McKay
Securities
Plc

Annual Report and Financial Statements 2020

Who we are

McKay is a specialist in the development, refurbishment and management of office, industrial, and logistics property in the South East and London – ideally positioned to deliver quality, innovation and growth.

Our Purpose

Our purpose is to deliver outstanding services as a landlord with occupiers at the heart of everything we do.

Our Vision

Our vision is to build upon our reputation and status as the leading property specialist for occupiers and investors, focused entirely on the South East and London – 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 environment for our customers to thrive and businesses to grow. We deliver sustainable returns by operating an effective and established business model.

Contents

Financial Highlights

Profits and earnings

£9.49m[1]
Profit before tax (IFRS)
(2019: £13.19 million)

£9.73m[1]
Adjusted profit before tax
(2019: £9.27 million)

8.6p[2]
IFRS earnings per share
(2019: 14.0 pence)

10.6p[2]
EPRA earnings per share
(2019: 8.8 pence)

Portfolio valuation

£510.00m[5]
(2019: £482.70 million)

£0.11m
Surplus[5]
0.0%
(2019: £6.47 million/1.4%)

Shareholders' funds

£309.17m
(2019: £311.08 million)

329p[3]
EPRA net asset value per share
(2019: 326 pence)

328p[3]
Net asset value per share (IFRS)
(2019: 331 pence)

Total property return

4.7%[4]
(2019: 5.4%)

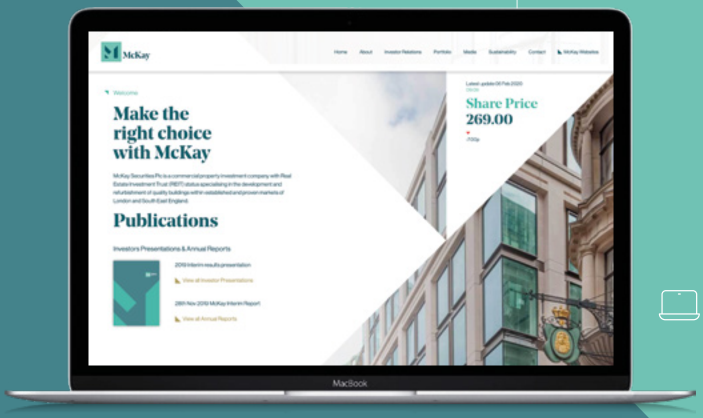
Debt to portfolio value (LTV/net debt)

37.6%[6]
(2019: 33.3%)

Proposed final dividend per share

4.4p
(2019: 7.4 pence), making the total dividend per share for the year 7.2 pence (2019: 10.2 pence)

1. See note 4 in financial statements.
2. See note 9 in financial statements.
3. See note 22 in financial statements.
4. See KPIs on page 27.
5. See note 11 in financial statements.
6. See note 5 in the financial statements.



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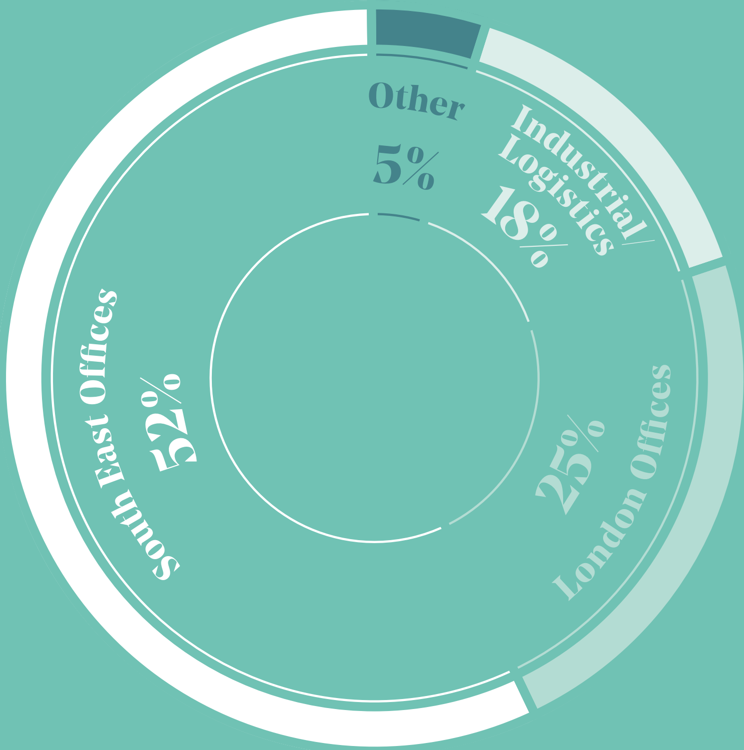
2020 McKay Annual Report
mckaysecurities.plc.uk

At a glance

Portfolio

(31 March 2020)

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



33
Properties

£510.00m
Portfolio value

1.49m sq ft
Internally managed

See more on **page 18**

Property Portfolio
At 31 March 2020

			Area sq ft
£15m and over – 66.0% of portfolio	Brentford	**The Mille, 1000 Great West Road** (office)	96,700
	Crawley	**Oakwood Trade Park, Gatwick Road** (industrial)	52,400
	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
	SW1	**1 Castle Lane** (office)	14,250
	Newbury	**Rivergate, Newbury Business Park** (office)	61,385
	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
	Theale	**Theale Logistics Park, Brunel Road** (logistics)	134,430
£10m to £15m – 18.1% of portfolio	Crawley	**Pegasus Place, Gatwick Road** (office)	50,790
	Croydon	**Corinthian House, Dingwall Road** (office)	44,590
	EC2	**66 Wilson Street** (office)	11,890
	Maidenhead	**Switchback Office Park, Gardner Road** (office)	37,155
	Weybridge	**Sopwith Drive, Brooklands** (industrial)	63,140
	Woking	**1 Crown Square** (office and ancillary retail)	50,190
	Woking	**The Planets, Crown Square** (other/leisure)	98,255
£5m to £10m – 13.9% 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
	Leatherhead	**Ashcombe House, 5 The Crescent** (office)	17,450
	SW1[1]	**Parkside, Knightsbridge** (other/residential)	2,900
	Reading	**20/30 Greyfriars Road** (office)	33,345
	Staines	**Mallard Court, Market Square** (office and ancillary retail)	21,860
	Windsor	**Gainsborough House, 59-60 Thames Street** (office)	18,660
£2m to £5m – 1.7% of portfolio	Banbury	**Lower Cherwell Street Industrial Estate** (industrial)	40,060
	Folkestone	**5 Acre Estate, Park Farm Road** (industrial)	60,535
	Newbury	**Strawberry Hill House, Bath Road** (other/medical)	15,230
£2m and below – 0.3% of portfolio	Chobham	**Castle Grove Road** (other/land)	—
	Staines	**2 Clarence Street** (office)	3,440

Percentages based on the valuation at 31 March 2020
1. Denotes leasehold properties.

Chairman's Statement

We are clearly operating in an unprecedented and challenging environment, imposed on global economies by the arrival of Covid-19 in recent months. In normal circumstances this statement would be focused on the past financial year, but in view of the scale of impact of the current pandemic there are important new considerations for the year ahead which warrant my attention below.

The financial results for the year under review reflect another productive period for the Company. The strategic investment in our portfolio activity over recent years has delivered strong growth in earnings, and we ended the period with significant existing portfolio potential and substantial funds for future investment. However, this successful continuation of our growth strategy over the financial year has since been overshadowed by Covid-19 at the very end of the reporting period. The serious implications of the virus are already being seen across all our lives and are going to be far reaching, but before considering these further, there are many positive areas to report on from the year under review.

Review of the year

We maintained our strategic focus on the office, industrial and logistics sectors of the South East and London, with three key priorities:

- Delivering our development programme
- Generating income from the substantial potential created within the portfolio
- Improving our scope for future growth by capitalising on our progress to date.

This focus has delivered an increase in rental income and adjusted profit before tax, a strengthened balance sheet position and outperformance of the MSCI Monthly Index (All Property) at portfolio level in terms of rental and capital values and total property return.

The net rental income generated by the portfolio increased by 16.3% to £21.98 million (31 March 2019: £18.90 million) due to lettings secured at recently completed development projects and other portfolio initiatives. This led to adjusted profit before tax increasing by 5.0% to £9.73 million (31 March 2019: £9.27 million). IFRS profit before tax reduced to £9.49 million (31 March 2019: £13.19 million), due to a lower positive valuation movement than the prior year.

The independent valuation of the portfolio at the year end totalled £510.00 million. This represented a 5.7% increase overall (31 March 2019: £482.70 million), and generated a small surplus of £0.11 million after taking into account portfolio expenditure, acquisitions and disposals (31 March 2019: £6.47 million surplus). Our valuers, Knight Frank, included a material uncertainty clause, which is in line with the latest RICS recommendation to all valuers. This reflects the limited evidence of the impact of Covid-19 on the market at the valuation date, and the challenge of estimating rental and capital values at such an uncertain time.

Reflecting the limited valuation movement, Shareholder's funds remained steady at £309.17 million (31 March 2019: £311.08 million) with net asset value per share (EPRA) of 329 pence (31 March 2019: 326 pence), and IFRS net asset value per share of 328 pence (31 March 2019: 331 pence).

We continued to position our portfolio to meet the changing needs of modern business, contributing to growth and outperformance. The portfolio rental value (ERV) increased to £34.91 million pa (31 March 2019: £33.83 million pa) representing a 2.4% increase on a like-for-like basis, and the total property return totalled 4.7%. This compares favourably with the MSCI Monthly Index (All Property) which reported a 4.8% fall in capital values, a 0.3% fall in rental values, and a negative total return 0.1%.

We were pleased to complete our 134,430 sq ft speculative warehouse development at Theale Logistics Park shortly after the year end. This is a project with great potential and an excellent addition to the portfolio, which will further increase earnings once let. Virus related movement restrictions have delayed the full launch of our marketing programme, but we have been able to engage potential occupiers with virtual tours and other promotional material and look forward to further constructive discussions as restrictions are lifted. This completion leaves us with no development or refurbishment projects on-site, removing exposure to construction risk and committed capital expenditure which we believe to be a prudent position in the current environment.

This and other projects take the capital expenditure invested on portfolio projects and seven acquisitions since our 2014 Capital Raise to £186.19 million. Over the same period, we completed 13 disposals, which included Station Plaza, Theale this year. These generated combined sale proceeds of £76.20 million and a combined 24.3% surplus over book value of £18.52 million.

This disciplined and proactive approach to the recycling of capital, and our successful property initiatives have enhanced the scale and quality of our portfolio and contributed to a 43.5% increase in shareholders' funds of £93.67 million since 2015. This approach has also ensured that we have retained funds available to reinvest in new opportunities and maintained an acceptable loan to value ('LTV'), which ended the year at 37.6% (31 March 2019: 33.3%).

Our scope for future investment improved during the year when we increased our loan facilities by £55.00 million to £245.00 million. However, it remained a competitive market to acquire new properties for the portfolio, as the weight of investor demand was well ahead of the limited stock available. We appraised 161 potential acquisitions that met our investment criteria, and, although we were encouraged that value-add opportunities were becoming more attractive, prospects providing

£157.24m

44.6% increase in portfolio value since 31 March 2015

£93.67m

43.5% increase in shareholders' funds since 31 March 2015

acceptable returns were limited. With the benefit of the increased loan facilities, and the recycling of sale proceeds from Station Plaza, Theale, this selective approach led to a single acquisition in the year of Rivergate, a multi-let office building fronting Newbury Business Park, for £15.50 million at an attractive initial yield of 7.5%. This maintained the number of portfolio assets at the year end at 33.

In view of the strong market, and in line with our approach to recycling capital, we took the decision in the autumn to test investor interest in 30 Lombard Street, EC3, our largest development project over recent years, which was let on completion in January 2019. We could see that the strength of overseas interest at that time provided an opportunity to capture the high value generated as a result of the long lease term and high rental value we were able to achieve during the construction of this exceptional building.

The sale, which remains conditional on the completion of a highways agreement, will deliver net proceeds of circa £65.00 million (based on a headline sale price of £76.50 million), representing an excellent disposal yield of 4.16%. Completion, which has been delayed as a result of Covid-19 and is now anticipated in Q3/2020, will reduce our LTV to 28.0% (based on March 2020 values) and provide us with the ability to reinvest proceeds into higher yielding assets at what could be an opportune time in the market.

The combination of undrawn facilities and potential disposal proceeds from 30 Lombard Street, EC3 positions the Company well with substantial retained potential firepower for portfolio expenditure and new acquisitions of over £100.00 million. Although market conditions will dictate the pace of investment, this provides significant scope for future growth in earnings and returns beyond the reversionary portfolio potential that already exists.

This has also been the first year of our new sustainability framework. We recognised the increasing importance of sustainable buildings to the occupier market in 2013 when we adopted our first formal sustainability strategy. This has served us well, but after a comprehensive review, we updated it at the beginning of the year with a three pillared approach to the full range of environmental, social and governance issues ('ESG') considerations under our new policy: The Right Choice for a Sustainable Business. This has helped us maintain a positive and proactive framework and will continue to permeate through all Company activities.

Covid-19

The election result in December provided a welcome boost to our markets with a pick-up in business confidence and investor appetite. Unfortunately, this was short lived due to the rapid and far reaching consequences of Covid-19. The full impact of this unprecedented event on the Company remains to be seen, and although it is creating significant levels of uncertainty as well as some obvious threats, it may also create opportunities for a business of our size, with the benefit of our sector and geographic focus.

In the short term, occupier relocation decisions are likely to be put on hold, while businesses review operating models and cashflow. Investment activity has already been significantly reduced and is likely to remain subdued while investors take stock of the situation and try to assess the balance between risk and return. The divergence in value between sectors is likely to be exacerbated with the shutdown of high street retail, leisure and hospitality accelerating declines compared with the office, industrial and warehouse sectors.

Further to our Trading Update on 7 April 2020, and after working closely with our occupiers, 73.0% of the rent due for the quarter to June 2020 has now been collected, increasing to 95.0% including rent which is being paid monthly, or is subject to agreed deferment plans. Our office, industrial and logistics sectors were less affected by the lockdown than other real estate sub-sectors, but it has nevertheless been necessary to provide selective support to some of our occupiers, primarily those with short-term cashflow issues and who generate income directly from their premises, such as serviced offices. As the impact of the lockdown continues, we anticipate that rent collection will remain below historic levels to a varying degree for the remainder of the year.

The longer-term implications of Covid-19 on the commercial property market will be determined by its impact on the UK and global economy, and the extent of structural change that the virus necessitates for working practices.

The industrial and logistics sector has proved resilient and our assets may indeed benefit from increased demand generated by an acceleration of the shift to online retail. The inadequacies of global supply chains have been exposed, which may also lead to operating reviews and further support demand.

Office occupiers are likely to be faced with more challenging decisions regarding future operations and requirements, having to take into account factors including culture, cost, transportation and staff retention. Despite the ability of many businesses, including our own, to work remotely, we do not see this as the end of the office as a place of collaboration and cohesive business.

There will inevitably be shifts in office working practices, and we expect this to lead to an acceleration of many of the trends we have positioned the portfolio to respond to over recent years, such as a flexible lease structure, competitive operating costs, smart technology and high standards of customer service.

Occupational costs in the South East are significantly lower than central London. Travel to work options are also more varied, with generous car parking at many of our office assets and local transport networks that avoid reliance on the most congested public transport networks. If these factors result in further decentralisation, as widely speculated, we are well placed to take advantage with our existing portfolio, sector knowledge and substantial funds for investment.

Dividend

The Board is recommending a final dividend of 4.4 pence per share. This represents a 40.5% reduction as compared to the final dividend paid last year (31 March 2019: 7.4 pence). The full year dividend therefore totals 7.2 pence per share, a 29.4% reduction from last year (31 March 2019: 10.2pence).

At a time of such economic uncertainty, the Board considers the lower distribution represents a prudent and balanced approach. This will maintain a higher cash position until we achieve greater visibility of market conditions and business progress, including rent collection. In the meantime, future dividend policy will remain under review.

Outlook

While there remains insufficient clarity on the potential duration and impact of Covid-19 to provide a meaningful outlook for the year ahead, economic conditions and the operating environment are going to be challenging. The full impact of Covid-19 on the market generally and on rental and capital values specifically remains to be seen, and much will depend on the pace at which businesses recover and decide on future operational practices.

We face this period of uncertainty with a high quality portfolio invested in resilient markets and sectors, and with characteristics that could benefit in the post Covid-19 world. We have retained our funds for investment and with unrivalled knowledge of our markets, have the agility to respond to a variety of conditions and capitalise on potential opportunities as prospects become clearer.

Richard Grainger
Chairman
8 June 2020

Timeline

£180.00m

New loan completed increasing facilities by £55.00m

LLOYDS BANK · BARCLAYS · NatWest · Santander

McKay ++

Refurbishment of third and sixth floor suites completed at The Mille, Brentford

First suite achieved a new rental high

£27.50psf

March 2019

£8.23m

Sale of Station Plaza, Theale 32.7% ahead of valuation

Refurbishment of Pegasus 2 completed. Ground floor pre-let at a new rental high

£27.50psf

Publication of ‘The McKay Way’, our service commitment to occupiers

ESG – GRESB Green Star Award fourth year in succession

GRESB ★★★★★ 2019

Mallard Court, Staines refurbishment completed with first letting at a new rental high

£31.50psf

Conditional sale of 30 Lombard Street, EC3 at a headline price of

£76.50m

92.6%

Portfolio occupancy (excluding developments)

March 2020

Acquisition of Rivergate, Newbury £15.50m

Completion of Theale Logistics Park shortly after the year end

80.0%

Tenant retention

Business Model

What we do

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 environment for our customers to thrive and businesses to grow.

Key resources

Land and buildings
We focus on quality office, industrial and logistics business space within the established markets of the South East and London.

Relationships
Our geographical focus and in-house management capabilities enable us to build strong relationships and work in partnership with our occupiers and local supply chains.

Our team
Our experienced team are experts in their field and know the South East and London markets intimately.

Respected brand
We take pride in everything we do and have developed a reputation for quality, innovation, sustainability, ambition and growth.

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

Strategic priorities

See more on page 12

01
Delivering our development programme

Value creation

We generate value by operating an effective and established business model that delivers sustainable, long-term returns.

Communities

We are committed to playing our part in the local community and supporting causes that will benefit from our experience.

Employees

We aim to support and engage our employees by providing a working environment that promotes health, wellbeing and development.

Suppliers

Suppliers play a fundamental role in delivering our vision and we value close relationships.

Occupiers

We offer our occupiers choice, flexibility, quality and sustainable/ energy efficient business space.

Investors

We aim to deliver attractive and sustainable returns to shareholders.

Read more about why our stakeholders matter and how we have engaged with them on **page 16**

02

Releasing portfolio income potential

03

Enhancing scope for future growth

Chief Executive's Review

These results reflect the benefit of capital investment in our development and refurbishment programme, which over the last five years has totalled £96.90 million.

Overview

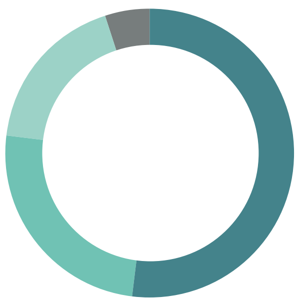
The review of an otherwise productive and successful year is inevitably qualified by the global impact of Covid-19 and the lockdown that commenced on 23 March 2020. The full impact of the virus on the UK economy and our markets remains to be seen, and will depend to a great extent on the duration and nature of restrictions and the effectiveness of government policy in support of the economy. As a result of strategic decisions taken during this and previous years, we have many strengths to cushion the impact on the Company and to respond to the opportunities that future changes in working practices may bring.

During the year, we maintained our strategic focus on the office, industrial and logistics markets of the South East and London. These are the markets that we know well after many years of focused experience, and which proved to be the most resilient sectors over the period, in the strongest economic regions of the country.

Prior to lockdown, these markets were beginning to emerge from protracted political uncertainty, with investors showing greater confidence in the prospects for growth in rental and capital values. Although this momentum has since been impacted by Covid-19, our results reflect another positive year, based on the strategic priorities of completing our development programme, releasing portfolio potential and enhancing scope for future growth of the portfolio and the business.

Good progress was made on all fronts as covered in more detail below.

Location and sector (by value)
As at 31 March 2020



South East Offices	**52%**
London Offices	**25%**
South East industrial/logistics	**18%**
Other	**5%**

The headline value of our assets increased by 5.7% to £510.00 million over the year, our contracted rental income increased by 4.1% to £28.33 million pa, and portfolio rental value (ERV) increased by 3.2% to £34.91 million pa. The difference of £6.58 million pa between contracted rent and ERV reflects the significant reversionary potential to grow portfolio income by a further 23.3%. This is based on our valuer's opinions of ERV at the valuation date of 31 March 2020, where it was too early to estimate the impact of Covid-19.

This reflects our valuer's opinion of ERV at the valuation date of 31 March 2020, when it was too early to estimate the impact of Covid-19.

These results reflect the benefit of capital investment in our development and refurbishment programme, which over the last five years has totalled £96.90 million. This has improved the quality of the portfolio, and has been selectively invested with the objective of ensuring that we can continue to meet market demand with good quality, well specified space for modern business needs. Of this capital expenditure, £16.84 million was invested over the year to complete our 134,430 sq ft speculative logistics warehouse development at Theale Logistics Park, and to implement refurbishment projects at 17 portfolio properties. These projects, which have added to the potential for further income and capital growth, were substantially completed prior to lockdown, leaving us with no current development exposure across the portfolio.

We took the decision last autumn to put the long leasehold interest of 30 Lombard Street, EC3 on the market, to take advantage of the strong investment demand in the City at that time from overseas buyers. The marketing exercise generated strong competition, with investors attracted by the 15-year lease that we had been able to secure prior to completion of the redevelopment in January 2019, and the overall quality of the building in such a core City location. This enabled us to achieve a headline price of £76.50 million, representing an outstanding yield of 4.16%, and an exchange of contracts in December 2019. The sale, which remains conditional on finalising an outstanding highways agreement, will allow us to capture the development gains we have generated from the success of the scheme, reduce our weighting in this single City asset and enable us to reduce debt and the Company's LTV. We will then be in a position to replace the income lost on disposal by reinvesting the sale proceeds of circa £65.00 million (net), targeting higher yielding assets with greater growth potential, and at a potentially opportune time.

We also took the decision to sell Station Plaza, Theale earlier in the year, having been offered an excellent price of £8.23 million by an owner occupier, which realised a substantial 29.9% (£1.86 million) net surplus over book value net of sale costs. These funds were recycled into the £15.50 million acquisition of Rivergate House, Newbury, a multi-let office building, which was identified as having better growth prospects.

Gains from these disposals, as well as the unrealised portfolio gains from our development and refurbishment projects, remain an integral part of our capital discipline to maintain balance sheet resilience and a low LTV. At the end of the period, LTV was 37.6% (31 March 2019: 33.3%), which will reduce to circa 28% on receipt of sale proceeds from 30 Lombard Street, EC3 (based on 31 March 2020 values).

As a landlord, we continue to work with a wide cross-section of occupiers from different sectors to ensure that we are providing the best environment for their businesses to thrive. Full consideration of ESG issues remains at the heart of this, and is integral to the manner in which we conduct our business. We committed over the year to a set of service guidelines to emphasise the benefits of this approach to existing and future occupiers; one of our key stakeholder groups. We also completed a full scale review of our 2013 Sustainability Strategy and, at the beginning of the year, replaced this with our 2019 Sustainability Framework – The Right Choice for a Sustainable Business. This covers a wide range of ESG objectives and targets which we report fully on our website, and has proved to be an invaluable guide to help align our business with our corporate vision, mission and purpose, enabling us to exceed the sustainability requirements of our target markets and to address the ESG considerations of other stakeholders more generally.

Simon Perkins
Chief Executive Officer
8 June 2020

Strategic Framework

Our strategy is to apply entrepreneurial property initiatives to create sustainable value from our assets for our stakeholders.

A focus on sustainability is embedded across our operations and we integrate ESG issues into our overall strategy.

See our ESG framework page 28

Strategic priorities		2019/20 progress
01	**Delivering our development programme** Our development programme focuses on the major refurbishment and development of commercial properties to generate income and capital gains, and to create environmentally sustainable buildings and attractive work spaces.	• Practical completion of Theale Logistics Park achieved shortly after the year end • This completes the final phase of our current development programme
02	**Releasing portfolio income potential** Ensuring portfolio properties meet evolving occupier needs in order to capture full rental value through lettings and rent reviews. See The McKay Way on page 21	• Achieved 22 open market lettings ahead of ERV at a combined contracted rent of £1.31 million pa • Formally introduced 'The McKay Way', setting out our customer service commitment to our occupiers • Settlement of ten rent reviews, ahead of ERV and the prior passing rent • Direct relationship maintaining a high occupier retention rate at lease break or expiry
03	**Enhancing scope for future growth** Maintaining a strong balance sheet and portfolio potential by recycling capital through disposals into acquisitions and portfolio initiatives and maintaining scope for growth through capital markets.	• Conditional sale of the long leasehold interest of 30 Lombard Street, EC3 at a 4.16% yield to capture development gains and to recycle capital • Sale of Station Plaza, Theale for £8.23 million realising a substantial 29.9% (£1.86 million) net surplus over book value • £15.50 million acquisition of Rivergate House, Newbury; a multi-let office building with growth potential

	Relevant performance metrics	Future objectives	Risks
	IFRS NAV £309.17m **PCR 0.3%** **Reduction in energy[1] consumption 14.0%** **Reduction in CO_2 emissions 44.0%** **GRESB score 75, 3-star rated** **BREEAM rating on new developments Excellent** **EPC rating B**	• Let Theale Logistics Park • Identify and progress new schemes	• Impact of Covid-19 • Market downturn • Availability of new opportunities
• Responding to occupier demand with short-form leases and flexible leasing terms • Successfully trialled partially fitting out vacant office floors to assist marketing, branded as McKay + and McKay ++	**Tenant retention rate 80.0%** **Occupier satisfaction recommendation score 94.0%** **IFRS NAV £309.17m** **TPR 4.1%**	• Maintain high occupier retention rate • Maintain/improve upon our occupier satisfaction score in the next occupier survey • Evolve our smart building technology to improve our offer to occupiers • Maintain strong relationships with occupiers and suppliers	• Impact of Covid-19 • Market downturn • Tenant default
• Securing a new £180.00 million loan facility providing additional headroom for acquisitions and projects of £55.00 million	**IFRS NAV £309.17m** **3 year TSR 6.2%** **Property portfolio value £510.00m**	• Continue to utilise increase in loan facilities • Maintain banking relationships • Secure earnings and value-enhancing acquisitions • Continue to capture value from portfolio initiatives • Enhance prospect for strategic growth	• Impact of Covid-19 • Lack of suitable investment opportunities • Overpricing restricting purchasing • Covenant compliance

1 Compared to base in 2015/16.

Strategy in Action

01

Delivering our development programme

- 135 Theale Logistics Park
- Former 96,850 sq ft chilled warehouse bought in 2015
- While retaining income, achieved planning for new distribution/logistics unit of 134,430 sq ft
- Floor area increase of 39%
- ERV increase of 97%
- Once ready to demolish, agreed early surrender payment with tenant
- Practical completion now achieved with marketing under way

02

Releasing portfolio income potential

- Brooklands, Weybridge – prime industrial unit purchased from an owner occupier in 2007 with benefit of leaseback
- We refurbished the warehouse content and secured a lease to Hermes Parcelnet in 2008
- In 2013, negotiated an overriding lease to Hermes Parcelnet of the whole
- In 2019, achieved a 12.1% rent review uplift, ahead of ERV

03

Enhancing scope for future growth

- Conditional sale of 30 Lombard Street, EC3, with completion estimated in Q3/2020
- Let prior to completion of development in January 2019 on a 15-year lease
- Net proceeds of circa £65.00 million to recycle into new opportunities and existing portfolio
- New £180.00 million revolving credit facility secured with syndicate of four banks
- On top of existing fixed Aviva debt, increases facilities to £245.00 million
- Post-sale of 30 Lombard Street, EC3, circa £100.00 million for new opportunities

Our Stakeholders

We believe to secure our long-term success, we must take account of what is important to our key stakeholders.

We set out here our key stakeholders, how we engage with them and what they tell us is important to them. We will continue to build on our strong relationships with all our stakeholders. It is important for us to listen and understand their needs. This understanding will support the decision making process at all levels in the business, enhance our reputation as a trusted landlord, and further establish our presence in the office, industrial and logistics markets of the South East and London.

Stakeholder	Why they matter
Occupiers	Our occupiers are at the heart of our business and we take great pride in creating sustainable environments where their businesses can thrive.
Investors	Our shareholders are fundamental to how we operate as a business. They provide the equity base for the business and although they are primarily looking at a financial return they are increasingly holding companies to account on their ESG strategy and policies.
Employees	Our employees are a diverse mix of highly skilled and experienced individuals who are keen to see both themselves and the Company develop and grow. Their skills, enthusiasm and commitment are central to business success.
Communities	We are mindful that as a Company we do not work in isolation. We are committed to playing our part in the local community and supporting charitable, education and other causes that might benefit from our experience.
Suppliers	We use a large number of products and services to construct, improve and maintain our buildings. The procurement choices we make can have a significant impact on people, organisations and the wider environment. For this reason, suppliers and contractors play a fundamental role in delivering our vision and achieving our objectives. We recognise that by working closely with our suppliers we can have a material impact and we have an obligation to ensure that our supply chain and procurement practices follow proper standards.

How we engage	What matters to our stakeholders	Further links
• Each occupier is appointed their own dedicated in-house asset manager who is available to discuss any aspect of an occupier's lease terms. • A dedicated in-house occupier services representative is assigned to each occupier. Their aim is to support each occupiers' business needs on a day-to-day basis. • We carry out regular customer services satisfaction surveys creating action plans and feedback on actions taken.	• Unique spaces – creating the right space for each individual occupier. • Flexible lease terms. • Value for money. • Excellent customer service experience. • An approachable landlord. • The environmental impact of their space.	The McKay Way **page 21** ESG Overview **page 28**
• Regular press releases and RNS announcements on business events. • There is a well established investor relations programme of investor and analyst presentations. These presentations follow the annual financial timetable and are undertaken following the announcement of the end of year and half year results. • All Directors attend the Annual General Meeting ('AGM') and are available to engage with shareholders. • The Chairman of the Remuneration Committee wrote to major shareholders and governance bodies in February 2020 in relation to the Remuneration Policy Renewal at the 2020 AGM.	• Financial performance. • A robust business model. • Implementation of a sound ESG strategy. • Effective communication.	ESG Overview **page 28** Strategic Framework **page 12**
• An Employee Representative Non-Executive Director ('desNED') was appointed in April 2019 and provides a conduit to the Board for the employee voice. • Executive Directors undertake year end and interim presentations to employees and actively encourage attendance at the Company's AGM. • We engage with employees through regular team meetings, annual appraisals and training opportunities. • As part of our commitment to the wellbeing of our employees we offer health and dental care schemes, and occupational health support is regularly made available.	• Inclusivity and empowerment. • Top-down communication. • Collaboration– sharing ideas and views. • Continual development of skills. • A flexible working environment. • Supportive employee health and wellbeing services.	Corporate Governance **page 46** Case Study – desNED **page 47** ESG Overview **page 28**
• Supporter of the Reading University Pathways to Property programme. As part of this programme three of our team are now mentors to students on their property course. • A partner of Ethical Reading, a not-for-profit social enterprise dedicated to making Reading a better place to live and work through helping organisations become more ethical. • Supporter of Land Aid, a property industry charity focused on reducing youth homelessness. • In the current Covid-19 environment we have supported NHS Charities Together, the umbrella organisation for the NHS' official charities in the UK and local charity Alexander Devine children's hospice service.	• Supporting selected charities. • Working in partnership with the local community. • Building close links with our local university.	ESG Overview **page 28**
• We engage with all suppliers at pre-qualification stage and with every new contract or contract renewal. • Key suppliers in the top five operational procurement categories are audited on an annual basis to ensure compliance with our procurement policy. • We strive for continual improvement. We are committed to advancing our policies and systems across the Company to ensure we address and monitor performance in all aspects of sustainability that are relevant to the business.	• Building relationships based on a strong ethical ethos and high standards. • Prompt payment practices. • A responsible procurement policy. • Promoting human rights – Introduction of our Human Trafficking and Anti-Slavery Statement. • Reducing adverse environmental impacts.	See our website mckaysecurities.plc.uk for our Responsible Procurement Policy and our Anti-Slavery and Human Trafficking Policy Statements. See also ESG Overview **page 28**

Property and Financial Review

A positive year with a sound platform to grow.

Tom Elliott MRICS
Property Director

Giles Salmon FCA
Chief Financial Officer

Occupancy (excluding developments)

92.6%

(31 March 2019: 91.0%)

Reversion

£6.58m pa

(31 March 2019: £6.61m pa)

Market review

Over the year investor appetite for real estate and rental growth was tempered by an uncertain political climate. After the election delivered a majority government, there was a definite pick-up in both occupier and investor demand, which was subsequently cancelled out by Covid-19. Since then, the majority of investment and leasing transactions have been put on hold.

With this low growth environment, the market as a whole was generally flat over the year, with the MSCI Monthly Index (All Property) registering a 4.8% decline in capital values, a 0.3% decline in rental values and a total return of -0.1%.

The headline numbers mask the performance of the different sectors of the Index, with shopping centres declining in value by 20.5% compared with an increase of 1.0% for the industrial and logistics sector. With our sector weighting, and with the benefit of our active management, refurbishment and development initiatives, our portfolio outperformed the Index with a slight valuation surplus, like-for-like rental growth of 2.4% and a total return of 4.7%.

The largest segment of our portfolio is South East offices, located predominantly in the M4 corridor. This market is characterised by historically low levels of vacancy and supply, resulting in a limited choice of modern floorspace. The vacancy rate across the market of 7.3% (2019: 7.6%) has halved from 14.2% in 2014, and the vacancy rate for new floorspace of 1.8% is a further reduction on the historic low of 1.9% reported last year.

The constrained choice for occupiers is likely to become more acute as over half the office stock in the South East (within the MSCI Index) is now older than the generally held design lifespan of 25 years. These buildings, many of which remain occupied, are becoming increasingly unfit for the demands of modern business, and if refurbishment is unviable, will be lost to alternative uses such as residential.

Table 1

Location and sector (by value: 31 March 2020)

Location/sector	Number of assets	Percentage of total portfolio by value (£510.00m)
South East Offices	17	52%
London Offices	4	25%
South East industrial/logistics	8	18%
Other	4	5%

Top Assets

The top five properties represent 39.0% of the portfolio by value.

30 Lombard Street, EC3

City of London office development, let prior to completion in 2019 to St James's Place plc for a 15-year term. Long leasehold sale contracts exchanged at 4.16% initial yield.

58,590 sq ft

See more on **pages 11 and 15**

Redhill, Prospero

Highly specified freehold office development completed in 2016. Multi-let setting new rental levels in Redhill.

50,370 sq ft

Wimbledon Gate, SW19

Prime Wimbledon freehold office developed by McKay, let entirely to Domestic & General Group Limited.

58,690 sq ft

The Mille, Brentford

12-storey prominent 'Golden Mile' freehold office tower. Recently refurbished and multi-let.

96,700 sq ft

See more on **page 11**

Portsoken House, EC3

Long leasehold, landmark multi-let office building opposite Aldgate, tube well positioned between EC3 and Whitechapel.

49,570 sq ft

See more on **page 22**

Property and Financial Review continued

By comparison, all our buildings would either be described as Grade A in their respective markets as a result of our proactive refurbishment programmes.

The development pipeline of new and refurbished office buildings in the South East remains limited, with a total of 1.29 million sq ft currently under construction and due for completion in the next two years. This additional supply is well below the five-year average take-up for new and Grade A stock of 1.73 million sq ft, and on this basis will be insufficient to overcome supply constraints in the major centres.

Occupier demand for offices within the South East remained steady over the year at around 3.0 million sq ft. Over the last five years, 83.5% of office lettings have been for unit sizes below 60,000 sq ft. This trend was maintained in 2019, with take-up of 1.68 million sq ft in this size range, representing 94.2% of lettings. However total lettings for the year of 1.73 million sq ft were 14.2% below the five year average, with only one letting over 60,000 sq ft compared with six in 2019, highlighting the lack of larger lettings likely due to the political and economic uncertainty during the year. We have deliberately positioned our portfolio to meet this trend over many years, with the average size of our South East office assets being 43,000 sq ft.

Of the total take-up, 90% was for new and Grade A floorspace, also maintaining a trend that we have been tracking, which emphasises that in the event of an office move, occupiers have been looking to improve working environments.

Our four London office properties account for 24.7% of the portfolio (by value). On completion of the disposal of 30 Lombard Street, EC3 this will reduce to 13.2% (based on March 2020 values). Stable market conditions were maintained over the period, also supported by a shortage of Grade A supply. The vacancy rate in central London stands at 5.7%, below the ten-year average of 6.7%.

The combination of a clear preference from occupiers for Grade A product and a shortage of supply across the South East and London office markets is likely to cushion rental falls in the short term as occupiers review their requirements post Covid-19. Named demand in the market since lockdown has remained steady, with occupiers still evaluating the often limited alternatives available.

However, new lettings are likely to be deferred while businesses review working practices and resulting space requirements, which would support our already high levels of occupier retention. If occupiers decide to decentralise in order to reduce exposure to congested public transport, the regional markets of the South East can provide alternative business locations at significantly lower occupational costs. Furthermore, the anticipated requirement for more space per employee as a consequence of Covid-19 should help support the office sector resilience.

The industrial and logistics sector remained buoyant over the year, driven by the distribution space required to meet growing online demand. Demand could increase further as the move to online retail accelerates, and as a result of the Covid-19 crisis highlighting pressures on supply chains and the possible need for on-shoring greater storage capacity. Total supply in the South East of 5.80 million sq ft reflects a vacancy rate of 5.0% – the lowest of any region in the UK. This represents just under one year's take-up based on the five-year average of 5.92 million sq ft.

The structural shift in retailing and the shortage of supply support a positive outlook for this segment of our portfolio (18.1% by value) and for the letting prospects of our recently completed warehouse scheme at Theale Logistics Park.

Development programme

Having developed and successfully let three major office schemes in prior periods, our final development borne out of the 2014 capital raise is the 134,430 sq ft distribution warehouse at Junction 12 of the M4 near Reading, known as 135 Theale Logistics Park. This highly specified, fit for purpose unit reached practical completion shortly after the year end, and is ideally placed to meet the unrivalled growth in demand for conveniently located units with large, self contained yards. Marketing is under way with an active interest schedule, though the Covid-19 crisis is temporarily hindering building inspections and progress with leasing prospects.

Asset management

Sustainability and flexibility have never been more important as priorities for office occupiers. At McKay, we began both our sustainability drive and flexible office concept in earnest back in 2014. Since then we have been awarded Global Real Estate Sustainability Benchmark ('GRESB') green star status for the past four consecutive years and have evolved a well received flexible leasing model across several of our South East office properties.

We constantly strive to provide best in class, relevant, good value business space with excellent customer service for our occupiers. All our property and asset management is undertaken in-house giving us direct access to our occupiers, enabling strong relationships and quick decisions. In the second half of the year we formally introduced 'The McKay Way' which sets out our customer service commitment to our occupiers. This approach contributed to improved portfolio occupancy (excluding developments) at the year end of 92.6% (31 March 2019: 91.0%) and helped us to maintain a high occupier retention rate (where occupiers elected to stay at lease expiry or break) of 80.0% (31 March 2019: 75.8%), and a 6.4% increase in passing rent for those retained.

The year will be remembered as a first half of Brexit uncertainty, followed by a sharp recovery after the clear election majority in December, only to be cut short by the Covid-19 lockdown. In spite of this uncertain and often turbulent 12-month period we completed 22 open market lettings at a combined contracted rent of £1.31 million pa, 1.4% ahead of ERV. This increased the portfolio contracted rent (net) to £28.33 million pa (31 March 2019: £27.22 million), still with a healthy potential reversion of £6.58 million pa of growth to income based on March 2020 rental values. Overall, our total portfolio return of 4.7% significantly outperformed the MSCI Index of -0.1%.

In addition to our day-to-day proactive asset management, we completed two major office refurbishments in Crawley and Staines, as well as improving rental values with rolling refurbishment programmes in Brentford, Bracknell, Woking and Victoria SW1. At our industrial and logistics assets we carried out a significant refurbishment in Folkestone and continued to drive rents upwards at our trade parks.

The refurbishment of the entirety of Pegasus 2 at our Pegasus Place office park in Crawley (12,720 sq ft) was rewarded with a pre-let of the ground floor at a record Crawley rent of £27.00 psf (£0.10 million pa) to an expanding sub-tenant of neighbouring Pegasus 3, which contributed to ERV growth for the entire Pegasus Place estate (50,790 sq ft) of 10.3% compared to the benchmark of 0.9%. Likewise at Mallard Court, Staines (21,860 sq ft) we carried out a major refurbishment and secured an early letting of the part first floor at a new rental high for the building of £31.50 psf (£0.06 million pa) reflecting the appeal of not only the improved reception and office space, but also the latest building technology. This included the Mallard app which enabled all users and visitors to access the building using mobile phones and giving temperature and lighting control and information on local amenities to the occupiers.

The McKay Way

The McKay Way sets out our customer service commitment and describes our approach to achieve and maintain the important relationship between ourselves as landlord and our occupiers. Most of all, it is about McKay people directly managing our own properties; people who genuinely care and will always go the extra mile to assist our occupiers and do the right thing whilst maintaining excellent relationships with our suppliers and contractors to deliver exceptional service.

“At McKay, we believe our relationship with each and every occupier is key to our business. Accordingly, we set out our commitment to existing and future occupiers in ‘The McKay Way’, introduced earlier in the year.

Lynda Perry
Head of Occupier Services

01 Transparency

If we say we will, it happens – our word is our bond. Everything is clear, easy to understand and transparent.

02 Directly managed

McKay people in McKay buildings – looking after your teams and your business every day in the right way.

03 Customer service

You are at the heart of everything we do. We give our best every day and respond when you need to us to.

04 Value for money

Too much, too little or just right. We will find the right value not just for the lease but for the operations and running costs that impact upon your business.

05 Unique spaces

We will help you to create a space that meets your needs and is right for your people, teams and business to thrive.

06 Flexibility

Let us help you to find the right space. If you need more we can help – if you need less, we can help you with that too.

07 Approachable

It all begins and ends with a conversation. Talk to us – we are here to help.

08 Fitted space options at McKay multi-let office assets

‘McKay +’ Office space includes at least one meeting room and a kitchenette with fibre enabled cabling ready to lay.

‘McKay ++’ Office space is fully fitted and cabled with desks, kitchen, meeting rooms – ready to ‘plug and play’.

Property and Financial Review continued

This impressive technology also negated the need for a receptionist, thereby reducing the service charge and in turn improving the affordability.

At One Castle Lane (14,250 sq ft) in Victoria, SW1, we continued to push rental growth ahead of the benchmark. On the third floor we took an early surrender payment having simultaneously agreed terms to let it to an expanding occupier at ERV, securing a 25.0% increase in rent. Another occupier, a leading firm of chartered surveyors in Victoria, renewed its lease for an additional five years (£0.10 million pa) further endorsing the building.

Over the year, we continued to evolve ways to facilitate occupancy which included the introduction of short-form leases and flexible leasing terms. We have also trialled partially fitting out vacant office floors to assist marketing, branded as McKay +, and McKay ++ where the floors are fully fitted out. We demonstrated the success of this at Portsoken House, EC3 (49,570 sq ft) with lettings ahead of ERV and minimal rent free. We also introduced McKay ++ to part of our refurbishment of The Mille at Brentford (96,700 sq ft) and successfully let a suite of 1,451 sq ft at a new rental high for the building of £27.50 psf (£0.05 million pa) with minimal rent free on a five-year lease term.

Our flexible suites at One Crown Square, Woking (50,190 sq ft) ranging in size from 500 sq ft to 2,500 sq ft remained in demand, with nine lettings and renewals achieved during the period. Of particular note was a letting to Handelsbanken for their new local office of 2,153 sq ft (£0.06 million pa) where they committed to a ten-year lease with a break at the end of the fifth year.

At the 5 Acre Estate in Folkestone, one of the larger industrial units (17,845 sq ft) became vacant after a considerable period of continuous occupation. Prior to expiry, we agreed terms to carry out modernisation works for an expanding tenant on the estate who signed a ten-year lease at ERV (£0.09 million pa).

At the McKay Trading Estate in Poyle (73,955 sq ft), near Heathrow, our largest occupier (32,251 sq ft) extended three leases for a year, ahead of ongoing discussions for a further five years at ERV (£0.44 million pa).

As refurbishments of our office and industrial space create rental growth and new rental evidence, this in turn feeds through to rent reviews. During the period we settled ten rent reviews (£2.31 million pa contracted rent), 4.1% ahead of ERV and 13.9% ahead of the prior rent.

Acquisitions and disposals

Throughout the year the demand for office, industrial and logistics investments in our markets exceeded the low supply, thereby supporting and enhancing capital values up until the onset of Covid-19. This demand – supply imbalance made for a competitive environment, presenting difficulties in securing good value opportunities.

We took advantage of the strength of investor demand with the sale of the long leasehold interest in 30 Lombard Street, EC3, our recently completed 58,590 sq ft office development which we pre-let to St James's Place plc on a 15-year lease without breaks on completion of the scheme in January 2019. The headline sale price of £76.50 million (estimated at circa £65.00 million after deductions for unexpired letting incentives and fees) reflects a net initial yield of 4.16% and will conclude this successful project which began with the purchase of a 36,000 sq ft 1960s office building in 1999. While maintaining income, we secured planning consent, increasing the lettable area by 62% and began development with funds from the 2014 capital raise. The sale remains conditional on completion of a revised highways agreement which is progressing, though taking longer than first anticipated due to Covid-19 restrictions. We hope to be able to meet this condition and complete the sale in Q3/2020, ahead of the 12-month longstop in December 2020.

We also achieved a good sale price for Station Plaza (41,420 sq ft), a freehold office asset in Theale, near Reading of £8.23 million. The three building campus was bought in 2014 while fully let to a single tenant with a lease expiry in July 2019, generating a 10.1% income yield (£0.91 million pa rent). In the lead up to lease expiry, a number of asset management options had been analysed, the most suitable being a comprehensive office refurbishment. However, the sale to an owner occupier, 32.7% ahead of valuation, delivered the anticipated refurbishment profit with no letting or construction risk.

In addition to the above, the disposal of The Planets (98,255 sq ft) in Woking, a two-storey town centre leisure facility let to Woking Borough Council until September 2021, remained conditional on the receipt of planning consent at the end of the year. We exchanged sale contracts in 2019 with a housebuilder who is obliged to pursue planning consent, with the end sale price to be based on the number of consented residential units. The purchaser, at its own cost, applied for a 28-storey, high density residential development in September 2019, which was recommended by officers for approval at the planning committee hearing in March 2020. However, the committee members went against the recommendation and, as a result, an appeal currently looks probable, with encouraging prospects for a successful outcome to allow the sale to complete within the next 12 months, ahead of the longstop date of September 2021 if successful.

As noted above, it has been a competitive investment market with a range of buyers attracted by the potential returns available and improving growth prospects. Over the course of the year we continued to analyse both on and off market investment opportunities where we believe we can add value through development, refurbishment and other asset management initiatives. We appraised 161 opportunities and formally inspected 25. The main reason for discarding the majority of these related to the potential cost of entry providing limited returns either on an initial yield basis or after forecasted capital expenditure and letting risk.

The one opportunity that we did acquire came through market contacts in October 2019, when we purchased Rivergate (61,385 sq ft) a multi-let office building fronting Newbury Business Park, for £15.50 million. The property had benefitted from a recent comprehensive refurbishment and has very generous on-site parking. It is fully let to six occupiers with an average unexpired lease term of 8.8 years (6.7 years to break), at an overall rent of just £21.40 psf. The purchase price reflected a net initial yield of 7.5% and at the year end, five months after purchase, the independent valuer of the portfolio assessed its value 7.1% higher than the purchase cost.

Table 2
Portfolio yields and reversions

	31 March 2020 £m pa	31 March 2020 Yield[2]	31 March 2020 Occupancy[3]	31 March 2019 £m pa	31 March 2019 Yield[2]	31 March 2019 Occupancy[3]
Current rental income[1]	21.90	4.0%		21.24	4.1%	
Contracted rental income[1]	28.33	5.2%	88.7%	27.22	5.3%	88.0%
Uplifts at rent review/lease expiry	2.62			2.53		
Void properties (excluding developments[3])	2.48		7.4%	2.60		9.0%
Void (developments)	1.48		3.9%	1.48		3.0%
Portfolio reversion	6.58			6.61		
Total portfolio ERV	**34.91**	**6.4%**		**33.83**	**6.6%**	
Equivalent yield		5.7%			5.7%	

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

Valuation

Knight Frank's independent valuation of the Company's property portfolio as at 31 March 2020 totalled £510.00 million, resulting in a small valuation surplus of £0.11 million for the year.

After a 1.0% valuation surplus at 30 September 2019 for the first half of the year, the market continued to improve with the clear election majority until Covid-19 emerged. This pulled values back, contributing to a second half deficit for our portfolio of 1.0%. Bearing in mind the lockdown came only eight days prior to the year end, this was a challenging time to determine market value, with very little market evidence on the impact of Covid-19 on rental and capital values.

As a result, the 31 March 2020 valuation contained a material valuation uncertainty clause in accordance with the guidance issued to all valuers by the RICS.

As at 31 March 2020 the portfolio net initial yield was 4.0% (31 March 2019: 4.1%) rising to 5.2% on the expiry of outstanding rent free periods (31 March 2019: 5.3%). The reversionary yield at full ERV reduced to 6.4% (31 March 2019: 6.6%) reflecting new lettings achieved over the year, thereby reducing the reversion and increasing the capital value.

Any growth has come from proactive asset management and development demonstrated by the equivalent yield staying flat over the 12 month period at 5.7%.

Our London office portfolio outperformed the sector Index both in terms of rental and capital growth. 30 Lombard Street, EC3, showed 5.1% capital growth over the period reflecting the conditional sale price ahead of the prior valuation, and the leasing success at One Castle Lane, SW1, delivered rental growth of 5.8% with corresponding capital growth of 4.9%.

Through our refurbishment programme of upgrading assets and adapting them to meet relevant occupational demand, our ERV growth in South East offices of 3.0% significantly outperformed the Index of 0.9%. However, the capital growth of -4.3% was below the sector Index (-2.0%). This was mainly due to valuation assumptions reflecting lease expiries at two of our larger assets over the next two years, and the inclusion of potential capital expenditure at a further asset. Valuations reduce in these circumstances, before increasing on lease renewal or reletting.

Our industrial portfolio performed strongly in line with the sector Index, showing both good rental growth (2.9%) and capital growth (3.3%), reflecting the quality of our assets.

135 Theale Logistics Park (134,430 sq ft) was our only asset in development over the period. This contributed a significant 18.4% (£3.72 million) capital surplus, with the enhanced value reflecting reduced development risk as it reaches practical completion.

Dividends

The final dividend of 4.4 pence per share (31 March 2019: 7.4 pps) will be paid on 13 August 2020 to those on the register on 19 June 2020. With the interim dividend of 2.8 pence per share, this takes the total dividend for the year to 7.2 pence per share, a decrease of 29.4% 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'). After taking into account allowable costs the final dividend will be paid as an ordinary dividend rather than a PID.

Income statement

Profit before tax (IFRS) reduced to £9.49 million (31 March 2019: £13.19 million), mainly as a result of the valuation surplus of £0.11 million being lower than the prior year (31 March 2019: surplus £6.47 million). After IFRS 16 adjustment, the reported movement on valuation reduced to a deficit of £2.20 million (31 March 2019: surplus £4.83 million).

Property and Financial Review continued

Table 3
Capital value movement

12 months to 31 March 2020[1]	2020 portfolio valuation £m	2019 portfolio valuation £m	12 month[1] movement	MSCI[2] movement
London offices	125.80	120.80	3.7%	1.1%
South East offices	249.70	255.70	-4.3%	-2.0%
Total offices	375.50	376.50	-1.8%	-0.8%
South East industrial/logistics	68.35	65.65	3.3%	2.4%
Other	24.55	24.55	-1.2%	–
Total (excluding developments)	486.40	466.70	-1.1%	-4.8%[3]
Developments[4]	24.00	9.80	18.4%	
Total portfolio (like-for-like)	492.40	476.50	-0.2%	-4.8%
Disposals	–	6.20		
Acquisitions	17.60	–		
Total (overall)	510.00	482.70	0.0%	-4.8%

1 Valuation movements (%) after allowing for capex incurred during the period.
2 MSCI Monthly Index by relevant sector MSCI London = City sector.
3 MSCI Monthly Index (All Property).
4 Theale Logistics Park.

Table 4
Rental value movement

12 months to 31 March 2020	2020 portfolio ERV £m pa	2019 portfolio ERV £m pa	12 month movement	MSCI[1] movement
London offices	7.15	7.08	1.0%	1.6%
South East offices	19.72	19.13	3.0%	0.9%
Total offices	26.87	26.21	2.5%	1.6%
South East industrial/logistics	3.96	3.85	2.9%	3.4%
Other	1.17	1.15	1.4%	–
Total (excluding developments)	32.00	31.21	2.5%	-0.3%[2]
Developments[3]	1.48	1.48	0.0%	
Total portfolio (like-for-like)	33.48	32.69	2.4%	-0.3%
Disposals	–	1.14		
Acquisitions	1.43	–		
Total (overall)	34.91	33.83	3.2%	-0.3%

1 MSCI Monthly Index – by relevant sector. London = MSCI City sector.
2 MSCI Monthly index (All Property).
3 Theale Logistics Park.

Adjusted profit before tax, our measure of recurring profit, increased by £0.46 million (5.0%) to £9.73 million (31 March 2019: £9.27 million) primarily due to increased portfolio rental income. Adjusted basic earnings per share increased by 4.8% to 10.32 pps (31 March 2019: 9.85 pps).

Gross rents, including IFRS 16 adjustments, increased by 16.4% (£3.55 million) to £25.16 million (31 March 2019: £21.61 million). This was due to increased income from a number of portfolio properties, but particularly from 30 Lombard Street, EC3, which accounted for £2.42 million of the increase as a result of a full year contribution, supported by good lettings at One Crown Square, Woking and The Mille, Brentford.

The acquisition of Rivergate, Newbury further contributed to rental income (£0.48 million), partially offsetting the income lost as a result of the disposal of Station Plaza, Theale (£0.62 million).

Property costs for the year of £3.25 million were up £0.47 million on the previous year (31 March 2019: £2.78 million) mainly due to higher non recoverable costs from our void properties, which reduced as the year progressed.

Administration costs reduced to £5.16 million (31 March 2019: £6.05 million), primarily due to a downward adjustment to the IFRS 2 (share-based payments) forecast.

The interest cost (before capitalised interest) for the year increased to £7.36 million (31 March 2019: £6.13 million), due to higher drawings, the April 2019 refinancing costs and increased headroom resulting in a higher commitment fee (until the monies are drawn). The positive benefit of capitalised interest on development projects has also reduced as a result of the development programme nearing completion. The weighted average cost of debt prior to amortisation and finance lease interest remained constant at 3.3% (31 March 2019: 3.3%).

Balance sheet

Shareholders' funds decreased from £311.08 million to £309.17 million over the period, principally due to a £1.39 million deferred tax liability relating to the conditional sale of 30 Lombard Street, EC3.

EPRA NAV per share increased by 0.9% over the period to 329 pence (31 March 2019: 326 pence). NNNAV per share increased to 327 pence (31 March 2019: 326 pence) and IFRS NAV per share reduced by 0.9% to 328 pence (31 March 2019: 331 pence).

On 8 April 2019, we announced an increase in the level of bank facilities available to the Company. Building on 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.

As a result, debt facilities at the year end increased to £245.00 million (31 March 2019: £190.00 million). Drawn debt totalled £194.00 million (31 March 2019: £165.00 million), providing £51.00 million of headroom over our current drawings to support operational flexibility, deliver further portfolio initiatives and provide increased scope for new investments. This headroom will be increased by circa £65.00 million on completion of the agreed sale of 30 Lombard Street, EC3.

The gearing ratio of net debt to portfolio value (LTV) at the year end was 37.6% (31 March 2019: 33.3%). The increase in drawings over the year was primarily a result of £16.84 million of capital expenditure on portfolio development and refurbishment projects, and the investment of a further £16.44 million (including costs) on the acquisition of Rivergate, Newbury. We have very limited committed portfolio capital expenditure, having completed our current development and refurbishment programme. Future decisions regarding expenditure will continue to be made on a selective case by case basis.

Net cash inflow from operating activities was £6.81 million (31 March 2019: inflow £8.70 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 2.28x (31 March 2019: 2.08x).

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 (31 March 2019: nil). There is however a deferred tax provision of £1.39 million relating to the planned sale of 30 Lombard Street, EC3, as the anticipated completion of the sale would be within three years of practical completion and would therefore trigger a chargeable capital gain under REIT regulations.

Defined benefit pension scheme

Under the application of accounting standard IAS19, the Company's pension deficit slightly reduced over the period from £2.11 million to £2.10 million.

A triennial valuation is due for the period to 31 March 2020, the results of which should be available later in the year. The previous triennial valuation showed a funding level of 87.5% on a continuing valuation basis, resulting in an annual cash contribution to the scheme which 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 uncertainty section of the Strategic Report on page 35.

Signed on behalf of the Board of Directors

T Elliott
Property Director
8 June 2020

G Salmon
Chief Financial Officer
8 June 2020

Property and Financial Review continued

Table 5
Five year summary

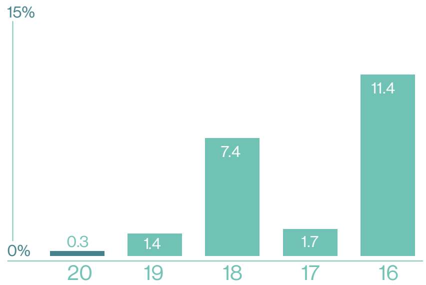
Financial measure	2020	2019	2018	2017	2016
Gross rental income (£'000)	**25,164**	21,608	21,844	20,790	20,159
Net rental income from investment properties (£'000)	**21,981**	19,906	20,453	19,871	17,664
Profit before taxation (£'000)	**9,487**	13,190	43,443	17,594	53,160
Adjusted profit before taxation (£'000)[1]	**9,727**	9,272	9,067	8,605	7,943
Investment properties (£'000)	**510,000**	482,700	460,150	429,915	401,170
Loans and borrowings (£'000)	**(190,505)**	(163,176)	(144,598)	(134,100)	(113,701)
Total equity (£'000)	**309,166**	311,083	306,440	270,792	261,223
Ordinary dividends per share (pence)	**7.2**	10.2	10.0	9.0	8.8
Earnings per share – basic (pence)	**8.6**	14.0	46.3	18.8	57.2
Earnings per share – adjusted basic (pence)[1]	**10.3**	9.9	9.7	9.2	8.5
Net asset value per share (pence)	**328**	331	326	289	280
EPRA net asset value per share (pence)[1]	**329**	326	322	303	301
Interest cover	**2.2**	2.1	2.0	2.0	1.9
Loan to value	**38**	33	32	32	29

1 See Note 4 of the Financial Statements for APMs.

Key performance indicators

Financial KPIs

Portfolio capital return (capital) ('PCR') (%)

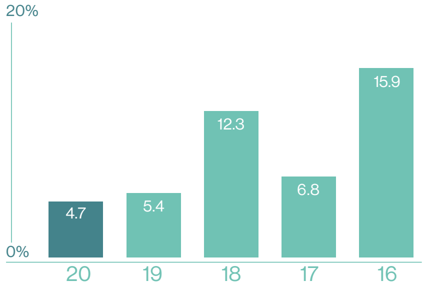


Definition
The annual valuation and realised surpluses from the Company's investment portfolio expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.

Performance
Flat returns as a result of the Covid-19 environment.

Link to strategy: 01 02 03

Total portfolio return (capital and income) ('TPR') (%)[1]



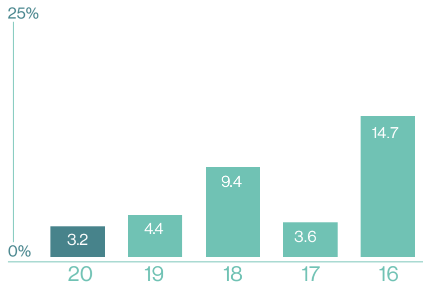
Definition
The portfolio capital return and net rental income from investment properties for the year expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.

Performance
Positive income return coupled with flat capital return.

Link to strategy: 01 02 03

1. See Note 5.

Net asset value return ('NAV') (%)

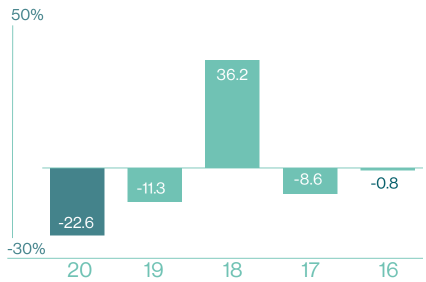


Definition
The growth in adjusted net asset value per ordinary share plus dividends reinvested per ordinary share expressed as a percentage of the adjusted net asset value per share at the beginning of the year.

Performance
The dividend coupled with a flat capital return contributing to the positive return.

Link to strategy: 01 02 03

Total shareholder return ('TSR') (%)



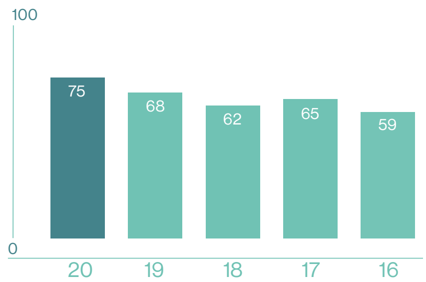
Definition
The growth in the value of an ordinary share plus dividends reinvested during the year expressed as a percentage of the share price at the beginning of the year.

Performance
The impact of Covid-19 significantly affected the real estate sector at the end of the year, turning returns negative.

Link to strategy: 01 02 03

Non-financial KPIs

GRESB score (%)

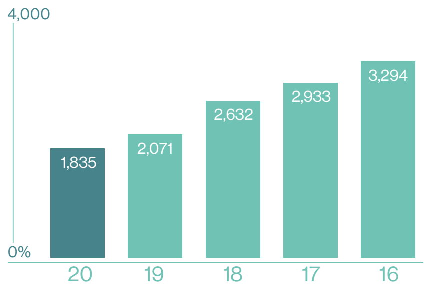


Definition
GRESB assess and benchmarks the environmental, social and governance (ESG) performance of real estate assets. The GRESB Real Estate Assessment is the investor-driven global ESG benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate.

Performance
We first submitted to the GRESB Real Estate Assessment in 2014 scoring 37. In 2019 we achieved our highest ever score of 75 and maintained our 3 star rating. This improvement is the result of work we have done to embed sustainability as a core part of our strategy and the ongoing development of our sustainability programme.

Link to strategy: 01 02 03

Portfolio carbon footprint (tonnes of CO_2e)



Definition
The portfolio carbon footprint is based on landlord-controlled energy consumption. The figures are calculated on a like-for-like basis of the 5-year period using UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting.

Performance
Like-for-like carbon emissions have decreased from 3,294 tonnes in 2015/16 to 1,835 tonnes in 2019/20. The significant reduction is due to energy efficiency measures at our assets and the ongoing decarbonisation of the grid.

Link to strategy: 01 02 03

ESG Overview

The Right Choice for a Sustainable Business

Following a comprehensive review of our 2013 sustainability strategy, we introduced our 2019 sustainability framework at the beginning of the year. The objective of this is to ensure that our business is resilient and responsive to changing stakeholder expectations and future events. It is fully aligned to our corporate vision, mission and purpose and centred on the delivery of ten objectives spread over three focus areas which enable us to effectively manage the ESG issues which are material to our business.

A customer-focused and flexible landlord

Low carbon, resource efficient and healthy buildings

A progressive and transparent business

> "We work in partnership to deliver high quality, innovative, sustainable solutions that provide the best environment for businesses to thrive.
>
> **Tom Elliott**
> Property Director and Head of Sustainability

We have set out our key issues for each of our three ESG pillars on the opposite page and report here and in the sustainability section of our website on our performance during the year.

During the year 2019/20, we continued to build on our strong track record of sustainability achievements. We are particularly proud to report that:

- Our score in the 2019 GRESB improved by 7 points, from 68 to 75, allowing us to maintain our 3-star rating
- Landlord-controlled energy consumption reduced by 4% on a like-for-like basis compared to 2018/19, equating to a reduction of 15% against our 2015/16 baseline
- Landlord-controlled, like-for-like carbon emissions decreased by 11% against 2018/19, a 44% reduction against our 2015/16 baseline year
- Further energy and water-saving technologies have been installed at our properties, as well as photovoltaic ('PV') panels at Theale Logistics Park
- Bolstered our climate risk management processes to support our response to the Task Force on Climate-related Financial Disclosures
- Health and wellbeing reviews were carried out at four properties, with reference to best practice defined in the WELL standard.

Our sustainability adviser, JLL, continues to provide ongoing support to implement our strategy and reviews progress made against targets on a quarterly basis.

For further detail on our ESG policies, targets and results see our website mckaysecurities.plc.uk.

01 Environment:

Low carbon, resource efficient and healthy buildings

Focusing on long-term sustainability by creating resource efficient and healthy buildings

Case study

See more on **page 31**

Material issues

- Energy and carbon
  – climate adaptation
- 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

02 Social:

A customer-focused and flexible landlord

Supporting our local communities and our occupiers' sustainability goals, and creating places where businesses and people can thrive

Case study

See more on **page 32**

Material issues

- Occupier attraction and retention
- Technological innovation
- Inclusivity
- Community wellbeing

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
- Identify opportunities to support the local communities around our assets, co-creating places where people and business can thrive

03 Governance:

A progressive and transparent business

Upholding high standards of corporate governance, managing and disclosing sustainability risk and unlocking sustainable value

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Case study

See more on **page 33**

Material issues

- Compliance with corporate governance guidelines
- Investor attraction and retention
- Transparent disclosure
- Climate risk
- Sustainable procurement
- Health and safety
- Employee engagement and wellbeing

Objectives

- Protect and enhance the current and future value of our assets and our business by anticipating and responding to evolving environmental and social trends, for example climate risk and health and safety considerations
- Communicate clearly and directly with our stakeholders and maintain our culture of sound corporate governance
- 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

ESG Overview continued

01 Environment

Low carbon, resource efficient and healthy buildings

Over the past five years we've been taking action to increase the resource efficiency of our assets and develop and refurbish properties to achieve higher sustainability standards. In this way we are actively supporting the shift towards a low-carbon and circular built environment that benefits our investors by reducing risk and offers our occupiers a better-quality workplace at a competitive service cost. We set ourselves 16 targets to deliver low carbon, resource efficient and healthy buildings in 2019/20, of which 14 were fully achieved.

Energy and carbon

- Reduced landlord-controlled, like-for-like energy consumption by 4% against 2018/19
- New renewable electricity contract in place covering 100% of assets and enabling a flexible arrangement to accommodate portfolio flux
- Energy reductions anticipated in 2020/21 through the installation of new HVAC systems at four properties
- Installation of PV panels at Theale Logistics Park to generate renewable electricity

Building health, wellbeing and productivity

- Conducted a review of the health and wellbeing features of five assets to develop McKay good practice building health and wellbeing standards for the portfolio as a whole
- Undertook a post-occupancy evaluation with a tenant at Portsoken House, to identify the extent to which occupier experience matches with the design intent

Waste and resource management

- Implemented the recommendations of our waste management review, although the recycling rate has not yet improved in line with target
- Initiated further engagement with occupiers to support better waste practices and held a CPD session for staff on the circular economy

Water

- Water saving technologies installed as part of refurbishment projects at Crawley and Staines (sensor taps for controlling water usage)
- Moving forward, our focus is on improving water data quality

Building labels and standards

- BREEAM 'Excellent' and EPC 'B' rating for Theale Logistics Park
- EPC 'B' rating for Pegasus 2, Crawley refurbishment, which included boiler and chiller plant replacement

44%

reduction in carbon emissions since 2015/16

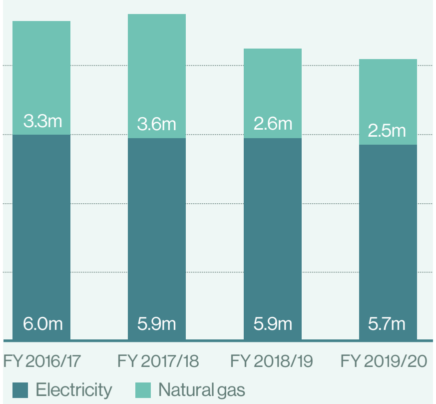
100%

of new developments received BREEAM 'excellent'

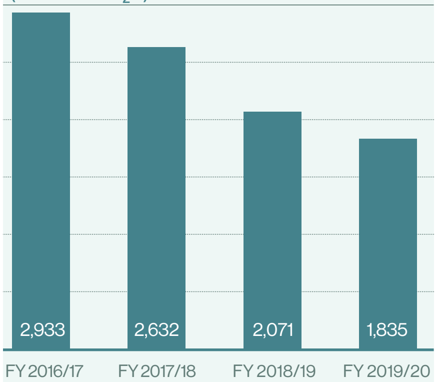
Breakdown of EPC rating across the portfolio by ERV

No EPC held	7%
A	14%
B	9%
C	20%
D	31%
E	19%

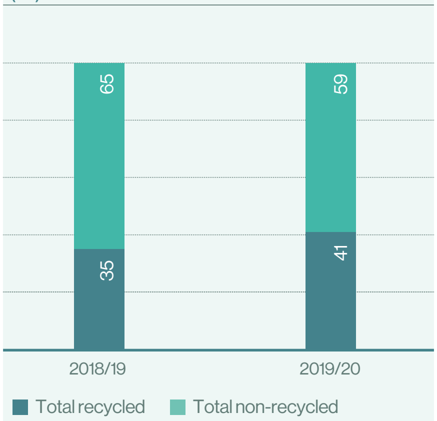
Like-for-like energy consumption
(kWh)



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



Waste recycling rate
(%)



Data qualifying notes

- This is the Company's seventh year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations and first under the recently introduced Streamlined Energy and Carbon Reporting regulations.
- The Company's emissions for the year to March 2019 have been restated due to Q4 2018/19 data not being available at the time of reporting in 2019; this final period of data is estimated in every Annual Report.
- 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.
- Within Scope 1 emissions, refrigerant-related emissions for the period were de minimis.
- Scope 2 dual reporting is undertaken, which discloses one Scope 2 emission figure according to a location-based method and another according to a market-based method.
- Emissions from employee business travel (by vehicle) have been calculated and reported under Scope 3 emissions for the first time. Emissions have been calculated on a distance travelled basis, where the relevant vehicle emissions factor has been applied to expensed mileage.
- An operational control consolidation approach has been adopted.

Case study Decarbonising our portfolio

We are seeing an industry-wide shift towards investment in low carbon buildings, and as part of our sustainability strategy, we are committed to reducing the environmental impact of our portfolio.

Since 2015/16, we have made significant progress in decarbonising our portfolio, and like-for-like greenhouse gas emissions have fallen by 44%. This has been accomplished by adopting a three-phased approach, aligned to the World Green Building Council's recommendations:

- Diligently measuring and disclosing our carbon emissions
- Reducing assets' energy demand by implementing efficiency measures, and developing new buildings to higher energy standards
- Supplying remaining energy demand from renewable energy sources, integrating on-site renewables in new developments and switching to a portfolio-wide green electricity tariff. All landlord-supplied electricity is now zero carbon.

Our strong track record to date gives us confidence that we can forge a commercially attractive decarbonisation pathway through the next decade, and we plan to publish further details of this in the coming year.

Sources of greenhouse gas emissions			2019/20 tonnes of CO_2e (location-based calculation)[1]	2019/20 tonnes of CO_2e (market-based calculation)[1]	2018/19 tonnes of CO_2e (location-based calculation)[2]	2018/19 tonnes of CO_2e (market-based calculation)[2]
Scope 1	Energy	Gas (EPRA sBPR fuels – Abs)	415	415	478	478
	Fugitive emissions	Refrigerant emissions	De minimis	De minimis	De minimis	De minimis
Scope 2	Energy	Landlord-controlled electricity (EPRA sBPR Elec – Abs)	1519	0	1714	0
Scope 3	Energy	Landlord-obtained energy sub-metered to tenants and all transmission and distribution losses (EPRA sBPR 3.6)	160	0	181	0
	Emissions	Emissions from employee business travel for which the Company does not own or control	12	12	10	10
Total			**2,107**	**428**	**2,383**	**488**
Carbon intensity: Scope 1+2 emissions of tCO_2e/£m adjusted profit before tax			199	43	236	52

1. For the 'location-based' method of emissions calculations, standard emissions factors from the UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting 2019 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.

ESG Overview continued

02 Social

A customer-focused and flexible landlord

Building on our reputation for customer service excellence, in 2019/20, we achieved all four of our annual targets to further enhance our service to customers and the quality of the workplaces we provide.

In 2018/19, McKay issued a detailed customer satisfaction survey to its occupiers which provided us with valuable feedback on occupiers' perceptions of McKay as a landlord; the presentation of our properties and their sustainability priorities. We found that 85% of responses would be very or highly likely to recommend McKay as a landlord, and that employee health, wellbeing and productivity was the most important sustainability issue for occupiers. The wider set of valuable data obtained through the survey helped us to define and deliver our 2019/20 targets.

Occupier attraction and retention

- Created a follow up action plan in response to the 2019 customer survey, with actions assigned at the asset level
- Actions range from facilities management and maintenance improvements to building stronger relationships and increasing communications
- Engaged with waste contractor to set up a waste competition and roadshow for occupiers to demonstrate the benefits of adopting more sustainable waste management practices.

Community wellbeing

- Established a charity committee which selected three entities for support in 2019/20; these are: Pathway to Property, LandAid and Ethical Reading.

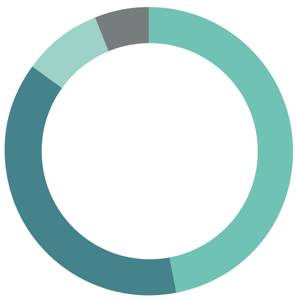
Technological innovation

- Installed a smart buildings app at Mallard Court, Staines
- Working with D2i to ensure the Building Management System (BMS) installed in our assets has the functionality to work with the app for future developments/ refurbishments
- Secured wired certification for Portsoken House, EC3 providing evidence of the superior tech capabilities offered to occupiers at this asset.

Inclusivity

- Developed questions to be included within the next customer survey, to ask more specifically about customers' needs and expectations with regards to building-related features and amenities to support diversity and inclusivity.

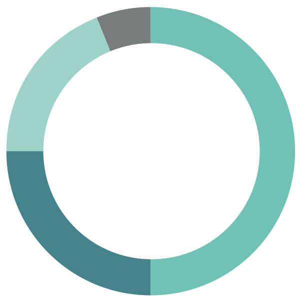
How likely are you to recommend McKay as a landlord?



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

Source: Customer Survey 2019

How well does McKay understand your business needs?



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

Case study

More recycling, less waste – our challenge to our occupiers

It's part of our customer-focused approach to help our occupiers to adopt more sustainable business practices. In 2019/20, we chose to concentrate our efforts on engaging with occupiers on one specific issue – waste management. We wanted to provide occupiers with more information, encouragement and better recycling stations so that we could jointly improve recycling rates across the portfolio.

We joined forces with waste contractor Grundon who organised waste-focused roadshows across our properties before initiating a waste recycling competition for occupiers which ran between 1 November 2019 and 29 February 2020. Grundon and Calber, our cleaning contractor, prepared a recycling handbook for each of our sites, and recycling guidance documents were given out at the roadshows. Many occupiers requested Grundon recycling stations with colour-coded, labelled bins for different waste streams and food waste caddies, enabling them to set up better recycling stations within their workplaces and reducing the number of general waste bins. Furthermore we held meetings with our occupier's cleaning contractors to make them aware of the new procedures, and Calber delivered training to its own staff on the new recycling procedures.

03 Governance

A progressive and transparent business

Over the past year we've strengthened our approach to sustainability risk management, aligning our procedures to our updated focus areas and objectives. We're also working towards integrating the requirements of the Task Force on Climate-related Financial Disclosures ('TCFD') into our governance and reporting.

We set ourselves nine targets to advance our progressive and transparent business objectives in 2019/20, all of which were fully achieved. Moreover, the 7-point increase in our 2019 GRESB score provides evidence of the ongoing strength and validity of our approach.

Investor attraction and retention

- Updated our acquisition and development checklists to ensure alignment with our refreshed sustainability strategy.
- Created an asset level scorecard for sustainability

Transparent disclosure

- Improved our GRESB score for 2019 from 68 to 75, maintaining our 3-star rating
- Expanded our collection of occupier environmental data; contributing to higher scoring in the GRESB performance indicator section

Corporate governance

Corporate governance is a key material issue to our business, it is covered in detail on pages 42 to 74.

Employee wellbeing

- Employee wellbeing practices this year have included: shared parental leave, improved healthcare
- Training on a wide range of relevant aspects for our staff – including sustainability – our team this year received a CPD session on the circular economy as a new hot topic, along with wellness in buildings

Climate risk

- Bolstered our climate risk management processes to support our response to the requirements stemming from the TCFD
- Integrated climate risk into risk review procedures including the corporate risk register and acquisition due diligence checklist
- Conducted a portfolio mapping exercise looking at future climate risks

Sustainable procurement

- Continued to ensure compliance with our Responsible Procurement Policy through our annual auditing process

Health and safety

- Continued to implement our Health and Safety Policy and Procedures with oversight from the Safety Management Company

Case study

A rigorous approach to climate risk management

In 2017, the TCFD released its final recommendations, which provide a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes. In the UK, the government has stated its expectation for all listed companies and large asset owners to disclose in line with TCFD by 2022. Worldwide, investors are rapidly requesting companies to implement the TCFD recommendations, including 340 investors with nearly $34 trillion in assets under management who have committed to engage the world's largest corporate greenhouse gas emitters to strengthen their climate-related disclosures in line with the framework.

In 2018/19 we carried out a gap analysis of our current risk management practices against the TCFD recommendations in 2019/20 we proceeded to strengthen our approach based on the findings. As such, we have:

- Created a physical and transitional climate risk assessment brief
- Commenced physical climate risk mapping
- Integrated climate risk into our corporate risk management processes and updated our risk register
- Specifically, embedded climate risk into our acquisitions and development procedures.

Assessing and managing climate risk in line with best practice guidelines will help us to inform acquisition and disposal decisions, and asset business planning; maximise the long-term attractiveness of assets to the market and decrease obsolescence risk and communicate to investors that risks to their capital are being effectively mitigated.

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

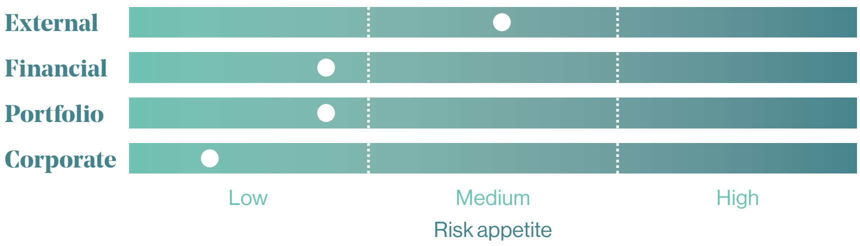
Membership:

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 Sub-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 Sub-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 31 March 2020, as evidenced by the Covid-19 review, and up to the date of approval of the Annual Report and Financial Statements. Further detail can be found in the Corporate Governance Report on page 51.

A robust assessment of the principal risks facing the Company has been carried out and the principal risks are listed on pages 35 to 37.

Key

Risk exposure in the last year has:

▲ Increased
▶ Unchanged
▼ Reduced

Link to strategy:

01	Delivering our development programme
02	Releasing of portfolio income potential by capturing reversion
03	Enhancing scope for future growth

Principal risks and their impact	How risk is managed	Risk exposure change in the year	
Macroeconomic environment (01 02 03)			
Covid-19 impact: Stakeholder health and wellbeing, economic recession, negative impact on rents, capital values and portfolio performance, structure changes in working practices.	Compliance with government guidance and the Stay at Home Measures legislated on 26 March 2020. Continued investment in IT to ensure operational resilience with closure of the Company's head office. Direct management of the portfolio properties to ensure close communication with occupiers and continued operational efficiency. Scenario testing to provide headroom guidance to loan covenants. Market awareness of occupiers trends, and commercial flexibility to respond as appropriate. Assumptions within the Group's viability statement have been widened to include the impact of Covid-19 on the business.	Covid-19 is an emerging risk impacting the Company and its stakeholders from the beginning of March 2020 onwards. The escalation of consequential impact has been unprecedented and is likely to continue for the rest of 2020 and into 2021.	▲
Lack of economic growth and a recessionary environment leading to reduced occupier demand and higher voids. Disorderly Brexit damages the UK economy. Major climate related shift in policy and investment decision making.	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. Climate risk is integrated into the updated due diligence process and climate risk mapping will be complete by Q1 2020. These risk assessments will help ensure existing and new assets at risk of negative rental value impact are identified and the risk mitigated.	Ongoing climate of uncertainty in relation to the departure from the EU that could impact on corporate decision making and increased sector risk.	▲
Financial (01 02)			
Interest rate rise Leading to lower profits.	The Board's policy is to borrow at both fixed and floating rates of interest.	A £65.00 million facility with Aviva provides 27% of total facilities 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 £180.00 million revolving credit facility secured 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. Covid-19 at the end of the period increased this area of risk exposure.	▲

Principal Risks and Uncertainties continued

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Major occupier default Losing a significant occupier that materially impacts profits.	This is monitored using Dun & Bradstreet checks for new occupiers together with ongoing credit checks and internal credit control. The Board receives regular information on rental arrears and rent collection activities. As part of our climate risk assessment process we have carried out a high-level review of occupier business activities in light of carbon/climate policies. Internal management of portfolio properties maintains regular dialogue with our occupier to provide a greater chance of prior warning of occupier failure or departure.	Credit control environment remains constant. Covid-19 at the end of the period increased this area of risk exposure.
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.

Portfolio

01 02 03

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Portfolio strategy Strategy at odds with economic conditions and occupier demand.	The Board continually reviews its strategy against its objectives, taking into consideration the economic conditions, future climate related impacts , the property market cycle and occupier demand. The Company focuses entirely on the South East and London 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. The strategy reflects future proofing assets to meet demand for low carbon and climate adapted work places. All investment opportunities are subject to full due diligence procedures including physical, legal, environmental, and sustainability considerations.	Covid-19 has introduced greater market and economic uncertainty.
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. Not meeting market demand.	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. All new developments and major refurbishments will target a minimum BREEAM 'Excellent' and an EPC rating of at least 'B'. The newly updated development checklist takes into account climate adaptation needs and carbon emissions mitigation requirements up to 2030.	The one speculative industrial development at Theale is completed and development risk is now limited to ongoing refurbishments.
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 performing well on environmental matters to attract and retain quality occupiers. Actively managing the portfolio, identifying appropriate rental values alongside lease length and maintaining an open dialogue and good relationship with occupiers. Climate risk mapping programmed for completion in Q1 2020. This exercise will help ensure existing and new assets at risk of negative impact are identified and the risk mitigated.	Occupier demand in smaller lot sizes. Supply constraints in the Company's markets have contributed to improved rental values. Covid-19 has increased the risk of lower rental values if occupier demand reduces.

Principal risks and their impact	How risk is managed	Risk exposure change in the year
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 occupier covenant, lease length and asset management (including environmental performance) of buildings to preserve/increase capital values.	As a result of Covid-19, the portfolio valuation at 31 March 2020 carried a material uncertainty clause. Investor appetite and therefore capital values may reduce as a result of Covid-19.
Corporate 01 02 03		
Reputational risk Adverse publicity/inaccurate media reporting. Major incident at a property. Actions by Directors or staff including fraud and bribery. Occupier's business model or specific activity negatively perceived by stakeholders. McKay performance on ESG/climate change negatively perceived by stakeholders.	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. Considered in the lease decision making process. The Company has a transparent approach and has made good progress in managing its ESG risks and opportunities. McKay submits to the GRESB annually.	No significant main factors to increase risk.
Legal and regulatory risk Non-compliance with regulations and laws resulting in planning and project delays, fines and loss of reputation.	The 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 Sustainability Management Group ('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. With Covid-19, the scale of exposure to risk has increase as the management response across the portfolio is greater.	Continued compliance with regulation.
IT/cyber Cyber attack resulting in IT systems failure.	Anti-virus software and firewalls protect IT systems. Data and programmes are regularly backed up and backups are secured off-site. Implementation of Company's business continuity plan. Cyber fraud insurance is in place.	Increase in global incidents of this nature.
Business continuity Business unable to operate due to operational failure or unforeseen event The Group operates a business continuity plan that is reviewed on a regular basis. In the aftermath of an unforeseen event the plan enables the business to be operational with minimal disruption.	All buildings have insurance to cover a terrorist incident and loss of rent. All three Executive Directors generally avoid travelling over longer distances together.	The impact of Covid-19 triggered the business continuity plan. The Company shut the Reading office and operational continuity was maintained with all employees able to work remotely.

Viability Statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code the Directors have assessed the viability of the Company beyond the 12-month period required by the going concern provision.

McKay is a specialist in the development, refurbishment and management of office, industrial, and logistics property in the South East and London and has a highly experienced management team.

Assessment period

The viability assessment was undertaken on the basis of a five year period, with particular focus on years one to three. The Directors reviewed this timeframe and consider a five-year period to be an appropriate time horizon 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
- The club revolving credit facility is 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

Principal risks

The principal risks to the continued operation of the Group are regularly reviewed by the Risk Sub-committee, the Audit and Risk Committee and the Board. They are split into four areas of focus: macroeconomic; financial; property; and corporate and full details are set out on pages 35 to 37.

Assessment process

The four areas of principal risk were subjected to quantitative and qualitative analysis over the assessment period referred above.

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 base scenarios. The four core scenarios identified were:

Scenario 1: a 25% reduction in rental income
Scenario 2: a 25% reduction in capital values
Scenario 3: a 3% increase in interest costs
Scenario 4: increased length in the period an asset is vacant with specific emphasis upon recently developed and refurbished assets.
In addition a Covid-19 scenario was also identified:
Scenario 5: a 15% reduction in values and 10% reduction in income and a 2% increase in interest costs.

The above scenarios were selected in response to our principal risks and uncertainties that can be seen on pages 35 to 37.

Assumptions and future prospects

The main assumptions surrounding the Company's business model and its strategy remain unchanged. The Company continues to focus on the office, warehouse and logistics markets in the South East and London, to provide occupiers with a progressive sustainable working environment in which the businesses can thrive and as a REIT, investors continue to receive in excess of 90% of distributable profits. The new RCF facility terminates in April 2024 and this analysis assumes it is renewed at that time on the same basis.

The Company's strategy has built-in flexibility to enable the business to react to unexpected economic impacts, either by a reduction in its development/refurbishment programme (thereby reducing capital expenditure) or by selectively reducing the number of assets the Company holds.

Expectation

The result of the stress testing against these five scenarios against the Company's five-year profit forecast demonstrated that the Company can accommodate each of these scenarios, either without any mitigation, or with mitigation where the scenario imposes stress, for example suitable cash conservation strategies

Conclusion

In conclusion, based upon the robust risk assessment described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2025.

This long-term viability statement was approved by the Board on 3 June 2020.

Going Concern Statement

In accordance with Provision 30 of the 2018 UK Corporate Governance 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.

Given the significant impact of Covid-19 on the macro-economic conditions in which the Company is operating, the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 31 March 2020. The Company's going concern assessment considers the Company's principal risks (see pages 35 to 37) and is dependent on a number of factors, including financial performance, continued access to borrowing facilities and the ability to continue to operate the Company's debt structure within its financial covenants.

In April 2019 the Company successfully renegotiated an increase in its facilities with its long-term lenders and entered into a new facility until 2024 on the basis of a pool of lenders.

The going concern assessment of lending covenants (LTV and ICR) took into account the prospects of a significant reduction in rental income and capital values, as well as no receipts from planned disposals. Whilst there is headroom across the covenants, the covenants most likely to be affected are in relation to the ICR. In assessing this, the Directors undertook a reverse stress to understand how much rental income was required to meet these covenants. Having taken into account rent collection patterns there was considered to be sufficient headroom to meet loan covenants from a going concern perspective.

Should the impacts of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors, the Going Concern statement would be dependent on the Group's ability to take further actions. Detailed consideration was given to the availability and likely effectiveness of mitigating actions that could be taken, including future cash conservation strategies and discussions with lenders regarding the terms of the loan agreements, being mindful of recent PRA guidance to lenders.

The Board took further comfort from the viability scenario testing which demonstrated during the going concern period a resilient financial position.

The going concern period assessed is 15 months from the balance sheet date.

Based on these considerations, together with available market information and the Directors' knowledge and experience of the Company's property portfolio and markets, the Directors have adopted the going concern basis in preparing the accounts for the year ended 31 March 2020.

Section 172 (1) Statement

Our commitment to Section 172

During the year we as the Board have maintained an approach to decision making that promotes the long-term success of the business and is in line with the expectations of Section 172 of the Companies Act 2006.

The disclosures set out on this page demonstrate how we have regard to the matters set out in Section 172(1)(a) to (f). We have also included cross-references to other sections of the report for more information.

Our stakeholders

Investors
Our shareholders are fundamental to how we operate as a business.

Occupiers
Occupiers are at the heart of our business and we take great pride in creating a sustainable environment where their businesses can thrive.

Employees
Our employees are a diverse mix of highly skilled and experienced individuals who are keen to see both themselves and the Company develop and grow. Their skills, enthusiasm and commitment are central to business success.

Communities
We are committed to playing our part in the local community and supporting charitable, educational or other causes that might benefit from our experience.

Suppliers
We use a large number of products and services to construct, improve and maintain our buildings. The procurement choices we make can have a significant impact on people, organisations and the wider environment. For this reason, suppliers and contractors play a fundamental role in delivering our vision and achieving our objectives.

See more on stakeholder table **page 16**
See more in the ESG review **page 28**

Board decision making and stakeholder considerations

We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholder groups. In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company:

Principal decision 1 – Sale of 30 Lombard Street, EC3
During 2019 the Board took the decision to crystallise profit on the sale of the Company's long leasehold interest at 30 Lombard Street, EC3 following completion of the development and successful letting to St James's Place Wealth Management in early 2019. Contracts were exchanged for the sale in December 2019 for a headline sale price of £76.50 million and completion is subject to satisfaction of certain conditions relating to highways matters. On completion of the sale, proceeds will initially be used to pay down debt, prior to re-investment in new acquisitions and portfolio opportunities to grow the business and continue to provide sustainable returns to investors.

Principal decision 2 – Development of 135 Theale Logistics Park
In April 2019 we appointed contractors to deliver a self-contained high specification (BREEAM rated excellent) logistics unit of 134,150 sq ft. This unit is situated in a prime location with strong connectivity to the wider UK motorway network. With the unit now complete we believe it will provide occupiers with a modern, resource efficient and healthy environment to enjoy. The development increases the Company's investment in the resilient South East logistics market and adds to a resilient portfolio of assets.

Principal decision 3 – Covid-19
Our primary focus through this profoundly challenging period has been the health and wellbeing of our employees, the occupiers of our buildings and our suppliers, whilst maintaining operational resilience and protecting the long-term value of the Company. The decision to shut our head office was made in mid-March and we enabled all our employees to work remotely. This has meant that to date no employees have been furloughed. We continue to maintain close relationships with our occupiers and suppliers to provide support and assistance as appropriate.

We believe all the principal decisions made have been in the interests of all our stakeholders to ensure the long-term success of our business.

Approval of Strategic Report
The Strategic Report for the year end 31 March 2020 has been approved by the Board and was signed on its behalf by:

Simon Perkins
Chief Executive Officer
8 June 2020

Governance Report

Board of Directors

			
Board member	**01 Richard Grainger ACA** Chairman	**02 Simon Perkins MRICS** Chief Executive Officer	**03 Giles Salmon FCA** Chief Financial Officer
Position	Appointed Chairman in July 2016, having been appointed a Non-Executive Director in May 2014. Member of the Remuneration and Nomination Committees.	Joined the Company in August 2000. Appointed a Director in April 2001. Appointed the Chief Executive Officer in January 2003. Member of the Nomination Committee.	Joined the Company in May 2011. Appointed as Chief Financial Officer in August 2011.
Skills and Experience	Chartered Accountant. Aged 59. Richard has extensive Board level experience in the corporate finance and commercial sectors. He brings to the Group proven leadership skills and experience of complex corporate negotiations. Previous appointments: Chairman of Close Brothers Corporate Finance until 2009. Chairman of Safestore Plc until December 2013.	Chartered Surveyor. Aged 55. Simon has widespread knowledge of the real estate sector with direct operational experience in management, development and refurbishment in the commercial real estate sector as well as strategic focus and management skills to successfully lead the executive team. Previous appointments: nine years with business park developer, Arlington Securities PLC from 1990 to 1999.	Chartered Accountant. Aged 54. Giles has a wealth of experience at an operational and strategic level of corporate finance within the real estate sector, including corporate restructures and managing business change. Previous appointments: Finance Director at BAA Lynton operating the Airport Property Partnership from 2004/08 and Managing Director from 2008/10.
External positions	Chairman of Liberation Group.	None.	None.

04
Tom Elliott MRICS

Property Director and Head of Sustainability

Joined the Company in September 2016.

Appointed a Director in April 2017.

Chartered Surveyor.

Aged 45.

Tom has over 20 years of experience within the commercial real estate sector and specialises in investment strategy, transactions, asset management and development .

Previous appointments: Head of Investment for the London Portfolio of Land Securities Group PLC to 2016.

None.

05
Jon Austen FCA

Senior Independent Director

Appointed a Non-Executive Director in July 2016 and Senior Independent Director from April 2017.

Chairman of the Audit and Risk Committee.

Member of the Nomination and Remuneration Committees.

Chartered Accountant.

Aged 64.

Jon has significant experience within the real estate sector in senior financial roles and has experience in corporate takeovers and capital raising.

Previous appointments: Group Finance Director of Urban&Civic plc to July 2016.

Chief Financial Officer of Audley Group Limited.
Non-Executive Director of Supermarket Income REIT.

06
Nick Shepherd FRICS

Independent Non-Executive Director

Appointed a Non-Executive Director in January 2015 and desNED from April 2019.

Chairman of the Remuneration Committee

Member of the Audit and Risk, and Nomination Committees.

Chartered Surveyor.

Aged 61.

Nick has worked at the highest level of asset management, investment and development and has experience in corporate mergers and business integration.

Previous appointments:
Senior Partner of Drivers Jonas until 2010.
Vice Chairman of Deloitte UK until May 2013.

Chairman of the Property Income Trust for Charities.
Senior Adviser of Urban Legacies Ltd.

07
Jeremy Bates MRICS

Independent Non-Executive Director

Appointed a Non-Executive Director in January 2017.

Chairman of the Nomination Committee.

Member of the Audit and Risk, and Remuneration Committees.

Chartered Surveyor.

Aged 54.

Jeremy has over 25 years' experience with Savills as a leading agent within the South East commercial real estate sector, with significant knowledge of occupier services and trends.

Director of Savills UK Limited, EMEA Head of Occupational Markets and UK Head of Transaction Services.

Chairman's Letter

Dear shareholder, I am pleased to introduce our Corporate Governance Report for the year ended 31 March 2020.

Richard Grainger
Chairman

McKay has always strived for high standards of corporate governance throughout the business and we remain committed to working in the best interests of our shareholders and other stakeholders in a responsible, sustainable and ethical way.

The 2018 UK Corporate Governance Code came into effect for companies with reporting periods starting on or after 1 January 2019. As a result, this is our first full year under this revised code. As I set out last year, we adopted many of the recommendations earlier than we were required to. As a result, no material changes were required when we reviewed the Terms of Reference for the Board and its Committees in February 2020. Copies of the Committees' Terms of Reference can be found on the Company's website mckaysecurities.plc.uk.

One of our early adoptions of the 2018 UK Corporate Governance Code was the introduction of a desNED in April 2019. Nick Shepherd, an existing Non-Executive Director, was appointed to the role. This has been welcomed by our employees and has proven to be to be a valuable conduit for employee engagement. Further details can be found within the Corporate Governance Report on page 47.

This is also the first year we are required to set out a statement under Section 172 of the Companies Act 2006, providing information on how the Directors have performed their duty to promote the success of the Company and in doing so, their regard to its various stakeholders. The Board is conscious that any decision is not made in isolation and the result has an impact on various stakeholder relationships. The principal decisions made by the Board during the year, and how we have taken our stakeholders into consideration when delivering the Company's strategic objectives, are set out on pages 12 and 13, and the Section 172 statement on page 39.

There has also been increased debate in the investor community surrounding corporate reporting of ESG matters. Last year we reported on our emerging sustainability vision – The Right Choice for a Sustainable Business, which replaced our 2013 sustainability strategy. This year we have taken this a step further and integrated it into our ESG framework. This is covered in further detail on pages 28 to 33, and provides a clear indication of how these important issues in today's society are integral to the way we do business. Within the report, there is direction for shareholders to our website to find further detailed environmental targets and Company policies supporting clear and transparent reporting.

Succession planning is an ongoing responsibility of the Nomination Committee and we have been mindful that the gender and ethnic diversity spread within the Company is not reflected in the composition of the Board. We have to date not set specific diversity targets but made appointments based on the right balance of skills and experience of the candidate. We are now seeking a further appointment to the Board and have taken the decision to specifically focus on appointing a female Non-Executive Director. The appointment process was well under way with an external search agency, as set out in the Nomination Committee Report on page 54. Although Covid-19 has delayed the interview process, we hope to be able to make further progress in the near future.

This is the first year end audit by our new auditor, Deloitte, and the impact of Covid-19 has also affected how the Company has been audited. The introduction of social distancing has presented difficulties for both the audit team at Deloitte and the Company's finance team to overcome. Measures were put in place to submit documents electronically wherever possible and the process and practicalities were monitored closely.

This year is the third anniversary of the Group's Remuneration Policy, which was approved by shareholders at the 2017 AGM. In conjunction with our external advisers, we have undertaken a thorough review of the policy.

Having made changes over the life of the policy, we concluded that the current policy remained fit for purpose. We engaged with our principal shareholders and the main governance bodies on this basis. Their support meant that limited changes are being proposed and these are set out in the Remuneration Committee Report on pages 59 to 65.

In light of Covid-19, the Remuneration Committee recommended cancellation of the salary review for the financial year to 31 March 2021 for all Directors and employees and the Board agreed with this prudent approach. The Committee also recommended the postponement of the payment of any bonus until January 2021.

I would like to take this opportunity to thank our employees for their exceptional response to the Covid-19 lockdown and their continued support, flexibility and commitment to ensuring the business continues to operate as smoothly and effectively as possible in this uncertain environment.

Despite the introduction of social distancing we have undertaken our annual Board, Committee and individual Director evaluations. The use of our online questionnaire supported this exercise along with remote one-to-one interviews with individual Directors. 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 55.

The Company can confirm that throughout the year to 31 March 2020 it has complied with the Codes' principles and provisions with the following judgement:

Code Provision 38. Pension contribution rates for Executive Directors. Please see the Remuneration Report on page 58 for the strategy in this area.

2018 Corporate Governance Code

1. **Board Leadership and Company Purpose**
   Board leadership and the Company's purpose and values, the provision of resources and advice along with stakeholder engagement can be found in the Corporate Governance Report on pages 46 to 48 and pages 16 to 17.
2. **Division of Responsibilities**
   The composition of the Board and its responsibilities, the role of the Chairman and Directors and their external commitments can be found within the Corporate Governance Report on pages 48 to 49.
3. **Composition, Succession and Evaluation**
   Information on Board appointments, succession planning, evaluation and diversity can be found within the Nomination Committee Report on pages 53 to 55.
4. **Audit, Risk and Internal Control – Audit and Risk Committee Report**
   Information on financial reporting, external and internal auditing along with the review of the 2020 Report and Financial Statements and how the risk management and internal controls are considered can be found within the Audit and Risk Committee Report and the Principal Risks and Uncertainties on pages 50 to 52 and 34 to 37 respectively.
5. **Remuneration**
   How the Company links remuneration with strategy, the Remuneration Policy review and performance outcomes based on strategic performance can be found in the Remuneration Report on pages 56 to 72.

Annual General Meeting arrangements and Covid-19

On behalf of the Board I am pleased to inform you that this year's Annual General Meeting ('AGM') will be held at 10.30am on Thursday 23 July 2020 at 20 Greyfriars Road, Reading, Berkshire RG1 1NL.

While in normal circumstances the Board values the opportunity to meet shareholders in person at the AGM to listen and respond to their questions, current UK Government measures are in force that limit public gatherings, impose social distancing and require that people do not make unnecessary journeys. As a result of these restrictions the 2020 AGM will be a closed meeting and shareholders are regrettably not permitted to attend.

In order to ensure that our AGM may proceed on 23 July 2020 in compliance with UK Government restrictions, arrangements have been made for a quorum of two shareholders to be present at our AGM, as required under the Company's Articles of Association, and this will be facilitated by the Company.

Shareholder participation

Although you may not attend the AGM and vote in person, your participation is important to us. Therefore, this year the AGM will be conducted by way of a poll rather than on a show of hands. I would strongly encourage you to vote ahead of the AGM by completing and returning your Proxy Form and appointing the Chairman of the AGM to act as your proxy to vote on your behalf. The Proxy Form should be completed, signed and returned in accordance with the instructions printed thereon at least 48 hours prior to the AGM. You are strongly encouraged to return your Proxy Forms as early as possible prior to the meeting.

Although it will not be possible to ask questions during the AGM this year, if you would like to ask a question on the Company's Annual Report and Financial Statements or any of the proposed resolutions listed within the circular please send them to info@mckaysecurities.plc.uk marked for the attention of the Company Secretary ahead of the meeting and in any event to be received by 5.00pm on 21 July 2020. A response to the questions received will be made available on the Company's website as soon as practicable following the AGM.

The situation surrounding Covid-19 is causing challenges on many fronts and I very much hope that we will be able to revert to our usual format next year.

Richard Grainger
Chairman
8 June 2020

Corporate Governance Report

Introduction
McKay is a listed Company incorporated in the United Kingdom and this year is reporting in compliance with the 2018 UK Corporate Governance Code, which can be found at frc.org.uk.

Board leadership
The Company is led by a highly experienced team of Executive and Non-Executive Directors who bring a wealth of knowledge and a wide range of skills to the boardroom. Their biographical detailed can be found on pages 42 and 43.

Company purpose
The Company's purpose is to deliver long-term success that provides sustainable returns to investors, at the same time as offering the very best environment for its customers to thrive while being alert to the needs of its employees and the impact of the business on the environment and wider society.

Culture
The Chairman fosters a culture of openness, honesty and integrity in the boardroom and at every level throughout the Company. Constructive debate is actively encouraged and the Board is satisfied that no individual or group of Directors dominate the Board's decision making. The Board is careful to ensure the business is able to succeed in the long term by promoting relationships with stakeholders that are built on mutual respect and trust and uphold the value of good corporate governance. Further details of the Company's relationship with its stakeholders can be found on pages 16 and 17.

Professional advice and training
The Board and Committees have 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.

Workforce engagement
The Board has ultimate responsibility for ensuring that workforce policies and practices are in line with the Company's purpose and values and support the desired culture.

As part of the Company's culture to foster a sense of shared purpose and to increase the level of engagement between the leadership of the Company and employees, Non-Executive Director Nick Shepherd was appointed to the role of desNED from 1 April 2019. His role is set out in the table on page 49 and further detail on his activities during the year can be found on page 47.

All employees participate in an annual evaluation process undertaken by their line manager. This process is on a one-to-one basis and gives an opportunity for employees to discuss their role, progress goals, identify any specific training needs and receive individual feedback on current and future objectives. Any consistent themes identified across the process are fed back through to the leadership team, reviewed and actioned as appropriate.

Employee relationships are further enhanced by investing in training for individuals pertinent to their role within the business and supporting continuing professional development in line with the individuals' professional body.

During the year the Company focused on enhancing its customer services and supplier relationships and invested in customer service training. Individuals across departments within the business were invited to participate in a training day held in-house by an external provider. Feedback from those who participated was positive and many felt it consolidated or built upon their existing knowledge base.

In addition, all employees are required to complete the Company's annual online e-training programme made up of three modules:

- Equality and diversity;
- Bribery prevention; and
- Data security.

A staff handbook, which includes workforce policies and practices is included as part of all employees' induction and is available on the Company's intranet.

Whistleblowing policy
The Company operates a whistleblowing policy. The purpose of the policy is to enable the Company to investigate possible malpractice and take appropriate steps to deal with it. If employees have concerns about the business the whistleblowing procedures enable employees to raise such concerns in confidence, anonymously if they wish, at an early stage and in the right way, The whistleblowing policy is for concerns which are in the public interest where the interests of others or of the organisation itself are at risk. Further details of the policy can be found on the Company's website mckaysecurities.plc.uk.

Relations with shareholders
The Board recognises the importance of maintaining an ongoing relationship with the Company's shareholders and the investment community.

Directors engage with current and prospective shareholders and analysts. Engagement is set around the financial reporting calendar, specifically following

Board leadership structure

McKay Securities Plc

Board Members
1 Non-Executive Chairman
3 Independent Non-Executive Directors
3 Executive Directors

Audit and Risk Committee Members
3 Independent Non-Executive Directors

Risk Sub-Committee Members
3 Executive Directors

Remuneration Committee Members
1 Non-Executive Chairman
3 Independent Non-Executive Directors

Nomination Committee Members
1 Non-Executive Chairman
3 Independent Non-Executive Directors
1 Executive Director

the announcement of the Company's final and interim results. In addition, regular market updates are made throughout the year on any acquisitions, major lettings or disposals of assets in the portfolio.

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, corporate policies 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 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.

This year the Company's Remuneration Policy is to be put to shareholders for approval at the AGM. The Chairman of the Remuneration Committee engaged with the Company's major shareholders and governance bodies regarding the content of the policy, and further details are set out on page 58 of his report.

Shareholders are given at least 20 working days' notice of the Company's AGM. In normal circumstances, shareholders have the opportunity to attend the AGM and to ask questions of the Board, including the Chairmen of the Risk and Audit Committee, the Nomination Committee and the Remuneration Committee who all attend. Shareholders vote separately on each proposal and are informed of proxy voting figures. These figures are posted on the Company's website mckaysecurities.plc.uk.

AGM arrangements and Covid-19

The Board values the opportunity to meet shareholders in person at the AGM to listen and respond to their questions. However, current UK Government measures are in force that limit public gatherings, impose social distancing and require that people do not make unnecessary journeys. As a result of these restrictions the 2020 AGM will be a closed meeting and shareholders are regrettably not permit to attend.

In order to ensure that the AGM may proceed on 23 July 2020 in compliance with UK Government restrictions, arrangements have been made for a quorum of two shareholders to be present at the AGM, as required under the Company's Articles of Association, and this will be facilitated by the Company.

Case study desNED

The 2018 UK Corporate Governance Code introduced an increased emphasis on the Board to be aware of and understand the views of its key stakeholders, with a particular reference to engagement with the workforce.

The Board reviewed the various options and considered the best option for McKay was the introduction of an desNED and Nick Shepherd was appointed to this position in April 2019, ahead of the required date under the 2018 UK Corporate Governance Code. The main purpose of his role is to enable and encourage staff feedback (formal and informal) to the Board, about internal and external factors affecting the business.

Initially Nick contacted employees by email introducing himself and the role and confirming the commitment from the Directors to enable employees to have a voice at the Board table. A dedicated email address and a direct telephone number have been provided for employees to contact Nick on any matter outside the regular internal channels of communication within the business.

This year Nick held two meetings with the workforce, the first introductory meeting was held in April 2019 and the second in December 2019. The initial programme split the meeting into two sessions, the first with the property team and the second with the finance team to keep the size of each session small enough to encourage participation. This was appreciated by attendees. The second meeting in December was in the same format but with the two sessions attended by a cross-section from both departments to enable employees to understand views across the business. Nick was encouraged by the level of participation and fed back to the Board employees' views following each meeting.

These views resulted in:

- a workforce strategy review day. Held in September 2019 it was open to all of the workforce to attend. The day was structured around corporate strategy and included two break-out sessions to discuss themes such as the right buildings, right locations, right space and proactive and innovative marketing. The outputs were presented to the Board by a member of the workforce at the Board Strategy Day in October 2019;
- the introduction of workforce feedback on the views of investors following the investor and analyst presentations held at the full and half year; and
- the introduction of a senior management investment committee to track and discuss the strengths and weaknesses of potential investment opportunities.

The feedback from the introduction of these meetings with the desNED has all been positive, with individuals reporting it made them feel part of a whole McKay team and helped put their own roles in context. The Board believes it has been a positive step for workforce engagement.

Corporate Governance Report continued

Attendance at Board and Committee meetings to 31 March 2020 is set out below.

Board meeting attendance (for the financial year to 31 March 2020)

	Board (11 meetings)	Audit and Risk Committee (three meetings)	Remuneration Committee (two meetings)	Nomination Committee (two meetings)
R Grainger	11	3[1]	2	2
S Perkins	11	3[1]	2[1]	2
G Salmon	11	3[1]	–	–
T Elliott	11	3[1]	–	–
J Austen	11	3	2	2
J Bates	11	3	2	2
N Shepherd	11	3	2	2

1. In attendance by invitation.

Although shareholders may not attend the AGM and vote in person, their participation is important. Therefore, this year the AGM will be conducted by way of a poll rather than on a show of hands. Shareholders are strongly encouraged to vote ahead of the AGM by completing and returning their Proxy Form and appointing the Chairman of the AGM to act as proxy to vote on their behalf. The Proxy Form should be completed, signed and returned in accordance with the instructions printed thereon at least 48 hours prior to the AGM. Shareholders are strongly encouraged to return Proxy Forms as early as possible prior to the meeting.

Although it will not be possible to ask questions during the AGM this year, if shareholders would like to ask a question on the Company's Annual Report and Financial Statements or any of the proposed resolutions listed within the circular please send them to info@mckaysecurities.plc.uk marked for the attention of the Company Secretary ahead of the meeting and in any event to be received by 5.00pm on 21 July 2020. A response to the questions received will be made available on the Company's website as soon as practicable following the AGM.

Further information on the Company's Section 172 statement and stakeholder engagement is set out on pages 16 and 39.

Division of responsibilities

The roles of the Chairman and Chief Executive are, and will continue to be, separate. The division of responsibilities between the Chairman and the Chief Executive is set out in writing and approved by the Board.

Committees

There are three Committees that make their recommendations to the Board, all of which have clear terms of reference that comply with the 2018 UK Corporate Governance Code. These are reviewed annually and are available on the Company's website, mckaysecurities.plc.uk.

Audit and Risk Committee

Mr Jon Austen FCA is Chairman of the Audit and Risk Committee, which met three times in the last year. Jon is identified as having recent and relevant financial experience as required by the 2018 UK Corporate Governance Code. Further details, along with the Committee's responsibilities and activities are set out in the Audit and Risk Committee Report on pages 50 to 52.

Nomination Committee

Mr Jeremy 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 53 to and 55.

Remuneration Committee

Mr Nick Shepherd FRICS is Chairman of the Remuneration Committee which met twice in the last year. The Committee members, the Directors' Remuneration Policy and the Annual Report on Remuneration are set out in the Directors' Remuneration Report on pages 56 to 72.

Board composition

The composition of the Board complies with Provision 11 of the 2018 UK Corporate Governance Code in that half of the Board, excluding the Chairman, are Non-Executive Directors whom the Board considers to be independent. The Board is looking to further strengthen its independence with the appointment of an additional Non-Executive Director. Further details can be found within the Nomination Committee Report on page 54.

When appointing new Directors, the Board considers any other demands upon their time. Prior to appointment, significant commitments of new Directors are disclosed and these and any subsequent external appointments must be approved by the Board. No Director serves on the Board beyond a nine-year period.

Board meetings

The Board had 11 meetings in the year to 31 March 2020, including the Board Strategy Day which is set aside to focus specifically on the Group's long-term strategy. At least two of the meetings during the year are held at properties in the portfolio and the Board was provided with full and timely information in order to discharge its duties. In the current climate of uncertainty surrounding the Covid-19 pandemic since mid-March the Board has been meeting remotely on a more frequent basis to ensure the impact on the Group and its stakeholders is considered and where appropriate any mitigating action is approved.

Director Independence

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 judgement.

Conflicts of interest

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 that will be the most likely to promote the success of the Company.

Risk management and internal control

The following should be read in conjunction with the principal risks and uncertainties on pages 34 to 37 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 Executive Directors make up the membership and the Sub-committee reports directly to the Audit and Risk Committee. Significant areas within the risk register include property, financial and corporate risks. Areas of risk 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.

Board responsibilities

The Board of Directors has collective responsibility for the overall leadership of the Company, for setting the Company's values and culture and approving its strategic aims and objectives. It has a duty, as set out in Section 172 of the 2006 Companies Act, to promote the success of the business by considering the impact of any decisions on its various stakeholders.

A Schedule of Matters Reserved for the Board has been adopted. It is reviewed annually and matters which the Board considers suitable for delegation are contained in the Terms of Reference of its Committees with ultimate responsibility remaining with the Board. Key responsibilities include the oversight and/or approval of:

- Company operations, strategy and management, including approval of annual operating and capital expenditure budgets and any material changes to them
- Corporate structure and capital changes
- Acquisitions or disposals of property
- Major capital projects or contracts which are material strategically
- Financial reporting and controls, including approval of the Interim Report and Annual Report and Financial Statements, interim management statements and preliminary announcements of interim and final results
- Dividend policy
- Company policies and significant changes therein
- Maintenance and review of the effectiveness of a sound system of internal control and risk management
- Communication with shareholders
- Board membership and other appointments, changes to the structure, size and composition of the Board and recommendations made by the Nomination Committee
- The Remuneration Policy for the Board and all employees and the introduction of any new share incentive plans for shareholder approval and recommendations made by the Remuneration Committee
- Corporate governance matters

In addition, the Board receives reports and recommendations from time to time on any other matter which it considers significant to the Company.

Key responsibilities of the Chairman

- Provide coherent leadership to the Board
- Set the agenda, style and tone of Board discussions to promote effective decision making and constructive debate
- Ensure constructive relations between the Executive and Non-Executive Directors
- Ensure new Directors participate in a full, formal and tailored induction programme facilitated by the Company Secretary
- Ensure the development needs of the Board and its Directors are identified and, with the Company Secretary having a key role, that these needs are met
- Ensure the performance of the Board, its Committees and individual Directors is evaluated at least once a year with the support of the Senior Independent Director
- Ensure effective communications with shareholders and communicate their views to the Board
- Promote the highest standards of integrity, probity and corporate governance
- Ensure an appropriate balance is maintained between the interest of shareholders and other stakeholders

Key responsibilities of the CEO

- Lead the Executive Directors and the senior team in the day-to-day running of the Company
- Develop the Company's objectives and strategy having regard to the Company's responsibilities to its shareholders, customers, employees and other stakeholders
- Successful achievement of objectives and execution of approved strategy and effective implementation of Board decisions
- Manage the Company's risk profile, and internal controls in line with the extent and categories of risk identified as acceptable by the Board
- Recommend to the Board budgets and financial projections and ensuring their achievement following Board approval
- Optimise as far as reasonably possible the use and adequacy of the Company's resources
- Identify and execute acquisitions and disposals
- Develop policies for Board approval and implementation and ensure all policies and procedures are followed and conform to the highest standards
- Make recommendations to the Remuneration Committee on employee Remuneration Policy
- Make recommendations to the Nomination Committee on the role and capabilities required in respect of the appointment of Executive Directors

Role of the Senior Independent Director ('SID')

- Acts as a sounding board for the Chairman, providing support in delivering objectives
- Serves as an intermediary for the other Directors and shareholders
- To be available to shareholders and other Non-Executive Directors to address any concerns or issues outside of alternative channels
- Leading the process to review the Chairman's performance

Role of desNED

- To engage with the Company's workforce to better understand their views
- To facilitate the employees' voice within the Boardroom

Audit and Risk Committee Report

Dear shareholder,
I am pleased to present the Audit and Risk Committee Report for the year ended 31 March 2020.

Jon Austen
Chairman of the Audit and Risk Committee

The primary focus of the Audit and Risk Committee ('the Committee') this year has been to oversee the smooth transition from outgoing to incoming auditor.

As I reported last year, the Company undertook a comprehensive tender exercise which culminated in the appointment of Deloitte LLP as external auditor. Their appointment was approved by shareholders at the 2019 AGM.

Deloitte LLP undertook the half year review as at 30 September 2019. The audit for the year ended 31 March 2020 was their first full audit of the Group and their Audit Report can be found on pages 76 to 83.

The work undertaken following the transition was in great depth and detail and how this was undertaken is set out within the Committee Report.

The audit for the full year has been greatly impacted by Covid-19. Further detail can be found in my report below.

The Committee is also responsible for the Company's risk management and internal control. This responsibility has been delegated to the Risk Sub-committee who report their findings to the Audit and Risk Committee. Both Committees are cognisant of the increased importance of ESG including climate risk, it's macro effects and the impact on the Company and its stakeholders.

In addition, the Risk Sub-committee met specifically to review the risk to the Company following the outbreak of the Covid-19 virus. Further details on this and other risks can be found in the Company's Principal Risks and Uncertainties on pages 34 to 37.

The Committee undertook an annual review of its Terms of Reference which had been updated in February 2019 to reflect the requirements of the 2018 UK Corporate Governance Code. No further material amendments were made.

The aim of the Committee for 2020 will be to continue to play a key role in maintaining the quality of our financial reporting, the adequacy and effectiveness of internal controls and the Company's risk management strategy

Jon Austen
Chairman of the Audit and Risk Committee
8 June 2020

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, mckaysecurities.plc.uk.

These responsibilities include:

- Financial reporting: monitoring and assessing the integrity of the financial statements of the Company including its Annual and Interim Reports, reporting to the Board on significant financial reporting issues and judgements and advising the Board on whether taken as a whole the report and financial statements are fair, balanced and understandable;
- Risk management and internal controls: reviewing the Company's risk management and internal control systems and approving statements concerning internal control, principal risks and uncertainties and the viability statement;
- Specific to this year, ensuring the risk and uncertainty relating to Covid-19 is appropriately reflected throughout the Annual Report and Financial Statements.
- External and internal audit: recommending to the Board for shareholder approval at the AGM the appointment or reappointment 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; and
- Compliance, whistleblowing and fraud: reviewing the adequacy and security of the Company's arrangements.

Committee membership

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 three times in the last year with full Committee attendance at all meetings. The table of attendance is set out in the Corporate Governance Report on page 48.

The Chairman of the Board, 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.

Main reoccurring activities of the Committee during the year

Significant judgements and financial reporting

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 was undertaken by an external professional valuer, Knight Frank LLP, and the assumptions and judgements were discussed and reviewed with management and 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. In line with guidance issued to all valuers by the RICS, the independent valuation as at 31 March 2020 includes a material uncertainty clause as a result of Covid-19. In addition, the external auditor assessed the valuer's objectivity and experience through direct robust discussions with the valuer. Deloitte LLP reviewed the valuation report prepared by Knight Frank LLP and their terms of engagement, and concluded that the methodology, assumptions and judgements were in line with their own findings.

As part of monitoring the integrity of the financial statements the Committee reviewed the application of any enacted changes to significant accounting policies and concluded that there were no material changes to reflect in the Company's accounts. Further details on accounting policies can be found in note 1 on page 93.

As requested by the Board, the Committee undertook a review of the Annual Report and Financial Statements for the year ended 31 March 2020 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, 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 Sub-committee has delegated responsibilities including:

- overseeing and advising on the current and emerging risk exposure;
- maintaining the Company's risk register; and
- monitoring and reviewing the effectiveness of all the Company's material controls, including financial, operational and compliance controls.

The Risk Sub-committee met four times during the year and reported its findings to the Audit and Risk Committee through its Chairman. For further information on the Company's risk appetite, principal risks and uncertainties, the Company's long-term viability statement and going concern statement please see pages 34 to 38.

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, cashflow 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 31 March 2020.

Audit and Risk Committee Report continued

External audit

At the 2019 AGM shareholders resolved to authorise the appointment of Deloitte LLP as auditors to the Group.

The Committee is responsible for overseeing the relationship with the external auditor and ensuring the transition from outgoing to incoming auditors was a smooth process. As part of this transition Deloitte LLP:
- undertook a review of the outgoing auditor's file for the year to March 2019;
- met with the Financial Controller and other employees to understand the Company's key processes and controls;
- concentrated on key focus areas such as investment property and key metrics and undertook a thorough review in these areas with the support of management; and
- attended the audit close meeting between the Company and the outgoing auditor.

Deloitte undertook the half year review as at 30 September 2019 and their first full audit of the Group was for the year ended 31 March 2020. The audit partner is Stephen Craig.

The Committee reviewed Deloitte's first audit plan, its terms of engagement and the engagement letter and authorised management to sign the representation letter.

The impact of Covid-19 has also affected how the Company has been audited this year. The introduction of social distancing has presented difficulties for both the audit team at Deloitte and the Company's finance team to overcome. Measures were put in place to submit documents electronically wherever possible and the process and practicalities were monitored closely.

Once the audit was completed the Committee reviewed the findings with the external auditor and evaluated the independence and effectiveness of the audit process. This included:
- a review of the auditor's independence, confirmation is provided within the audit report;
- an assessment of the quality of the audit;
- consideration on how the auditor dealt with the Company's significant judgement, the portfolio valuation; and
- the response to questions put by the Committee on the process and findings of the audit.

The Committee concluded that the audit had been carried out in an effective and efficient manner and reported this to the Board.

As approved by shareholder resolution at the 2019 AGM, the Directors authorised the remuneration of the auditors. Audit fees for the full year were £140,000 with related assurance work of £45,000. Full details of audit fees are set out in note 3 on page 97.

The Committee believe this assurance work does not impact the objectivity of the audit firm and are satisfied that the work is appropriate, being that ordinarily provided by the appointed auditor.

Non-audit fees, being tax services and debt advisory services, were provided by PwC.

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. The external auditor has confirmed that they consider that the absence of a formal internal audit function does not have a substantive impact on their audit approach.

Whistleblowing policy

The Committee, on behalf of the Board, reviewed arrangements by which employees 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 mckaysecurities.plc.uk.

Committee performance evaluation

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 online. This was reviewed by the Committee Chairman and feedback was provided at a meeting of the Committee. The evaluation concluded that the Committee continued to operate in an efficient and effective way.

Going concern

Given the significant impact of Covid-19 on the macroeconomic conditions in which the Company is operating, the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 31 March 2020. The Company's going concern assessment considers the Company's principal risks (see pages 34 to 37); and is dependent on a number of factors, including financial performance, continued access to borrowing facilities; and the ability to continue to operate the Company's debt structure within its financial covenants. The going concern statement can be found on page 38.

Nomination Committee Report

Dear shareholder,
I am pleased to present the report of the Nomination Committee for the year ended 31 March 2020.

Jeremy Bates
Chairman of the Nomination Committee

Over the last year the Nomination Committee ('the Committee') has reviewed the Board and its composition in line with the 2018 UK Corporate Governance Code. As part of this review, the Company introduced the early adoption of a desNED. Nick Shepherd was appointed to the newly developed role and following his appointment he initiated a programme to meet with all employees biannually. Any findings or subjects raised through him are brought to Board or the relevant Committee's attention as they arise, and we believe this has been a positive development in employee engagement. Further details on employee engagement can be found in the case study on page 47.

In addition, as part of our succession planning the Board agreed to the appointment of an additional Non-Executive Director to improve the balance of Non-Executive representation and to address the lack of gender diversity on the Board. For this reason, the Committee was directed to focus, in this instance, exclusively on female candidates. Recruitment specialist Spencer Stuart has been appointed and the process is well under way, but has been delayed by Covid-19. The appropriate regulatory announcement will be made once the position has been filled and details of the process is outlined below within my report.

In February 2019, the Committee's Terms of Reference were reviewed and amended to reflect the requirements of the 2018 UK Corporate Governance Code. No further material amendments have been made. The Terms of Reference are available to view at the Company's website, mckaysecurities.plc.uk.

The focus of the Committee for the year ahead will be to facilitate the appointment of the new Board member and continue to support the Board and its Committees, to ensure they have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively.

Jeremy Bates
Chairman of the Nomination Committee
8 June 2020

Nomination Committee Report continued

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, 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.

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 majority of the members of the Committee are independent Non-Executive Directors.

Succession planning

The Nomination Committee considers succession planning for Directors and other senior executives. The succession plans are regularly reviewed and ensure a formal, rigorous and transparent procedure for new appointments.

The Committee has identified an opportunity to engage an additional independent Non-Executive Director to strengthen and add value to the Board and its Committees. Provision 11 of the 2018 UK Corporate Governance Code states that at least half the Board should be Non-Executive Directors. Currently the Board comprises three Executive Directors and four Non-Executive Directors but for the purposes of this test the Chairman of the Board is excluded which leaves a 50/50 split between Executive and Non-Executive Directors.

The Committee also recognises the gender imbalance of the Board. It supports the principle of the Hampton-Alexander review for greater female representation on the Board and the Parker Review on ethnic diversity and has ensured that any list of candidates for any Board position included both male and female candidates with a wide range of backgrounds. The Board has been mindful that the right balance of skills and experience of the candidate is key and therefore to date no diversity targets were set.

Having taken these factors into consideration the Board agreed to focus exclusively on possible female candidates for the upcoming Non-Executive position and instructed the Committee to oversee the search.

Appointment of Directors

The Nomination Committee is responsible for the recruitment of Directors who will make a positive contribution to Board values, culture and strategic decision making. In the first instance the Committee undertook a skills gap analysis and reassessed the composition of the existing Board, considering experience, knowledge and personal attributes. It then prepared a description of the role along with the professional and personal skills required and agreed the process to be undertaken. A third-party independent recruitment consultant was identified and appointed to undertake the search for suitable candidates to put forward to the Committee for consideration and interview. The Committee is mindful that candidates are fully aware of the time commitment expected of them and the number of roles candidates already undertake is taken into consideration to ensure that individuals do not compromise their effectiveness through overcommitment. All letters of appointment set out the expected time commitment.

The Committee appointed international external recruitment consultant Spencer Stuart to undertake the search for an additional Non-Executive Director. Spencer Stuart, who has no other connection nor provided any other services to the Company or individual Directors, proposed a number of candidates to the Committee. The selection process is under way but has been hampered by Covid-19.

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.

Board and Committee evaluations

Formal annual evaluations of the Board and its Committees were undertaken in February 2020.

The process this year was an internally run exercise undertaken using the Company's digital board solution in the format of a series of questionnaires submitted online. The process was administered by the Company Secretary.

The Board and Committee evaluations 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 reviewing the induction programme for newly appointed Non-Executive Directors. The programme will facilitate a thorough understanding of the Company's future strategy, current practices and policies and provide the opportunity to meet with employees plus external advisers relevant to the various Committees and the Board.

Individual Director performance evaluation

The individual Director performance evaluations were undertaken in March 2020 and followed the same format as the Board and Committees outlined above. The completed questionnaires were submitted to the Board Chairman who then discussed these with individual Directors on a one-to-one basis to review their responses and provide feedback. The Senior Independent Director undertook the exercise in relation to the Chairman.

All evaluations identified the need for greater diversity on the Board and demonstrated the Directors' commitment to making progress in this area.

The exercise concluded that each individual Director continued to make a positive contribution to Board effectiveness through their wide range of skills and experience in the commercial sector at a strategic and operational level, and demonstrated the commitment and independence required to deal with the future challenges to the business.

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.

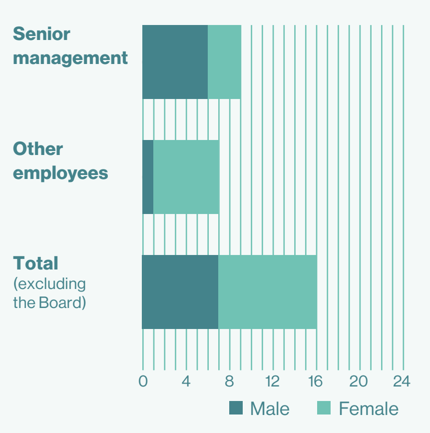
The Board takes overall responsibility for the development of equality and diversity and ensures that progress is reviewed, and further actions taken as necessary. Every employee has personal responsibility for the implementation of the policy. Furthermore all employees are required to complete an annual online e-training programme made up of three modules:

- Equality and diversity;
- Bribery prevention; and
- Data security.

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 31 March 2020



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. For details of the Company's Anti-Slavery, Human Trafficking and Child Labour Policy Statement please see our website.

Re-election of Directors

As recommended under Provision 18 of the 2018 UK Corporate Governance Code, all Directors of the Company, being eligible, will offer themselves for re-election at the 2020 AGM. The biographical details of the Directors are available on pages 42 and 43.

Remuneration Committee Report
1. Annual Statement

Dear shareholder,
I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2020, which has been prepared by the Remuneration Committee ('the Committee') and approved by the Board.

Nick Shepherd
Chairman of the Remuneration Committee

Over the last few years there have been many developments in the regulatory environment governing executive remuneration. Although this is the first year we are required to comply with the new legislation and the updated corporate governance code, we incorporated a number of changes last year, and have strived to ensure that our approach at McKay has been, and continues to be, in line with best practice.

Covid-19 has introduced market volatility, and the Committee has given this careful consideration in policy implementation this year and in proposed changes to the policy for shareholder approval at this year's AGM.

This year the Committee has had an extended remit to include oversight of the remuneration policies for all employees. I am glad to report that there is a close alignment of workforce and Executive Director remuneration policies.

Committee activities during the year
The Committee met twice during 2019/20. The main Committee activities during the year included:

- Considering the 2018 UK Corporate Governance Code and new disclosure requirements;
- Considering any conflicts of interest (none were identified) and risk in respect of the Remuneration Policy;
- Reviewing the Remuneration Policy and consulting major shareholders and representative bodies in respect of its renewal at the 2020 AGM;
- Reviewing workforce related policies and remuneration;
- Setting the Executive Directors' bonus targets for 2019/20 and agreeing the outturn in respect of the 2018/19 annual bonus;
- Determining Executive Directors' base salary levels for 2020/21;
- Considering the structure of the annual bonus for 2020/21 to account for Covid-19;
- Determining vesting of the 2017 Performance Share Plan ('PSP') awards which reached the end of the three-year performance period on 31 March 2020; and
- Overseeing the grant of the PSP awards in 2019/20.

In addition, the Committee has considered how the Remuneration Policy and practices are consistent with the Provision 40 of the 2018 UK Corporate Governance Code, which requires the Directors to promote the success of the Company for the benefit of stakeholders as a whole:

- **Clarity** – our Remuneration Policy is well understood by our senior team and employees more generally and has been clearly articulated to our shareholders;
- **Simplicity** – the Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. As such, our executive remuneration policies and practices are as simple to communicate and operate as possible, while ensuring that they are aligned to our strategy;
- **Risk** – our Remuneration Policy has been designed to reduce the risk of inappropriate risk-taking through a variety of measures: (i) a combination of both short and long-term incentive plans based on financial, non-financial and share-price-linked targets; (ii) a combination of cash and equity (both in terms of deferred bonus and PSP awards); and (iii) a number of shareholder protections (ie bonus deferral, shareholding guidelines, malus/clawback provisions);
- **Predictability** – our incentive plans are subject to individual caps, with our share plan also subject to market standard dilution limits. The scenario charts in the Remuneration Policy illustrate how the rewards potentially receivable by our Executive Directors vary based on performance and share price growth;
- **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the structure of our short and long-term incentives, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded; and
- **Alignment to culture** – McKay's focus on the office, industrial and logistics sectors across the South East and London combined with a number of successful development projects and intensive in-house portfolio management is fully supported through performance metrics in both the annual bonus and long-term incentive schemes, which measure how we perform against main KPIs that underpin the delivery of our strategy.

Pay and performance

The performance for the year ended 31 March 2020 has been reflected in the potential payments made to the Executive Directors under the annual bonus plan – performance against the EPS, NAV and strategic targets resulted in a bonus of 58.3% of salary. The proportion of bonus over 50% of salary will be deferred into shares with a three-year holding period. Payment of the bonus has been deferred until January 2021.

The outcome of the three-year performance period for the 2017 Performance Share Plan ('PSP') grant has resulted in the investing of 48% of the award. 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 prior to the results announcement.

The report is divided into three sections:

01 My **Annual Statement** as Chairman off the Remuneration Committee for the year ended 31 March 2020, which summarises the activities of the Committee, how the Remuneration Policy has operated for the year ending 31 March 2020 , and the Remuneration policy review process.

02 The **Directors' Remuneration Policy**, which presents our proposed Remuneration Policy for the next three years, given that our current Policy, originally approved by shareholders at the 2017 AGM, will shortly reach the end of its three-year life.

03 The **Annual Report on Remuneration**, which provides further detail on how the Remuneration Policy was implemented in the year ended 31 March 2020, and how the proposed Remuneration Policy will operate for the year ending 31 March 2021.

Remuneration Committee Report continued
1. Annual Statement continued

Proposed Changes to the Directors' Remuneration Policy
After detailed consideration of the current policy, and consultation with our independent external advisers and with major shareholders, the Committee is satisfied that in general terms, the current Remuneration Policy remains fit for purpose and well aligned to both our strategy and remuneration arrangements offered below Board level. We are therefore proposing to make a limited number of changes to maintain compliance with good governance:

- The maximum pension contribution rate of 20% of salary will be removed with the intention that the pension contribution for Executive Directors will be aligned with the workforce (10%) by January 2023. Going forward, pension provision for new Executive Directors and employees promoted to the Board will be aligned, in percentage of salary terms, to the general workforce contribution rate;
- Our informal post cessation shareholding guideline will be formalised and introduced into Policy. Going forward, Executive Directors will need to retain shares equal to 100% of the shareholding guideline (ie 200% of salary) up until the first anniversary of cessation, reducing to 50% of the guideline between the first and second anniversary. Own shares purchased and shares obtained from share awards granted prior to the 2020 AGM will be excluded from the post cessation guideline;
- Rather than the default position under the leaver policy being that deferred bonus/ PSP awards normally vest at cessation for a 'good leaver', the policy will be updated in line with best practice. Going forward, deferred bonus/PSP awards will normally vest at the normal vesting date, subject to performance targets (where relevant) and time prorating; and
- Malus and clawback provisions in the bonus and PSP will be enhanced.

AGM shareholder approval
The Directors' Remuneration Report excluding the Policy will be subject to an advisory shareholder vote at the AGM on 23 July 2020. The proposed Directors' Remuneration Policy will be subject to a binding vote at the same meeting.

This new Policy, subject to approval by shareholders, will last for three years from the forthcoming AGM or until another Policy is approved in a general meeting.

Policy implementation for the year ending 31 March 2021
The Committee has given careful consideration to implementation of the Policy (including the proposed changes) for 2020/21 to take account in particular of the implications of Covid-19, including the risk of windfall awards. As such, the following changes are being proposed to the way the Policy is implemented for 2020/21:

- There will be no base salary increases for 2020/21.
- In light of the FRC's guidance in respect of implementing the new UK Corporate Governance Code, Executive Directors have agreed to reduce their pension provision by January 2023 so that they are aligned with the workforce provision. Any new Executive Director appointment will receive a workforce aligned pension immediately.
- The operation of the 2020/21 bonus scheme will be reviewed in September 2020, at which time appropriate targets will be set.
- In the event that a NAV per share target is adopted for 2020/21, or in subsequent years, rather than adopting a 'cross cycle' NAV per share target growth range of RPI +3% to RPI +10%, the Committee anticipates setting targets in absolute terms which reflect internal and external forecasts. The removal of RPI will simplify the targets, which will continue to be appropriately stretching.
- Full retrospective disclosure of the targets, result and any bonus award will be set out in the Directors' Remuneration Report for the year ending 31 March 2021.
- Annual Bonus deferral, whereby any bonus award in excess of 50% of salary will be deferred into shares for three years, will remain unchanged.
- PSP award levels will continue to be granted over shares worth no more than 100% of salary, with 40% of awards based on NAV growth targets and 60% of awards based on relative TSR against the constituents of the FTSE All Share Real Estate (Investment and Services REITs) index, with minor variations. Reflecting feedback received in respect of the TSR comparator Groups used, details of the peer Groups for unvested PSP awards can now be found on the Company's website.
- Careful consideration will be given to the grant date and share price at which the 2020 PSP award is made to avoid unintended windfall gains.
- Shareholding guidelines will remain at 200% of salary (albeit post cessation guidelines will operate from the 2020 AGM as detailed above in respect of the Policy changes).

Shareholder consultation in respect of the new Policy
In formulating our revised Policy, the Committee consulted with our ten largest shareholders and the main representative bodies. The Committee is grateful for the level of support received for the proposals which will be subject to shareholder approval at the AGM.

Non-Executive Director fees
There will be no increase in Non-Executive Director fees in 2020/21.

Conclusion
Implementation of the Policy for 2020/21 reflects the expected impact of Covid-19, whilst reflecting the need for an effective remuneration structure at McKay. I therefore hope that you will be supportive of our revised policy and its implementation for 2020/21, and that you will therefore vote in favour of the remuneration related resolutions that will be tabled at the forthcoming AGM.

Nick Shepherd
Chairman of the Remuneration Committee
8 June 2020

2. Directors' Remuneration Policy

The principal objective of the Remuneration Committee is to design and implement a Remuneration Policy that promotes the long-term success of the Company. The Committee seeks to ensure that the senior executives are fairly rewarded in light of the Group's performance, taking into account all elements of their remuneration package. A significant proportion of executive remuneration is performance related, comprising an annual bonus and long-term performance share plan. The fixed portion of remuneration comprises basic salary, benefits and a payment in lieu of pension.

Policy scope

The Policy applies to the Chairman, Executive Directors and Non-Executive Directors.

Policy duration

Given that the current Directors' Remuneration Policy Report (approved at the AGM on 13 July 2017, receiving 99.56% support) will shortly reach the end of its three-year life, a new Policy will be put to shareholders for approval at the 2020 AGM. Subject to approval, the new Policy will apply from that date for a maximum of three years.

Changes from the current Policy

As the Committee is satisfied that the current Remuneration Policy remains fit for purpose and well aligned to both our strategy and remuneration arrangements offered below Board level, we are only proposing to make a limited number of changes to maintain compliance with good governance. Following consultation with the Company's major shareholders and the main representative bodies, the Policy changes being proposed and which are included in the summary table overleaf are as follows:

- The maximum pension contribution rate of 20% of salary has been removed. Going forward, pension provision for new Executive Directors and employees promoted to the Board will be aligned, in percentage of salary terms, to the general workforce contribution rate;
- Pension provision for current Executive Directors will be reduced by January 2023 so that they are aligned with the general workforce contribution rate;
- Our informal post cessation shareholding guideline will be formalised and introduced into Policy. Going forward, Executive Directors will need to retain shares equal to 100% of the shareholding guideline (ie 200% of salary) up until the first anniversary of cessation, reducing to 50% of the guideline between the first and second anniversary. Own shares purchased and shares obtained from share awards granted prior to the 2020 AGM will be excluded from the post cessation guideline;
- Rather than the default position under the leaver policy being that deferred bonus/ PSP awards normally vest at cessation for a 'good leaver', the policy has been updated in line with best practice. Going forward deferred bonus/PSP awards will generally vest at the normal vesting date, subject to performance targets (where relevant) and time prorating; and
- Malus and clawback provisions in the bonus and PSP have been enhanced.

Remuneration Committee Report continued
2. Directors' Remuneration Policy continued

A summary of the Directors' Remuneration Policy which will be taken to shareholders for approval at the 2020 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 Group successfully.	The Company typically provides: • Car allowance (paid monthly) • Medical insurance • Life assurance The Committee reserves the discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice. Where appropriate, the Company will meet certain costs relating to Executive Director relocations (which are not subject to the benefits cap).
Pension	To provide appropriate levels of pension provision to executives of the quality required and appropriate skills to manage and develop the Group successfully.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance (or all) can be paid as a cash supplement.
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 (see below).

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
New Executive Directors: In line with the general workforce contribution rate (as a percentage of salary). Current Executive Directors: The Executive Directors have agreed to align their pension provision with the general workforce by January 2023.	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 payout of more than 30% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full payout 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.

Notes

1. The Committee operates incentive plans according to their respective rules and where relevant in accordance with the Listing Rules. Consistent with market practice, the Committee retains discretion over a number of areas relating to the operation and administration of the plan. These include, but are not limited to, determining who participates, the timing of awards, award levels, setting performance targets, amending performance targets (if an event occurs, in exceptional circumstances, to enable the targets to fulfil their original purpose), assessing performance targets, treatment of awards on a change of control, treatment of awards for leavers and adjusting awards (eg as a result of a change in capital structure).
2. 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.
3. 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. 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.
4. For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of the prior year's annual bonus or the vesting/exercise of share awards granted in the past). Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.
5. 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.
6. 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.
7. 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 Committee Report continued

2. Directors' Remuneration Policy continued

A summary of the Directors' Remuneration Policy which will be taken to shareholders for approval at the 2020 AGM is as follows:

Element	Purpose and link to strategy	Operation
Performance Share Plan ('PSP')	To incentivise and reward the delivery of the Company's strategic objectives, and to provide further alignment with shareholders through the use of shares and to aid retention.	Awards under the PSP may be granted as nil/nominal cost options or conditional awards which vest to the extent performance conditions are satisfied over a period of at least three years. A two-year post 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. Malus/clawback provisions apply (see below).
Shareholding guidelines	To align executive and shareholder interests.	The Committee recognises the importance of Executive Directors aligning their interests with shareholders through building up significant shareholdings in the Group. Executive Directors are required to retain 100% of any PSP and deferred bonus shares acquired on vesting (net of tax) until they reach the ownership guideline.
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
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.
In employment: 200% of salary. **Post employment:** 100% of the shareholding guideline (ie 200% of salary) up until the first anniversary of cessation, reducing to 50% of the guideline between the first and second anniversary. Own shares purchased and shares obtained from share awards granted prior to the 2020 AGM will be excluded from the post cessation guideline.	n/a
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 ('the Articles') for such fees.	n/a

Remuneration Committee Report continued
2. Directors' Remuneration Policy continued

Malus and clawback provisions
Malus and clawback provisions operate in respect of the annual bonus and PSP:
- materially misstated its financial results
- an error in calculating a performance condition
- gross misconduct
- significant reputational damage
- corporate failure or insolvency

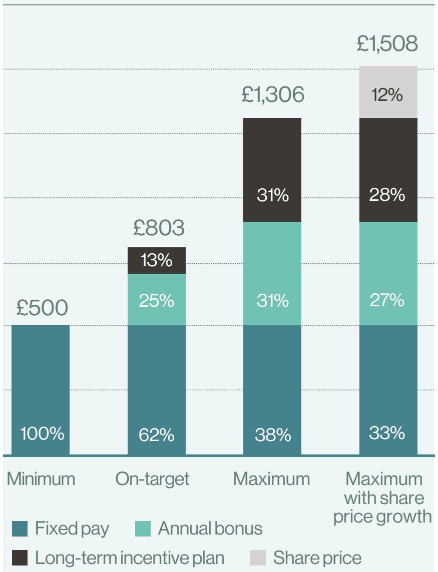
How the views of shareholders are taken into account
The Remuneration Committee considers shareholder feedback received each year following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of 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 does not formally consult with employees when determining remuneration of the Executive Directors. However, the Committee takes due account of employees' views when determining the design of the Company's senior executive Remuneration Policy.

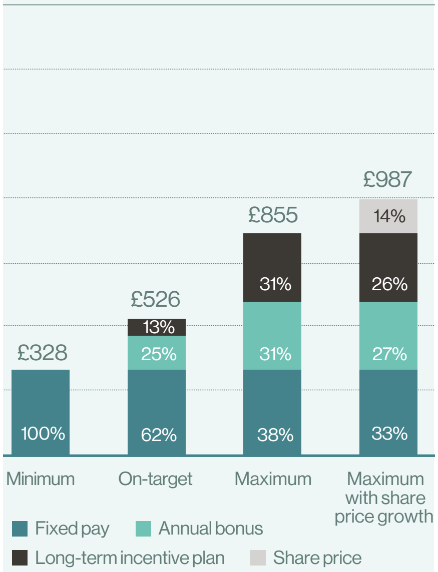
The new desNed appointment in April 2019 has increased the opportunity for employee feedback.

Remuneration-related risk
The Committee is satisfied that the Remuneration Policy, and the way that it is operated, does not encourage inappropriate risk taking or expose the Company 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 (ie malus and clawback provisions, shareholding guidelines, bonus deferral and post vesting holding periods on PSP awards).

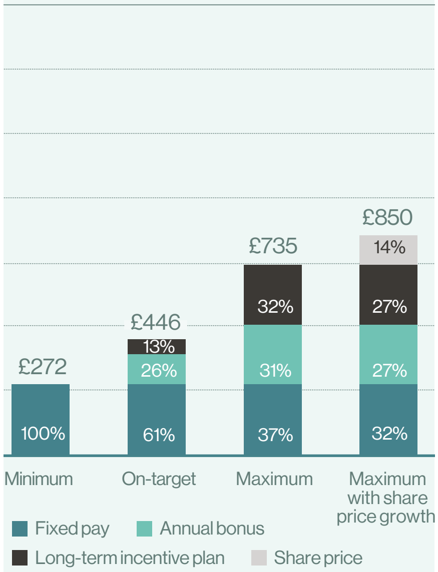
Chief Executive Officer (£'000)



Chief Financial Officer (£'000)



Property Director (£'000)



Assumptions:

Basic	Target	Maximum	Maximum with share price
• Consists of base salary to be paid in 2020/21 and estimated values for benefits and pension	• Fixed Pay: As per Basic • Annual Bonus: 50% of maximum opportunity of 100% of salary • PSP: 25% vesting of awards of 100% of salary under PSP	• Fixed Pay: As per Basic • Annual Bonus: 100% of base salary • PSP: 100% of salary under PSP	• As per the maximum scenario albeit with a 50% share price growth assumption on the PSP awards

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

External appointments

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

Remuneration scenarios for Executive Directors

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

Service contracts

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

Executive Director	Date of service contract
S Perkins	16 March 2004
G Salmon	2 May 2011
T Elliott	8 July 2016

The Non-Executive Directors have rolling terms of appointment, providing for them to retire by rotation in accordance with the Articles. In line with the 2018 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	1 May 2014
J Austen	8 July 2016
N Shepherd	21 January 2015
J Bates	17 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 takes 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 have 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 a maximum of 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. Any payments made to a departing Executive Director may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

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 payout date. Any share-based entitlements granted to an Executive Director under the Company's share plans will be determined based on the relevant plan rules. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, share awards will normally vest on the normal vesting date, and for performance-based share awards, vesting will normally be subject to the satisfaction of the relevant performance conditions at that time and the number of shares under award would be reduced pro rata to reflect the proportion of the performance period actually served, although the Remuneration Committee has the discretion to: (i) vest awards at cessation; and (ii) for performance-based awards, disapply the application of time prorating if it considers it appropriate to do so.

Remuneration Committee 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	2 out of 2
J Austen	2 out of 2
J Bates	2 out of 2
R Grainger	2 out of 2

External advisers

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 or individual directors. Total fees paid to FIT in respect of its services to the Committee during the year, based on time and materials, were £50,095 excluding 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 CEO attends meetings by invitation, but is not involved in the discussion of his own remuneration.

Directors' remuneration for the year ended 31 March 2020 (audited)

The remuneration of the Directors for the years 2020 and 2019 was as follows

Directors' remuneration[4]		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	2020	403	27	71	235	155	891
	2019	395	28	69	252	61	805
G Salmon	2020	264	31	43	154	102	594
	2019	259	34	42	165	40	540
T Elliott	2020	231	26	26	135	89	507
	2019	227	27	25	144	33	456
Non-Executive							
R Grainger	2020	90	–	–	–	–	90
	2019	90	–	–	–	–	90
J Austen	2020	46	–	–	–	–	46
	2019	45	–	–	–	–	45
J Bates	2020	41	–	–	–	–	41
	2019	40	–	–	–	–	40
N Shepherd	2020	46	–	–	–	–	46
	2019	45	–	–	–	–	45
Total Directors	**2020**						**2,215**
	2019						**2,021**

Notes
1. Benefits comprise car allowance and medical insurance.
2. 8% of the 2020 bonus figures presented above will be deferred into shares for three years.
3. The values for long-term incentive provision in the table above were based on the average three-month share price at 31 March 2020 of £1.75.
4. No payments were made to Directors for loss of office during the year.

Prior year LTIPs

The table below shows the change in value between the year end and the vesting date.

	Value at 31 March 2019 £'000	Value at vesting £'000
S Perkins	61	62
G Salmon	40	41
T Elliott	33	33

Annual Bonus

The annual bonus for the year ended 31 March 2020 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%	<RPS +3.1%	0%	0%
EPS growth	45%	45%	90%	110%	106%	87%	39.3%
Strategic targets	25%	25%			See below	76%	19.0%
Total	**100%**	**100%**					**58.3%**

Strategic targets

Target	Weighting	Committee assessment	Out-turn
1. Rent collection	5%	100%	5%
2. Voids (excluding developments)	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%	80%	4%
Total			**19.0%**

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 – vesting of awards

The PSP award granted on 18 July 2017 was subject to performance conditions, for the three years ended 31 March 2020. The performance conditions attached to this award and actual performance against these conditions were as follows:

Metric	Weighting	Performance condition	Threshold target	Maximum target	Actual performance	Vesting level
NAV growth	40%	Average NAV per share growth of RPIX +6% to 25% (full vesting) over three financial years	RPIX +6%	RPIX +25%	<RPIX +6%	0%
Relative TSR	60%	Relative TSR performance against over three financial years (please see the following link www.mckaysecurities.plc.uk/investor-relations/performance-share-plan). 25% of this part of the award vests for achieving threshold performance, increasing on a straight line basis to full vesting for achieving the stretch target.	Median	Upper quartile	81%	48%
Total						**48%**

Based on the vesting percentage above, details of the shares under award and their estimated value (based on the share price at 31 March 2020 of £1.75 per share) are as follows:

Executive	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Estimated dividend equivalents	£ Value of awards vesting[1]	£ Impact of share price on vesting[2]
S Perkins	167,467	86,480	80,987	7,667	155,145	-43,733
G Salmon	109,607	56,601	53,006	5,018	101,542	-28,623
T Elliott	96,070	49,611	46,459	4,398	89,000	-25,088

1. Based on the share price to 31 March 2020 of £1.75.
2. Based on the number of shares vesting (excluding dividend equivalents) multiplied by the difference between the share price at the date of grant (£2.29) and share price at 31 March 2020 (£1.75).

Remuneration Committee Report continued
3. Annual Report on Remuneration continued

Long-term incentives – Grant of awards (audited)

The following awards were granted to the Executive Directors on 10 June 2019:

	Type of award	Basis of award	Share price at grant[1]	Number of shares under award	Face value of award £'000	% of award vesting at threshold	Performance period
S Perkins	Nil-cost option	100% of salary	£2.38	169,286	£402,900	25%	Three years to 31 March 2022
G Salmon	Nil-cost option	100% of salary	£2.38	110,798	£263,700	25%	
T Elliott	Nil-cost option	100% of salary	£2.38	97,101	£231,100	25%	

1. Based on the average five day share price prior to 7 June 2019.

The performance targets were as follows:

Metric	Weighting	Performance condition	Threshold target	Maximum target
NAV growth	40%	Average NAV per share growth of 12% (25% of this part vests) to 35% (full vesting) over three financial years	12%	35%
Relative TSR	60%	Relative TSR performance against over three financial years (please see the following link www.mckaysecurities.plc.uk/investor-relations/performance-share-plan). 25% of this part of the award vests for achieving threshold performance, increasing on a straight line basis to full vesting for achieving the stretch target.	Median	Upper quartile

Details of outstanding share awards (audited)

	31 March 2019 Number of shares	Granted in 2019/20 Number of shares	Vested in 2019/20 Number of shares	Lapsed in 2019/20 Number of shares	31 March 2020 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
PSP Awards								
S Perkins								
2016 PSP	181,643	–	26,035	155,608	–	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
2019 PSP	–	169,286	–	–	169,286	2.38	10.06.2022	09.06.2029
	497,050	169,286	260,035	155,608	484,693			
G Salmon								
2016 PSP	118,841	–	17,034	101,807	–	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
2019 PSP	–	110,798	–	–	110,798	2.38	10.06.2022	09.06.2029
	325,264	110,798	17,034	101,807	317,221			
T Elliott								
2016 PSP	96,618	–	13,848	82,770	–	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
2019 PSP	–	97,101	–	–	97,101	2.38	10.06.2022	09.06.2029
	277,557	97,101	13,848	82,770	278,048			

Details of outstanding share awards (audited) continued

	31 March 2019 Number of shares	Granted in 2019/20 Number of shares	Vested in 2019/20 Number of shares	Lapsed in 2019/20 Number of shares	31 March 2020 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
Deferred bonus awards								
S Perkins								
2016 Deferred bonus	34,996	–	34,996	–	–	2.07	16.06.2019	15.06.2022
2018 Deferred bonus	25,227	–	–	–	25,227	2.67	08.06.2021	07.06.2028
2019 Deferred bonus	–	22,820	–	–	22,820	2.38	10.06.2022	09.06.2029
	60,223	22,820	34,996	–	48,047			
G Salmon								
2016 Deferred bonus	22,484	–	22,484	–	–	2.07	16.06.2019	15.06.2022
2018 Deferred bonus	16,511	–	–	–	16,511	2.67	08.06.2021	07.06.2028
2019 Deferred bonus	–	14,934	–	–	14,934	2.38	10.06.2022	09.06.2029
	38,995	14,934	22,484	–	31,445			
T Elliott								
2018 Deferred bonus	14,472	–	–	–	14,472	2.67	08.06.2021	07.06.2028
2019 Deferred bonus	–	13,091	–	–	13,091	2.38	10.06.2022	09.06.2029
	14,472	13,091	–	–	27,563			

Statement of Directors' shareholdings and share interests (audited)

	Beneficially owned at 31 March 2019	Beneficially owned at 31 March 2020	Outstanding PSP performance awards	Outstanding deferred bonus awards	Shareholding as a % of salary[1,4]
S Perkins	333,901	347,696[2]	484,693	48,647	181
G Salmon	152,306	167,334	317,221	31,445	141
T Elliott	31,734	39,073[3]	278,040	27,563	59
R Grainger	47,638	47,638			
J Austen	20,500	20,500			
J Bates	–	–			
N Shepherd	23,315	23,315			

1. Based on year end salaries and share price as at 31 March 2020 of £1.75 per share, and based on beneficially owned shares and vested PSP awards (using the net of tax numbers where awards are yet to be exercised).
2. Beneficial holdings, as defined by the Companies Act, would include a further 5,602 shares.
3. Beneficial holding, as defined by the Companies Act, would include a further 5,200.
4. Executive Directors are required to build up a holding of shares in the Company to the value of 200% of salary.

Payments within the year to past Directors (audited)

No payments were made for loss of office and no payments were made to past Directors in the year ended 31 March 2020.

Percentage change in the remuneration of the Chief Executive Officer

The table below shows the percentage change in the CEO's remuneration (excluding the value of any long-term incentives and pension benefits receivable in the year) between 2018/19 and 2019/20 compared to that of the average for all employees of the Company.

	% Change from 2018/19 to 2019/20		
	Basic salary	Benefits	Bonus
CEO	2%	-5%	-9%
Average employees	2%	0%	-9%

Remuneration Committee 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.

Total remuneration for the CEO during each of the last ten financial years is shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and PSP awards based on three-year performance periods up to the end of each year. The annual bonus payout and PSP vesting level, as a percentage of the maximum opportunity, are also shown for each of these years.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total remuneration (£'000)	£309	£410	£413	£802	£1,139	£1,197	£690	£902	£805	£877
Annual bonus (% of salary)	0	10	13	45	55	70	28	68	64	58
PSP vesting (% of max)	0	0	0	60	100	100	40	40	14	48

Relative importance of the spend on pay

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

	2018/19	2019/20	% change
Staff costs (£'m)	£4.50	£3.48	-23%
Dividends (£'m)	£9.61	£6.79	-29%

£1.65 million of the staff costs in 2019/20 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 4.4 pence per share will be paid on 94.26 million shares (94.12 million for 2018/19).

CEO pay ratio

CEO pay ratio data is presented below on a voluntary basis for the year ended 31 March 2020 (as McKay has fewer than 250 employees, it is not required to disclose this information). The data shows how the CEO's single figure remuneration for 2019/20 (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. Prior year comparatives in respect of the ratio data are also shown.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019/20	Option A	5:1	8:1	13:1
2018/19	Option A	5:1	8:1	11:1

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.

		Quartile salary data				Quartile total pay and benefits data		
Year	CEO salary data	25th percentile	Median	75th percentile	CEO single figure	25th percentile	Median	75th percentile
2019/20	£402,900	£42,600	£55,600	£96,500	£877,000	£67,433	£107,695	£172,870
2018/19	£395,000	£46,400	£54,400	£94,600	£805,000	£71,560	£100,434	£164,222

Gender and diversity pay

McKay is not required to publish gender nor diversity 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: (i) 2017 AGM in respect of the latest Directors' Remuneration Policy; and (ii) the 2019 AGM in respect of the Directors' Remuneration Report:

	Remuneration Policy 2017 AGM		Remuneration Report 2019 AGM	
	Number of votes	%	Number of votes	%
Proxy votes cast in favour	59,611,717*	99.57%	60,173,332	99.97%
Proxy votes cast against	259,887	0.43%	15,708	0.03%
Total votes cast	59,871,604	100%	60,189,040	100%
Proxy votes withheld	13,792		9,000	

1. Includes discretionary votes of 29,215.

Remuneration Committee Report continued
3. Annual Report on Remuneration continued

Implementation of the Remuneration Policy for the year ending 31 March 2021

Salaries

There will be no base salary increases for 2020/21.

Benefits and pension

Any new Executive Director will receive a workforce aligned pension on appointment. In light of the FRC's guidance in respect of implementing the new 2018 UK Corporate Governance Code, Executive Directors have agreed to reduce their pension provision by January 2023 so that they are aligned with the workforce provision.

Annual bonus scheme

The operation of the 2020/21 bonus selection will be reviewed in September 2020, at which time appropriate targets will be set. Full retrospective disclosure of the targets, result and any bonus award will be set out in the Directors' Remuneration Report for the year ending 31 March 2021. Annual Bonus deferral, whereby any bonus award in excess of 50% of salary will be deferred into shares for three years, will remain unchanged.

Performance Share Plan

PSP awards to be granted in the year ending 31 March 2021 will be subject to the following targets:

Performance condition	Threshold target (25% vesting)	Stretch target (100% vesting)	End of performance period
Relative TSR against as listed on the Company's website (please see the following link www.mckaysecurities.plc.uk/investor-relations/performance-share-plan) (60% of award)	Median	Upper quartile	31 March 2023
Absolute NAV per share growth (40% of award)	Growth of 12%	Growth of 35%	31 March 2023

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.

Careful consideration will be given to the grant date and share price at which awards were made to avoid unintended Covid-19 related windfall gains.

Fees for the Chairman and Non-Executive Directors

No increase for the year.

	Fees as at 1 April 2019	Fees as at 1 April 2020
R Grainger	£90,000	£90,000
J Austen	£45,500	£45,500
J Bates	£40,500	£40,500
N Shepherd	£45,500	£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
8 June 2020

Directors' Report

Introduction
The Directors present their report and audited financial statements for the year ended 31 March 2020.

As permitted under the Companies Act 2006 Section 414C (11) and Listing Rule 9.8.4R some of the matters in this report have been included in the following pages of the Annual Report:

Activity and assets
McKay Securities Plc is a Real Estate Investment Trust ('REIT') based 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. The Company is listed on the main market of the London Stock Exchange.

Property valuations
The Company's properties were valued by an external professional valuer at 31 March 2020. A decrease in value of £2.20 million (2019: increase £4.83 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 31 March 2020 was 328 pence (2019: 331 pence).

Profit and dividend
The profit for the year is set out in the Consolidated Profit and Loss and Other Comprehensive Income Statement. Profit before tax was £9.12 million (31 March 2019: £13.2 million).

Under the REIT regime the Company will, in the normal course of business, be required to pay at least 90% of its relevant income arising in each accounting period, by way of a 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 4.4 pence per share, all of which will be paid as an ordinary dividend, making a total for the year of 7.2 pence per share (2019: 10.2 pence). If approved at the AGM on 23 July 2020 the dividend will be paid on 13 August 2020 to shareholders recorded on the register at the close of business on 19 June 2020.

Directors
The Board of Directors for the financial year to 31 March 2020 was:
R Grainger
S Perkins
G Salmon
T Elliott
J Austen
J Bates
N Shepherd

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 42 and 43. In accordance with the Company's Articles and the 2018 UK Corporate Governance Code all the Directors being eligible will offer themselves for re-election at the 2020 AGM.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 65 to 69, 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 66 to 69.

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 69 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 31 March 2020:

	Shares	%
Aberforth Partners LLP	13,858,321	14.07%
Bank of Montreal* (BMO)	20,529,205	21.78%
Goldman Sachs	8,615,900	9.14%

* 13.44% are held as financial instruments. 4.88% are held by Thames River Capital LLP.

Notification since 31 March 2020:

	Shares	%
Bank of Montreal* (BMO)	8,548,753	9.07%
Goldman Sachs	0	0%
Tristan Capital Partners LLP	12,392,709	13.15%

* 7.69% are held by Thames River Capital LLP.

Political donations
No political donations were made during the year (2019: nil).

Charitable donations
The Company donates to local and national charities as appropriate during the year for future details please see the ESG report on page 32.

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

The Company's Performance Share Plan has provisions with regard to vesting of awards in the event of a change of control.

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.

Directors' Report continued

Share capital

The issued share capital of the Company as at 31 March 2020 was 94, 263,998 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 AGM and in accordance with applicable legislation.

AGM

The 74th Annual General Meeting of the Company will be held at 20 Greyfriars Road, Reading, Berkshire, RG1 1NL at 10.30am on 23 July 2020.

AGM arrangements and Covid-19

The Board values the opportunity to meet shareholders in person at the AGM to listen and respond to their questions. However, current UK Government measures are in force that limit public gatherings, impose social distancing and require that people do not make unnecessary journeys. As a result of these restrictions the 2020 AGM will be a closed meeting and shareholders are regrettably not permit to attend.

In order to ensure that the AGM may proceed on 23 July 2020 in compliance with UK Government restrictions, arrangements have been made for a quorum of two shareholders to be present at the AGM, as required under the Company's Articles of Association, and this will be facilitated by the Company.

Although shareholders may not attend the AGM and vote in person, their participation is important. Therefore, this year the AGM will be conducted by way of a poll rather than on a show of hands. Shareholders are strongly encouraged to vote ahead of the AGM by completing and returning their Proxy Form and appointing the Chairman of the AGM to act as proxy to vote on their behalf. The Proxy Form should be completed, signed and returned in accordance with the instructions printed thereon at least 48 hours prior to the AGM. Shareholders are strongly encouraged to return Proxy Forms as early as possible prior to the meeting.

Although it will not be possible to ask questions during the AGM this year, if shareholders would like to ask a question on the Company's Annual Report and Financial Statements or any of the proposed resolutions listed within the circular please send them to info@mckaysecurities.plc.uk marked for the attention of the Company Secretary ahead of the meeting and in any event to be received by 5.00pm on 21 July 2020. A response to the questions received will be made available on the Company's website as soon as practicable following the AGM.

At the forthcoming AGM the following special resolutions will be proposed which constitute special business:

Power to allot shares (special resolution)

The Directors were granted authority at the last AGM held in 2019 to allot relevant securities up to a nominal amount of £6,274,961. 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 £6,284,266 and (ii) comprising equity securities up to a nominal amount of £12,568,533 (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 30 September 2021).

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 £1,885,278.

Market purchase of shares (special resolution)

At the 2019 AGM shareholders renewed the Directors' authority to repurchase up to 10% of the Company's issued share capital at that time (9,412,442 ordinary shares) in the market, subject to minimum and maximum price constraints. That authority will apply until the conclusion of this year's AGM. No shares were repurchased during the year and the Company does not hold any shares in treasury. Renewal of this authority by special resolution will be proposed at the 2020 AGM and the authority will be limited to a maximum of 9,426,399 ordinary shares.

Auditor

Deloitte LLP undertook the audit for the year to 31 March 2020.

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of Deloitte LLP as auditor of the Company will be 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.

Listing Rules 9.8.4R		Page
1	Interest capitalised and tax relief	99
4	Details of long-term incentive plans	67
6	Waiver of Director emoluments	58

J McKeown
Company Secretary
8 June 2020

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

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the report of 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 that 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 Officer
8 June 2020

G Salmon
Chief Financial Officer
8 June 2020

Independent Auditor's Report
To the members of McKay Securities Plc

Report on the audit of the financial statements

1. Opinion
In our opinion:
- the financial statements of McKay Securities Plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 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 ('IFRSs') as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

We have audited the financial statements which comprise:
- the Consolidated Profit and Loss and other Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Cashflow Statement;
- the Consolidated and Company Statements of Changes in Equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('the FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in note 3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of the investment property portfolio; and • Going concern and covenant compliance.
Materiality	The materiality that we used for the Group financial statements was £4.6 million which was determined on the basis of 1.5% of net assets. For testing of balances that impacted EPRA earnings, a lower materiality of £482,000 was used based on 5% of the measure.
Scoping	We subject all components of the Group to full scope audit procedures, therefore accounting for 100% of the Group's net assets, revenue and profit before tax.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the Directors' statement on page 38 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

Further detail of work performed on the going concern assessment is included in the Key Audit Matter below.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 34 to 37 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 34 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 38 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider 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.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's Report continued

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the investment property portfolio

Key audit matter description	The Group's investment properties are valued by the external valuer at £510.0m at 31 March 2020 (31 March 2019: £482.7m) thereby representing the most quantitatively material balance in the financial statements. See note 11 for full disclosure of the investment property valuation. The valuation of the portfolio is a significant area of estimation that is underpinned by a number of assumptions including capitalisation yields and future lease income. The fair values are calculated by third party valuation experts using factual information, such as lease agreements and tenancy data, and their professional judgement concerning market conditions and factors impacting individual properties. Our key audit matter in relation to the valuation of the investment property portfolio is pinpointed to the assumptions applied in the determination of the valuation, including property yields, estimated future rental income and void periods. We have identified a fraud risk factor in the investment property balance in relation to management's incentive to manipulate the overall value. As detailed in note 11, in applying the Royal Institute of Chartered Surveyors ('RICS') Valuation Global Standards 2020 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in their valuation report. This is on the basis that market activity is being impacted in many sectors by the Covid-19 pandemic such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value, and that a higher degree of caution should be attached to their valuation. Further detail is provided within key sources of estimation uncertainty in note 1, note 11 to the financial statements and the Audit and Risk Committee report on page 51.
How the scope of our audit responded to the key audit matter	We evaluated the appropriateness of the design and implementation of the Group's key controls to address the risk over property valuations. We assessed management's process for reviewing the valuations of the property portfolio. We obtained the external valuation report and held a virtual meeting with the external valuers of the property portfolio to understand and challenge the valuation process, to discuss performance of the portfolio and, for a sample of properties, discussed significant assumptions and critical judgement areas, including estimated rental values, yields and void periods. We utilised the expertise of our internal real estate valuation specialists, who are chartered surveyors, to challenge the significant estimates and assumptions applied in the valuation performed by the Group's valuers, paying particular attention to the level of judgement applied as a result of Covid-19. Our real estate specialist utilised relevant industry data to benchmark the portfolio performance and key assumptions used, to assess whether the external evidence supported the assumptions used by the valuers. We considered the changes made to key valuation input assumptions at a macro-level in light of the potential impact of the Covid-19 pandemic on the properties held by the Group and benchmarked these against changes being made in the wider market and against relevant market evidence including specific property sales and other external data. We tested the integrity of a sample of the data provided to the external valuer. This included verifying a sample of information provided to the external valuer to underlying lease agreements, and verifying costs to complete. We have assessed the competence, independence and integrity of the external valuers.
Key observations	While we note the increased estimation uncertainty in relation to the property valuation as a result of Covid-19, and as disclosed in note 11, we concluded that the estimates and assumptions applied in arriving at the fair value of the Group's property portfolio were appropriate.

5.2. Going concern and covenant compliance

Key audit matter description	As at 31 March 2020, external borrowings had a carrying value of £190.5 million (31 March 2019: £163.2 million), representing a £65.0 million term loan and a £180.0 million revolving credit facility, which mature in 2030 and April 2024 respectively. The Group has £51.0 million of undrawn revolving credit facility, together with cash of £2.2 million (31 March 2019: £4.4 million). We identified a key audit matter relating to the ability of the Group to meet the external loan covenant requirements during the year and for a period of one year from the date of this auditor's report. The Group's banking covenants are linked to the borrowing to property valuation ratio and the interest cover achieved through rental income. While there is headroom in these ratios throughout the forecast period, a downward movement in property valuations as a result of the Covid-19 pandemic, where the valuation impacts may be greater and quicker than experienced in recent years, could impact on the available headroom. The Group expects there to be a reduction in rental income throughout the forecast period as a result of trading restrictions due to the Covid-19 pandemic. The impact of this potential reduction in rental income could impact the ability of the Group to meet its interest cover calculations. Management's consideration of the going concern basis of preparation is set out in the Going Concern statement on page 38 and note 1. Management has adopted the going concern basis of accounting for the Group and Parent Company; they have concluded that there are no material uncertainties that may cast significant doubt over the Group's and Parent Company's ability to adopt this basis for a period of at least 12 months from the date when the financial statements are authorised for issue. As at the date of this report, the global outlook as a result of Covid-19 is significantly uncertain and the range of potential outcomes is wide-ranging and unknown. In particular, should the impacts of the pandemic on tenants be more prolonged or severe than currently forecast by the Directors, the Group's going concern status would be dependent on its ability to seek covenant waivers. The Audit and Risk Committee discussion of this key matter is set out on page 51.
How the scope of our audit responded to the key audit matter	We challenged the judgements and assumptions applied by management in their going concern assessment and associated forecasts of financial performance and financial position, considering the reasonableness of assumptions regarding uncertain cash inflows and the timing and quantum of cash outflows. As part of this, we assessed the historical accuracy of forecasts previously prepared by management. We assessed the appropriateness of management's sensitivities, taking into consideration assumptions associated with rental collection levels impacted by the ongoing Covid-19 pandemic. We challenged management's tenant risk assessment undertaken for the most significant clients, utilising our own research to assess the appropriateness of these assumptions. We reviewed the Group's loan documentation to understand the principal terms, including financial covenants, and performed a review of the Group's existing and forecast compliance with debt covenants. We tested the mechanical accuracy of management's covenant calculations, including the consistency with the contractual definitions. We assessed the appropriateness of the headroom available on covenants and compared management's projections with market information available associated with future income and property assets values. We reviewed the disclosures in the financial statements around going concern and the clarity of the process undertaken by management in concluding on the appropriateness of the assessment.
Key observations	We concur with management's conclusion to prepare the Group and Parent Company financial statements on a going concern basis.

Independent Auditor's Report continued

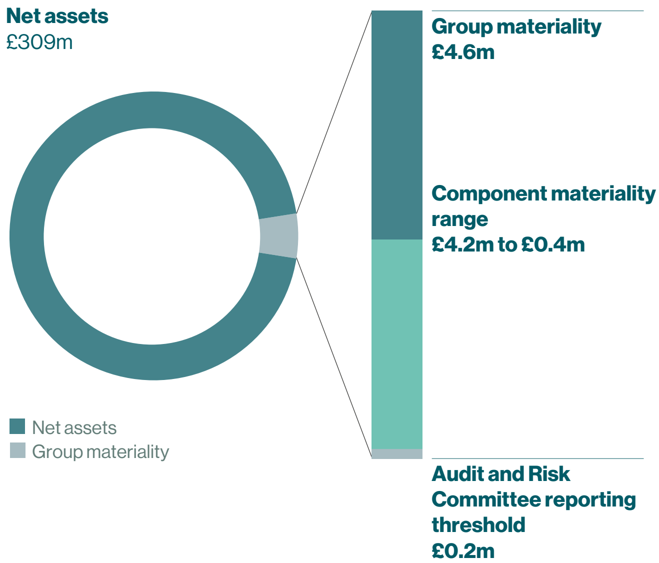
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£4.6 million £482,000 for balances impacting EPRA earnings	£4.2 million
Basis for determining materiality	We have determined materiality for the Group and Parent Company based on: • 1.5% of net assets for testing of balance sheet items; and • 5% of EPRA earnings for testing of balances that impact that measure.	
Rationale for the benchmark applied	As an investment property Company, the main focus of management is to generate long-term capital value from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality to be applied for testing of Group balance sheet items. We continue to consider EPRA earnings to be a critical performance measure for the Group and we therefore calculated and applied a lower materiality to testing of those items impacting EPRA earnings.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit. In determining performance materiality, we considered the following factors:

a) Our risk assessment, including our understanding of the Group's overall control environment which we consider appropriate for the size and nature of the Group;
b) Low turnover of staff within the executive management and key accounting personnel; and
c) Our first year as auditor.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.2 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

We performed a full scope audit of the financial statements of the Parent Company and Group. These components subject to a full scope audit account for 100% of the Group's net assets, revenue and profit before tax.

8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider 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, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the 2018 UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, real estate and pensions regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in management's incentive to manipulate the investment property valuation. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. The key laws and regulations we considered in this context included the Landlord and Tenant Act and the Health and Safety Act.

11.2 Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit and Risk Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board on 4 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year.

14.2. Consistency of the audit report with the additional report to the audit and risk committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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.

Stephen Craig (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
8 June 2020

Financial Statements

Consolidated Profit and Loss and Other Comprehensive Income

For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Gross rents and service charges receivable	2	**29,296**	**25,344**
Other property income		69	73
Direct property outgoings		(7,384)	(6,321)
Net rental income from investment properties	2	**21,981**	**19,096**
Administration costs	3	(5,163)	(6,245)
Operating profit before gains on investment properties		**16,818**	**12,851**
Profit on disposal of investment properties		1,668	–
Revaluation of investment properties	11	(2,199)	4,833
Operating profit		**16,287**	**17,684**
Finance costs	6	(6,805)	(4,498)
Finance income	6	5	4
Profit before taxation		**9,487**	**13,190**
Taxation	7	(1,392)	–
Profit for the year	4	**8,095**	**13,190**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on defined benefit pension scheme		(185)	(135)
Total comprehensive income for the year		**7,910**	**13,055**
Earnings per share	9		
Basic		8.59p	14.02p
Diluted		8.57p	13.91p
Adjusted earnings per share figures are shown in note 9			
Dividends	10		
31 March 2019 final dividend of 7.4 pence (31 March 2018: 7.2 pence) paid during the year		6,965	6,765
30 September 2019 interim dividend of 2.8 pence (30 September 2018: 2.8 pence) paid during the year		2,639	2,635
Proposed final dividend of 4.4 pence (31 March 2019: 7.4 pence)		**4,148**	**6,965**

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

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March 2020

		Notes	2020 £'000	Restated[1] 2019 £'000
Non-current assets				
Investment properties	– Valuation as reported by the valuers		510,000	482,700
	– Adjustment for tenant incentives recognised under IFRS 16/SIC-15		(10,637)	(8,326)
	– Assets held for sale		(79,365)	(14,400)
	– Adjustment for grossing up of headleases	16	4,403	4,404
		11	**424,401**	**464,378**
Plant and equipment		12	148	71
Other receivables		14	6,982	10,292
Total non-current assets			**431,531**	**474,741**
Current assets				
Trade and other receivables		14	3,200	3,501
Assets held for sale		11	83,020	14,400
Cash			2,245	4,363
Total current assets			**88,465**	**22,264**
Total assets			**519,996**	**497,005**
Current liabilities				
Trade and other payables		15	(12,433)	(16,234)
Lease liabilities		16	(180)	(285)
Liabilities directly associated with assets classified as held for sale		16	(1,520)	–
Total current liabilities			**(14,133)**	**(16,519)**
Non-current liabilities				
Loans and other borrowings		15	(190,505)	(163,176)
Pension fund deficit		24	(2,097)	(2,108)
Deferred tax liability		7	(1,392)	–
Lease liabilities		16	(2,703)	(4,119)
Total non-current liabilities			**(196,697)**	**(169,403)**
Total liabilities			**(210,830)**	**(185,922)**
Net assets			**309,166**	**311,083**
Equity				
Called up share capital		19	18,853	18,825
Share premium account			75,541	75,541
Retained earnings			81,531	84,092
Revaluation reserve			133,241	132,625
Total equity			**309,166**	**311,083**
Net asset value per share		22	**328p**	**331p**
EPRA net asset value per share		22	**329p**	**326p**

1. See note 1 for restatement details.

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 8 June 2020 and were signed on its behalf by R Grainger and S Perkins.

Company Statement of Financial Position

As at 31 March 2020

Registration number 421479

	Notes	2020 £'000	Restated[1] 2019 £'000
Non-current assets			
Investment properties – Valuation as reported by the valuers		437,500	413,650
– Adjustment for tenant incentives recognised under IFRS 16/SIC-15		(6,982)	(7,618)
– Assets held for sale		(13,500)	(13,500)
– Adjustment for grossing up of head leases		2,883	2,883
	11	**419,901**	**395,415**
Plant and equipment	12	84	71
Investments in subsidiary	13	–	–
Other receivables	14	6,982	6,839
Total non-current assets		**426,967**	**402,325**
Current assets			
Trade and other receivables	14	46,933	43,339
Assets held for sale	11	13,500	13,500
Cash		2,245	4,363
Total current assets		**62,678**	**61,202**
Total assets		**489,645**	**463,527**
Current liabilities			
Trade and other payables	15	(12,423)	(11,749)
Lease liabilities		(180)	(180)
Total current liabilities		**(12,603)**	**(11,929)**
Non-current liabilities			
Loans and other borrowings	15	(190,505)	(163,176)
Pension fund deficit	24	(2,097)	(2,108)
Lease liabilities		(2,703)	(2,703)
Trade and other payables		–	(203)
Total non-current liabilities		**(195,305)**	**(168,190)**
Total liabilities		**(207,908)**	**(180,119)**
Net assets		**281,737**	**283,408**
Equity			
Called up share capital	19	18,853	18,825
Share premium account		75,541	75,541
Retained earnings		65,181	67,491
Revaluation reserve		122,162	121,551
Total equity		**281,737**	**283,408**

1. See note 1 for restatement details.

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

The profit for the financial year ended 31 March 2020 was £8,340,645 (2019: £9,417,624).

These financial statements were approved by the Board of Directors on 8 June 2020 and were signed on its behalf by R Grainger and S Perkins.

Consolidated Cashflow Statement

For the year ended 31 March 2020

	2020 £'000	2019 £'000
Operating activities		
Profit before tax	8,095	13,190
Adjustments for:		
Depreciation	50	46
Amortisation of leasehold properties	1	1
Deferred bonus write-off	68	110
Fair value of share options	(290)	878
Letting fees amortisation	668	687
Fair value movement in defined benefit pension scheme	44	49
Profit on sale of investment properties	(1,668)	–
Movement in revaluation of investment properties	2,199	(4,833)
Net finance costs	6,800	4,494
Cashflow from operations before changes in working capital	**15,967**	**14,622**
(Increase) in debtors	(203)	(6,274)
(Decrease)/increase in creditors	(2,903)	5,623
Cash generated from operations	**12,861**	**13,971**
Interest paid	(6,061)	(5,275)
Interest received	5	4
Cashflows from operating activities	**6,805**	**8,700**
Investing activities		
Proceeds from sale of investment properties	8,056	–
Purchase and development of investment properties	(33,395)	(14,304)
Purchase of other fixed assets	(126)	(76)
Cashflows from investing activities	**(25,465)**	**(14,380)**
Financing activities		
Increase in borrowings	29,000	18,000
Bank facility fees paid	(2,569)	3
Equity dividends paid	(9,604)	(9,400)
Headlease interest and capital paid	(285)	(285)
Cashflows from financing activities	**16,542**	**8,318**
(Decrease)/net increase in cash and cash equivalents	(2,118)	2,638
Cash and cash equivalents at the beginning of the year	4,363	1,725
Cash and cash equivalents at the end of the year	**2,245**	**4,363**

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

The headlease interest and capital paid was previously presented as a cashflow from operating activities. The current year balance and the prior year comparative have been reclassified to cashflows from financing activities on the basis that this is considered to be a more appropriate presentation of the nature of this liability.

Company Cashflow Statement

For the year ended 31 March 2020

	2020 £'000	2019 £'000
Operating activities		
Profit before tax	8,341	9,417
Adjustments for:		
Depreciation	34	46
Amortisation of leasehold properties	1	1
Deferred bonus write-off	68	110
Fair value of share options	(290)	878
Letting fees amortisation	617	666
Fair value movement in defined benefit pensions scheme	44	49
Profit on sale of investment properties	(1,668)	–
Movement in revaluation of investment properties	2,205	(1,041)
Net finance costs	5,374	4,457
Cashflow from operations before changes in working capital	**14,726**	**14,583**
(Increase) in debtors	(3,893)	(9,181)
(Decrease)/increase in creditors	(27)	1,306
Cash generated from operations	**10,806**	**6,708**
Interest paid	(6,061)	(5,320)
Interest received	1,327	1,243
Cashflows from operating activities	**6,072**	**2,631**
Investing activities		
Proceeds from sale of investment properties	8,056	–
Purchase and development of investment properties	(32,847)	(8,340)
Purchase of other fixed assets	(46)	(76)
Cashflows from investing activities	**(24,837)**	**(8,416)**
Financing activities		
Increase in borrowings	29,000	18,003
Bank facility fees paid	(2,569)	3
Headlease interest and capital paid	(180)	(180)
Equity dividends paid	(9,604)	(9,400)
Cashflows from financing activities	**16,647**	**8,423**
Net increase/(decrease) in cash and cash equivalents	(2,118)	2,638
Cash and cash equivalents at the beginning of the year	4,363	1,725
Cash and cash equivalents at the end of the year	**2,245**	**4,363**

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

The headlease interest and capital paid was previously presented as a cashflow from operating activities. The current year balance and the prior year comparative have been reclassified to cashflows from financing activities on the basis that this is considered to be a more appropriate presentation of the nature of this liability.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	Attributable to equity holders of the Parent Company				
	Share capital £'000	*Restated Share premium £'000	Revaluation reserve £'000	*Restated Retained earnings £'000	Total equity £'000
At 31 March 2018 – as previously reported	18,791	79,235	127,792	80,622	306,440
Restatement	–	(3,694)	–	3,694	–
At 31 March 2018 (restated)	18,791	75,541	127,792	84,316	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	–	–	(34)	–
Dividends paid in year	–	–	–	(9,400)	(9,400)
Deferred bonus	–	–	–	110	110
Costs of share-based payments	–	–	–	878	878
At 31 March 2019	**18,825**	**75,541**	**132,625**	**84,092**	**311,083**
Profit for the year	–	–	–	8,095	8,095
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	(2,200)	2,200	–
Transfer on disposal of investment property	–	–	2,816	(2,816)	–
Remeasurement on defined benefit pension scheme	–	–	–	(185)	(185)
Total comprehensive income for the year	**–**	**–**	**616**	**7,294**	**7,910**
Issue of new shares net of costs	28	–	–	(28)	–
Dividends paid in year	–	–	–	(9,605)	(9,605)
Deferred bonus	–	–	–	68	68
Costs of share-based payments	–	–	–	(290)	(290)
At 31 March 2020	**18,853**	**75,541**	**133,241**	**81,531**	**309,166**

* See note 1 for restatement details.

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 March 2020

	Share capital £'000	*Restated Share premium £'000	Revaluation reserve £'000	*Restated Retained earnings £'000	Total equity £'000
At 31 March 2018 – as previously reported	18,791	79,235	120,510	64,002	282,538
Restatement	–	(3,694)	–	3,694	–
At 31 March 2018 (restated)	18,791	75,541	120,510	67,696	282,538
Profit for the year	–	–	–	9,417	9,417
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	1,041	(1,041)	–
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	–	–	(34)	–
Dividends paid in year	–	–	–	(9,400)	(9,400)
Deferred bonus	–	–	–	110	110
Costs of share-based payments	–	–	–	878	878
At 31 March 2019	**18,825**	**75,541**	**121,551**	**67,491**	**283,408**
Profit for the year	–	–	–	8,341	8,341
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	(2,205)	2,205	–
Transfer on disposal of investment properties	–	–	2,816	(2,816)	–
Remeasurement on defined benefit pension scheme	–	–	–	(185)	(185)
Total comprehensive income for the year	**–**	**–**	**611**	**7,545**	**8,156**
Issue of new shares net of costs	28	–	–	(28)	–
Dividends paid in year	–	–	–	(9,605)	(9,605)
Deferred bonus	–	–	–	68	68
Costs of share-based payments	–	–	–	(290)	(290)
At 31 March 2020	**18,853**	**75,541**	**122,162**	**65,181**	**281,737**

* See note 1 for restatement details.

The accompanying notes on pages 93 to 112 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2020

1 Accounting policies

Basis of preparation

McKay Securities Plc ('the Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is 20 Greyfriars Road, Reading, Berkshire RG1 1NL.

The principal activities of the Company and its subsidiaries ('the Group') and the nature of the Group's operations are set out in the Strategic Report on pages 8 to 9.

These financial statements are presented in GBP sterling, which is the currency of the primary economic environment in which the Group operates and are rounded to the nearest thousand.

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.

The accounts have been prepared on a going concern basis (please see page 38).

In accordance with Section 408 Companies Act 2006 a separate Profit and Loss and Other Comprehensive Income for the Company is not presented. The profit for the year after tax of the Company is £8,340,645 (2019: £9,417,624).

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and leasing transactions that are within the scope of IFRS 16.

The Group is required to adopt IFRS 16 Leases effective from 1 January 2019.

Newly effective accounting standards

Management has considered the impact on the Group of new standards, 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 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.

Standards issued but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3 Definition of a business
- Amendments to IAS 1 and IAS 8 Definition of material
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

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 1 January 2019.

The Group adopted the modified retrospective method of adoption for IFRS 16 with no material impact on the Group results.

The financial statements are prepared on a going concern basis as explained in the Principal Risks and Uncertainties and going concern statement on page 38.

Notes to the Financial Statements continued

For the year ended 31 March 2020

1 Accounting policies continued

Restatement

The balance sheets have been restated to remove share premium on the exercise of share options following a review of our share-based payments accounting treatment of the nil cost options. Share premium and retained earnings have been restated to remove the share premium entry recorded on the exercise of share options. The impact of this change is to reduce share premium by £3.7 million, from £79.2 million to £75.5 million at 1 April 2018, with a corresponding increase to retained earnings, from £80.6 million to £84.3 million. This change also reversed the accounting entry of £0.4 million recorded between share premium and retained earnings during the year to 31 March 2019, such that the share premium reserve has been reduced from £79.6 million to £75.5 million at this date, with a corresponding increase to retained earnings, from £80.0 million to £84.1 million.

Basis of consolidation

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.

Control is achieved when the Company: has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affects its returns.

All intra-Group assets and liabilities, equity, income, expenses and cashflows relating to transactions between the members of the Group are eliminated on consolidation.

Critical accounting judgements and key sources of estimation uncertainty

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. Management do not consider there to be any critical accounting judgements in the preparation of the Group's financial statements. Management considers that the valuation of investment property represents a key source of estimation uncertainty, for which qualified external advisers are used. As a result of Covid-19, the level of estimation has increased, as reflected by the inclusion of a material uncertainty clause within the valuation report. See further detail below and in note 11.

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. Tenant incentives are recognised as a separate asset in accordance with the Group's accounting policy on lease incentives and are 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 legal completion. 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.

The Group owns a number of properties under long leaseholds. These are leased out to tenants under operating leases and included in the balance sheet at fair value (disclosed as head leases). The obligation to the freeholder for the buildings element of the leasehold is included in the balance sheet at the present value of the minimum lease payments at inception. 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 value 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.

1 Accounting policies continued

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
Cash comprises cash at bank and short-term deposits held on call.

Financial assets
Financial assets do not carry any interest and are stated initially at fair value and subsequently at amortised cost as reduced by appropriate credit loss allowances. The Group always recognises lifetime expected credit losses ('ECL') on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The Group derecognises a financial asset when the contractual right to the cashflows of the asset expire or on transfer of the asset and the associated risks and rewards to another party.

Trade and other payables
Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost. The Group derecognises trade and other payables liabilities when they are extinguished, which occurs when the obligation associated with the liability is discharged, cancelled or expires.

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 fair value measurement 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 and London. The management team works within a single structure which includes the Executive Directors acting as chief operating decision maker. Responsibilities are not defined by type or location, each property being managed individually and reported on for the Group as a whole directly to the Board of Directors. Properties under development generate no revenue and are treated as investment properties in the portfolio. The Directors therefore consider there to be only one reporting segment.

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

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

Operating profit
Operating profit is identified in the income statement and represents the profit on activities before finance costs and taxation.

Notes to the Financial Statements continued

For the year ended 31 March 2020

1 Accounting policies continued

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.

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. Equity-settled share-based payments to employee's services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

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.

The Group converted to REIT status on 1 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

	2020 £'000	2019 £'000
Gross rents receivable	22,873	20,287
IFRS 16/SIC-15 adjustment (spreading of rental incentives)	2,291	1,321
Gross rental income	**25,164**	**21,608**
Service charges receivable	4,132	3,736
	29,296	**25,344**
Other property income	69	73
Direct property outgoings	(7,384)	(6,321)
	21,981	**19,096**

Rent receivable under the terms of the leases is adjusted, in accordance with IFRS 16, for the effect of any incentives given.

3 Administration costs

	2020 £'000	2019 £'000
Group		
Directors' – remuneration	1,240	1,290
– bonus[2 4]	523	561
Staff – costs	1,167	1,043
– bonus	239	339
Management fee service charge[3]	(293)	(191)
National Insurance	507	502
Pension costs – defined benefit scheme	44	49
– defined contributions	275	194
Share-based payment accounting charge (IFRS 2)[2 4]	(222)	716
	3,480	**4,503**
Depreciation (note 12)	50	46
Office costs	575	560
Legal and professional fees	1,007	936
General expenses	51	10
	5,163	**6,055**

1. Amount charged to income in year to 31 March 2020.
2. Including prior year deferred bonus charges and adjustments in March 2019.
3. Management fees have been reclassified during the year from property outgoings into administration costs. The prior year number before pro forma reclassification was £6.25 million.
4. The prior year bonus included the IFRS 2 amount in the share based accounting charge. This now is included, for 2019 and 2020 in the Directors' bonus line.

The average number of persons employed by the Group and Company during the year was 19 (2019: 20).

Details of Directors' remuneration can be found on page 66 in the Directors' Annual Remuneration Report.

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 the auditor. The Committee considers the current auditor Deloitte and the previous auditor, KPMG to be independent of the Group and Company.

	2020 £'000	2019 £'000
Fees paid to auditor		
Statutory audit services		
McKay Securities Plc audit	130	73
Subsidiary audits	10	2
Assurance services		
Interim review	30	19
Service charge audits	15	6
	185	**100**

Notes to the Financial Statements continued

For the year ended 31 March 2020

4 Alternative performance measures

APM	IFRS	Note reference
Adjusted profit before tax The Group adjusts to present recurring profits by removing items not under management control	**Profit before tax IFRS**	Note 4
Total property return (TPR) Management's indicator of return on portfolio during the period excluding developments. See note 5		Note 5
Debt to portfolio value (LTV) Management guide to gearing levels . See note 5		Note 5
EPRA net asset value per share A future looking matrix by adding in share options that may vest	**Net asset value per share**	Note 22
EPRA (NNNAV) EPRA NNNAV in the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation.		Note 22
Adjusted earnings per share Adjusted earnings as above by using recurring profits	**Basic earnings per share**	Note 9
EPRA earnings per share Adjusted diluted earnings per share except for surrender premiums (included in other property income) and share based payments are added back.		Note 9
Portfolio valuation Valuation of total property portfolio at period end as per Knight Frank valuation		

The Group uses a number of Alternative Performance Measures ('APMs') which are not defined or specified within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and allow greater comparability between periods but do not consider them to be a substitute for, or superior to, IFRS measures. The Directors consider adjusted profit before tax to be an additional informative measure of the ongoing profits from core rental activities before taxation, adjusted as set out. See further detail in the glossary.

These alternative performance measures are commonly used within the property sector.

	2020 £'000	2019 £'000
Profit before tax	9,487	13,190
Movement in revaluation of investment properties (see note 11)	2,199	(4,833)
Other property income (see note 2)	(69)	(73)
Profit on disposal of investment properties	(1,668)	–
IFRS 2 adjustment to share-based payments	(222)	988
Adjusted profit before tax	**9,727**	**9,272**

5 Total property return (TPR)

(excluding developments)

	2020 £'000	2019 £'000
Valuation (deficit)/surplus (excluding developments)	(3,615)	3,015
Profit realised on disposal	1,668	–
Income from investment properties	22,073	19,309
	20,126	22,324
Book value (excluding developments)	489,615	406,285
Total property return	4.1%	5.5%

5 Total property return (TPR) continued

Debt to portfolio value (LTV)

	2020 £'000	2019 £'000
Drawn debt	194,000	165,000
Cash balances	(2,245)	(4,364)
Net debt – bank debt net of cash balances	191,755	160,636
Valuation as reported by external valuers	510,000	482,700
LTV	37.6%	33.3%

6 Net finance costs

	2020 £'000	2019 £'000
Interest on bank overdraft and loans	5,602	5,025
Commitment fee	462	250
Lease interest on leasehold property obligations	397	285
Finance arrangement costs	895	575
Capitalised interest (note 8)	(551)	(1,637)
	6,805	**4,498**
Interest receivable	(5)	(4)
Net finance costs	**6,800**	**4,494**

The capitalisation of interest has no effect on taxation.

7 Taxation

	2020 £'000	2019 £'000
Total tax in the Consolidated Profit and Loss and Other Comprehensive Income	**(1,392)**	**–**
Reconciliation to effective rate of tax: **Profit on ordinary activities before tax**	**9,487**	**13,190**
Tax charge on profit at 19% (2019: 19%)	**1,803**	**2,506**
Effects of:		
REIT tax exemption	(1,803)	(2,506)
Deferred tax provision	(1,392)	–
Tax for period (as above)	**(1,392)**	**–**

The taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income relates to a deferred taxation provision of £1,391,655 on the expected sale of 30 Lombard Street, EC3. As a REIT, the Group is tax exempt in respect of qualifying capital gains and qualifying rental income, which covers the majority of the Company's activities. The deferred tax provision relating to the expected sale of 30 Lombard St arises as the expected completion of the sale would be within three years of practical completion and would therefore trigger a chargeable capital gain under REIT regulations.

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 £550,933 (2019: £1,637,218) and relates to works to Theale, Brunel Road.

Total development interest capitalised amounts to £14,737,480 (2019: £14,186,547).

Interest is capitalised using the Group's weighted average cost of borrowings and the effective rate applied in the year was 3.35% (2019: 3.34%).

Notes to the Financial Statements continued

For the year ended 31 March 2020

9 Earnings per share

	2020 pence	2019 pence
Basic earnings per share	8.59	14.02
Movement in revaluation of investment properties	2.33	(5.14)
Other property income	(0.07)	(0.08)
Profit on disposal of investment properties	(1.77)	–
Deferred taxation	1.48	–
Share-based payments	(0.24)	1.05
Adjusted earnings per share	**10.32**	**9.85**

Basic earnings per share on ordinary shares is calculated on the profit in the year of £8,095,205 (2019: £13,190,000) and 94,234,253 (2019: 94,087,315) shares, being the weighted average number of ordinary shares in issue during the year.

	2020 Number of shares	2019 Number of shares
Weighted average number of ordinary shares in issue	94,234,253	94,087,315
Number of shares under option	463,819	1,721,064
Number of shares that would have been issued at fair value	(244,272)	(974,797)
Diluted weighted average number of ordinary shares in issue	**94,453,800**	**94,833,582**

Diluted earnings per share:	2020 pence	2019 pence
Basic earnings/(loss) per share	8.59	14.02
Effect of dilutive potential ordinary shares under option	(0.02)	(0.11)
	8.57	13.91
Movement in revaluation of investment properties	2.33	(5.10)
Other property income	(0.07)	(0.08)
(Profit) on disposal of investment properties	(1.77)	–
Share-based payments	(0.24)	1.04
Deferred tax	1.47	–
Adjusted diluted earnings per share	10.29	9.77p
Share-based payments	0.24	(1.04)
Surrender premiums	0.07	0.08
EPRA earnings per share	**10.60**	8.81

	2020 pence	2019 pence
Basic earnings per share	8.59	14.02
Effect of dilutive potential ordinary shares under option	(0.02)	(0.11)
Diluted earnings per share	8.57	13.91
Movement in revaluation of investment properties	2.33	(5.10)
Deferred taxation	1.47	–
Profit on disposal of investment properties	(1.77)	–
EPRA earnings per share	**10.60**	**8.81**

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 94,453,800 (2019: 94,833,582) 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, share-based payments, deferred taxation, other property income, the change in fair value of derivatives and the movement in revaluation of investment property. The EPRA measure includes all of these adjustments except surrender premiums included in other property income, which are added back, and share-based payments.

The taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income relates to a deferred taxation provision of £1,391,655 on the expected sale of 30 Lombard Street, EC3.

10 Dividends

The final dividend is not included in the accounts as a liability as at 31 March 2020, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2019 and interim for 2019 paid in the year are included in the Consolidated Statement of Changes in Equity on page 91.

	2020 £'000	2019 £'000
Ordinary dividends		
31 March 2019 final dividend of 7.4 pence (31 March 2018: 7.2 pence) paid during the year	6,965	6,765
30 September 2019 interim dividend of 2.8 pence (30 September 2018: 2.8 pence) paid during the year	2,639	2,635
Total recognised in financial statements	**9,604**	**9,400**
Proposed final dividend of 4.4 pence (31 March 2019: 7.4 pence)	**4,148**	**6,965**

11 Investment properties

	Group			Company		
	Freehold £'000	Long leasehold £'000	Total £'000	Freehold £'000	Long leasehold £'000	Total £'000
Valuation						
At 1 April 2019	378,125	100,653	478,778	378,125	30,790	408,915
Additions – development	16,396	555	16,951	16,396	57	16,453
Additions – purchases	16,438	–	16,438	16,438	–	16,438
Revaluation surplus/(deficit)	(3,235)	3,346	111	(3,235)	393	(2,842)
Adjustment for tenant incentives recognised in advance under IFRS 16	474	(2,785)	(2,311)	474	163	637
Disposals	(6,200)	–	(6,200)	(6,200)	–	(6,200)
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	(1)	(1)
Book value as at 31 March 2020	**401,998**	**101,768**	**503,766**	**401,988**	**31,402**	**433,400**
Adjustment for grossing up of headlease liabilities	–	(4,403)	(4,403)	–	(2,882)	(2,882)
Adjustment for tenant incentives recognised in advance under IFRS 16	6,852	3,785	10,637	6,852	130	6,982
Valuation as at 31 March 2020	**408,850**	**101,150**	**510,000**	**408,850**	**28,650**	**437,500**

Notes to the Financial Statements continued

For the year ended 31 March 2020

11 Investment properties continued

	Group			Company		
	Freehold £'000	Long leasehold £'000	Total £'000	Freehold £'000	Long leasehold £'000	Total £'000
Valuation						
At 1 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 tenant incentives recognised in advance under SIC 15	(1,032)	(602)	(1,634)	(1,032)	105	(927)
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	–	–
Book value as at 31 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 tenant incentives recognised in advance under SIC-15	7,325	1,001	8,326	7,325	293	7,618
Valuation as at 31 March 2019	**385,450**	**97,250**	**482,700**	**385,450**	**28,200**	**413,650**

In accordance with the Group's accounting policy on properties there was an external valuation at 31 March 2020. 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 £377 million (2019: £350 million) for the Group and £315 million (2019: £292 million) for the Company.

The amount of interest capitalised during the year was £550,933 (2019: £1,637,218). 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.

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 £2.2 million (2019: £4.8 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

Due to Covid-19 there is a material uncertainty clause attached to the Knight Frank valuation as detailed below:

The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a 'Global Pandemic' on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weigh to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is/are therefore reported on the bases of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of this fund under frequent review.

11 Investment properties continued

Assets held for sale include 30 Lombard Street, EC3, The Planets, Woking and part of Parkside, London, totalling £83.0 million, of which £79.4 million has been reclassified from investment property and £3.6 million from IFRS 16 lease incentive receivables. Liabilities associated with those assets held for sale total £1.52 million, representing associated head lease liabilities. Of those properties held for sale, only The Planets is held by the parent company.

The Planets property remains held for sale at 31 March 2020, with the original exchange of sale contracts in March 2019. This sale remains conditional on the receipt of planning consent being achieved by the purchaser. Whilst the submitted planning consent was not approved on initial submission, management is confident that a successful appeal will be undertaken with an adjusted plan such that the disposal will be able to be completed within 12 months of the balance sheet date.

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	South East offices	South East industrial
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation
Fair value	£125,800,000	£267,300,000	£92,350,000
ERV (psf pa) – average	£56.30	£23.83	£10.63
ERV (psf pa) – range	£10.00-£115.00	£14.50-£55.00	£4.75-£15.75
True equivalent yield – average	4.72%	7.08%	5.69%
True equivalent yield – range	4.33%-5.76%	5.54%-9.06%	4.47%-6.92%
Capital value psf	£937.84	£365.30	£180.48

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 113.

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Sensitivity analysis				
Change in value of investment properties	+£23m	-£26m	-£26m	+£25m

12 Plant and equipment

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Cost				
Opening	133	133	218	215
Additions	132	52	75	75
Disposals	(34)	(34)	(13)	(13)
Closing	**231**	**151**	**280**	**277**
Depreciation				
Opening	61	61	176	173
Charge for year	50	34	46	46
Disposals	(28)	(28)	(13)	(13)
Closing	**83**	**67**	**209**	**206**
Net book value	**148**	**84**	**71**	**71**

Notes to the Financial Statements continued

For the year ended 31 March 2020

13 Investments

	Shares in subsidiary undertakings £'000
Company	
At 1 April 2019	–
At 31 March 2020	**–**

At 31 March 2020 McKay Securities Plc owned 100% of the ordinary share capital of Baldwin House Limited, representing 100 shares with nominal value of £1. Baldwin House Limited operates in England and is registered in England and Wales with a registered address of 20 Greyfriars Road, Reading, Berkshire RG1 1NL.

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

	2020 Group £'000	**2020** Company £'000	2019 Group £'000	2019 Company £'000
Current				
Rent receivables	2,360	2,360	–	–
Amounts due from subsidiary undertakings	–	43,918	–	40,790
IFRS 16 lease incentives	–	–	–	1,486
Prepayments	822	637	1,063	1,063
Other debtors	18	18	2,438	–
	3,200	**46,933**	**3,501**	**43,339**
Non-current				
IFRS 16 lease incentives	**6,982**	**6,982**	**10,292**	**6,839**

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

	2020 £'000	2019 £'000
Less than three months due	2,360	–
Between three and six months due	–	–
Between six and 12 months due	–	–
	2,360	–

The Group holds no collateral in respect of these receivables.

15 Liabilities

	2020 Group £'000	**2020** Company £'000	2019 Group £'000	2019 Company £'000
Trade and other payables				
Rent received in advance	5,389	5,389	4,975	4,969
Other taxation and social security costs	1,736	1,726	1,732	1,609
IFRS 16 creditor	–	–	1,964	505
Accruals	4,551	4,551	4,093	4,093
Other creditors	757	757	3,470	573
	12,433	**12,423**	**16,234**	**11,749**

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

Creditor days for the Group were ten days (2019: seven days).

15 Liabilities continued

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:

	2020 £'000	2019 £'000
Group and Company		
Secured bank loans	194,000	165,000
Bank facility fees	(3,495)	(1,824)
	190,505	**163,176**

The bank loans are secured against land and buildings with a carrying amount of £476,750,000 (2019: £403,300,000).

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Repayable in:				
Less than one year	–	–	–	–
One to two years	–	–	66,698	66,698
Two to five years	126,373	126,373	32,432	32,432
Five to ten years	–	–	–	–
Greater than ten years	64,132	64,132	64,046	64,046
	190,505	**190,505**	**163,176**	**163,176**

	2020 £'000	2019 £'000
Changes in liabilities arising from financing activities		
Current loans as at 1 April		–
Non-current loans as at 1 April	163,176	144,598
Total loans as at 1 April	**163,176**	**144,598**
Increase in borrowings (cash)	29,000	18,000
Bank facility fees (cash)	(2,569)	3
Facility fee amortisation (non-cash)	898	575
Total loans as at 31 March	**190,505**	**163,176**

	2020 £'000	2019 £'000
Present value of lease liabilities as at 1 April	4,404	4,405
Headlease cash payments	(285)	(285)
Impact of unwind of discount rate (non-cash)	284	284
Present value of lease liabilities as at 31 March	**4,403**	**4,404**

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:

	2020 £'000	2019 £'000
Expiring in less than one year	–	–
Expiring in one to two years	–	18,000
Expiring in two to five years	51,000	7,000
Expiring in five to ten years	–	–
	51,000	**25,000**

Notes to the Financial Statements continued

For the year ended 31 March 2020

15 Liabilities continued

Liquidity risk

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

On 8 April 2019 the Company increased total facilities to £245 million (from £190 million). Three bilateral facilities (£125 million) were replaced with one revolving credit facility ('RCF') of £180 million.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cashflows of financial liabilities based upon the earliest dates on which the Group can be required to pay. The table includes both interest and principal cashflows. When the amount payable is not fixed, the amount disclosed has been determined by reference to the applicable interest rate as at the balance sheet date.

Financial instrument maturity

	Contractual cashflows					
	Total	2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
At 31 March 2020						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	194,000	–	–	–	129,000	65,000
Bank interest	38,798	–	5,709	5,709	14,040	13,340
Lease liabilities	25,798	–	285	285	857	24,371
Other taxation and social security costs	1,736	–	1,736	–	–	–
Accruals	4,551	–	4,551	–	–	–
Other creditors	757	–	757	–	–	–
	265,640	**–**	**13,038**	**5,994**	**143,897**	**102,711**

	Contractual cashflows					
	Total	2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
At 31 March 2019						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	165,000	–		67,000	33,000	65,000
Bank interest	42,299	–	5,285	5,263	15,776	15,975
Lease liabilities	26,083	–	285	285	857	24,656
Other taxation and social security costs	1,732	–	1,732	–	–	–
Accruals	4,093	–	4,093	–	–	–
Other creditors	3,470	–	3,470	–	–	–
	242,677	**–**	**14,865**	**72,548**	**49,633**	**105,631**

Credit risk

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

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

The Group has no exposure to currency risks.

Market risk

The Group is exposed to market risk through changes in interest rates or availability of credit. The Group actively monitors these exposures.

15 Liabilities continued

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.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity £322,500 (2019: £250,000). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings at the year end. The comparative figure for 2019 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

Interest rate derivatives

The Group does not hold any interest rate derivatives as at 31 March 2020.

	2020	2019
Weighted average cost of borrowing	**3.35%**	**3.34%**

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

In both 2020 and 2019 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 Lease liabilities

	Minimum lease payments	
	2020 £'000	2019 £'000
Group lease liabilities are payable as follows:		
Year one	285	285
Year two	286	285
Year three	286	286
Year four	285	286
Year five	285	285
Greater than five years	24,371	24,656
	25,798	**26,083**
Less future finance charges	(21,395)	(21,679)
Present value of lease obligations	**4,403**	**4,404**

The above lease liabilities relate to investment properties with a carrying value of £95,900,000 (2019: £91,800,000). The terms of these lease agreements are for periods of between 98 and 125 years. There are no restrictions imposed by the lease agreements. No contingent rents are payable.

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

The annual obligation for the first five years is £285,000 pa.

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:

	2020 £'000	2019 £'000
Not later than one year	20,224	22,503
Later than one year but not later than five years	52,964	56,293
Later than five years	55,336	61,519
	128,524	**140,315**

Notes to the Financial Statements continued

For the year ended 31 March 2020

18 Share-based payments

During the year to 31 March 2020, 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 31 March 2020 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	10 June 2019	8 June 2018	18 July 2017	16 June 2016
Share price	£2.40	£2.67	£2.26	£2.07
Term	3 years	3 years	3 years	3 years
Risk free rate	0.49%	0.80%	0.26%	0.27%
Dividend yield	0%	0%	0%	4.27%
Volatility – Company	31.0%	31.0%	29.0%	21.27%
TSR fair value	£1.34	£1.73	£1.42	£0.77
NAV fair value	£2.40	£2.70	£2.26	£1.81

Share-based payments

	2020 Number of shares	2019 Number of shares
Outstanding at the beginning of the period	**1,732,473**	1,592,727
Granted during the period	**638,465**	564,972
Forfeited during the period	**(18,880)**	(1,966)
Exercised during the period	**(139,573)**	(169,316)
Expired during the period	**(490,656)**	(253,944)
Outstanding at the end of the period	**1,721,829**	1,732,473

During the year 139,573 shares were issued to settle the PSP (Tenth Grant) on 18 June 2019. These shares were issues out of distributable revenues under the Company's Articles of Association.

The above table includes outstanding shares at the end of the year relating to deferred bonus shares of 107,055 (2019: 113,690), of which 50,845 were granted during the year (2019: 56,210) and 57,480 exercised in the period (2019:nil).

The weighted average life of the 1,721,849 shares outstanding is 8.29 years (2019: 8.22 years). The weighted average price on the date of exercise for options exercised during the year was £2.40 (2019: £2.66).

19 Called up share capital

	2020 Issued £	2020 Number of shares	2019 Issued £	2019 Number of shares
Ordinary 20 pence shares in issue				
At 1 April	18,824,879	94,124,425	18,791,022	93,955,109
Issue of shares in year[1]	27,915	139,573	33,857	169,316
At 31 March	**18,852,794**	**94,263,998**	**18,824,879**	**94,124,425**

1. During the year 139,573 shares (2019: 169,316) were issued to settle the PSP (Tenth Grant) on 18 June 2019.

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, including:

- 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)	
	2020 £'000	2019 £'000
Subsidiary undertakings		
Baldwin House Limited	(43,918)	(40,790)
	(43,918)	**(40,790)**

There were no transactions with Directors, who are considered key management personnel, other than remuneration, details of which are provided in the Directors' Annual Remuneration Report on pages 56 to 72.

See note 24 for details on the pension scheme.

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.

The parent company funded capital expenditure on behalf of Baldwin House in the year amounting to £544,795 (2019: £7,354,000).

	2020 £'000	2019 £'000
Interest charge by McKay to Baldwin House	1,321	1,239
Management fee charged by McKay	338	392

22 Net asset value per share

	31 March 2020			31 March 2019		
	Net assets £'000	**Shares '000**	**NAV per share pence**	Net assets £'000	Shares '000	NAV per share pence
Basic	309,166	94,264	328	311,083	94,124	331
Number of shares under option	–	143	(1)	1,635	1,732	(5)
Diluted/EPRA NNNAV	**309,166**	**94,407**	**327**	**312,718**	**95,856**	**326**
Deferred taxation	1,392	–	2	–	–	–
EPRA NAV	**310,558**	**94,407**	**329**	**312,718**	**95,856**	**326**

Notes to the Financial Statements continued

For the year ended 31 March 2020

23 Commitments and contingent liabilities

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Capital expenditure committed but not provided for	**672**	**672**	**11,381**	**11,381**

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

24 Pensions

The Group and Company operate 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 31 March 2017. The assumption which has the most significant effect on the results of the valuation are those relating to the rate of return on investments. It was assumed that the investment returns would be 5.0% per annum.

The Group contributes £240,000 per annum into the Scheme. This will be reviewed as part of the 2020 triennial valuation.

At the 31 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 31 March 2017 and updated by First Actuarial in order to assess the liabilities of the scheme at 31 March 2020. Scheme assets are stated at their market value at 31 March 2020.

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:

	2020	2019
Inflation	2.6%	3.2%
Salary increases	n/a	n/a
Rate of discount	2.3%	2.2%
Pension in payment increases	2.6%	3.1%

The mortality assumptions adopted at 31 March 2020 imply the following life expectancies for members currently aged 60:

Male = 28.3 years

	2020 £'000	2019 £'000
The fair value of scheme assets are as follows:		
Equities	1,693	1,909
Gilts	264	334
Corporate and overseas bonds	252	277
Absolute return portfolios	1,984	2,322
Property	120	149
Cash	443	312
Other	83	29
	4,839	**5,332**

99.9% of the equities are in quoted equities.

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

The plan assets do not expose the entity to any significant concentration risk.

24 Pensions continued

	2020 £'000	2019 £'000
Changes in the value of scheme assets over the year		
Market value of assets at start of year	5,332	5,531
Return on scheme assets	115	131
Actuarial gain	(417)	(148)
Employer contributions	240	240
Benefits paid	(431)	(422)
Market value of assets at end of year	**4,839**	**5,332**

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

	2020 £'000	2019 £'000
Value of defined benefit obligation at start of period	**7,440**	**7,695**
Interest cost	159	180
Benefits paid	(431)	(422)
Actuarial gains: experience differing from that assumed	83	(148)
Actuarial gains: changes in demographic assumptions	–	(74)
Actuarial gains: changes in financial assumptions	(315)	209
Value of defined benefit obligation at end of period	**6,936**	**7,440**

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The RPI inflation assumption sensitivity factors in the impact of inflation on the rate of increase in pension in payment assumptions.

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

Analysis of the amount charged to operating profit:

	2020 £'000	2019 £'000
Operating profit		
Current service cost	**–**	**–**
Analysis of the amount (credited)/charged to finance costs/(income)		
Return on pension scheme assets	(115)	(131)
Interest on pension scheme liabilities	159	180
Total charge to profit and loss	**44**	**49**

Notes to the Financial Statements continued

For the year ended 31 March 2020

24 Pensions continued

Analysis of the movement in the balance sheet deficit:

	2020 £'000	2019 £'000
Deficit in scheme at beginning of year	(2,108)	(2,164)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(44)	(49)
Contributions	240	240
Actuarial gain/(loss)	(185)	(135)
Deficit in scheme at end of year	**(2,097)**	**(2,108)**

The last active member reached retirement age in May 2013.

The weighted average maturity profile of the defined benefit obligation at the end of the year is ten years (2019: 11 years).

25 Post balance sheet events

There has been no material post balance events between the balance sheet date and the signing of the accounts.

The impact of Covid-19 is explained throughout the Annual Report and Accounts.

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 profit from the disposal of investment properties, share-based payments, other property income, the change in fair value derivatives and the movement in revaluation of investment property. These items are excluded on the bases that they relate to non-core rental activity as set out in note 4.

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

BREEAM
Building Research Establishment Environmental 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 that 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 (True)
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 adjusted 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.

Portfolio capital return ('PCR')
The annual valuation movement and realised surpluses/deficits from the Company's directly held investment portfolio expressed as a percentage return on the value at the beginning of the period, adjusted for acquisitions and capital expenditure.

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.

Glossary continued

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 property return (TPR)
Valuation surplus/(deficit) plus profit on disposal plus income from investment properties divided by the book value.

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 cashflows 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	**2020**
Annual Report posted to shareholders	23 June
Annual General Meeting	23 July
Final dividend	13 August
Interim announcement	November
Interim Statement posted to shareholders	November/December
	2021
Interim dividend	January
Financial year end	March
Preliminary announcement	May/June

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Cautionary Statement
This Annual Report and McKay's website may contain certain 'forward-looking statements' with respect to McKay Securities Plc ('Company') and the Company's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Company operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such works as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal', or 'estimates', or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance by their very nature, forward-looking statements are indefinitely unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Company's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the political conditions, economies and markets in which the Company operates (including the outcome of the negotiations to leave the EU and Covid-19 impacts); changes in the legal, regulatory and competition frameworks in which the Company operates; changes in the markets from which the Company raises finance; the impact of legal or other proceedings against or which affect the Company; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or McKay's website, or more subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or McKay's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

Shareholder Information
Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars. The Company has a share account management and dealing facility for all shareholders via Equiniti Limited Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations sections of the Company's website. The Shareview Dealing service is also available by telephone on 03456 037 037 between 8.30am and 4.30pm Monday to Friday.

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

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

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

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FSC – Forest Stewardship Council
This ensures there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

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

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