McKay Securities PLC

McKAY SECURITIES PLC ANNOUNCES HALF YEAR RESULTS

McKAY MORE CONFIDENT AS RECOVERY FLOWS THROUGH SOUTH EAST PROPERTY MARKETS

McKay Securities PLC, the Real Estate Investment Trust (REIT) specialising in South East and central London office and industrial property, announces its results for the six months ended 30th September 2013.

Financial Highlights

- **Like for like EPRA NAV per share up 5.0% to 250 pence (31st March 2013: 238 pence)**
- **Reported EPRA NAV per share of 237 pence (31st March 2013: 238 pence)**
- **NNNAV per share up 26.0% to 194 pence (31st March 2013: 154 pence)**

- **Profit before tax of £22.79 million (30th September 2012: loss £2.70 million)**
- **Adjusted profit of £1.67 million (30th September 2012: £2.94 million)**

- **Interim dividend of 2.7 pps declared (30th September 2012: 2.7 pps)**

Portfolio Highlights

- **Portfolio valuation of £225.87 million representing a 3.9% (£8.49 million) surplus since 31st March 2013**
- **Portfolio rental value up 0.8% to £16.90 million (31st March 2013: £16.77 million)**
- **High portfolio occupancy maintained at 89.1%**
- **Capital recycled into new freehold acquisitions in Farnborough and Redhill**
- **Refurbishment programmes at Maidenhead, Bracknell and Wilson Street, EC2 started**
- **New lettings in Maidenhead and Poyle on the back of strengthening Thames Valley market post period, ahead of estimated rental value**

David Thomas, Chairman of McKay Securities commented;

Over the period an improvement in reported economic data has had a positive impact on market sentiment and helped the spread of confidence from London to our South East office and industrial markets. For the first time since the 2008 downturn, rental values across the western corridor generally have reached a floor. They are now set to recover, with improving tenant demand competing for a limited supply of good quality buildings. An increasing number of investors have recognised this potential for rental growth outside London and capital values have already begun to recover.

The Group is well placed to deliver gains from its existing portfolio, supplemented by recent and potential acquisitions. In the light of these market opportunities, the Board will continue to assess the optimal capital structure for the Group.

With our experience in these increasingly constrained markets, we have the development and management skills to benefit as occupier confidence builds.

-ends-

Date: 19th November 2013
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MCKAY SECURITIES PLC
INTERIM RESULTS
19TH NOVEMBER 2013

Details of the programme for the payment of the interim dividend are as follows:

Ex-dividend date	27th November 2013
Record date	29th November 2013
Interim dividend payment	9th January 2014

The Directors have declared an interim dividend of 2.7 pence per share, (2012: 2.7 pence per share), which will be paid as a Property Income Distribution (PID).

CHAIRMAN'S STATEMENT

Profit before tax for the period totalled £22.79 million compared with a loss of £2.70 million for the six month period to 30th September 2012. Contributing to this improvement in headline profit were unrealised gains over the period of £8.49 million (3.9%) in the value of the Group's property portfolio and £13.10 million in the value of the Group's interest rate hedging instruments. Adjusted profit before tax, excluding these unrealised gains, was £1.67 million (30th September 2012: £2.94 million).

Basic net asset value per share increased by 28.0% to 201 pence since the last balance sheet date (31st March 2013: 157 pence). EPRA net asset value per share, which excludes the value of interest rate hedging instruments to be held to expiry, increased by 5.0% on a like for like basis to 250 pence (31st March 2013: 238 pence). Reported EPRA net asset value per share was 237 pence.

The Board has declared an interim dividend of 2.7 pence per share (2012: 2.7 pence).

Review

Over the period an improvement in reported economic data has had a positive impact on market sentiment and helped the spread of confidence from London to our South East office and industrial markets. For the first time since the 2008 downturn, rental values across the western corridor generally have reached a floor. They are now set to recover, with improving tenant demand competing for a limited supply of good quality buildings. An increasing number of investors have recognised this potential for rental growth outside London and capital values have already begun to recover.

The supply of Grade A floor space in our South East office markets has reduced by 32.1% over the last three years to 6.1 million sq ft at the end of the period. The vacancy rate for new floor space has reduced to 2.9% and in a number of centres there is no new stock available due to the lack of development over the last few years. Lettings across these markets for 2013 look set to be the highest since 2007, and nearly double the 2012 level of 1.4 million sq ft. With a further 16.8 million sq ft of lease breaks and expiries over the next three years and occupiers looking to upgrade from obsolete buildings, we hope to capitalise further on this increasingly constrained level of supply.

The combination of improving market conditions and our active approach to property management have helped us achieve rental and capital growth across our portfolio, which is now located entirely within the London and South East markets. Progress has also been made reinvesting disposal proceeds from last year. Two acquisitions have been added to the portfolio, and other prospects are under consideration.

The external valuation of the portfolio secured an £8.49 million (3.9%) increase in value at the end of the period, and the value of the Group's hedging instruments improved by £13.10 million. These unrealised movements account for the improvement in reported profit before tax. They also contributed to a £20.26 million (28.2%) increase in shareholders' funds since the last balance sheet date of 31st March 2013 and a positive movement in net asset value per share from 157 pence to 201 pence.

Adjusted profit before tax of £1.67 million was £1.27 million lower than the corresponding period last year, mainly due to a reduction in gross rental income from £8.06 million to £7.15 million. This lower level of income and adjusted profit was anticipated at the year end, when it was noted that rental income and recurring profits would be lower until reinvestment of the £16.79 million proceeds from the sale of 100 Bothwell Street, Glasgow in February 2013. Administrative costs of £1.64 million remained similar to last year and a £0.27 million increase in interest costs was due to an increase in one of the hedging rates.

Our strategy for reinvestment has been to acquire assets within our core London and South East markets with the potential to replace the income forgone as a result of the Glasgow sale and with good scope for income and capital growth. The two acquisitions made during the period have achieved this.

At Farnborough, we purchased the freehold of Columbia House, a 40,460 sq ft warehouse built in 2000, for £2.90 million. The annual rent is £0.34 million, which generates an attractive yield of 11.1%. This is a well specified building close to the M3 motorway, with the potential to increase value either by renewing the lease with the existing tenant or securing a higher rental in a constrained market at lease expiry in May 2015.

The second acquisition, made off market, was of a freehold property with significant redevelopment potential on London Road, Redhill for £2.30 million. Redhill is a well established southern M25 office location on the main rail line between central London and Gatwick, and the site is in a prime, central location within the town. Since acquisition, improved planning consents have been obtained for fourteen residential apartments and a high quality office building of 43,900 sq ft, and a contract has been placed for demolition of the redundant 1970's office block. Following demolition, we intend to dispose of the residential part of the site and launch a marketing campaign to pre-let the whole or a significant part of the office building. With the improving market conditions referred to earlier and low vacancy rates in Redhill, the potential for speculative development will also be kept under review.

The disposal of the former Convent at Pinehurst Park, Farnborough for £1.24 million was the only sale during the period, which was in excess of the estimate of £0.85 million made at the time of purchase in July last year. Having achieved planning consent for the conversion of the building to residential use, this sale secured the early release of value from part of Pinehurst Park, which was acquired for £3.50 million. Income from IBM on the retained part of the property provides a running yield of 18.0% until January 2018, and a professional team is being appointed to explore the potential to enhance value with a residential planning consent.

We continue to adopt a proactive approach to the management of the Group's portfolio to keep it well positioned to take advantage of improving market conditions. Despite recent improvements, estimated rental values for those properties held since the peak of the last cycle in 2008 remain 10.6% lower, and capital values are still 14.4% lower. We therefore see the potential for growth from further recovery in our markets given that the average passing rent for our office properties is just £20.50 psf and for our industrial properties is £7.60 psf.

Income retention from the portfolio remains an important priority and over the period, eight out of twelve tenants remained in occupation at lease break or expiry. This maintained a high tenant retention rate and secured annual rents totalling £1.14 million; 8.1% ahead of our valuers' estimated market rental value.

The most significant lease renewal was at Sopwith Drive, Weybridge (62,800 sq ft) where the existing tenant of this warehouse unit had considered moving to a larger building. Having been unable to find anything suitable, the tenant completed a new ten year lease, with a break clause at the end of the seventh year, at an increased annual rental of £0.58 million. This renewal resulted in a 36.0% (£1.78 million) increase in the value of the building.

New income was generated over the period with two new leases at a combined contracted annual rent of £0.18 million, which was 12.1% ahead of estimated market rental value. Building 2 (6,800 sq ft) at Switchback Office Park, Maidenhead contributed a major proportion of this, where a 10 year lease was entered into. This was the first unit on the Park refurbished by the Group, and since this letting there has been increased tenant interest in the remaining vacant units, which has resulted in completion of pre-lets of Buildings 1, 3 (part) and 4 (part) at improved rents just after the half year period. The value of this asset increased by 21.4% over the period, and we expect to increase rents further with the speculative refurbishment of Building 6 (4,500 sq ft) next year.

At the end of the period, the portfolio occupancy rate was 89.1%. This was marginally lower than the 91.4% reported at 31st March 2013, mainly due to the vacation of one of the remaining tenants ahead of the imminent refurbishment of Doncastle House, Bracknell (33,600 sq ft). The refurbishment works will significantly improve the quality, appearance and income potential of this office building, which we acquired at the end of 2011. Marketing will commence on completion in Summer 2014. Half the remaining vacancy is contained within the Maidenhead buildings referred to above and office buildings at Pegasus Two, Crawley (12,730 sq ft) and One Fleet (13,980 sq ft), all of which are being actively marketed.

In addition to the projects at Maidenhead and Bracknell, a six month refurbishment is planned to commence at 66 Wilson Street, EC2 (12,300 sq ft) in January 2014. The property was acquired in December 2012, when we expected to start works at lease expiry in June 2013. However, the tenant extended occupation to December 2013, so we have benefitted from six months of additional income and a further improvement in office rental values and demand in this Tech City location. The works will considerably enhance rental value and letting prospects, and full marketing will commence in the Spring.

As well as our new acquisition at Redhill, development potential also exists at our 30/32 Lombard Street, EC3 office property (35,820 sq ft). Vacant possession can be achieved from September 2014 and the existing planning consent for a high quality, replacement building of 58,000 sq ft runs until December 2015. With City rents increasing, this timeframe provides an ideal window for us to assess the most beneficial way of releasing value from this attractive development prospect.

Valuation

The independent valuation of the Group's property portfolio as at 30th September 2013 totalled £225.87 million, representing a 3.9% (£8.49 million) increase over book cost of all properties since 31st March 2013. This was in excess of the 1.4% increase in the IPD (All Property) Monthly Index. Over recent periods, valuation gains have come mainly from our London office portfolio. However, over the last six months performance has been more balanced with our London and South East office properties increasing in value by 4.8% and 2.9% respectively, and our industrial properties increasing by 4.8%. Gains achieved across the portfolio due to a combination of yield shift and improving rental values were enhanced significantly where lettings were achieved. Examples include Maidenhead and Weybridge referred to above and 203 Blackfriars Road, SE1, where the quality of the refurbishment completed last year and investor demand in Southwark generated a further 10.7% increase in value.

The market rental value of the portfolio increased by 0.8% (IPD: 0.3%) to £16.90 million, and to £17.24 million with the inclusion of acquisitions. Gains were seen across all portfolio sectors.

At 30th September 2013, the initial yield of the portfolio was 5.6% (31st March 2013: 5.9%) increasing to 6.8% (31st March 2013: 7.1%) on contracted rents once letting incentives expire. The potential reversionary yield was 7.2% (31st March 2013: 7.5%).

Finance

The Group continues to benefit from four favourable banking facilities totalling £155.00 million, with the earliest expiry (£45.00 million) being in February 2016. Compliance has been maintained with all covenants over the period, maintaining low margins, flexible terms and no near term refinancing risk.

Drawn debt at 30th September 2013 was £100.50 million (30th September 2012: £108.00 million). The ratio of drawn debt to portfolio value (LTV) was 44.5% (30th September 2012: 48.6%), and the gearing ratio to shareholders' funds, adjusted in accordance with banking covenants, was 85.0% (30th September 2012: 98.4%).

The improvement in the fair value of the Group's interest rate hedging instruments, which have a combined notional value of £105.00 million, was due to the valuation at the end of the period reflecting earlier market assumptions for future interest rate increases, and inclusion of a £3.08 million asset in respect of the fair value calculation under new accounting standard IFRS13. Credit breaks were exercised by the counter party bank during the period in respect of £30.00 million of this notional sum, with expiries in 2016 and 2017. As a result the reported EPRA NAV per share, which only excludes the negative value of hedging instruments to be held to expiry, was adjusted from 250 pence to 237 pence.

As financial markets begin to price in a return to higher interest rates, the negative value of these instruments will reduce further. In the meantime there is a regular dialogue with the two counter-party banks to explore a range of scenarios, including the cost of cancelling or reconfiguring all or part of the notional sum.

The Group's average cost of debt for the period rose to 5.9% (2013: 5.0%) as a result of the sale proceeds from the sale of Bothwell Street, Glasgow temporarily bringing drawn debt below the £105 million level of hedging.

Dividend

The Board is pleased to declare an interim dividend of 2.7 pence per share, which remains unchanged from the same period last year. This will be paid as a Property Income Distribution (PID) on 9th January 2014 to shareholders on the register on 29th November 2013.

Future Prospects

Improving market conditions have supported our confidence and investment in the office and industrial markets of London and the South East. With sustained economic growth, the demand for quality floor space is set to increase at a time of low supply across these markets, providing opportunities for the Group on which to capitalise.

The Group is well placed to deliver gains from its existing portfolio, supplemented by recent and potential acquisitions. In the light of these market opportunities, the Board will continue to assess the optimal capital structure for the Group.

With our experience in these increasingly constrained markets, we have the development and management skills to benefit as occupier confidence builds.

D.O. Thomas
Chairman
19th November 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 months to 30th September 2013 (Unaudited) £'000	6 months to 30th September 2012 (Unaudited) £'000	12 months to 31st March 2013 (Audited) £'000
Gross rents and service charges receivable		8,160	10,272	20,053
Direct property outgoings		(1,861)	(3,041)	(5,680)
Net rental income from investment properties	3	6,299	7,231	14,373
Administration costs		(1,640)	(1,638)	(3,463)
Operating profit before gains on investment properties		4,659	5,593	10,910
(Loss)/profit on disposal of investment properties		(124)	-	1,101
Revaluation of investment properties	6	8,155	2,028	3,410
Operating profit		12,690	7,621	15,421
Finance costs	5	10,099	(10,423)	(11,859)
Finance income	5	4	5	12
Share of profit/(loss) of associated undertaking		-	95	(1,829)
Profit/(loss) before taxation		22,793	(2,702)	1,745
Taxation		-	-	-
Profit/(loss) for the period		22,793	(2,702)	1,745
Other comprehensive income:				
Actuarial movement on defined benefit pension Scheme		-	-	(488)
Total comprehensive income/(loss) for the period		22,793	(2,702)	1,257
Earnings per share	4			
Basic		49.68p	(5.89)p	3.80p
Diluted		48.52p	(5.89)p	3.70p

Adjusted earnings per share figures are shown in note 4.

GROUP BALANCE SHEET

	Notes	As at 30th September 2013 (Unaudited) £'000	As at 30th September 2012 (Unaudited) £'000)	As at 31st March 2013 (Audited) £'000
Non-current assets				
Investment properties	6	224,345	221,565	211,768
Plant and equipment		20	31	24
Investments		-	1,969	-
		224,365	223,565	211,792
Current assets				
Trade and other receivables		6,342	5,699	5,834
Cash and cash equivalents		3,827	3,481	2,893
Total assets		234,534	232,745	220,519
Current liabilities				
Trade and other payables		(8,030)	(7,855)	(7,163)
Finance lease liabilities		(286)	(286)	(286)
Interest rate derivatives	7	(4,262)	(3,959)	(4,196)
Total current liabilities		(12,578)	(12,100)	(11,645)
Non-current liabilities				
Loans and other borrowings		(100,234)	(107,672)	(94,209)
Pension fund liabilities		(2,178)	(1,820)	(2,219)
Finance lease liabilities		(4,121)	(4,122)	(4,122)
Interest rate derivatives	7	(23,226)	(38,104)	(36,391)
Total non-current liabilities		(129,759)	(151,718)	(136,941)
Total liabilities		(142,337)	(163,818)	(148,586)
Net assets		92,197	68,927	71,933
Equity				
Called up share capital		9,176	9,176	9,176
Share premium account		2,478	2,478	2,478
Distributable reserve		57,477	44,263	45,965
Revaluation reserve		23,066	13,010	14,314
Total equity		92,197	68,927	71,933
Net asset value per share	9	201p	150p	157p

GROUP CASH FLOW STATEMENT

	6 months to 30th September 2013 (Unaudited) £'000	6 months to 30th September 2012 (Unaudited) £'000	12 months to 31st March 2013 (Audited) £'000
Operating activities			
Profit/(loss) before tax	22,793	(2,702)	1,745
Adjustments for:			
Depreciation	7	8	16
Other non-cash movements	344	313	815
Loss/(profit) on disposal of investment properties	124	-	(1,101)
Movement in revaluation of investment properties	(8,155)	(2,028)	(3,410)
Net finance costs	(10,103)	10,418	11,847
Share of results of associate undertaking	-	(95)	1,829
Cash flow from operations before changes in working capital	5,010	5,914	11,741
Increase in debtors	(545)	(447)	(532)
Decrease in creditors	(230)	(1,383)	(1,289)
Cash generated from operations	4,235	4,084	9,920
Interest paid	(1,945)	(1,686)	(5,574)
Interest received	4	5	12
Cash flows from operating activities	2,294	2,403	4,358
Investing activities			
Proceeds from sale of investment properties	1,158	-	16,525
Dividends from associated undertaking	-	-	45
Purchase and development of investment properties	(5,832)	(6,382)	(10,750)
Purchase of other fixed assets	(3)	(16)	(17)
Cash flows from investing activities	(4,677)	(6,398)	5,803
Financing activities			
Increase/(decrease) in borrowings	5,978	7,507	(5,998)
Equity dividends paid	(2,661)	(2,615)	(3,854)
Cash flows from financing activities	3,317	4,892	(9,852)
Net increase in cash and cash equivalents	934	897	309
Cash and cash equivalents at the beginning of the period	2,893	2,584	2,584
Cash and cash equivalents at end of period	3,827	3,481	2,893

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Total Distributable reserve £'000	Total equity £'000
At 1st April 2012	9,176	2,478	10,965	51,541	74,160
Profit for the year	-	-	-	1,745	1,745
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	3,410	(3,410)	-
Transfer share of surplus on revaluation of properties in associated undertaking	-	-	22	(22)	-
Transfer on disposal of investment properties	-	-	(83)	83	-
Past service cost on defined benefit pension scheme	-	-	-	(120)	(120)
Actuarial loss on defined benefit pension scheme	-	-	-	(368)	(368)
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Total comprehensive loss for the year	-	-	3,349	(2,092)	1,257
Dividends paid in year	-	-	-	(3,854)	(3,854)
Fair value of share based payments	-	-	-	370	370
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At 31st March 2013	9,176	2,478	14,314	45,965	71,933
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Profit for the period	-	-	-	22,793	22,793
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	8,155	(8,155)	-
Transfer on disposal of investment Properties	-	-	597	(597)	-
Dividends paid in period	-	-	-	(2,661)	(2,661)
Fair value of share based payments	-	-	-	132	132
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At 30th September 2013	9,176	2,478	23,066	57,477	92,197
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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 2013.

The comparative figures for the financial year ended 31st March 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matter to which the auditors 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.

In the current financial year the Group has adopted the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" and IFRS 13 "Fair Value Measurement". Otherwise the same accounting policies, estimates, presentation and methods of computation are followed in the half year report as applied in the Group's latest annual audited financial statements.

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified, as well as their associated income tax. The amendments have been applied retrospectively and hence the presentation of items of comprehensive income have been re-grouped accordingly.

IFRS 13 impacts the disclosure and measurement of financial instruments held as fair value, as set out in note 7.

The Board approved the unaudited interim financial statements on 19th November 2013.

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 2013 being 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 in the second half of the year are unchanged from those identified in the Annual Report for the year ended 31st March 2013.

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.

The Group does not have any significant borrowing facilities expiring in the next 12 months. The Group is in full compliance with its borrowing covenants at 30th September 2013.

2 Adjusted profit before tax

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

	6 months to 30th September 2013 (Unaudited) £'000	6 months to 30th September 2012 (Unaudited) £'000	12 months to 31st March 2013 (Audited) £'000
Profit/(loss) before tax	22,793	(2,702)	1,745
Change in fair value of derivatives	(13,098)	7,692	6,216
Movement in revaluation of investment properties	(8,155)	(2,028)	(3,410)
Loss/(profit) on disposal of investment properties	124	-	(1,101)
Associated undertaking disposals and revaluation Movement	2	(22)	1,968
Adjusted profit before tax	1,666	2,940	5,418

3 Net rental income from investment properties

	6 months to 30th September 2013 (Unaudited) £'000	6 months to 30th September 2012 (Unaudited) £'000	12 months to 31st March 2013 (Audited) £'000
Gross rents receivable	6,816	7,996	15,779
SIC15 adjustment	333	66	318
Gross rental income	7,149	8,062	16,097
Service charges receivable	1,011	2,210	3,956
	8,160	10,272	20,053
Direct property outgoings	(1,861)	(3,041)	(5,680)
	6,299	7,231	14,373

Rent receivable under the terms of the leases is adjusted, in accordance with SIC15, for the effect of any incentives given.

4 Earnings per share

	6 months to 30th September 2013 p	6 months to 30th September 2012 p	12 months to 31st March 2013 p
Basic earnings/(loss) per share	49.68	(5.89)	3.80
Change in fair value of derivatives	(28.55)	16.77	13.55
Movement in revaluation of investment properties	(17.77)	(4.42)	(7.43)
Loss/(profit) on disposal of investment properties	0.27	-	(2.40)
Associated undertaking disposals and revaluation movement	-	(0.04)	4.29
Adjusted earnings per share	3.63	6.42	11.81

Basic earnings/(loss) per share on ordinary shares is calculated on the profit in the half year of £22,793,000 (2012: loss: £2,702,000) and 45,879,174 (2012: 45,879,174) shares, being the weighted average number of ordinary shares in issue during the period.

	6 months to 30th September 2013 Number of shares	6 months to 30th September 2012 Number of shares
Weighted average number of ordinary shares in issue	45,879,174	45,879,174
Number of shares under option	2,647,436	3,105,771
Number of shares that would have been issued at fair value	(1,553,852)	(2,127,081)
Diluted weighted average number of ordinary shares in issue	46,972,758	46,857,864

	6 months to 30th September 2013 p	6 months to 30th September 2012 p	12 months to 31st March 2013 p
Basic earnings/(loss) per share	49.68	(5.89)	3.80
Effect of dilutive potential ordinary shares under option	(1.16)	0.12	(0.10)
Change in fair value of derivatives	(27.89)	16.42	13.18
Movement in revaluation of investment properties	(17.36)	(4.33)	(7.23)
Loss/(profit) on disposal of investment properties	0.27	-	(2.33)
Associated undertaking disposals and revaluation movement	-	(0.04)	4.17
Adjusted diluted earnings per share	3.54	6.28	11.49
EPRA earnings per share	3.54	6.28	11.49

Diluted earnings/(loss) per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the period of 46,972,758 (2012: 46,857,864) shares, which takes into account the number of potential ordinary shares under option. No account has been taken in diluted loss per share of potential ordinary shares in the period under review where their conversion to ordinary shares has decreased the loss 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, 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 2013 (Unaudited) £'000	6 months to 30th September 2012 (Unaudited) £'000	12 months to 31st March 2013 (Audited) £'000
Interest on bank overdraft and loans	2,870	2,636	5,363
Finance lease interest on leasehold property Obligations	142	142	285
Finance arrangement costs	47	41	83
Fair value (profit)/loss on derivatives	(13,098)	7,692	6,216
Capitalised interest	(60)	(88)	(88)
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	(10,099)	10,423	11,859
Interest receivable	(4)	(5)	(12)
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	(10,103)	10,418	11,847
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6 Investment Properties

	As at 30th September 2013 (Unaudited) £'000	As at 30th September 2012 (Unaudited) £'000	As at 31st March 2013 (Audited) £'000
Valuation			
At 1st April 2013	211,768	213,227	213,227
Additions - acquisitions	5,520	3,994	7,761
- development	205	2,336	2,834
Revaluation surplus	8,488	2,104	3,764
Adjustment for rents recognised in advance under SIC15	(333)	(76)	(354)
Disposals	(1,283)	-	(15,424)
Amortisation of grossed up headlease liabilities	(20)	(20)	(40)
	-----------	------------	-----------
Book value	224,345	221,565	211,768
	------------	------------	----------
Adjustment for grossing up of headlease liabilities	(3,845)	(3,885)	(3,865)
Adjustment for rents recognised in advance under SIC15	5,365	4,755	5,032
	-----------	-----------	-----------
Valuation	225,865	222,435	212,935
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In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2013. These valuations, with the exception of 66 Wilson Street, London EC2, were carried out by Mellersh & Harding, Chartered Surveyors and Valuers. The valuation of the property at Wilson Street was carried out by Strutt & Parker. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

7 Interest Rate Derivatives

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 2013 (Unaudited)	Amount £'000	Maturity	[2]Next credit break	[3]Next call option
Interest rate swaps	75,000	Sept 2032	Sept 2022	Sept 2014
Interest rate swaps	25,000	Oct 2038	Jan 2016[5]	Jan 2016
Interest rate swaps	5,000	Dec 2032	Dec 2017[5]	Dec 2019
	105,000			

	Amount £'000	Rate	Fair value before BCVA	[4]BCVA	Fair value £'000
Interest rate swaps	75,000	[1]4.80%	(23,521)	2,710	(20,811)
Interest rate swaps	25,000	4.31%	(5,686)	267	(5,419)
Interest rate swaps	5,000	4.65%	(1,364)	106	(1,258)
	105,000		(30,571)	3,083	(27,488)
As at 30th September 2012 (Unaudited)					
Interest rate swaps	75,000	[1]4.80%	(31,854)		(31,854)
Interest rate swaps	25,000	3.00%	(8,291)		(8,291)
Interest rate swaps	5,000	4.65%	(1,918)		(1,918)
	105,000		(42,063)		(42,063)
As at 31st March 2013 (Audited)					
Interest rate swaps	75,000	[1]4.80%	(30,896)		(30,896)
Interest rate swaps	25,000	3.00%	(7,845)		(7,845)
Interest rate swaps	5,000	4.65%	(1,846)		(1,846)
	105,000		(40,587)		(40,587)

[1]Rate steps up to 5.17% from 28th March 2014
[2]Credit breaks are triggered by the banks and require the prevailing mark to market value to be paid or received.
[3]Call options are triggered by the bank and require no payment by either party.
[4]BCVA – Bilateral Credit Valuation Adjustment is now required by IFRS 13 to be incorporated in the mark to market valuations.
[5]The counter party bank has given notice these breaks will be exercised.
This is applicable to Group Financial Statements reported from 30th September 2013. No restatement of comparative information is required.

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

	As at 30th September 2013 (Unaudited) £'000	As at 30th September 2012 (Unaudited) £'000	As at 31st March 2013 (Audited) £'000
Current	(4,262)	(3,959)	(4,196)
Non-current	(23,226)	(38,104)	(36,391)
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	(27,488)	(42,063)	(40,587)
	----------	----------	----------

The Group does not hedge account its interest rate derivatives and states them at fair value in the balance sheet, any movement passing through the Statement of 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.

In both 2013 and 2012 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.

8 Dividends

	6 months to 30th September 2013 (Unaudited) £'000	6 months to 30th September 2012 (Unaudited) £'000	12 months to 31st March 2013 (Audited) £'000
Final dividend			
Year ended 31st March 2013	2,661	-	-
Year ended 31st March 2012	-	2,615	2,615
Interim dividend			
Year ended 31st March 2012	-	-	1,239
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	2,661	2,615	3,854
	----------	----------	----------

The final dividend of 5.8 pence per share (£2,661,000) for the year ended 31st March 2013 was paid on 1st August 2013.

The Directors have declared an interim dividend of 2.7 pence per share (2012: 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 2.7 pence per share will be paid as part of this distribution. Further REIT information is available on the Company's website.

9 Net asset value per share

30th September 2013

	Net assets £'000	Shares '000	Net asset value per share p
Basic	92,197	45,879	201
Shares under option	2,118	2,771	(7)
	----------	----------	-----
Diluted/EPRA NNNAV	94,315	48,650	194
Adjustment for fair value of derivatives	27,488	-	56
	----------	---------	-----
EPRA NAV before adjustment	121,803	48,650	250
Adjustment to exclude interest rate derivatives[1]	(6,677)	-	(13)
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EPRA NAV	115,126	48,650	237

30th September 2012

	Net assets £'000	Shares '000	Net asset value per share p
Basic	68,927	45,879	150
Number of shares under option	2,802	3,314	(4)
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Diluted/EPRA NNNAV	71,729	49,193	146
Adjustment for fair value of derivatives	42,063	-	85
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EPRA NAV	113,792	49,193	231

31st March 2013

	Net assets £'000	Shares '000	Net asset value per share p
Basic	71,933	45,879	157
Number of shares under option	2,645	2,467	(3)
	----------	----------	-----
Diluted/EPRA NNNAV	74,578	48,346	154
Adjustment for fair value of derivatives	40,587	-	84
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EPRA NAV	115,165	48,346	238

[1]The balance sheet value of the £25 million and £5 million interest rate swaps have been added back. The EPRA guidelines state that these valuations should be excluded, where the intention is to hold them to maturity (i.e. value zero). The counter party bank has given notice that the next credit break will be triggered, hence these will not be held until maturity and have therefore been added back.

10 Disclaimer

The Interim Report of McKay Securities PLC for the six months to 30th September 2013 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 2013, it would also be determined in accordance with English law.

11 Interim Report

The Interim Report is being posted to all shareholders on 29th November 2013. Copies are available to members of the public from the Company's registered office at 20 Greyfriars Road, Reading, Berkshire RG1 1NL, and on the Company's website at www.mckaysecurities.plc.uk.

Statement of the Directors Responsibilities

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
Managing Director

G P Salmon
Finance Director

19th November 2013