McKAY DRIVES PORTFOLIO TO DELIVER CAPITAL AND RENTAL GROWTH

McKay Securities PLC, the only Real Estate Investment Trust (REIT) specialising exclusively in the London and South East office and industrial markets, today announces its half year results for the six months ended 30th September 2018.

Financial Highlights

- Gross rental income of £10.43 million (30th September 2017: £10.90 million), up 6.2% after adjusting for loss of income from disposals and planned development activity
- Net rental income of £9.17 million (30th September 2017: £9.92 million)
- Adjusted profit before tax of £4.32 million (30th September 2017: £4.70 million)
- IFRS profit before tax of £11.40 million (30th September 2017: £16.54 million)
- NAV (EPRA) up by 1.2% to 326 pence per share (31st March 2018: 322 pence)
- NAV (IFRS) up by 1.5% to 331 pence per share (31st March 2018: 326 pence)
- Interim dividend of 2.8 pence per share, maintaining the level of dividend paid for the same period last year, payable on 3rd January 2019

Portfolio Highlights

- Property valuation of £478.55 million, an increase of 4.0% since 31st March 2018, generating a 1.7% (£8.18 million) valuation surplus over cost
- Portfolio ERV of £33.46 million pa, up 0.9% (31st March 2018: £33.15 million pa)
- Contracted rental income of £27.17 million pa (31st March 2018: £27.05 million pa)
- Substantial 23.1% portfolio reversion of £6.29 million pa, well placed to deliver future value and income growth
- Contractor selected for speculative distribution warehouse scheme (134,150 sqft) at Junction 12 of the M4 at Theale
- Pre-let City of London development at 30 Lombard Street, EC3 due to go unconditional shortly on PC
- Continued focus on refurbishing and upgrading properties at lease expiry to deliver high quality, affordable product that appeals to increasingly discerning occupiers in supply constrained markets
- Recognition of ESG efforts with a GRESB (Global Real Estate Sustainability Benchmark) Green Star award for the third year running

Simon Perkins, Chief Executive of McKay Securities, said:

“Our active focus on the office and industrial markets of London and the South East continues to drive outperformance. We delivered further growth in capital and rental values during the period and continue to work on the release of our 23% portfolio reversion. We see sustained levels of demand from a range of investors and occupiers supporting this, despite the economic and political uncertainty surrounding Brexit.

“Attracting and retaining tenants is a cornerstone of our business and today’s occupiers increasingly require choice, flexibility, and excellent customer service. We continue to meet these requirements, as demonstrated by recent lettings success across the portfolio and by our active refurbishment and development programme.”

“Although the commercial property sector exists in an uncertain operating environment, McKay’s markets remain underpinned by strong fundamentals. Recent lettings have de-risked our office development programme, and we are well positioned to deliver further growth in a measured fashion from the significant reversion within our portfolio and from our warehouse development at Theale.”

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Date: 12th November 2018

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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 central London and South East England. The portfolio, which was valued at 30th September 2018 at £478.55 million, comprised 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 interim dividend of the Ordinary Shares is as follows:

Ex dividend date	22nd November 2018
Record Date for the interim dividend	23rd November 2018
Interim dividend paid	3rd January 2019

An interim dividend per share of 2.8 pence, (2017: 2.8 pence per share), which will be paid as an ordinary dividend.

CHAIRMAN'S STATEMENT

Overview

Our continued focus on releasing the significant potential that we have created within our portfolio has generated further capital and rental value growth over the period, building on the major strategic progress reported at the full year.

We remain entirely and purposely invested in the office and industrial markets of London and the South East where sustained levels of demand from investors and occupiers have so far been maintained, despite the economic and political uncertainty surrounding Brexit.

With our active approach to the management and refurbishment of our existing portfolio and the delivery of high quality buildings through our development programme, we are well placed to deliver returns from the positive characteristics of these markets. We continue to refurbish and upgrade properties at lease expiry to deliver high quality, affordable product into supply constrained markets that appeals to increasingly discerning occupiers. The pre-let of our City of London development at 30 Lombard Street, EC3 is due to go unconditional shortly and a contractor has now been selected to commence work on our speculative distribution warehouse scheme at Junction 12 of the M4 at Theale. All these initiatives contributed to a 0.9% increase in portfolio rental value (ERV) and helped sustain our substantial 23.1% portfolio reversion.

The portfolio valuation of £478.55 million increased by 4.0% over the period (31st March 2018: £460.15 million), generating a 1.7% (£8.18 million) valuation surplus. This resulted in a 1.2% increase in NAV per share (EPRA) to 326pps (31st March 2018: 322pps).

The cancellation of all remaining legacy interest rate swaps at the end of the last financial year with part of the proceeds from the disposal of three properties has contributed to an overall reduction in our interest cost. Meanwhile, despite a like for like increase of 6.2% (£0.60 million) in gross rental income, the anticipated combined loss of income of £1.08 million from the disposals, together with the commencement of development at Theale, contributed to a slightly reduced level of adjusted profit before tax of £4.32 million (30th September 2017: £4.70 million). Sale proceeds have also been recycled into the development programme, which will enhance earnings in future periods once these schemes become income producing.

Market Review

Commercial property continues to offer a relatively attractive yield, and capital values across our markets in London and the South East have been sustained as a result of strong demand from a diverse range of UK and overseas investors.

Investment volumes remain high with £5.06 billion of transactions in the London office sector over the last quarter, compared to a 10 year average of £3.62 billion. Investment in the South East office sector to Q3 2018 has reached £2.10 billion and is also expected to outperform the 10 year average of £2.55 billion. Overseas investors, who have been particularly active in London are now beginning to look at other markets including the South East and are prepared to consider smaller lot sizes, further strengthening this demand.

The South East office market (55.2% of portfolio value) has seen an increase in letting activity which has eroded the already limited supply of new and grade A buildings. Lettings in Q3 2018 of 0.54 million sq ft were 63.2% higher than the same period last year and 5.9% higher than the 10 year average of 0.51 million sq ft. Lettings for the year to Q3 2018 totalled 1.57 million, 12.6% ahead of the same period last year, and on track to exceed the 10 year average of 1.92 million sq ft pa. Despite this, speculative development has slowed significantly since 2017 and six of the ten speculative schemes completing in 2018 across the whole market area are already pre-let. With only four further schemes currently in the pipeline for delivery in 2019 and beyond, tenant choice for good quality office accommodation is increasingly limited in most centres. The current availability of new floorspace of 1.90 million sq ft represents a historically low vacancy rate of just 2.0%, and with current named demand of 3.91 million sq ft (Q3 2017: 3.76 million sq ft), this low level of supply looks set to erode further. The lack of supply has helped maintain rental values, and the limited number of new schemes provides the potential for future rental growth.

In London (24.6% of portfolio value), Q3 2018 take up of 3.74 million sq ft was ahead of the 10 year average of 3.20 million sq ft and overall vacancy in the market of 6.3% is below the 10 year average of 7.3%. This also provides a healthy dynamic of steady demand and falling supply.

Industrial and logistics (15.5% of portfolio value) remains the most sought-after sector across the UK market given the structural shift in retailing patterns and the growth of e-commerce. New supply has been slow to meet the increase in occupational demand, and rental and capital values continue to improve, supporting our speculative development scheme at Theale. Total supply in the Thames Valley has fallen by 8.0% over the last year to 2.70 million sq ft, of which grade A supply is only 0.65 million sq ft. This represents a constrained level of supply when compared with take up of 1.2 million sq ft last year.

Portfolio Income and Asset Management

During the period, seven open market lettings were completed with a combined contracted rental value of £0.60 million pa; 8.3% ahead of ERV. These included the completion of the pre-let of the 2nd floor (8,312 sq ft) of the Mille, West London to UBC business centres and the letting of the 8th floor (part: 3,330 sq ft) at Portsoken House, EC3. In order to attract new occupiers we constantly review the offer in our buildings, and at Portsoken House we enhanced the specification of the two recently refurbished floors by partially fitting out the space to provide ease of occupation. This proved successful and the letting completed just two weeks after practical completion at a rent of £0.19 million pa, 8.2% ahead of ERV.

Other refurbishment work at several portfolio properties is set to improve rental values where leases have either expired or terminated. Letting progress has compensated for these vacancies and portfolio occupancy at the end of the period was 88.6% (31st March 2018: 89.3%) and 91.7% excluding developments (31st March 2018: 92.6%). Of our vacant portfolio space, circa 60% is currently undergoing refurbishment. The vacancy rate across our South East office properties is currently 9.7%, which compares favourably to the IPD equivalent of 14.7% and the vacancy rate for our South East industrial assets of 4.9% is also below IPD vacancy of 7.0%.

Attracting and retaining tenants is a cornerstone of our business and today's occupiers require greater flexibility and excellent customer service. We continue to meet both of these requirements, demonstrated by our strong tenant retention rate over the period of 71.4% at lease break or expiry.

With a high level of building obsolescence across London and South East office markets, sustainability is also an increasingly important consideration for occupiers when relocating and a factor that we incorporate into all development and asset management initiatives. We were pleased to receive recognition of our efforts with a GRESB (Global Real Estate Sustainability Benchmark) Green Star award for the third year running, an accolade reserved for only the most sustainable companies in the commercial property sector.

At the end of the period, the portfolio remains well placed to deliver future value and income growth from the 23.1% portfolio reversion of up to £6.29 million pa, being the difference between contracted rent and portfolio ERV, as set out below.

£ million pa	30th September 2018	31st March 2018
Portfolio ERV (net)	33.46	33.15
Contractual rent	27.17	27.05
Voids (exc dev)	2.39	2.10
Voids (dev)	1.45	1.45
Uplifts (rent reviews/lease expiry)	2.45	2.55
Total reversion	6.29	6.10

Development Programme

Letting progress in prior periods has derisked the development programme to the extent that development letting exposure now represents just 4.3% of ERV compared with 14.2% at 30th September 2017.

Our pre-let of the whole of 30 Lombard Street, EC3 (58,585 sq ft) to St. James's Place plc remains conditional on completion of construction works, due shortly. Once unconditional, the lease is for a 15 year term, without break, at a gross contracted rent of £3.78 million pa (£3.38 million pa net of ground rent).

Demolition has completed at Brunel Road, Theale, and the main contractor has now been selected to deliver a single distribution warehouse unit of 134,150 sq ft at this prime location next to Junction 12 of the M4. This new unit replaces the dated chilled distribution warehouse which we purchased in 2015 and increases the floor area by a significant 38.5%. Delivery is programmed for late summer 2019 and marketing to potential occupiers has already commenced.

Valuation

The portfolio was valued at £478.55 million by our independent external valuers as at 30th September 2018 (31st March 2018: £460.15 million). This consisted of thirty one investment properties totalling £408.15 million (31st March 2018: £398.85 million) and two development properties of £70.40 million (31st March 2018: £61.30 million).

After the development letting success last year and subsequent valuation outperformance, the portfolio has grown more in line with the market during the period. The valuation surplus of 1.7% (£8.18 million) compared to IPD (All property) of 1.2% and rental value growth of 0.9% compared to IPD (All property) of 0.3%.

The valuation showed an initial yield of 3.9% (31st March 2018: 4.0%) increasing to 5.3% (31st March 2018: 5.6%) on expiry of rent free periods. The equivalent yield was 5.7% (31st March 2018: 5.8%) with a reversionary yield calculated off current ERV of 6.6% (31st March 2018: 6.8%) reflecting potential for income growth from the reversion.

Finance

Gross rental income of £10.43 million was up 6.2% (£0.60 million) on a like for like basis in comparison to the corresponding period in 2017, mainly due to the benefit of the lettings completed at our development schemes. After taking into account the sale of the three investment properties last year, which contributed gross rental income of £0.70 million, and Brunel Road, Theale, which contributed £0.38 million prior to the commencement of development, the combined reduction of £1.08 million resulted in a 4.3% decrease in gross rental income to £10.43 million (30th September 2017: £10.90 million). With non-recoverable property costs slightly higher at £1.26 million (30th September 2017: £0.98 million), net rental income reduced by 7.5% (-£0.75 million) to £9.17 million (30th September 2017: £9.92 million).

Administration costs of £3.26 million for the period were marginally higher than the corresponding period last year (30th September 2017: £3.13 million).

Net finance costs decreased by £0.47 million to £2.02 million (30th September 2017: £2.49 million) despite an increase in debt of £12.00 million between the interim balance sheet dates. This reduction was due to the cancellation of the £33.00 million interest rate swap at the end of the last financial year and a higher level of capitalised interest on development projects.

As a result of these various movements, adjusted profit before tax reduced to £4.32 million (30th September 2017: £4.70 million). IFRS profit before tax was £11.40 million (30th September 2017: £16.54 million), with the reduction mainly due to a lower movement on valuation (including SIC 15) of £7.51 million (30th September 2017: £10.62 million).

IFRS net asset value increased by £5.10 million to £311.54 million (31st March 2018: £306.44 million) and EPRA net asset value per share increased by 1.2% to 326 pence (31st March 2018: 322 pence), mainly due to the valuation surplus.

Drawn debt increased to £161.00 million (31st March 2018: £147.00 million), with the increase due to £9.79 million of capital expenditure on development and refurbishment projects and dividend payments totalling £6.77 million. The ratio of drawn debt to portfolio value (LTV) was 33.6% (31st March 2018: 31.9%). As anticipated, the average cost of debt reduced during the period to 3.3% (31st March 2018: 4.2%) due to the cancellation of the interest rate swap and a higher proportion of floating rate debt at lower cost.

Our debt facilities total £190.00 million, and we have started the process of refinancing which includes those facilities that expire in April 2020. As part of this process we are also looking at introducing 30 Lombard Street, EC3 as security as it has not been pledged during the development process, increasing our available headroom for future expenditure on acquisitions and portfolio projects.

Dividend

The Board is pleased to declare an interim dividend of 2.8 pence per share, maintaining the level of dividend paid for the same period last year. This will be paid as an ordinary dividend on 3rd January 2019.

Outlook

Our markets have continued to prove remarkably resilient despite the uncertainty generated by Brexit negotiations, underpinned by positive property fundamentals. In the near term, prospects are very much dependant on the continued strength of occupier markets.

Against this backdrop, we have successfully de-risked our office development programme and have positioned ourselves to deliver future growth in a measured fashion from the significant reversion that we have established within our portfolio.

Richard Grainger
Chairman

FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Six months to 30th September 2018

	Notes	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Gross rents and service charges receivable		12,293	12,574	25,500
Other property income		7	—	792
Direct property outgoings		(3,125)	(2,650)	(5,838)
Net rental income from investment properties	3	9,175	9,924	20,454
Administration costs		(3,263)	(3,133)	(6,305)
Operating profit before gains on investment properties		5,912	6,791	14,149
Profit on disposal of investment properties		—	—	5,746
Revaluation of investment properties	6	7,513	10,619	25,066
Operating profit		13,425	17,410	44,961
Finance costs	5	(2,021)	(2,491)	(5,089)
Finance income	5	1	1,618	3,570
Profit before taxation		11,405	16,537	43,442
Taxation		—	—	—
Profit for the period		11,405	16,537	43,442
Other comprehensive income:				
Items that will not be reclassified subsequently to profit and loss				
Actuarial movement on defined benefit pension scheme		—	—	(70)
Total comprehensive income for the year		11,405	16,537	43,372
Earnings per share	4			
Basic		12.13p	17.61p	46.25p
Diluted		12.02p	17.49p	45.91p
Adjusted earnings per share figures are shown in note 4.				

GROUP STATEMENT OF FINANCIAL POSITION

As at 30th September 2018

	Notes	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Non-current assets				
Investment properties				
As reported by valuers	6	478,550	452,650	460,150
Adjustment for rents recognised in advance under SIC 15		(7,358)	(7,305)	(6,691)
Assets held for sale		(12,900)	(18,100)	(11,925)
Adjustment for grossing up of headleases		4,404	4,405	4,404
		462,696	431,650	445,938
Plant and equipment		64	57	42
Trade and other receivables		7,017	—	5,861
Total non-current assets		469,777	431,707	451,841
Current assets				
Trade and other receivables		1,720	8,378	1,617
Assets held for sale		12,900	18,100	11,925
Cash and cash equivalents		2,793	1,838	1,725
Total current assets		17,413	28,316	15,267
Total assets		487,190	460,023	467,108
Current liabilities				
Trade and other payables		(10,315)	(9,868)	(9,501)
Finance lease liabilities		(286)	(285)	(285)
Interest rate derivatives	7	—	(1,400)	—
Total current liabilities		(10,601)	(11,553)	(9,786)
Non-current liabilities				
Loans and other borrowings		(158,887)	(146,468)	(144,598)
Pension fund deficit		(2,044)	(2,164)	(2,164)
Finance lease liabilities		(4,118)	(4,120)	(4,120)
Interest rate derivatives	7	—	(13,901)	—
Total non-current liabilities		(165,049)	(166,653)	(150,882)
Total liabilities		(175,650)	(178,206)	(160,668)
Net assets		311,540	281,817	306,440
Equity				
Called up share capital		18,825	18,791	18,791
Share premium account		79,652	79,235	79,235
Retained earnings		77,758	55,243	80,622
Revaluation reserve		135,305	128,548	127,792
Total equity		311,540	281,817	306,440
Net asset value per share	9	331p	300p	326p
EPRA net asset value per share	9	326p	312p	322p

GROUP CASH FLOW STATEMENT

Six months to 30th September 2018

Operating activities	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Profit before taxation	11,405	16,537	43,442
Adjustments for:			
Depreciation	19	17	34
Other non-cash movements	759	669	1,350
Profit on sale of investment properties	—	—	(5,746)
Movement in revaluation of investment properties	(7,513)	(10,619)	(25,066)
Net finance costs	2,020	873	1,519
Cash flow from operations before changes in working capital	6,690	7,477	15,533
Increase in debtors	(1,221)	(1,511)	(497)
Increase/(decrease) in creditors	871	(1,489)	(1,373)
Cash generated from operations	6,340	4,477	13,663
Interest paid	(2,693)	(2,895)	(6,171)
Interest received	1	1	5
Cash flows from operating activities	3,648	1,583	7,497

Investing activities

Proceeds from sale of investment properties	—	—	26,773
Purchase and development of investment properties	(9,776)	(10,368)	(25,031)
Purchase of other fixed assets	(41)	(12)	(14)
Cash flows from investing activities	(9,817)	(10,380)	1,728

Financing activities

Increase in borrowings	14,002	12,060	9,908
Equity dividends paid	(6,765)	(5,910)	(8,541)
Swap cancellation fee	—	—	(13,352)
Cash flows from financing activities	7,237	6,150	(11,985)

Net increase/(decrease) in cash and cash equivalents	1,068	(2,647)	(2,760)
Cash and cash equivalents at the beginning of the period	1,725	4,485	4,485
Cash and cash equivalents at end of the period	2,793	1,838	1,725

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months to 30th September 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 1st April 2017	18,762	78,929	117,929	55,172	270,792
Profit for the period	—	—	—	16,537	16,537
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	10,619	(10,619)	—
Total comprehensive income in the period	—	—	10,619	5,918	16,537
Issue of new shares net of costs	29	306	—	(335)	—
Dividends paid in period	—	—	—	(5,910)	(5,910)
Cost of share based payments	—	—	—	397	397
Other	—	—	—	1	1
At 30th September 2017	18,791	79,235	128,548	55,243	281,817
Profit for the period	—	—	—	26,905	26,905
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	14,447	(14,447)	—
Transfer on disposal of investment properties	—	—	(15,203)	15,203	—
Actuarial loss on defined benefit pension scheme	—	—	—	(71)	(71)
Total comprehensive income in the period	—	—	(756)	27,590	26,834
Dividends paid in period	—	—	—	(2,631)	(2,631)
Deferred bonus	—	—	—	21	21
Cost of share based payments	—	—	—	399	399
At 31st March 2018	18,791	79,235	127,792	80,622	306,440
Profit for the period	—	—	—	11,405	11,405
Other comprehensive income:					
Transfer surplus on revaluation of properties	—	—	7,513	(7,513)	—
Total comprehensive income in the period	—	—	7,513	3,892	11,405
Issue of new shares net of costs	34	417	—	(451)	—
Dividends paid in period	—	—	—	(6,765)	(6,765)
Cost of share based payments	—	—	—	439	439
Deferred bonus	—	—	—	21	21
At 30th September 2018	18,825	79,652	135,305	77,758	311,540

NOTES TO THE FINANCIAL STATEMENTS

Six months to 30th September 2018

1 Accounting policies

Basis of preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31st March 2018.

IRFS 9 Financial Instruments

IFRS 9 will require the Group to make an assessment of Expected Credit Losses ('ECLs') on its debtors based on tenant payment history and the Directors' assessment of the future credit risk relating to its trade receivables at reporting dates. The assessment resulted in no material differences therefore there has been no adjustment to opening balances as a result of IFRS 9.

IFRS 15 Revenue from contracts with customers

This standard is based on the principle that revenue is recognised when control passes to a customer. The majority of the Group's income is from tenant leases and is outside the scope of the new standard. However, certain non-income streams, such as disposals of investment property and service charge income are within the standard. Having undertaken a review of the implications of the new standard the financial impact is considered immaterial as the Group Acts as the principal and not as the agent.

The following accounting standard relevant to the Group has been issued but is not yet effective:

IFRS 16 Leases (effective year ended 31st March 2020)

For operating leases in excess of one year, this standard requires leases to recognise a right-of-use asset and a related lease liability representing the obligation to make lease payments. The right-of-use asset is assessed for impairment annually and is amortised on a straight-line basis. The lease liability is amortised using the effective interest method. Lessor accounting is substantially unchanged from current accounting. Therefore, since the Group is primarily a lessor, this standard does not significantly impact the Group's financial statements.

The comparative figures for the financial year ended 31st March 2018 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matter to which the auditor 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.

The Board approved the unaudited interim financial statements on 9th November 2018.

Identification of business risks

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31st March 2018 which include compliance with financial covenants on bank borrowing, tenant default, liquidity, interest rate hedging instruments and interest rate movements on bank borrowing. The Directors consider that the significant areas of judgement made by management that have significant effect on the Group's performance and estimates with a significant risk of material adjustment are valuation of investment properties and financial instruments. These are unchanged from those identified in the Annual Report for the year ended 31st March 2018.

Going concern

The Interim Report has been prepared on a going concern basis, which assumes the Group will be able to meet its liabilities as they fall due, for the foreseeable future. The Directors have prepared cash flow forecasts which show that the cash generated from operating activities will provide sufficient cash headroom for the foreseeable future.

The Group is in full compliance with its borrowing covenants at 30th September 2018 and is expected to be in compliance for the next 12 months.

2 Adjusted profit before taxation

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

	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Profit before taxation	11,405	16,537	43,442
Cancellation of derivatives	—	—	13,352
Change in fair value of derivatives	—	(1,617)	(16,917)
Movement in valuation of investment properties	(7,513)	(10,619)	(25,066)
Other property income	(7)	—	(792)
Profit on disposal of investment properties	—	—	(5,746)
IFRS 2 adjustment to share based payments	439	397	795
Adjusted profit before taxation	4,324	4,698	9,068

3 Net rental income from investment properties

	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Gross rents receivable	9,898	10,642	21,545
SIC 15 adjustment (spreading of rental incentives)	534	259	299
Gross rental income	10,432	10,901	21,844
Service charges receivable	1,861	1,673	3,656
	12,293	12,574	25,500
Other property income	7	—	792
Direct property outgoings	(3,125)	(2,650)	(5,838)
Net rental income	9,175	9,924	20,454

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 light compensation received in respect of two properties in the portfolio.

4 Earnings per share

	6 months to 30th September 2018 (Unaudited) p	6 months to 30th September 2017 (Unaudited) p	12months to 31st March 2018 (Audited) p
Basic earnings per share	12.13	17.61	46.25
Cancellation in fair value of derivatives	—	—	14.22
Change in fair value of derivatives	—	(1.72)	(18.02)
Movement in revaluation of investment properties	(7.99)	(11.31)	(26.69)
Other property income	(0.01)	—	(0.84)
Profit on disposal of investment properties	—	—	(6.12)
Share based payments	0.47	0.42	0.85
Adjusted earnings per share	4.60	5.00	9.65

Basic earnings per share on ordinary shares is calculated on the profit in the half year of £11,404,630 (30th September 2017: £16,537,144 and 31st March 2018: profit £43,442,000) and 94,050,407 (30th September 2017: 93,895,804 and 31st March 2018: 93,925,375) shares, being the weighted average number of ordinary shares in issue during the period.

	6 months to 30th September 2018 Number of Shares	6 months to 30th September 2017 Number of shares	12months to 31st March 2018 Number of shares
Weighted average number of ordinary shares in issue	94,050,407	93,895,804	93,925,375
Number of shares under option	1,709,536	1,524,499	1,516,011
Number of shares that would have been issued at fair value	(911,976)	(872,452)	(808,206)
Diluted weighted average number of ordinary shares in issue	94,847,967	94,547,851	94,633,180

	6 months to 30th September 2018 p	6 months to 30th September 2017 p	12months to 31st March 2018 p
Basic earnings per share	12.13	17.61	46.25
Effect of dilutive potential ordinary shares under option	(0.11)	(0.12)	(0.34)
Diluted earnings per share	12.02	17.49	45.91
Cancellation of derivatives	—	—	14.11
Change in fair value of derivatives	—	(1.71)	(17.88)
Movement in revaluation of investment properties	(7.92)	(11.23)	(26.49)
Profit on disposal of investment properties	—	—	(6.07)
EPRA diluted earnings per share	4.10	4.55	9.58

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 period of 94,845,750 (30th September 2017: 94,547,851 and 31st March 2018: 94,633,180) 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 (if any), the change in the fair value of derivatives and the movement in revaluation of investment properties. The EPRA measure includes all of these adjustments, except for surrender premiums which are included in other property income, which are added back.

5 Net finance costs

	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Interest on bank overdraft and loans	2,444	2,648	5,633
Commitment fee	141	93	240
Finance lease interest on leasehold property obligations	142	142	285
Finance arrangement costs	287	308	590
Capitalised interest	(993)	(700)	(1,659)
	2,021	2,491	5,089
Cancellation of derivatives	—	—	13,352
Fair value gain on derivatives	—	(1,617)	(16,917)
Interest receivable	(1)	(1)	(5)
Net finance costs	2,020	873	1,519

6 Investment properties

Valuation	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
At 1st April	457,863	428,333	428,333
Additions – development	10,221	10,798	24,761
Revaluation on surplus	8,179	10,878	26,464
Adjustment for rents recognised in advance under SIC15	(667)	(259)	(704)
Disposals	—	—	(20,990)
Amortisation of grossed up headlease liabilities	—	—	(1)
Book value	475,596	449,750	457,863
Adjustment for grossing up of headlease liabilities	(4,404)	(4,405)	(4,404)
Adjustment for rents recognised in advance under SIC15	7,358	7,305	6,691
Valuation	478,550	452,650	460,150

In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2018. These valuations, were carried out by Knight Frank LLP. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

7 Liabilities

Interest rate derivatives

The interest rate swap was cancelled on 28th March 2018 in full at a cost to the Group of £13,352,210.

As at 30th September 2017 (Unaudited)	Maturity	[1]Next Credit break	Amount £'000	Rate	Fair value before BCVA	[2]BCVA	Fair value £'000
Interest rate swaps	Sept 2032	Sept 2022	£33,000	5.17%	(16,487)	1,186	(15,301)

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

[2]BCVA – Bilateral Credit Valuation Adjustment is 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:

	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Current	—	(1,400)	—
Non-current	—	(13,901)	—
	—	(15,301)	—

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 Consolidated Profit or Loss and other Comprehensive Income. Interest rate swaps are classed as level 2 in accordance with the fair value hierarchy stated in IFRS 13. The fair value of these level 2 contracts is 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.

8 Dividends

Final dividend	6 months to 30th September 2018 (Unaudited) £'000	6 months to 30th September 2017 (Unaudited) £'000	12months to 31st March 2018 (Audited) £'000
Year ended 31st March 2018	6,765	—	—
Year ended 31st March 2017	—	5,910	5,910
Interim dividend			
Year ended 31st March 2018	—	—	2,631
	6,765	5,910	8,541

The final dividend of 7.2 pence per share (£6,765,000) for the year ended 31st March 2018 was paid on 26th July 2018.

The directors have declared an interim dividend of 2.8 pence per share (2017: 2.8 pence per share).

Since becoming a REIT, the Group is required to distribute at least 90% of qualifying income profits each year as a Property Income Distribution (PID), and the interim dividend of 2.8 pence per share will be paid as an ordinary dividend. Further REIT information is available on the Company's website.

9 Net asset value per share

	30th September 2018		
	Net assets £'000	Shares '000	Net asset value per share p
Basic	311,540	94,124	331
Number of shares under option	912	1,734	(5)
Diluted/EPRA NNNAV	312,452	95,858	326
Adjusted for fair value of derivatives	—	—	—
EPRA NAV	312,452	95,858	326

	30th September 2017		
	Net assets £'000	Shares '000	Net asset value per share P
Basic	281,817	93,955	300
Number of shares under option	1,259	1,612	(4)
Diluted/EPRA NNNAV	283,076	95,567	296
Adjusted for fair value of derivatives	15,301	—	16
EPRA NAV	298,377	95,567	312

	31st March 2018		
	Net assets £'000	Shares '000	Net asset value per share P
Basic	306,440	93,955	326
Number of shares under option	1,200	1,593	(4)
Diluted/EPRA NNNAV	307,640	95,548	322
Adjusted for fair value of derivatives	—	—	—
EPRA NAV	307,640	95,548	322

10. Disclaimer

The Interim Report of McKay Securities PLC for the six months to 30th September 2018 has been drawn up and presented for the purposes of complying with English law. If any issue were to arise in relation to any liability under or in connection with the Interim Report for the six months to 30th September 2018, it would also be determined in accordance with English law.

11. Interim Report

The Interim Report is being posted to Shareholders on 23rd November 2018. Copies are available to members of the public from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL, and on the Company's website at www.mckaysecurities.plc.uk.

Statement of the Directors' Responsibilities

Six months to 30th September 2018

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

S C Perkins
Chief Executive Officer

G P Salmon
Chief Financial Officer