



21 May 2018

**McKAY DELIVERS ANOTHER
STRONG PERFORMANCE, WITH RECORD LETTINGS TAKING PORTFOLIO VALUE
AND RENTAL INCOME TO NEW HIGHS**

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 2018.

Financial Highlights

- Adjusted profit before tax up 5.4% to £9.07 million (31 March 2017: £8.60 million)
- Adjusted basic earnings per share of 9.7 pence (31 March 2017: 9.2 pence)
- Gross rental income up 5.1% to a historic high of £21.84 million (31 March 2017: £20.79 million)
- IFRS profit before tax of £43.44 million (31 March 2017: £17.59 million), reflecting a higher valuation surplus compared to prior year and profits on disposal
- NAV (EPRA) up 6.3% to 322 pence per share (31 March 2017: 303 pence), or 10.9% excluding swap cancellation costs
- NNNNAV (EPRA) up 13.0% to 322 pence per share (31 March 2017: 285 pence)
- Loan to value ratio of 31.9% (31 March 2017: 31.6%)
- Remaining legacy interest rate swap cancelled

- Final dividend up 14.3% to 7.2 pence per share (2017: 6.3 pence per share)
- Total dividend for the year up 11.1% to 10.0 pence (2017: 9.0 pence)

Portfolio Highlights

- Portfolio valuation at a historic high of £460.15 million, generating a 6.1% (£26.46 million) valuation surplus
- Record year of lettings, with 26 open market lettings (1.9% ahead of ERV) contributing £7.0 million pa to a 23.3% increase in contracted rental income (like for like) to £27.05 million pa
- Key lettings include:
 - Lombard Street, EC3, fully pre-let to a single tenant, on a 15 year lease without break
 - 9 Greyfriars Road, Reading, fully let to a single tenant, on a 15 year lease (10 year tenant break)
 - Prospero, Redhill, 91.8% let on a multi-let basis, all on 10 year terms
- 6.7% increase in rental value (like for like), taking portfolio ERV to £33.15 million pa
- Development of a new 134,150 sq ft logistics warehouse at Junction 12 of the M4 at Theale underway with Spring 2019 completion
- Substantial 27.3% (£5.7 million) profit on disposal of three lower growth assets, releasing net proceeds of £26.80 million for reinvestment

Richard Grainger, Chairman of McKay Securities, said:

“Not only are these a striking set of results but they also act as a marker to reflect on the transformation of the business since our capital raising in 2014, leading to the recommendation of a 14.3% increase in the final dividend. Since 2014, the portfolio value has increased by 81% to £460.15 million, recurring contracted rents have increased by 67%, the portfolio rental value (ERV) has increased by 76% and gearing (loan to value) has reduced from 45% to 32%. This has been achieved despite selling £68.0 million of assets, that generated income of £3.10 million pa.

While we must remain wary of the current political environment, the markets that McKay operates in and knows so well continue to prove robust and our business is well placed to deliver further shareholder value into the future.”

Simon Perkins, Chief Executive of McKay Securities, added:

“We are now reaping the benefit of the many asset management initiatives that we have been working on, but particularly the decision made to speculatively develop three office schemes back in 2014. Each scheme has been exceptionally well received, with two of them fully let during the period and the third at 92% occupancy.

“We have continued to release value from the significant reversion these initiatives have generated, delivering higher levels of income and capital gains. Through our strong in-house asset management team, we have secured record income from lettings, ahead of ERV, and have opportunistically sold properties significantly above book value.

“With the benefit of these gains, we took the decision to cancel the remaining legacy swap at the end of the period which, along with recent lettings will make a positive contribution to future earnings.

“Central to our success has been our strategic geographical focus on London and the South-East, whilst applying our team’s skills in development, refurbishment and active management. We have intimate local market knowledge and awareness of business occupier needs and it is this that will continue to drive our approach as we navigate the market and unlock the 22.6% (£6.10 million) reversion in our portfolio.”

NOTE

For reconciliation of adjusted profit before tax, see note 5 below

For reconciliation of adjusted basic earnings per share, see note 9 below

For reconciliation of EPRA NAV and EPRA NNAV see note 22 below

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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 £460 million, comprises 33 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	31 st May 2018
Record Date for the final dividend	1 st June 2018
Report and Financial Statements dispatched to Shareholders with Notice of AGM	5 th June 2018
Annual General Meeting to be held at 3.00pm at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	4 th July 2018
Final dividend paid	26 th July 2018

A final dividend per share of 7.2 pence is recommended by the Board making a total dividend for the year of 10 pence per share (2017: 9.0 pence). The final dividend will be paid as an Ordinary Dividend.

CHAIRMAN'S STATEMENT

I am pleased to be able to report an exceptionally productive year for the Group, during which progress with our growth strategy has enabled the Board to recommend a 14.3% increase in the final dividend.

Before considering the year under review, I would like to reflect on the transformation of the business since the £86.70 million capital raising in 2014, and the support from shareholders at that time. Our strategic objective, as set out in the Prospectus, was to grow the capital value and recurring income from a portfolio of predominantly office and industrial properties through development, refurbishment and active management, whilst maintaining an appropriate level of gearing.

This has been, and continues to be, delivered to the letter. Since then our portfolio value as reported by our valuers has increased by 80.8% to £460.15 million, our recurring contracted rents have increased by 66.5%, the portfolio rental value (ERV) has increased by 76.0% and gearing (loan to value) has reduced from 44.5% to 31.9%.

The acquisition of eight properties at a cost of £74.24 million added a mix of value enhancing opportunities, and the disposal of twelve smaller and low growth assets realised net proceeds of £68.01 million. To date, the acquisitions have delivered a combined valuation surplus of 30.5% whilst the disposals have realised a substantial 22.1% surplus of £15.04 million. The growth in portfolio and rental value is all the more impressive considering the scale of disposals made, which has enabled the recycling of capital and the improvement of the overall quality of the portfolio.

Three major speculative development projects and four refurbishments have proved a great success, with a fourth development currently under way. The rental value of these assets has increased by 181.3%, and after £61.32 million of capital expenditure to date, these projects have delivered a 28.7% valuation surplus of £31.16 million.

Beyond the headlines, there has been a real desire to increase market awareness of the business and to enhance our reputation by exceeding tenants' expectations and providing engaging workspace to attract new occupiers.

Underpinning these property initiatives is a more robust financial base. Since 2014, all loan facilities have been renewed, the debt available to the Group has increased by £35.00 million to £190.00 million and the loan expiry profile has been extended. Our cost of debt is also now at a more competitive level following the cancellation of legacy interest rate swaps.

We have collectively been fortunate with the well executed selection of nonexecutive directors of the highest calibre to replace those standing down after admirable service and support, and to maintain an independent balance. Despite these changes, the Board has remained stable, fully engaged and enthusiastic at all times.

Management foresight has been endorsed with outstanding performance across all key metrics, delivering a 164.9% increase in adjusted profit before tax since March 2014 to £9.07 million for the current year and a 44.7% increase in shareholders' funds to £306.44 million.

The combination of property and financial progress has enabled us to achieve our objective of covering the cost of the dividend, which doubled on issue of the new shares, within three years. The cost of the dividend this year is over £9.00 million, compared with £3.90 million in 2013.

In relative terms, this success is highlighted by a total shareholder return (TSR) of 54.2%, driven by a 45.5% increase in the share price since the capital raising, which is more than double the return delivered by the FTSE 350 Real Estate Index and the FTSE All Share Index over the same period.

In summary, the combination of shareholder support and the management of the business has delivered outperformance, significant shareholder value and leaves the Group in a strong position for the future.

Moving on to the year under review, we have been able to contribute to the progress above with the further release of reversionary potential built up in the portfolio since 2014 with a record year of lettings for the Group. Twenty six open market lettings were completed at or above March 2017 ERV, unlocking combined contracted income of £7.00 million pa.

A significant proportion of this contracted income resulted from letting progress with the speculative office schemes within our development programme. Clear focus on London and the South East remains core to the Group's success and ensures we remain acutely aware of occupier needs in order to deliver relevant and flexible space for today's businesses, as evidenced through our three latest developments in Reading, Redhill and London which have all attracted high quality tenants with strong covenants.

At 9 Greyfriars Road, Reading (39,620 sq ft), we achieved a single letting of the whole building, and at Prospero, Redhill (50,370 sq ft), we ended the period 91.8% let, having secured lettings to local and regional occupiers on a floor by floor basis. In March 2018, we were also very pleased to announce a prelet of 30 Lombard Street, EC3 (58,000 sq ft) where the scheme and its globally recognised location resulted in the FTSE 100 wealth manager St. James's Place plc committing to a 15 year lease, without break, for the entire building. The lease, which remains conditional on completion of the building this summer, will commence in January 2019 and makes the largest single contribution to the increase in contracted rent over the year.

The completed schemes have created high quality assets, which enhance the income profile and resilience of the portfolio. They were the main contributors to a 23.3% (like for like) increase in contracted rents which ended the year at £27.05 million pa (March 2017: £23.42 million pa). They were also the main contributors to the 5.1% increase in gross rents received and the resulting 5.4% increase in adjusted profit before tax.

We have also increased the reversionary potential of the portfolio with planning consent for a 38.5% increase in floorspace at Brunel Road, Theale, Reading. Development of a speculative 134,150 sq ft warehouse scheme is now under way and we expect to generate strong interest from logistics occupiers drawn to its strategic location just off the M4 motorway. The increase in potential rental value for this asset, combined with refurbishment and asset management elsewhere in the portfolio, resulted in the portfolio ERV increasing by 6.7% to £33.15 million, outperforming the 1.9% increase in the IPD index. The £6.10 million pa differential to contracted rents still provides a substantial 22.6% portfolio reversion for future returns.

With the benefit of valuation gains from the development projects and elsewhere in the portfolio, including a strong 19.5% contribution from our industrial assets, the independent portfolio valuation of £460.15 million delivered a 6.1% (£26.46 million) surplus, also outperforming the IPD index increase of 5.3%.

Balance sheet gains were also generated with the sale of properties in Farnborough, Newbury and Egham. These disposals were in line with our policy of the targeted recycling of capital out of smaller and lower growth assets where we can capitalise on recent value add initiatives or, as in the case of the warehouse unit in Egham, aggressive market pricing. High levels of investor demand for warehouse assets resulted in a sale price reflecting a 4.2% yield for this unrefurbished unit, developed by the Group over forty years ago. Combined net sale proceeds of £26.80 million delivered a substantial 27.3% (£5.75 million) surplus over March 2017 book value.

The headroom created from disposals provided us with the ability to cancel the remaining £33.00 million interest rate swap. The swap predated the global financial crisis and its 5.17% coupon reflected the higher interest rate environment at that time. The cancellation cost to the Group was £13.35 million after a significant contribution from the counterparty bank. This removes the final legacy swap which will enhance earnings, further strengthen the balance sheet and improve the Group's debt profile. It also finally removes the negative value from the balance sheet.

Valuation and disposal gains helped offset portfolio expenditure and financing costs, maintaining a loan to value ratio of 31.9% (March 2017: 31.6%) and substantial headroom of £43.00 million to loan facilities, which we increased over the year by £15.00 million to £190.00 million. With supportive lenders, this provides us with robust financing for the immediate future.

With the benefit of the positive activity over the period, shareholders' funds increased by £35.65 million (13.2%) to £306.44 million, equivalent to IFRS NAV per share of 326 pence (March 2017: 289 pence). EPRA NAV per share increased by 6.3% to 322 pence (March 2017: 303 pence)

The Board

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

Dividend

The Board is recommending a 14.3% increase in the final dividend to 7.2 pence per share (March 2017: 6.3 pence). In reaching this recommendation the Board has taken into account the anticipated earnings growth in future periods from recent lettings and the swap cancellation, in addition to the adjusted profit before tax achieved for the year.

The final dividend will be paid as an ordinary dividend on 26th July 2018, and will take the total dividend for the year to 10.0 pence per share (2017: 9.0 pence), an increase of 11.1%.

Future prospects

This has been a year of major strategic progress for the Group, which will deliver further shareholder value as income from the prelet at 30 Lombard Street, EC3 and other lettings make a full contribution. This progress also provides a strengthened platform to release the significant reversionary potential that remains within the portfolio and to capitalise on the Group's unique position in its core markets.

Since the EU referendum there have been concerns regarding the potential for a more cautious occupier market. This remains a risk but, as we have shown, the markets that we operate in and know well continue to prove robust and our assets are well placed to deliver further shareholder value.

Richard Grainger
Chairman

Property and Financial Review

Overview

McKay Securities remains the only Real Estate Investment Trust (REIT) exclusively focused on developing and investing solely in the established and proven office and industrial real estate markets of London and the South East. As at 31st March 2018, the Group owned 31 investment assets and 2 assets in development, with a combined value of £460.2 million (March 2017: 36 assets / £429.9 m). By value, 56.5% of the portfolio is in South East offices, 23.5% in London offices and 15.3% in South East industrial with a range of other sectors making up 4.7%.

This year heralded great success for the Group. By the end of the period we had let 9 Greyfriars Road, Reading (39,620 sq ft) to a single tenant, 91.8% of Prospero, Redhill (50,370 sq ft) on a multilet basis and prelet the whole of 30 Lombard Street, EC3 (58,000 sq ft) conditional on completing the building. These lettings contributed to a 23.3% increase in contracted rents (on a like for like basis) to £27.05 million pa (March 2017: £23.42 million pa) and a total return of 12.3% compared to the IPD benchmark of 10.5%.

The entire portfolio is now 89.4% let (March 2017:77.3%) and, excluding developments, is 92.6% let (March 2017: 93.3%). Through the development lettings our weighted average lease length to expiry has now increased to 6.9 years (March 2017: 5.2 years) and to 5.8 years to tenant's first break (March 2017: 4.3 years).

We have continued to capitalise on the supply constraints across all our markets, especially in the South East, and have delivered the right product in the right locations, generating ERV growth of 6.7% compared to IPD All Property of 1.9%. During the period we achieved 26 open market lettings totalling £7.0 million pa, 1.9% ahead of ERV. As a result, our South East office void rate has reduced from 19.2% to 7.9% and we continue to refurbish and improve our remaining portfolio voids wherever possible.

The Group's substantial rental reversion has been established predominantly through our ambitious development programme referred to above, which is now realising shareholder value. We remain well placed to benefit from supply constrained markets, with an enviable logistics development at Theale now commenced, and 22.6% reversionary potential portfolio to an ERV of £33.14 million pa.

Occupiers are focussed more than ever on the environment, health and wellbeing. Catering to these demands, sustainability is embedded in everything we do. Five years ago we launched our sustainability strategy and, with our external consultants, we continue to set ambitious short and long term targets centred on three core areas: creating sustainable buildings, managing sustainable buildings and engaging with stakeholders. Over the period we successfully achieved 90.0% of those targets and maintained our GRESB 'Green Star' status for the second year running. We continue to meet our strict criteria of developing buildings to a minimum of BREEAM Excellent and EPC B rating and we have reduced our carbon emissions by 14.0% year on year.

Market review

Our London and South East markets have proved resilient thanks to an historic undersupply of high quality office space, buoyed by consistent levels of demand. The pace of rental growth has levelled out, but shortfalls in certain centres provide the scope for further growth. Rent free incentives are stabilising after the 2017 spike in development completions, but the steady levels of take up highlight that fit for purpose buildings of the right size and in the right locations are letting.

Real estate as an asset class continues to benefit from the low interest rate environment as investors search for income, particularly in the globally established London and the South East markets. Overseas and institutional investors have moved down the risk curve over the year, reintroducing a more apparent value gap between prime and secondary assets.

In 2017, central London investment totalled £17.0 billion (2016: £12.8 billion) which was only marginally below the record year of 2013, which saw turnover peak at £19.6 billion (source: Knight Frank) while the South East recorded its second highest year on record of £4.00 billion (2016: £2.80 billion) (source: BNP).

High quality office supply remains very constrained across all our markets. At the end of the period, the vacancy rate of new and Grade A refurbished stock in London was just 2.0%, compared to the long term average of 2.3%. At the same time, the South East equivalent vacancy rate was 6.1%, significantly below the long term average of 7.8%.

The volume of South East office lettings has remained steady post the EU referendum and despite wider economic concerns. Take up for 2017 was 2.00 million sq ft, equalling 2016 and in line with the 10 year average of 1.99 million sq ft. Current active occupier demand is also being sustained; at the end of Q1 2018, including space under offer, this stood at 3.59 million sq ft which compares to the long term average of 3.90 million sq ft.

Set against this environment, and compounding the constrained supply, the speculative development pipeline is historically thin with just 0.48 million sq ft and 0.45 million sq ft of new development due to complete in 2018 and 2019 respectively, which compares to a 10 year average of 0.71 million sq ft pa.

While there was a resurgence of new buildings in the South East in 2016 and 2017 in response to the five year undersupply following the financial crisis, many of these were larger schemes which have proved incompatible with market demand for smaller buildings. Just four buildings make up 44.0% of the 1.79 million sq ft spike in development completions in 2017 and the remaining vacancy within these buildings creates a misleading supply picture in certain locations.

Building obsolescence is an increasingly important market driver with over 50% of buildings within the IPD index at least 25 years old. Tenants therefore have less choice for efficient new office space, and large buildings are not satisfying the pattern of demand and take up. In 2017, 82.6% of the South East office letting transactions were in the 5,000 – 20,000 sq ft size band which we have benefited from given our portfolio average of 6,700 sq ft per tenant.

Total occupational costs in prime West End of London locations are now circa £175.00 psf compared to central Reading of circa £60.00 psf. The rental discount has increased by 25.0% since 2007 and the cost of housing gap has also increased from a 20.0% discount to a 33.0% discount over the same period. The appeal of the South East will increase further with the Elizabeth Line (Crossrail) service to London and the quick access to Heathrow which the Western Rail Access to Heathrow (WRATH) will deliver.

Supply in the industrial and logistics market (15.3% of the portfolio) fell for a seventh successive year, leaving the availability rate at a new all time low of 4.4%. Take up, conversely, reached a record 9.80 million sq ft in the first quarter of 2018 and remains high to meet the exponential growth of ecommerce and the resultant need for last mile delivery to urban centres. This supply and demand imbalance supports the commencement of our speculative warehouse development at Theale, referred to below.

Acquisitions and disposals

We continue to monitor the market closely and assess potential development acquisitions and investment opportunities where we can add value. Having invested heavily in prior years, we directed our capital resources over the year primarily into existing assets rather than compete in a relatively supply starved investment market. However, we are beginning to see the gap in pricing widen between prime and secondary assets which should present value add opportunities, provided stock is selected wisely.

We made three disposals in the period, realising a combined surplus over March 2017 book value of 27.3% (£5.75 million). The most notable sale was in Egham, where we capitalised on a very strong industrial market having added value with a recent lease extension, by disposing of Runnymede Focus a 90,890 sq ft warehouse which was developed by the Group in 1974. It was let for a further seven years at a rent of £0.89 million pa and the sale for £19.91 million, representing a yield of 4.2%, realised a surplus over March 2017 book value of 35.3% (£5.12 million).

Two other sales consisted of the previously reported Pinehurst Park, Farnborough and Albion House in Newbury, which together delivered the remaining £0.63 million of surplus.

Development programme

Over the period development and refurbishment capital expenditure totalled £23.31 million.

In Reading town centre, two minutes walk from the station, 9 Greyfriars Road (39,620 sq ft) was completed in mid 2016. In July 2017 we let the whole of the building to Spaces, guaranteed by Regus Holdings plc on a 15 year lease (10 year tenant break). The headline rent of £1.21 million pa equated to £31.00 per sq ft, which was 3.3% ahead of March 2017 ERV. This letting to a major new coworking tenant was the third largest letting in the Thames Valley last year and was a strong endorsement for both the location and the product, providing a valuation surplus for the period of 37.6% (£5.40 million).

In Redhill, we completed the only new office development in the last eleven years at Prospero (50,370 sq ft) in late 2016. Since then, we have achieved record rents for the town (£30.00 – £31.00 per sq ft) and all four tenants (91.8% of the building with a combined contractual rent of £1.37 million pa), have committed to 10 years term certain. This is rare in a market now characterised by tenant flexibility and shorter leases, and shows great commitment to the quality and sustainability of the building by the new tenants. The only remaining vacant space is 4,112 sq ft on part of the first floor which is being marketed and generating good interest.

In the heart of the City of London, we remain on programme to deliver a brand new Grade A office development at 30 Lombard Street, EC3 (58,000 sq ft) in the summer. Ahead of this we have successfully exchanged contracts to prelet the entire building to the FTSE 100 wealth manager, St. James's Place plc who will take occupation in January 2019. The lease, which remains conditional on practical completion, is for a term of 15 years at a gross rent of £3.76 million pa (£3.38 million pa net of ground rent), marginally ahead of ERV.

During the period we added to our development pipeline and topped up the reversionary potential of the portfolio by securing vacant possession and planning approval for a new 134,150 sq ft logistics warehouse at Junction 12 of the M4 at Theale, on the south side of Reading. Demolition of the former chilled warehouse unit has already commenced, and the new building, which will increase the floor area on the site by 38.5%, is programmed to complete in Spring 2019. Demand for well specified high quality industrial and logistics units with good motorway access, particularly to London, remains strong, and marketing is already generating positive interest.

Asset management

In our London and South East office markets, as well as the delivery of development lettings success, we also remain focused on the day to day rigorous asset management and refurbishment of our assets.

At the Mille (96,700 sq ft) in Brentford we continue to refurbish and improve the building and its environment. The works encouraged UBC, an existing serviced office tenant to commit to the two lower floors (16,624 sq ft) on 10 year leases without break at £0.33 million pa. These leases replaced legacy management profit share agreements which provided little return.

An example of the benefit of our focus on London and the South East was Benecol, an existing tenant at Switchback, Maidenhead, who needed to relocate closer to London. To accommodate this we accepted a surrender of their existing lease of a floor at Switchback and were able simultaneously to grant them a new lease at the Mille, thereby retaining them in the portfolio. These lettings contributed to a total of 34.0% of the floor space at the Mille being successfully let or having leases renewed in the last 12 months, creating a valuation gain over the period of 12.2%.

Croydon, with its excellent transport links to central London, is still proving very popular to occupiers as evidenced at Corinthian House (44,590 sq ft) which sits directly opposite East Croydon station. Our active asset management has continued to drive ERV growth of 16.8% over the period assisted by reletting the 4th floor (4,497 sq ft) on expiry with no void, at a 47.4% rental increase to £28.00 per sq ft. We also took a surrender of the dated 7th floor (at £17.30 per sq ft) to enable its refurbishment and granted that tenant a new 10 year lease of the recently refurbished part 8th floor at £30.00 per sq ft.

Our average building size is 43,500 sq ft and 11 out of 16 (68.8%) of our South East buildings are multi let. We recognise that smaller tenants value flexibility, personality of building and coworking break out areas which is exactly what we have been providing at both 329 Bracknell and One Crown Square, Woking for many years now.

At One Crown Square (50,735 sq ft) we continue to upgrade and provide managed suites with associated coworking areas and communal kitchens. We concluded eight open market lettings in the period at a combined rent of £0.17 million pa which contributed to a 12.4% increase in ERV compared to the South East IPD rental growth index of 2.4%.

15.3% of the portfolio by value is South East industrial assets, both single let larger units and popular trade counter type properties. These assets have all continued to perform well in terms of rental and capital growth, enhanced by refurbishment and lease renewals where appropriate. At 3 Acre (44,290 sq ft) in Folkestone we upgraded the estate while simultaneously renewing and extending 40.0% of the tenants' leases, providing a valuation gain of 13.3% over the period.

At Oakwood Trade Park (52,400 sq ft) in Crawley which contains 16 fully let trade counter units, we accepted a surrender from an expanding tenant and simultaneously relet the unit to a new occupier on a longer lease at an increased record rent for the estate of £15.00 psf. As a result, the ERV increased over the period by 15.2% and together with subsequent lease renewals, drove a valuation gain of 36.0%.

At Poyle, adjacent to Terminal 5 of Heathrow Airport, the McKay Trading Estate (73,955 sq ft) continues to represent the ideal stock for that market. This fully let estate achieved a 27.3% growth in ERV and a corresponding valuation gain of 22.1%.

The Group manages all assets in house resulting in strong tenant relationships and extremely thorough building knowledge. This proves advantageous when managing lease events, and at lease break and expiry, 25 out of 42 tenants were retained at contracted rents totalling £1.11 million pa. Whilst the retention rate of 59.5% was lower over the period (March 2017: 76.6%) in a number of instances, we chose to end leases to facilitate refurbishment work and the achievement of higher rents on the open market. Combined rent for retained tenants was 7.5% ahead of rent prior to the lease events.

Valuation

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

Knight Frank's independent valuation of the Group's assets totalled £460.15 million as at 31st March 2018 (March 2017: £429.92 m). This showed a surplus of £26.46 million (6.1%), outperforming IPD All Property capital growth of 5.3% over the same period, and a surplus of £17.78 million (4.7%) excluding developments

The initial yield was 4.1% (March 2017: 4.6%) rising to a topped up yield of 5.6% at the expiry of rent free periods (March 2017: 5.1%), the equivalent yield was 5.8% (March 2017: 6.4%) and the reversionary yield at ERV was 6.8% (March 2017: 7.1%). These year on year movements have been driven by the strong development lettings which are still in rent free periods, generating a lower initial yield but a higher topped up yield. As expected the reversionary yield has reduced as the development lettings have added value but remains significant, driven by the new development at Theale Logistics Park as well as the investment portfolio voids and rental reversion. The quality of buildings and locations in the portfolio was demonstrated by the rental growth outperformance against the IPD benchmark. Excluding developments, our South East office assets achieved rental growth of 4.0% (IPD: 2.4%), with London assets at 5.2% (IPD: 0.3%).

Turning to capital growth, again excluding developments, our South East offices were marginally lower than IPD at 3.0% versus 3.9% while our London assets achieved 0.5% capital growth versus IPD of 3.6%.

The industrial sector is widely accepted by the market as the strongest performer with IPD capital growth of 18.5% and rental growth of 6.3%. Our seven industrial assets outperformed both these measures with capital growth of 19.5% and rental growth of 11.4%. This excludes Runnymede Focus, Egham which achieved a sale price at the end of the period 35.3% ahead of March 2017 book value.

Total shareholder return

Total Shareholder Return (TSR) for the year to 31st March 2018 was 36.2%. This compares to a FTSE 350 Real Estate Index return of 7.9% and a FTSE All Share return of 1.2% for the same period. Recent increases in share price reverse the decline in the prior year resulting from the extreme movement in our share price following the EU referendum vote. Over a three year period the Group has delivered a 23.5% return compared to a 0.7% for the FTSE 350 Real Estate and 18.6% for the FTSE All Share.

Dividends

The final dividend of 7.2 pence per share (March 2017: 6.3 pps) will be paid on 26th July 2018 to those on the register on 1st June 2018. With the interim dividend of 2.8 pence per share, this takes the total dividend for the year to 10.0 pence per share, an increase of 11.1% on the previous year.

As a REIT, the Group is required to distribute at least 90.0% 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 20.0%. Over the period, the cost of cancelling interest rate hedging instruments has offset 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 £0.46 million (5.4%) to £9.07 million (March 2017: £8.60 million) due primarily to a £1.05 million increase in property revenues. Gross rents benefitted from letting progress at the Group's developments at 9 Greyfriars Road, Reading and Prospero, Redhill, which will add further to subsequent periods, which will be further enhanced by the prelet at 30 Lombard Street, EC3. In addition, recent lettings elsewhere in the portfolio including at One Crown Square, Woking and Castle Lane, London added to gross rents. These positives were offset to a degree by the loss of income at Pegasus Place, Crawley as a result of a tenant insolvency.

Profit before tax (IFRS) totalled £43.44 million (March 2017: £17.59 million). This included the unrealised surplus on valuation (including SIC15 adjustment) for the period of £25.07 million and the positive impact of the swap cancellation of £3.56 million.

Administration costs increased to £6.31 million (March 2017: £5.79 million). This 8.8% increase was primarily due to staff salaries rising in line with inflation and an increase in bonus payable.

The interest cost for the year of £6.74 million was similar to the prior year (March 2017: £6.34 million). This cost will reduce on a like for like basis going forward as a result of the cancellation of the Group's remaining £33.00 million legacy interest rate swap, carrying a coupon of 5.17%. The swap was cancelled on 28th March 2018 at a net cost to the Group of £13.35 million, with the full cost of cancellation offset by a lender contribution. Interest capitalised against projects during the year was comparable to the prior year at £1.66 million (March 2017: £1.82 million) but will reduce as the development programme matures.

The Group's weighted average cost of debt reduced to 4.06% prior to amortisation and finance lease interest (March 2017: 4.42%).

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

Balance sheet

Shareholders' funds increased from £270.08 million to £306.44 million over the period, principally due to the £26.46 million valuation surplus (£25.07 million excluding SIC15 adjustment).

EPRA NAV per share increased by 6.3% over the period to 322 pence (March 2017: 303 pence). NNNAV per share increased by 13.0% to 322 pence (March 2017: 285 pence) and IFRS NAV per share increased by 12.8% to 326 pence (March 2017: 289 pence). The cancellation of the remaining interest rate swap results in the EPRA and EPRA NNNAV per share now being equal at 322 pence.

The Group currently benefits from £190.00 million (March 2017: £175.00 million) of banking facilities, having refinanced the final of its four facilities in August 2017 and increased the existing Aviva loan by a further £10.00 million in March 2018. Drawn debt at the end of the period was £147.00 million (March 2017: £136.00 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2018 was 31.9% (March 2017: 31.6%). The ratio of aggregate net borrowings to tangible net worth was 48.0% (March 2017: 47.3%). Both ratios have remained constant, with capital expenditure of £23.30 million on the portfolio and the cost of the cancellation of the swap being offset by asset sales above book value and the valuation surplus achieved during the year.

Net cash inflow from operating activities was £7.50 million (March 2017: inflow £16.53 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.98x (March 2017: 1.96x).

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 2017: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has reduced over the period from £2.28 million to £2.16 million. The decrease in the deficit is mainly due to an increase in the discount rate from 2.3% to 2.4%. As a result of the triennial valuation for the period to 31st March 2017, which showed a funding level of 87.5% on a continuing valuation basis, the Group's annual contribution to the Scheme remains at £0.24 million. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

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 2018 are as follows:

CONSOLIDATED PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March 2018

	Notes	2018 £'000	2017 £'000
Gross rents and service charges receivable	2	25,500	24,112
Other property income		792	1,648
Direct property outgoings		(5,838)	(5,888)
Net rental income from investment properties	2	20,454	19,872
Administration costs	3	(6,305)	(5,795)
Operating profit before gains on investment properties		14,149	14,077
Profit on disposal of investment properties		5,746	—
Revaluation of investment properties	11	25,066	7,617
Operating profit	4	44,961	21,694
Finance costs	6	(5,089)	(4,523)
Finance income	6	3,570	423
Profit before taxation		43,442	17,594
Taxation	7	—	—
Profit for the year		43,442	17,594
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		(70)	(628)
Total comprehensive income for the year		43,372	16,966
Earnings per share	9		
Basic		46.25p	18.78p
Diluted		45.91p	18.63p
Adjusted earnings per share figures are shown in note 9			
Dividends	10		
Previous year's final dividend of 6.3p (2017: 6.1p) paid during the year		5,910	5,683
Interim dividend of 2.8p (2017: 2.7p) paid during the year		2,631	2,533
Proposed final dividend of 7.2p (2017: 6.3p)		6,765	5,910

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 2018

Non-current assets

	Notes	2018 £'000	2017 £'000
Investment properties — Valuation as reported by the valuers		460,150	429,915
— Adjustment for rents recognised in advance under SIC 15		(6,691)	(5,987)
— Assets held for sale		(11,925)	(5,500)
— Adjustment for grossing up of head leases	16	4,404	4,405
	11	445,938	422,833
Plant and equipment	12	42	62
Trade and other receivables*	14	5,861	4,730
Total non-current assets		451,841	427,625

Current assets

Trade and other receivables*	14	1,617	2,186
Assets held for sale	11	11,925	5,500
Cash and cash equivalents		1,725	4,485
Total current assets		15,267	12,171
Total assets		467,108	439,796

Current liabilities

Loans and other borrowings	15	—	(34,973)
Trade and other payables	15	(9,501)	(11,298)
Finance lease liabilities	16	(285)	(285)
Interest rate derivatives	15	—	(2,159)
Total current liabilities		(9,786)	(48,715)

Non-current liabilities

Loans and other borrowings	15	(144,598)	(99,127)
Pension fund deficit	24	(2,164)	(2,284)
Finance lease liabilities	16	(4,120)	(4,120)
Interest rate derivatives	15	—	(14,758)
Total non-current liabilities		(150,882)	(120,289)
Total liabilities		(160,668)	(169,004)
Net assets		306,440	270,792

Equity

Called up share capital	19	18,791	18,762
Share premium account		79,235	78,929
Retained earnings		80,622	55,172
Revaluation reserve		127,792	117,929
Total equity		306,440	270,792
Net asset value per share	22	326p	289p
EPRA net asset value per share	22	322p	303p

*Restated see note 14

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31st March 2018

Non-current assets

	Notes	2018 £'000	2017 £'000
Investment properties — Valuation as reported by the valuers		402,850	399,835
— Adjustment for rents recognised in advance under SIC 15		(6,691)	(5,987)
— Assets held for sale		(11,925)	(5,500)
— Adjustment for grossing up of head leases		2,883	2,884
	11	387,117	391,232
Plant and equipment	12	42	62
Investments in subsidiaries	13	—	22,176
Trade and other receivables*	14	5,861	4,730
Total non-current assets		393,020	418,200

Current assets

Trade and other receivables*	14	35,049	17,348
Assets held for sale	11	11,925	5,500
Cash and cash equivalents		1,725	4,485
Total current assets		48,699	27,333
Total assets		441,719	445,533

Current liabilities

Loans and other borrowings	15	—	(34,973)
Trade and other payables	15	(9,536)	(37,561)
Finance lease liabilities		(180)	(180)
Interest rate derivatives	15	—	(2,159)
Total current liabilities		(9,716)	(74,873)

Non-current liabilities

Loans and other borrowings	15	(144,598)	(99,127)
Pension fund deficit	24	(2,164)	(2,284)
Finance lease liabilities		(2,703)	(2,704)
Interest rate derivatives	15	—	(14,758)
Total non-current liabilities		(149,465)	(118,873)
Total liabilities		(159,181)	(193,746)
Net assets		282,538	251,787

Equity

Called up share capital	19	18,791	18,762
Share premium account		79,235	78,929
Retained earnings		64,002	34,138
Revaluation reserve		120,510	119,958
Total equity		282,538	251,787

*Restated see note 14

GROUP CASH FLOW STATEMENT

For the year ended 31st March 2018

	2018 £'000	2017 £'000
Operating activities		
Profit before tax	43,442	17,594
Adjustments for:		
Depreciation	34	32
Other non-cash movements	1,350	1,308
Profit on sale of investment properties	(5,746)	—
Movement in revaluation of investment properties	(25,066)	(7,617)
Net finance costs	1,519	4,100
Cash flow from operations before changes in working capital	15,533	15,417
(Increase)/decrease in debtors	(497)	8,339
Decrease in creditors	(1,373)	(1,178)
Cash generated from operations	13,663	22,578
Interest paid	(6,171)	(6,055)
Interest received	5	7
Cash flows from operating activities	7,497	16,530
Investing activities		
Proceeds from sale of investment properties	26,773	—
Purchase and development of investment properties	(25,031)	(18,478)
Purchase of other fixed assets	(14)	(3)
Cash flows from investing activities	1,728	(18,481)
Financing activities		
Increase in borrowings	9,908	19,989
Equity dividends paid	(8,541)	(8,216)
Cancellation of derivative	(13,352)	(5,076)
Cash flows from financing activities	11,985	6,697
Net (decrease)/increase in cash and cash equivalents	(2,760)	4,746
Cash and cash equivalents at the beginning of the year	4,485	(261)
Cash and cash equivalents at end of the year	1,725	4,485

COMPANY CASH FLOW STATEMENT

For the year ended 31st March 2018

	2018	2017
	£'000	£'000
Operating activities		
Profit before tax	38,545	27,760
Adjustments for:		
Depreciation	34	32
Other non-cash movements	1,345	1,302
Profit on sale of investment properties	(5,746)	—
Movement in revaluation of investment properties	(15,755)	(11,300)
Net finance costs	1,535	4,779
Cash flow from operations before changes in working capital	19,958	22,573
(Increase)/decrease in debtors	(18,770)	9,250
Increase/(decrease) in creditors	1,474	(16,025)
Cash generated from operations	2,662	15,798
Interest paid	(6,066)	(6,039)
Interest received	1,477	530
Cash flows from operating activities	(1,927)	10,289
Investing activities		
Proceeds from sale of investment properties	26,773	—
Purchase and development of investment properties	(15,607)	(12,237)
Purchase of other fixed assets	(14)	(3)
Cash flows from investing activities	11,152	(12,240)
Financing activities		
Increase in borrowings	9,908	19,989
Equity dividends paid	(8,541)	(8,216)
Cancellation of derivative	(13,352)	(5,076)
Cash flows from financing activities	(11,985)	6,697
Net (decrease)/increase in cash and cash equivalents	(2,760)	4,746
Cash and cash equivalents at the beginning of the year	4,485	(261)
Cash and cash equivalents at end of the year	1,725	4,485

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2018

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 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
Profit for the year	—	—	—	43,442	43,442
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	25,066	(25,066)	—
Transfer on disposal of investment properties	—	—	(15,203)	15,203	—
Actuarial loss on defined benefit pension scheme	—	—	—	(70)	(70)
Total comprehensive income for the year	—	—	9,863	33,509	43,372
Issue of new shares net of costs	29	306	—	(335)	—
Dividends paid in year	—	—	—	(8,541)	(8,541)
Deferred bonus	—	—	—	21	21
Cost of share based payments	—	—	—	796	796
At 31st March 2018	18,791	79,235	127,792	80,622	306,440

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2018

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
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
Profit for the year	—	—	—	38,545	38,545
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	15,755	(15,755)	—
Transfer on disposal of investment properties	—	—	(15,203)	15,203	—
Actuarial loss on defined benefit pension scheme	—	—	—	(70)	(70)
Total comprehensive income for the year	—	—	552	37,923	38,475
Issue of new shares net of costs	29	306	—	(335)	—
Dividends paid in year	—	—	—	(8,541)	(8,541)
Deferred bonus	—	—	—	21	21
Cost of share based payments	—	—	—	796	796
At 31st March 2018	18,791	79,235	120,510	64,002	282,538

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2018

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 2018 or 2017, but is derived from those accounts. The statutory accounts for the period ended 31st March 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31st March 2017 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31st March 2018 and 2017; 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 subsidiary (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 and 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, are disclosed in the applicable policies and notes below.

Investment 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 and 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 and 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 and 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 and 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 and Loss and other Comprehensive Income in the period incurred.

Assets held for sale

Properties held for sale are classified as non-current assets if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets are measured at the lower of previously carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

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. This forms part of retained earnings.

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 and 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 by using an effective interest rate.

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 and 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 and Loss and other Comprehensive Income. Actuarial gains and losses on scheme assets and liabilities are recognised in equity through the Profit and 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 and 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 and 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

	2018 £'000	2017 £'000
Gross rents receivable	21,545	20,672
SIC 15 adjustment (spreading of rental incentives)	299	118
Gross rental income	21,844	20,790
Service charges receivable	3,656	3,322
	25,500	24,112
Other property income	792	1,648
Direct property outgoings	(5,838)	(5,888)
	20,454	19,872

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	2018 £'000	2017 £'000
Directors' — remuneration	1,271	991
— bonus ¹	577	176
Staff — costs	977	1,342
— bonus	398	195
National Insurance	570	496
Pension costs — defined benefit scheme	50	57
— defined contributions	217	194
Share based payment accounting charge (IFRS 2)	796	691
	4,856	4,142
Depreciation (note 12)	34	32
Office costs	415	523
Legal and professional fees	938	1,073
General expenses	62	25
	6,305	5,795

¹ Amount charged to income in year to 31st March 2018.

The average number of persons employed by the Group and Company during the year was 19 (2017: 18).

	2018 £'000	2017 £'000
Fees paid to auditor		
Statutory audit services		
McKay Securities PLC audit	72	70
Subsidiary audits	2	2
Assurance services		
Interim review	19	19
Service charge audits	10	10
Taxation services		
Corporation tax compliance	—	47
	103	148
Future services – contracted fees		
XBRL tagging	—	7

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.

	2018 £'000	2017 £'000
Profit before tax	43,442	17,594
Cancellation of derivatives	13,352	5,076
Change in fair value of derivatives	(16,917)	(5,491)
Movement in revaluation of investment properties	(25,066)	(7,617)
Other property income (see note 2)	(792)	(1,648)
Profit on disposal of investment properties	(5,746)	—
IFRS 2 adjustment to share based payments	795	691
Adjusted profit before tax	9,068	8,605

6 Net finance costs

	2018 £'000	2017 £'000
Interest on bank overdraft and loans	5,633	5,269
Commitment fee	240	381
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	590	410
Capitalised interest (note 8)	(1,659)	(1,822)
	5,089	4,523
Cancellation of derivatives	13,352	5,076
Change in fair value of derivatives	(16,917)	(5,491)
Interest receivable	(5)	(8)
	(3,570)	(423)
Net finance costs	1,519	4,100

7 Taxation

	2018 £'000	2017 £'000
Total tax in the Consolidated Profit and Loss and other Comprehensive Income	—	—

Reconciliation to effective rate of tax:

Profit on ordinary activities before tax	43,442	17,594
Tax charge on profit at 19% (2017: 20%)	8,254	3,519
Effects of:		
REIT tax exemption	(8,254)	(3,519)
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 £1,658,692 (2017: £1,821,970) and relates to works to London, 30 Lombard Street, EC3 and Theale, Brunel Road.

Total development interest capitalised amounts to £12,549,320 (2017: £10,890,628).

9 Earnings per share

	2018 £'000	2017 £'000
Basic earnings per share	46.25	18.78
Cancellation of derivatives	14.22	5.42
Change in fair value of derivatives	(18.02)	(5.86)
Movement in revaluation of investment properties	(26.69)	(8.13)
Other property income	(0.84)	(1.76)
Profit on disposal of investment properties	(6.12)	—
Share based payments	0.85	0.74
Adjusted earnings per share	9.65	9.19

Basic earnings per share on ordinary shares is calculated on the profit in the year of £43,442,000 (2017: £17,594,000) and 93,925,375 (2017: 93,659,703) shares, being the weighted average number of ordinary shares in issue during the year.

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares in issue	93,925,375	93,659,703
Number of shares under option	1,516,011	1,453,249
Number of shares that would have been issued at fair value	(808,206)	(656,745)
Diluted weighted average number of ordinary shares in issue	94,633,180	94,456,207

	2018 p	2017 p
Basic earnings per share	46.25	18.78
Effect of dilutive potential ordinary shares under option	(0.34)	(0.15)
Diluted earnings per share	45.91	18.63
Cancellation of derivatives	14.11	5.37
Change in fair value of derivatives	(17.88)	(5.81)
Movement in revaluation of investment properties	(26.49)	(8.07)
Other property income	—	(1.74)
Profit on disposal of investment properties	(6.07)	—
EPRA diluted earnings per share	9.58	8.38

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 94,633,180 (2017: 94,456,207) 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, the cancellation of derivatives and the movement in revaluation of investment properties. The EPRA measure includes all of these adjustments except surrender premiums included in other property income, which are added back.

10 Dividends

The final dividend is not included in the accounts as a liability as at 31st March 2018, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2017 and interim for 2018 paid in the year are included in the Consolidated Statement of Changes in Equity.

Ordinary dividends

	2018 £'000	2017 £'000
Previous year's final dividend of 6.3p paid during the year	5,910	5,683
Interim dividend of 2.8p (2017: 2.7p) paid during the year	2,631	2,533
Total recognised in financial statements	8,541	8,216
Proposed final dividend of 7.2p (2017: 6.3p)	6,765	5,910

11 Investment properties

	Freehold £'000	Long leasehold £'000	Group Total £'000	Freehold £'000	Long leasehold £'000	Company Total £'000
Valuation						
At 1st April 2017	368,718	59,615	428,333	368,718	28,014	396,732
Additions – development	4,738	20,023	24,761	4,738	2,113	6,851
Revaluation surplus/(deficit)	17,217	9,247	26,464	17,217	(64)	17,153
Adjustment for rents recognised in advance under SIC 15	(726)	22	(704)	(726)	22	(704)
Disposals	(20,990)	—	(20,990)	(20,990)	—	(20,990)
Amortisation of grossed up headlease liabilities	—	(1)	(1)	—	—	—
Book value as at 31st March 2018	368,957	88,906	457,863	368,957	30,085	399,042
Adjustment for grossing up of headlease liabilities	—	(4,404)	(4,404)	—	(2,883)	(2,883)
Adjustment for rents recognised in advance under SIC 15	6,293	398	6,691	6,293	398	6,691
Valuation as at 31st March 2018	375,250	84,900	460,150	375,250	27,600	402,850

	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
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

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2018. These valuations, were carried out by Knight Frank LLP, Chartered Surveyors and Valuers. The prior year valuation was 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 £319 million (2017: £302 million) for the Group and £269 million (2017: £269 million) for the Company.

The amount of interest capitalised during the year was £1,658,692 (2017: £1,821,970). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

Investment property valuation method and assumptions

The fair value of the property portfolio has been determined using income capitalisation techniques, whereby contracted and market rental values are capitalised with a market 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 £25.1 million (2017: £7.6 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 Income Capitalisation	South East Offices Income Capitalisation	South East Industrial Income Capitalisation
Fair value	£107,950,000	£260,100,000	£70,450,000
ERV (per sq ft pa) – average	£56.57	£27.65	£10.26
ERV (per sq ft pa) – range	£10.00-£80.00	£15.00-£43.50	£4.50-£15.00
True equivalent yield – average	4.70%	6.73%	5.46%
True equivalent yield – range	4.35%-5.69%	5.44%-8.41%	4.91%-7.29%
Capital value per sq ft	£806	£364	£149

A further £21.65 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%
Change in value of investment properties	£22.3m	£(22.3)m	£(22.7)m	£24.8m

12 Plant and equipment

Cost	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Opening	214	211	429	426
Additions	14	14	3	3
Disposals	(10)	(10)	(218)	(218)
Closing	218	215	214	211

Depreciation

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Opening	152	149	338	335
Charge for year	34	34	32	32
Disposals	(10)	(10)	(218)	(218)
Closing	176	173	152	149
Net book value	42	42	62	62

13 Investments

Company	Shares in subsidiary undertakings £'000	Total £'000
At 1 st April 2017	22,176	22,176
Liquidation of Acreway Limited	(22,176)	(22,176)
At 31st March 2018	—	—

At 31st March 2018 McKay Securities PLC had the following wholly owned subsidiary undertaking which operates in England and are registered in England and Wales: 20 Greyfriars Road, Reading, Berkshire, RG1 1NL. Acreway Limited was liquidated during the year, resulting in a final distribution to the Parent Company.

Baldwin House Limited

The above subsidiary is 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 undertaking is not worth less than the current book value.

14 Trade and other receivables

Current – restated	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Trade receivables	—	—	—	—
Amounts due from subsidiary undertaking	—	33,436	—	15,308
SIC 15 lease incentives	830	830	1,244	1,244
Other debtors and prepayments	787	783	942	796
	1,617	35,049	2,186	17,348

Non-current – restated	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
SIC 15 lease incentive	5,861	5,861	4,730	4,730

During the year the presentation of lease incentives assets were reviewed. These assets were previously reported as current. This balance has now been reallocated between its current and non-current portion. The Group and Company Statement of Financial Position have therefore both been retrospectively restated by £4,730,000. This restatement had no impact on the Consolidated Profit and Loss and other Comprehensive Income, total assets or net assets.

Group trade receivables that were past due but not impaired are as follows:

	2018 £'000	2017 £'000
Less than three months due	—	—
Between three and six months due	—	—
Between six and twelve months due	—	—
	—	—

The Group holds no collateral in respect of these receivables.

15 Liabilities

Trade and other payables

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Rent received in advance	4,238	4,220	5,328	5,311
Other taxation and social security costs	967	1,020	1,969	1,969
Amounts owed to subsidiary undertakings	—	—	—	26,286
Other creditors and accruals	4,296	4,296	4,001	3,995
	9,501	9,536	11,298	37,561

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 4 days (2017: 8 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	2018 £'000	2017 £'000
Secured bank loans	147,000	136,000
Bank facility fees	(2,402)	(1,900)
	144,598	134,100

The bank loans are secured against land and buildings with a carrying amount of £395,125,000 (2017: £386,490,000).

Repayable in:	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Less than 1 year	—	—	34,973	34,973
1-2 years	—	—	—	—
2-5 years	80,639	80,639	45,099	45,099
5-10 years	—	—	—	—
Greater than 10 years	63,959	63,959	54,028	54,028
	144,598	144,598	134,100	134,100

Changes in liabilities arising from financing activities	2018 £'000	2017 £'000
Current loans as at 1 April 2017	34,973	—
Non-current loans as at 1 April 2017	99,127	113,701
Total loans as at 1 April 2017	134,100	113,701
Increase in borrowings	9,908	19,989
Facility fee amortisation	590	410
Total loans as at 31 March 2018	144,598	134,100

During the year the Group refinanced one of its facilities and increased another, as a result facilities increased from £175 million to £190 million.

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:

	2018 £'000	2017 £'000
Expiring in less than 1 year	—	—
Expiring in 1 – 2 years	—	—
Expiring in 2 – 5 years	43,000	39,000
Expiring in 5 – 10 years	—	—
	43,000	39,000

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.

Financial instrument maturity

	Contractual cash flows					More than 5 years
	Total	2 months or less	2-12 months	1-2 years	2-5 years	
At 31st March 2018						
Non-derivative financial liabilities						
Bank overdraft	—	—	—	—	—	—
Secured bank loans	147,000	—	—	—	82,000	65,000
Finance lease liabilities	26,369	—	285	285	855	24,944
Trade payables	5,209	5,209	—	—	—	—
	178,578	5,209	285	285	82,855	89,944
Derivative financial liabilities						
Interest rates used for hedging	—	—	—	—	—	—
	—	—	—	—	—	—
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	46,855	80,229
Derivative financial liability						
Interest rate used for hedging	19,523	—	1,561	1,514	4,214	12,234
	19,523	—	1,561	1,514	4,214	12,234

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. The remaining swap was cancelled on 28th March 2018 for £13,352,210.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £367,500 (2017: £340,000). 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 2017 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 remaining swap was cancelled on 28th March 2018 in full at a cost to the Group of £13,352,210.

As at 31 st March 2017	Amount £'000	Rate	Maturity	¹² 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%	(18,310)	1,393	(16,917)

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

² 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

	2018 £'000	2017 £'000
Current	—	(2,159)
Non-current	—	(14,758)
	—	(16,917)

	2018 £'000	2017 £'000
Weighted average cost of borrowing	4.06%	4.42%

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 and 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.

In both 2018 and 2017 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	
	2018 £'000	2017 £'000
Within one year	285	285
In second to fifth years inclusive	1,142	1,142
Later than five years	24,943	25,227
	26,370	26,654
Less future finance charges	(21,966)	(22,249)
Present value of lease obligations	4,404	4,405

The above finance lease liabilities relate to investment properties with a carrying value of £84,900,000 (2017: £55,630,000). 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:

	2018 £'000	2017 £'000
Not later than one year	21,142	20,991
Later than one year but not later than five years	58,060	59,964
Later than five years	28,424	20,877
	107,626	101,832

18 Share based payments

During the year to 31st March 2018, 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 2018 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	18th July 2017	16th June 2016	18th June 2015
Share price	£2.26	£2.07	£2.55
Term	3 years	3 years	3 years
Risk free rate	0.26%	0.27%	0.80%
Dividend yield	0%	4.27%	3.35%
Volatility – Company	29.0%	21.27%	18.6%
TSR fair value	£1.42	£0.77	£1.43
NAV fair value	£2.26	£1.81	£2.35

19 Called up share capital

Ordinary 20 pence shares in issue	2018 Issued £	Number of shares	2017 Issued £	Number of shares
At 1st April	18,761,690	93,808,450	18,631,645	93,158,225
Issue of shares in year	29,332	146,659	130,045	650,225
At 31st March	18,791,022	93,955,109	18,761,690	93,808,450

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)	
	2018	2017
	£'000	£'000
Subsidiary undertakings		
Acreway Limited (liquidated 10 th February 2017)	—	26,286
Baldwin House Limited	(33,436)	(15,308)
	(33,436)	10,978

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

22 Net asset value per share

	31st March 2018			31st March 2017		
	Net assets £'000	Shares '000	Net asset value per share p	Net assets £'000	Shares '000	Net asset value per share p
Basic	306,440	93,955	326	270,792	93,808	289
Number of shares under	1,200	1,593	(4)	1,036	1,431	(4)
Diluted/EPRA NNAV	307,640	95,548	322	271,828	95,239	285
Adjustment to fair value of derivatives	—	—	—	16,918	—	18
EPRA NAV	307,640	95,548	322	288,746	95,239	303

23 Commitments and contingent liabilities

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Capital expenditure committed but not provided for	10,703	190	24,255	1,140

These commitments relate to the Group's two current developments.

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 2017. 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 2017 actuarial valuation the scheme was 88% 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 2017 and updated by First Actuarial in order to assess the liabilities of the scheme at 31st March 2018. Scheme assets are stated at their market value at 31st March 2018.

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:

	2018	2017
Inflation	3.1%	3.1%
Salary increases	n/a	n/a
Rate of discount	2.4%	2.3%
Pension in payment increases	3.0%	3.0%

The mortality assumptions adopted at 31st March 2018 imply the following life expectancies for members currently aged 60:

Male = 26.3 years

The fair value of scheme assets are as follows:	2018 £'000	2017 £'000
Equities	723	743
Gilts	59	70
Corporate and overseas bonds	40	46
Absolute return portfolios	4,575	4,533
Cash	77	46
Other	57	162
	5,531	5,600

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	5,600	5,413
Expected return on scheme assets	127	176
Actuarial gain	(23)	175
Employer contributions	240	240
Benefits paid	(413)	(404)
Market value of assets at end of year	5,531	5,600

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:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Market value of scheme assets	5,531	5,600	5,413	5,829	5,464
Value of defined benefit obligation	(7,695)	(7,884)	(7,252)	(7,769)	(7,153)
Deficit in scheme	(2,164)	(2,284)	(1,839)	(1,940)	(1,689)
Gains/(losses) on scheme liabilities					
Due to experience	(109)	191	45	8	(9)
Due to change of basis	87	(994)	(304)	725	450
Experience gains/(losses) on scheme	(50)	(57)	(57)	(67)	(69)

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

	2018 £'000	2017 £'000
Value of defined benefit obligation at start of period	7,884	7,252
Interest cost	177	233
Benefits paid	(413)	(404)
Actuarial gains: experience differing from that assumed	109	(191)
Actuarial gains: changes in demographic assumptions	25	—
Actuarial gains: changes in financial assumptions	(87)	994
Value of defined benefit obligation at end of period	7,695	7,884

Sensitivity analysis

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

Analysis of the amount charged to operating profit:

	2018 £'000	2017 £'000
Operating profit		
Current service cost	—	—
Analysis of the amount (credited)/charged to finance costs/(income)		
Expected return on pension scheme assets	(127)	(176)
Interest on pension scheme liabilities	177	233
Net return	50	57
Total charge to profit and loss	50	57

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

	2018 £'000		2017 £'000	
Difference between expected and actual return on assets	23	0% of scheme assets	(175)	3% of scheme assets
Experience gains and losses arising on the scheme liabilities	47	1% of the present value of the scheme liabilities	803	10% 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	70	1% of the present value of the scheme liabilities	628	8% of the present value of the scheme liabilities

Analysis of the movement in the balance sheet deficit:

	2018 £'000	2017 £'000
Deficit in scheme at beginning of year	(2,284)	(1,839)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(50)	(57)
Contributions	240	240
Actuarial gain/(loss)	(70)	(628)
Deficit in scheme at end of year	(2,164)	(2,284)

The last active member reached retirement age in May 2013.

The Report and Financial Statements will be posted to Shareholders on 5th June 2018 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.

Carrying Value

The value of an asset based on prior valuation with the addition of any subsequent capital expenditure

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, NAV and NNNAV 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/MSCI

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

