22 May 2017

McKAY REPORTS STRONG PERFORMANCE, DELIVERING RECORD RENTAL INCOME AND PORTFOLIO VALUE

McKay Securities PLC, the only UK Real Estate Investment Trust (REIT) specialising exclusively in the London and South East office and industrial markets, today announces its Full Year results for the year ended 31 March 2017.

Financial Highlights

- Adjusted profit before tax up 8.3% to £8.60 million (31 March 2016: £7.94 million)
- EPS (adjusted basic) up 8.2% to 9.2pps (31 March 2016: 8.5pps)
- Gross rental income up 3.1% to a historic high of £20.79 million (31 March 2016: £20.16 million)
- IFRS profit before tax of £17.59 million (31 March 2016: £53.16 million), reflecting a lower valuation surplus contribution compared to prior year
- NAV (EPRA) per share up 0.7% to 303 pence (31 March 2016: 301 pence)
- NNNAV (EPRA) per share up 2.9% to 285 pence (31 March 2016: 277 pence)
- Loan to Value ratio of 31.6% (31 March 2016: 28.9%)
- Final dividend up 3.3% to 6.3 pence per share (2016: 6.1 pence per share)
- Total dividend for the year up 2.3% to 9.0 pence (2016: 8.8 pence)

Portfolio Highlights

- Overall increase in property portfolio value of 7.2% (£28.75 million) to a record £429.92 million, generating a 1.7% (£7.07 million) valuation surplus
- Good progress in contracted rental income, up 11.0% (£2.32 million pa) to £23.42 million pa, following 35 lettings over the period, 26 of which were new to the open market
- 3.9% growth in portfolio ERV (like-for-like) to £32.68 million
- Substantial portfolio reversion with potential to increase income by a further 39.5%
- Redevelopment schemes in Reading and Redhill completed and being marketed, with 10,643 sq ft debut letting at Prospero, Redhill quickly secured
- Redevelopment of 30 Lombard Street, EC3, on schedule for delivery in mid-2018, with marketing campaign to commence imminently
- Unconditional contracts exchanged on disposal of Pinehurst Park, Farnborough asset, at 11.5% premium to book value

Richard Grainger, Chairman of McKay Securities, said:

"In my first year as Chairman, I am pleased to be able to report another positive set of results for the Group, which continues to benefit from its exclusive focus on London and the South East. Despite market volatility surrounding the EU referendum, these results show the careful and effective deployment of capital following funds raised in 2014, delivering outperformance for the Group."

Simon Perkins, Chief Executive of McKay Securities, added:

"Our refurbishment programme and proactive asset management activities have continued to release the substantial portfolio potential that we have built up, with rental and capital growth out-performing the market, while two of our three development projects reached completion during the period and our third scheme remains on track for delivery next year.

"With both rental income and the portfolio value at a historic high for the Group, we're pleased to be in a position to deliver increases in shareholders' funds, profits and dividends at this Full Year. The increase in adjusted profit before tax, our measure of recurring earnings, enabled us to achieve our ambitious target of a covered dividend within three years of doubling the share capital in 2014. Looking forward, we will continue pursuing our strategy of building a resilient portfolio in our core markets and crystallising the portfolio reversion to deliver attractive returns for our investors over the long term."

For further information please contact:

McKay Securities PLC
Simon Perkins, CEO
Giles Salmon, CFO
01189 502333
www.mckaysecurities.plc.uk

FTI Consulting
Dido Laurimore, Tom Gough, Ellie Sweeney
020 3727 1000
McKay@fticonsulting.com

About McKay Securities

McKay Securities PLC is a commercial property investment company with Real Estate Investment Trust (REIT) status, listed on the main market of the London Stock Exchange. It specialises in the development and refurbishment of good quality office and industrial buildings within established and proven markets of London and the South East. The portfolio, which is valued at over £400 million, comprises 36 properties in strong and established areas which deliver diversity in terms of both sector and location.

Forward looking statements

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

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

Ex dividend date	1st June 2017
Record Date for the final dividend	2nd June 2017
Report and Financial Statements dispatched to Shareholders with Notice of AGM	7th June 2017
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	6th July 2017
Final dividend paid	27th July 2017

A final dividend per share of 6.3 pence is recommended by the Board making a total dividend for the year of 9.0 pence per share (2016: 8.8 pence). The final dividend will be paid as an Ordinary Dividend.

CHAIRMAN'S STATEMENT

In this, my first year as Chairman, I am pleased to be able to report on another positive year for the Group, which continues to benefit from its exclusive focus on London and the South East. I took on the role with the business in good shape, and despite market volatility surrounding the EU referendum, these results show further gains coming through from the funds invested following the 2014 Capital Raising.

Our refurbishment programme and proactive asset management activities over the period have continued to release the substantial portfolio potential that we have built up, with rental and capital growth out-performing the market. In addition, two of our three development projects reached completion and our third scheme remains on track for delivery next year. As a result of this progress, our rental income and portfolio value have reached historic highs for the Group, contributing to increases in shareholders' funds, profits and dividend.

To achieve our objective of delivering attractive and sustainable returns to shareholders over the long term, our focus has been on building a resilient portfolio in our core London and South East markets. Selective capital investment has continued to improve the quality and scale of the portfolio in established and proven locations, whilst retaining diversity across our core office and industrial sectors.

We also continue to aim for the highest standards of building management and occupier relations. Our refurbishment and development projects offer choice and flexibility in high quality, contemporary business space, with top environmental credentials. These are all essential design characteristics for an increasingly discerning occupier market. This focus on product and delivery contributed to 35 lettings over the period, of which 26 were new open market lettings with a combined rental value of £1.90 million pa, 6.4% ahead of estimated rental value (ERV). These lettings contributed to growth in contracted rental income, which ended the period up 11.0% (£2.32 million pa) at £23.42 million pa. In addition, the success of our refurbishment projects and other portfolio activity resulted in a 3.9% increase in the portfolio ERV to £32.68 million pa.

The full benefit of these lettings to our gross rental income, which increased by 3.1% to £20.79 million, will be seen next year. In addition, the £9.26 million difference between contracted rents and the full portfolio ERV represents the substantial further potential in our portfolio for growth in income and earnings.

Rents to be generated by our three office developments represent over half of this potential. The schemes in Reading (39,620 sq ft) and Redhill (50,370 sq ft) completed during the year, adding top quality new floor space to the portfolio in excellent locations. At the year-end we were 20% let at Redhill, and there is encouraging interest in the remaining space at both buildings. The redevelopment of 30 Lombard Street, our City of London scheme, remains on programme for delivery in mid-2018 and is progressing well. Demolition completed in February and construction of the lift core and steel frame is under way. This is a prime development with many attractive fundamental characteristics aside from its highly sought after location. We look forward to launching our marketing programme this month, and expect interest for either the whole building or individual floors.

As anticipated at the end of last year, the pace of capital growth seen in our markets in recent periods was not sustained. Commercial property has remained an attractive asset class to a wide range of investors, but the IPD Index showed small declines in capital values across most sectors over the period. Despite these more challenging market conditions, our asset selection and proactive management resulted in the open market valuation of the portfolio of £429.92 million (March 2016: £401.17 million) generating a valuation surplus of 1.7% (£7.07 million). This outperformed the IPD Monthly Index (All Property) which showed a deficit of 1.8%.

As a result of our strong operational performance, the 3.1% increase in gross rental income referred to earlier added £0.63 million to our profits, despite the loss of £1.03 million of income from property disposals made in the last financial year. As administration and non-recoverable property costs were held at similar levels to last year, adjusted profit before tax increased by 8.3% (£0.66 million) to £8.60 million (March 2016: £7.94 million). Profit before tax (IFRS), which includes unrealised movements in the value of the property portfolio and hedging instruments and other non-recurring items, was £17.59 million (March 2016: £53.16 million), reflecting the lower valuation contribution this year.

The increase in adjusted profit before tax, our measure of recurring earnings, achieved our ambitious target of a covered dividend within three years of doubling the share capital in 2014. This measure is set to increase over time as the portfolio reversion is crystallised, although earnings will be eroded by the carrying cost of the development properties until they are let.

With the benefit of the valuation surplus, shareholders' funds increased by 3.7% to £270.79 million. NAV per share (EPRA) increased by 0.7% to 303 pps.

Our financing position remains strong with supportive lenders and flexible loan facilities. In order to help reduce our cost of debt, in December 2016 we took the opportunity to further reduce the notional amount of our remaining interest swap from £45.00 million to £33.00 million. This was achieved at a cost of £5.1 million, with a negotiated contribution made by the counterparty bank, resulting in annualised savings at current rates of £0.50 million. Our weighted average cost of debt if fully drawn at current rates would be a competitive 3.7%

Dividend

The Board is recommending a 3.3% increase in the final dividend to 6.3 pence per share (March 2016: 6.1 pence). This will be paid as an ordinary dividend on 27th July 2017. This takes the total dividend for the year to 9.0 pence per share (2016: 8.8 pence).

This recommendation reflects the letting progress over the period, whilst recognising the importance of generating further income from the development programme. The Board intends to maintain a progressive dividend policy, with the scale and pace of increase dependent on growth in recurring earnings.

The Board

Over the year, we were pleased to announce the strengthening of the Board with the appointments of Jon Austen and Jeremy Bates as non-executive Directors, and Tom Elliott as an executive Director. These appointments add relevant and extensive experience and will be of great benefit as we continue to implement our growth plans. They also mark the end of the current phase of our succession planning, overseen by Nigel Aslin as Chairman of the Nomination Committee.

As a result, Nigel retires from the Board today and Viscount Lifford in September, having both served for over ten years. I would like to thank them for their invaluable support and counsel over the years. They have been an integral part of the Group's successful management through the challenges of the recession and the subsequent period of growth and leave with the Group in good health.

Future Prospects

We have created a strong platform from which we can continue to deliver capital and income growth from the extensive potential within our existing portfolio, underpinned by sound financing and sector and geographical diversity in the most resilient regions of the UK. Recent letting progress and further crystallisation of the portfolio's income potential provide the opportunity to increase earnings by a significant margin.

Despite the EU referendum and the imminent General Election, our markets and assets continue to prove robust, leaving us well placed to continue to deliver portfolio gains and further shareholder value.

Richard Grainger
Chairman

Property and Financial Review

Overview

McKay Securities is the only Real Estate Investment Trust (REIT) focused entirely on London and the South East. Our track record demonstrates careful guardianship of our shareholder capital while having sufficient agility, market knowledge and experience to outperform the markets in which we operate. We manage our assets in-house, resulting in productive tenant relationships as well as in depth knowledge of each property.

The Group's 36 assets were externally valued at £429.92m at 31st March 2017, consisting of 33 investment properties (£374.57 million) and three development properties (£55.35 million). By value the portfolio is 18.4% in London and 81.6% in the South East, with 78.0% of the portfolio in the office sector, 17.2% industrial and 4.8% in a range of other uses. The portfolio generated a total property return for the year of 6.8%, outperforming the IPD Monthly Index (All Property) return of 3.3%.

The £86.7 million of capital raised in early 2014 was committed by April 2015, strategically invested into eight new acquisitions in a rising investment market, and the delivery of four refurbishments and three development projects into the supply constrained office markets of London and the South East. The acquisitions and completed refurbishment projects have delivered a combined 32.3% profit over cost to date, and rental growth of 25.9%. The development projects, covered in more detail below, are making good progress and are set to add to this strong performance. These assets, combined with performance elsewhere in the portfolio, have delivered a 43.0% increase in contracted rents and a 72.5% increase in the full estimated rental value (ERV) of the portfolio since March 2014.

Furthermore, the office markets in which we operate are set to benefit considerably from the completion of national infrastructure projects, including Crossrail (2019) which will link the M4 corridor with central London and Canary Wharf and the Western Rail Access to Heathrow route (2024), improving access to Europe's busiest airport which sits in the heart of our South East market.

Our principal focus this year has been on retaining and increasing income through active management and our refurbishment and development programme. To that end, despite the EU referendum at the beginning of the period, our net contracted rent grew by 11.0% to £23.42 million (March 2016: £21.10 million) and the portfolio ERV grew, on a like for like basis, by 3.9% to £32.68 million (March 2016: £31.44 million). The difference between contracted rent and ERV represents the substantial portfolio reversion and the potential to increase income by a further 39.5% by continued letting progress.

The portfolio void (by ERV) reduced over the period to 5.5% (March 2016: 7.2%) and to 22.7% (March 2016: 25.9%) including the three development properties.

The weighted average lease length to expiry reduced marginally to 5.18 years (March 2016: 5.45 years) and to 4.28 years (March 2016: 4.45 years) to the first lease break.

Four years ago we introduced a sustainability strategy with annual targets, reflecting our commitment to operate in an environmentally responsible manner. Last year we achieved 80% of the annual targets and have set further challenging targets for 2017/18. We were also awarded our first GRESB (Global Real Estate Sustainability Benchmark) Green Star, which is the highest benchmark award, and our completed development projects achieved our high BREEAM and EPC target levels.

Our sustainability strategy also addressed the implications of the Energy Act 2011, which will make it illegal to let any property with an EPC rating of F or below from 2018. Our proactive approach over the last four years has resulted in having only 1% of our assets (by ERV) rated F or G, and mitigation measures are in place to reduce this further.

Market review

The London and South East markets have proved to be resilient in a year dominated by the EU referendum. Two positive market fundamentals have underpinned this stability. Firstly, on the leasing side, there are still low levels of new supply which have helped sustain rental values, while on the investment side, commercial property is still delivering attractive yields relative to other asset classes in a prolonged low interest rate environment.

Throughout 2016, take up levels have been robust despite the uncertainty over Europe, but in many cases landlords are having to retain flexibility to accommodate a greater number of smaller deals, as some larger requirements are being postponed. Our portfolio is well placed for this market dynamic given our relatively small average building size of 44,000 sq ft and our willingness to deliver choice and flexibility in this evolving occupier market. We also have a deliberate policy of owning and procuring buildings capable of multiple occupation.

This increase in smaller transactions was clearly seen in the South East office market which accounts for 59.6% of our portfolio (by value). Take up in this market was steady at 1.96 million sq ft in 2016 compared to the 5-year average of 1.90 million sq ft and the 10-year average of 2.03 million sq ft. However, this quantum was the result of 127 different transactions in 2016 compared to the 5-year average of 109 and the 10-year average of 113. This trend looks set to continue in 2017, which has started positively with a first quarter take up of 554,321 sq ft across 41 transactions.

The supply of good quality office accommodation remains limited in the South East. At the end of the period, total availability stood at 8.83 million sq ft (March 2016: 9.04 million sq ft) which is 10.3% of the total market (March 2016: 10.5%), of which 6.81 million sq ft was either new or Grade A. This means that if a tenant wants to find either a new or Grade A quality office, the choice will be limited to 7.9% of the entire floor space in the South East. If that requirement is specifically for new space, such as our schemes at Redhill (50,370 sq ft) and Reading (39,620 sq ft) which completed in the period, then the percentage choice falls to just 2.7%. Set against this historically low supply is 3.82 million sq ft of named occupier demand, which is just 2.5% below the long term average (source: Strutt & Parker).

The City of London occupational market remains supported by balanced supply and demand and an increasingly diverse tenant base. The EU referendum has raised concerns over future occupier demand, but it has also limited the commencement of new schemes. Although supply has increased marginally, availability in the City core and fringe at the end of the period remains 16.9% below the long term average. Added to this, current named demand of 4.54 million sq ft is 24.4% higher than March 2016, and 14.9% ahead of its long term average.

Within the City core, there is forecast to be only one other new development of similar size band (50,000 sq ft – 80,000 sq ft) to 30 Lombard Street completing in 2018. The City core has a total pipeline of new and Grade A supply of 3.62 million sq ft scheduled to complete up to the end of 2018. Of this, 39.5% (1.43 million sq ft) is already pre-let or under offer. The balance of 2.19 million sq ft compares favourably with average annual take up of 1.70 million sq ft, and a low current vacancy rate of 3.3%. The recent increase in occupier demand is encouraging and, if maintained, will continue to support rental levels and letting prospects generally for this prime development (source: Knight Frank).

Acquisitions and disposals

The investment market remains competitive and, despite the EU referendum uncertainty, prices for prime assets in London and some regional locations remain above those achieved at the peak of the previous cycle in 2007. As a result, our focus has primarily been on delivering value from the existing portfolio and opportunistic sales. Nonetheless, in a market covering the whole of London and the South East, there will be value add acquisition opportunities, and we continue to appraise potential acquisitions on this selective basis.

In February 2017, we exchanged unconditional contracts to sell the freehold interest in our last remaining asset at Pinehurst Park, Farnborough for £5.88 million, representing an 11.5% premium to book value. The purchaser, who hopes to undertake a residential conversion, has paid a non-returnable deposit of £1.00m. We will retain income until completion of the sale in November 2017. At that point, from initial purchase of the entire site in 2012 for £3.50 million, we will have generated net disposal proceeds of £6.36m, representing a 71.9% return on cost, and rental income totalling £3.34 million.

We remain committed to recycling capital from opportunistic sales, particularly of our smaller and more mature assets into both acquisitions and existing opportunities within the portfolio.

Development programme

Over the period we completed two of our three speculative office schemes; both of which are excellent additions to the portfolio. In central Reading, 9 Greyfriars Road (39,620 sq ft) completed in July 2016. This remains the only office building outside central London to be awarded the top BREEAM sustainability rating of 'Outstanding', and offers occupiers attractive, high quality, environmentally friendly business space just a three minute walk from the upgraded future Crossrail station. Our marketing campaign has attracted encouraging interest over the period, as prospective occupiers appreciate the combination of proximity to the station, on-site parking, and affordable rents for a top-quality building with a high standard of finish. Since the end of the period, this level of interest has been maintained with constructive discussions ongoing, and we hope to be able to make further letting announcements in due course.

In November 2016 we completed Prospero (50,370 sq ft), Redhill's first new office development for 10 years. This building has also been well received by the market, offering four large flexible floors, flooded with daylight through floor to ceiling windows. Within three months of completion we signed a 10-year lease of the top floor (10,643 sq ft) at a new rental high for the town of £31 psf. Good interest and regular inspections continue on the remaining space.

Our only remaining development on site is 30 Lombard Street, in the heart of the City of London. Construction works are progressing well and the scheme remains on target to complete in mid-2018. It will provide 58,000 sq ft of exceptional quality office space and has been designed to offer an attractive prospect to either a single occupier, looking for a core City and globally recognised address, or to a number of occupiers. It will provide regular floor plates over lower ground and nine upper floors and a large roof terrace. We look forward to launching the full marketing campaign shortly.

In addition to our three existing schemes, we continue to work on a number of future opportunities within the portfolio. Next in the pipeline is the potential to refurbish or redevelop one of our industrial assets – a 96,850 sq ft warehouse next to Junction 12 of the M4 at Theale, on the western outskirts of Reading. We purchased the property in April 2015 with a lease in place until February 2021 and a tenant break option in 2018. The industrial sector (which includes warehouse properties), has witnessed the strongest IPD returns this year, principally due to the continued increase of internet retailing which generates large requirements for last-mile delivery in the South East. This asset gives us the opportunity to create a product perfectly suited to satisfy this strong demand and we will be submitting planning applications shortly for the redevelopment of the site for up to four warehouse units totalling 135,000 sq ft.

Refurbishment and asset management

At the prominent Mille office building in Brentford (96,950 sq ft) we completed the refurbishment of the 4th (part), 6th and 7th floors (20,554 sq ft) and reception. We subsequently secured the letting of the newly refurbished part 4th floor (3,930 sq ft) at £26.00 psf, which is a 30.0% increase in ERV from acquisition in 2014, and another letting of over half of the 7th floor (4,732 sq ft) at £25.00 psf. The Mille is proving to be an attractive option for tenants who require both the proximity to central London and M4 access at occupational costs which are less than half those of nearby Hammersmith and Chiswick.

The rolling refurbishment of the reception, common areas and office floors at One Crown Square, Woking (52,115 sq ft) continues to attract multiple tenants. As with 329 Bracknell, we have responded to demand for smaller units and engaging communal break out areas – creating a co-working environment yet with direct control and management from the landlord. We signed nine new leases at this asset during the year at a combined contracted rent of £0.34 million pa, in line with an ERV of £24.00 psf. The most significant was the letting of the entire 6th floor (7,850 sq ft) on a ten-year term with no break options. The building is now 89.5% let by ERV.

We completed the refurbishment of Building Five, Switchback Office Park in Maidenhead in September 2016. This is the last of six buildings in our rolling refurbishment programme, providing 8,375 sq ft over two floors. During the refurbishment, we pre-let the upper floor on a 10-year lease at a rent of £0.11 million pa, equating to £26.75 psf. This is the highest rent achieved at the Park, leaving just the ground floor unit of 4,133 sq ft (out of the whole Park of 37,155 sq ft) to be let.

Small floors in the rapidly improving Victoria sub market in central London continue to be in high demand, as evidenced at Castle Lane, SW1 (14,250 sq ft). We have been actively managing leases and re-letting throughout the building, with minimal voids, taking rents from an ERV of £57.50 psf in March 2016 to the latest letting of £64.00 psf on the first floor. We have also secured a residential planning consent to protect future flexibility and value.

The 11.0% increase in net contracted rent for the portfolio was attributable in part to these new lettings, but also to the rigorous asset management by the team through lease regears, renewals and rent reviews. At Wimbledon Gate, SW19 (58,690 sq ft) we settled the February 2016 rent review during the period at £2.35 million pa which was an increase of £0.80 million pa (51.6%).

This fully endorsed our strategy of holding this high quality office asset for growth, having developed it in 2005. This is an increasingly popular London sub-market with good transport connections that continues to benefit from the recent growth in central London rents.

At Gainsborough House (18,660 sq ft), we completed a lease renewal with the existing tenant of this attractive office building in central Windsor. This extended their term by 10 years at an increased rent of £0.58 million pa (12.5% uplift) with no capital expenditure incurred by the Group. The rent achieved was 4.8% ahead of ERV.

Across the entire portfolio, the activity referred to above contributed to a total of 35 lettings over the period, 26 of which were open market lettings at a combined contracted rent of £1.90 million pa (6.4% ahead of ERV). The balance, being nine lease renewals, contributed to a tenant retention rate of 76.6% at lease break option and expiry, securing a combined contracted rent of £1.87 million pa, at a substantial 11.6% increase over the passing rent prior to these lease events.

We also benefitted from a one-off contribution to our income this year of £1.65 million. This was compensation paid by adjoining landowners for the potential impact of their redevelopment proposals on the rights to light of our two central Reading office properties.

Valuation

The independent valuation of the Group's portfolio as at 31st March 2017 totalled £429.92 million (March 2016: £401.17million), resulting in a surplus for the 12 months of 1.7% (£7.07 million) overall and 2.5% excluding the three development properties. This compared favourably to the market benchmark (IPD Monthly (All Property) Index) which returned negative capital growth of -1.8%. Our total portfolio return was 6.8%, outperforming the IPD Monthly (All Property) index of 3.4%.

Our greatest exposure (59.6% of the portfolio) is in the South East office sector, where our investment properties achieved capital growth of 3.6% compared to IPD of -2.6% and ERV growth of 5.8% compared to IPD of -1.7%. Our London office investment properties also outperformed the benchmark with capital growth of 2.5% (IPD City of London -2.1%) and ERV growth of 3.2% (IPD: 2.5%).

The only sector where we fell short of the index was our industrial assets (17.2% of the portfolio) where our surplus was 0.4% (IPD: 6.1%). This was mainly due to a 13.4% valuation deficit at Brunel Road, Theale where, as previously outlined, the tenant's break option early next year has had a negative impact on value.

The combined deficit for our three development properties was 3.5%. Prospero at Redhill returned a surplus as a result of letting progress, and 9 Greyfriars Road, Reading was little changed. At 30 Lombard Street, EC3 the valuation deficit of 12.4% was mainly due to an outward shift in yield and void assumptions in the first half of the year following the EU referendum, being the least advanced of the three schemes.

The portfolio initial yield of 4.6% (March 2016: 4.5%), increases to 5.1% (March 2016: 5.0%) on the expiry of letting incentives. Our significant potential to grow income is demonstrated by our reversionary yield, which would be 7.1% (March 2016: 7.4%) calculated using current capital values against ERV. The equivalent yield was 6.4% (March 2016: 6.3%), highlighting that our valuation gains were as a result of higher contracted rents and ERVs.

This valuation performance was achieved despite a lack of market momentum, as indicated by the IPD Index movements. Performance therefore relied on our pro-active asset management and well placed refurbishments. Examples in the portfolio are the significant lease regear at Windsor which generated 17.3% capital growth; 17.0% growth from the rolling refurbishment at Woking; and 13.2% from the rent review at Wimbledon.

Total shareholder return

Total Shareholder Return (TSR) for the three years to 31st March 2017 was 13.2%. This compares to a FTSE 350 Real Estate Index return of 14.6%. For the year to 31st March 2017, the sharp relative decline in share price following the EU referendum resulted in a negative TSR of 8.6% which compares to a FTSE 350 Real Estate negative return of 0.3%. Our share price reaction to the referendum result proved to be extreme and recent gains have outperformed the sector.

Dividends

The final dividend of 6.3 pence per share (March 2016: 6.1 pps) will be paid on 27th July 2017 to those on the register on 2nd June 2017. With the interim dividend of 2.7 pence per share, this takes the total dividend for the year to 9.0 pence per share, an increase of 2.3% on the previous year.

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%. The cost of cancelling interest rate hedging instruments over the period is treated as an exemption and 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

Adjusted profit before tax increased by £0.66 million (8.3%) to £8.60 million (March 2016: £7.94 million) due primarily to a £0.63 million (3.1%) increase in gross rental income. A small decrease in administration costs was in part offset by an increase in property outgoings. Interest costs were steady.

This increase in gross rental income came as a result of the letting progress and asset management initiatives referred to above and in previous periods, offset by £0.95 million less income as a result of disposals last year.

Profit before tax (IFRS) totalled £17.59 million (March 2016:£53.16million). This included the unrealised surplus on valuation (including SIC15 and other adjustments) for the period of £7.62 million, an improvement of £0.42 million in the negative value of the interest rate hedging instruments and the £1.65 million rights of light compensation payment.

Administration costs decreased by 1.4% to £5.79 million (March 2016: £5.88 million). Staff pay increases of circa 2% were offset by a lower bonus cost for the period.

The interest cost for the year of £6.34 million was the same as last year. Interest capitalised against projects during the year was comparable to the prior year at £1.82 million (March 2016: £1.88 million) as the development programme continues. As a result, interest payable totalled £4.52 million (March 2016: £4.46 million).

The Group's weighted average cost of debt for the period reduced from 4.78% for the six months to 30th September 2016 to 4.42% (prior to amortisation and finance lease interest). Contributing to this was the decision made in December 2016 to reduce the notional value of the Group's interest rate hedging instrument by a further £12.00 million to £33.00 million at a net cost to the Group of £5.08 million, with the cost of cancellation offset by a lender contribution. This reduction reduces annualised interest cost by £0.50 million at current rates.

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the profit for the year.

Balance sheet

Shareholders' funds increased from £261.22 million to £270.79 million over the period, principally due to the £7.62 million valuation surplus (£7.07 million excluding SIC15 and other adjustments).

EPRA NAV per share increased by 0.7% over the period to 303 pence (March 2016: 301 pence). EPRA NNNAV per share increased by 2.9% to 285 pence (March 2016: 277 pence) and basic NAV per share increased by 3.2% to 289 pence (March 2016: 280 pence). The reduction in the difference between EPRA NAV and basic NAV (from 21p to 14p) is a consequence of the reduction in the notional value of the hedging instrument and the lender contribution.

The Group currently benefits from £175.00m of banking facilities, having refinanced three of the four facilities in 2015. The fourth facility is in the process of being refinanced ahead of expiry at the end of the year. Drawn debt at the end of the period was £136.00 million (March 2016: £116.00 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2017 was 31.6% (March 2016: 28.9%). The ratio of aggregate net borrowings to tangible net worth was 47.3% (March 2016: 40.9%). Both ratios have increased due to ongoing project expenditure of £20.06 million over the period, but remain at low levels relative to loan covenants which will continue to be carefully monitored.

Net cash inflow from operating activities was £16.50 million (March 2016: inflow £3.30 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.96x (March 2016: 1.86x).

The interest rate hedging instrument of £33.00 million, coupled with the long dated £55.00 million fixed loan, give the Group £88.00 million of fixed or hedged debt (March 2016: £100.00 million). This equates to 64.7% fixed or hedged on the current drawings of £136.00 million.

The negative mark to market valuation of the hedging instrument at 31st March 2017 improved by £0.42 million to £16.92 million. Although the mark to market valuation is negative, this represents a non-cash timing difference. The Group closely monitors the market for these instruments and regularly reviews the strategic options for these products.

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 2016: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has increased over the period from £1.84 million to £2.28 million. 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, is not affected by the increase in the deficit. The increase in the deficit is in the main due to the fall in the gilt curve during the year, resulting in the discount rate applied reducing from 3.3% to 2.3%. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members. The Scheme is currently subject to a triennial valuation for the year to 31st March 2017.

Signed on behalf of the Board of Directors.
S. Perkins
G. Salmon

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2017 are as follows:

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March 2017

	Notes	2017 £'000	2016 £'000
Gross rents and service charges	2	24,112	23,689
Other property income		1,648	—
Direct property outgoings		(5,888)	(6,025)
Net rental income from investment properties	2	19,872	17,664
Administration costs	3	(5,795)	(5,878)
Operating profit before gains on investment properties		14,077	11,786
Profit on disposal of investment properties		—	9,106
Revaluation of investment properties	11	7,617	34,564
Operating profit	4	21,694	55,456
Finance costs	6	(4,523)	(4,478)
Finance income	6	423	2,182
Profit before taxation		17,594	53,160
Taxation	7	—	—
Profit for the year		17,594	53,160
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		(628)	(15)
Total comprehensive income for the year		16,966	53,145
Earnings per share	9		
Basic		18.78p	57.17p
Diluted		18.63p	56.36p
Adjusted earnings per share figures are shown in note 9			
Dividends	10		
Previous year's final dividend of 6.1p (2016: 6.0p) paid during the year		5,683	5,546
Interim dividend of 2.7p (2016: 2.7p) paid during the year		2,533	2,515
Proposed final dividend of 6.3p (2016: 6.1p)		5,910	5,683

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 2017

Non-current assets

	Notes	2017 £'000	2016 £'000
Investment properties — Valuation as reported by the valuers		429,915	401,170
— Adjustment for rents recognised in advance under SIC 15		(5,987)	(5,869)
— Assets held for sale		(5,500)	—
— Adjustment for grossing up of head leases	16	4,405	3,745
	11	422,833	399,046
Plant and equipment	12	62	91
Total non-current assets		422,895	399,137

Current assets

Trade and other receivables	14	6,916	15,641
Assets held for sale	11	5,500	—
Cash and cash equivalents		4,485	—
Total current assets		16,901	15,641
Total assets		439,796	414,778

Current liabilities

Loans and other		(34,973)	—
Trade and other payables	15	(11,298)	(10,938)
Finance lease		(285)	(286)
Interest rate derivatives	15	(2,159)	(2,944)
Bank overdraft		—	(261)
Total current liabilities		(48,715)	(14,429)

Non-current liabilities

Loans and other borrowings	15	(99,127)	(113,701)
Pension fund deficit	24	(2,284)	(1,839)
Finance lease liabilities	16	(4,120)	(4,121)
Interest rate derivatives	15	(14,758)	(19,465)
Total non-current liabilities		(120,289)	(139,126)
Total liabilities		(169,004)	(153,555)
Net assets		270,792	261,223

Equity

Called up share capital	19	18,762	18,632
Share premium account		78,929	77,708
Retained earnings		55,172	54,571
Revaluation reserve		117,929	110,312
Total equity		270,792	261,223
Net asset value per share	22	289p	280p
EPRA net asset value per share	22	303p	301p

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31st March 2017

Non-current assets

	Notes	2017 £'000	2016 £'000
Investment properties	11	391,232	371,302
Plant and equipment	12	62	91
Investments	13	22,176	23,806
Total non-current assets		413,470	395,199

Current assets

Trade and other receivables	14	22,078	23,096
Assets held for sale	11	5,500	—
Cash and cash equivalents		4,485	—
Total current assets		32,063	23,096
Total assets		445,533	418,295

Current liabilities

Loans and other borrowings	15	(34,973)	—
Trade and other payables	15	(37,561)	(45,149)
Finance lease liabilities		(180)	(180)
Interest rate derivatives	15	(2,159)	(2,944)
Bank overdraft		—	(261)
Total current liabilities		(74,873)	(48,534)

Non-current liabilities

Loans and other borrowings	15	(99,127)	(113,701)
Pension fund deficit	24	(2,284)	(1,839)
Finance lease liabilities		(2,704)	(2,704)
Interest rate derivatives	15	(14,758)	(19,465)
Total non-current liabilities		(118,873)	(137,709)
Total liabilities		(193,746)	(186,243)
Net assets		251,787	232,052

Equity

Called up share capital	19	18,762	18,632
Share premium account		78,929	77,708
Retained earnings		34,138	27,054
Revaluation reserve		119,958	108,658
Total equity		251,787	232,052

GROUP CASH FLOW STATEMENT

For the year ended 31st March 2017

Operating activities

	2017 £'000	2016 £'000
Profit before tax	17,594	53,160
Adjustments for:		
Depreciation	32	18
Other non-cash movements	1,308	1,101
Profit on disposal of investment properties	—	(9,106)
Movement in revaluation of investment properties	(7,617)	(34,564)
Net finance costs	4,100	2,296
Cash flow from operations before changes in working capital	15,417	12,905
Decrease/(increase) in debtors	8,339	(5,027)
(Decrease)/increase in creditors	(1,178)	1,177
Cash generated from operations	22,578	9,055
Interest paid	(6,055)	(5,810)
Interest received	7	11
Cash flows from operating activities	16,530	3,256

Investing activities

Proceeds from sale of investment properties	—	33,207
Proceeds from sale of investments	—	793
Purchase and development of investment properties	(18,478)	(37,660)
Purchase of other fixed assets	(3)	(45)
Cash flows from investing activities	(18,481)	(3,705)

Financing activities

Increase in borrowings	19,989	21,986
Equity dividends paid	(8,216)	(8,061)
Swap cancellation fee	(5,076)	(13,165)
Cash flows from financing activities	6,697	760

Net increase in cash and cash equivalents	4,746	311
Cash and cash equivalents at the beginning of the year	(261)	(572)
Cash and cash equivalents at end of the year	4,485	(261)

COMPANY CASH FLOW STATEMENT

For the year ended 31st March 2017

Operating activities

	2017 £'000	2016 £'000
Profit before tax	27,760	51,972
Adjustments for:		
Depreciation	32	18
Other non-cash movements	1,302	1,085
Profit on disposal of investment properties	—	(5,568)
Movement in revaluation of investment properties	(11,300)	(36,572)
Net finance costs	4,779	2,553
Cash flow from operations before changes in working capital	22,573	13,488
Decrease/(increase) in debtors	9,250	(11,318)
(Decrease)/increase in creditors	(16,025)	2,685
Cash generated from operations	15,798	4,855
Interest paid	(6,039)	(5,982)
Interest received	530	959
Cash flows from operating activities	10,289	(168)

Investing activities

Proceeds from sale of investment properties	—	13,292
Returns from investment in subsidiary	—	19,319
Purchase and development of investment properties	(12,237)	(32,847)
Purchase of other fixed assets	(3)	(45)
Cash flows from investing activities	(12,240)	(281)

Financing activities

Increase in borrowings	19,989	21,986
Equity dividends paid	(8,216)	(8,061)
Swap cancellation fee	(5,076)	(13,165)
Cash flows from financing activities	6,697	760

Net increase in cash and cash equivalents	4,746	311
Cash and cash equivalents at the beginning of the year	(261)	(572)
Cash and cash equivalents at end of the year	4,485	(261)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2017

	Attributable to equity holders of the parent company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 31st March 2015	18,486	75,917	84,752	36,340	215,495
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 properties	—	—	(9,004)	9,004	—
Actuarial loss on defined benefit pension scheme	—	—	—	(15)	(15)
Total comprehensive income 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)
Cost of share based payments	—	—	—	644	644
At 31st March 2016	18,632	77,708	110,312	54,571	261,223
Profit for the year	—	—	—	17,594	17,594
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	7,617	(7,617)	—
Actuarial loss on defined benefit pension scheme	—	—	—	(628)	(628)
Total comprehensive income for the year	–	–	7,617	9,349	16,966
Issue of new shares net of costs	130	1,221	—	(1,351)	—
Dividends paid in year	—	—	—	(8,216)	(8,216)
Deferred bonus	—	—	—	128	128
Cost of share based payments	—	—	—	691	691
At 31st March 2017	18,762	78,929	117,929	55,172	270,792

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2017

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 31st March 2015	18,486	75,917	65,125	27,984	187,512
Profit for the year	—	—	—	51,972	51,972
Other comprehensive income:					
Transfer of property from subsidiary	—	—	7,278	(7,278)	—
Transfer surplus on revaluation of properties	—	—	36,572	(36,572)	—
Transfer on disposal of investment properties	—	—	(317)	317	—
Actuarial loss on defined benefit pension scheme	—	—	—	(15)	(15)
Total comprehensive income for the year	–	–	43,533	8,424	51,957
Issue of new shares net of costs	146	1,791	—	(1,937)	—
Dividends paid in year	—	—	—	(8,061)	(8,061)
Cost of share based payments	—	—	—	644	644
At 31st March 2016	18,632	77,708	108,658	27,054	232,052
Profit for the year	—	—	—	27,760	27,760
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	11,300	(11,300)	—
Actuarial loss on defined benefit pension scheme	—	—	—	(628)	(628)
Total comprehensive income for the year	–	–	11,300	15,832	27,132
Issue of new shares net of costs	130	1,221	—	(1,351)	—
Dividends paid in year	—	—	—	(8,216)	(8,216)
Deferred bonus	—	—	—	128	128
Cost of share based payments	—	—	—	691	691
At 31st March 2017	18,762	78,929	119,958	34,138	251,787

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2017

1 Accounting policies

Basis of preparation

The financial information set out in the final results announcement does not constitute the Group's statutory accounts for the year ended 31st March 2017 or 2016, but is derived from those accounts. The statutory accounts for the period ended 31st March 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31st March 2016 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31st March 2017 and 2016; 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

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the European Union(IFRS), this announcement does not itself contain sufficient information to comply with IFRS..

A number of accounting standards, amendments to and interpretations of standards become applicable for the first time this year. None had any material impact on the financial statements.

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.

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 subsidiary.

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

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.

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 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 outlined in note 18 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 Statement of Financial Position. 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 assets and liabilities are recognised in equity through the Profit or Loss and other Comprehensive Income. The assumptions used by a qualified actuary are outlined in note 24.

The Group contributes to eligible employees' defined contribution personal pension plans and does not accept any responsibility for the benefits gained from these plans. The contributions are recognised as an expense in the Profit 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 deductible, or taxable and deductible in other periods, together with any adjustment in respect of previous years calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

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

The Group converted to REIT status on 1st 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

	2017 £'000	2016 £'000
Gross rents receivable	20,672	19,413
SIC 15 adjustment (spreading of rental incentives)	118	746
Gross rental income	20,790	20,159
Service charges receivable	3,322	3,530
	24,112	23,689
Other property income	1,648	—
Direct property outgoings	(5,888)	(6,025)
	19,872	17,664

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

Other property income relates to rights of lights compensation received in respect of two properties in the portfolio.

3 Administration costs

Group	2017 £'000	2016 £'000
Directors' — remuneration	991	1,150
— bonus[1]	176	464
Staff — costs	1,342	792
— bonus	195	419
National Insurance	496	473
Pension costs — defined benefit scheme	57	57
— defined contributions	194	257
Share based payment accounting charge (IFRS 2)	691	624
	4,142	4,236
Depreciation (note 12)	32	18
Office costs	523	542
Legal and professional fees	1,073	1,059
General expenses	25	23
	5,795	5,878

[1]Amount charged to income in year to 31st March 2017.

The average number of persons employed by the Group and Company during the year was 18 (2016: 17).

Fees paid to auditor	2017 £'000	2016 £'000
Statutory audit services		
McKay Securities PLC audit	70	70
Subsidiary audits	2	3
Assurance services		
Interim review	19	19
Service charge audits	10	6
Taxation services		
Corporation tax compliance	47	42
	148	140
Future services – contracted fees		
XBRL tagging	7	5

4 Operating profit

Operating profit is identified in the income statement and represents the profit on activities before finance costs, share of associated undertakings and taxation.

5 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.

	2017 £'000	2016 £'000
Profit before tax	17,594	53,160
Change in fair value of derivatives	(415)	(2,171)
Movement in revaluation of investment properties	(7,617)	(34,564)
Other property income (see note 2)	(1,648)	—
Profit on disposal of investment properties	—	(9,106)
IFRS 2 adjustment to share based payments	691	624
Adjusted profit before tax	8,605	7,943

6 Net finance costs

	2017 £'000	2016 £'000
Interest on bank overdraft and loans	5,269	5,450
Commitment fee	381	207
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	410	413
Fair value loss on derivatives	—	—
Capitalised interest (note 8)	(1,822)	(1,877)
	4,523	4,478
Fair value gain on derivatives	(415)	(2,171)
Interest receivable	(8)	(11)
	(423)	(2,182)
Net finance costs	4,100	2,296

7 Taxation

	2017 £'000	2016 £'000
Total tax in the Consolidated Profit or Loss and other Comprehensive Income	—	—

Reconciliation to effective rate of tax:

Profit on ordinary activities before tax	17,594	53,160
Tax charge on profit at 20% (2016: 20%)	3,519	10,632
Effects of:		
REIT tax exemption	(3,519)	(10,632)
Permanent differences	—	—
Other timing differences	—	—
Tax for period (as above)	—	—

8 Capitalised interest

Interest relating to investment properties in the course of development is dealt with as explained in note 1.

Interest capitalised during the year amounted to £1,821,970 (2016: £1,877,139) and relates to works to London, 30 Lombard Street, EC3; Reading, 9 Greyfriars Road; and Redhill, London Road. Total development interest capitalised amounts to £10,890,628 (2016: £9,068,658).

9 Earnings per share

	2017 £'000	2016 £'000
Basic earnings per share	18.78	57.17
Change in fair value of derivatives	(0.44)	(2.34)
Movement in revaluation of investment properties	(8.13)	(37.17)
Other property income	(1.76)	—
Profit on disposal of investment properties	—	(9.79)
Adjusted profit for share based payments	0.74	0.67
Adjusted earnings per share	9.19	8.54

Basic earnings per share on ordinary shares is calculated on the profit in the year of £17,594,000 (2016: £53,160,000) and 93,659,703 (2016: 92,983,951) shares, being the weighted average number of ordinary shares in issue during the year.

	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares in issue	93,659,703	92,983,951
Number of shares under option	1,453,249	1,722,237
Number of shares that would have been issued at fair value	(656,745)	(399,554)
Diluted weighted average number of ordinary shares in issue	94,456,207	94,306,634

	2017 p	2016 p
Basic earnings per share	18.78	57.17
Effect of dilutive potential ordinary shares under option	(0.15)	(0.81)
Diluted earnings per share	18.63	56.36
Change in fair value of derivatives	(0.44)	(2.30)
Movement in revaluation of investment properties	(8.07)	(36.65)
Other property income	(1.74)	—
Profit on disposal of investment properties	—	(9.65)
EPRA diluted earnings per share	8.38	7.76

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 94,456,207 (2016: 94,306,634) 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.

10 Dividends

The final dividend is not included in the accounts as a liability as at 31st March 2017, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2016 and interim for 2017 paid in the year are included in the Consolidated Statement of Changes in Equity.

Ordinary dividends

	2017 £'000	2016 £'000
Previous year's final dividend of 6.1p paid during the year	5,683	5,546
Interim dividend of 2.7p (2016: 2.7p) paid during the year	2,533	2,515
Total recognised in financial statements	8,216	8,061
Proposed final dividend of 6.3p (2016: 6.1p)	5,910	5,683

11 Investment properties

	Freehold £'000	Long leasehold £'000	Group Total £'000	Freehold £'000	Long leasehold £'000	Company Total £'000
Valuation						
At 1st April 2016	343,439	55,607	399,046	343,438	27,864	371,302
Transfer	—	—	—	—	—	—
Additions – development	13,753	7,918	21,671	13,753	377	14,130
Revaluation surplus/(deficit)	11,522	(4,448)	7,074	11,523	(518)	11,005
Adjustment for rents recognised in advance under SIC 15	4	(122)	(118)	4	(122)	(118)
Head lease adjustment	—	661	661	—	413	413
Amortisation of grossed up headlease liabilities	—	(1)	(1)	—	—	—
Book value as at 31st March 2017	368,718	59,615	428,333	368,718	28,014	396,732
Adjustment for grossing up of headlease liabilities	—	(4,405)	(4,405)	—	(2,884)	(2,884)
Adjustment for rents recognised in advance under SIC 15	5,567	420	5,987	5,567	420	5,987
Valuation as at 31st March 2017	374,285	55,630	429,915	374,285	25,550	399,835

	Freehold £'000	Long leasehold £'000	Group Total £'000	Freehold £'000	Long leasehold £'000	Company Total £'000
Valuation						
At 1st April 2015	306,259	43,945	350,204	291,000	—	291,000
Transfer	—	—	—	—	22,025	22,025
Additions – acquisitions	11,337	—	11,337	11,337	—	11,337
– development	16,704	9,342	26,046	16,704	1,429	18,133
Revaluation surplus	32,783	2,528	35,311	32,782	4,602	37,384
Adjustment for rents recognised in advance under SIC 15	641	(168)	473	(600)	(168)	(768)
Disposals	(24,285)	—	(24,285)	(7,785)	—	(7,785)
Amortisation of grossed up headlease liabilities	—	(40)	(40)	—	(24)	(24)
Book value as at 31st March 2016	343,439	55,607	399,046	343,438	27,864	371,302
Adjustment for grossing up of headlease liabilities	—	(3,745)	(3,745)	—	(2,471)	(2,471)
Adjustment for rents recognised in advance under SIC 15	5,571	298	5,869	5,571	298	5,869
Valuation as at 31st March 2016	349,010	52,160	401,170	349,009	25,691	374,700

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2017. 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 £302 million (2016: £280 million) for the Group and £269 million (2016: £255 million) for the Company.

The amount of interest capitalised during the year was £1,821,970 (2016: £1,877,139). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

Assets held for sale consist of Pinehurst Park, Farnborough for which the Group has exchanged unconditional contracts to complete in November 2017. As the Group will continue to receive rental income and retains managerial responsibility for the property until completion, the risks and rewards of ownership are not considered to have transferred by 31st March 2017.

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 for properties under development, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

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

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £7.6 million (2016: £34.6 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 shown below:

Valuation technique

	London Offices Capitalisation	South East Offices Income Capitalisation	South East Industrial Income Capitalisation
Fair value	£78,900,000	£256,225,000	£73,990,000
ERV (per sq ft pa) – average	£55.97	£25.97	£8.94
ERV (per sq ft pa) – range	£10.00-£81.00	£5.00-£43.33	£4.48-£13.09
True equivalent yield – average	5.07%	7.44%	6.85%
True equivalent yield – range	4.63%-6.19%	5.47% -10.01%	5.29%-8.19%
Capital value per sq ft	£589	£332	£131

A further £20.80 million has been designated other and not included in the analysis above.
Definitions for ERV and True Equivalent Yield are provided in the glossary.

Sensitivity analysis

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Increase/(decrease) in value of investment properties	£18.8m	£(19.3)m	£(18.0)m	£20.3m

12 Plant and equipment

Cost	Group £'000	2017 Company £'000	Group £'000	2016 Company £'000
Opening	429	426	394	391
Additions	3	3	46	46
Disposals	(218)	(218)	(11)	(11)
Closing	214	211	429	426

Depreciation

Opening	338	335	331	328
Charge for year	32	32	18	18
Disposals	(218)	(218)	(11)	(11)
Closing	152	149	338	335
Net book value	62	62	91	91

13 Investments

Company	Other investments £'000	Shares in subsidiary undertakings £'000	Investment in associated undertaking £'000	Total £'000
At 1st April 2016 and 31st March 2017	—	22,176	—	22,176

At 31st March 2017 McKay Securities PLC had the following wholly owned subsidiary undertakings all of which operate in England and are registered in England and Wales: 20 Greyfriars Road, Reading, Berkshire, RG1 1NL

Acreway Limited (in liquidation) Baldwin House Limited

All subsidiaries are included in the consolidation.

The principal activity of the subsidiary undertakings is property investment and development.

The Directors are of the opinion that the investment in the subsidiary undertakings is not worth less than the current book value.

14 Trade and other receivables

	2017 Group £'000	Company £'000	2016 Group £'000	Company £'000
Trade receivables	—	—	14	14
Amounts due from subsidiary undertakings	—	15,308	—	11,898
SIC 15 lease incentives	5,974	5,974	5,869	5,869
Other debtors and prepayments	942	796	9,758	5,315
	6,916	22,078	15,641	23,096

All the above debtors are receivable within one year except for lease incentives of £4,730,000 (2016: £4,702,000), 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:

	2017 £'000	2016 £'000
Less than three months due	—	9
Between three and six months due	—	4
Between six and twelve months due	—	1
	—	14

The Group holds no collateral in respect of these receivables.

15 Liabilities

Trade and other payables

	2017 Group £'000	Company £'000	2016 Group £'000	Company £'000
Rent received in advance	5,328	5,311	4,866	4,845
Other taxation and social security costs	1,969	1,969	80	—
Amounts owed to subsidiary undertakings	—	26,286	—	34,810
Other creditors and accruals	4,001	3,995	5,992	5,494
	11,298	37,561	10,938	45,149

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 8 days (2016: 25 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:

Group and Company	2017 £'000	2016 £'000
Secured bank loans	136,000	116,000
Bank facility fees	(1,900)	(2,299)
	134,100	113,701

The bank loans are secured against land and buildings with a carrying amount of £386,490,000 (2016: £368,750,000).

Repayable in:	2017 Group £'000	Company £'000	2016 Group £'000	Company £'000
Less than 1 year	34,973	34,973	-	-
1-2 years	—	—	29,942	29,942
2-5 years	45,099	45,099	29,806	29,806
5-10 years	—	—	-	-
Greater than 10 years	54,028	54,028	53,953	53,953
	134,100	134,100	113,701	113,701

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:

	2017 £'000	2016 £'000
Expiring in less than 1 year	—	—
Expiring in 1 – 2 years	—	5,000
Expiring in 2 – 5 years	39,000	54,000
Expiring in 5 – 10 years	—	—
	39,000	59,000

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.

The Group is currently refinancing one of the four facilities.

Financial instrument maturity

				Contractual cash flows		
	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
At 31st March 2017						
Non-derivative financial liabilities						
Bank overdraft	—	—	—	—	—	—
Secured bank loans	136,000	—	35,000	—	46,000	55,000
Finance lease liabilities	26,654	—	285	285	855	25,229
Trade payables	5,969	5,969	—	—	—	—
	168,623	5,969	35,285	285	46,835	80,229

Derivative financial liabilities

Interest rates used for hedging	19,523	—	1,561	1,514	4,214	12,234
	19,523	—	1,561	1,514	4,214	12,234

At 31st March 2016						
Non-derivative financial liabilities						
Bank overdraft	261	261	—	—	—	—
Secured bank loans	116,000	—	—	30,000	31,000	55,000
Finance lease liabilities	26,940	—	286	286	855	25,313
Trade payables	6,072	6,072	—	—	—	—
	149,273	6,333	286	30,286	31,855	80,513

Derivative financial liabilities						
Interest rates used for hedging	26,478	—	2,038	2,009	5,599	16,832
	26,478	—	2,038	2,009	5,599	16,832

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 swap matures 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 £340,000 (2016: £290,000). 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 2016 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 2017	Amount £'000	Rate	Maturity	[1]Next Credit break
Interest rate swaps	33,000	5.17%	Sept 2032	Sept 2022

	Amount £'000	Rate	Fair value before BCVA £'000	[3]BCVA £'000	Fair value £'000
Interest rate swaps	33,000	5.17%	(18,311)	1,393	(16,917)

As at 31st March 2016	Amount £'000	Rate	Maturity	[1]Next Credit break
Interest rate swaps	45,000	5.17%	Sept 2032	Sept 2022

	Amount £'000	Rate	Fair value before BCVA £'000	[3]BCVA £'000	Fair value £'000
Interest rate swaps	45,000	5.17%	(24,422)	2,013	(22,409)

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

[2]Call options are triggered by the bank and require no payment by either party.

[3]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 cashflows as follows:

Group and Company

	2017 £'000	2016 £'000
Current	(2,159)	(2,944)
Non-current	(14,758)	(19,465)
	(16,917)	(22,409)

	2017	2016
Weighted average cost of borrowing	4.42%	4.35%

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 Statement of Profit or Loss and other Comprehensive Income. Interest rate swaps 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 2017 of £48,000,000 (2016: £16,000,000).

In both 2017 and 2016 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

16 Obligations under finance leases

Group finance lease liabilities are payable as follows:

	Minimum lease payments	
	2017 £'000	2016 £'000
Within one year	285	286
In second to fifth years inclusive	1,142	1,142
Later than five years	25,227	25,512
	26,654	26,940
Less future finance charges	(22,249)	(22,533)
Present value of lease obligations	4,405	4,407

The above finance lease liabilities relate to investment properties with a carrying value of £55,630,000 (2016: £52,160,000). The terms of these lease agreements are for periods of between 99 and 125 years. There are no restrictions imposed by the lease agreements. No contingent rents are payable.

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

17 Operating leases

The Group leases out all of its investment properties under operating leases.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2017 £'000	2016 £'000
Not later than one year	20,991	19,044
Later than one year but not later than five years	59,964	58,285
Later than five years	20,877	19,208
	101,832	96,537

18 Share based payments

During the year to 31st March 2017, the Group had one share based payment arrangement, which is described below. In the case of the PSP awards, the expected volatility was determined by calculating historical volatility of the Group's share price.

Performance Share Plan

The performance targets for PSP awards are a combination of TSR and absolute NAV performance over a three year period. If the performance criteria have not been met at the end of the vesting period then the awards will lapse.

The nil cost awards outstanding at 31st March 2017 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	16th June 2016	18th June 2015	11th June 2014
Share price	£2.07	£2.55	£2.27
Term	3 years	3 years	3 years
Risk free rate	0.27%	0.80%	1.13%
Dividend yield	4.27%	3.35%	3.79%
Volatility – Company	21.27%	18.6%	17%
TSR fair value	£0.77	£1.43	£1.36
NAV fair value	£1.81	£2.35	£2.03

19 Called up share capital

Ordinary 20 pence shares in issue	2017 Issued £	Number of shares	2016 Issued £	Number of shares
At 1st April 2016	18,631,645	93,158,225	18,485,197	92,425,988
Issue of shares in year	130,045	650,225	146,448	732,237
At 31st March 2017	18,761,690	93,808,450	18,631,645	93,158,225

20 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders and to maintain an appropriate capital structure to minimise the cost of capital. The current capital structure of the Group comprises a mix of equity and debt. Equity comprises issued share capital, reserves and retained earnings, as disclosed in the Group Balance Sheet.

The Group uses a number of key metrics to manage its capital structure:

- gearing
- bank covenant gearing
- LTV

The Board monitors the ability of the Group to pay dividends out of available cash and distributable profits.

21 Related party transactions

	Balance owed to/(owing from)	
	2017 £'000	2016 £'000
Subsidiary undertakings		
Acreway Limited (in liquidation)	26,286	26,286
Baldwin House Limited	(15,308)	(11,899)
Celina Holdings Limited (liquidated)	—	8,524
	10,978	22,911

On liquidation of its subsidiary, Celina Holdings Limited, the Company received a dividend and return of a capital holding totalling £6.9 million.

There were no transactions with Directors, who are considered key management personnel, other than remuneration.

22 Net asset value per share

	31st March 2017 Net assets £'000	Shares '000	Net asset value per share p	31st March 2016	Shares '000	Net asset value per share p
Basic	270,792	93,808	289	261,223	93,158	280
Number of shares under	1,036	1,431	(4)	863	1,552	(3)
Diluted/EPRA NNNAV	271,828	95,239	285	262,086	94,710	277
Adjustment to fair value of derivatives	16,918	—	18	22,410	—	24
EPRA NAV	288,746	95,239	303	284,496	94,710	301

23 Commitments and contingent liabilities

	2017 Group £'000	Company £'000	2016 Group £'000 Restated	Company £'000 Restated
Capital expenditure committed but not provided for	24,255	1,140	31,038	7,419

The capital commitments at 31st March 2016 have been restated. The 2016 Report and Financial Statements disclosed that there were no commitments.

24 Pensions

The Group and Company operates a defined benefit pension scheme in the UK providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Group, being invested with insurance companies and managed funds. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the attained age method. The most recent actuarial valuation was as at 31st March 2014. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 5.0% per annum.

The Group contributes £240,000 per annum into the Scheme.

At the 31st March 2014 actuarial valuation the scheme was 82% funded on the continuing valuation basis. A recovery plan and schedule of contributions has been agreed designed to address this shortfall.

The IAS 19 valuation for the pension scheme disclosures is based on the most recent actuarial valuation at 31st March 2014 and updated by First Actuarial in order to assess the liabilities of the scheme at 31st March 2017. Scheme assets are stated at their market value at 31st March 2017.

The actuarial valuation due as at 1st April 2017 is currently in progress but not yet completed.

The Scheme has been closed to new entrants since 1989.

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2017	2016
Inflation	3.1%	2.8%
Salary increases	n/a	n/a
Rate of discount	2.3%	3.3%
Pension in payment increases	3.0%	2.7%

The mortality assumptions adopted at 31st March 2017 imply the following life expectancies for members currently aged 60:

Male = 26.6 years

The fair value of scheme assets are as follows:	2017 £'000	2016 £'000
Equities	743	1,695
Gilts	70	533
Corporate and overseas bonds	46	437
Absolute return portfolios	4,533	2,166
Cash	46	300
Other	162	282
	5,600	5,413

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

Changes in the value of scheme assets over the year

Market value of assets at start of year	5,413	5,829
Expected return on scheme assets	176	178
Actuarial gain/(loss)	175	(431)
Employer contributions	240	240
Benefits paid	(404)	(403)
Market value of assets at end of year	5,600	5,413

The amount included in the Group and Company Statement of Financial Position arising from the liabilities in respect of the defined benefits scheme is as follows:

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Market value of scheme assets	5,600	5,413	5,829	5,464	5,604
Value of defined benefit obligation	(7,884)	(7,252)	(7,769)	(7,153)	(7,823)
Deficit in scheme	(2,284)	(1,839)	(1,940)	(1,689)	(2,219)
Gains/(losses) on scheme liabilities					
Due to experience	191	45	8	(9)	19
Due to change of basis	(994)	(304)	725	450	(599)
Experience gains/(losses) on scheme	(57)	(57)	(67)	(69)	212

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

	2017 £'000	2016 £'000
Value of defined benefit obligation at start of period	7,252	7,769
Interest cost	233	235
Benefits paid	(404)	(403)
Actuarial gains: experience differing from that assumed	(191)	(45)
Actuarial gains: changes in demographic assumptions	—	(78)
Actuarial loss/(gains): changes in financial assumptions	994	(226)
Value of defined benefit obligation at end of period	7,884	7,252

Sensitivity analysis

Assumption	Change in assumption	Change in defined Benefit obligation
Discount rate	+/-0.5% p.a	-6%/+6%
RPI inflation	+/-0.5% p.a	+4%/-4%
Assumed life expectancy	+1 year	+5%

Analysis of the amount charged to operating profit:

Operating profit	2017 £'000	2016 £'000
Current service cost	–	–
Analysis of the amount (credited)/charged to finance costs/(income)		
Expected return on pension scheme assets	(176)	(178)
Interest on pension scheme liabilities	233	235
Net return	57	57
Total charge to profit or loss	57	57

Analysis of the amount recognised directly in equity via other comprehensive income:

	2017 £'000		2016 £'000	
Difference between expected and actual return on assets	(175)	3% of scheme assets	431	8% of scheme assets
Experience gains and losses arising on the scheme liabilities	803	10% of the present value of the scheme liabilities	(349)	5% of the present value of the scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	–	0% of the present value of the scheme liabilities	–	0% of the present value of the scheme liabilities
Total	628	8% of the present value of the scheme liabilities	82	1% of the present value of the scheme liabilities

Analysis of the movement in the balance sheet deficit:

	2017 £'000	2016 £'000
Deficit in scheme at beginning of year	(1,839)	(1,940)
Movement in year:		
Current service cost	—	—
Net interest/return on assets	(57)	(57)
Contributions	240	240
Actuarial gain/(loss)	(628)	(82)
Deficit in scheme at end of year	(2,284)	(1,839)

The last active member reached retirement age in May 2013.

The Report and Financial Statements will be posted to Shareholders on 7th June 2017 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 9.

Adjusted profit before tax

Profit before tax adjusted to exclude certain non-recurring items as set out in note 5.

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 an 'A' to a '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.

Equivalent yield

The internal rate of return from an investment property, based on the value of the property assuming the current rent passing reverts to ERV and assuming the property becomes fully reoccupied over time. It assumes that rent is received quarterly in advance.

Estimated Rental Value (ERV)

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

Extensible Business Reporting Language (XBRL)

A computer language for electronic transmission of business and financial information.

GRESB

Global Real Estate Sustainability Benchmark.

Industrial property

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

Initial yield

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

Interest cover

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 rental 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 (TSR)

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

True equivalent yield

The constant capitalisation rate, which, if applied to all 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