoor air quality will be enhanced through locating air intakes and exhausts a significant distance apart and far from the main road. Sustainable mobility is also encouraged by the provision of cycling facilities and a 70-space cycle park, as well as the site's proximity to Theale train station.

Sustainability continued

Mandatory carbon reporting

We fulfil our statutory obligations for corporate reporting, which includes disclosure of the Company'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. McKay's Mandatory Greenhouse Gas Emissions Reporting statement covers the reporting period 1st April 2018 to 31st March 2019 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 table below provides the relevant data with the accompanying explanatory notes.

The significant reduction in the Company's overall carbon footprint in 2018/19 is due to three key aspects: 1) gas consumption decreased by 35% compared to last year's usage; 2) 'location-based' electricity emissions reduced due both to improvements in energy efficiency and to the ongoing decarbonisation of the grid; and 3) in FY 2018/19, the Company procured 100% renewable electricity, resulting in the complete decarbonisation of its Scope 2 and 3 emissions (calculated using the 'market-based' method).

Sources of greenhouse gas emissions			2018/19 tonnes of CO_2e (location-based calculation[1])	2018/19 tonnes of CO_2e (market-based calculation[2])	2017/18 tonnes of CO_2e
Scope 1 emissions	Energy	Gas (EPRA sBPR fuels-Abs)	451	451	706
	Fugitive emissions	Refrigerant emissions	De minimis	De minimis	De minimis
Scope 2 emissions	Energy	Landlord-controlled electricity (EPRA sBPR Elec – Abs)	1,942	0	2,091
Scope 3 emissions	Energy	Landlord-obtained energy sub-metered to tenants and all transmission and distribution losses (EPRA sBPR 3.6)	233	0	294
Total			**2,626**	**451**	**3,091**
Carbon Intensity[3]: Scope 1+2 emissions of tCO_2e/£m adjusted profit before tax			258	49	302

Data qualifying notes

- This is the Company's sixth year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations
- The Company's emissions for the year to March 2018 have been restated due to Q4 2017/18 data not being available at the time of reporting in 2018; this final period of data is estimated in every Annual Report. For the financial year to March 2019, 27% of energy consumption, and therefore carbon emissions, is estimated. FY 18/19 Q4 accounts for 99% of this estimated data
- This statement has been prepared in line with the main requirements of the GHG Protocol Corporate Accounting and Reporting Standard and ISO 14064-1:2006. For the first time this year, Scope 2 dual reporting was undertaken, which discloses one Scope 2 emission figure according to a location-based method and another according to a market-based method
- Within Scope 1 emissions, refrigerant-related emissions for the period were de minimis
- An operational control consolidation approach has been adopted

1 For the 'location-based' method of emissions calculations, standard emissions factors from the UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting 2018 were used
2 For the 'market-based' method, the Company's contractual instruments for the purchase of certified renewable electricity were accounted for, resulting in a significant reduction in the Company's real carbon footprint
3 Carbon intensity only includes Scope 1 and Scope 2 emissions in the calculation

Looking to the 2020s: A new sustainability vision

Five years on from our first sustainability strategy, environmental and social trends have continued to evolve apace, and new sub-trends have risen up the agenda. Coupled with this, we are actively pursuing our ambitions to reposition our brand, engage more deeply with occupiers and grow our portfolio. Hence we decided that 2018/19 was an appropriate time to review and refresh our sustainability strategy in line with the latest trends and the Company's strategic direction.

The Right Choice for a Sustainable Business

Our mission is to work in partnership to deliver quality, innovation and growth. As a specialist REIT focused on London and the South East, we need to anticipate and prepare for the future evolution of our market and the trends that affect our customers' prosperity.

By harnessing innovations in office designs and technologies to create low carbon, resource efficient and healthy buildings we aim to help people feel positive and businesses to thrive.

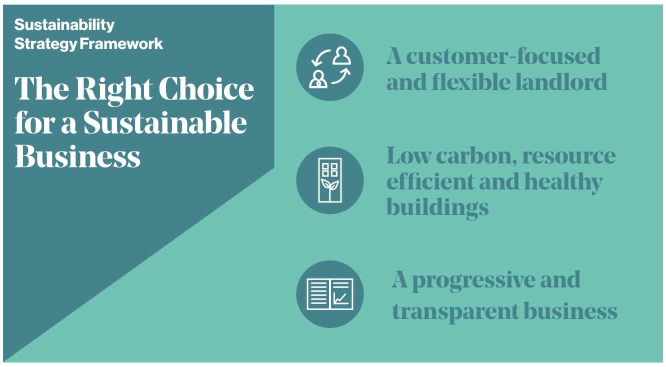
Strategy review process

In autumn 2018, McKay kickstarted the process of refreshing its sustainability strategy with support from external adviser JLL. This involved six 'materiality tests', which covered a review of McKay's baseline activities and achievements to date; assessments of future trends, peer practices and legislation to gauge future market direction; a tenant survey to understand occupiers' sustainability concerns; and a review of investor expectations, focusing on the requirements of GRESB and the Task Force on Climate-related Financial Disclosures ("TCFD").

The findings of these tests enabled us to refocus our sustainability strategy and vision, and pinpoint 14 'material' sustainability issues which underpin our new focus areas and suite of objectives.

Our new framework

Our new sustainability vision – The Right Choice for a Sustainable Business – is fully aligned to our corporate vision, mission and purpose and is supported by a strategic framework based around three focus areas.



We have defined ten objectives which will guide our annual target setting, motivate our employees and provide clarity to investors, occupiers and other stakeholders as to the wider ambitions of our business and the contribution that we can make towards key sustainability trends. Our objectives are also aligned to our 14 'material' sustainability issues. The details of our programme and our 2019/20 targets are provided below.

A customer-focused and flexible landlord

Our approach

Delivering outstanding customer service is paramount to our business, and this principle is reflected in our approach to sustainability. By actively marketing our sustainability credentials to attract and retain customers we can demonstrate that we are the right choice of landlord for businesses which have their own sustainability goals. By anticipating, understanding and acting upon feedback from our customers, we can bolster our reputation as a business partner and support business growth.

Material issues

- Tenant attraction and retention
- Technological innovation
- Diversity, equal opportunity and inclusivity

Objectives

- Provide outstanding customer service by being an approachable, responsive and proactive landlord
- Invest in digital infrastructure that enables our customers to be better connected, more productive and have a lower environmental impact
- Seek to ensure that our assets support modern workplace requirements and continue to engage our existing customers

2019/20 targets

1	Create and implement a follow-up action plan in response to the 2019 customer survey
2	Implement the building awards/competition to encourage uptake of sustainability practices amongst our customers
3	Undertake a gap analysis of a selection of current assets' digital infrastructure provision against good practice references, aiming to define a minimum standard for digital infrastructure provision for different asset types, and to trial smart technology in one property
4	Develop questions to be included within the next customer survey, to ask more specifically about customers' needs and expectations with regard to building-related features and amenities to support diversity and inclusivity

Low carbon, resource efficient and healthy buildings

Our approach

Creating low carbon, resource efficient and healthy buildings will be essential to meet a range of stakeholder requirements in the 2020s. We are pleased that over the last five years we have already made great strides in this area as reported above, which we can further build on to continue to ensure our portfolio is future-proofed and fit for purpose in the coming decade.

Material issues

- Energy and carbon
- Building health, wellbeing and productivity
- Waste and resource management
- Water
- Building labels and standards

Objectives

- Actively participate in the transition towards a low carbon economy by increasing our assets' energy efficiency, generating and procuring renewable sources of energy and providing infrastructure for electric vehicles
- Pursue a circular approach to resource use that reduces construction and fit-out costs, increases the flexibility of our buildings, benefits local communities, reduces operational costs and reduces environmental impacts from waste
- Put health at the forefront of our property development and management strategy to help our customers' businesses prosper and the people using our buildings to feel fit and well

2019/20 targets

5	Ensure the electricity procured for any new asset acquired in the 2019/20 period is shifted to a renewable electricity tariff by the end of the year, to maintain McKay's 100% zero carbon electricity procurement status
6	Achieve a year-on-year 4% reduction in like-for-like landlord controlled electricity and gas consumption and work towards 20% reduction in carbon emissions by FY 2024/25 from FY 2019/20
7	Proceed with the implementation of new energy saving technologies at a minimum of one asset
8	Secure approval for the implementation of PV panels on at least one new development or major refurbishment, following the results of the Renewable Energy Strategy Review

Sustainability
continued

9	Continue to ensure that all new developments and major refurbishments achieve minimum BREEAM 'Excellent' and an EPC rating of at least 'B'
10	Define and approve an ambitious 2030 carbon reduction target and action plan to achieve this through a combination of energy efficiency measures, on-site renewables and purchase of green energy tariffs
11	Identify a development/refurbishment project (if a suitable opportunity arises) where McKay could seek to achieve net zero carbon (as a pilot) before 2022
12	Increase the recycling rate across all properties for which the Company has management control to at least 52% by 31st March 2020, in line with 'Good Practice' in office assets according to the latest available REEB
13	Implement the recommendations of the waste review at assets where McKay has management control
14	Organise at least one CPD session on the circular economy to provide information and inspiration to employees on this topic
15	Achieve a year-on-year 4% reduction in like-for-like landlord-controlled water consumption, and work towards 20% reduction by FY 2024/25 from FY 2019/20
16	Proceed with the implementation of new water saving technologies in a minimum of two assets
17	Undertake a gap analysis of a selection of current assets' health and wellbeing features against good practice references, aiming to define a minimum standard for health and wellbeing that can be applied to all assets (by type), aligned to an appropriate certification standard (e.g. WELL or Fitwel).
18	Undertake a post-occupancy evaluation at a suitable asset, to identify the extent to which occupier experience matches with the design intent
19	Develop questions to be included within the next occupier survey, to ask more specifically about occupiers' perceptions of their demised area and common parts building areas in relation to health and wellbeing
20	Organise at least one tour of an exemplary sustainable building for health and wellbeing, to inform and inspire employees

A progressive and transparent business

Our approach

We are proud of our brand and reputation as the leading property specialist in our region, and it is of utmost importance for us to maintain our status as a progressive and transparent business that is open and responsive to trends within both the investor community and wider society. Whilst we continue to uphold high standards of corporate governance, procurement and health and safety management, we will also be sharpening our focus on the management and disclosure of sustainability risk and unlocking the social value that our business can create in the communities where we operate. This will enable us to preempt pressure from investors and prepare our business for more demanding planning and/or regulatory requirements on these aspects.

Material issues

- Investor attraction and retention
- Transparent disclosure
- Corporate governance
- Community health and wellbeing
- Sustainable procurement
- Health and safety

Objectives

- Protect and enhance the value of our assets and future-proof our business by anticipating and responding to evolving environmental and social trends
- Communicate clearly and directly with our stakeholders and maintain our culture of sound corporate governance
- Identify opportunities to support the resilience of local communities around our assets, co-creating places where people and business can thrive
- Monitor and report transparently on our sustainable business performance by using KPIs linked to each of our focus areas, and maintain our position in the GRESB

2019/20 targets

21	Continue to ensure that sustainability health and wellbeing are integrated into asset marketing and communications, including asset websites and asset profiles on the corporate website
22	Create asset-level sustainability scorecards which can be used to track asset performance, with this performance data also used in asset marketing
23	Review and update McKay's acquisitions and developments checklists in line with the sustainability trends and material issues identified through the 2018/19 strategy review
24	Define the brief for a review of the portfolio (and local transport links) against key climate risk criteria – looking out to 2030
25	As part of McKay's rebranding, integrate our new sustainability vision into our value proposition and corporate website content
26	Over a two-year period, identify key locations and a shortlist of projects/charities focused on community resilience which McKay could support
27	Maintain or enhance GRESB performance relative to 2018
28	Take forward the recommendations of the gap analysis undertaken against the requirements of the TCFD
29	Aim to increase environmental data coverage with a focus on tenant energy, GHG emissions and water data, in line with GRESB requirements

A BREEAM 'Excellent' development in the heart of the City of London

30 Lombard Street, EC3 is located in the City of London and McKay completed the redevelopment in January 2019. This triggered the completion of the pre-let of the entire building to one financial services tenant.

Awarded a BREEAM 'Excellent' rating and an EPC 'B', the building was fitted with a well-performing façade and highly efficient LED lighting system, incorporating daylight dimming.

Supportive of occupier comfort and productivity, the building also features a HVAC system zoned such that the BMS is able to keep the temperatures of the indoor environment well controlled across the floorplate. Occupants have access to a planted roof terrace with views across the City, and public transport links, the walkability of the area, and local amenities are all excellent.

Principal Risks and Uncertainties

Risk governance structure

The Board

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

The Audit and Risk Committee

Membership:

Independent Non-Executive Directors

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

The Risk Sub-committee

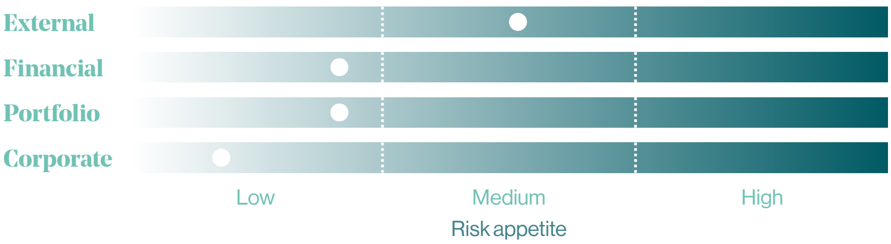
Membership:

Executive Directors

The Risk Sub-committee maintains the Company's Risk Register, designs and maintains the Company's financial control and internal risk management systems and advises on future potential risk exposure.

Risk appetite

The Risk Management Committee identified four key areas of risk to the business:



The Board's overall strategy is based on a low/medium risk appetite determined by an assessment of the prospects within our chosen real estate markets and compliance with the stringent requirements of the REIT regime.

This consistent long term strategy has proved to be successful through numerous property cycles with the inherent risks of property development and investment mitigated by internal portfolio management by professionals with extensive market experience located at the geographic centre of the portfolio.

Decision making is based on an open culture, with clearly defined terms of reference for the internal Risk Management Committee, overseen by an independent Board. Although economic conditions within our selected markets of London and the South East are beyond our control, they have proven to be more resilient and less volatile through the regular property cycles than the market as a whole.

The Company's strategy of sector and geographic diversity within these markets adds value in positive market conditions and spreads risk in negative market conditions.

An ongoing process for identifying, evaluating and managing emerging and principal risks faced by the Company was in place throughout the year to 31st March 2019 and up to the date of approval of the Annual Report and Financial Statements. A robust assessment of the principal risks facing the Company has been carried out and the principal risks are listed on pages 40 to 42.

Viability statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code (provision 31 of the 2018 Code) the Directors have assessed the viability of the Company beyond the 12 month period required by the going concern provision.

Assessment period

A five year period has been used for this assessment, with particular focus on years one to three. This timeframe is considered appropriate for the following reasons:

- The Company's internal modelling is for a five year period
- It is a reasonable period for matters including the assessment of income generation and the availability of debt funding
- The majority of the Company's contracted income expires within five years
- Clearing bank loans are currently for a five year term
- In the past, property has proved cyclical and a five year time horizon is considered a reasonable timeframe to assess future cycles
- The time taken from acquiring an asset, finalising a strategy, obtaining planning permission through to letting is approximately three to five years

Assessment process

The principal risks to the continued operation of the Company have been reviewed and are described in the table on pages 40 to 42. These risks were subjected to quantitative and qualitative analysis. Scenario testing, based on current economic circumstances, was undertaken, including consideration of:

- the implications of a decline in income
- a decline in capital values
- increasing interest costs
- an increased length in the period an asset is vacant

In order to stress test these risks on a quantitative financial basis five key business areas were identified:

- dividend cover
- liquidity
- REIT compliance
- lending covenants ("LTV")
- lending covenants ("ICR")

These key business areas were tested using four scenarios being:

Scenario 1: reduction in rental income
Scenario 2: reduction in capital values
Scenario 3: increase in interest costs
Scenario 4: increased length in the period an asset is vacant

Assumptions and expectation

The result of the testing against these four scenarios demonstrated that the Company can accommodate each of these scenarios, either without any mitigation, or with mitigation where the scenario imposes stress.

Further, the Board considered the impact on the business of a combination of the four scenarios, which could result, for example, from a disorderly Brexit, and concluded that it was reasonable to expect the Company to accommodate this further scenario without threatening the viability of the Company.

Based upon the robust risk assessment described above, the Board has a reasonable expectation that the Company will be able to continue operations and meet its foreseeable liabilities as they fall due over the period to March 2024, subject to any significant events beyond its control.

This long term viability statement was approved by the Board on 20th May 2019.

Going concern statement

In accordance with provision C.1.3 of the 2016 UK Corporate Governance Code (provision 30 of the 2018 Code) the Directors have reviewed cashflow forecasts which show that the Company has sufficient facilities to meet forecast outgoings and expects to comply with all covenants for the next five years.

In April 2019 the Company successfully renegotiated an increase in its facilities with its long terms lenders and entered into a new facility on the basis of a pool of lenders. For more detailed information please see page 27.

After making the appropriate enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future (a period of at least 12 months from the date of the approval of the financial statements). For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Principal Risks and Uncertainties continued

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Macroeconomic environment		
Lack of economic growth and a recessionary environment leading to reduced tenant demand and higher voids. Disorderly Brexit damages the UK economy.	Whilst the Board recognises it has limited control over many external risks, it monitors economic indicators and tailors delivery of the Company's strategy accordingly.	Ongoing Brexit discussions continue to maintain a climate of uncertainty that could impact on corporate decision making and increased sector risk.
Financial		
Interest rate rise Leading to lower profits.	The Board's policy is to borrow at both fixed and floating rates of interest.	A £65 million facility with Aviva provides 39% of total borrowings fixed or hedged. Further hedging remains under review.
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 ensure sufficient funds are available to cover potential liabilities arising against projected cashflows.	A newly secured £180 million revolving credit facility in April 2019 with a syndicate of lenders replaced the previous bilateral facilities and secures debt facilities for the next five years.
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 Company 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 ongoing 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 Company 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 Company complied with the regulations.
Auditor rotation Disorderly change of external auditors.	The audit tender process ensures the successful auditor has a thorough understanding of the Company's structure in order to ensure sufficient resourcing and timetabling for a smooth and timely audit process.	

Key

Risk exposure in the last year has:	Link to strategy:
▲ Increased	Delivery of development programme
▶ Unchanged	Release of portfolio income potential by capturing reversion
▼ Reduced	Scope for future growth

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Portfolio		
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 Company 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 advisers ensure the Company 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 Company continually monitors planning and regulatory reform and takes advice from external advisers and industry specialists.	With practical completion of the Company's Lombard Street development in January 2019 this leaves one speculative industrial development at Theale ongoing, thereby reducing development risk exposure. ▼
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 Company's markets have contributed to improved rental values. ▶
Reduction in capital values Exposure to volatility of capital values.	An open market valuation of the Company's properties is undertaken at the year end and half year by independent external valuers in accordance with RICS guidelines and analysed by the Company's auditors. Valuations are then reviewed by the Audit and Risk Committee and approved by the Board. The Company retains a borrowing headroom should there be an overall decline in capital values. Constant review by management of tenant covenant, lease length and asset management of buildings to preserve/increase capital values.	Increased uncertainty in macro environment has increased the volatility of capital values. ▲

Principal Risks and Uncertainties continued

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Corporate		
Reputational risk Adverse publicity/inaccurate media reporting. Major incident at a property. Actions by Directors or staff including fraud and bribery.	The Company retains an external investor and public relations consultancy. Press releases are approved by the Chief Executive prior to release. The Company 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 No-compliance with regulations and laws resulting in planning and project delays, fines and loss of reputation.	The Company employs experienced staff and external advisers to provide guidance on regulatory requirements. The Board approves and adopts the Company'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 Company.	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 SMG meets regularly to review the health and safety risk profile and to implement new management systems required. These meetings review the Company's Fire Risk Assessments, Safety Inspections, and contractors' insurance and safe working practices. The SMG is supported by specialist external advisers.	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 backups are secured offsite. Implementation of Company'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 Company'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 over longer distances together.	Government advises that the threat level indicates the likelihood of a terrorist attack in the UK is severe.

Approval of Strategic Report

The Strategic Report for the year end 31st March 2019 has been approved by the Board and was signed on its behalf by:

S Perkins
Chief Executive
20th May 2019

Governance Report

Board of Directors

1


2


3


4


5


6


7


1
Richard Grainger ACA
Chairman

Aged 58. Chartered Accountant. 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 and Nomination Committees.

2
Simon Perkins MRICS
Chief Executive

Aged 54. Chartered Surveyor. 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 in January 2003. Member of the Nomination Committee.

3
Giles Salmon FCA
Chief Financial Officer

Aged 53. Chartered Accountant. Joined the Company in May 2011 and appointed as Chief Financial Officer in August 2011. Previously at BAA Lynton, managing the Airport Property Partnership.

4
Tom Elliott MRICS
Property Director

Aged 44. Chartered Surveyor. 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.

5
Jon Austen FCA
Senior Independent Director

Aged 62. Chartered Accountant. Appointed a Non-Executive Director in July 2016. Currently Chief Financial Officer of Audley Group Limited and a Non-Executive Director of Supermarket Income REIT plc. Formerly Group Finance Director of Urban&Civic plc to July 2016. Chairman of the Audit and Risk Committee and a member of the Nomination and Remuneration Committees.

6
Nick Shepherd FRICS
Independent Non-Executive
Employee Representative
Non-Executive ("desNED")

Aged 60. Chartered Surveyor. Appointed a Non-Executive Director in January 2015. Formerly Senior Partner of Drivers Jonas until 2010 and Vice Chairman of Deloitte UK until May 2013. Chairman of the Property Income Trust for Charities and Non-Executive Chairman of Hectare Agritech Ltd. Chairman of the Remuneration Committee and a member of the Audit and Risk, and Nomination Committees.

7
Jeremy Bates MRICS
Independent Non-Executive

Aged 53. Chartered Surveyor. Appointed a Non-Executive Director in January 2017. Director of Savills UK Limited, EMEA Head of Occupational Markets and UK Head of Transaction Services. Chairman of the Nomination Committee and a member of the Audit and Risk, and Remuneration Committees.

Chairman's Letter

Dear Shareholder

I am pleased to introduce our Corporate Governance Report for the year ended 31st March 2019.

Richard Grainger
Chairman

At McKay 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.

We continue to comply with the requirements of the 2016 UK Corporate Governance Code (the "2016 Code") throughout the year. The 2018 UK Corporate Governance Code (the "2018 Code") comes into effect for companies with reporting periods starting on or after 1st January 2019 and therefore the Company is not required to report on its compliance until next year. However, we have already adopted many of the recommendations and have made reference to the 2018 Code throughout this year's report.

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 responsibilities between me as Chairman and the Chief Executive. Each of the Committees annually review their Terms of Reference and this year each Committee has incorporated updates to comply with the 2018 Code. Consequently, early adoption of two significant new provisions were put in place in advance of the requirement to do so.

The first of these was the introduction of the newly appointed position of Employee Representative Non-Executive Director (desNED). After careful consideration of the requirements of this role for a Company of our size, the Board approved the recommendation of the Nomination Committee that existing Non-Executive Director Nick Shepherd should be appointed to this role.

The second is the requirement that the Chair of the Board is not a member of the Audit and Risk Committee and my resignation from this Committee was announced in February 2019.

Both of these early adopted provisions were put in place with effect from 1st April 2019. Further explanation can be found in the Nomination Committee and Audit and Risk Committee Reports respectively, and copies of the Committees' Terms of Reference can be found on the Company's website at www.mckaysecurities.plc.uk.

We continue to regularly review the composition of the Board, and although no changes to the Board have been made this year, succession planning remains high on the Nomination Committee's agenda. I am satisfied that we have a strong Board with the appropriate balance of skills, experience and independence to add value to Board decision making and debate. Board meetings are conducted in an open and transparent manner, with all Directors engaging in open and honest debate. This is reflected in the responses received when undertaking our annual Board, Committee and individual Director evaluations. All Non-Executive Directors have confirmed to me their ability to provide the time commitment required to discharge their responsibilities effectively. Further details of this year's evaluation process and outcomes can be found within the Nomination Committee Report on page 52.

This year the Audit and Risk Committee led the important process of tendering for a new external auditor. This was a thorough and well executed exercise which resulted in the recommendation to the Board to appoint Deloitte as successor to KPMG for the financial year to 31st March 2020. A full report on the tender process can be found in the Audit and Risk Committee Report on page 50.

Our Annual General Meeting will be held on 4th July 2019 and the Board and me hope you will be able to attend. Details of all business to be transacted is included within the Notice of Meeting.

Richard Grainger
Chairman
20th May 2019

Directors' Report

Introduction
The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2019. As permitted under legislation (Companies Act 2006 Section 414C (11)) some of the matters in this report have been included in the following pages of the Annual Report:

Sections of the report and audited financial statements for the year ended 31st March 2019

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 was £13.2 million (2018: £43.4 million).

Under the REIT regime the Company will, in the normal course of business, be required to pay at least 90% of its income 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 7.4 pence per share, all of which will be paid as an ordinary dividend, making a total for the year of 10.2 pence per share (2018: 10.0 pence). If approved at the Annual General Meeting on 4th July 2019 the dividend will be paid on 25th July 2019 to shareholders recorded on the register at the close of business on 31st May 2019.

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

Property valuations
The Company's properties were valued by an external professional valuer at 31st March 2019. An increase in value of £4.83 million (2018: £25.07 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 2019 was 331 pence (2018: 326 pence).

Directors
The Board of Directors for the financial year to 31st March 2019 was:

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

1. Independent on appointment as Chairman

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

Biographical details of the Directors are set out on pages 44 and 45. 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 2019 AGM.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 54 to 66, 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 62 and 63.

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 63 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 2019:

	Shares	%
Aberforth Partners LLP	12,294,642	13.06
Bank of Montreal* (BMO)	11,685,996	12.41
ING Groep N.V.	5,269,972	5.60
J.O. Hambro Capital Management UK	4,752,510	5.06

* The aggregate interest held by BMO includes 9.90% held by Thames River Capital LLP

Notification since 31st March 2019:

	Shares	%
ING Groep N.V.	5,290,186	5.62

Political donations
No political donations were made during the year (2018: nil).

Charitable donations
The Company donates to local and national charities as appropriate during the year.

Share capital
The issued share capital of the Company as at 31st March 2019 was 94,124,425 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.

Directors' Report continued

Annual General Meeting

The 73rd Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 4th July 2019 at 3.00pm.

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 AGM held in 2018 to allot relevant securities up to a nominal amount of £6,263,673. That authority will apply until the conclusion of this year's AGM. At this year's AGM 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 £6,274,961 and (ii) comprising equity securities up to a nominal amount of £12,549,923 (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 AGM (or, if earlier, until close of business on 30th September 2020).

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 £1,882,488.

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 9,412,442 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 Company's banking arrangements may be terminable upon a change of control of the Company's.

Auditor

KPMG LLP undertook the audit for the year to 31st March 2019.

The Company will seek shareholder approval to change its auditor at the AGM from KPMG LLP to Deloitte LLP if approved, and Deloitte LLP will undertake the half year review for the period to 30th September 2019 and a full audit for the year ending 31st March 2020. Details of the tender process to select Deloitte LLP can be found in the Audit and Risk Committee Report on page 51.

In accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of Deloitte LLP as auditor of the Company is therefore proposed at the forthcoming AGM.

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	87
4	Details of long term incentive plans	54-66
6	Waiver of Director emoluments	55

Throughout the year to 31st March 2019 the Company has complied with the 2016 UK Corporate Governance Code and is working towards compliance with the 2018 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 Company. A Schedule of Matters 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 2019 the Board comprised of three Executive Directors, and four Non-Executive Directors. Their biographical details are set out on pages 44 and 45. The composition of the Board complies with provision B.1.2 of the 2016 Code and provision 11 of the 2018 Code. The Board considers the Non-Executive Directors to be independent in that they have no business or other relationship with the Company that might influence their independence or judgment.

The Board formally met ten times during the period and is provided with full and timely information in order to discharge its duties. Attendance at Board and Committee meetings is set out in the table on page 49.

The roles of the Chairman and Chief Executive 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 Chief Executive with the support of the Executive Directors. The division of responsibilities between the Chairman and the Chief Executive is set out in writing and approved by the Board. Mr J Austen is the Senior Independent Director and Mr N Shepherd has been appointed from 1st April 2019 to the newly formed role of Employee Representative Non-Executive Director ("desNED").

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 and Risk Committee

Mr J Austen FCA is Chairman of the Audit and Risk Committee, which met five times in the last year. Mr J Austen is identified as having recent and relevant financial experience as required by the Code. In compliance with provision 24 of the 2018 Code Mr R Grainger, being Chairman of the Board, stepped down from the Audit and Risk Committee from 1st April 2019. Further details, along with the Committee's responsibilities and activities are set out in the Audit and Risk Committee Report on pages 50 and 51.

Nomination Committee

Mr J Bates MRICS is Chairman of the Nomination Committee. The Committee met twice 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 52 and 53.

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 54 to 66.

Risk management and internal control

The following should be read in conjunction with the principal risks and uncertainties on pages 38 to 42 of the Strategic Report. The Board is responsible for establishing and reviewing the Company's system of internal control to safeguard shareholders' investment and the Company's assets. The Audit and 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 is responsible for identifying key risks and assessing their likely impact on the Company and maintaining the Risk Register. The Sub-committee members comprise the Executive Directors and it reports to the Audit and 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 Company 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 2019.

Relations with shareholders

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

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

The Company has a share account management and dealing facility for all shareholders via Equiniti Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations section of the Company's website. The Shareview dealing service is also available by telephone on 03456 037 037 between 8.30am and 4.30pm Monday to Friday.

Signed by order of the Board:

J McKeown
Secretary
20th May 2019
Reading

Table of Board meeting attendance (for the financial year to 31st March 2019)

	Board (10 meetings)	Audit and Risk Committee (5 meetings)	Remuneration Committee (3 meetings)	Nomination Committee (2 meetings)
R Grainger	10	5	3	2
S Perkins	10	5[1]	3[1]	2
G Salmon	10	4[1]	–	–
T Elliott	10	3[1]	–	–
J Austen	10	5	3	2
J Bates	10	5	3	2
N Shepherd	10	5	3	2

1. In attendance by invitation

Audit and Risk Committee Report

Dear Shareholder

I am pleased to present the Audit and Risk Committee Report for the year ended 31st March 2019.

Jon Austen
Chairman of the Audit and Risk Committee

KPMG LLP undertook the audit for the year ended 31st March 2019 and their Auditor's Report can be found on pages 68 to 74. My report last year made reference to the Company's proposed engagement of a new external auditor for the audit of the year to 31st March 2020 to maintain compliance with EU audit reforms and FRC guidance. Following a competitive tender process, the Company intends to appoint Deloitte LLP. As is normal practice, shareholders will be asked to authorise its appointment at the AGM on 4th July 2019.

KPMG LLP has provided the Company with many years of exemplary service and I would like to thank all those involved both this year and over past years for their thorough work and assistance.

When the Committee reviewed its Terms of Reference this year it took the opportunity to incorporate the requirements of the 2018 UK Corporate Governance Code. Provision 24 of the 2018 Code introduced a requirement that the Chair of the Board should not be a member of the Audit Committee, to reinforce independence. Following discussions between the Nomination Committee and the Audit and Risk Committee, early adoption of this provision was recommended to the Board and consequently Richard Grainger stepped down as a member of the Committee on 1st April 2019.

The focus of the Committee for 2020 will be to ensure the smooth transition between the outgoing and incoming auditors. In addition we will continue to play a key role in maintaining the quality of our financial reporting and the adequacy and effectiveness of internal controls and risk management.

Jon Austen
Chairman of the Audit and Risk Committee
20th May 2019

Committee membership

The Audit and Risk Committee (the "Committee") consists solely of independent Non-Executive Directors. The members of the Committee are:

J Austen FCA – Chairman
J Bates MRICS
N Shepherd FRICS

Jon Austen is 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 Company operates.

The Committee met five 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 49.

The Chief Executive ("CEO") , Chief Financial Officer ("CFO") 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's annual appraisal process was an internally run exercise using the Company's digital board solution in the format of a questionnaire, completed by all members and submitted on line. This was reviewed by the Committee Chairman and feedback was provided at a meeting of the Committee. Future actions included improvements to the induction process and Committee members enhancing their knowledge through attendance of training programmes. The evaluation concluded that the Committee continued to operate in an efficient and effective way.

Committee role and responsibilities

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

These responsibilities include:

- Financial reporting: monitoring and assessing the integrity of the financial statements of the Company including its annual and half yearly reports and advising the Board on whether taken as a whole these are fair, balanced and understandable;
- Risk management and internal controls: reviewing the Company's risk management and internal control systems;
- Compliance, whistleblowing and fraud: reviewing the adequacy and security of the Company's arrangements; and
- External and internal audit: recommending to the Board for shareholder approval at the AGM the appointment or re-appointment of the external auditor and overseeing the relationship with the external auditor. Managing the selection process for the appointment of the external auditor and regularly reviewing its independence and objectivity. Committee consideration is also given annually to the requirement of an internal audit function.

Main activities of the Committee during the year

Financial statements

The Committee focused on the significant judgement in the Annual Report and Financial Statements in respect of the Company's property valuation. The valuation of the Company's portfolio is undertaken by an external professional valuer, Knight Frank LLP, and the assumptions and judgements are discussed and reviewed with the Committee. The valuation was reviewed along with its associated risks, and the Committee gained comfort from the valuer's methodology and other supporting market information.

As requested by the Board, the Committee undertook a review of the Annual Report and Financial Statements for the year ended 31st March 2019 and advised the Board that, taken as a whole, these were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Risk management and internal control

The Committee is responsible for reviewing the Company's risk management and internal control systems. The Risk Management Sub-committee has delegated responsibilities including overseeing and advising on the current and future risk exposure of the Company, maintaining the Company's risk register and reviewing the effectiveness of the Company's internal financial controls. The Risk Management Sub-committee met three times during the year and reported its findings to the Audit and Risk Committee. For further information on the Company's risk appetite, principal risks and uncertainties and the long-term viability statement please see pages 38 to 42.

Whistleblowing policy

The Audit and 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 Company's Staff Handbook and the Company's policy is available on the website www.mckaysecurities.plc.uk.

External auditor

KPMG LLP undertook the audit for the year ended 31st March 2019 and their audit fee was £75k with related assurance work of £25k. Non-audit fees, being tax services and debt advisory services, are provided by PwC.

As reported last year the Committee was aiming to engage an alternative external auditor for the 2020 audit. This proposed appointment was subject to a rigorous competitive tender process, which commenced in September 2018.

The tender process

The tender process was divided into a number of stages:

- An initial shortlist of four firms was produced, made up of two of the Big 4 and two outside the Big 4. The Company did not approach PwC due to a conflict of interest as PwC provide non-audit services.
- The Chairman of the Audit and Risk Committee wrote to the Company's principal investors and major representative bodies to outline the tender proposals, inform them of the selected parties for the shortlist and offer the opportunity to discuss any aspect of the process.
- A steering group was appointed to oversee the project. This comprised the Audit and Risk Committee Chairman, CFO and the Financial Controller ("FC"), who was charged with leading the day to day process.
- The most recent FRC Audit Quality Review reports for the shortlisted firms were reviewed.
- A Request for Proposal ("RFP") was issued to the head of audit of the four shortlisted firms. The RFP contained the key information regarding the tender process, e.g. timings, contact details, and the deliverables expected from the audit firms along with the selection criteria to be used to make the final decision.
- The CFO and the FC subsequently met with the audit partners of the four shortlisted firms.
- The FC was the conduit for the firms to gain an understanding of the business. He met and assessed the proposed audit team members.
- At this stage the shortlist was reduced to three.
- The Audit and Risk Committee Chairman met with the audit partner of the three shortlisted candidates and a separate meeting between the audit partner and the CEO was also held.
- The three shortlisted firms presented their tenders early in 2019. All members of the Audit and Risk Committee attended the presentation along with the CEO and the CFO. Following the presentations, the Audit and Risk Committee held a meeting to discuss and review the presentations.
- The Committee then presented two firms to the Board as possible options for the appointment of the statutory auditor, with a clearly justified preference for one of those options, being Deloitte LLP.
- The recommendation of the Committee was approved by the Board and announced on 11th February 2019.

Internal audit

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 Company, 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.

Nomination Committee Report

Dear Shareholder

I am pleased to present the report of the Nomination Committee for the year ended 31st March 2019.

Jeremy Bates
Chairman of the Nomination Committee

During the year, the Committee focused on the composition of the Board and Committees, and early adoption of a new provision of the 2018 UK Corporate Governance Code, that highlighted the increasing need to consider the employee voice at Board level.

The composition of the Board and Committees continues to comply with the independence requirements of the 2016 UK Corporate Governance Code. Maintaining this compliance is an important responsibility for the Committee, and we place an emphasis on succession planning at Board level in particular, to provide sufficient time to enable managed change as far as possible. As with the other Committees, when the Committee Terms of Reference were reviewed, the opportunity was taken to incorporate the requirements of the 2018 Code. These revised Terms of Reference are available to view at the Company's website, www.mckaysecurities.plc.uk.

There has been much coverage of the importance of ensuring that the views of employees are represented at Board level. Having considered the different options to achieve this, and to meet the new 2018 Code requirements, the Committee recommended to the Board a new role of Employee Representative Non-Executive Director as a suitable way to achieve this. The Committee's recommendation that this position be filled by existing Non-Executive Director Nick Shepherd was agreed by the Board.

In addition, with the removal of the 2018 Code's provision enabling Chairs of smaller companies to be a member of the Audit Committee, the membership of the Audit and Risk Committee was reviewed and Richard Grainger, the Company's Chairman, stood down from the Audit and Risk Committee.

These changes were announced to the market on 11th February 2019 and came into effect on 1st April 2019.

The Committee will continue to support the Board and its Committees, to ensure they continue to 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
20th May 2019

Committee membership
Members of the Nomination Committee are:

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

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

The required 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 Company''s website, www.mckaysecurities.plc.uk.

These responsibilities include:
- regularly reviewing the structure, size and composition of the Board;
- membership of Board Committees;
- succession planning for Directors and other senior executives;
- identifying and nominating for the approval of the Board candidates, to fill Board vacancies as and when they arise including the role of Senior Independent Director and Employee Representative Non-Executive Director;
- 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 Company;
- making recommendations to the Board concerning the re- election of Directors by shareholders; and
- annual review of the Nomination Committee Terms of Reference.

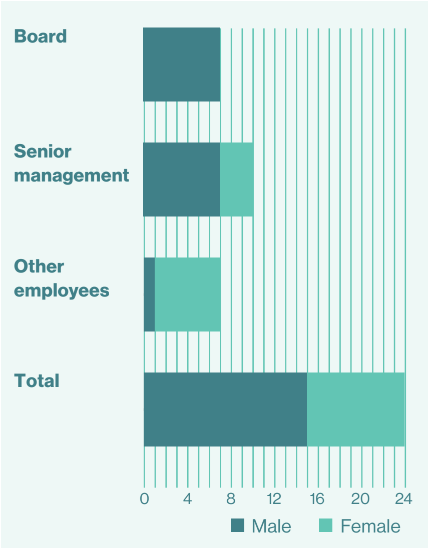
Succession planning
The Nomination Committee considers succession planning for Directors and other senior executives. The succession plans are based around any identified future skill shortages, are regularly reviewed and ensure a formal, rigorous and transparent procedure for new appointments.

Non-Executive Directors are appointed for an initial three year term and are subject to annual re-election at the AGM. Any term beyond six years is subject to particularly rigorous review in line with the Company's strategy for progressive refreshing of the Board. The longest serving Non-Executive is Richard Grainger, who joined the Board in May 2014. There have been no new appointments made to the Board in the last 12 months.

Policy on diversity
The Company 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. 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 Company's policy on equality and diversity is available to view on the website. The gender diversity of the Company is set out below:

Gender diversity of the Company
as at 31st March 2019



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

Board performance appraisal
A formal annual appraisal of the Board, its Committees and individual Directors was undertaken during February and March 2019. The appraisal process was an internally run exercise undertaken using the Company's digital board solution in the format of a series of questionnaires that were completed by the Directors and submitted on-line. The process was implemented and administered by the Company Secretary.

The Board and Committee appraisals concluded that the Board and Committees operated in an effective manner with open and transparent dialogue and a high level of challenging and constructive debate. Future actions included the introduction of an employee representative Non-Executive Director (appointment in place), ways to improve the Director induction process, increasing the number of meetings held at portfolio assets and a continued emphasis on succession planning.

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. Collectively, the Directors have a wide range of knowledge, skills and many years of experience in the commercial sector, working at both strategic and operational level.

Re-election of Directors
As recommended under 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 2019 AGM. The biographical details of the Directors are available on pages 44 and 45.

Remuneration Report
1 Annual Statement

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31st March 2019, which has been prepared by the Remuneration Committee ("the Committee" and approved by the Board.

Nick Shepherd
Chairman of the Remuneration Committee

The report is divided into three sections:

1 The **Annual Statement** of the Remuneration Committee Chairman for the year ended 31st March 2019, which summarises remuneration outcomes and how the Remuneration Policy will operate for the year ending 31st March 2020;

2 the **Remuneration Policy Report,** which details the Company's policy on the remuneration of Executive and Non-Executive Directors which was last approved by shareholders at the 2017 AGM; and

3 the **Annual Report on Remuneration,** which provides further detail on page 60 how the Remuneration Policy was implemented in the year ended 31st March 2019, and how the Remuneration Policy will operate for the year ending 31st March 2020.

The Committee has continued to work closely with the Board to ensure delivery of the Directors' Remuneration Policy, approved by shareholders at the 2017 AGM. This work is summarised below, and set out in detail in subsequent sections of this report.

Publication in July 2018 of the Revised UK Corporate Governance Code by the Financial Reporting Council ("FRC") introduced a number of new and updated remuneration policies and practices. The 2018 Code applies to accounting periods beginning on or after 1st January 2019, so we will be required to comply with the Code for the financial year to 31st March 2020. Despite this, and a number of requirements only applying to companies with more than 250 employees, this report includes a number of voluntary early disclosures in respect of requirements of the 2018 Code. This demonstrates our commitment to provide shareholders with a remuneration structure that continues to comply with the most recent guidance.

At the 2020 AGM we will be tabling a binding resolution to seek shareholder approval to renew our existing Directors' Remuneration Policy being three years since the last vote. There are likely to be a number of updates, but the Committee is satisfied that the 2017 Policy remains relevant and robust, and therefore no changes are proposed for approval at this year's AGM. Only the Annual Statement and Annual Report on Remuneration will be subject to a vote (advisory) at the forthcoming 2019 AGM.

Committee activities during the year

The Committee met three times during 2018/19. The main Committee activities during the year (full details of which are set out in the Annual Report on Remuneration) included:

- determining Executive Directors' base salary levels for 2019/20;
- setting the Executive Directors' bonus targets for 2018/19 and agreeing the outturn in respect of the 2017/18 annual bonus;
- agreeing the structure of the annual bonus for 2019/20;
- determining vesting of the 2016 PSP awards which reached the end of the three year performance period on 31st March 2019;
- overseeing the grant of the PSP awards in 2018/19 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;
- considering the 2018 UK Corporate Governance Code and new disclosure requirements; and
- considering risk in respect of the Remuneration Policy.

Pay and performance

The positive performance for the year ended 31st March 2019 has been reflected in the payments made to the Executive Directors under the annual bonus plan – performance against the EPS, NAV and strategic targets resulted in a bonus of 64% of the maximum. The excess annual bonus over 50% of salary will be deferred into shares for three years.

In respect of the PSP awards granted in 2016, which vest in June 2019, three-year performance to 31st March 2019 against the NAV targets will result in 14% of that element vesting while performance against the relative TSR targets will result in 0% of that element vesting. Further details (including information regarding the targets and performance against them) are set out in the Annual Report on Remuneration.

Discretion

The Committee has full discretion to vary performance related pay, but this was not considered necessary during the year or post year end.

Policy implementation for the year ending 31st March 2020

The Directors' Remuneration Policy will be operated for 2019/20 as follows:

- base salaries increased in line with the general workforce rate of increase;
- pension provision will remain unchanged for existing Executive Directors. Pension provision for the future appointment of Executive Directors will be consistent with the general workforce;
- maximum bonus potential for 2019/20 will continue to be set at 100% of basic salary with performance continuing to be based on NAV growth (30%), EPS growth (45%) and strategic targets (25%), consistent with those targets operated for 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 equivalent in value to 100% of base salary, with 40% of the potential award based on NAV performance targets and 60% based on relative TSR targets;
- performance targets for the 2019 grant of PSP awards will remain unchanged. The three year NAV growth targets will be 12% (25% of this part of an award vests) to 35% (100% of this part of an award vests). The TSR targets will range from 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;
- 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.

Fees for the Chairman

This year, the Chairman of the Board has taken the decision to waive any increase in his fee for the year commencing 1st April 2019 and therefore his fee will remain at the same level as 2018 (i.e. £90,000).

Conclusion

I hope you remain supportive of the approach to Policy implementation for 2019/20 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
20th May 2019

Remuneration Report continued
2 Remuneration Policy Report

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

Element	Purpose and link to strategy	Operation	
Base salary	To recruit and reward executives of the quality required and with appropriate skills to manage and develop the Company 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.	
Benefits	To provide appropriate levels of benefits to executives of the quality required and appropriate skills to manage and develop the Company 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).
Pensions	To provide appropriate levels of pension provision to executives of the quality required and appropriate skills to manage and develop the Company 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.	
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 three 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.
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 that 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.
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.

Maximum opportunity	Performance measures
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
The aggregate value of any benefits provided to any single Director will not exceed £75,000.	N/A
Up to 20% of salary	N/A
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.
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.
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

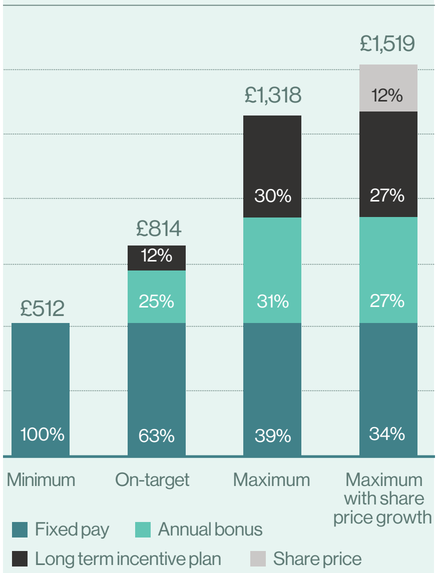
1. Executive Directors are required to build a holding of shares in the Company to the value of 200% of salary
2. The Committee operates incentive plans according to their respective rules and where relevant in accordance with the Listing Rules. Consistent with market practice, the Committee retains discretion over a number of areas relating to the operation and administration of the plans. 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 Company'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 Company 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

Remuneration Report continued
2 Remuneration Policy Report continued

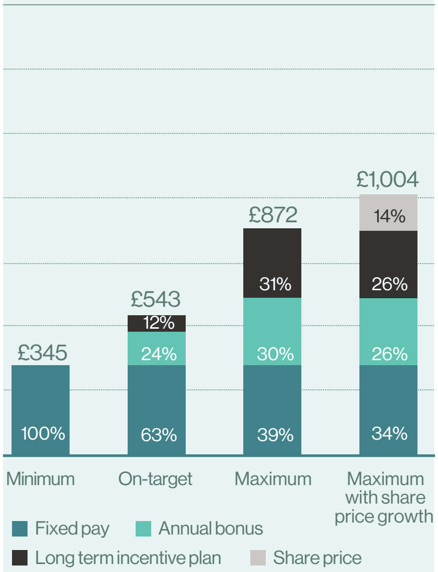
Remuneration scenarios for Executive Directors

The charts illustrate how the potential composition of the Executive Directors' remuneration packages varies at four performance levels, namely, at basic (i.e. fixed pay only), target, maximum and maximum plus share price growth.

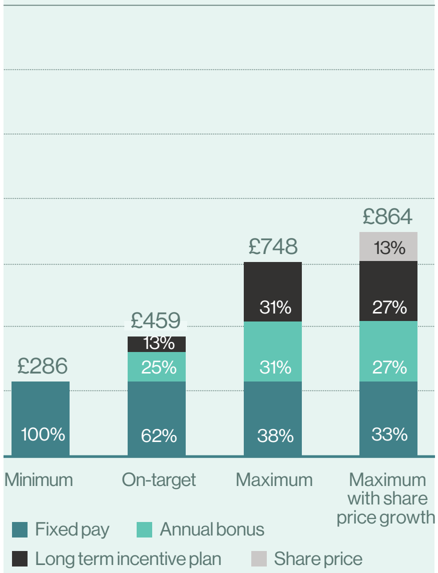
Chief Executive Officer (£'000)



Chief Financial Officer (£'000)



Property Director (£'000)



Basic

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid in 2019/20.
- Benefits have been estimated for the year ending 31st March 2020.
- Pension measured as the defined contribution or cash allowance in lieu of Company contributions of up to 20% of salary.

Target

Based on what the Director would receive if performance was on target (excluding 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.

Maximum with share price growth

As per the maximum scenario albeit with a 50% share price growth assumption on the PSP awards above.

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 Company, as well as the relevant general markets. The Committee takes due account of employees' views when determining the design of the Company's senior executive Remuneration Policy although, reflecting typical current practice, the Committee does not formally consult with employees when determining remuneration of the Executive Directors.

External appointments

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

Service contracts

The Executive Directors' service contracts are terminable by the Company on not less than one year's notice. In each case the contracts (which are available for inspection at the Company's head office) are subject to six months' notice by the Executive Director. The service contracts are dated as follows:

Executive Director	Date of service contract
S Perkins	16th March 2004
G Salmon	2nd May 2011
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
J Austen	8th July 2016
N Shepherd	21st January 2015
J Bates	17th January 2017

Approach to recruitment and promotions

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual. Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may increase once expertise and performance has been proven and sustained. The caps on fixed pay in the policy table will not apply to a new recruit, as provided for in the Regulations. The annual bonus potential would be limited to 100% of salary and grants under the PSP would be limited to 100% of salary (up to 200% of salary in exceptional circumstances). In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions. For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its original terms. For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Approach to leavers

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

Remuneration Report continued
3 Annual Report on Remuneration

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

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

Remuneration related risk

The Committee is satisfied that neither the structure of the remuneration packages (i.e. the combination of cash versus shares and short versus long term), nor the performance measures operated under the annual bonus and Performance Share Plan, encourages inappropriate risk taking or exposes the Remuneration Committee to material remuneration-related risks. The remuneration arrangements at McKay:

- have been designed to align the interests of the executives (and employees, given that there is strong alignment of packages internally) with shareholders and to support the sustainable delivery of the Company strategy; and
- contain a number of shareholder protections (i.e. malus and clawback provisions, shareholding guidelines, bonus deferral and post vesting holding periods on PSP awards).

As such, the Committee is satisfied that the controls and procedures in place to mitigate remuneration-related risks for Executive Directors and employee population more generally are appropriate and proportionate.

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 £25k ex VAT. 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 2019 (audited)

The remuneration of the Directors for the years 2019 and 2018 was as follows:

Directors' remuneration		Fees/salary fees £'000	Benefits £'000[1]	Pension including salary supplement £'000	Annual bonus £'000	Value of long term incentives £'000	Total remuneration £'000
Executive							
S Perkins	2019	395	28	69	252	61	805
	2018	384	28	67	259	154	892
G Salmon	2019	259	34	42	165	40	540
	2018	251	32	41	170	99	593
T Elliott	2019	227	27	25	144	33	456
	2018	220	25	24	149	77	495
Non-Executive							
R Grainger	2019	90	–	–	–	–	90
	2018	80	–	–	–	–	80
J Austen	2019	45	–	–	–	–	45
	2018	44	–	–	–	–	44
J Bates	2019	40	–	–	–	–	40
	2018	39	–	–	–	–	39
N Shepherd	2019	45	–	–	–	–	45
	2018	44	–	–	–	–	44
Former Directors*	2019	–	–	–	–	–	–
	2018	25	–	–	–	–	25

* Nigel Aslin retired from the Board on 22nd May 2017 while Viscount Lifford retired from the Board on 18th September 2017

Notes
1. Benefits
Benefits comprise car allowance and medical insurance

The annual bonus for the year ended 31st March 2019 was based on the following NAV per share targets, EPS and strategic targets:

Metric	Weighting	% of salary maximum	Threshold	Maximum	Actual	% of maximum	% of salary
NAV growth	30%	30%	RPI + 3%	RPI + 10%	< RPI + 3%	0%	0%
EPS growth	45%	45%	90%	110%	> 110%	100%	45%
Strategic targets	25%	25%			See below	75%	18.75%
Total	**100%**	**100%**				**63.75%**	**63.75%**

Strategic targets

Target	Weighting	Committee assessment	Out-turn
1. Rent collection	5%	100%	5%
2. Voids (ex-development)	5%	75%	3.75%
3. Tenant retention	5%	100%	5%
4. Development progress	5%	25%	1.25%
5. Sustainability Strategy and H&S delivery	5%	75%	3.75%
Total			**18.75%**

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.

Long term incentives

The PSP award granted on 16th June 2016 was subject to performance, for the 3 years ended 31st March 2019. 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%	36% of maximum	14%
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 vests 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						**14%**

Based on the vesting percentage above, details of the shares under award and their estimated value (based on the share price at 31st March 2019 of £2.35 per share) is as follows:

Executive	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Estimated value vesting £[1]	Face value of awards vesting £[2]	Impact of share price on vesting £[3]
S Perkins	181,643	26,029	155,614	61,169	53,881	7,288
G Salmon	118,841	17,030	101,811	40,020	35,252	4,768
T Elliott	96,618	13,845	82,733	32,537	28,660	3,877

1. Based on the three month average share price to 31 March 2019
2. Based on the number of shares vesting multiplied by the share price at the date of grant (£2.07)
3. Based on the estimated value at vesting, less the face value of awards vesting

The awards granted in 2016 do not receive the value of dividend equivalents.

A two year post vesting holding period applies to the 2016 awards.

Remuneration Report continued
3 Annual Report on Remuneration continued

Details of PSP awards granted in the year (audited)

The following awards were granted to the Executive Directors on 8th June 2018:

	Number of type of award	Basis of award granted	Share price at date of grant[1]	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	£2.67	147,940	£395,000	25%	Three financial years to 31st March 2021
G Salmon	Nil-cost option	100% of salary	£2.67	96,816	£258,500	25%	
T Elliott	Nil-cost option	100% of salary	£2.67	84,869	£226,600	25%	

1. Based on the average 5 day share price prior to 8th June 2018

Details of outstanding share awards (audited)

	31st March 2018 Number of shares	Granted in 2018/19 Number of shares	Vested in 2018/19 Number of shares	Lapsed in 2018/19 Number of shares	31st March 2019 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
PSP Awards								
S Perkins								
2015 PSP	140,392	–	56,157	84,235	–	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	17.07.2027
2018 PSP	–	147,940	–	–	147,940	2.67	08.06.2021	07.06.2028
	489,502	147,940	56,157	84,235	497,050			
G Salmon								
2015 PSP	90,196	–	36,078	54,118	–	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	17.07.2027
2018 PSP	–	96,816	–	–	96,816	2.67	08.06.2021	07.06.2028
	318,644	96,816	36,078	54,118	325,264			
T Elliott								
2015 PSP	69,688	–	27,867	41,821	–	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	17.07.2027
2018 PSP	–	84,869	–	–	84,869	2.67	08.06.2021	07.06.2028
	262,376	84,869	27,867	41,821	277,557			
Deferred bonus awards								
S Perkins								
2016 Deferred bonus	34,996	–	–	–	34,996	2.07	16.06.2019	15.06.2022
2017 Deferred bonus	–	–	–	–	–	–	–	–
2018 Deferred bonus	25,227	–	–	–	25,227	2.67	08.06.2021	07.06.2028
	60,223				60,223			
G Salmon								
2016 Deferred bonus	22,484	–	–	–	22,484	2.07	16.06.2019	15.06.2022
2017 Deferred bonus	–	–	–	–	–	–	–	–
2018 Deferred bonus	16,511	–	–	–	16,511	2.67	08.06.2021	07.06.2028
	38,995				38,995			
T Elliott								
2017 Deferred bonus	–	–	–	–	–	–	–	–
2018 Deferred bonus	14,472	–	–	–	14,472	2.67	08.06.2021	07.06.2028
	14,472				14,472			

Statement of Directors' shareholdings and share interests (audited)

	Beneficially owned at 31st March 2018	Beneficially owned at 31st March 2019	Outstanding PSP performance awards	Outstanding deferred bonus awards	Shareholding as a % of salary[1,3]
S Perkins	304,138[2]	333,901[2]	497,050	60,223	229
G Salmon	133,283	152,306	325,264	38,995	165
T Elliott	17,187	31,734	277,557	14,472	48
R Grainger	47,638	47,638			
J Austen	10,000	20,500			
J Bates	–	–			
N Shepherd	15,575	23,315			

1. Based on year end salaries and share price as at 31st March 2019 of £2.35 per share, and based on beneficially owned shares and vested PSP awards (using the net of tax numbers where awards are yet to be exercised)
2. Beneficial holdings, as defined by the Companies Act, would include a further 5,602 shares
3. Executive Directors are required to build up a holding of shares in the Company to the value of 200% of salary

Post employment shareholding policy

Following the publication of the new UK Corporate Governance Code, the Remuneration Committee has developed a post cessation shareholding policy for Executive Directors as follows:

- Unvested deferred annual bonus and PSP awards will be treated in line with the good leaver/bad leaver provisions explained in the shareholder approved Remuneration Policy;
- Any PSP awards which vested pre-cessation but which are still subject to the two year holding will need to be retained by the individual, post cessation, until the relevant two year holding period has expired; and
- No restrictions will apply in respect of own shares held (whether held as part of the shareholding guideline or not).

The Remuneration Committee will review the above policy as part of the three year Remuneration Policy review in advance of the 2020 AGM.

Payments within the year to past Directors (audited)

No payments were made to past Directors in the year ended 31st March 2019 (2018: £25,000).

Percentage change in the remuneration of the Chief Executive

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Total remuneration (£'000)	£409	£309	£410	£413	£802	£1,139	£1,197	£690	£902	£805
Annual bonus (% of salary)	38	0	10	13	45	55	70	28	68	64
PSP vesting (% of max)	27	0	0	0	60	100	100	40	40	14

The table below shows the percentage change in the Chief Executive's remuneration between 2017/2018 and 2018/2019 compared to that of the average for all employees of the Company.

	% Change from 2017/18 to 2018/19		
	Remuneration	Benefits	Bonus[1]
Chief Executive	1%	1%	-3%
Average employees	-1%	2%	-11%

1. Remuneration is the total of basic salary, benefits and bonus payments
2. Whilst outturn of the bonus fell to 64% from 90%, as explained in last year's report, the CEO bonus opportunity rose from 75% to 100% of salary for the year to 31st March 2019

Remuneration Report continued
3 Annual Report on Remuneration continued

Comparison of TSR performance

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

The total remuneration figures for the Chief Executive during each of the last ten financial years are shown in the table on page 63. 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.

Relative importance of the spend on pay

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

	2017/18	2018/19	% change
Staff costs (£'m)	£4.9	£4.7	-4.1%
Dividends (£'m)	£9.4	£9.6[1]	2.0%

£1.7 million of the staff costs in 2018/19 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 7.4 pence per share will be paid on 94.12 million shares (93.95 million for 2017/18)

CEO pay ratio

CEO pay ratio data is presented below on a voluntary basis for the year ended 31st March 2019 (as McKay has fewer than 250 employees, it will not be required to disclose this information). The data shows how the CEO's single figure remuneration for 2018/19 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for full-time equivalent UK employees ranked at the 25th, 50th and 75th percentiles.

Year	Method	75th percentile pay ratio	Median pay ratio	25th percentile pay ratio
2018/19	Option A	4.9 : 1	8.0 : 1	11.3 : 1

No components of pay and benefits have been omitted for the purpose of the above calculations. Option A was selected by the Committee given that this method of calculation was considered to be the most robust approach statistically.

Option A is a single total remuneration figure for each employee on which to identify the lower quartile, upper quartile and median individuals for the calculation.

Option B is more suitable for entities with a high number of employees.

	CEO basic salary for year ended 31st March 2019: £395,000			CEO single figure for year ended 31 March 2019: £805,000		
	Quartile Salary Data:			Quartile Total Pay and Benefits Data:		
Year	75th percentile	Median	25th percentile	75th percentile	Median	25th percentile
2018/19	£94,600	£54,400	£46,400	£164,222	£100,434	£71,560

Gender pay

McKay is not required to publish Gender Pay statistics given that it has fewer than 250 employees. However, the Board has considered gender pay in detail and is committed to fairness. Voluntary disclosure was considered, but the calculations are not considered to be statistically robust given McKay's low number of employees.

Statement of shareholder voting

The following table presents the voting at the 2017 AGM in respect of the Directors' Remuneration Policy and the 2018 AGM in respect of the Directors' Remuneration Report:

	Remuneration Policy 2017 AGM		Remuneration Report 2018 AGM	
	Number of votes	%	Number of votes	%
Proxy votes cast in favour[1]	59,611,717	99.57%	63,165,201	99.97%
Proxy votes cast against	259,887	0.43%	16,608	0.03%
Total votes cast	59,871,604	100%	63,181,809	100%
Proxy votes withheld	13,792		15,000	

1. Includes discretionary votes of 880,161

The disclosure on Directors' remuneration in the tables on pages 60 to 63 has been audited.

Remuneration Report continued
3 Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ending 31st March 2020

Salaries

The Executive Directors' salaries were reviewed by the Committee in February 2019 and it was concluded that they should be increased by 2% (reflecting the general workforce increase). Therefore, base salaries for 2019/20, effective 1st April 2019, will be S Perkins – £402,900, G Salmon – £263,700 and T Elliott – £231,100.

Benefits and pension

The Company will continue to operate a policy whereby Executive Directors are offered a car allowance, medical insurance, life assurance, income protection and pension contributions, or cash in lieu of pension contributions.

Annual bonus scheme

The maximum bonus potential for 2019/20 will continue to be set at 100% of basic salary with performance continuing to be based on NAV growth – 30% of salary, EPS growth – 45% of salary and strategic targets – 25%. These targets will include such areas as portfolio 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 2020 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 2020 will be subject to the following targets:

Performance condition	Threshold target (25% vesting)	Stretch target (100% vesting)	End of performance period
Relative TSR against a bespoke group of quoted real estate companies (60% of award)	Median	Upper quartile	31st March 2022
Absolute NAV per share growth (40% of award)	Growth of 12%	Growth of 35%	31st March 2022

The Committee considers the above targets to be 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

The Chairman of the Board has waived any increase in his fee for the year commencing 1st April 2019 and his fee will remain at the same level as 1st April 2018.

	Fees as at 1st April 2018	Fees as at 1st April 2019
R Grainger	£90,000	£90,000
J Austen	£44,800	£45,500
J Bates	£39,700	£40,500
N Shepherd	£44,800	£45,500

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
20th May 2019

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.[1]

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 Directors' 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.

We consider the Annual Report and Accounts, 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.

S Perkins
Chief Executive

G Salmon
Chief Financial Officer
20th May 2019

1 Where the financial statements are published on the internet

Independent Auditor's Report

to the members of McKay Securities Plc

1. Our opinion is unmodified

We have audited the financial statements of McKay Securities Plc ("the Company") for the year ended 31 March 2019 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 31 March 2019 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 (IFRS 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 first appointed as auditor by the shareholders before 1947. The period of total uninterrupted engagement is for more than the 72 financial years ended 31 March 2019. 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		£3.9m (2018:£4.6m) 0.8% (2018: 1.0%) of total Group assets
Coverage		100% (2018:100%) of total Group assets
Key audit matters		**vs 2018**
Recurring risks	Valuation of Investment property (Group and parent Company)	◄►
Event driven	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	New: Going concern	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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 matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 9 (The Chairman's Statement), page 39 (Viability Statement) and page 40 (Principal Risks and Uncertainties).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of investment property below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing valuation of investment property and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on valuation of investment property we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** • As reported under valuation of investment property and going concern below, we found the resulting estimates and related disclosures of valuation of investment property and disclosures in relation to going concern to be acceptable. • However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent Auditor's Report continued

	The risk	Our response
Valuation of Investment Property (Group and parent Company) (Group: £464 million; 2018: £446 million; parent Company £395 million; 2018: £387 million) *Refer to page 50 (Audit and Risk Committee Report), page 84 (accounting polices) and page 89 (financial disclosures).*	**Subjective valuation:** Investment properties represent 93% (2018: 95%) of gross assets of the Group and 85% (2018: 88%) of gross assets of the parent Company. The Group portfolio comprises 33 (2018: 33) 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 determining its 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 occupancy. 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 judgement is required in relation to these assumptions and this was a focus area for our audit. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 11) disclose the sensitivity estimated by the Group.	Our procedures included: • **Assessing valuer's credentials:** We assessed the valuer's objectivity, professional qualifications and experience through discussions with the valuer and reading their valuation report and terms of engagement. • **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 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 where the fair value movements were outside our predetermined thresholds, we challenged 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:** For the property under development, we assessed the progress of the development and evaluated assumptions over construction costs agreeing them to construction contracts and the Group'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 results** We found the valuation of investment properties to be acceptable (2018 result: acceptable).

	The risk	Our response
Going concern *Refer to page 39 (Going concern statement) and page 83 (accounting polices).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • increased cost of debt from interest rate rises; • tenant default impacting cash flow and earnings; and • significant reduction in property values. There are also less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Funding assessment:** Assessed the committed level of financing available to the Group for at least the next 12 months through review of the facility agreements, including its ability to meet covenants in place by reviewing of management's forecasts; • **Historical comparisons:** Considered the Group's historical budgeting accuracy, by assessing actual performance against budget. • **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; and We critically assessed and challenged the sensitivities applied and the mitigating actions available to the Directors. • **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosures by comparing this to the key assumptions, key sensitivities and mitigating actions considered by the Directors. **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable (2018 result: acceptable).

Independent Auditor's Report continued

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 £3.9 million (2018: £4.6 million), determined with reference to a benchmark of total Group assets of £497.0 million (2018: £467.1 million), of which it represents 0.8% (2018: 1.0%).

In addition, we applied a lower materiality of £0.35 million (2018: £0.45 million) to net rental income from 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 £3.5 million (2018: £4.4 million), determined with reference to a benchmark of Company total assets of £463.5 million (2018: £441.7 million), of which it represents 0.8% (2018: 1.0%).

We agreed to report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £0.20 million (2018: £0.23 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
£497m (2018: £467m)

Group materiality
£3.9m (2018: £4.6m)

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements 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
- the related statement under the Listing Rules set out on page 39 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 39 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 and Uncertainties 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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.

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 67, 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.

Independent Auditor's Report continued

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 or 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 general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, REIT legislation and certain aspects of company legislation recognising the financial nature of the Group's activities and its legal form . Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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
20th May 2019

Financial Statements 2019

Consolidated Profit and Loss and other Comprehensive Income

For the year ended 31st March 2019

	Notes	2019 £'000	2018 £'000
Gross rents and service charges receivable	2	**25,344**	**25,500**
Other property income		73	792
Direct property outgoings		(6,321)	(5,838)
Net rental income from investment properties	2	**19,096**	**20,454**
Administration costs	3	(6,245)	(6,305)
Operating profit before gains on investment properties		**12,851**	**14,149**
Profit on disposal of investment properties		–	5,746
Revaluation of investment properties	11	4,833	25,066
Operating profit	4	**17,684**	**44,961**
Finance costs	6	(4,498)	(5,089)
Finance income	6	4	3,570
Profit before taxation		**13,190**	**43,442**
Taxation	7	–	–
Profit for the year		**13,190**	**43,442**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on defined benefit pension scheme		(135)	(70)
Total comprehensive income for the year		**13,055**	**43,372**
Earnings per share	9		
Basic		14.02p	46.25p
Diluted		13.91p	45.91p
Adjusted earnings per share figures are shown in note 9.			
Dividends	10		
31st March 2018 final dividend of 7.2p (31st March 2017: 6.3p) paid during the year		6,765	5,910
30th September 2018 interim dividend of 2.8p (30th September 2017: 2.8p) paid during the year		2,635	2,631
Proposed final dividend of 7.4p (31st March 2018: 7.2p)		**6,965**	6,765

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

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

Group Statement of Financial Position

As at 31st March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investment properties – Valuation as reported by the valuers		482,700	460,150
– Adjustment for rents recognised in advance under SIC 15		(8,326)	(6,691)
– Assets held for sale		(14,400)	(11,925)
– Adjustment for grossing up of headleases	16	4,404	4,404
	11	**464,378**	**445,938**
Plant and equipment	12	71	42
Trade and other receivables	14	10,292	5,861
Total non-current assets		**474,741**	**451,841**
Current assets			
Trade and other receivables	14	3,501	1,617
Assets held for sale	11	14,400	11,925
Cash and cash equivalents		4,363	1,725
Total current assets		**22,264**	**15,267**
Total assets		**497,005**	**467,108**
Current liabilities			
Loans and other borrowings	15	–	–
Trade and other payables	15	(16,234)	(9,501)
Finance lease liabilities	16	(285)	(285)
Interest rate derivatives	15	–	–
Total current liabilities		**(16,519)**	**(9,786)**
Non-current liabilities			
Loans and other borrowings	15	(163,176)	(144,598)
Pension fund deficit	24	(2,108)	(2,164)
Finance lease liabilities	16	(4,119)	(4,120)
Interest rate derivatives	15	–	–
Total non-current liabilities		**(169,403)**	**(150,882)**
Total liabilities		**(185,922)**	**(160,668)**
Net assets		**311,083**	**306,440**
Equity			
Called up share capital	19	18,825	18,791
Share premium account		79,652	79,235
Retained earnings		79,981	80,622
Revaluation reserve		132,625	127,792
Total equity		**311,083**	**306,440**
Net asset value per share	22	**331p**	**326p**
EPRA net asset value per share	22	**326p**	**322p**

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20th May 2019 and were signed on its behalf by R Grainger and S Perkins.

Company Statement of Financial Position

As at 31st March 2019

Registration number 421479

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investment properties – Valuation as reported by the valuers		413,650	402,850
– Adjustment for rents recognised in advance under SIC 15		(7,618)	(6,691)
– Assets held for sale		(13,500)	(11,925)
– Adjustment for grossing up of head leases		2,883	2,883
	11	**395,415**	**387,117**
Plant and equipment	12	71	42
Investments in subsidiary	13	–	–
Trade and other receivables	14	6,839	5,861
Total non-current assets		**402,325**	**393,020**
Current assets			
Trade and other receivables	14	43,339	35,049
Assets held for sale	11	13,500	11,925
Cash and cash equivalents		4,363	1,725
Total current assets		**61,202**	**48,699**
Total assets		**463,527**	**441,719**
Current liabilities			
Loans and other borrowings	15	–	–
Trade and other payables	15	(11,749)	(9,536)
Finance lease liabilities		(180)	(180)
Interest rate derivatives	15	–	–
Total current liabilities		**(11,929)**	**(9,716)**
Non-current liabilities			
Loans and other borrowings	15	(163,176)	(144,598)
Pension fund deficit	24	(2,108)	(2,164)
Finance lease liabilities		(2,703)	(2,703)
Trade and other payables		(203)	–
Interest rate derivatives	15	–	–
Total non-current liabilities		**(168,190)**	**(149,465)**
Total liabilities		**(180,119)**	**(159,181)**
Net assets		**283,408**	**282,538**
Equity			
Called up share capital	19	18,825	18,791
Share premium account		79,652	79,235
Retained earnings		63,380	64,002
Revaluation reserve		121,551	120,510
Total equity		**283,408**	**282,538**

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20th May 2019 and were signed on its behalf by R Grainger and S Perkins.

Group Cash Flow Statement

For the year ended 31st March 2019

	2019 £'000	2018 £'000
Operating activities		
Profit before tax	13,190	43,442
Adjustments for:		
Depreciation	46	34
Other non-cash movements	1,725	1,350
Profit on sale of investment properties	–	(5,746)
Movement in revaluation of investment properties	(4,833)	(25,066)
Net finance costs	4,494	1,519
Cash flow from operations before changes in working capital	**14,622**	**15,533**
(Increase) in debtors	(6,274)	(497)
Increase/(decrease) in creditors	5,623	(1,373)
Cash generated from operations	**13,971**	**13,663**
Interest paid	(5,560)	(6,171)
Interest received	4	5
Cash flows from operating activities	**8,415**	**7,497**
Investing activities		
Proceeds from sale of investment properties	–	26,773
Purchase and development of investment properties	(14,304)	(25,031)
Purchase of other fixed assets	(76)	(14)
Cash flows from investing activities	**(14,380)**	**1,728**
Financing activities		
Increase in borrowings	18,003	9,908
Equity dividends paid	(9,400)	(8,541)
Cancellation of derivative	–	(13,352)
Cash flows from financing activities	**8,603**	**(11,985)**
Net increase/(decrease) in cash and cash equivalents	2,638	(2,760)
Cash and cash equivalents at the beginning of the year	1,725	4,485
Cash and cash equivalents at the end of the year	**4,363**	**1,725**

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

Company Cash Flow Statement

For the year ended 31st March 2019

	2019 £'000	2018 £'000
Operating activities		
Profit before tax	9,417	38,545
Adjustments for:		
Depreciation	46	34
Other non-cash movements	1,704	1,345
Profit on sale of investment properties	–	(5,746)
Movement in revaluation of investment properties	(1,041)	(15,755)
Net finance costs	4,457	1,535
Cash flow from operations before changes in working capital	**14,583**	**19,958**
(Increase) in debtors	(9,181)	(18,770)
Increase in creditors	1,306	1,474
Cash generated from operations	**6,708**	**2,662**
Interest paid	(5,500)	(6,066)
Interest received	1,243	1,477
Cash flows from operating activities	**2,451**	**(1,927)**
Investing activities		
Proceeds from sale of investment properties	–	26,773
Purchase and development of investment properties	(8,340)	(15,607)
Purchase of other fixed assets	(76)	(14)
Cash flows from investing activities	**(8,416)**	**11,152**
Financing activities		
Increase in borrowings	18,003	9,908
Equity dividends paid	(9,400)	(8,541)
Cancellation of derivative	–	(13,352)
Cash flows from financing activities	**8,603**	**(11,985)**
Net increase/(decrease) in cash and cash equivalents	2,638	(2,760)
Cash and cash equivalents at the beginning of the year	1,725	4,485
Cash and cash equivalents at the end of the year	**4,363**	**1,725**

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st March 2019

	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 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	–
Remeasurement 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**
Profit for the year	–	–	–	13,190	13,190
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	4,833	(4,833)	–
Remeasurement on defined benefit pension scheme	–	–	–	(135)	(135)
Total comprehensive income for the year	**–**	**–**	**4,833**	**8,222**	**13,055**
Issue of new shares net of costs	34	417	–	(451)	–
Dividends paid in year	–	–	–	(9,400)	(9400)
Deferred bonus	–	–	–	110	110
Costs of share based payments	–	–	–	878	878
At 31st March 2019	**18,825**	**79,652**	**132,625**	**79,981**	**311,083**

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31st March 2019

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
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	–
Remeasurement 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**
Profit for the year	–	–	–	9,417	9,417
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	1,041	(1,041)	–
Transfer on disposal of investment properties	–	–	–	–	–
Remeasurement on defined benefit pension scheme	–	–	–	(135)	(135)
Total comprehensive income for the year	**–**	**–**	**1,041**	**8,241**	**9,282**
Issue of new shares net of costs	34	417	–	(451)	–
Dividends paid in year	–	–	–	(9,400)	(9,400)
Deferred bonus	–	–	–	110	110
Costs of share based payments	–	–	–	878	878
At 31st March 2019	**18,825**	**79,652**	**121,551**	**63,380**	**283,408**

The accompanying notes on pages 83 to 99 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31st March 2019

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 £9,417,000 (2018: £38,545,000).

The Group is required to adopt IFRS 9 Financial Instruments, IFRS 15 Revenue Recognition, both effective from 1st January 2018, and IFRS 16 leases effective from 1st January 2019.

Newly effective accounting standards

Management has considered the impact on the Group of new standards IFRS 9, IFRS 15, IFRS 16, amendments to standards and interpretations that are endorsed by the EU. The Group's assessment of the impact of these new standards is set out below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and was endorsed by the EU in 2016. It replaces existing financial instruments guidance, including IAS 39 Financial Instruments: Recognition and Measurement. This standard is effective for accounting periods commencing on or after 1st January 2018. The standard addresses the classification and measurement of financial instruments and will require additional disclosures. Further to this, a new impairment measurement model for financial assets based around expected credit losses has been introduced. There is no longer a requirement for a credit event to have occurred before a credit loss is recognised.

The Group has adopted the new standard in its consolidated financial statements for the year ended 31st March 2019. The Group has considered the impact of adopting IFRS 9 and determined that there was no material impact on the results and as such there is no required restatement disclosure.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued in 2014 and was endorsed by the EU in 2016. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has adopted the new standard in its consolidated financial statements for the year ended 31 March 2019. The Group has considered the impact of adopting IFRS 15 and determined that there was no material impact on the Group's revenue accounting policies.

Standards issued but not yet effective

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016, and was endorsed by the EU in 2017. IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. There are optional exemptions for short term leases and leases of low value items.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1st January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group did not early adopt this standard. No material impact is expected with the adoption of IFRS 16 as the Group has no current lease commitments.

The financial statements are prepared on a going concern basis as explained in the Principal Risks and Uncertainties and going concern Statement on page 39.

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 which is 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.

Notes to the Financial Statements continued

For the year ended 31st March 2019

1 Accounting policies continued

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.

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 their carrying amount will be recovered principally through sale rather than through continuing use, they are available for immediate sale and sale is highly probable within one year.

Investment Properties held for sale are carried at fair vale in the Statement of Financial Position. 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 three and five 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. Impairment provisions are always measured at an amount equal to lifetime expected credit losses. Balances are written off when the probability of recovery is assessed as being remote.

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.

1 Accounting policies continued

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

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

The Revenue recognition policy for the following revenue streams are in line with IFRS 15, as revenue is recognised when it transfers control over a product or service to a customer.

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 Investment 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. This also includes the share-based payment element of the bonus.

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 net interest on scheme liabilities and 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.

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.

Notes to the Financial Statements continued

For the year ended 31st March 2019

1 Accounting policies continued

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

	2019 £'000	2018 £'000
Gross rents receivable	20,287	21,545
SIC 15 adjustment (spreading of rental incentives)	1,321	299
Gross rental income	**21,608**	**21,844**
Service charges receivable	3,736	3,656
	25,344	**25,500**
Other property income	73	792
Direct property outgoings	(6,321)	(5,838)
	19,096	**20,454**

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

3 Administration costs

	2019 £'000	2018 £'000
Group		
Directors' – remuneration	1,290	1,271
– bonus[1]	440	577
Staff – costs	1,043	977
– bonus	339	398
National Insurance	502	570
Pension costs – defined benefit scheme	49	50
– defined contributions	194	217
Share based payment accounting charge (IFRS 2)[2]	837	796
	4,694	**4,856**
Depreciation (note 12)	46	34
Office costs	560	415
Legal and professional fees	935	938
General expenses	10	62
	6,245	**6,305**

1. Amount charged to income in year to 31st March 2019.
2. Including prior year deferred bonus charges and adjustments.

The average number of persons employed by the Group and Company during the year was 20 (2018: 19).

3 Administration costs continued

In advance of each audit, the Committee obtains confirmation from the external auditor that it remains independent and that the level and nature of non-audit fees are not an independence threat. Note 3 details the total fees paid to KPMG. The Committee considers KPMG to be independent to the Company.

	2019 £'000	2018 £'000
Fees paid to auditor		
Statutory audit services		
McKay Securities Plc audit	73	72
Subsidiary audits	2	2
Assurance services		
Interim review	19	19
Service charge audits	6	10
	100	**103**

Details of Directors' remuneration can be found on page 60 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.

	2019 £'000	2018 £'000
Profit before tax	13,190	43,442
Cancellation of derivatives	–	13,352
Change in fair value of derivatives	–	(16,917)
Movement in revaluation of investment properties	(4,833)	(25,066)
Other property income (see note 2)	(73)	(792)
Profit on disposal of investment properties	–	(5,746)
IFRS 2 adjustment to share based payments	988	795
Adjusted profit before tax	**9,272**	**9,068**

6 Net finance costs

	2019 £'000	2018 £'000
Interest on bank overdraft and loans	5,025	5,633
Commitment fee	250	240
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	575	590
Capitalised interest (note 8)	(1,637)	(1,659)
	4,498	**5,089**
Cancellation of derivatives	–	13,352
Change in fair value of derivatives	–	(16,917)
Interest receivable	(4)	(5)
	(4)	**(3,570)**
Net finance costs	**4,494**	**1,519**

Notes to the Financial Statements continued

For the year ended 31st March 2019

7 Taxation

	2019 £'000	2018 £'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	**13,190**	**43,442**
Tax charge on profit at 19% (2018: 19%)	**2,506**	**8,254**
Effects of:		
REIT tax exemption	(2,506)	(8,254)
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 £1,637,218 (2018: £1,658,692) and relates to works to London, 30 Lombard Street, EC3; and Theale, Brunel Road.

Total development interest capitalised amounts to £14,186,547 (2018: £12,549,320).

9 Earnings per share

	2019 p	2018 p
Basic earnings per share	14.02	46.25
Cancellation of derivatives	–	14.22
Change in fair value of derivatives	–	(18.02)
Movement in revaluation of investment properties	(5.14)	(26.69)
Other property income	(0.08)	(0.84)
Profit on disposal of investment properties	–	(6.12)
Share based payments	1.05	0.85
Adjusted earnings per share	**9.85**	**9.65**

Basic earnings per share on ordinary shares is calculated on the profit in the year of £13,190,000 (2018: £43,442,000) and 94,087,315 (2018: 93,925,375) shares, being the weighted average number of ordinary shares in issue during the year.

	2019 Number of shares	2018 Number of shares
Weighted average number of ordinary shares in issue	94,087,315	93,925,375
Number of shares under option	1,721,064	1,516,011
Number of shares that would have been issued at fair value	(974,797)	(808,206)
Diluted weighted average number of ordinary shares in issue	**94,833,582**	**94,633,180**

	2019 p	2018 p
Basic earnings per share	14.02	46.25
Effect of dilutive potential ordinary shares under option	(0.11)	(0.34)
Diluted earnings per share	13.91	45.91
Cancellation of derivatives	–	14.11
Change in fair value of derivatives	–	(17.88)
Movement in revaluation of investment properties	(5.10)	(26.49)
Other property income	–	–
Profit on disposal of investment properties	–	(6.07)
EPRA earnings per share	**8.81**	**9.58**

9 Earnings per share continued

EPRA 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 94,833,582 (2018: 94,633,180) 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, the movement in revaluation of investment properties and share-based payments. 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 2019, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2018 and interim for 2019 paid in the year are included in the Consolidated Statement of Changes in Equity on page 81.

	2019 £'000	2018 £'000
Ordinary dividends		
31st March 2018 final dividend of 7.2p (31st March 2017: 6.3p) paid during the year	6,765	5,910
30th September 2018 interim dividend of 2.8p (30th September 2017: 2.8p) paid during the year	2,635	2,631
Total recognised in financial statements	**9,400**	**8,541**
Proposed final dividend of 7.4p (31st March 2018: 7.2p)	**6,965**	**6,765**

11 Investment properties

	Group			Company		
	Freehold £'000	Long leasehold £'000	Total £'000	Freehold £'000	Long leasehold £'000	Total £'000
Valuation						
At 1st April 2018	368,957	88,906	457,863	368,957	30,085	399,042
Additions – development	8,213	7,869	16,082	8,213	619	8,832
Revaluation surplus/(deficit)	1,987	4,481	6,468	1,987	(19)	1,968
Adjustment for rents recognised in advance under SIC 15	(1,032)	(602)	(1,634)	(1,032)	105	(927)
Disposals	–	–	–	–	–	–
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	–	–
Book value as at 31st March 2019	**378,125**	**100,653**	**478,778**	**378,125**	**30,790**	**408,915**
Adjustment for grossing up of headlease liabilities	–	(4,404)	(4,404)	–	(2,883)	(2,883)
Adjustment for rents recognised in advance under SIC 15	7,325	1,001	8,326	7,325	293	7,618
Valuation as at 31st March 2019	**385,450**	**97,250**	**482,700**	**385,450**	**28,200**	**413,650**

Notes to the Financial Statements continued

For the year ended 31st March 2019

11 Investment properties continued

	Group			Company		
	Freehold £'000	Long Leasehold £'000	Total £'000	Freehold £'000	Long Leasehold £'000	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**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2019. These valuations, were carried out by Knight Frank LLP, 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 £335 million (2018: £319 million) for the Group and £278 million (2018: £269 million) for the Company.

The amount of interest capitalised during the year was £1,637,218 (2018: £1,658,692). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

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.

One of the assets held for sale has been valued based on the capital value per square foot. If the capital value per square foot were to increase or decrease by 10%, the year end calculation will increase or decrease by £1.4 million.

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 £4.8 million (2018: £25.1 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

11 Investment properties continued

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	£120,800,000	£261,900,000	£75,450,000
ERV (per sq ft pa) – average	£56.93	£28.41	£10.47
ERV (per sq ft pa) – range	£10.00–£80.00	£15.00–£47.50	£4.65–£15.50
True equivalent yield – average	4.70%	6.81%	5.20%
True equivalent yield – range	4.35%–5.75%	5.71%–8.57%	4.49%–6.90%
Capital value per sq ft	£900.57	£367.05	£148.15

A further £24.55 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 100.

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Sensitivity analysis				
Change in value of investment properties	£23.0m	£(23.3)m	£(23.9)m	£25.5m

12 Plant and equipment

	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Cost				
Opening	218	215	214	211
Additions	75	75	14	14
Disposals	(13)	(13)	(10)	(10)
Closing	**280**	**277**	**218**	**215**
Depreciation				
Opening	176	173	152	149
Charge for year	46	46	34	34
Disposals	(13)	(13)	(10)	(10)
Closing	**209**	**206**	**176**	**173**
Net book value	**71**	**71**	**42**	**42**

Notes to the Financial Statements continued

For the year ended 31st March 2019

13 Investments

	Shares in subsidiary undertakings £'000	Total £'000
Company		
At 1st April 2018	–	–
At 31st March 2019	**–**	**–**

At 31st March 2019 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.

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

	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Current				
Trade receivables	–	–	–	–
Amounts due from subsidiary undertakings	–	40,790	–	33,436
SIC 15 lease incentives	–	1,486	830	830
Other debtors and prepayments	3,501	1,063	787	783
	3,501	**43,339**	**1,617**	**35,049**
Non-current				
SIC 15 lease incentives	**10,292**	**6,839**	**5,861**	**5,861**

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

	2019 £'000	2018 £'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.

The transactions relate to capital expenditure funded by the parent £7,354,000.

15 Liabilities

	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Trade and other payables				
Rent received in advance	4,975	4,969	4,238	4,220
Other taxation and social security costs	1,732	1,609	967	1,020
Amounts owed to subsidiary undertakings	–	–	–	–
SIC 15 creditor	1,964	505		
Other creditors and accruals	7,563	4,666	4,296	4,296
	16,234	**11,749**	**9,501**	**9,536**

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 7 days (2018: 4 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:

	2019 £'000	2018 £'000
Group and Company		
Secured bank loans	165,000	147,000
Bank facility fees	(1,824)	(2,402)
	163,176	**144,598**

The bank loans are secured against land and buildings with a carrying amount of £403,300,000 (2018: £395,125,000).

	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Repayable in:				
Less than 1 year	–	–	–	–
1–2 years	66,698	66,698	–	–
2–5 years	32,432	32,432	80,639	80,639
5–10 years	–	–	–	–
Greater than 10 years	64,046	64,046	63,959	63,959
	163,176	**163,176**	**144,598**	**144,598**

	2019 £'000	2018 £'000
Changes in liabilities arising from financing activities		
Current loans as at 1st April	–	34,973
Non-current loans as at 1st April	144,598	99,127
Total loans as at 1st April	**144,598**	**134,100**
Increase in borrowings	18,003	9,908
Facility fee amortisation	575	590
Total loans as at 31st March	**163,176**	**144,598**

Notes to the Financial Statements continued

For the year ended 31st March 2019

15 Liabilities continued

Borrowing facilities

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

	2019 £'000	2018 £'000
Expiring in less than 1 year	–	–
Expiring in 1 – 2 years	18,000	–
Expiring in 2 – 5 years	7,000	43,000
Expiring in 5 – 10 years	–	–
	25,000	**43,000**

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.

On 8th April the company increased total facility to £245m (from £190m). Three bilateral facilities (£125m) were replaced with one credit facility (RCF) of £180m.

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 2019						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	165,000	–		67,000	33,000	65,000
Finance lease liabilities	26,083	–	285	285	857	24,656
Trade payables	9,185	9,185	–	–	–	–
	200,268	**9,185**	**285**	**67,285**	**33,857**	**89,656**

		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**

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.

15 Liabilities continued

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 £250,000 (2018: £367,500). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings at the year end. The comparative figure for 2018 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

Interest rate derivatives

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

	2019	2018
Weighted average cost of borrowing	**3.34%**	**4.06%**

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 2019 and 2018 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	
	2019 £'000	2018 £'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	24,656	24,943
	26,083	**26,370**
Less future finance charges	(21,679)	(21,966)
Present value of lease obligations	**4,404**	**4,404**

The above finance lease liabilities relate to investment properties with a carrying value of £97,250,000 (2018: £84,900,000). 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:

	2019 £'000	2018 £'000
Not later than one year	22,503	21,142
Later than one year but not later than five years	56,293	58,060
Later than five years	61,519	28,424
	140,315	**107,626**

Notes to the Financial Statements continued

For the year ended 31st March 2019

18 Share based payments

During the year to 31st March 2019, 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 2019 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	8th June 2018	18th July 2017	16th June 2016
Share price	£2.67	£2.26	£2.07
Term	3 years	3 years	3 years
Risk free rate	0.80%	0.26%	0.27%
Dividend yield	0%	0%	4.27%
Volatility – Company	31.0%	29.0%	21.27%
TSR fair value	£1.73	£1.42	£0.77
NAV fair value	£2.70	£2.26	£1.81

19 Called up share capital

	2019 Issued £	2019 Number of shares	2018 Issued £	2018 Number of shares
Ordinary 20 pence shares in issue				
At 1st April	18,791,022	93,955,109	18,761,690	93,808,450
Issue of shares in year	33,857	169,316	29,332	146,659
At 31st March	**18,824,879**	**94,124,425**	**18,791,022**	**93,955,109**

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[1] to manage its capital structure:

- gearing
- LTV

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

1. See glossary.

21 Related party transactions

	Balance owed to/(owing from) 2019 £'000	Balance owed to/(owing from) 2018 £'000
Subsidiary undertakings		
Baldwin House Limited	(40,790)	(33,436)
	(40,790)	**(33,436)**

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 54 to 66.

The estimated IFRS 2 share based payment charge to the Directors is £697,000 (2018: £592,000).

These related party transactions are between Baldwin House Limited and the Company. They relate to property payments and receipts for the two properties held in Baldwin House Limited. This balance is zero at Group level.

22 Net asset value per share

	31st March 2019			31st March 2018		
	Net assets £'000	Shares '000	Net asset value per share p	Net assets £'000	Shares '000	Net asset value per share p
Basic	311,083	94,124	331	306,440	93,955	326
Number of shares under option	1,635	1,732	(5)	1,200	1,593	(4)
Diluted/EPRA NNNAV	**312,718**	**95,856**	**326**	**307,640**	**95,548**	**322**
Adjustment to fair value of derivatives	–	–	–	–	–	–
EPRA NAV	**312,718**	**95,856**	**326**	**307,640**	**95,548**	**322**

23 Commitments and contingent liabilities

	2019 Group '000	Company £'000	2018 Group £'000	Company £'000
Capital expenditure committed but not provided for	**11,381**	**11,381**	**10,703**	**190**

These commitments relate to the Group's one current development in place at the end of the year.

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 2019. Scheme assets are stated at their market value at 31st March 2019.

The Scheme has been closed to new entrants since 1989.

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

	2019	2018
Inflation	3.2%	3.1%
Salary increases	n/a	n/a
Rate of discount	2.2%	2.4%
Pension in payment increases	3.1%	3.0%

The mortality assumptions adopted at 31st March 2019 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	1,909	723
Gilts	334	59
Corporate and overseas bonds	277	40
Absolute return portfolios	2,322	4,575
Property	149	–
Cash	312	77
Other	29	57
	5,332	**5,531**

Notes to the Financial Statements continued

For the year ended 31st March 2019

24 Pensions continued

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

	2019 £'000	2018 £'000
Changes in the value of scheme assets over the year		
Market value of assets at start of year	5,531	5,600
Return on scheme assets	131	127
Actuarial gain	(148)	(23)
Employer contributions	240	240
Benefits paid	(422)	(413)
Market value of assets at end of year	**5,332**	**5,531**

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

	2019 £'000	2018 £'000
Value of defined benefit obligation at start of period	**7,695**	**7,884**
Interest cost	180	177
Benefits paid	(422)	(413)
Actuarial gains: experience differing from that assumed	(148)	109
Actuarial gains: changes in demographic assumptions	(74)	25
Actuarial gains: changes in financial assumptions	209	(87)
Value of defined benefit obligation at end of period	**7,440**	**7,695**

Sensitivity analysis

	Change in assumption	Change in defined benefit obligation
Assumption		
Discount rate	+/-0.5% p.a.	-/+5%
RPI inflation	+/-0.5% p.a.	+3%/-4%
Assumed life expectancy	+1 year	+5%

Analysis of the amount charged to operating profit:

	2019 £'000	2018 £'000
Operating profit		
Current service cost	–	–
Analysis of the amount (credited)/charged to finance costs/(income)		
Return on pension scheme assets	(131)	(127)
Interest on pension scheme liabilities	180	177
Net return	49	50
Total charge to profit and loss	**49**	**50**

24 Pensions continued

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

	2019 £'000	2018 £'000	
Difference between expected and actual return on assets	148	23	0% of scheme assets
Experience gains and losses arising on the scheme liabilities	(13)	47	0% 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
Total	**135**	**70**	2% of the present value of the scheme liabilities

Analysis of the movement in the balance sheet deficit:

	2019 £'000	2018 £'000
Deficit in scheme at beginning of year	(2,164)	(2,284)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(49)	(50)
Contributions	240	240
Actuarial gain/(loss)	(135)	(70)
Deficit in scheme at end of year	**(2,108)**	**(2,164)**

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 recurring and non-recurring items relating to non-core rental activity 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.

Gearing
Drawn debt to shareholders' funds.

GRESB
Global Real Estate Sustainability Benchmark.

Industrial property
Term used to include light industrial, industrial and distribution warehouse property falling within classes B1c, B2 and B8 of the Town & Country Planning Use Classes Order. The term 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 ("ICR")
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.

(Real Estate Investment Trust ("REIT")
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 Price Index excluding mortgage interest.

Shareholders' funds
Total equity of the Company.

SIC 15
The IFRS treatment in respect of letting incentives. It requires the Company 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	**2019**
Annual Report posted to shareholders	3rd June
Annual General Meeting	4th July
Final dividend	25th July
Interim announcement	November
Interim Statement posted to shareholders	December
	2020
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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