McKay
Securities PLC

SUSTAINABILITY PROGRESS REPORT

2018

mckaysecurities.plc.uk

McKay Securities is pleased to present the Group's sustainability activities and performance for the year to 31st March 2018.

Our approach to sustainability

Operating in a responsible and sustainable manner is central to protecting and adding long term value to the business. Sustainability is a core element of the Group's strategy to deliver quality business space that is attractive to both investors and occupiers, ensuring it maintains compliance with legislation and meets best practice asset management and development standards.

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

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

The Group's sustainability objectives

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

- improved the environmental performance of its operational portfolio, achieving a 14% year-on-year reduction in carbon emissions, 7% reductions in electricity and gas consumptions, and a 35% reduction in water consumption on a like-for-like basis;[1]
- continued to divert 100% of operational waste from landfill and engaged with tenants to increase recycling rates from 25% in 2015/16 to 35.4% in 2017/18;[2]
- continued to implement energy and water efficiency measures, prioritising improvement works at highest consuming properties and those with lower EPC ratings;
- Piloted a post-occupancy assessment for Prospero, Redhill, our high quality office development completed in 2016, to gain an understanding of the health and wellbeing performance of the building in operation;
- ensured that the design of the Aurum office development at 30 Lombard Street, London, is on track to achieve a BREEAM 'Excellent' certification and minimum EPC 'B' rating;
- updated the Group's Responsible Procurement Policy and pre-qualification questionnaires to ensure that suppliers are best placed to support the Group in reducing its environmental impacts and amplifying its socio-economic benefits;
- maintained GRESB 'Green Star' status for the second year running.

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

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

Managing sustainable buildings

Objective: To add value to the Group's portfolio by improving the efficiency of the buildings and reducing their environmental impact.

The Group's business strategy is focused on maintaining and enhancing its portfolio of properties to maximise income and capital return. This active asset management approach forms the core of its day-to-day activities and is the area in which the Group has identified the most significant opportunities to enhance asset value by improving environmental performance.

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

Energy

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

Water

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

Environmental management programme

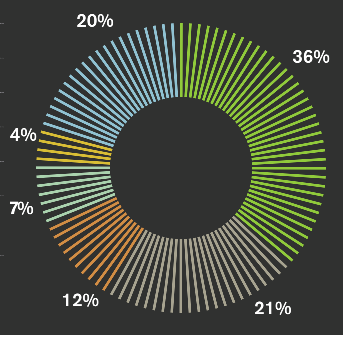
The Group has continued to develop and implement resource reduction strategies for five of its highest consuming assets (which together accounted for over 80% of the total absolute energy use during the year). The energy consumption profile of the five assets is shown below.

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

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

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

Total consumption: 10,180,995 kWh



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

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

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

Energy data collected has been used to produce the Group's mandatory carbon reporting and CRC liability calculations. The Group's CRC liabilities are:

Year to March	CRC Liabilities
2015	£68,449
2016	£61,516
2017	£53,887
2018	£54,000 (estimated)

Renewable energy

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

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

Waste

Waste targets – year to March 2018	Status
Maintain 100% of operational waste diverted from landfill for the landlord managed portfolio	Achieved
Increase the recycling rate across all properties for which the Group has management control to 44% by 31st March 2018	Not achieved

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

[4]January-March 2018 data is estimated.

EPC risk

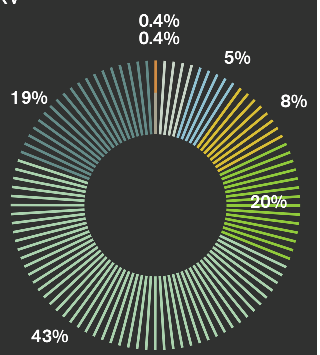
EPC risk target – year to March 2018	Status
Continue to review EPC risk associated with new purchases and identify improvement works for any assets with an E rating or lower. Also consider D rated assets.	Achieved

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

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

McKay Securities Adjusted Sites
EPC Portfolio Breakdown by ERV

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



Sustainable procurement

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

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

Creating Sustainable Buildings

Objective: To achieve best practice green building standards in order to deliver quality buildings.

The refurbishment and development of buildings are key intervention points for incorporating sustainability requirements and standards:

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

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

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

Case study: post-occupancy assessment of Prospero, Redhill

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

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

Overall the findings were very positive:

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

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

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

Engaging stakeholders

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

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

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

The Group remains committed to providing stakeholders with a clear, transparent and balanced account of its sustainability journey, and it recognises the benefits that this offers customers, stakeholders and the Group itself. To this end, the Group has developed and published a Stakeholder Engagement Policy, which can now be found on its website.

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

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

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

The Group's main community engagement takes place through the planning process and its community investment activities. These community investment activities are co-ordinated by its Charity Committee, and focus on supporting local, children's charities. For the year to March 2018, the Group made a total of £28,100 in charitable donations.This represents 0.31% of adjusted profit before tax (0.4% in 2017). Additionally, the Group has contributed to a community allotment within the local area of one of its properties following continued engagement with neighbouring residential properties. The Group was the main sponsor for the Mayor of Bracknell's charity event held in November 2017 for the Firefighters Charity.

Health & Safety

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

The Group's H&S Policy and Procedures reflect legislation and latest best practice; a copy of the General Statement is available on the Group's website and has been shared with all suppliers and employees. Implementation of the Group's H&S is managed by the Safety Management Group (SMG). The SMG meets monthly where it reviews any legislative changes that may affect the Group and its portfolio and takes appropriate action on any risks highlighted to actively reduce the Group's risk profile. A programme of health and safety training has been implemented for employees, alongside a programme of training with the Group's contractors and consultants to ensure they are working to the same standard. For the year to March 2018, there have been no accidents of a nature reportable to HSE.

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

Sustainability targets – year to March 2019

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

Managing Sustainable Buildings

Target | **Deadline:** 31st March 2019

Electricity consumption: Achieve a 12% reduction in like-for-like landlord controlled electricity consumption relative to a 2015/16 baseline.

Gas consumption: Achieve a 12% annual reduction in like-for-like landlord controlled gas consumption (adjusted for heating degree days) relative to a 2015/16 baseline.

Carbon emissions: Achieve a 12% reduction in like-for-like landlord controlled carbon emissions, against a 2015/16 baseline.

Water consumption: Achieve a 9% reduction in like-for-like landlord controlled water consumption, against a 2015/16 baseline.

Waste: Maintain 100% of operational waste diverted from landfill for landlord managed portfolio.

Waste: Increase the recycling rate across all properties for which the Group has management control to 48% by 31st March 2019, in line with 'Good Practice' according to the Real Estate Environmental Benchmark (REEB).

Pilot an innovative energy-saving technology at one of the Group's major energy consuming assets.

Pilot an innovative water-saving technology at one of the Group's major water consuming assets.

Continue to review EPC risk associated with new purchases and create improvement plans for any asset with an E rating or below, to bring it up to at least a D.

Roll out phase two of the Group's Renewable Energy Review Strategy, which will involve conducting detailed studies into the feasibility of incorporating solar PV panels at five properties, and then select at least one property at which to take forward an installation subject to commercial viability.

Continue to ensure compliance with the Group's Responsible Procurement Policy through the agreed annual auditing process..

Creating Sustainable Buildings

Target | **Deadline:** 31st March 2019

Continue to monitor the compliance of contractors with McKay's Sustainability Requirements for Development and Refurbishment Projects, ensuring that sustainability is consistently integrated as part of the tendering process.

Ensure all new developments and major refurbishments achieve minimum BREEAM Excellent and an EPC rating of at least B.

Follow up on the results and recommendations of the post-occupancy evaluation of Prospero, Redhill, to ensure that all aspects of operational performance meet design intent.

Engaging Stakeholders

Target | **Deadline:** 31st March 2019

Maintain or enhance GRESB performance relative to 2017.

Hold a minimum of three sustainability related CPD sessions to increase awareness of key issues amongst employees.

Continue to organise annual sustainable building tours to inform and inspire employees.

Include information about asset's sustainability, including energy efficiency and health and wellbeing features, within marketing materials, highlighting their benefits to occupiers.

Introduce building awards/competition to encourage uptake of sustainability practices amongst tenants.

Further Strengthening our Sustainability Approach

Mandatory reporting requirements

As a responsible company the Group complies with all annual environmental and social corporate reporting requirements. Beyond compliance, McKay is committed to transparent reporting to its stakeholders, seeking to measure and improve performance on a range of aspects.

The Group's Carbon Footprint

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, quoted companies are required to report their annual emissions in their Directors' report. This Mandatory Greenhouse Gas Emissions Reporting statement covers the reporting period 1st April 2017 to 31st March 2018 and has been prepared in line with the main requirements of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard and ISO 14064-1:2006.
The significant reduction in the overall footprint is partly due to a 7% reduction in energy consumption, combined with the ongoing decarbonisation of the grid.

Sources of Greenhouse Gas Emissions			2017/18 (est.) tCO_2e	2016/17 (actual) tCO_2e
Scope 1	Energy	Gas (EPRA sBPR fuels – Abs)	655	678
	Fugitive emissions	Refrigerant emissions	De minimis	De minimis
Scope 2	Energy	Landlord-controlled electricity (EPRA sBPR Elec – Abs)	1,221	1,454
Scope 3	Energy	Landlord-obtained energy (if sub-metered to tenants), all transmission and distribution losses, and tenant-obtained energy where applicable and tenant has provided data (EPRA sBPR 3.6)	1,401	1,692
Total			3,277	3,823
Intensity				
tCO_2e / £m Adjusted profit before tax (Scopes 1 and 2 only)			0.207	0.248

Data Qualifying Notes

- This is the Group's fifth year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations.
- The Group's emissions for the year to March 2017 have been restated due to Q4 2016/17 data not being available at the time of reporting in 2017; this final period of data is estimated in every Annual Report.
- For the year to March 2018, 33% of energy consumption, and therefore carbon emissions, is estimated. Q4 2017/18 accounts for 94% of this estimated data.
- This statement has been prepared in line with the main requirements of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard and ISO 14064-1:2006, with the exception of Scope 2 dual reporting which is not yet being followed.
- An operational control consolidation approach has been adopted, together with emissions factors from the UK Government Conversion Factors for Company Reporting 2017.
- Within Scope 1 emissions, refrigerant-related emissions for the period were calculated as de minimis, due to very minimal refrigerant top-ups being recorded for this time period.
- Adjusted profit before tax value as reported in 2017/18 financial statements – page 80 of the 2018 Annual Report and Accounts.