McKAY REPORTS SIGNIFICANT PROGRESS IN ALL KEY AREAS

McKay Securities PLC, the Real Estate Investment Trust (REIT) specialising in South East and London office and industrial property, today announces its Full Year results for the year ended 31 March 2016.

Financial Highlights

- Adjusted profit before tax up 37.2% to £7.94 million (31 March 2015: £5.79 million)
- IFRS profit before tax of £53.16 million (31 March 2015: £33.28 million)
- NAV (EPRA) per share up 11.5% to 301 pence (31 March 2015: 270 pence)
- NNNAV (EPRA) per share up 20.4% to 277 pence (31 March 2015: 233 pence)
- Loan to Value ratio of 28.9% (31 March 2015: 25.9%)
- £175 million debt refinancing completed, including £35 million reduction in notional value of interest rate swaps

- Final dividend up 1.7% to 6.1 pence per share (2015: 6.0 pence per share)
- Total dividend for the year up to 8.8 pence (2015 8.7 pence)

Portfolio Highlights

- Portfolio value increased by £48.41 million to £401.17 million
- 9.7% (£35.31 million) valuation surplus (like for like)
- 5 properties sold during the year, realising a net surplus of 37.1%

- Gross rental income up 14.4% (£2.54 million) to £20.16 million
- 8.5% growth in portfolio ERV (like for like)
- Portfolio ERV increase of 87.1% over 3 years to £31.44 million pa
- Potential portfolio reversion of 49%
- Good progress on development projects in Reading, Redhill and Lombard Street, EC3

David Thomas, Chairman of McKay Securities PLC, said:

"This has been a year of major progress for the Group towards our objective of being able to deliver attractive and sustainable returns to shareholders over the long term, as a result of expanding the business and focusing entirely on the office and industrial markets of London and the South East.

Our major investment in property acquisitions, refurbishments and development projects over the last few years increased our scale to coincide with a time of growth in rental and capital values across our markets. By positioning our investment assets to take best advantage of these positive market trends, we have generated significant growth in value and earnings this year from an improved and more resilient portfolio. In addition, progress with the development programme has enhanced the prospects of the release of further gains over the years ahead. Both of these initiatives improve the chances of crystallising the full rental potential of the portfolio.

"It has been a privilege to serve as Chairman for the last nine years, and I am pleased that Richard Grainger, who joined the Board in May 2014, will be succeeding me as Chairman at the conclusion of this year's AGM in July. I would like to convey my thanks to all the team at McKay and to our shareholders for their support over the years, and wish the Group well for the future."

Date: 24th May 2016

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

Ex dividend date	2nd June 2016
Record Date for the final dividend	3rd June 2016
Report and Financial Statements dispatched to Shareholders with Notice of AGM	15th June 2016
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	14th July 2016
Final dividend paid	28th July 2016

A final dividend per share of 6.1 pence is recommended by the Board making a total dividend for the year of 8.8 pence per share (2015 – 8.7 pence). The final dividend will be paid as an Ordinary Dividend.

CHAIRMAN'S STATEMENT

This has been a year of major progress for the Group towards our objective of being able to deliver attractive and sustainable returns to shareholders over the long term, as a result of expanding the business and focusing entirely on the office and industrial markets of London and the South East.

Our major investment in property acquisitions, refurbishments and development projects over the last few years increased our scale to coincide with a time of growth in rental and capital values across our markets. By positioning our assets to take best advantage of these positive market trends, we have generated significant growth in value and earnings this year from an improved and more resilient portfolio. In addition, progress with the development programme has enhanced the prospects of the release of further gains over the years ahead. Both of these initiatives improve the chances of crystallising the full rental potential of the portfolio.

The value of the Group's property portfolio exceeded £400 million, ending the period up £48.41 million to £401.17 million. The valuation surplus for those properties retained over the period was 9.7% (£35.31 million), which was another positive result after the 13.8%(£42.71 million) portfolio surplus last year. Our refurbishment projects and active management continued to generate gains, supporting our business model of investing in our assets to provide attractive, modern business space. In a number of cases, these improvement works resulted in new rental highs being achieved, contributing to like for like growth in portfolio rental value of 8.5%.

The increase in overall portfolio value was achieved despite a net reduction in the number of assets from 40 to 36. We took advantage of strong market demand and special purchasers to secure a 37.1% (£9.11 million) surplus on the sale of 5 properties, realising net proceeds of £33.31 million. This was in line with our strategy of recycling capital from mature and small assets for reinvestment into both the existing portfolio and new properties. Continuing our selective approach to acquisitions, we purchased a warehouse unit (96,850 sq ft) off-market at Brunel Road, Theale, near Junction 12 of the M4 motorway, at the beginning of the period. This was at a cost of £11.33 million, yielding 6.6% on a rent of £0.75 million pa. This adds to the range of refurbishment and development options available within the portfolio.

The gains made on valuation and disposal contributed to a £45.73 million increase in shareholders' funds, which ended the period at £261.22 million. NAV per share (EPRA) increased by 11.5% to 301pps (March 2015: 270pps).

Our recent investment in the portfolio has also generated a marked increase in earnings and profit for the year. Gross rental income for the period increased by £2.54 million (14.4%) to £20.16 million (March 2015: £17.62 million). Recent acquisitions contributed £1.72 million to this increase, along with £1.53 million in additional rent secured from our refurbishment programme and other lettings, offset by disposals and portfolio vacancies.

This higher level of income was the primary contributor to a 37.2% uplift in adjusted profit before tax which increased to £7.94 million (March 2015: £5.79 million). This is our measure of recurring profit, excluding unrealised movements in the value of the property portfolio and hedging instruments, profit on the sale of investment properties, and non-cash items.

Profit before tax (IFRS) including these movements increased by 59.7% to £53.16 million (March 2015: £33.28 million). The increase over last year was due to the higher surplus on disposals and a positive movement in the value of hedging instruments.

The scale of transformation of the portfolio since our equity raise in February 2014 is highlighted by the 87.1% increase in the portfolio's estimated rental value (ERV) from £16.80 million pa at 31st March 2013 to £31.44 million pa at the end of the period. The unrealised proportion of ERV (reversion), which provides an indication of the future earnings potential of the portfolio, also increased significantly from £0.80 million pa to £10.34 million pa over the same period.

Of this reversion, our current development programme (covered in more detail in the Property and Finance Review) accounts for £5.85 million pa. This programme consists of speculative office schemes at 9 Greyfriars Road, Reading (38,200 sq ft) and London Road, Redhill (48,050 sq ft), which are both due to complete shortly, and 30 Lombard Street, EC3 (58,000 sq ft) due to complete in 2018. Void and higher finance costs post completion will have a negative impact on earnings, but, once let, these assets will crystallise a significant proportion of the reversion, creating a step change in future profits.

The Reading and Redhill schemes are now close to completion and present well. Marketing campaigns are being progressed and initial feedback is positive. They are both in prime town centre locations, close to mainline railways stations with direct access into central London. We expect these properties and our portfolio generally to benefit from the ripple effect of higher rents from London and those occupiers looking for more cost effective solutions. Constrained supply in both towns and consistent levels of occupier demand and take up, particularly for new and Grade A buildings of up to 60,000 sq ft, leave these schemes well placed to secure future lettings.

During the year, we also completed a restructure of our loan facilities (May 2015) to provide funding certainty for these and other portfolio initiatives. This has strengthened our balance sheet with extended loan expiries, a reduction in the level of historic interest rate swaps, a lower cost of debt, and an increase in loan facilities to £175.00 million (March 2015: £150.00 million).

Dividend

The Board is recommending a 1.7% increase in the final dividend to 6.1 pence per share (March 2015: 6.0 pence). This will be paid as an ordinary dividend on 28th July 2016. It takes the total dividend for the year to 8.8 pence per share (2015: 8.7 pence), and dividend cover to 96.9% on recurring earnings. This recommendation reflects the Board's intention to maintain a progressive dividend policy whilst re-establishing dividend cover from recurring earnings.

The Board

On 14th April 2016 we made an announcement regarding the appointment of a new Chairman and a new independent non-executive Director. These changes mark an important stage in our succession planning, and I am pleased that Richard Grainger, who joined the Board in May 2014, will be succeeding me as Chairman. This will take place at the conclusion of this year's Annual General Meeting, at which point I will also stand down as a Director.

I am also pleased to welcome Jon Austen to the Board, with effect from 1st July 2016, as an independent non-executive Director. Having qualified as a Chartered Accountant in 1981, Jon has gained extensive experience in the property sector in a number of senior finance roles, most recently as Group Finance Director of Urban&Civic plc.

We have also announced that Steven Mew will resign from the Board and leave at the end of September 2016. We wish him well and are actively recruiting his replacement.

It has been a privilege to serve as Chairman for the last nine years and as a member of the Board for eleven years. I would like to convey my thanks to all the team at McKay and to our shareholders for their continuous support over the years, and wish the Group well for the future.

Future Prospects

Global and UK economic prospects are less encouraging since the beginning of 2016, and the forthcoming EU referendum has created additional uncertainty for both investors and occupiers within our London and South East markets. We anticipate that this uncertainty will be prolonged in the event of a vote to leave the EU.

As our markets move from recovery phase, the pace and scale of further portfolio returns are dependent on stable market conditions and continued active management of the range of opportunities available to us. Of particular importance is the letting of our development projects at Reading and Redhill, as costs during the letting phase will impact adversely on profits.

In line with our continuing strategy, these development projects and other portfolio vacancies are in established South East and London markets and are presented in prime condition. These strong characteristics enhance the prospects of securing lettings to crystallise our significant portfolio reversion and to generate future returns.

D.O. Thomas
Chairman
24th May 2016

STRATEGIC REPORT

Overview

With one acquisition and five disposals over the period, the portfolio totalled 36 properties at 31st March 2016, valued at £401.17 million. The average lot size increased to £11.14 million (March 2015: £8.82 million). The 33 properties within the investment portfolio, totalling 1.44 million sq ft with 209 tenants, were valued at £358.35 million. The three properties within the development programme, totalling 0.14 million sq ft, were valued at £42.82 million.

The portfolio consists predominantly of office and industrial properties located entirely within the South East and London, accounting for 81.9% and 18.1% of the portfolio respectively (by value). Continued growth in capital and rental values from the portfolio was achieved over the period through the successful implementation of our business model, as set out opposite. Contracted rental income from the portfolio (net of ground rents) at the year-end increased by 2.9% to £21.10 million pa (March 2015: £20.50 million pa), and by 5.9% excluding acquisitions and disposals. 52.1% (March 2015: 54.5%) of contracted rental income was payable at the year-end by tenants with a net worth in excess of £7.50 million (source: Dun & Bradstreet), highlighting the continued financial strength of our tenants.

The rental value of the portfolio (ERV), as estimated by external valuers at 31st March 2016, increased overall by 4.1% to £31.44 million pa (March 2015: £30.19 million pa). Excluding acquisitions and disposals the ERV increased by 8.5%.

The reversionary potential of the portfolio, being the difference between contracted rental income and ERV, increased by 6.7% to £10.34 million pa (March 2015: £9.69 million pa). Crystallisation of this reversion would increase contracted rents by 49.0%. This significant potential consists of void properties of £2.27 million pa, development properties of £5.85 million pa, and potential rental uplifts at lease expiry and rent review of £2.22 million pa.

The portfolio void (by ERV) reduced over the period to 7.2% (March 2015: 7.4%). With the inclusion of development properties, the total portfolio void reduced to 25.8% (March 2015: 26.8%).

The weighted average lease term of the portfolio reduced slightly to 5.5 years and 4.5 years to expiry and lease break respectively (March 2015: 5.8 years and 5.0 years).

Market review

Our focus on the office and industrial markets of London and South East England continued and we benefitted from their out-performance relative to other UK markets. Within our markets, a constrained supply of modern floorspace and the delivery of new buildings commanding higher rents, contributed to higher rental values. Capital values have also increased over the period, underpinned by low interest rates and continued demand from a range of UK and overseas buyers attracted by the prospects of further growth in rental values. However, erosion of market confidence by uncertainty over the outcome of the EU referendum to be held in June 2016 contributed to a slowdown in the pace of capital growth and the volume of investment transactions during the second half of the period.

The increase in occupational costs in central London has also continued to benefit our holdings in outer London and beyond, as the ripple effect of higher rents has spread out from the centre. We anticipate this continuing, particularly with the improved east to west travel time and accessibility to be delivered by Crossrail, now named the Elizabeth Line, when it opens in 2018/2019. Improved access is also likely to encourage an increasing number of occupiers faced with rising occupational costs to look beyond central London.

The largest proportion of our portfolio is within the South East office market, which accounts for 58.4% of the portfolio (by value). Variations remain across the different centres within this market, but prime rental values generally increased over the period as occupiers were prepared to pay higher rents to secure modern business space from a limited choice of new and Grade A buildings.

Despite a pick-up in development completions, the supply of office space in this market reduced by a further 17.4% over the year to end the period at 9.04 million sq ft. Of this, 6.32 million sq ft was either new or Grade A floorspace, representing a low vacancy rate of 7.4% (2015: 8.1%). Vacant new floorspace alone was 2.29 million sq ft providing an even lower vacancy rate of 2.7% (2015: 2.6%). These levels remain historically low and are set to remain low, as older floorspace continues to be converted into residential use and letting transactions erode the development pipeline which remains limited by risk appetite, debt availability and viability.

Lettings across this market in 2015 totalled 2.13 million sq ft which was 39.2% up on 2014. Of this, over 70% was for new and Grade A quality and for units of up to 60,000 sq ft. This highlights the continuing importance to office occupiers of upgrading to efficient modern floor space and supports our office development schemes in Reading and Redhill.

At the end of the period, named demand of 4.21 million sq ft was 7.4% higher than at this stage last year, and 7.7% ahead of the five-year average. A general increase in the number of viewings was being reported with building obsolescence and consolidation being the main drivers. While letting volumes are likely to be held back in the short term by the EU referendum, rental values in these markets are protected by the limited choice available and the potential demand from lease breaks and expiries over the next three years totalling an estimated 16.58 million sq ft. As over half the South East office stock is more than 20 years old, these lease events are likely to maintain market momentum (source: Strutt & Parker).

Within the City of London, which includes our development scheme at 30 Lombard Street, EC3, supply reduced to 4.80 million sq ft (March 2015: 6.00 million sq ft) and to 1.70 million sq ft for new and refurbished floorspace (March 2015: 2.70 million sq ft). Vacancy rates of 4.8% and 1.7% respectively are significantly below average levels and limit occupier choice.

This level of supply compares with lettings over the last twelve months of 6.90 million sq ft, of which, 3.40 million sq ft was for new and refurbished floorspace. This imbalance between demand and limited supply contributed to the increase in City rental values seen over the period. Low vacancy rates have generated a response from developers and there is now increasing supply, but accompanied by pre-let activity. Of the 7.01 million sq ft of floorspace under construction, 2.88 million sq ft is already committed. Assuming the five-year average level of new/refurbished lettings, the remaining uncommitted development pipeline combined with current availability, still results in a shortfall in supply (source: Knight Frank).

Acquisitions and disposals

Throughout the year, we continued to analyse potential acquisition opportunities that met our geographical and sector requirements, and to consider the disposal of smaller properties in particular, with limited potential for further gains.

Having invested £62.51 million in seven acquisitions in 2014/2015 as the market was beginning to recover, this year we experienced greater competition, and as a result, higher entry prices. Also, the 1% increase in stamp duty now takes acquisition costs, and the required return to break even, to circa 6.8%. As a result of maintaining a selective approach, one acquisition was made early in the period at a cost of £11.33 million. This was a warehouse distribution facility (96,850 sq ft) at Brunel

Way, Theale with excellent access to Junction 12 of the M4 motorway. The property, constructed in 1984, is let at a rent of £0.75 million pa (£7.74 psf) to 2020, providing a yield of 6.6% with a tenant only break clause in January 2018, subject to a twelve month rent penalty payable by the tenant if exercised. If the tenant exercises this break, it will provide an extended period of rental cover to consider refurbishment or redevelopment to release value from this well located asset.

Five disposals were made, realising net proceeds of £33.31 million, incorporating a £9.11 million (37.1%) surplus over valuation, secured tax free due to our REIT status. The large surplus was achieved due to one off situations at Bicester, Hook and Reading where we were able to negotiate strong off market prices for these smaller assets, and at Blackfriars Road, SE1 where there was considerable market competition due to the potential for income growth on rent review in 2017. The sale price of £21.50 million achieved for the two properties on Blackfriars Road realised a significant uplift over historic cost of £7.40 million, helped by the upgrading and repositioning through comprehensive refurbishment in 2012.

Development programme

Good progress was made with our three speculative office development schemes over the period. The schemes, totalling 144,300 sq ft once completed, represent 9.1% of the portfolio by area and contribute £5.85 million pa to the total portfolio reversion of £10.34 million pa.

The comprehensive refurbishment of 9 Greyfriars Road, Reading (38,200 sq ft) is on programme to complete in late May 2016. The building has been repositioned to offer top quality modern floorspace, enhancing the excellent location less than five minutes walk from the recently upgraded railway station.

At Redhill, the construction of a new top quality 48,050 sq ft office building also remains on programme, scheduled for completion in July 2016.

Both schemes are being actively marketed and quoting rents will be fixed on scheme completion.

In the City of London, demolition of 30 Lombard Street, EC3 is well underway. The existing 1960s office building (35,820 sq ft) is to be replaced with a striking new office building (58,000 sq ft) programmed for completion in mid-2018. A pre-completion marketing campaign will commence in the summer once the existing building has been demolished to improve awareness of the project and to improve the chances of an early letting of this prime scheme.

Refurbishment projects

At 329 Bracknell (33,600 sq ft), the success of the units refurbished in 2014 and rents achieved justified further upgrading works to vacant suites on the second floor. These works have completed and the building is 83% let at improving rents. The four remaining void units, with an ERV of £0.20 million, are attracting encouraging interest.

The refurbishment of Unit 6 (4,520 sq ft), Switchback Office Park, Maidenhead was let prior to completion on a 15-year lease, without break, at a new benchmark rent of £26.00 psf for refurbished floorspace at the Park. The tenant relocated from Unit 5 (8,641 sq ft) which is now being refurbished prior to full marketing on completion in the summer.

By committing to these two refurbishment projects, we invested in the potential to reposition these assets to attract occupiers at higher rentals, and to appeal to institutional and other active investors. It was therefore encouraging to achieve these higher rentals which supported a combined 27.5% increase in ERV to £1.57 million pa and a valuation surplus of 26.6% over the period.

Works to convert Strawberry Hill House, Newbury from office use to medical centre completed at the end of March 2016, enabling commencement of the 25-year Government backed pre-let to two local GP practices. The rent of £0.26 million pa, payable from commencement, doubles the office ERV prior to conversion. As the portfolio reversion is crystallised, the sale of this non-core asset will be kept under review now that development gains from the project have been released.

The rolling refurbishment of Portsoken House, EC3 continued over the period with completion of works to upgrade the ground (1,714 sq ft) and 5th (5,066 sq ft) floors and the finalising of proposals for further improvements to the reception and other common areas. Both refurbished floors attracted good interest and let well, with the 5th floor securing a contracted rent of £0.25 million pa, equivalent to £49.00 psf. This marked a significant increase in rental value and contributed to a 57.0% increase in ERV and a 23.5% valuation surplus for the period for the building.

At The Mille, Brentford and 1 Crown Square, Woking, good progress was made with the management of these multi-let recent additions to the portfolio, and the refurbishment of vacant floorspace and common areas is now underway. Both buildings were under-managed prior to acquisition in 2014 and require capital investment to release further value.

Letting progress at the above properties and elsewhere in the portfolio contributed to a total of 44 open market lettings over the period, with a combined contracted rent of £2.28 million pa; 14.6% ahead of ERV as at 31st March 2015.

At lease break and expiry, 30 out of 58 tenants were retained at contracted rents totalling £1.20 million pa. Whilst the retention rate of 50.8% was lower over the period (March 2015: 64.9%), this has facilitated refurbishment work and the achievement of higher rents on the open market. Combined rents for those retained tenants were 1.8% ahead of rents prior to lease event and 1.1% below ERV.

Valuation

The independent valuation of the Group’s portfolio as at 31st March 2016 totalled £401.17 million (March 2015: £352.76 million), resulting in a surplus for the period of 9.7% (£35.31 million) overall and 11.7% excluding the acquisition of Brunel Road, Theale and the three development properties. This out-performed capital growth of 5.9% in the IPD Monthly (All Property) Index.

On a sector basis (excluding acquisitions/developments) the surplus for South East offices was 10.3% (IPD: 10.1%), London offices 22.1% (IPD: 12.7%), and South East industrials 10.9% (IPD: 10.1%). The total portfolio return was 15.9% (IPD: 11.7%).

The portfolio initial yield of 4.5% (March 2015: 4.8%), increases to 5.0% (March 2015: 5.5%) on the expiry of letting incentives. At ERV, the reversionary yield would be 7.4% (March 2015: 8.1%). The equivalent yield was 6.3% (March 2015: 6.6%). These changes partly reflected further market yield shift, but also the effect of the disposal of properties with higher valuation yields.

The surplus reported for the first half of the year to 30th September 2015 was 7.1%. This compares with 3.0% for the second half, with the pace of gain slower as anticipated due to less yield compression. The enhanced importance of value generation through successful development, refurbishment and active management is highlighted by our out-performance and the strong valuation gains secured where we have invested in properties to capture and enhance market rental growth and uplifts at forthcoming rent reviews.

Total shareholder returns

Total Shareholder Return (TSR) for the three years to 31st March 2016 was 91.6%, primarily due to the price per share increasing over the period from £1.45 to £2.40. This compares to a FTSE All Share return of 11.4% and a FTSE 350 Real Estate Index return of 46.5% for the same period. For the year to 31st March 2016, share prices have dropped back and the Group delivered a negative TSR of 0.8% which compares to a FTSE All Share negative return of 3.9% and FTSE 350 Real Estate negative return of 6.4%.

Dividends

The final dividend of 6.1 pence per share (31st March 2015: 6.0 pps) will be paid on 28th July 2016 to those on the register on 3rd June 2016. With the interim dividend of 2.7 pence per share, this takes the total dividend for the year to 8.8 pence per share, an increase of 1.2% on the previous year. This will be paid as an ordinary dividend. This generates a yield of 3.7% on the share price at the end of the period.

As a REIT, the Group is required to distribute at least 90% of rental income profits arising each financial year by way of a Property Income Distribution (PID). Subject to exemptions, this is paid after deduction of withholding tax, at present 20%. Over the period, the cost of cancelling interest rate hedging instruments has off-set the profits attributable to the PID. As a result, the final dividend will be paid as an ordinary dividend rather than a PID.

Income statement

The £2.15 million increase (37.2%) in adjusted profit before tax to £7.94 million (March 2015: £5.79 million) was due primarily to a significant increase in rental income. A small increase in administration costs was in part compensated for by a reduction in property outgoings.

Gross rental income, whilst £2.54 million higher than the previous year, benefited from £1.53 million in new lettings and £1.72 million from acquisitions in the previous and current year, offset by an £0.71 million reduction as a result of disposals and portfolio vacancies.

Profit before tax (IFRS) totalled £53.16 million (March 2015: £33.28 million) and included the unrealised surplus on valuation for the period of £34.56 million, the £9.11 million realised profit on disposal of investment properties and an improvement in the negative value of the interest rate hedging instruments of £2.17 million.

Administration costs of £5.88 million (March 2015: £5.44 million) increased mainly due to additional staff related costs of £0.28 million after a full year with additional employees.

Interest cost for the year of £6.34 million was an increase on the prior year (March 2015: £5.26 million) as a result of expenditure on developments and acquisitions, offset by disposals. Interest capitalised against projects during the year increased to £1.88 million (March 2015: £0.67 million) due to progress with the development programme. As a result, interest payable totalled £4.46 million (March 2015: £4.59 million).

The Group’s weighted average cost of debt reduced from 5.78% to 4.35% (prior to amortisation and finance lease interest), reflecting the new debt structure post the refinancing completed in May 2015 referred to below.

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the Consolidated Statement of Comprehensive Income.

Balance sheet

Shareholders' funds increased from £215.49 million to £261.22 million over the period, principally due to the £34.56 million valuation surplus (£35.31 million excluding SIC15 adjustment) and the £9.11 million profit on disposals achieved during the period.

In May 2015 the Group completed a refinancing of debt facilities. The facilities were increased from £155.00 million to £175.00 million. Of this, £55.00 million was secured on a 15 year term at a fixed rate of 4.13% with a new lender, Aviva Commercial Finance Ltd. The remaining £120.00 million was provided by three of the Group's existing clearing banks. The weighted average length of debt increased from 1.6 years to 9.1 years at the point of refinancing.

As part of the refinancing, the notional value of the Group's hedging instruments was reduced from £80.00 million to £45.00 million, at a net cost to the Group of £13.16 million, equivalent to a reduction in EPRA NAV of 14.3 pence per share. The full cost of cancellation was offset to a degree by lender contributions, resulting in an increase in NNNAV of 2.6 pence per share. Having reduced the notional value of hedging instruments on a managed basis over the last five years from £155.00 million, this now leaves the Group with a competitive cost of debt, £100.00 million of debt that is either fixed or hedged and we are confident that the revised financial platform supports the expenditure plans we have in place.

EPRA NAV per share at the year end of 301 pence increased by 11.5% over the period (March 2015: 270 pence). NNNAV per share increased by 20.4% to 277 pence (March 2015: 230 pence) and basic NAV per share increased by 20.2% to 280 pence (March 2015: 233 pence). These gains were a direct result of the unrealised valuation gains and the realised profit on disposals during the year. The EPRA NAV percentage gain was lower than the EPRA NNNAV and Basic NAV gain due to the 14 pence per share swap cancellation cost incurred in May 2015.

Drawn debt at the end of the period was £116.00 million (March 2015: £91.50 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2016 was 28.9% (March 2015: 25.9%). The ratio of aggregate net borrowings to tangible net worth, was 40.9% (March 2015: 36.1%). Both ratios have increased but remain at low levels relative to loan covenants. The increases are due in part to capital expenditure of £25.05 million over the period. With forecast expenditure of £36.78 million (including capitalised interest) to complete the three current projects within the development programme over the next two years, compliance will continue to be carefully monitored.

Net cash outflow from operating activities was £9.90 million (March 2015: inflow £5.00 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.9x (March 2015: 1.8x).

At the end of the period the negative mark to market valuation of the remaining £45.00 million hedging instrument at 31st March 2016 was £22.41 million. Gains achieved at the refinancing in May 2015 and market movements since then result in a positive movement for the year of £2.17 million. The Group closely monitors the market for these instruments and regularly reviews the suitability and strategic options for these products. Although the mark to market valuation is negative, this represents a non cash timing difference.

As a REIT, the Group is tax exempt in respect of capital gains and all qualifying rental income, which covers the majority of the Group's activities. Any residual income has been offset by relevant costs, and there is therefore no tax charge for the period (March 2015: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has reduced from £1.94 million to £1.84 million. The reduction in the deficit is in the main due to the Group's annual contribution to the Scheme of £0.24 million, which includes part payment towards the deficit over a 7-year recovery plan. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

Financial risks

The financial risks are documented in the principal risks and uncertainty section of the Strategic Report.

S.C. Perkins
G.P. Salmon
24th May 2016

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2016 are as follows:

CONSOLIDATED PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
For the year ended 31st March 2016

	Notes	**2016 £'000**	2015 £'000
Gross rents and service charges receivable	2	**23,689**	21,409
Direct property outgoings		**(6,025)**	(6,487)
Net rental income from investment properties	2	**17,664**	14,922
Administration costs	3	**(5,878)**	(5,439)
Operating profit before gains on investment properties		**11,786**	9,483
Profit on disposal of investment properties		**9,106**	679
Revaluation of investment properties	8	**34,564**	42,097
Operating profit		**55,456**	52,259
Net finance costs - finance costs	5	**(4,478)**	19,802
- finance income	5	**2,182**	32
Profit on disposal of associated undertaking		**-**	793
Profit before taxation		**53,160**	33,282
Taxation	6	**-**	-
Profit for the year		**53,160**	33,282
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		**(15)**	(493)
Total comprehensive income for the year		**53,145**	32,789
Earnings per share	7		
Basic		**57.17p**	36.08p
Diluted		**56.36p**	35.48p

Adjusted earnings per share figures are shown in note 7.

Dividends		
Previous year's final dividend of 6.0p (2015: 5.9p) paid during the year	**5,546**	5,414
Interim dividend of 2.7p (2015: 2.7p) paid during the year	**2,515**	2,496
Proposed final dividend of 6.1p (2015: 6.0p)	**8,198**	5,546

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

GROUP STATEMENT OF FINANCIAL POSITION
As at 31st March 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Investment properties		**401,170**	352,761
Adjustment for rents recognized in advance under SIC 15		**(5,869)**	(6,342)
Adjustment for grossing up of headleases		**3,745**	3,785
	8	**399,046**	350,204
Plant and equipment		**91**	63
Investments		**-**	793
Total non-current assets		**399,137**	351,060
Current assets			
Trade and other receivables	9	**15,641**	10,339
Cash and cash equivalents		**-**	-
Total current assets		**15,641**	10,339
Total assets		**414,778**	361,399
Current liabilities			
Trade and other payables	10	**(10,938)**	(9,938)
Finance lease liabilities		**(286)**	(286)
Interest rate derivatives	10	**(2,944)**	(6,164)
Bank overdraft		**(261)**	(572)
Total current liabilities		**(14,429)**	(16,960)
Non-current liabilities			
Loans and other borrowings	10	**(113,701)**	(91,302)
Pension fund deficit		**(1,839)**	(1,940)
Finance lease liabilities		**(4,121)**	(4,121)
Interest rate derivatives	10	**(19,465)**	(31,581)
Total non-current liabilities		**(139,126)**	(128,944)
Total liabilities		**(153,555)**	(145,904)
Net assets		**261,223**	215,495
Equity			
Called up share capital	12	**18,632**	18,486
Share premium account		**77,708**	75,917
Retained earnings		**54,571**	36,340
Revaluation reserve		**110,312**	84,752
Total Equity		**261,223**	215,495

Net asset value per share	11	**280p**	233p
EPRA net asset value per share	11	**301p**	270p

These financial statements were approved by the Board of Directors on 24th May 2016 and were signed on its behalf by D.O. Thomas and S.C. Perkins.

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2016

	2016	2015
	£'000	£'000
Operating activities		
Profit before tax	**53,160**	33,282
Adjustments for:		
Depreciation	**18**	44
Other non-cash movements	**1,101**	1,354
Profit on disposal of investment properties	**(9,106)**	(679)
Movement in revaluation of investment properties	**(34,564)**	(42,097)
Net finance costs	**2,296**	19,769
Profit on disposal of associate undertaking	**-**	(793)
Cash flow from operations before changes in working capital	**12,905**	10,880
Increase in debtors	**(5,027)**	(3,439)
Increase in creditors	**1,177**	2,704
Cash generated from operations	**9,055**	10,145
Interest paid	**(5,810)**	(5,227)
Interest received	**11**	32
Cash flows from operating activities	**3,256**	4,950
Investing activities		
Proceeds from sale of investment properties	**33,207**	6,886
Proceeds from sale of investments	**793**	-
Purchase and development of investment properties	**(37,660)**	(60,949)
Purchase of other fixed assets	**(45)**	(94)
Cash flows from investing activities	**(3,705)**	(54,157)
Financing activities		
Proceeds from issue of share capital	**-**	510
Increase in borrowings	**21,986**	53,935
Equity dividends paid	**(8,061)**	(7,910)
Swap cancellation fee	**(13,165)**	-
Cash flows from financing activities	**760**	46,535
Net decrease/(increase) in cash and cash equivalents	**311**	(2,672)
Cash and cash equivalents at the beginning of the year	**(572)**	2,100
Cash and cash equivalents at the end of the year	**(261)**	(572)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March 2016

Attributable to equity holders of the parent company

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 31st March 2014	18,352	75,541	37,354	57,988	189,235
Profit for the year	-	-	-	33,282	33,282
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	42,097	(42,097)	-
Other	-	-	-	(19)	(19)
Transfer on disposal of investment in associated undertaking	-	-	1,417	(1,417)	-
Transfer on disposal of investment properties	-	-	3,884	(3,884)	-
Actuarial loss on defined benefit pension scheme	-	-	-	(493)	(493)
Total comprehensive profit for the year	-	-	47,398	(14,628)	32,770
Issue of new shares net of costs	134	376	-	-	510
Dividends paid in year	-	-	-	(7,910)	(7,910)
Fair value of share based payments	-	-	-	890	890
At 31st March 2015	18,486	75,917	84,752	36,340	214,495
Profit for the year	-	-	-	53,160	53,160
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	34,564	(34,564)	-
Transfer on disposal of investment in associated undertaking	-	-	-	-	-
Transfer on disposal of investment properties	-	-	(9,004)	9,004	-
Actuarial loss on defined benefit pension scheme	-	-	-	(15)	(15)
Total comprehensive profit for the year	-	-	25,560	27,585	53,145
Issue of new shares net of costs	146	1,791	-	(1,937)	-
Dividends paid in year	-	-	-	(8,061)	(8,061)
Fair value of share based payments	-	-	-	644	644
At 31st March 2016	**18,632**	**77,708**	**110,312**	**54,571**	**261,223**

<u>Notes forming part of the Group Financial Statements</u>

1. The financial information set out in the final results announcement does not constitute the Group's statutory accounts for the year ended 31st March 2016 or 2015, but is derived from those accounts. The statutory accounts for the period ended 31st March 2016 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31st March 2015 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31st March 2016 and 2015; their reports were (i) unqualified (ii) did not include a reference to any matters 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 respect of the accounts for 2015 and 2016.

Accounting policies

Basis of preparation

The Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

In accordance with Section 408 Companies Act 2006 a separate Profit or Loss and other Comprehensive Income for McKay Securities PLC (the Company) is not presented. The profit for the year after tax of the Company is £51,972,000 (2015: £26,987,000).

During the financial year, the following accounting standards and guidelines were adopted by the Company, none of these had any material impact on the financial statements:

IFRS 10 - Consolidated Financial Statements;

IFRS 12 - Disclosure of Interests in Other Entities;

IAS 27 (revised) - Separate Financial Statements;

IAS 32 (amended) - Financial Instruments: Presentation of Offsetting Financial Assets and Financial Liabilities;

IAS 36 (amended) - Impairment of Assets on Recoverable Amounts Disclosures for Non-Financial Assets.

None of the new standards or amendments to existing standards or interpretations, which are endorsed but not yet effective, have been adopted, or are expected to have any material impact on the financial statements.

The financial statements are prepared on a going concern basis.

Significant judgements and estimates
In the process of preparing the Group's financial statements management is required to make judgements, estimates and assumptions when applying accounting policies that may affect the reported amounts of revenues, expenses, assets and liabilities. Any judgements, estimates and associated assumptions used in the preparation of the financial statements are based on management's best information at the time, however actual outcomes may differ from estimates used. Not all accounting policies require estimates and assumptions, however management consider them significant in applying to valuations, for which qualified external advisors are used, of investment properties, financial instruments, share-based payments and defined benefit pension obligations and are disclosed in the applicable policies and notes below.

Basis of consolidation
The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for investment property and derivative financial instruments which are measured at fair value through the Profit or Loss and other Comprehensive Income. Subsidiary companies are those entities under the control of the Company. Control means being exposed or have rights to variable returns from its involvement and has the ability to affect those returns through its power over the Company.

Intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

Properties
The Group's properties are held as investments to earn rental income and for capital appreciation and are stated at fair value at the balance sheet date. The value, reflecting market conditions, is determined at each reporting date by independent external valuers and any gain or loss arising from a change in value is recognised in the Profit or Loss and other Comprehensive Income and transferred to the revaluation reserve in the Group Statement of Financial Position. Any accrued rent receivable recognised as a separate asset in accordance with the Group's accounting policy on lease incentives is deducted from the external valuation.

Properties purchased are recognised on legal completion in the accounting period and measured initially at cost including transaction costs. Sales of properties are recognised on unconditional exchange of contracts in the accounting period when the significant risks and rewards of ownership have been transferred. Gains and losses arising on the disposal of investment properties are recognised in the Profit or Loss and other Comprehensive Income, being the difference between net sale proceeds and the carrying value of the property.

Subsequent expenditure on investment properties is capitalised only when it increases the future economic benefits associated with the property. All other expenditure is charged to the Profit or Loss and other Comprehensive Income.

Interest and other outgoings less rental income relating to investment properties in the course of development are capitalised, and added to the cost of the property. Interest capitalised is calculated on development outgoings, including material refurbishments to investment property, using the weighted average cost of general Group borrowings for the year. A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to prepare the property for use are completed.

Properties held under long leases where the Group has substantially all the risks and benefits of ownership are accounted for as finance leases and carried at the lower of fair value or present value of future minimum lease payments. The present value of the future minimum lease payments is recognised as a liability with a corresponding asset added to the carrying value of the leasehold property. The minimum lease payments are apportioned between finance charges in the Profit or Loss and other Comprehensive Income and the reduction of the Group Statement of Financial Position liability. Contingent rents are charged as an expense in the Profit or Loss and other Comprehensive Income in the period incurred.

Plant and equipment
Plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write off the cost less estimated residual value over their useful lives, which are estimated to be between 3 and 5 years.

Cash and cash equivalents
Cash comprises cash at bank and short term deposits held on call. Cash equivalents comprise investments with minimal risk to changes in value that are readily convertible into cash with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Trade and other receivables and payables
Trade and other receivables are recognised at invoice cost unless an impairment provision has been made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Trade and other payables are recognised at invoice cost.

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

Reserves
The revaluation reserve represents the unrealised surpluses and deficits arising on revaluation of the Group's properties and is not available for distribution until realised through sale.

Segmental analysis
All of the Group's revenue is derived from the ownership of investment properties located in South East England and central London. The management team works within a single structure which includes the executive Directors acting as chief operating decision maker. Responsibilities are not defined by type or location, each property being managed individually and reported on for the Group as a whole directly to the Board of Directors. Properties under development generate no revenue and are treated as investment properties in the portfolio. The directors therefore consider there to be only one reporting segment.

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

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

Premiums received from tenants to terminate leases are recognised as income from investment properties when they arise.

Service charges and other such receipts arising from expenses recharged to tenants, with the Group acting as principal, are recognised in the period that the expense can be contractually recovered and included gross in income from investment properties.

Interest received on short term deposits is recognised in finance income as it accrues.

Borrowing costs
Interest on borrowings, including interest on finance leases, is recognised in the Profit or Loss and other Comprehensive Income in the period during which it is incurred, except for interest capitalised in accordance with the Group's policy on properties under development (see Properties above). Costs incurred on putting in place borrowing facilities are recognised in finance costs over the term of the facility.

Derivative financial instruments
The Group uses derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk. The differences between interest payable by the Group and interest payable to the Group by the swap counterparties are dealt with on an accruals basis.

At each reporting date the instruments are stated at fair value in the Group Statement of Financial Position which is the estimated amount that the Group would receive or pay to terminate the instruments based on the current interest rate yield structure. The Group has not applied hedge accounting for any financial instrument in place and any movement in fair value is recognised in the Profit or Loss and other Comprehensive Income.

Share-based payments
The Group operates an equity-settled share-based performance plan outlined in the Directors Remuneration Report under which directors and employees are able to acquire shares in the Company. The fair value cost benefit of the employee services received for the options granted is recognised over the vesting period in employee costs within administration expenses with a corresponding amount recognised in equity. The charge is measured using valuation models and assumptions with adjustment for when non-market conditions are not expected to be met.

Post employment benefits
The Group operates two pension schemes. The defined benefit scheme is based on final pensionable pay and has been closed to new entrants since 1989. The assets of the scheme are held separately from those of the Group and are measured at fair value, the scheme obligations being calculated at discounted present value, with any net surplus or deficit recognised in the Group balance sheet. Current service cost and interest on scheme liabilities less the expected return on scheme assets are recognised as an expense in the Profit or Loss and other Comprehensive Income. Actuarial gains and losses on scheme liabilities are recognised in equity through the Profit and Loss and other Comprehensive Income.

The Group contributes to eligible employees' defined contribution personal pension plans and does not accept any responsibility for the benefits gained from these plans. The contributions are recognised as an expense in the Profit or Loss and other Comprehensive Income as incurred but the Group does not recognise any gains or losses arising from movements in the value of the personal pension plans.

Taxation

Any tax charge recognised in the Profit or Loss and other Comprehensive Income comprises current and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

Current tax is the expected tax liability on the results for the year adjusted for items that are not taxable or deductable, or taxable and deductable in other periods, together with any adjustment in respect of previous years calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be paid or recovered on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Tax liabilities are recognised for all taxable temporary differences and tax assets to the extent that future taxable profits will be available against which the asset can be utilised.

The Group converted to REIT status on 1 April 2007 and as a consequence substantially all the Group's activities as a property rental business are exempt from tax, including rental profits and gains on rental property disposals.

2. Net rental income from investment properties

	2016 £'000	2015 £'000
Gross rents receivable	**19,413**	17,005
SIC 15 adjustment (spreading of rental incentives)	**746**	612
Gross rental income	**20,159**	17,617
Service charges receivable	**3,530**	3,792
	23,689	21,409
Direct property outgoings	**(6,025)**	(6,487)
	17,664	14,922

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

3. Administration costs

	2016	2015
	£'000	£'000
	-------	-------
Group		
Directors' - remuneration	**1,150**	1,006
- bonus[1]	**464**	396
Staff – costs	**792**	714
- bonus	**419**	294
National Insurance	**473**	350
Pension costs	**314**	307
Share based payment accounting charge (IFRS 2)	**624**	890
	--------	--------
	4,236	3,956
Depreciation	**18**	44
Office costs	**542**	418
Legal and professional fees	**1,059**	978
General expenses	**23**	43
	--------	--------
	5,878	5,439
	--------	--------

[1]Amount charged to income in year to 31st March 2016.

The average number of persons employed by the Group and Company during the year was 17 (2015: 16).

	2016	2015
	£'000	£'000
	--------	--------
Employee costs		
Salaries	**2,825**	2,409
Social security costs	**473**	350
Pension costs – defined benefit scheme	**57**	67
- defined contributions	**257**	240
Share based payment accounting charge	**624**	890
	--------	--------
	4,236	3,956
	--------	--------

	2016	2015
Fees paid to auditors	**£'000**	£'000
Statutory audit services	**-------**	-------
McKay Securities PLC audit	**70**	67
Subsidiary audits	**3**	4
Assurance services		
Interim review	**19**	18
Service charge audits	**6**	6
Taxation Services		
Corporation tax compliance	**42**	39
VAT advice	**-**	-
	-----	-----
	140	134
Future services – contracted fees		
XBRL tagging	**5**	4

Amounts paid to the Company's auditors in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. 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.

	2016 **£'000**	2015 £'000
Profit before tax	**53,160**	33,282
Change in fair value of derivatives	**(2,171)**	15,187
Movement in revaluation of investment properties	**(34,564)**	(42,097)
Profit on disposal of investment properties	**(9,106)**	(679)
Profit on disposal on associated undertaking disposals and revaluation movements	**-**	(793)
IFRS 2 adjustment to share based payments	**624**	890
Adjusted profit before tax	**7,943**	5,790

5. Net finance costs

	2016 **£'000**	2015 £'000
Interest on bank overdraft and loans	**5,657**	4,896
Finance lease interest on leasehold property obligations	**285**	285
Finance arrangement costs	**413**	100
Fair value loss on derivatives	**-**	15,188
Capitalised interest	**(1,877)**	(667)
	4,478	19,802
Fair value gain on derivatives	**(2,171)**	-
Interest receivable	**(11)**	(32)
	(2,182)	(32)
Net finance costs	**2,296**	19,770

6. Taxation

	2016 **£'000**	2015 £'000
Total tax in the Profit or Loss and other Statement of Comprehensive Income	**-**	-

Reconciliation to effective rate of tax:

	2016	2015
Profit on ordinary activities before tax	**53,160**	33,282
Tax charge on profit at 20% (2015: 21%)	**10,632**	6,989
Effects of:		
REIT tax exemption	**(10,632)**	(8,015)
Permanent differences	**-**	1,021
Other timing differences	**-**	5
Tax for period (as above)	**-**	-

7. Earnings per share

	2016 **p**	2015 p
Basic earnings per share	**57.17**	36.08
Change in fair value of derivatives	**(2.34)**	16.46
Movement in revaluation of investment properties	**(37.17)**	(45.63)
Profit on disposal of investment properties	**(9.79)**	(0.74)
Associated undertaking disposals and revaluation	**-**	(0.86)
Adjusted profit for share based payments	**0.67**	0.97
Adjusted earnings per share	**8.54**	6.28

Basic earnings per share on ordinary shares is calculated on the profit in the year of £53,160,000 (2015: £33,282,000) and 92,983,951 (2014: 92,255,120) shares, being the weighted average number of ordinary shares in issue during the year.

	2016 **Number of shares**	2015 Number of shares
Weighted average number of ordinary shares in issue	**92,983,951**	92,255,120
Number of shares under option	**1,722,237**	2,333,578
Number of shares that would have been issued at fair value	**(399,554)**	(672,668)
Diluted weighted average number of ordinary shares in issue	**94,306,634**	93,816,030

	2016	2015
	p	p
Basic earnings per share	**57.17**	36.08
Effect of dilutive potential ordinary shares under option	**(0.81)**	(0.60)
Diluted earnings per share	**56.36**	35.48
Change in fair value of derivatives	**(2.30)**	16.19
Movement in revaluation of investment properties	**(36.65)**	(44.87)
Profit on disposal of investment properties	**(9.65)**	(0.72)
Associated undertaking disposals and revaluation	**-**	(0.86)
EPRA diluted earnings per share	**7.76**	5.22

EPRA 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 94,306,634 (2015: 93,816,030) shares, which takes into account the number of potential ordinary shares under option.

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

8. Investment properties

	Freehold £'000	Group Long Leasehold £'000	Total £'000
Valuation			
At 1st April 2015	306,259	43,945	350,204
Additions – acquisition	11,337	-	11,337
– development	16,704	9,342	26,046
Revaluation surplus	32,783	2,528	35,311
Adjustment for rents recognised in advance under SIC15	641	(168)	473
Disposals	(24,285)	-	(24,285)
Amortisation of grossed up headlease liabilities	-	(40)	(40)
Book value as at 31st March 2016	**343,439**	**55,607**	**399,046**
Adjustment for grossing up of headlease liabilities	-	(3,745)	(3,745)
Adjustment for rents recognised in advance under SIC 15	5,571	298	5,869
Valuation at 31st March 2016	**349,010**	**52,160**	**401,170**

	Freehold £'000	Group Long Leasehold £'000	Total £'000
Valuation			
At 1st April 2014	215,304	37,341	252,645
Additions – acquisition	51,710	-	51,710
– development	7,398	2,602	10,000
Revaluation surplus	38,709	3,999	42,708
Adjustment for rents recognised in advance under SIC 15	(655)	43	(612)
Disposals	(6,207)	-	(6,207)
Amortisation of grossed up headlease liabilities	-	(40)	(40)
Book value as at 31st March 2015	**306,259**	**43,945**	**350,204**
Adjustment for grossing up of headlease liabilities	-	(3,785)	(3,785)
Adjustment for rents recognised in advance under SIC 15	6,211	131	6,342
Valuation as at 31st March 2015	**312,470**	**40,291**	**352,761**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2016. These valuations were carried out by Mellersh and Harding, Chartered Surveyors and Valuers. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £280 million (2015: £257 million).

The amount of interest capitalised during the year was £1,877,139 (2015: £666,590). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

Investment property valuation method and assumptions
The fair value of the property portfolio has been determined using income capitalisation techniques, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per share foot derived from comparable recent market transactions on arm's length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3 for investment properties during the year.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £34.6 million (2015: £42.1 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are show below:

Valuation technique[1]	London Offices Income Capitalisation	South East Offices Income Capitalisation	South East Industrial Income Capitalisation
Fair value	£72,910,000	£234,100,100	£73,480,000
ERV (per sq ft pa) - average	£55.12	£24.61	£8.76
ERV (per sq ft pa) – range	£9.48-£81.00	£5.00-£38.08	£4.48-£13.50
True equivalent yield - average	5.02%	7.43%	6.82%
True equivalent yield - range	4.62%-6.17%	5.48%-11.88%	5.55%-8.08%
Capital value per sq ft	£546	£303	£131

A further £20.68 million has been designated other and not included in the analysis above.

[1]For properties under development, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

Definitions for ERV and true equivalent yield are provided in the glossary at the end of this document.

	Change in ERV		Change in equivalent yield	
Sensitivity analysis	+5%	-5%	+0.25%	-0.25%
Increase/(decrease) in value of investment properties	£17.2m	£(18.6)m	£(17.9)m	£20.0m

9. <u>Trade and other receivables</u>

	2016	2015
	£'000	£'000
Trade receivables	**14**	54
Amounts due from subsidiary undertakings	**-**	-
SIC 15 lease incentives	**5,869**	6,342
Other debtors and prepayments	**9,758**	3,942
	15,641	10,338

All the above debtors are receivable within one year except for lease incentives of £4,702,000 (2015: £5,228,000), accrued in accordance with SIC 15. The carrying amounts are a reasonable approximation of the fair values estimated as the present value of future cash flows.

Group trade receivables that were past due but not impaired are as follows:	**2016 £'000**	2015 £'000
Less than three months due	**9**	37
Between three and six months due	**4**	10
Between six and twelve months due	**1**	7
	14	54

The Group holds no collateral in respect of these receivables.

10. Liabilities

	2016	2015
	£'000	£'000
Trade and other payables		
Rent received in advance	**4,866**	3,864
Other taxation and social security costs	**80**	1,962
Amounts owed to subsidiary undertakings	**-**	-
Other creditors and accruals	**5,992**	4,112
	10,938	9,938

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

Creditor days for the Group were 25 days (2015: 12 days).

Loans and other borrowings
The analysis of bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2016	2015
	£'000	£'000
Secured bank loans	**116,000**	91,500
Bank facility fees	**(2,299)**	(198)
	113,701	91,302

The bank loans are secured against land and buildings with a carrying amount of £368,750,000 (2015: £240,100,000).

Repayable in:	**2016**	2015
	£'000	£'000
Less than 1 year	**-**	-
1-2 years	**29,942**	70,500
2-5 years	**29,806**	20,802
5-10 years	**-**	-
Greater than 10 years	**53,953**	-
	113,701	91,302

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

	2016	2015
	£'000	£'000
Expiring in less than 1 year	**-**	-
Expiring in 1-2 years	**5,000**	49,500
Expiring in 2 – 5 years	**54,000**	14,000
Expiring in 5 - 10 years	**-**	-
	59,000	63,500

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

Exposure to credit and interest rate risks arise in the normal course of the Group's business. Derivative financial instruments are used to reduce exposure to interest rate fluctuations.

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

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

The Group has no exposure to currency risks.

Market risk
The Group is exposed to market risk through changes in interest rates or availability of credit.

Interest rate risk
The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Participating swaps and interest rate swaps have been entered into to achieve this purpose. The swaps mature in 2032, and has a swap rate of 5.17%. Provision is made within the terms of the financial instruments for the counterparty bank to terminate the instruments by invoking credit breaks, the next of which is in 2022. If such a credit break were exercised, a payment would be made between the parties dependent on market value at that time. The Group does not hold or issue derivative financial instruments for trading purposes.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £290,000 (2015: £199,000). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swaps, at the year end. The comparative figure for 2015 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

Interest rate derivatives

The Group 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 31st March 2016	Amount £'000	Rate	Maturity	[3]Next Credit Break
Interest rate swaps	**45,000**	**5.17%**	**Sept 2032**	**Sept 2022**

	Amount £'000	Rate	Fair value Before BCVA £'000	[5]BCVA £'000	Fair Value £'000
Interest rate swaps	**45,000**	**5.17%**	**(24,422)**	**2,013**	**(22,409)**
As at 31st March 2015					
Interest rate swaps	**75,000**	**5.17%**	**(39,297)**	**3,731**	**(35,566)**
Interest rate swaps	**5,000**	**4.65%**	**(2,282)**	**103**	**(2,179)**
	80,000		**(41,579)**	**3,834**	**(37,745)**

[1] £5 million interest rate swap was terminated on 24th April 2015 at a cost of £2.13 million.
[2] £30 million of the £75 million interest swap was terminated on 7th May 2015 at a cost of £11.03 million.
[3] Credit breaks are triggered by the bank and require the prevailing mark to market value to be paid or received.
[4] Call options are triggered by the bank and require no payment by either party.
[5] BCVA – Bilateral Credit Valuation Adjustment is now 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 cash flows as follows:

	2016 £'000	2015 £'000
Current	**(2,944)**	(6,164)
Non-current	**(19,465)**	(31,581)
	(22,409)	(37,745)

	2016	2015
Weighted average cost of borrowing	**4.35%**	5.78%

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 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.

The Group had a deficit of hedging instruments over drawn loans and other borrowings at 31st March 2016 of £16,000,000 (2015: £11,500,000).

In both 2016 and 2015 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group.

11. Net asset value per share

	31st March 2016			31st March 2015		
	Net Assets £'000	**Shares '000**	**Net asset Value per share P**	Net assets £'000	Shares '000	Net asset value per share p
Basic	**261,223**	**93,158**	**280**	215,495	92,426	233
Number of shares under option	**863**	**1,552**	**(3)**	1,433	2,125	(3)
Diluted/EPRA NNNAV	**262,086**	**94,710**	**277**	216,928	94,551	230
Adjustment to fair value of derivatives	**22,410**	**-**	**24**	37,745	-	40
EPRA NAV	**284,496**	**94,710**	**301**	254,673	94,551	270

12. Called up share capital

	2016 Issued £	**Number of Shares**	2015 Issued £	Number of shares
Ordinary shares in issue				
At 1st April 2015	**18,485,197**	**92,425,988**	18,351,670	91,758,348
Issue of shares in year	**146,448**	**732,237**	133,527	667,640
At 31st March 2016	**18,631,645**	**93,158,225**	18,485,197	92,425,988

The Report and Financial Statements will be posted to Shareholders on 15th June 2016 with copies available from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Group's website www.mckaysecurities.plc.uk

Glossary

Adjusted EPS
Earnings per share based on profits and adjusted to exclude certain items as set out in note 7.

Adjusted profit before tax
Profit before tax adjusted to exclude certain non-recurring items as set out in note 4.

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

BREEAM
Building Research Establishment Assessment Method. An environmental standard that rates the sustainability of buildings in the UK.

Contracted rent
Rent payable under the terms of a lease, less ground rent, with no allowance for the value of incentives granted at lease commencement.

CRC
Carbon Reduction Commitment. A mandatory emissions reduction standard in the UK and covers all forms of energy excluding transportation fuels.

Diluted figures
Reported amount adjusted to include the effects of potential shares issuable under employee share schemes.

Dun and Bradstreet
Provider of business information and risk management insight.

Earnings per share (EPS)
Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

EPC
Energy Performance Certificate. Certificates carry ratings which measure the energy and carbon emission efficiency of the property using a grade from 'A' to 'G'.

EPRA
Standard calculation methods for adjusted EPS and NAV as set out by the European Public Real Estate Association (EPRA) in their Best Practice and Policy Recommendations.

Estimated Rental Value (ERV)
The valuers estimated amount for which floor space should let on the date of valuation on appropriate lease terms net of ground rents payable. Also known as MRV.

Extensible Business Reporting Language (XBRL)
A computer language for electronic transmission of business and financial information.

GRESB
Global Real Estate Sustainability Benchmark

Industrial property
Term used to include light industrial, industrial and distribution warehouse property falling within classes B1c, B2 and B8 of the Town & Country Planning Use Classes Order. The terms do not include retail warehousing, falling within class A1 of the Order.

Initial yield
Net rents payable at the valuation date expressed as a percentage of the value of property assets after allowing for notional purchasers' costs.

Interest cover
The number of times Group net interest payable is covered by underlying profit before interest and taxation.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a pre-determined amount of time.

IPD
Investment Property Databank. Leading provider of independent statistical analysis to the commercial property sector.

Loan to value (LTV)
Drawn debt divided by the value of property assets.

Net asset value (NAV) per share
Total equity divided by the number of ordinary shares in issue at the period end.

Net debt
Total borrowings less cash credit balances.

Property Income Distribution (PID)
PID dividend payments are taxable as letting income in the hands of shareholders who pay tax. They are paid after deduction of withholding tax at the basic rate.

REIT (Real Estate Investment Trust)
A tax efficient structure for the management of property. It must be publicly quoted with 75% of its profits and assets derived from a qualifying property rental business which is exempt from tax on income and gains.

Rental value growth
Increase in rental value, as determined at the valuation date, over the period on a like-for-like basis.

Reversion
Potential uplift in rent value to market rent, as determined at the valuation date, likely to arise from a rent review, lease renewal or letting.

RPIX
Retail Prices Index excluding mortgage interest.

Shareholders' funds
Total equity of the Group.

SIC 15
The IFRS treatment in respect of letting incentives. It requires the Group to offset the value of incentives granted to lessees against the total rent due over the length of the lease, or to a break clause if earlier.

Stamp duty land tax
Government tax levied on certain legal transactions including the purchase of property.

Total shareholder return
The growth in the value of an Ordinary share plus dividends reinvested during the year expressed as a percentage of the share price at the beginning of the year.

True equivalent yield
The constant capitalisation rate, which, if applied to all cash flows from an investment property, including current net reversions and such items as voids and expenditure, equates to the market value having taken into account notional purchasers costs and assuming rents paid quarterly in advance.

Weighted average unexpired lease term (WAULT)
The average lease term remaining to expiry across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date.