McKAY REPORTS SIGNIFICANT GROWTH
AS PORTFOLIO INITIATIVES DELIVER

McKay Securities PLC, the Real Estate Investment Trust (REIT) specialising in South East and London office and industrial property, today announces its preliminary results for the year ended 31 March 2015.

Operational Highlights

- Implementation of strategy accompanying 2014 Capital Raising delivering significant growth
- Substantial progress made with development and refurbishment projects, including the letting of 66 Wilson Street, EC2
- Five properties acquired over the period at a total cost of £51.54 million
- Comprehensive £175.00 million debt refinance completed May 2015, including cancellation of £35 million of interest rate swaps
- Well placed South East and London portfolio with an initial yield of 5.5% and a reversionary yield of 8.1%

Portfolio Highlights

- 59.4% increase in overall ERV to £30.19 million pa (31 March 2014: £18.94 million pa)
- 29.6% increase in like for like ERV, and 7.9% increase excluding developments

- 278.5% increase in reversionary potential to £9.69 million pa (31 March 2014: £2.56 million pa)
- 25.1% increase in contracted rental income to £20.50 million pa (31 March 2014: £16.38 million pa)

- 38.6% increase in overall portfolio value to £352.76 million (31 March 2014: £254.55 million)
- Property valuation surplus of 13.8% (£42.71 million) for the period

- Occupancy level increased from 86.8% to 91.8% (excluding developments)
- Weighted average lease term increased to 6.5 years and 5.6 years to break (31 March 2014: 5.7 years and 4.6 years)

Financial Highlights

- Adjusted profit before tax up 69.2% to £5.79 million (31 March 2014: £3.42 million)
- IFRS profit before tax of £33.28 million (31 March 2014: £38.29 million)

- EPRA NAV per share up 18.9% to 270 pence (31 March 2014: 227 pence)
- EPRA NNNAV per share up 13.3% to 230 pence (31 March 2014: 203 pence)
- After taking into account May 2015 swap cancellation costs, EPRA NAV per share of 256 pence and EPRA NNNAV per share of 233 pence

- Loan to Value ratio of 25.9% (31 March 2014: 14.7%)
- Total Shareholder Return of 24.8%

- Final dividend of 6.0 pence per share (31 March 2014: 5.9 pence per share)
- Total dividend for the year 8.7 pence per share (31 March 2014: 8.6 pence per share)

David Thomas, Chairman of McKay Securities PLC said,

"We set out our strategy for growth at the time of the £86.71 million Capital Raising in February 2014. Its implementation over the last year has delivered a significant increase in the value of our portfolio, strengthened our income profile and improved the prospects for enhanced returns for shareholders in future years.

Our objective for the year was to allocate the proceeds of the Capital Raising to allow the Group to benefit from the anticipated positive trends in the office and industrial markets of the South East and London. To achieve this, we identified the potential to acquire properties at an opportune time in the market cycle, to make an early start on four refurbishment schemes and to accelerate a number of larger portfolio development projects.

We are pleased that substantial progress has been made on all fronts. Our returns have been enhanced by our increased exposure to these markets, which have improved as we anticipated. Total shareholder return over the year was 24.8%.

The prospects for future economic growth look encouraging, particularly with the stability of political continuity. This, in turn, is likely to maintain the recent positive trends we have seen in our markets over the year ahead."

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Date: 27th May 2015

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

Ex dividend date	4th June 2015
Record Date for the final dividend	5th June 2015
Report and Financial Statements dispatched to Shareholders with Notice of AGM	17th June 2015
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	16th July 2015
Final dividend paid	30th July 2015

A final dividend per share of 6.0 pence is recommended by the Board making a total dividend for the year of 8.7 pence per share (2014 – 8.6 pence). The final dividend will be paid as an Ordinary Dividend.

CHAIRMAN'S STATEMENT

We set out our strategy for future growth at the time of the £86.71 million Capital Raising in February 2014, and its implementation over the last year has delivered a significant increase in the value of our portfolio, strengthened our income profile and improved the prospects for enhanced returns for shareholders in future years.

Our objective for the year was to allocate the proceeds of the Capital Raising to allow the Group to benefit from the anticipated positive trends in the office and industrial markets of the South East and London. To achieve this, we identified the potential to acquire properties at an opportune time in the market cycle, to make an early start on four refurbishment schemes and to accelerate a number of larger portfolio development projects.

We are pleased that substantial progress has been made on all fronts. Our returns have been enhanced by our increased exposure to these markets, which have improved as we anticipated. Total shareholder return over the year was 24.8%, which compares favourably with a return of 22.8% for the FTSE 350 Real Estate Index.

The value of our property portfolio increased by £98.21 million (38.6%) over the period to £352.76 million. This included five new properties acquired at a cost of £51.54 million. A further acquisition since the year end has taken the total number of acquisitions since the Capital Raising to eight, at a combined cost of £73.83 million.

Also contributing to this increase was a 13.8% (£42.71 million) valuation surplus. Gains were seen across all segments of the portfolio, particularly where further yield compression enhanced returns from our refurbishment and management activity. This surplus was the main component of the 18.9% growth in EPRA NAV per share, which ended the period at 270 pence.

The growing portfolio and the delivery of our refurbishment and development projects into improving markets has also significantly enhanced the income profile of the portfolio and underpins its future potential. The estimated rental value of the portfolio (ERV) is assessed at each valuation date by our external valuers and ended the year up 59.4% (£11.25 million pa) to £30.19 million pa. Acquisitions (net of disposals) contributed £5.76 million pa to this increase and the like for like ERV of retained portfolio properties increased by 29.6%, adding a further £5.49 million pa. Of the retained properties, the largest gains were secured where works have now commenced on our major office development and refurbishment projects at 30 Lombard Street, EC3 (58,000 sq ft); London Road, Redhill (47,000 sq ft) and 9 Greyfriars Road, Reading (38,000 sq ft). Excluding these properties, there was still encouraging evidence of an improvement in rental values, with the underlying ERV up 7.9%.

This improvement was also experienced with lettings achieved over the year. The combined contracted rent from open market lettings in the portfolio was £1.81 million pa, 12.4% ahead of ERV and the portfolio occupancy (excluding development properties) increased from 86.8% to 91.8%.

Although the full income benefit of acquisitions, lettings and our refurbishment and development projects will be seen over the next few years, gross rental income received over the period increased by 20.0% (£2.94 million) to £17.62 million. The difference between rents received and portfolio ERV highlights the increased potential of the portfolio to deliver further gains.

This higher level of rental income was the main contributor to a 69.3% (£2.37 million) increase in adjusted profit before tax, which totalled £5.79 million (March 2014: £3.42 million). This is the Group's measure of recurring profit, excluding unrealised movements in the value of the property portfolio and hedging instruments, profit on the sale of investment properties, and non-cash items.

Profit before tax (IFRS) including these unrealised movements was £33.28 million, (March 2014: £38.29 million). This reduction was due mainly to the valuation surplus being offset by a reduction in the value of interest rate hedging instruments. This profit also includes a 9.9% (£0.68 million) surplus on the sale of investment properties. The opportunity was taken to release funds of £6.89 million from smaller properties where the potential for further gains was limited. The increase in scale and complexity of the Group has resulted in the need for additional internal management resources, reflected in higher administration costs. We will therefore continue to review the sale of such properties, where the potential returns no longer justify the management time required,

The swift deployment of funds allocated to acquisitions early in the period was deliberate and proved fruitful, as capital values have continued to increase. Similarly, acceleration of the four identified refurbishment projects at 66 Wilson Street, EC2; 329 Bracknell; Switchback Office Park, Maidenhead and Strawberry Hill House, Newbury resulted in a 30.9% valuation surplus and a 24.8% (£0.41 million pa) increase in ERV for these properties.

Of these, the comprehensive office refurbishment at 66 Wilson Street (11,890 sq ft) proved particularly successful. The property was let as a whole shortly after completion in September 2014 on a 10 year lease at a rent of £0.55 million pa, 17.3% ahead of ERV. The project has delivered a return on cost of 71.5% and will be held as the area looks set to improve further with the opening of Crossrail in 2018.

Office refurbishment works also completed during the year at Bracknell and Maidenhead. Lettings at these properties have been secured ahead of rental assumptions and encouraging levels of interest have been maintained in the remaining space, which totals 30,420 sq ft, with an ERV of £0.55 million pa. At Newbury, planning consent was granted at the end of the year for conversion from office to medical use. Works have now commenced, with an unconditional pre-let in place. On completion of the works in Spring 2016, the tenant will enter into a 25 year, Government backed lease at an initial rent of £0.26 million pa.

After thorough consideration, works have now commenced on the speculative development of high quality office projects at 30 Lombard Street, EC3, London Road, Redhill, and 9 Greyfriars Road, Reading. Completion of construction work is anticipated by mid 2018, mid 2016 and early 2016 respectively. These properties are all located in established occupier markets, where supply is at low levels and rental values are increasing. They will be valuable additions to the portfolio and, with a combined ERV of £5.56 million pa, are likely to make a significant contribution to future profits.

Capital expenditure to complete these projects which are covered in more detail in the Property and Finance Report, will be in the region of £50.00 million, representing a major commitment for the Group.

To ensure the availability of finance for these projects and to take advantage of low borrowing rates currently available, we completed a comprehensive refinancing of our loan facilities in early May 2015. This has significantly improved the strength of the Group's financial platform and provides a competitive cost of debt when fully drawn of 3.8% at current rates. The refinancing increased the loan portfolio by £25.00 million to £175.00 million, providing additional headroom for project expenditure and further acquisitions over drawn debt at the year end of £91.50 million. The weighted average maturity of our loans was extended from 1.6 years to 9.1 years at the point of refinancing due primarily to a new 15 year, £55.00 million facility with Aviva Commercial Finance Ltd. at a fixed rate of 4.13% pa.

At the same time the notional value of our historic interest rate swaps was reduced by a further £35.00 million to £45.00 million. Due to the negative market value of these instruments, this was at a cost to the Group of £13.10 million, equivalent to a reduction in EPRA NAV of 14.3 pence per share. Lender contributions to the cancellation costs resulted in an increase in EPRA NNNAV of 2.6 pence per share.

This reduction in the amount of hedging is an important step as it removes our historic over-hedged position and will reduce the ongoing cost of these instruments, taken out at pre-recession levels.

The Board

On 21st January 2015, we were pleased to announce the appointment of Nick Shepherd to the Board as a non-executive Director. Nick was managing partner of Drivers Jonas from 2001 to 2010, having qualified as a Chartered Surveyor with the firm in 1985. He led the sale of the business to Deloitte and remained with them as a vice chairman until 2013. He is a valuable addition to the Board.

The retirement of Andrew Gulliford, who has served as a non-executive Director since 2004, is announced today. I would like to thank him for the support and advice that he has given over the highs and lows of this period and for the great benefit of his extensive market knowledge and wisdom.

I would also like to offer my sincere thanks for the efforts of all our people who continue to help with the substantial and beneficial changes taking place. The Capital Raising itself was a major task. Since then, there has been the implementation of our strategy, the management and integration of new properties, the delivery of refurbishments and developments and most recently the comprehensive debt refinancing. Without their hard work and commitment, the extent and pace of change achieved would not have been possible.

Dividend

It remains our intention to maintain a progressive dividend policy whilst earnings increase to provide dividend cover. The Board is therefore recommending that the final dividend is increased by 1.7 % to 6.0 pence per share (March 2014**:** 5.9 pence). This will be paid as an ordinary dividend on 30th July 2015 and will take the total dividend for the year to 8.7 pence per share (2014**:** 8.6 pence).

Future Prospects

The prospects for future economic growth look encouraging, particularly with the stability of political continuity. This, in turn, is likely to maintain the recent positive trends we have seen in our markets over the year ahead.

This gives us continued confidence that our strategy, and in particular, our active development programme at Lombard Street, EC3, Redhill and Reading, will continue to deliver positive shareholder returns.

D.O. Thomas
Chairman
27th May 2015

STRATEGIC REPORT

Overview

With 5 acquisitions over the year, the portfolio increased to 40 properties at 31st March 2015, valued at £352.76 million. These totalled 1.55 million sq ft with 209 tenants. The portfolio is located entirely within the markets identified in the Group's strategy, being South East England (70.2%) and London (29.8%).

Our strategy and business model is based on our experience and exposure to these markets. Delivery of returns for the period has been driven by refurbishment, development and other portfolio activity, enhanced by continued market improvements.

As a result of positioning existing properties to benefit from improving rental values across our markets and progress made over the period with refurbishment and development projects, the rental value of the portfolio (ERV), as estimated at the independent valuation at 31st March 2015, increased by 59.4% to £30.19 million pa (March 2014: £18.94 million pa). The reversionary potential of the portfolio increased by 278.5% over the year to £9.69 million pa (March 2014: £2.56 million pa).

The ERV of properties held over the year increased by 29.6%, and by 7.9% excluding development projects.

Contracted rental income from the portfolio (net of ground rents) at the year end increased by 25.1% to £20.50 million pa (March 2014: £16.38 million pa). 62.8% of contracted rental income was payable at the year end by tenants each with a net worth in excess of £15 million (source: Dun and Bradstreet). This was higher than last year (54.7%), reflecting the increasing strength and diversity of the occupier base in the portfolio.

The weighted average lease term of the portfolio also increased to 6.5 years and 5.6 years to expiry and lease break respectively (March 2014: 5.7 years and 4.6 years).

Market Review

Economic recovery and occupier confidence has continued to benefit our office and industrial markets throughout London and the South East. As an asset class, property has increased in popularity as this confidence, combined with historically low levels of supply of modern business space, has improved the prospects of rental growth and income returns. Investors have been prepared to pay higher prices due to improved rental prospects and the relative attractiveness of property yields over other asset classes.

Our markets have continued to out-perform in terms of income and capital growth (IPD Monthly Index), and London and the South East have maintained their position as the two most significant economic regions of the UK.

The largest proportion of our portfolio is in the South East office market, which accounts for 48.3% of the portfolio (by value). Unfulfilled occupier demand ended the year at 3.38 million sq ft, with a further 0.55 million sq ft of demand under offer. This level was consistent with the three year average, during which time lettings completed have averaged 1.80 million sq ft. Over 70% of these lettings have been for Grade A and new floor space, highlighting that a key driver for occupiers is to secure an improved working environment to replace ageing and obsolescent existing buildings.

The overall vacancy of office floor space across these South East markets reduced by 10.0% to end the period at 10.95 million sq ft. Of this, 6.91 million sq ft was Grade A and new, representing a low vacancy rate of 8.1%. For new space alone, the vacancy rate was 2.6% with 18 of the 21 centres monitored having less than 5% vacancy. This shortage of supply, combined with sustained levels of occupier demand, looks set to continue to generate rental growth at headline level, and reduce levels of letting incentives. Recently completed buildings are contributing to market momentum, achieving rents ahead of previous highs and lease terms at or in excess of ten years (source: Strutt & Parker).

London office property, having recovered some time ahead of our other markets, continued to make strong income and capital gains over the period. Increasing rental values were seen across central London and record rents were achieved in the West End. This is expected to maintain a positive impact on rents in the City, and in well connected markets on the edge of, and outside, London.

Availability in the City has reduced to 6.80 million sq ft, representing a low vacancy rate of 5.7%. For Grade A and new space, this reduces to 3.50 million sq ft and a vacancy rate of 3.0%. A wider, more diverse occupier base contributed to take up in 2014, which totalled 9.20 million sq ft, of which 3.40 million sq ft was Grade A and new. With the opening of Crossrail in 2018, this trend is expected to continue. With only 2.5 million sq ft of speculative development under construction, occupier choice is becoming increasingly limited and rental values are expected to increase further.

Acquisitions and Disposals

Five properties were acquired over the year and a further property following the year end. These were:

- The Mille, Brentford (office: 96,950 sq ft). Purchase price: £19.30 million

  This property is located in a highly prominent position on the south side of the elevated section of the M4 motorway on the western side of London. It provided an initial opportunity to increase rental income from the building and from advertising displays. The building ERV of £20 psf assumed on purchase has been bettered as the ripple effect from central London spreads west, and a 43% increase in advertising rental has been achieved. The valuation at the year end reflected these gains and the improving market in this area, resulting in a 24.2% surplus over the cost of purchase.

- 9 Greyfriars Road, Reading (office: 38,200 sq ft). Purchase price: £5.80 million

  This property was purchased off market with vacant possession, presenting an opportunity to carry out a comprehensive refurbishment. It is located in the heart of Reading, in close proximity to the railway station and the regionally significant Station Hill development site, where demolition is underway. Crossrail will drastically improve travel times into the City of London when it connects to Reading in 2018, and direct rail access to Heathrow from Reading is on track for 2021/2022. Planning consent for the refurbishment works has been granted and strip out works have commenced. Completion is programmed for Spring 2016.

- Gainsborough House, Windsor (office: 18,660 sq ft). Purchase price: £6.85 million

  This is an attractive building in the centre of Windsor. The town has consistently been a popular location with occupiers, but with constrained supply of offices. The building is let until December 2016 at a rental of £27.50 psf. At that time there will be the potential to increase this, either on renewal with the existing tenant, or by carrying out a speculative refurbishment.

- Station Plaza, Theale (office: 41,540 sq ft). Purchase price: £8.46 million

  Station Plaza consists of three high quality buildings constructed in 1999/2000. Theale is located at Junction 12 of the M4 motorway on the southern outskirts of Reading, providing excellent road and rail access. The buildings are let until July 2019 to a single tenant off a low rent of £21.70 psf and will provide a high income return until then. The tenant is not in occupation of all the buildings and the potential exists to add value by restructuring the leases to secure a higher rent.

- The Planets, Woking (mixed: 106,600 sq ft). Purchase price: £8.75 million

  Woking is a popular occupier location. Recent investment in the town centre and the direct rail link into central London have added to the attraction of the town. The property represents a prime site of 1.04 acres in the centre of Woking, adjacent to the Group's ownership of 1 Crown Square, acquired in January 2014. It was built in the 1970's and converted into a mix of uses, including conference centre, bingo hall, hotel and other leisure facilities in the 1990's. It is let to Woking Borough Council until 2020, at which time there is potential to either renew leases or redevelop for a mix of uses, including residential and office.

- Brunel Way, Theale (warehouse: 96,850 sq ft). Purchase price: £10.70 million

  Acquired after the year end in April, this distribution facility has excellent access to the M4 motorway. The property was constructed in 1984 and is let until 2020 with a tenant only break clause in January 2018, subject to a twelve month rent penalty payable by the tenant if exercised. Should the tenant vacate, the potential exists to increase the passing rent of £0.75 million pa (£7.74 psf).

Over the year, two investment properties were sold, and there were part disposals of two other properties. The combined net sale proceeds for these disposals was £6.89 million, being 9.9% over the last valuation at 30th September 2014. Land at the rear of our office scheme on London Road, Redhill and Access House, Newbury (17,040 sq ft) were sold having secured an uplift in value following the receipt of residential planning consent. Two small offices at Waterman's Court, Staines (10,770 sq ft) were sold at lease expiry where the sale price outweighed the benefit to the business of refurbishment. At Bicester, approximately half the McKay Trading Estate was compulsorily acquired to enlarge Bicester Town Rail Station. This primarily serves the Bicester Village outlet centre and will enhance the potential of our retained units (65,300 sq ft) for higher value uses.

Refurbishment Projects

At the time of the Capital Raising, four portfolio projects were identified for early implementation:

- 329 Bracknell (33,600 sq ft) – comprehensive refurbishment of the external elevations, common areas and internal office refurbishment.
- Switchback Office Park, Maidenhead (37,470 sq ft) – second phase of refurbishment works.
- 66 Wilson Street, EC2 (11,890 sq ft) – comprehensive office refurbishment.
- Strawberry Hill House, Newbury (15,200 sq ft) – conversion to medical centre.

These office refurbishment projects were completed over the period, substantially improving the quality and potential of these assets and good letting progress has been made.

66 Wilson Street, EC2 was let as a whole on a 10 year lease at £0.55 million pa, which was double the rent prior to refurbishment, 32.0% ahead of estimates on acquisition in 2012 and 17.3% ahead of ERV at the 30th September 2015 valuation. At Maidenhead, rental values continue to recover and there is interest in part of the remaining space to let which consists of Building 6 and the first floor of Building 4. At 329 Bracknell, demand has been encouraging and 70% of the building is either let or in solicitors' hands at rents ahead of assumptions.

At Newbury, planning consent has now been granted for medical use and the pre-let has become unconditional. Works are underway, and on completion in spring 2016, the tenant will enter into a 25 year, Government backed lease at a rent of £0.26 million pa.

As a result of this progress, over the year the combined contracted rent from these four assets doubled to £1.24 million pa, the ERV increased by 24.8% to £1.63 million pa and the value increased by 30.9% over book cost to £25.13 million.

Further value will be released as the remaining void is let and works complete at Newbury.

Development Programme

The Capital Raising has also provided sufficient resources to allow us to commit to two larger office projects already in the portfolio in the City of London and Redhill. In addition the acquisition of 9 Greyfriars Road, Reading referred to above has added a third project. Works have commenced on all three schemes, which have a combined ERV of £5.56 million pa.

At Redhill, demolition and the sale of the rear part of the site for residential use were both completed during the year. Construction works commenced on the balance of the site in January 2015 for a 48,000 sq ft high quality office scheme, prominently located on London Road in the centre of Redhill. Marketing of the building, to be known as Prospero, has commenced ahead of programmed completion in mid 2016.

Detailed design of the proposed office redevelopment at 30 Lombard Street, EC3, completed during the year and contractor selection and pricing are well advanced. To maintain our target of completion by mid 2018, strip out works by the preferred contractor have commenced and full demolition is programmed to start in the summer. The scheme will replace the existing 35,820 sq ft building with a 58,000 sq ft top quality office designed to maximise the potential of this prime City of London location.

In addition to these current projects the portfolio contains a number of pipeline projects where master planning and feasibility work is being undertaken. Any potential uplift in ERV from these projects will only be incorporated once construction works commence.

Leasing activity

Continued in-house management of the majority of the portfolio and all rent collection has ensured a close working relationship with our tenants, who increased in number over the period by 20.8% to 209. This assisted with the retention of rents totalling £3.52 million pa and 64.9% of tenants at lease break and expiry. On a combined basis, rents achieved on renewal were 7.8% ahead of ERV and 2.8% ahead of ERV for all tenants retained.

The most significant lease renewal by rental value was at Runnymede Focus, Egham (warehouse: 91,185 sq ft), where the tenant entered into a 10 year lease at an increased rental of £0.89 million pa. The 8.1% increase in contracted rent, combined with the extended lease term resulted in a 26.7% increase in the value of this property over the year. Also of note was the 47.5% increase in contracted rent from the advertising tower adjacent to The Mille, Brentford. The tenant agreed to a rent of £0.45 million pa with annual RPI increases and an extension of the lease term to 2030.

At Portsoken House, EC3 (office / retail: 46,200 sq ft), a number of initiatives assisted with the retention of tenants in pre-let refurbished office space at improved rents. The building is benefiting from development and refurbishment in the area, and lettings in the building of upgraded floor space helped achieve a 25.6% uplift in ERV and a 21.5% increase in value over the year. Further floor space on the fifth and eighth floors is being refurbished speculatively, and will be marketed at rents ahead of those so far achieved.

In addition to retaining and enhancing rental income through management activity at the time of lease events, income was generated by letting the recently completed refurbishment projects referred to above and other portfolio voids. Rental income of £1.81 million pa was secured from 31 open market lettings which, on a combined basis, was 12.4% ahead of ERV. The letting of 66 Wilson Street, EC2 (referred to above) made a significant contribution to this total along with the letting of Pegasus Two, Crawley (office: 12,730 sq ft) adding a further £0.27 million pa on a new 10 year lease.

As a result of the continued high level of tenant retention and letting progress, the portfolio occupancy level (by ERV) increased from 86.8% to 91.8% over the year. This marked reduction in the space available to let within the portfolio is being replenished by our development programme, providing the potential for further gains from future lettings. With the inclusion of development projects, the occupancy level overall reduced from 85.9% as at 31st March 2014 to 73.2%.

Valuation

The independent valuation of the Group's portfolio as at 31st March 2015 totalled £352.76 million (31st March 2014: £254.55 million). This generated a 13.8% (£42.71 million) surplus for the period and a substantial 38.6% increase in overall value. Excluding acquisitions and associated purchase costs, the portfolio surplus was 14.7%.

A valuation surplus was secured across all segments of the portfolio. Excluding acquisitions, London offices increased by 20.3%, South East offices by 9.8% and South East industrials by 17.5%. The total surplus out performed the IPD monthly index surplus of 11.6%, and the total portfolio return of 18.4% was marginally higher than IPD (18.3%).

This was a strong valuation result with eleven properties securing a valuation surplus over the period in excess of 20%. In all cases, active management of the assets contributed to these gains. The property with the highest percentage increase was 66 Wilson Street, EC2 where a valuation surplus of 70.4% was achieved following completion of the refurbishment and letting during the period.

Market evidence from comparable transactions demonstrated continued investor demand across all our markets driving further increases in value as the year progressed. Within our portfolio, this resulted in gains from yield compression generally, but particularly when combined with letting activity. In addition, evidence of improving rental values contributed positively to the portfolio ERV and reversionary prospects.

The portfolio initial yield was 4.8%, increasing to 5.5% on the expiry of letting incentives, representing overall yield compression of 50 bps over the year. At ERV, the reversionary yield increased to 8.1% (March 2014: 7.0%) and the equivalent yield was steady at 6.6% (March 2014: 6.7%).

The portfolio reversionary yield increased primarily due to the commencement of development projects as referred to above, which contributed to a 29.6% (£5.49 million) increase in ERV of those properties held over the year.

Finance

Total Shareholder Return for the period of 24.8% was primarily a result of the share price increasing over the year from £2.08 to £2.50. This compares to a FTSE all share total return of 6.6% and a FTSE 350 Real Estate Index total return of 22.8%.

The market capitalisation of the Group has grown from £87.00 million prior to the Capital Raising in February 2014 to £231.00 million at 31st March 2015.

The final dividend of 6.0 pence per share (March 2014: 5.9 pence per share) will be paid on 30th July 2015. Coupled with the interim dividend of 2.7 pence per share, the total dividend for the year will be 8.7 pence per share, an increase of 1.2% on the previous year.

The Group is required to distribute at least 90% of rental income profits arising each financial year by way of a Property Income Distribution (PID). Subject to exemptions, this is paid after deduction of withholding tax, at present 20%. The final dividend, to be paid in July 2015, will be paid as an ordinary dividend.

Income Statement

The £2.37 million increase in adjusted profit before tax to £5.79 million (March 2014: £3.42 million) was due primarily to the income contribution from the eight acquisitions the Group has made since the Capital Raising in February 2014, combined with the benefit of recent lettings.

Gross rental income was £2.94 million higher than the previous year (March 2014: £14.68 million), benefiting from increased contributions of £3.13 million from the new properties. At the year end, the combined contracted rental income of these properties was £5.00 million, highlighting the potential future benefit of these assets.

Profit before tax (IFRS) totalled £33.28 million (March 2014: £38.29 million). This included a £42.10 million revaluation gain (including SIC15 adjustment) offset to a degree by a £15.19m negative movement in the value of interest rate hedging instruments.

Cost management remains a high priority as the business grows. Whilst the underlying cost base has risen due to the introduction of new staff to manage the increased size of the portfolio and scale of the business generally, it remains essential to ensure these costs are controlled effectively. Administration costs of £5.44 million (March 2014: £3.95 million) increased mainly as a result of this increased headcount, a bonus provision of £0.69 million (2014: £0.46 million) an increase of £0.63 million in the IFRS 2 accounting charge for the fair value of the outstanding grants of the Group's Performance Share Plan.

Interest for the year of £5.26 million was similar to the prior year of £5.88 million. However, the Group's weighted average cost of debt reduced from 5.98% to 5.78%, reflecting the cost of interest rate hedging instruments relative to an increased level of debt. The refinancing achieved after the year end, has lowered this still further as detailed below.

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the Consolidated Profit or Loss and other Comprehensive Income.

Balance Sheet

Shareholders' funds increased from £189.24 million to £215.49 million over the year, principally due to the £42.10 million revaluation surplus (including SIC15) achieved during the year.

EPRA NAV per share at the year end of 270 pence increased by 18.9% over the year on a like for like basis (March 2014: 227 pence). The main component of this improvement was the £42.10m valuation surplus during the year.

NNNAV per share increased by 13.3% to 230 pence (March 2014: 203 pence) and basic NAV per share increased by 13.1% to 233 pence (March 2014: 206 pence). These improvements were due predominantly to the positive valuation gain offset by the reduction in the mark to market value of interest rate hedging instruments.

Drawn debt at the end of the year was £91.50 million (March 2014: £37.50 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2015 was 25.9% (March 2014: 14.7%). The ratio of aggregate net borrowings to tangible net worth, as per banking covenants, was 36.1% (March 2014: 17.8%).

Net cash inflow from operating activities was £4.95 million (March 2014: outflow £3.80 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.8x (March 2014: 1.5x). The Group maintained £155.00 million of banking facilities through the year. The Group refinanced these facilities in early May 2015 as described further below.

Protection against future increases in interest rates is provided by financial hedging instruments. At the year end, £80.00 million (March 2014: £80.00 million) of such instruments were in place. As part of the refinancing, this notional amount was reduced to £45.00 million.

Future interest rate projections reduced over the year which resulted in the negative mark to market value of the hedging instruments increasing by £15.18 million to £37.74 million (March 2014: negative £22.56 million). Although the mark to market valuation is negative, this represents a non cash timing difference.

As a REIT, the Group is tax exempt in respect of capital gains and all qualifying rental income, which includes 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 2014: nil).

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has increased from £1.69 million to £1.81 million. The Group's annual contribution to the Scheme of £0.24 million, which includes part payment towards the deficit over a 7 year recovery plan, is not affected by this increase in the deficit. The triennial valuation in 2014 confirmed this approach is still acceptable. The increase in the deficit was mainly in the main due to the reduction in the discount rate and the reduction in the outlook for long term RPI, thereby increasing the deemed liabilities of the Scheme.

The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

Financial Risks

The main financial risks to the Group are compliance with financial covenants on bank borrowing, major tenant default, lack of liquidity, interest rate hedging instruments and future interest rate costs on bank borrowings.

Compliance with bank covenants is closely monitored by the Board which regularly reviews various forecast models to help its financial planning. Throughout the period the Group complied with all such covenants and retains significant headroom should there be an overall decline in capital values.

Tenant default is monitored using Dun & Bradstreet checks for new tenants together with on-going credit checks and internal credit control. Together with close management of rental income and suppliers, this ensures that the Group's ability to generate income to meet its commitments is monitored. The Board receives regular information on rental arrears and rent collection activities.

Liquidity risk is managed through a mixture of short and long term bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows, particularly tenant default.

Post Balance Sheet Event: Refinancing

On the 11th May 2015 the Group announced the results of a refinancing of debt facilities that were in place as at 31st March 2015. The Group took advantage of the current environment to secure low rates and an extended term on renewal. Overall the facilities were increased from £155.00 million to £175.00 million. Of this, £55.00 million was secured on a 15 year term at a fixed rate of 4.13% with a new lender, Aviva Commercial Finance Ltd. The remaining £120.00 million has been provided by three of the Group's existing clearing banks.

The weighted average length of debt increased from 1.6 years to 9.1 years at the point of refinancing. The weighted average cost of debt reduces from 5.78% reported at 31st March 2015 to 4.62% and then to 3.80% when the facilities are fully drawn, based on current rates.

As part of the refinancing, the notional value of the Group's hedging instruments was reduced from £80.00 million to £45.00 million. In view of the negative mark to market value of these instruments, this was achieved at a cost to the Group of £13.10 million, equivalent to a reduction in EPRA NAV of 14.3 pence per share. The full cost was offset to a degree by lender contributions, resulting in an increase in NNNAV of 2.6 pence per share. Having reduced the notional value of hedging instruments on a managed basis over the last five years from £155.00 million, this now leaves the Group with a competitive cost of debt, and we are confident that our revised financial platform will support the investment plans we have in place.

After taking into account the swap cancellation, EPRA NAV as at 31st March 2015 reduces to 256 pence per share and EPRA NNNAV increases to 233 pence per share.

S.C. Perkins
G.P. Salmon
27th May 2015

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2015 are as follows:

CONSOLIDATED PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
For the year ended 31st March 2015

	Notes	**2015** **£'000**	2014 £'000
Gross rents and service charges receivable	2	**21,409**	16,897
Direct property outgoings		**(6,487)**	(4,110)
Net rental income from investment properties	2	**14,922**	12,787
Administration costs	3	**(5,439)**	(3,946)
Operating profit before gains on investment properties		**9,483**	8,841
(Loss)/profit on disposal of investment properties		**679**	(124)
Revaluation of investment properties	8	**42,097**	22,917
Operating profit		**52,259**	31,634
Net finance costs - finance costs	5	**(19,802)**	6,651
- finance income	5	**32**	5
Profit on disposal of associated undertaking		**793**	-
Profit before taxation		**33,282**	38,290
Taxation	6	**-**	-
Profit for the year		**33,282**	38,290
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial movement on defined benefit pension scheme		**(493)**	372
Total comprehensive income for the year		**32,789**	38,662
Earnings per share	7		
Basic		**36.08p**	75.03p
Diluted		**35.48p**	72.95p

Adjusted earnings per share figures are shown in note 7.

Dividends		
Previous year's final dividend of 5.9p (2014: 5.8p) paid during the year	**5,414**	2,661
Interim dividend of 2.7p (2014: 2.7p) paid during the year	**2,496**	1,239
Proposed final dividend of 6.0p (2014: 5.9p)	**5,546**	5,414

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 2015

	Notes	**2015 £'000**	2014 £'000
Non-current assets			
Investment properties	8	**350,204**	252,645
Plant and equipment		**63**	13
Investments		**793**	-
Total non-current assets		**351,060**	252,658
Current assets			
Trade and other receivables	9	**10,339**	6,952
Cash and cash equivalents		**-**	2,100
Total current assets		**10,339**	9,052
Total assets		**361,399**	261,710
Current liabilities			
Trade and other payables	10	**(9,938)**	(6,555)
Finance lease liabilities		**(286)**	(286)
Interest rate derivatives	10	**(6,164)**	(3,510)
Cash and cash equivalents		**(572)**	-
Total current liabilities		**(16,960)**	(10,351)
Non-current liabilities			
Loans and other borrowings	10	**(91,302)**	(37,266)
Pension fund liabilities		**(1,940)**	(1,690)
Finance lease liabilities		**(4,121)**	(4,121)
Interest rate derivatives	10	**(31,581)**	(19,047)
Total non-current liabilities		**(128,944)**	(62,124)
Total liabilities		**(145,904)**	(72,475)
Net assets		**215,495**	189,235
Equity			
Called up share capital	12	**18,486**	18,352
Share premium account		**75,917**	75,541
Other retained reserves		**36,340**	57,988
Revaluation reserve		**84,752**	37,354
Total Equity		**215,495**	189,235
Net asset value per share	11	**233p**	206p
EPRA net asset value per share	11	**270p**	227p

These financial statements were approved by the Board of Directors on 27th May 2015 and were signed on its behalf by D.O. Thomas and S.C. Perkins.

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2015

	2015	2014
	£'000	£'000
Operating activities		
Profit before tax	**33,282**	38,290
Adjustments for:		
Depreciation	**44**	15
Other non-cash movements	**1,354**	731
Profit on disposal of investment properties	**(679)**	124
Movement in revaluation of investment properties	**(42,097)**	(22,917)
Net finance costs	**19,769**	(6,656)
(Profit) on disposal of associate undertaking	**(793)**	-
Cash flow from operations before changes in working capital	**10,880**	9,587
Increase in debtors	**(3,439)**	(1,001)
Decrease in creditors	**2,704**	(795)
Cash generated from operations	**10,145**	7,791
Interest paid	**(5,227)**	(11,596)
Interest received	**32**	5
Cash flows from operating activities	**4,950**	(3,800)
Investing activities		
Proceed from sale of investment properties	**6,886**	1,116
Purchase and development of investment properties	**(60,949)**	(19,406)
Purchase of other fixed assets	**(94)**	(7)
Cash flows from investing activities	**(54,157)**	(18,297)
Financing activities		
Proceeds from issue of share capital	**510**	86,712
Costs associated with issue of share capital	**-**	(4,473)
Decrease in borrowings	**53,935**	(57,035)
Equity dividends paid	**(7,910)**	(3,900)
Cash flows from financing activities	**46,535**	21,304
Net (increase)/decrease in cash and cash equivalents	**(2,672)**	(793)
Cash and cash equivalents at the beginning of the year	**2,100**	2,893
Cash and cash equivalents at the end of the year	**(572)**	2,100

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March 2015

	Attributable to equity holders of the parent company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Other retained earnings £'000	Total equity £'000
At 31st March 2013	9,176	2,478	14,314	45,965	71,933
Profit for the year	-	-	-	38,290	38,290
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	22,917	(22,917)	-
Transfer of share of surplus on revaluation of properties in associated undertaking	-	-	204	(204)	-
Transfer on disposal of investment Properties	-	-	(81)	81	-
Actuarial gain on defined benefit pension scheme	-	-	-	372	372
Total comprehensive income for the year	-	-	23,040	15,622	38,662
Share issue on capital raising	9,176	77,536	-	-	86,712
Costs associated with share issue	-	(4,473)	-	-	(4,473)
Dividends paid in year	-	-	-	(3,900)	(3,900)
Fair value of share based payments	-	-	-	301	301
At 31st March 2014	18,352	75,541	37,354	57,988	189,235
Profit for the year	-	-	-	33,282	33,282
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	42,097	(42,097)	-
Other	-	-	-	(19)	(19)
Transfer on disposal of investment in associated undertaking	-	-	1,417	(1,417)	-
Transfer on disposal of investment Properties	-	-	3,884	(3,884)	-
Actuarial loss on defined benefit pension scheme	-	-	-	(493)	(493)
Total comprehensive profit for the year	-	-	47,398	(14,628)	32,770
Issue of new shares net of costs	134	376	-	-	510
Dividends paid in year	-	-	-	(7,910)	(7,910)
Fair value of share based payments	-	-	-	890	890
At 31st March 2015	**18,486**	**75,917**	**84,752**	**36,340**	**215,495**

Notes forming part of the Group Financial Statements

1. The financial information set out in the final results announcement does not constitute the Group's statutory accounts for the year ended 31st March 2015 or 2014, but is derived from those accounts. The statutory accounts for the period ended 31st March 2015 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31st March 2014 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31st March 2015 and 2014; their reports were (i) unqualified (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2014 and 2015.

Accounting policies

Basis of preparation

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

In accordance with Section 408 Companies Act 2006 a separate Statement of Comprehensive Income for McKay Securities PLC (the Company) is not presented. The profit for the year after tax of the Company is £26,987,000 (2014: £32,641,000).

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

IFRS 10 Consolidated Financial Statements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 (revised) Separate Financial Statements

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

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

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

The financial statements are prepared on a going concern basis.

Significant judgements and estimates

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

Basis of consolidation

The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for investment property and derivative financial instruments measured at fair value through the Profit or Loss and other Comprehensive Income. Subsidiary companies are those entities under the control of the Company. Control means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Associates

An associate is an undertaking over which the Group has significant influence, but not control over the financial and operating policies. The Group's share of the total recognised gains and losses of associates is included in the consolidated financial statements on an equity accounted basis. Investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any distributions received.

Properties

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

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

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

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

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

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

Cash and cash equivalents
Cash comprises cash at bank and short term deposits held on call. Cash equivalents comprise investments with minimal risk to changes in value that are readily convertible into cash with an original maturity of three months or less.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxation

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

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

Deferred tax is the tax expected to be paid or recovered on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The Group uses the Group Statement of Financial Position liability method, without discounting, calculated using tax rates and laws enacted or substantively enacted at the Group Statement of Financial Position date expected to apply when the liability is settled or asset is realised. Tax liabilities are recognised for all taxable temporary differences and tax assets to the extent that future taxable profits will be available against which the asset can be utilised.

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

2. Net rental income from investment properties

	2015	2014
	£'000	£'000
Gross rents receivable	**17,005**	14,003
SIC 15 adjustment (spreading of rental incentives)	**612**	680
Gross rental income	**17,617**	14,683
Service charges receivable	**3,792**	2,214
	21,409	16,879
Direct property outgoings	**(6,487)**	(4,110)
	14,922	12,787

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

3. Administration costs

	2015	2014
	£'000	£'000
Group		
Directors' - remuneration	**1,006**	917
- bonus	**396**	312

Staff – costs	**714**	472
- bonus	**294**	154
National Insurance	**350**	237
Pension costs	**307**	347
Share based payment accounting charge (IFRS 2)	**890**	266
	--------	--------
	3,956	2,705
Depreciation	**44**	15
Office costs	**418**	561
Legal and professional fees	**978**	615
General expenses	**43**	50
	--------	--------
	5,439	3,946
	--------	--------

The average number of persons employed by the Group and Company during the year was 16 (2014: 14).

	2015	2014
	£'000	£'000
	--------	--------
Employee costs		
Salaries	**2,409**	1,855
Social security costs	**350**	237
Pension costs – defined benefit scheme	**67**	95
- defined contributions	**240**	252
Share based payment accounting charge	**890**	266
	--------	--------
	3,956	2,705
	--------	--------

	2015	2014
Fees paid to auditors	**£'000**	£'000
Statutory audit services	**-------**	-------
McKay Securities PLC audit	**67**	67
Subsidiary audits	**4**	4
Assurance services		
Interim review	**18**	17
Service charge audits	**6**	6
Non-audit services		
Assistance in relation to Capital Raising	**-**	125
Taxation Services		
Corporation tax compliance	**39**	29
VAT advice	**-**	1
	-----	-----
	134	249
Future services – contracted fees		
XBRL tagging	**4**	4

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

4. Adjusted profit before tax

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

	2015 £'000	2014 £'000
Profit before tax	**33,282**	38,290
Change in fair value of derivatives	**15,187**	(18,029)
Movement in revaluation of investment properties	**(42,097)**	(22,917)
Loss/(profit) on disposal of investment properties	**(679)**	124
Derivative contract cancellation costs	**-**	5,690
Profit on disposal on associated undertaking disposals and revaluation movements	**(793)**	-
IFRS 2 adjustment to share based payments	**890**	264
Adjusted profit before tax	**5,790**	3,422

5. Net finance costs

	2015 £'000	2014 £'000
Interest on bank overdraft and loans	**4,896**	5,508
Derivative contract cancellation costs	**-**	5,690
Finance lease interest on leasehold property obligations	**285**	285
Finance arrangement costs	**100**	92
Fair value loss/(gain) on derivatives	**15,188**	(18,029)
Capitalised interest	**(667)**	(197)
	19,802	(6,651)
Interest receivable	**(32)**	(5)
	19,770	(6,656)

6. Taxation

	2015	2014
	£'000	£'000
Current tax	**-**	-
Adjustments in respect of prior periods	**-**	-
Total tax in the Profit or Loss and other Statement of Comprehensive Income	**-**	-

Reconciliation to effective rate of tax:

Profit on ordinary activities before tax	**33,282**	38,290
Tax charge on profit at 21% (2014 – 23%)	**6,989**	8,807
Effects of:		
REIT tax exemption	**(8,015)**	(7,513)
Permanent differences	**1,021**	(1,295)
Other timing differences	**5**	1
Tax for period (as above)	**-**	-

7. Earnings per share

	2015	2014
	p	P
Basic earnings per share	**36.08**	75.03
Change in fair value of derivatives	**16.46**	(24.18)
Movement in revaluation of investment properties	**(45.63)**	(44.90)
(Profit)/Loss on disposal of investment properties	**(0.74)**	0.24
Associated undertaking disposals and revaluation	**(0.86)**	-
Adjusted earnings per share	**5.31**	6.19

Basic earnings per share on ordinary shares is calculated on the profit in the year of £33,282,000 (2014: £38,290,000) and 92,255,120 (2014: 51,032,725) shares, being the weighted average number of ordinary shares in issue during the period.

	2015 Number of shares	2014 Number of shares
Weighted average number of ordinary shares in issue	**92,255,120**	51,032,725
Number of shares under option	**2,233,578**	2,481,741
Number of shares that would have been issued at fair value	**(672,668)**	(1,030,583)
Diluted weighted average number of ordinary shares in issue	**93,816,030**	52,483,883

	2015 P	2014 P
Basic earnings per share	**36.08**	75.03
Effect of dilutive potential ordinary shares under option	**(0.60)**	(2.08)
Basic diluted EPS	**35.48**	72.95
Change in fair value of derivatives	**16.19**	(23.51)
Movement in revaluation of investment properties	**(44.87)**	(43.66)
Loss/(profit) on disposal of investment properties	**(0.72)**	0.24
Associated undertaking disposals and revaluation	**(0.86)**	-
Adjusted diluted earnings per share	**5.22**	6.02
EPRA earnings per share	**5.22**	6.02

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 93,816,030 (2014: 52,483,883) shares, which takes into account the number of potential ordinary shares under option.

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

8. Investment Properties

	Freehold £'000	Group Long Leasehold £'000	Total £'000
At 1st April 2014	215,304	37,341	252,645
Additions – acquisition	51,710	-	51,710
– development	7,398	2,602	10,000
Revaluation surplus	38,709	3,999	42,708
Adjustment for rents recognised in advance Under SIC15	(655)	43	(612)
Disposals	(6,207)	-	(6,207)
Amortisations of grossed up headlease liabilities	-	(40)	(40)
Book value as at 31st March 2015	**306,259**	**43,945**	**350,204**
Adjustment for grossing up of headlease liabilities	-	(3,785)	(3,785)
Adjustment for rents recognised in advance under SIC 15	6,211	131	6,342
Valuation at 31st March 2015	**312,470**	**40,291**	**352,761**

	Freehold £'000	Group Long Leasehold £'000	Total £'000
Valuation			
At 1st April 2013	179,068	32,700	211,768
Additions – acquisition	16,340	-	16,340
– development	2,836	64	2,900
Revaluation surplus	19,113	4,502	23,615
Adjustment for rents recognised in advance under SIC 15	(813)	115	(698)
Disposals	(1,240)	-	(1,240)
Amortisation of grossed up headlease liabilities	-	(40)	(40)
Book value as at 31st March 2014	**215,304**	**37,341**	**252,645**
Adjustment for grossing up of headlease liabilities	-	(3,825)	(3.825)
Adjustment for rents recognised in advance under SIC 15	5,556	174	5,730
Valuation as at 31st March 2014	**220,860**	**33,690**	**254,550**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2015. These valuations were carried out by Mellersh and Harding, Chartered Surveyors and Valuers. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £261 million (2014: £205 million).

The amount of interest capitalised during the year was £666,590 (2014: £197,143). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

Investment property valuation method and assumptions

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

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

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £42.1 million (2014: £22.9 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

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

Valuation technique[1]	London Offices Income Capitalisation	South East Offices Income Capitalisation	South East Industrial Income Capitalisation	Residential Market Approach
Fair value	£105,095,000	£170,365,000	£59,570,000	£6,380,000
ERV (per sq ft pa) - average	£42.63	£20.89	£8.08	n/a
ERV (per sq ft pa) - range	£5.50-£76.00	£5.00-£29.00	£3.00-£12.50	n/a
True equivalent yield - average	5.37%	7.78%	7.30%	n/a
True equivalent yield - range	4.96%-6.34%	5.89%-9.93%	6.04%-8.98%	n/a
Capital value per sq ft	n/a	n/a	n/a	£3,408

A further £11.4 million has been designated other and not included in the analysis above.

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

Definitions for ERV and true equivalent yield are provided in the glossary at the end of this document. A decrease in the estimated rental value would decrease the fair value of an investment property. A decrease in the true equivalent yield would increase the fair value of an investment property.

	Change in ERV		Change in equivalent yield	
Sensitivity analysis	+5%	-5%	+0.25%	-0.25%
Increase/(decrease in value of investment properties	15.8	(15.1)	(15.7)	15.3

9. Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	**54**	33
Amounts due from subsidiary undertakings	**-**	-
SIC 15 lease incentives	**6,342**	5,731
Other debtors and prepayments	**3,943**	1,188
	10,339	6,952

All the above debtors are receivable within one year except for lease incentives of £5,228,000 (2014: £4,808,000), accrued in accordance with SIC 15. The carrying amounts are a reasonable approximation of the fair values estimated as the present value of future cash flows.

Group trade receivables that were past due but not impaired are as follows:	**2015 £'000**	2014 £'000
Less than three months due	**37**	25
Between three and six months due	**10**	-
Between six and twelve months due	**7**	8
	54	33

The Group holds no collateral in respect of these receivables.

10. Liabilities

	2015	2014
	£'000	£'000
Trade and other payables		
Rent received in advance	**3,864**	2,964
Other taxation and social security costs	**1,962**	822
Amounts owed to subsidiary undertakings	**-**	-
Other creditors and accruals	**4,112**	2,769
	9,938	6,555

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 12 days (2014: 9 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:

	2015	2014
	£'000	£'000
Secured bank loans repayable at stated dates between 2016 and 2017 at variable rates	**91,500**	37,500
Bank facility fees	**(198)**	(234)
	91,302	37,266

The bank loans are secured against land and buildings with a carrying amount of £240,100,000 (2014: £206,750,000).

Repayable in:	**2015**	2014
	£'000	£'000
Less than 1 year	**-**	-
1-2 years	**70,500**	8,678
2-5 years	**20,802**	28,588
5-10 years	**-**	-
	91,302	37,266

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:

	2015 £'000	2014 £'000
Expiring in less than 1 year	**-**	-
Expiring in 1-2 years	**49,500**	38,300
Expiring in 2 – 5 years	**14,000**	79,200
Expiring in 5 - 10 years	**-**	-
	63,500	117,500

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

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

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

At the balance sheet 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 through changes in interest rates or availability of credit.

Interest rate risk
The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Participating swaps and interest rate swaps have been entered into to achieve this purpose. The swaps mature over the next 17 years and have swap rates ranging from 4.31% to 5.17%. Provision is made within the terms of the financial instruments for the counterparty bank to terminate the instruments by invoking credit breaks, the first of which is in 2016. If such a credit break were exercised, a payment would be made between the parties dependent on market value at that time. The instruments also provide the counterparty bank with additional break options from 2014. Should these breaks be exercised, there would be no payment liability on the Group. The Group does not hold or issue derivative financial instruments for trading purposes.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £199,000 (2014: £106,000). 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 2014 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

Interest rate derivatives

The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Interest rate swaps have been entered into to achieve this purpose.

The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31st March 2015	Amount £'000	Maturity	[2]Next credit break	[3]Next call option
Interest rate swaps	**75,000**	**Sept 2032**	**Sept 2022**	**Sept 2014**
Interest rate swaps	**5,000**	**Dec 2032**	**[5]Dec 2017**	**Dec 2019**
	80,000			

	Amount £'000	Rate	Fair value Before BCVA £'000	[4]BCVA £'000	Fair Value £'000
Interest rate swaps	**75,000**	**5.17%**	**(39,297)**	**3,731**	**(35,566)**
Interest rate swaps	**5,000**	**4.65%**	**(2,282)**	**103**	**(2,179)**
	80,000		**(41,579)**	**3,834**	**(37,745)**
As at 31st March 2014					
Interest rate swaps	**75,000**	**5.17%**	**(23,217)**	**1,904**	**(21,313)**
Interest rate swaps	**5,000**	**4.65%**	**(1,316)**	**72**	**(1,244)**
	80,000		**(24,533)**	**1,976**	**(22,557)**

[1] The £25 million interest rate swap was terminated on 26th March 2014 at a cost of £5.7 million.
[2] Credit breaks are triggered by the bank and require the prevailing mark to market value to be paid or received.
[3] Call options are triggered by the bank and require no payment by either party.
[4] BCVA – Bilateral Credit Valuation Adjustment is now required by IFRS 13 to be incorporated in the mark to market valuations. This is applicable to the Group Financial Statements reported from 30th September 2013. No restatement of comparative information is required.
[5] The counterparty bank has given notice this break will be exercised.

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

	2015	2014
	£'000	£'000
Current	**(6,164)**	(3,510)
Non-current	**(31,581)**	(19,047)
	(37,745)	(22,557)

	2015	2014
Weighted average cost of borrowing	**5.78%**	6.00%

The Group does not hedge account its interest rate derivatives and states them at fair value in the balance sheet based on quotations from the Group's banks, any movement passing through the Statement of Comprehensive Income. All financial liabilities are classed as level 2 in accordance with the fair value hierarchy stated in IFRS 13. The fair value of these level 2 contracts are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.

There are no liabilities at maturity and no material unrecognised gains or losses.

The Group had a deficit of hedging instruments over drawn loans and other borrowings at 31st March 2015 of £(11,500,000) (2014: surplus £42,500,000).

In both 2015 and 2014 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group.

11. Net asset value per share

	31st March 2015			31st March 2014		
	Net assets £'000	**Shares '000**	**Net asset value per share p**	Net assets £'000	Shares '000	Net asset value per share p
Basic	**215,495**	**92,426**	**233**	189,235	91,758	206
Number of shares under option	**1,433**	**2,125**	**(3)**	1,986	2,477	(3)
Diluted/EPRA NNNAV	**216,928**	**94,551**	**230**	191,221	94,235	203
Adjustment to fair value of derivatives	**37,745**	**-**	**40**	22,557	-	24
EPRA NAV	**254,673**	**94,551**	**270**	213,778	94,235	227

12. Called up share capital

	2015 Issued £	Number of Shares	2014 Issued £	Number of shares
Ordinary shares in issue				
At 1st April 2014	**18,351,670**	**91,758,348**	9,175,835	45,879,174
Issue of shares in year	**133,527**	**667,640**	-	-
Issued under capital raising[1]	**-**	**-**	9,175,835	45,879,174
At 31st March 2015	**18,485,197**	**92,425,988**	18,351,670	91,758,348

[1] Capital raising was via a firm placing, placing and open offer at £1.89

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13. Subsequent events

On 11th May 2015 the Group announced the successful refinancing of the business. Loan facilities increased from £155 million to £175 million and the weighted average length of debt increased from 1.5 years to 9.1 years. £55 million of the facilities have a 15 year term, fixed at 4.13%. As part of the refinancing the notional value of the interest rate swaps was reduced from £80 million to £45 million.

The Report and Financial Statements will be posted to Shareholders on 17th June 2015 with copies available from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Group's website www.mckaysecurities.plc.uk

Glossary

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

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

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

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.

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.

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

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

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

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

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

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

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

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

Market rental value (MRV)
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 ERV.

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

Net debt
Total borrowings less cash credit balances.

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

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

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

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

RPIX
Retail Prices Index excluding mortgage interest.

Shareholders' funds
Total equity of the Group.

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

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

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

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

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