McKAY UNLOCKS FURTHER PORTFOLIO REVERSION

McKay Securities PLC, the only Real Estate Trust (REIT) specialising exclusively in the London and South East office and industrial markets, today announces its half year results for the six months ended 30th September 2017.

Financial Highlights

- Net rental income up 8.2% to £9.92million (30th September 2016: £9.17 million)
- Adjusted profit before tax up 6.2% to £4.70 million (30th September 2016: £4.42 million)
- IFRS profit before tax up to £16.54 million (30th September 2016: loss £3.78 million)
- NAV (EPRA) up 3.0% to 312 pence per share (31st March 2017: 303 pence)
- NNNAV (EPRA) up 3.9% to 296 pence per share (31st March 2017: 285 pence)

- Interim dividend up 3.7% to 2.8 pence per share (2016: 2.7 pence), payable on 4th January 2018

Portfolio Highlights

- Property valuation up 5.3% (£22.73 million), to £452.65 million, generating a 2.7% (£11.94 million) surplus over cost
- 5.3% (£1.24 million pa) increase in contracted rental income to £24.66 million pa, supported by recent lettings
- 4.3% (£1.41 million pa) increase in rental value (ERV) of the portfolio to £34.08 million pa
- 1.8% increase of portfolio reversion to £9.43 million - representing a potential 38.2% increase in rental income once secured
- Reversionary yield of 7.1%
- Good progress achieved in unlocking income and valuation gains though actions;
  - Redevelopment schemes generating gains, aided by the full letting of 9 Greyfriars Road, Reading
  - Redevelopment of 30 Lombard Street, EC3 on track for delivery in mid-2018, with a marketing campaign now underway
- Planning consent achieved in October 2017 for the redevelopment of up to 134,430 sq ft of warehouse and distribution floorspace at Brunel Road, Theale
- Continued focus on realising value, evidenced by disposal of Albion House, Newbury in October 2017 for £1.43 million, 43% ahead of March 2017 valuation

Simon Perkins, Chief Executive of McKay Securities, said:

"Our results are up on all key metrics. This continued growth is the direct result of building up a carefully selected portfolio over the last few years, and our ability to enhance and release its potential. We are putting our assets to work and delivering value for our shareholders through active asset management, securing major lettings and delivering planning and development gains.

"Our clear focus on London and the South East, backed by our on-the-ground presence in these markets, remains at the core of our success. A particular highlight during the period was securing the letting of 9 Greyfriars Road in Reading which we transformed from an unloved office block into a modern, award-winning work space, which is now fully let to a major co-working operator. As a result of this and other initiatives, our contracted rents have risen a further 5% during the period – and over 40% since our Capital Raising in 2014.

"Looking ahead, there remains significant levels of income potential within our portfolio to realise on behalf of our shareholders. While the pace of gains remains in part dependent on the health of the occupier market, we have a high quality portfolio of diverse assets in sought after locations which puts us in a strong position for the future."

ENDS -

Date: 13th November 2017

For further information please contact:

McKay Securities PLC
Simon Perkins, CEO
Giles Salmon, CFO
01189 502333

FTI Consulting
Dido Laurimore, Tom Gough, Ellie Sweeney
020 3727 1000

About McKay Securities

McKay Securities PLC is a commercial property investment company with Real Estate Investment Trust (REIT) status, listed on the main market of the London Stock Exchange. It specialises in the development and refurbishment of good quality office and industrial buildings within established and proven markets of central London and South East England. The portfolio, which was valued at 30th September 2017 at £452.65 million, comprised 36 properties in strong and established areas, which deliver diversity in terms of both sector and location.

Highlights page

Forward looking statements

This announcement is for information purposes only and contains certain forward-looking statements which, by their nature, involve risk and uncertainty because they relate to or depend upon future events and circumstances. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements, including a number of factors outside McKay Securities PLC's control. All forward-looking statements are based upon information known to McKay Securities PLC on the date of this announcement and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. McKay Securities PLC gives no undertaking to update forward-looking statements whether as a result of new information, future events or otherwise. Information contained in this announcement relating to the Company should not be relied upon as an indicator of future performance.

Details of the programme for the payment of the interim dividend of the Ordinary Shares is as follows:

Ex dividend date	23rd November 2017
Record Date for the interim dividend	24th November 2017
Interim dividend paid	4th January 2018

An interim dividend per share of 2.8 pence, (2016: 2.7 pence per share), which will be paid as an ordinary dividend.

CHAIRMAN'S STATEMENT

Profit before tax, adjusted to exclude unrealised movements in the value of the Group's property portfolio and other non-cash items, increased by 6.2% to £4.70 million for the six month period to 30th September 2017 (30th September 2016: £4.42 million).

The independent valuation of the Group's property portfolio at 30th September 2017 totalled £452.65 million, resulting in a 2.7% (£11.94 million) valuation surplus for the period (30th September 2016: 0.7% deficit).

Inclusion of the valuation movement and other unrealised items resulted in a profit before tax (IFRS) of £16.54 million (30th September 2016: £3.78 million loss).

Net asset value per share (EPRA) increased over the six month period by 3.0% to 312 pence (31st March 2017: 303 pence). Net asset value per share (EPRA NNNAV) increased by 3.9% to 296 pence (31st March 2017: 285 pence).

Debt facilities increased by £5.00 million to £180.00 million following loan refinancing.

The Board has declared an interim dividend up 3.7% to 2.8 pence per share (2016: 2.7 pence).

Overview

Our strategic objective of unlocking the substantial income potential from our portfolio has made significant progress over the period, delivering increased profits and generating shareholder value.

Implementation of asset management and development initiatives, particularly in respect of acquisitions made with the proceeds of our capital raising in 2014, continued to enhance the scale and quality of the portfolio, generating an 8.2% increase in net property income over the period and a 2.7% valuation surplus. As a result, adjusted profit, our measure of recurring profits, increased by 6.2% and net asset value per share (EPRA NAV) by 3.0%.

The letting of the whole of our recently completed development at 9 Greyfriars Road, Reading (39,620 sq ft) at a premium to the March 2017 ERV was an excellent result, and we will benefit from a full contribution to portfolio income in future periods. The letting is covered in more detail below, but the contracted rent achieved of £1.21 million pa was the most significant contribution to the 5.3% increase in portfolio contracted rental income, which totalled £24.66 million pa at the period end.

This activity also contributed to a further uplift in the potential rental value of the portfolio (ERV), which increased by 4.3% to £34.08 million pa.

We are therefore delivering on what we set out to achieve in 2014, with a further increase in contracted rents and plenty more to deliver from the substantial 38.2% (£9.43 million pa) portfolio reversion.

Market Review

Market conditions over the period have remained stable, despite the outcome of the General Election and the continuing uncertainty regarding the UK's exit from the European Union. The attraction of income yield and favourable exchange rate benefits have produced competition from a wide range of UK and overseas investors at a time of limited income opportunities, helping underpin capital values.

As the UK property market matures following its rapid recovery post-recession, we anticipate an increasing differential in value between assets with secure income and those with active management opportunities. The latter provide greater scope for us to add value through our proven active management, refurbishment and development skills and we continue to monitor the market for such opportunities and appraise prospects that meet our criteria.

Across our occupier markets, rental values levelled out over the period as demand remained generally steady against a backdrop of low supply levels. However, there has been a reduction in the number of larger office lettings across London and South East markets, attributed to the uncertainty surrounding Brexit. This has resulted in lower total letting volumes, although building obsolescence, combined with lease expiries, has maintained the volume of small and mid-size leasing activity.

Supply constraints remain particularly relevant within the South East office market, which accounts for 58.4% of our portfolio. The supply of new buildings at the end of the period totalled 2.44 million sq ft, representing a low vacancy rate of 2.9%. This increases to 7.14 million sq ft (8.4%) with the inclusion of Grade A product, albeit with variations between centres.

For the year to date, leasing activity within this market totalled 1.39 million sq ft. Although this is 17.0% lower than at the same point last year, activity below 80,000 sq ft is 3.4% higher at 1.32 million sq ft. The concentration of leasing activity in this smaller size band is typically around 80%, and is a market trend that we have tracked for many years. As a result, our portfolio is positioned to meet this market demand with the average size of our nineteen assets being 40,500 sq ft.

The level of named occupier demand for South East offices ended the period at 3.76 million sq ft, 4.8% higher than at the same point last year. This indicates that, despite political and economic challenges, there remains continued demand for modern business space. In addition, the opening of the Elizabeth Line (Crossrail) in 2018 will improve travel times and ease of access between the M4 corridor and central London, which is expected to add to the sector's attraction. With our South East focus, this is likely to improve the reach and appeal of many of our assets.

Within the City of London, where our redevelopment of 30 Lombard Street, EC3 (58,000 sq ft) is set to complete in mid 2018, supply levels reduced slightly over the period and demand remained ahead of the five year average. The supply of available floorspace in the City, totalling 6.80 million sq ft, is 14.5% below the five year average. For new and refurbished floorspace in the City core, this reduces to 1.90 million sq ft, representing a low vacancy rate of 3.3%. The development pipeline in the core is set to deliver 3.31 million sq ft by the end of 2018, of which 41.7% is already pre-let, leaving 1.93 million sq ft available. When set against average annual take up of 1.66 million sq ft in the core and named active demand of 4.10 million sq ft (30th September 2016: 3.65 million sq ft) across the City, rental values have been supported by the current levels of supply and demand in the market.

The South East industrial sector remains active, enhanced by the increasing shift to multi-channel retailing. Occupier requirements are focused on new units, with over 75.0% of take-up in the year to date classified as new and Grade A. Supply constraints have driven rental growth and investor demand, which has made this the best performing sector of the period. This is reflected in the valuation performance of our industrial portfolio and is also encouraging for our proposed redevelopment at Brunel Road, Theale, which is referred to below.

Portfolio Income and Asset Management

Over the period we completed eight new lettings with a combined contracted rental value of £1.46 million pa, 2.9% ahead of ERV, with the largest being the letting of 9 Greyfriars Road, Reading (39,620 sq ft). The building was let as a whole to a serviced office operator on a 15 year institutional lease, with a tenant break clause at the end of year ten. This generated an 18.2% profit on cost for the scheme and provides us with a high quality investment property in an area which is set to improve following completion of the Elizabeth Line, at a yield on cost of 7.9%.

Elsewhere we bettered rental assumptions at Crown Square, Woking and 329 Bracknell where the refurbishment of smaller suites has been well received by the market. Refurbishment work to office floor space and the common areas at Portsoken House, EC3 and The Mille, Brentford has also made good progress. Marketing of the 32,350 sq ft vacant space within these two buildings, which accounts for 53.4% of our total portfolio void by rental value (excluding developments), is progressing well and generating enquiries at both locations.

With the letting progress achieved over the period, portfolio occupancy increased from 94.5% to 94.6%, and from 77.3% to 81.3% with the inclusion of the development properties referred to below.

Since the end of the period, we have completed the freehold disposal of Albion House, Newbury (6,720 sq ft), having exchanged contracts at the end of September 2017. The price of £1.43 million was 43.0% ahead of the 31st March 2017 book value, with the substantial uplift achieved following a lease renewal with the existing office occupier. We continue to review the sale of smaller, management intensive assets alongside those which we regard as more mature and non-core.

Development Programme

With the completion and letting of 9 Greyfriars Road, our two remaining development properties with the opportunity to unlock value through lettings are Prospero, Redhill (50,370 sq ft) and 30 Lombard Street.

Having secured the letting of the top floor (10,643 sq ft) at Prospero shortly after completion, our marketing campaign generated further interest over the period, resulting in the letting of the ground floor (11,537 sq ft) in October 2017. This recent letting has taken occupancy to 46.0% and we remain encouraged by leads on the remaining two floors. As with the top floor, the ground floor tenant has committed to a 15 year lease with a tenant break option at year 10. The rent achieved was £0.35 million pa, equivalent to ERV of £30 psf.

At 30 Lombard Street, the building remains on programme for completion in mid-2018. Completion of the steel frame was marked by a topping out ceremony in October and installation of the external cladding is underway. It will provide regular floorplates over lower ground and nine upper floors in a prime City location, with spectacular views from a generous terrace at top floor level. The marketing campaign, which was launched in the summer, has generated a range of varied enquiries at this early stage.

The next scheme in the pipeline is the refurbishment or redevelopment of Brunel Road, Theale – a 96,850 sq ft warehouse next to Junction 12 of the M4 at Theale, on the western outskirts of Reading. Planning consent was granted in October to increase the floorspace on site by up to 38.8% through the redevelopment of the existing building into either a single modern high bay warehouse of 134,430 sq ft or four detached units totalling 117,700 sq ft. We are now carrying out design and preparatory works to be able to commence demolition on lease expiry in spring 2018. Given the high demand this sector is experiencing, and the leads that our early marketing has generated, this will be on a speculative basis unless we have secured a pre-let in advance.

Valuation

Knight Frank LLP was appointed as Group Valuer after the March 2017 year end valuation, replacing Mellersh & Harding who had provided many years of exceptional service. Knight Frank's extensive strength and depth across our markets leaves them well placed to assist with the increasing size of the portfolio and to reaffirm the value of the Group's assets. They are also an accepted valuer by our lending banks, which will reduce the additional cost of valuations for loan purposes.

Knight Frank's valuation of the thirty six assets within the Group's portfolio at 30th September 2017 totalled £452.65 million (31st March 2017: £429.92 million). This resulted in a 2.7% (£11.94 million) surplus, ahead of the 2.2% increase in the IPD Monthly (All Property) Index.

On a sector basis, our South East office assets (58.4% of the portfolio by value) achieved capital growth of 2.4% compared to IPD of 1.8% and ERV growth of 4.4% compared to IPD of 1.3%. Our South East industrial assets (18.1% of the portfolio) also out performed IPD with capital growth of 10.0% compared with IPD of 7.6% and rental growth of 7.6% compared with IPD of 4.7%. In both sectors, our active management delivered rental growth ahead of the market, which contributed to the out-performance.

With our London office assets (18.9% of the portfolio), rental growth of 5.2% was also well ahead of IPD of 0.2% but capital values were 1.1% lower compared with an IPD surplus of 1.5%. This mainly reflected refurbishment costs at Portsoken House, EC3, where valuation gains should follow once improved rental values are achieved on the letting of the refurbished floorspace.

The value of the two remaining development properties was down by £0.78 million (-1.6%), as letting gains at Prospero were offset by a slight outward yield shift at 30 Lombard Street. Future lettings at both properties provide the potential for substantial valuation gains.

These segments combined to give a portfolio initial yield of 4.5% (31st March 2017: 4.6%) increasing to 5.1% on the expiry of letting incentives (31st March 2017: 5.1%) and a net equivalent yield 6.1% (31st March 2017: 6.1%). At ERV (net) the reversionary yield would be 7.1% (31st March 2017: 7.1%).

With the exception of our industrial properties where the valuation also benefited from lower market yields, gains were generally achieved as a result of improving the quality and rental value of our assets through refurbishment and other management initiatives. These rental and capital gains generated a total portfolio return (excluding developments) of 5.8%, ahead of the 4.5% IPD return.

The most substantial increase was at 9 Greyfriars Road, where the letting generated a 34.7% (£4.95 million) surplus for the period. This result supports our strategic rationale to progress with a speculative refurbishment and highlights the gains that can be achieved with the delivery of a high quality asset in a well chosen location.

Finance

Adjusted profit before tax increased by 6.2% to £4.70 million (30th September 2016: £4.42 million) primarily due to gains in gross rental income which increased by 4.7% to £10.90 million (30th September 2016: £10.42 million). Non-recoverable property costs of £0.98 million were lower than the corresponding period last year (30th September 2016: £1.24 million), reflecting asset management initiatives to reduce these costs. As a result, net rental income increased by 8.2% (£0.75 million) to £9.92 million (30th September 2016: £9.17 million).

Administration costs of £3.13 million for the period were marginally higher than the corresponding period last year (30th September 2016: £2.98 million).

Net finance costs increased by £0.38 million to £2.49 million (30th September 2016: £2.11 million) as a result of higher levels of debt and a lower level of capitalised interest with only one development project under construction. Both these increases were partially offset by the beneficial impact of reducing the notional value of the remaining interest rate swap by £12.00 million to £33.00 million in December 2016.

IFRS profit before tax for the period, prior to any adjustments for unrealised items, shows a £16.54 million profit (30th September 2016: £3.78 million loss). This includes the revaluation surplus and the positive movement in the mark to market valuation of the interest rate swap.

IFRS net asset value increased by £11.03 million to £281.82 million over the period, mainly due to the £11.94 million valuation surplus. EPRA net asset value per share, which excludes the negative value of the interest rate swap, increased by 3.0% to 312 pence (31st March 2017: 303 pence).

Drawn debt increased to £149.00 million (31st March 2017: £136.00 million), primarily due to development and refurbishment expenditure. The ratio of drawn debt to portfolio value (LTV) was 32.9% (31st March 2017: 31.6%). As anticipated, the average cost of debt reduced during the period to 3.9% (31st March 2017: 4.4%) as the proportion of floating rate debt increased in relation to the more expensive fixed rate debt.

Having renewed three of our debt facilities in 2015, we were pleased to complete the refinancing of the fourth in August 2017. This was achieved with the existing lender, providing a five year £40.00 million revolving facility which has increased the Group's total available facilities from £175.00 million to £180.00 million.

The Board

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

Dividend

The Board is pleased to declare an interim dividend of 2.8 pence per share, an increase of 3.7% over the level of dividend paid for the same period last year. This will be paid as an ordinary dividend on 4th January 2018.

Outlook

After a successful start to the year, further crystallisation of the substantial income potential within our portfolio provides encouraging scope for additional income and capital gains. The pace of the release of this reversionary potential remains dependent on the continued strength of occupier demand for our assets, and in particular our development and refurbishment projects.

It remains to be seen how strong the forecast economic headwinds prove to be, but with our high quality portfolio of diverse assets and our focus on the resilient markets of London and the South East, we remain well placed to deliver further shareholder value from the portfolio with the ongoing implementation of our clear strategy for growth.

Richard Grainger
Chairman

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months to 30th September 2017

	Notes	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Gross rents and service charges receivable		12,574	12,113	24,112
Other property income		—	—	1,648
Direct property outgoings		(2,650)	(2,939)	(5,888)
Net rental income from investment properties	3	9,924	9,174	19,872
Administration costs		(3,133)	(2,984)	(5,795)
Operating profit before gains on investment properties		6,791	6,190	14,077
Revaluation of investment properties	6	10,619	(3,268)	7,617
Operating profit		17,410	2,922	21,694
Finance costs	5	(2,491)	(6,706)	(4,523)
Finance income	5	1,618	6	423
Profit/(loss) before taxation		16,537	(3,778)	17,594
Taxation		—	—	—
Profit/(loss) for the period		16,537	(3,778)	17,594
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Actuarial movement on defined benefit pension scheme		—	—	(628)
Total comprehensive income for the year		16,537	(3,778)	16,966
Earnings per share	4			
Basic		17.61p	(4.04)p	18.78p
Diluted		17.49p	(4.04)p	18.63p
Adjusted earnings per share figures are shown in note 4.				

GROUP STATEMENT OF FINANCIAL POSITION

As at 30th September 2017

Non-current assets	Notes	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Valuation as reported by the valuers		452,650	413,875	429,915
Adjustment for rents recognised in advance under SIC 15		(7,305)	(6,072)	(5,987)
Assets held for sale		(18,100)	—	(5,500)
Adjustment for grossing up of headleases		4,405	3,725	4,405
	6	431,650	411,528	422,833
Plant and equipment		57	76	62
Total non-current assets		431,707	411,604	422,895
Current assets				
Trade and other receivables		8,378	7,972	6,916
Assets held for sale	6	18,100	—	5,500
Cash and cash equivalents		1,838	2,938	4,485
Total current assets		28,316	10,910	16,901
Total assets		460,023	422,514	439,796
Current liabilities				
Loans and other borrowings		—	—	(34,973)
Trade and other payables		(9,868)	(9,380)	(11,298)
Finance lease liabilities		(285)	(286)	(285)
Interest rate derivatives	7	(1,400)	(2,944)	(2,159)
Total current liabilities		(11,553)	(12,610)	(48,715)
Non-current liabilities				
Loans and other borrowings		(146,468)	(127,903)	(99,127)
Pension fund deficit		(2,164)	(1,719)	(2,284)
Finance lease liabilities		(4,120)	(4,120)	(4,120)
Interest rate derivatives	7	(13,901)	(24,054)	(14,758)
Total non-current liabilities		(166,653)	(157,796)	(120,289)
Total liabilities		(178,206)	(170,406)	(169,004)
Net assets		281,817	252,108	270,792
Equity				
Called up share capital		18,791	18,762	18,762
Share premium account		79,235	78,929	78,929
Retained earnings		55,243	47,374	55,172
Revaluation reserve		128,548	107,043	117,929
Total equity		281,817	252,108	270,792
Net asset value per share	9	300p	269p	289p
EPRA net asset value per share	9	312p	295p	303p

GROUP CASH FLOW STATEMENT

Six months to 30th September 2017

Operating activities	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Profit/(loss) before taxation	16,537	(3,778)	17,594
Adjustments for:			
Depreciation	17	15	32
Other non-cash movements	669	603	1,308
Movement in revaluation of investment properties	(10,619)	3,269	(7,617)
Net finance costs	873	6,700	4,100
Cash flow from operations before changes in working capital	7,477	6,809	15,417
Increase/(decrease) in debtors	(1,511)	8,568	8,339
Decrease in creditors	(1,489)	(2,756)	(1,178)
Cash generated from operations	4,477	12,621	22,578
Interest paid	(2,895)	(3,287)	(6,055)
Interest received	1	6	7
Cash flows from operating activities	1,583	9,340	16,530

Investing activities

Purchase and development of investment properties	(10,368)	(14,453)	(18,478)
Purchase of other fixed assets	(12)	—	(3)
Cash flows from investing activities	(10,380)	(14,453)	(18,481)

Financing activities

Increase in borrowings	12,060	13,995	19,989
Equity dividends paid	(5,910)	(5,683)	(8,216)
Swap cancellation fee	—	—	(5,076)
Cash flows from financing activities	6,150	8,312	6,697

Net (decrease)/increase in cash and cash equivalents	(2,647)	3,199	4,746
Cash and cash equivalents at the beginning of the period	4,485	(261)	(261)
Cash and cash equivalents at end of the period	1,838	2,938	4,485

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months to 30th September 2017

	Attributable to equity holders of the parent company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1st April 2016	18,632	77,708	110,312	54,571	261,223
(Loss) for the period	—	—	—	(3,778)	(3,778)
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	(3,269)	3,269	—
Total comprehensive income in the period	–	–	(3,269)	(509)	(3,778)
Issue of new shares net of costs	130	1,221	—	(1,351)	—
Dividends paid in period	—	—	—	(5,683)	(5,683)
Cost of share based payments	—	—	—	346	346
At 30th September 2016	18,762	78,929	107,043	47,374	252,108
Profit for the period	—	—	—	21,372	21,372
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	10,886	(10,886)	—
Actuarial loss on defined benefit pension scheme	—	—	—	(628)	(628)
Total comprehensive income in the period	–	–	10,886	9,858	20,744
Dividends paid in period	—	—	—	(2,533)	(2,533)
Deferred bonus	—	—	—	128	128
Cost of share based payments	—	—	—	345	345
At 31st March 2017	18,762	78,929	117,929	55,172	270,792
Profit for the period	—	—	—	16,537	16,537
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	10,619	(10,619)	—
Total comprehensive income in the period	–	–	10,619	5,918	16,537
Issue of new shares net of costs	29	306	—	(335)	—
Dividends paid in period	—	—	—	(5,910)	(5,910)
Cost of share based payments	—	—	—	397	397
Other	—	—	—	1	1
At 30th September 2017	18,791	79,235	128,548	55,243	281,817

NOTES TO THE FINANCIAL STATEMENTS

Six months to 30th September 2017

1 Accounting policies

Basis of preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31st March 2017.

The comparative figures for the financial year ended 31st March 2017 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Board approved the unaudited interim financial statements on 10th November 2017.

Identification of business risks

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31st March 2017 which include compliance with financial covenants on bank borrowing, tenant default, liquidity, interest rate hedging instruments and interest rate movements on bank borrowing. The Directors consider that the significant areas of judgement made by management that have significant effect on the Group's performance and estimates with a significant risk of material adjustment are valuation of investment properties and financial instruments. These are unchanged from those identified in the Annual Report for the year ended 31st March 2017.

Going concern

The Interim Report has been prepared on a going concern basis, which assumes the Group will be able to meet its liabilities as they fall due, for the foreseeable future. The Directors have prepared cash flow forecasts which show that the cash generated from operating activities will provide sufficient cash headroom for the foreseeable future.

Following a refinancing of one of the four banking facilities in the period, the Group does not have any borrowing facilities expiring in the next 12 months. The Group is in full compliance with its borrowing covenants at 30th September 2017 and is expected to be in compliance for the next 12 months.

2 Adjusted profit before taxation

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

	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Profit/(loss) before taxation	16,537	(3,778)	17,594
Change in fair value of derivatives	(1,617)	4,588	(415)
Movement in valuation of investment properties	(10,619)	3,269	(7,617)
Other property income	—	—	(1,648)
IFRS 2 adjustment to share based payments	397	346	691
Adjusted profit before taxation	4,698	4,425	8,605

3 Net rental income from investment properties

	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Gross rents receivable	10,642	10,212	20,672
SIC 15 adjustment (spreading of rental incentives)	259	204	118
Gross rental income	10,901	10,416	20,790
Service charges receivable	1,673	1,697	3,322
	12,574	12,113	24,112
Other property income	—	—	1,648
Direct property outgoings	(2,650)	(2,939)	(5,888)
Net rental income	9,924	9,174	19,872

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

4 Earnings per share

	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Basic earnings/(loss) per share	17.61	(4.04)	18.78
Change in fair value of derivatives	(1.72)	4.91	(0.44)
Movement in revaluation of investment properties	(11.31)	3.49	(8.13)
Other property income	—	—	(1.76)
Adjusted profit for share based payments	0.42	0.37	0.74
Adjusted earnings per share	5.00	4.73	9.19

Basic earnings per share on ordinary shares is calculated on the profit in the half year of £16,537,144 (30th September 2016: loss £3,778,471) and 31st March 2017: profit £17,594,000) and 93,895,804 (30th September 2016 93,511,768 and 31st March 2017: 93,659,703) shares, being the weighted average number of ordinary shares in issue during the period.

	6 months to 30th September 2017 Number of Shares	6 months to 30th September 2016 Number of shares	12months to 31st March 2017 Number of shares
Weighted average number of ordinary shares in issue	93,895,804	93,511,768	93,659,703
Number of shares under option	1,524,499	1,346,921	1,453,249
Number of shares that would have been issued at fair value	(872,452)	(481,332)	(656,745)
Diluted weighted average number of ordinary shares in issue	94,547,851	94,377,357	94,456,207

	6 months to 30th September 2017 P	6 months to 30th September 2016 P	12months to 31st March 2017 P
Basic earnings/(loss) per share	17.61	(4.04)	18.78
Effect of dilutive potential ordinary shares under option	(0.12)	—	(0.15)
Diluted (loss)/earnings per share	17.49	(4.04)	18.63
Change in fair value of derivatives	(1.71)	4.86	(0.44)
Movement in revaluation of investment properties	(11.23)	3.46	(8.07)
Other property income	—	—	(1.74)
EPRA diluted earnings per share	4.55	4.28	8.38

Diluted earnings per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the year of 94,547,851 (30th September 2016: 94,377,357 and 31st March 2017: 94,456,207) shares, which takes into account the number of potential ordinary shares under option. No account has been taken in diluted earnings per share of potential ordinary shares in the period to 30th September 2017 where their conversion to ordinary shares would decrease the profit per share but is included to arrive at adjusted diluted earnings per share.

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

5 Net finance costs

	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Interest on bank overdraft and loans	2,648	2,736	5,269
Commitment fee	93	186	381
Finance lease interest on leasehold property obligations	142	142	285
Finance arrangement costs	308	208	410
Fair value loss on derivatives	—	4,588	—
Capitalised interest	(700)	(1,154)	(1,822)
Finance expense	2,491	6,706	4,523
Fair value gain on derivatives	(1,617)	—	(415)
Interest receivable	(1)	(6)	(8)
Finance income	(1,618)	(6)	(423)
Net finance costs	873	6,700	4,100

6 Investment properties

Valuation	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
At 1st April	428,333	399,046	399,046
Additions – development	10,798	15,770	21,671
Revaluation on surplus/(defecit)	10,878	(3,065)	7,074
Adjustment for rents recognised in advance under SIC15	(259)	(203)	(118)
Head lease adjustment	—	—	661
Amortisation of grossed up headlease liabilities	—	(20)	(1)
Book value	449,750	411,528	428,333
Adjustment for grossing up of headlease liabilities	(4,405)	(3,725)	(4,405)
Adjustment for rents recognised in advance under SIC15	7,305	6,072	5,987
Valuation	452,650	413,875	429,915

In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2017. These valuations, were carried out by Knight Frank LLP (30th September 2016 and 31st March 2017: Mellersh and Harding LLP). All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

7 Liabilities

During the period the Group refinanced its £35 million revolving facility due to expire in November 2017 with a £40 million secured revolving facility repayable in 2022. This has increased the Group's total debt facilities to £180 million.

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

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

As at 30th September 2017 (Unaudited)	Maturity	[1]Next Credit break	Amount £'000	Rate	Fair value before BCVA	[2]BCVA	Fair value £'000
Interest rate swaps	Sept 2032	Sept 2022	£33,000	5.17%	(16,487)	1,186	(15,301)

As at 30th September 2016 (Unaudited)	Maturity	[1]Next Credit break	Amount £'000	Rate	Fair value before BCVA	[2]BCVA	Fair value £'000
Interest rate swaps	Sept 2032	Sept 2022	£45,000	5.17%	(29,569)	2,571	(26,998)

As at 31st March 2017 (Audited)	Maturity	[1]Next Credit break	Amount £'000	Rate	Fair value before BCVA	[2]BCVA	Fair value £'000
Interest rate swaps	Sept 2032	Sept 2022	£33,000	5.17%	(18,311)	1,393	(16,917)

[1]Credit breaks are triggered by the bank and require the prevailing mark to market value to be paid or received.

[2]BCVA – Bilateral Credit Valuation Adjustment is required by IFRS 13 to be incorporated in the mark to market valuations.

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

Group and Company

	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Current	(1,400)	(2,944)	(2,159)
Non-current	(13,901)	(24,054)	(14,758)
	(15,301)	(26,998)	(16,917)

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

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

8 Dividends

Final dividend	6 months to 30th September 2017 (Unaudited) £'000	6 months to 30th September 2016 (Unaudited) £'000	12months to 31st March 2017 (Audited) £'000
Year ended 31st March 2017	5,910	—	—
Year ended 31st March 2016	—	5,683	5,683
Interim dividend			
Year ended 31st March 2016	—	—	2,533
	5,910	5,683	8,216

The final dividend of 6.3 pence per share (£5,910,000) for the year ended 31st March 2017 was paid on 27th July 2017.

The directors have declared an interim dividend of 2.8 pence per share (2016: 2.7 pence per share).

Since becoming a REIT, the Group is required to distribute at least 90% of qualifying income profits each year as a Property Income Distribution (PID), and the interim dividend of 2.8 pence per share will be paid as an ordinary dividend. Further REIT information is available on the Company's website.

9 Net asset value per share

	30th September 2017		
	Net assets £'000	Shares '000	Net asset value per share P
Basic	281,817	93,955	300
Number of shares under option	1,259	1,612	(4)
Diluted/EPRA NNNAV	283,076	95,567	296
Adjusted for fair value of derivatives	15,301	—	16
EPRA NAV	298,377	95,567	312

	30th September 2016		
	Net assets £'000	Shares '000	Net asset value per share P
Basic	252,108	93,808	269
Number of shares under option	1,035	1,221	(3)
Diluted/EPRA NNNAV	253,143	95,029	266
Adjusted for fair value of derivatives	26,998	—	29
EPRA NAV	280,141	95,029	295

	31st March 2017		
	Net assets £'000	Shares '000	Net asset value per share P
Basic	270,792	93,808	289
Number of shares under option	1,036	1,431	(4)
Diluted/EPRA NNNAV	271,828	95,239	285
Adjusted for fair value of derivatives	16,918	—	18
EPRA NAV	288,746	95,239	303

10. Disclaimer

The Interim Report of McKay Securities PLC for the six months to 30th September has been drawn up and presented for the purposes of complying with English law. If any issue were to arise in relation to any liability under or in connection with the Interim Report for the six months to 30th September 2017, it would also be determined in accordance with English law.

11. Interim Report

The Interim Report is being posted to Shareholders on 24th November 2017. Copies are available to members of the public from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL, and on the Company's website www.mckaysecurities.plc.uk.

Statement of the Directors' Responsibilities

Six months to 30th September 2017

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

S C Perkins
Chief Executive Officer

G P Salmon
Chief Financial Officer

Independent Review Report to McKay Securities Plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2017 which comprises consolidated profit or loss and other comprehensive income, group statement of financial position, consolidated statement of changes in equity, and group cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Richard Kelly

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

10th November 2017