McKay Securities Plc

Annual Report and Financial Statements 2021

McKay is a specialist in the development, refurbishment and management of office, industrial and logistics property in the South East and London – ideally positioned to deliver quality, innovation and growth.

How we are working towards our
ESG commitments

A focus on sustainability is embedded across our operations and integrated into our strategy.

Environment

Low carbon, resource efficient and healthy buildings.

See more on
Pages 36 to 39

Social

A customer-focused and flexible landlord.

See more on
Pages 40 and 41

Governance

A progressive and transparent business.

See more on
Pages 42 to 44

Financial Highlights

Profits and earnings

Loss before tax (IFRS)
£16.58m[1]
(2020: £9.49 million profit)

Adjusted profit before tax
£9.96m[1]
(2020: £9.73 million)

IFRS loss per share
17.5p[2]
(2020: profit per share 8.6p)

EPRA earnings per share
10.2p[2]
(2020: 10.6p)

Portfolio valuation

£437.90m[3]
(2020: £510.00 million)

Deficit
£21.58m[3] (4.7)%
(2020: surplus £0.11 million/0.0%)

Shareholders' funds

£289.90m
(2020: £309.17 million)

EPRA NTA per share
309p[4]
(2020: 329 pence)

Net asset value per share (IFRS)
309p[4]
(2020: 328 pence)

Total property return

0.5%[5]
(2020: 4.7%)

Debt to portfolio value

32.4%[5]
(2020: 37.6%)

Proposed final dividend per share

5.5p – up 25.0%
(2020: 4.4 pence), making the total dividend per share for the year 8.3 pence (2020: 7.2 pence)

1. See note 4 in financial statements.
2. See note 8 in financial statements.
3. See note 10 in financial statements.
4. See note 21 in financial statements.
5. See note 4 in financial statements for APM detail and pages 30 to 31 for KPIs.

Contents

Download the 2021 McKay Annual Report
mckaysecurities.plc.uk

Who We Are

Our Vision

To build upon our reputation and status as the leading property specialist for occupiers and investors, focused entirely on the South East and London – and build a business based on markets that we know and understand.

Our Purpose

To deliver outstanding services as a customer-focused and flexible landlord with occupiers at the heart of everything we do.

Our Mission

To develop, refurbish and manage low-carbon, resource-efficient and healthy commercial property; working in partnership with occupiers to deliver quality, innovation and growth.

We provide the very best environment for our customers to thrive and businesses to grow.

We deliver sustainable returns by operating an effective and established business model in a progressive and transparent way.

Our Values

Our values guide our every day ways of working, help us make the right decisions and manage our business. They give us identity, direction and unity. They help us focus on what's important and to do the right thing. Importantly, our values let you know who you are doing business with.

We treat each other with genuine **respect**
- behaving towards others as we would have them behave towards us
- listening, understanding and empathising
- caring for our community and the environment.

We build our success on strong **collaboration**
- sharing expertise openly and generously
- supporting and challenging each other to deliver ever more creative solutions
- forging long-term, trusted relationships.

We act at all times with complete **integrity**
- making the right choices, doing the right thing
- demonstrating fairness, loyalty, consistency and transparency
- taking ownership and being accountable.

We work with a sharp professional **focus**
- putting delivery and outstanding service first
- getting the details right, with a pragmatic and highly commercial mindset
- letting our energy and passion shine through.

Our strategic priorities for 2021 help us to achieve our purpose and create sustainable value for our stakeholders.

01.

Continued operational efficiency through Covid-19

02.

Positioning for growth

03.

Continued delivery of our ESG commitments

See more on **pages 12 and 13**

Portfolio (31 March 2021)

As the only REIT specialising in the office, industrial and logistics markets of the South East and London, McKay offers a unique proposition for investors.

33
Properties

£437.90m
Portfolio value

1.49m sq ft
Internally managed

See more on **page 22**

Chair's Statement

After such an extraordinary year, I am pleased to be able to report on a positive set of results for McKay...

Overview

What an extraordinary year we have lived through! McKay has navigated this challenging environment well and so I am pleased to be able to report on a positive set of results which reflect a strong operational performance and the achievement of significant milestones following the sale of 30 Lombard Street, EC3 and the letting of 135 Theale Logistics Park, both on excellent terms.

Our strategic focus on the office, industrial and logistics sectors of the South East and London, the most economically resilient regions in the country, and a lack of exposure to the retail and hospitality sectors, has insulated us from the worst impact of the Covid-19 pandemic. Our industrial and logistics assets have performed well, benefitting from both our in-house management initiatives and the increase in on-line retail activity, with higher occupational demand driving rental and capital growth. The office market has been more challenging, and many of our buildings have not been occupied by their tenants for over a year due to the Government's 'work from home' policy. This has contributed to a reduction in office values, and held back our ability to maintain business growth.

The increase in working from home during the pandemic has generated much debate over future demand for the office, which is clearly of key importance to us with a 66.6% portfolio weighting to the sector. Working practices will continue to evolve, and whilst there will inevitably be change, we remain confident that the office market will recover as the country is released from lockdown. Our South East office assets are well placed to meet this evolving demand, strategically positioned to offer high quality, flexible business space with good environmental credentials in well established regional centres.

During the year under review, the three strategic priorities that we have been focused on in view of the Covid-19 trading environment were:

- Continued operational efficiency
- Positioning for growth post Covid-19
- Continued delivery of our ESG commitments

Continued operational efficiency

With the country in lockdown and at a standstill at the beginning of the financial year, our team responded quickly and effectively to maintain operational efficiency and to protect the profitability of the business. This was achieved without government aid and without the need to furlough any of our employees. The relationships built up over many years with our occupiers as a result of our in-house management model helped during this challenging period, enabling us to collect 96.0% of contracted rent for the financial year (with a further 2.0% due under agreed payment plans), and to maintain a high 74.3% occupier retention rate at lease break and expiry, which compares to 80.0% retention in 2020.

This activity, combined with the benefit of income from recent acquisitions and developments, contributed to stable net rental income for the year of £21.63 million (31 March 2020: £21.98 million) and a 2.4% increase in adjusted profit before tax to £9.96 million (31 March 2020: £9.73 million).

The independent valuation of the portfolio at the end of the period totalled £437.90 million (31 March 2020: £510.00 million). After taking into account capital expenditure, disposals and acquisitions, this reflects a 4.7% valuation deficit for the year of £21.58 million (31 March 2020: £0.11 million surplus), with the pace of decline slowing in H2 following a 3.4% deficit recorded in the first half. The deficit for the year, which is covered in more detail in the Property and Finance Review, was mainly due to the reduction in the valuation of our office assets. This was partially offset by a positive performance from our industrial and logistics assets, which now account for £122.4 million (28.0%) of the portfolio (31 March 2020: 18.1%).

Our weighting to the industrial and logistics sector has increased following the acquisition of Willoughby Logistics Park, Bracknell and a strong performance on completion of development and the letting at 135 Theale Logistics Park, Reading. The timing of this scheme has proved excellent, and we secured a letting of the whole asset to Amazon on a ten year term shortly after practical completion, at a rent of £1.51 million pa. The quality of the scheme and the letting terms achieved resulted in a 42.7% (£10.88 million) valuation surplus for the period, and a 49.5% profit on cost for the scheme.

Inclusion of the unrealised valuation movement is primarily responsible for the IFRS loss before tax of £16.58 million (31 March 2020: £9.49 million profit), and the 6.1% reduction in EPRA net tangible asset value per share ("EPRA NTA") to 309 pence (31 March 2020: 329 pence). IFRS NAV per share reduced by 5.8% to 309 pence (31 March 2020: 328 pence).

Growth prospects post pandemic

We began the year with cash and undrawn facilities of £53.25 million providing us with the headroom for acquisitions, or other value enhancing opportunities. The sale of 30 Lombard Street, EC3 which completed in September 2020, achieved an excellent headline price of £76.50 million, reflecting an initial yield of 4.2%. This sale significantly strengthened the balance sheet at the end of the year with reduced loan to value ("LTV") of 32.4% (31 March 2020: 37.6%) and increased cash and undrawn facilities for opportunities to £103.25 million.

Despite the negative impact on the economy of Covid-19, there have been few forced sellers in the market so far. Acquisition opportunities in the office sector have been limited as vendors wait for buildings to be reoccupied, whereas the high investor demand for warehouse and logistics assets has pushed pricing to record levels. Over the period we adopted a patient and selective approach, looking for accretive opportunities in our core South East and London markets to offset the £1.35 million of rental income that 30 Lombard Street contributed to the year, whilst maintaining a prudent balance sheet.

This approach led to the off-market acquisition of Willoughby Logistics Park, Bracknell (54,157 sq ft) in August 2020 for £10.00 million at a 5.6% yield. The two units are let until 2024 and provide scope for rental growth at expiry and medium term redevelopment potential.

Within the existing portfolio, we invested £6.71 million across a range of refurbishment projects to upgrade both the quality and environmental credentials of our assets. These targeted works have improved the rental values and letting prospects of these assets and have contributed to the 22.8% (£5.84 million pa) reversionary income potential remaining in the portfolio at the end of the period, being the difference between contracted rent of £25.61 million pa and the £31.45 million pa full rental value ("ERV") of the portfolio. This portfolio potential includes our logistics asset at Sopwith Drive, Weybridge (63,140 sq ft) which was vacated by a parcel distributor at the end of the period, and two floors at our office asset Swan Court, Wimbledon (16,400 sq ft) that we took back as part of the successful lease re-gear in January 2021. Refurbishment works and possible redevelopment in the case of Weybridge are planned to secure a combined ERV of £1.63 million pa.

Looking further ahead, it has now been confirmed that our tenant at Great Brighams Mead in central Reading (84,840 sq ft), which has been in occupation since the Company developed this office building in 2000, will vacate at lease expiry in March 2022. We are looking at a range of possible alternatives including a comprehensive office refurbishment, conversion to residential and other alternative uses which will determine whether we retain or sell the asset.

We have been frustrated by the share price discount resulting first from Brexit and then Covid-19 which triggered a significant decrease in share prices across the sector, which subsequently recovered to varying degrees dependent on market exposure. As one of a number of possible initiatives to help close the discount, we reviewed the possibility of a share buy-back throughout the year whilst waiting to establish a better feel for how Covid-19 was likely to impact on market conditions and business progress. In March 2021, with improved clarity on these issues in particular, we announced a share buy-back up to the value of £10.00 million, which equates to circa. 5.0% of the issued share capital.

By the year end, the buy-back programme had acquired 538,542 shares at an average price of 213 pence per share, which has proved accretive to both net asset value and earnings per share. We will keep the programme under review, ensuring that it continues as an efficient and effective means of generating value for shareholders.

Continued focus on our ESG commitments

ESG considerations have been a part of our decision making since we adopted our first sustainability strategy in 2013 in response to the shift in market demand to more environmentally friendly buildings. We reviewed our approach in 2019 and introduced a new ESG framework: "The Right Choice for a Sustainable Business", with three key priorities:

- Low carbon, resource efficient and healthy buildings
- A customer-focused and flexible landlord
- A progressive and transparent business

These priorities are integral to our strategy, supporting our commercial objectives and targeting the highest standards of corporate governance. Our positive performance against these priorities and externally set independent targets is set out in detail in our 2021 Sustainability Review in our Annual Report and Financial Statements, and on our website. Of particular note is the achievement of the high 4-star rating in our 2020 GRESB score, the BREEAM excellent rating achieved at 135 Theale Logistics Park, and the target to reduce the use of carbon across our business, which we plan to deliver with our 2021 Carbon Net Zero Policy announced today.

Board and employees

I am very pleased to welcome Helen Sachdev to the Board as an independent Non-Executive Director with effect from April 2021. Helen has considerable experience gained from a range of sectors, including real estate, and her knowledge and experience will be very helpful as we all emerge from the current pandemic. After a period of stability, the appointment marks the first stage in succession planning to maintain an independent board.

I would like to thank my Board colleagues for their support, particularly through the early stages of the pandemic when we held weekly meetings to discuss the impact on the business.

The pandemic created substantial challenges for our employees, and I would also like to thank them for their dedication and the impressive results that their efforts have delivered.

Dividend

The Board is recommending a final dividend of 5.5 pence per share. This represents a 25.0%% increase compared with the final dividend paid last year (31 March 2020: 4.4 pence), and takes the full year dividend to 8.3 pence per share, an increase of 15.3% over last year (31 March 2020: 7.2 pence).

Although we remain in a period of economic uncertainty, and the full impact of the pandemic remains to be seen, the Board considers this increase is justified based on the strong operational performance over the period, and the improved visibility of market conditions.

Outlook

As we work our way out of the third lockdown, there are clear signs that the speed of the national vaccine roll out is having a positive effect on the economy and corporate confidence. Current Government policy allows a full return to the workplace from mid June, and as this gathers pace, we expect activity across our markets to increase.

We believe that this activity will confirm the essential role of the office in corporate life, benefitting our office assets which are well placed in terms of specification and geography to support the hybrid working practices that will continue to evolve.

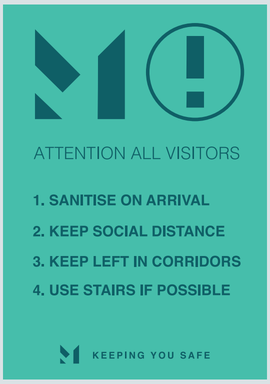
The pace of recovery and future market sentiment will influence our ability to replace earnings from recent disposals with new lettings and acquisitions. With our well positioned portfolio and substantial cash and undrawn facilities, we have maintained the ability to benefit from this recovery and to respond as opportunities present themselves.

Richard Grainger

Chair
17 May 2021

Timeline

During the year we have continued to make good progress against our strategic and sustainability priorities whilst focusing on the health and wellbeing of our colleagues and occupiers and maintaining operational resilience in the face of Covid-19.



Covid compliance at McKay assets

Refurbishment of 2nd and 5th floors of Corinthian House, Croydon, commences

Letting of Theale Logistics park to Amazon, 10-year term
£1.51 million pa contracted rent

March 2020 | **Lockdown 1** | **Lockdown 2**

Practical completion of Theale Logistics Park
135,095 sq ft

Acquisition of Willoughby Logistics Park, Bracknell for
£10.00 million

Domestic & General Lease renewal at Swan Court, Wimbledon
£1.76 million pa contracted rent agreement for lease

ESG – GRESB 4-Star award

GRESB 2020

Share buy-back announced

96.0% cash rent collection

Lockdown 3

March 2021

Completion of Lombard Street, EC3 sale for £76.50 million

Customer Survey completed – 90% satisfied (10% neutral) with McKay relationship

74.5% Tenant retention

Chief Executive's Review

We remain confident in our strategic focus on the office, industrial and logistics markets of the South East and London.

Overview

Our initial challenge this year was to make the necessary operational adjustments in response to Covid-19 to maintain the safety of our team and occupiers, whilst ensuring the efficient running of the business.

The operating system that we put in place worked effectively from the outset, with recent investment in our IT systems enabling all staff to access Company networks remotely without difficulty. In between lockdowns, all but the most vulnerable of our team were working from the office, facilitated by being able to drive to work to our self-contained and secure low rise headquarters in Reading.

Faced with so much uncertainly, it was reassuring that the business was well capitalised and that our portfolio was focused in well established centres of the South East and London, with occupier diversity across the office, industrial and logistics sectors.

Moreover, we were pleased to complete the sale of 30 Lombard Street, EC3 and to let 135 Theale Logistics Park on such good terms.

The benefits of our in-house, internal management model were particularly apparent during the crisis. The close work with our occupiers secured high levels of rent collection and occupier retention, and resulted in many positive endorsements in our Occupier Survey carried out in mid 2020. In addition we continued to invest in the portfolio to benefit from likely trends in office occupier demand, particularly with our McKay+ offer and sustainable, flexible, business space.

Continued focus on the South East and London

We remain confident in our strategic focus in our core markets. We have extensive knowledge of these markets which are supported by a strong regional economy that contributes 39.0% of the national GVA, built on specialisation in high value and high technology sectors. The two regions support 9.4 million workers, 30% of the national total, and have a higher density of businesses than in the rest of the country and we believe this should support economic recovery and occupier demand as pandemic restrictions ease.

Market review

From the first lockdown at the beginning of the year, the office market stalled, whereas the industrial and logistics sector continued to operate benefitting from the boom in on-line shopping. This mix of fortunes contributed to a 2.6% reduction in our office portfolio ERV over the period and an 11.8% valuation deficit, whereas the ERV for our industrial and logistics assets held over the period (excluding developments) increased by 2.6% and their valuation by 9.0%. Overall, the portfolio valuation deficit was 4.7% (MSCI All Property Index: -2.9%) and the ERV for properties held over the period was down 2.0% (MSCI All Property Index: -2.0%).

The valuation deficit of our office portfolio was greater than the -6.1% MSCI All Property Index performance, which contributed to the relative under performance of the portfolio as a whole. This was due in part to the number of planned office refurbishment projects either completed or underway where we are carrying out upgrading works to improve rental prospects, and to deliver future value. However current values were particularly exposed to more cautious valuation assumptions to reflect the Covid-19 trading environment. This also applied to forthcoming lease expiries, as covered in more detail in the Property and Financial Review.

The fall in office values was partially offset by the valuation gains in our industrial and logistics assets, including a substantial 42.7% (£10.88 million) surplus following the letting success at 135 Theale Logistics Park. This took the valuation surplus for this segment of the portfolio to 18.1%.

Investor appetite reflected these sector variations, with demand from a wide range of investors outstripping the supply of industrial and logistics opportunities and pushing pricing to record levels. With the office market on pause, office transactions have been limited and values have fallen, with the exception of low risk assets with secure, long term income, where investor demand remains strong.

The largest segment of our portfolio is South East offices (53.8%), located predominantly along the M4 corridor. Named occupier demand at the end of the period, as monitored by BNP Paribas, totalled 2.25 million sq ft. This was an encouraging 24.9% increase over the previous quarter, but still 33.0% below the five year average of 3.37 million sq ft. Annual take up of 1.31 million sq ft for 2020 in our market area suffered as a result, being 36.4% below the five year average of 2.06 million sq ft and on a par with 2009, the lowest on record since 2000. Of this take up, 72.9% was for unit sizes below 60,000 sq ft, and 66.5% was for new or Grade A space. This continues the trend that we have reported on for a number of years of occupier demand for better quality floor space in smaller unit sizes.

With a lower level of letting activity over the year, supply in this market increased to 8.80 million sq ft, representing a vacancy rate of 9.4% (31 March 2020: 7.4%), but still well below the peak vacancy rate following the GFC of 14.2% in 2014. The low vacancy rate of 2.3% for new buildings (31 March 2020: 1.8%) continues to limit occupier choice and the speculative pipeline of new schemes is likely to remain restricted until the demand outlook is clearer.

Following the sale of 30 Lombard Street, the value of our remaining three central London buildings accounts for 12.8% of the portfolio (31 March 2020: 24.7%). Each asset continues to provide opportunities for income and capital growth, which we will monitor as the central London occupational market becomes clearer.

Office demand – all change?

As noted above, demand and letting activity in the South East office market has reduced this past year, and there has been much discussion regarding the impact of Covid-19, and the working from home experience in particular, on future occupier trends.

Around 30% of the workforce in the South East and London was already working from home some of the time prior to the pandemic, with the proportion rising to around 50% during the first lockdown. Hybrid working patterns will evolve from this, and although the number of employees in the office full time may reduce, this is likely to be offset by lower occupational densities to create safer working environments.

We believe that demand has been deferred rather than lost. To best position ourselves to benefit when it returns, the key considerations we are addressing are:

- How will offices be used in the future? The use of the office will vary between business size and type, but remain essential as a strategic tool in the management of most businesses. It is likely to be more of a collaborative space to enforce business identity and to encourage team-work and the effective integration of new and younger employees.
- What type of business space will be in demand? We expect the majority of demand to be for safe, sustainable and smart buildings of quality that help attract and retain employees. Ease and flexibility of occupation will be important considerations, as well as ease of access and local amenities. Letting activity is likely to remain predominantly for new and Grade A floor space within the sub 60,000 sq ft size range. A shift to shorter commuting could also result in decentralisation.
- How do we meet occupier expectations? Occupiers will expect a high quality service from their landlord to support the concept of the office being a welcoming, central and integral part of their business. Track record and customer focus will be key.

Many of these requirements reflect trends that we were seeing before the pandemic, and responding to with the quality and specification of our buildings and the delivery of high levels of service set out in 'The McKay Way' by our in-house occupier services team.

With our office properties located mainly in outer London and the South East, we are also able to offer a cost effective alternative should occupiers decide to decentralise to reduce exposure to congested public transport and long travel to work times. Construction of the Elizabeth Line from central London to Reading, once opened, will enhance our offer with improved connectivity.

Sustainability and ESG will play a key role

The importance of ESG considerations, and the environmental credentials of business space, will continue to increase. These considerations are integral to our decision making with regard to portfolio properties and the way that we run the business more generally.

Our 2021 Sustainability Review, available on our website, provides full details of our ESG policy and progress during the year. This includes the publication of our 2021 Net Zero Carbon commitment announced today, which sets out a number of ambitious targets in relation to our existing portfolio and future projects to support the delivery of our core sustainability objective of creating low carbon, resource efficient buildings.

We will continue to work on these ESG and property initiatives, such as our McKay+ offer of ready to occupy floor space, short form leases and fully connected buildings.

The year ahead

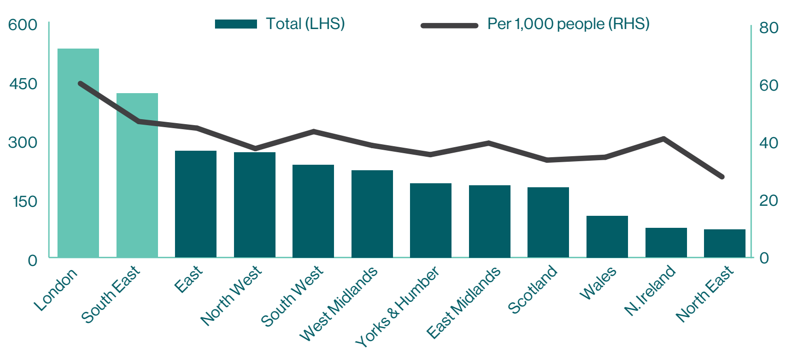
Within the existing portfolio, we look forward to improved confidence from the road map out of lockdown and the continued roll out of the vaccination programme driving a pick up in leasing activity of current vacancies and future refurbishments. The lease break exercised at Sopwith Drive, Weybridge provides scope for a major refurbishment or redevelopment of this 1980s warehouse, and at Great Brighams Mead, Reading we are considering a range of options to evolve a strategy ahead of lease expiry in March 2022.

With substantial cash and undrawn facilities, we will continue to progress portfolio initiatives and look for earnings and value accretive acquisitions in our core markets to offset the planned reduction in earnings from the sale of 30 Lombard Street. Full use of this headroom will be governed by maintaining a level of gearing appropriate to the macroeconomic climate and evolving outlook. We will also continue to closely monitor occupier demand and the possibility of recycling capital through further disposals, and maintain the current share buy-back programme while it continues to be an effective and efficient means of generating shareholder value.

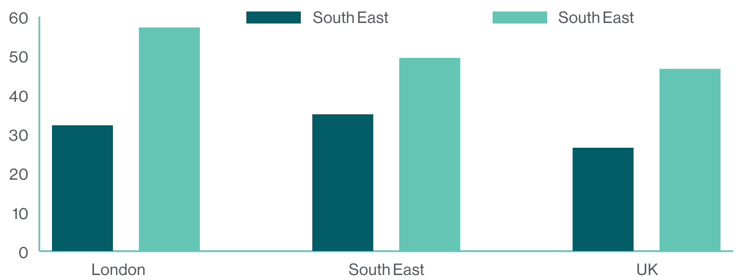
Simon Perkins

Chief Executive Officer
17 May 2021

Number of businesses by region and per capita



Workers that work from home at least some of the time (% of regional employment)



Source: Capital Economics

Strategic Framework

Our strategy is to apply entrepreneurial property initiatives to create sustainable value from our assets for our stakeholders.

Strategic priorities

01 Continued operational efficiency through Covid-19

Ensuring that despite Covid-19, operational efficiency and the profitability of the business is maintained.

2020/21 progress

- Rapid and effective compliance with government guidance throughout the year
- Remote working through lockdown periods, with employees able to access Company networks remotely without difficulty
- In-house management ensuring building compliance with Covid-19 safety standards
- Effective business continuity securing letting progress, including 135 Theale Logistics Park

02 Positioning for growth

Maintaining a strong balance sheet and refreshing portfolio potential by recycling capital from disposals into acquisitions and portfolio initiatives, and other capital allocation initiatives to improve prospects for growth.

2020/21 progress

- Sale of the long leasehold interest of 30 Lombard Street, EC3 at a headline price of £76.50 million (4.16% yield) to capture development gains and to recycle capital
- £10.00 million acquisition of Willoughby Rd, Bracknell; a multi-let logistics asset with growth potential
- Investment of £5.56 million into the refurbishment of portfolio properties to enhance growth prospects
- Investment of £1.15 million over the period through the share buy-back programme

03 Continued delivery of our ESG commitments

Our sustainability framework identifies three priorities to ensure that ESG targets are integrated into the delivery of our strategy.

See our 2021 Sustainability Review
page 34

2020/21 progress

- Publication of our 2021 Sustainability Review which sets out in detail the progress made through the period in relation to our ESG long-term priorities
- 93.0% achievement of independently set targets
- Publication of our Net Zero Carbon Pathway policy

Relevant performance metrics	Future objectives	Risks
Occupier retention rate 74.3% Rent collection 98% cash and agreed Occupier satisfaction score 90% IFRS NAV £289.90m TPR 0.5%	• Maintain high occupier retention rate • Maintain/improve upon our occupier satisfaction score in the next occupier survey • Evolve our smart building technology to improve our offer to occupiers • Maintain strong relationships with occupiers and suppliers • Maintain high levels of rent collection • Reduce portfolio vacancy	• Impact of Covid-19 • Market downturn • Occupier default
LTV: 32.4% 10 year TSR: 199.2% Cash and undrawn facilities £103.25m	• Continue to utilise increase in loan facilities • Maintain banking relationships • Secure earnings and value-enhancing acquisitions • Continue to capture value from portfolio initiatives • Enhance prospect for strategic growth	• Impact of Covid-19 • Lack of suitable investment opportunities • Overpricing restricting purchasing • Covenant compliance
Sustainability target achievement Reduction in like-for-like energy consumption by 16.4% against 2019/20 Improved GRESB score from 75 to 77, 4-star rated Long-term decarbonisation plan developed Occupier survey and follow-up action plan completed	• Maintain high achievement rate of sustainable targets • Implementation of ESG objectives • Implementation of Net Zero Carbon Pathway policy	• Impact of Covid-19 • Market downturn

Strategy in Action

01

Continued operational efficiency through Covid-19

Significant milestone achieved with the letting of 135 Theale Logistics Park

- Former 96,850 sq ft chilled warehouse, acquired in 2015 for £10.70 million
- While retaining income, planning for new distribution/logistics unit of 135,095 sq ft
- Floor area increase of 39%
- ERV increase of 97%
- Once ready to demolish, agreed early surrender payment with tenant
- Practical completion achieved in April 2020
- Letting of the whole to Amazon at a rent of £1.51 million pa completed in September 2020
- 2021 valuation surplus of £10.88 million (42.7%)

02

Positioning for growth

Disposal of 30 Lombard Street, EC3

- Sale of 30 Lombard Street, EC3, completed in September 2020
- Let prior to completion of development in January 2019 on a 15-year lease
- Headline price of £76.50 million at a yield of 4.16% securing net proceeds of £70.06 million
- Balance sheet strengthened, with LTV at 31 March 2021 reduced to 32.4%
- Post-sale of 30 Lombard Street, EC3, circa £100.00 million for new opportunities

03

Continued delivery of our ESG commitments

Uninterrupted progress

- 93% achievement of independently set ESG targets
- 4-star GRESB achieved
- Publication of our Net Zero Carbon Pathway

Business Model

Our mission is to develop, refurbish and manage commercial property, working in partnership with occupiers to deliver quality, innovation and growth. We provide the very best environment for our customers to thrive and businesses to grow.

Key resources

Land and buildings
We focus on quality office, industrial and logistics business space within the established markets of the South East and London.

Relationships
Our geographical focus and in-house management capabilities enable us to build strong relationships and work in partnership with our occupiers and local supply chains.

Our team
Our experienced team are experts in their field and know the South East and London markets intimately.

Respected brand
We take pride in everything we do and have developed a reputation for quality, innovation, sustainability, ambition and growth.

ESG framework
Our sustainability strategy framework 'The Right Choice for a Sustainable Business' lies at the heart of all we do.

Financial flexibility
Strong banking relationships and a robust balance sheet allow flexibility to invest in the portfolio throughout the cycle.

What we do

Strategic priorities

01 Continued operational efficiency through Covid-19

02 Positioning for growth

03 Continued delivery of our ESG commitments

See more on **pages 12 and 13**

Value creation

We generate value by operating an effective and established business model that delivers sustainable, long-term returns.

Communities

We are committed to playing our part in the local community and supporting causes that will benefit from our experience.

Employees

We aim to support and engage our employees by providing a working environment that promotes health, wellbeing and development.

Suppliers

Suppliers play a fundamental role in delivering our vision and we value close relationships.

Occupiers

We offer our occupiers choice, flexibility, quality and sustainable/energy-efficient business space.

Investors

We aim to deliver attractive and sustainable returns to shareholders.

Read more about why our stakeholders matter and how we have engaged with them on **pages 20 and 21**

Section 172 Statement

Duty to promote the success of the Company

Companies Act 2006 – Section 172

(1) A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term,
(b) the interests of the company's employees,
(c) the need to foster the company's business relationships with suppliers, customers and others,
(d) the impact of the company's operations on the community and the environment,
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and
(f) the need to act fairly as between members of the company.

Our commitment to Section 172

As part of our Sustainability Strategy Framework we are committed to being a progressive and transparent business and adhering to high levels of Corporate Governance. This includes our commitment to considering the stakeholders of our Company in our approach to decision making throughout the business in order to promote the success of the Company, in line with our duties under Section 172 of the Companies Act 2006 (1) (a) to (f) as set out above.

We define principal decisions as those that are material to the Company and significant to any of our key stakeholder groups. In making such decisions, the Board considers the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

Principal decisions are minuted at each Board meeting and entered into in our corporate S172 log, along with matters taken into consideration and stakeholder engagement.

Willoughby Road, Bracknell

Examples of our approach to decision making during the period are:

#1
Covid-19

Having assessed the information available when lockdown measures were first implemented, the Board put in place Covid-19 measures to protect shareholder and other stakeholders' interests in March 2020 and maintained these throughout the year. Measures put in place included:

– regular market updates on Company progress and quarterly rent collection rates,

– offering occupier support where appropriate on a case-by-case basis,

– maintaining a smooth transition to remote working and ensuring the health and wellbeing of our employees, and

– maintaining our long-standing relationships with our suppliers.

#2
Purchase of Willoughby Road, Bracknell

The decision to add this logistics asset to the Company's portfolio in August 2020 increased the Company's exposure to the logistics sector, providing a high-quality, earnings enhancing asset with rental growth prospects and long-term development potential.

This expansion of the portfolio adds high-quality business space to meet occupier requirements in a prime location, as well as providing economies of scale for the business. The acquisition was funded using exisiting loan facilities, after consideration of headroom and LTV metrics.

#3
Share Buy-back

On 8 March 2021 the Company announced a share buy-back programme of up to £10.0 million, or approximately 5%, of the Company's issued ordinary share capital.

After careful consideration, the Board believed that with improving visibility in market conditions and business progress, the Company's substantial discount to net asset value meant the Programme offered the potential to make market purchases at a price, or prices, that it believed would be accretive. The Board will keep the Programme under review to ensure it continues as an efficient and effective means of generating value for shareholders.

Our Stakeholders

We believe we must be responsive to changing stakeholder expectations, to remain relevant and ensure a resilient and progressive business.

We set out here our key stakeholders, how we engage with them and what they tell us is important to them. We continue to build on strong relationships with all our stakeholders. It is important for us to listen and understand their evolving needs. This understanding will support the decision-making process at all levels in the business, enhance our reputation as a trusted landlord, and strengthen our presence in the office, industrial and logistics markets of the South East and London.

Stakeholders	How we engaged during the year
Occupiers Our occupiers are at the heart of our business and we take great pride in creating sustainable and progressive environments where their businesses can thrive. For more information, see: The McKay Way on page 27 Sustainability Review on page 34 Occupier Survey on page 40	• Each occupier is appointed their own dedicated in-house asset manager who is available to discuss any aspect of an occupier's lease terms • A dedicated in-house occupier services representative is assigned to each occupier. Their aim is to support each occupier's business needs on a day-to-day basis
Investors Our shareholders are fundamental to how we operate as a business. They provide the equity base for the business and although they are primarily looking at a financial return they are increasingly holding companies to account on their ESG strategy and policies. For more information, see: Sustainability Review on page 34 Strategic Framework on page 12	• There is a well established investor relations programme of investor and analyst presentations. Presentations follow the annual financial timetable and are undertaken following the announcement of the end of year and half year results. During the year, due to Covid and social distancing restrictions, these were carried out via a remote conferencing facility • Regular press releases and RNS announcements on business events
Employees Our employees are a diverse mix of highly skilled and experienced individuals who are keen to see both themselves and the Company develop and grow. Their skills, enthusiasm and commitment are central to business success. For more information, see: Corporate Governance – Working Practices case study on page 42 Sustainability Review on page 34	• During the year throughout the periods of lockdown practical measures were put in place to ensure employees were able to work from home. Regular communication from line managers through the use of remote conferencing facilities and email updates helped support interaction between employees • An Employee Representative Non-Executive Director ("desNED") provides a conduit to the Board for the employee voice • Executive Directors ordinarily undertake year end and interim presentations to employees and encourage attendance at the Company's AGM but due to Covid compliance, the 2020 AGM was a closed meeting
Communities We are mindful that as a Company we do not work in isolation. We are committed to playing our part in the local community and supporting charitable, education and other causes that might benefit from our experience. For more information, see: Sustainability Review on page 34 Occupier Survey case study on page 40	With the impact of Covid we believed it even more important to continue our commitment as: • A Supporter of the Reading University Pathways to Property programme • A partner of Ethical Reading, a not-for-profit social enterprise dedicated to making Reading a better place to live and work through helping organisations become more ethical
Suppliers We use a large number of products and services to construct, improve and maintain our buildings. The procurement choices we make can have a significant impact on people, organisations and the wider environment. For this reason, suppliers and contractors play a fundamental role in delivering our vision and achieving our objectives. We recognise that by working closely with our suppliers we can have a material impact and we have an obligation to ensure that our supply chain and procurement practices follow proper standards. For more information, see: Sustainability Review on page 34	• We engage with all suppliers at pre-qualification stage and with every new contract or contract renewal • Key suppliers in the top five operational procurement categories are audited on an annual basis to ensure compliance with our procurement policy (updated in 2020)

How we engaged during the year (continued)	Areas of focus
• We communicated to occupiers that Covid building compliance was regularly reviewed and the implementation of measures was in line with government guidance as a minimum standard • In September 2020 we carried out one of our regular occupier surveys, created action plans and fed back on actions taken	• Unique spaces – creating the right space for each individual occupier • Flexible lease terms • Value for money • Excellent customer service experience • An approachable landlord • The environmental impact of their space • Covid compliance
• In normal circumstances all Directors attend the Annual General Meeting ("AGM") and are available to engage with shareholders. The 2020 AGM was a closed meeting but investors had the opportunity to submit questions online prior to the meeting and any responses were available to view on the Company's website	• Financial performance • A robust business model • Implementation of a sound ESG strategy • Ensure assets are future-proofed through progressive technological improvement • Effective communication • Covid compliance
• We engage with employees through workshops, regular team meetings, annual appraisals and training opportunities • As part of our commitment to the wellbeing of our employees we offer health and dental care schemes, and occupational health support is regularly made available	• Inclusivity and empowerment • Top-down communication • Collaboration – sharing ideas and views • Continual development of skills • A flexible working environment • Supportive employee health and wellbeing services • A Covid compliant and healthy workplace
• A supporter of Land Aid, a property industry charity focused on reducing youth homelessness • A contributor to supporting selected charities such as MIND, an organisation that supports mental health, NHS Charities Together and a local hospice	• Supporting selected charities • Working in partnership with the local community • Building close links with our local university
• We strive for continual improvement. We are committed to advancing our policies and systems across the Company to ensure we address and monitor performance in all aspects of sustainability that are relevant to the business	• Building relationships based on a strong ethical ethos and high standards • Prompt payment practices • A responsible procurement policy • Promoting human rights • Reducing adverse environmental impacts

Property and Financial Review

Tom Elliott

Giles Salmon

Introduction

As at 31 March 2021 our portfolio consisted of 33 assets with an independent valuation of £437.90 million. The majority of the portfolio falls within the office sector, but through a combination of development and valuation gains as well as the recycling of capital, we have increased our weighting over the year to the industrial and logistics sector. By value the breakdown is now 66.6% offices, 28.0% industrial and logistics and 5.4% other with no retail exposure (31 March 2020: 77.1%, 18.1% and 4.8% respectively). See Table 1.

Together with selling our largest asset and letting our most recent development project, Covid-19 and its repercussions have dominated this year. Operationally our business model of managing all our assets internally, rather than using third party managing agents, allowed us to respond with agility and resilience. With this business model, we know our tenants well and as a result we knew very quickly where to help, how to help and where to remain firm.

In a crisis more economically damaging than the GFC, we maintained a strong tenant retention rate with 74.3% of our occupiers choosing to remain with McKay at lease break or expiry; collected or agreed plans for 98% of our annual rent; renewed 34 leases; secured 18 open market lettings; and achieved a positive customer survey with 90% of our occupiers happy with their direct McKay relationship.

Our total occupancy has fallen to 85.3% (31 March 2020: 88.7%) and there are two clear reasons for this. Firstly in February 2021 Hermes operated their break clause at Sopwith Drive in Weybridge (63,140 sq ft / £0.65 million pa contracted rent) which they had occupied for many years, in order to relocate to a larger unit. The industrial and logistics sector is currently very strong from both an occupational and investment perspective and this lease break frees up a prime development / refurbishment opportunity for us.

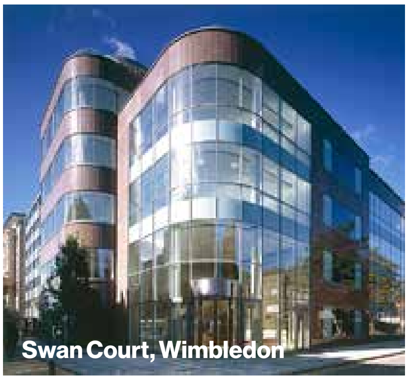
Secondly, while we successfully negotiated with our largest occupier, Domestic & General, to renew their occupation for a further five years at Swan Court in Wimbledon, they did hand back 30% of the building (ground and first floors totalling 16,400 sq ft) which they had not been using for some years. These floors will be refurbished and delivered into this popular under-supplied Greater London sub-market in the autumn.

These two new vacancies represent 5.2% of the overall portfolio ERV as at 31 March 2021.

We believe the office remains critical to business continuation and that the best and most engaging office space will remain in demand from businesses keen to attract and retain staff. As a result, we shall continue to upgrade and invest in our assets when vacancies occur to meet that demand.

Table 1: Properties

		Properties	% of Portfolio
Office	London	3	12.8%
Office	South East	17	53.8%
Total Office		**20**	**66.6%**
Industrial	South East	9	28.0%
Total Industrial		**9**	**28.0%**
Other	Health	1	1.3%
Other	Leisure	1	3.1%
Other	Residential	2	1.0%
Total Other		**4**	**5.4%**
Overall Total		**33**	**100.0%**



Swan Court, Wimbledon

Property Portfolio

At 31 March 2021

£15m and over
60.5% of portfolio

		Area sq ft
Brentford	**The Mille, 1000 Great West Road** (office)	96,700
Crawley	**Oakwood Trade Park, Gatwick Road** (industrial & logistics)	52,400
EC3[1]	**Portsoken House, Minories** (office and ancillary retail)	49,570
Newbury	**Rivergate, Newbury Business Park** (office)	61,385
Poyle	**McKay Trading Estate, Blackthorne Road** (industrial & logistics)	73,955
Reading	**Great Brighams Mead, Vastern Road** (office)	84,840
Reading	**9 Greyfriars Road** (office)	38,490
Redhill	**Prospero, London Road** (office)	50,370
SW19	**Swan Court, Worple Road** (office and ancillary retail)	57,500
SW1	**1 Castle Lane** (office)	14,250
Theale	**Theale Logistics Park, Brunel Road** (industrial & logistics)	135,095

£10m to £15m
21.7% of portfolio

Bracknell	**Willoughby Road** (industrial & logistics)	54,155
Crawley	**Pegasus Place, Gatwick Road** (office)	50,790
Croydon	**Corinthian House, Dingwall Road** (office)	44,590
EC2	**66 Wilson Street** (office)	11,890
Maidenhead	**Switchback Office Park, Gardner Road** (office)	37,155
Weybridge	**Sopwith Drive, Brooklands** (industrial & logistics)	63,140
Woking	**1 Crown Square** (office and ancillary retail)	50,190
Woking	**The Planets, Crown Square** (other/leisure)	98,255

£5m to £10m
13.3% of portfolio

Bracknell	**Building 329, Doncastle Road** (office)	32,800
Farnborough	**Columbia House, 1 Apollo Rise** (industrial & logistics)	40,755
Fleet	**One Fleet, Ancells Road** (office)	34,580
Folkestone	**3 Acre Estate, Park Farm Road** (industrial & logistics)	44,290
Folkestone	**5 Acre Estate, Park Farm Road** (industrial & logistics)	60,535
Leatherhead	**Ashcombe House, 5 The Crescent** (office)	17,450
Newbury	**Strawberry Hill House, Bath Road** (other/medical)	15,230
Reading	**20/30 Greyfriars Road** (office)	33,345
Staines	**Mallard Court, Market Square** (office and ancillary retail)	21,860
Windsor	**Gainsborough House, 59-60 Thames Street** (office)	18,660

£0m to £5m
4.5% of portfolio

Banbury	**Lower Cherwell Street Industrial Estate** (industrial & logistics)	40,060
Chobham	**Castle Grove Road** (other/land)	–
Staines	**2 Clarence Street** (office)	3,440
SW1[1]	**Parkside, Knightsbridge** (other/residential)	2,900

Percentages based on the valuation at 31 March 2021

1. Denotes leasehold properties.

Property and Financial Review continued

Sustainability and ESG

We continue to recognise how important sustainability is to potential and existing occupiers, our investors, our employees and indeed all our stakeholders.

We are particularly proud this year to have achieved a 4* GRESB (Global Real Estate Sustainability Benchmark) rating, placing us in the top 40% of those who choose to be measured by this renowned benchmark.

Our 2021 Sustainability Review, included within our Annual Report and Financial Statements and available on our website, provides extensive detail of our ambitions and achievements under the three pillars for a sustainable business, the Environment, Social awareness and Governance (ESG).

Development

We completed 135 Theale Logistics Park (135,095 sq ft) in April 2020 and, with Covid-19 limiting mobility, we immediately stepped up our digital marketing campaign and successfully secured a letting of the whole scheme to Amazon. This lease completed in September 2020 for a ten year term with an option to extend for a further ten years to this strong covenant at £1.51 million pa, marginally ahead of 31 March 2020 ERV ("ERV") with a fixed uplift at the fifth year review. This resulted in a year end valuation surplus of £10.88 million which delivered a profit on cost for the development of 49.5%.

Asset management

Portfolio

We have always had a very active, hands-on approach to asset management which has benefited us in a year when occupiers need flexibility, potential reorganisations and above all a regular constructive dialogue with their landlord. Given the difficulty many occupiers have faced, during the year we negotiated many more lease renewals than a typical year (34 compared to the average of the previous two years of 17) at a contracted annual rent of £3.87 million pa (an uplift of 10.4% over the previous passing rent). The Covid-19 related agreements, in particular, had the win-win benefit for both us and our occupiers by introducing a rent free period now in return for a longer lease. Added to this, we achieved 18 open market lettings at a combined contractual rent of £2.56 million pa, marginally ahead of ERV, providing a total contracted rent (excluding acquisitions and disposals) of £25.02 million pa (31 March 2020: £24.93 million pa).

Offices

Within our office portfolio, the most significant lease renewal was at Swan Court, Wimbledon (57,500 sq ft) which has been the headquarters of Domestic & General (D&G) since we built the office building in 2006. Their lease expiry was February 2021 and in recent years they had sub-let the ground and first floors (16,400 sq ft). In January 2021 we exchanged an agreement to lease floors 2-5 (37,400 sq ft) on a ten year lease with a fifth year tenant break at a contracted rent of £1.76 million pa which will commence on completion of planned landlord upgrade works to the common parts at the end of the summer. The works will significantly enhance the look and feel of the building improving the lettability of the remaining ground and first floors which we will refurbish simultaneously.

Across selected parts of our office portfolio we continue to attract occupiers with the McKay+ specification. This provides the middle ground between conventional accommodation and serviced offices enabling speed and flexibility of occupation with no middle man or hidden costs and is managed directly by us, while at the same time giving the occupiers their own identity and privacy. At the Mille in Brentford (96,700 sq ft) this model attracted a tenant out of serviced accommodation into the entire 6th floor (8,174 sq ft) at a contracted rent of £0.18 million pa on a ten year lease with a tenant break at the end of the third year.

Further McKay + refurbishments attracted two new significant occupier names to the portfolio. Maersk Line UK Limited signed a five year lease on the 6th floor (1,870 sq ft) at Portsoken House, EC3 at a contracted rent of £0.98 million pa and Sedgewick International UK committed to the final vacant suite (4,112 sq ft) at Prospero in Redhill on a ten year lease at a contracted rent of £0.13 million pa.

Table 2: Capital Value Movement

12 months to 31 March 2021	March 2021 portfolio £m	March 2020 portfolio £m	12 month[1] Movement	MSCI[2] Movement
London offices	56.00	58.55	(5.9)%	(2.6)%
South East offices	235.60	267.30	(13.0)%	(6.1)%
Total offices	**291.60**	**325.85**	**(11.8)%**	**(5.6)%**
South East industrial/logistics	75.25	68.35	9.0%	10.3%
Other	23.90	23.80	0.3%	–
Total (excl. dev)	**390.75**	**418.00**	**(7.7)%**	**(2.9)%[3]**
Developments[4]	36.35	24.00	42.7%	
Total portfolio (like for like)	**427.10**	**442.00**	**(4.8)%**	**(2.9)%**
Disposals	–	68.00		
Acquisitions	10.80	–		
Total (overall)	**437.90**	**510.00**	**(4.7%)**	**(2.9%)**
Valuation yields				
Initial	4.8%	4.0%		
Initial (topped up)	5.5%	5.2%		
Reversion	6.7%	6.4%		
Equivalent	6.1%	5.7%		

1. Valuation movements (%) after allowing for cap-ex incurred during the period
2. MSCI Monthly Index by relevant sector. London = MSCI City sector
3. MSCI Monthly Index (All property)
4. Theale Logistics Park

Table 3: Rental Value Movement

12 months to 31 March 2021	March 2021 portfolio ERV £m pa	March 2020 portfolio ERV £m pa	12 month Movement	MSCI[1] Movement
London offices	3.66	3.75	(2.5)%	(0.8)%
South East offices	20.60	21.15	(2.6)%	(0.6)%
Total offices	**24.26**	**24.90**	**(2.6)%**	**(0.6)%**
South East industrial/logistics	4.07	3.96	2.6%	3.4%
Other	1.00	1.14	(11.9)%	–
Total (excl. dev)	**29.33**	**30.00**	**(2.2)%**	**(2.0)%[2]**
Developments[3]	1.51	1.48	2.3%	
Total portfolio (like for like)	**30.84**	**31.48**	**(2.0)%**	**(2.0)%**
Disposals	–	3.43		
Acquisitions	0.61	–		
Total (overall)	**31.45**	**34.91**		

1. MSCI Monthly Index by relevant sector. London = MSCI City sector
2. MSCI Monthly Index (All property)
3. Theale Logistics Park

At Corinthian House, Croydon (44,590 sq ft), having upgraded the reception and common parts last year, we are now underway with floor by floor refurbishments as they become available on expiry of older legacy lettings, enabling us to achieve substantially higher rental values. Having just reached completion at year end of the 2nd and 5th floors (8,660 sq ft) we had already agreed terms on over 50% of the new accommodation above ERV reflecting the quality and prime location of this Croydon landmark office. We aim to refurbish a further four floors (18,550 sq ft) this year which have already attracted positive enquiries.

Industrial and logistics

28.0% of the portfolio by value is in the industrial and logistics sector which has performed very well over the year, driven by management initiatives, lettings at or above ERV and the development success referred to earlier.

At Five Acre in Folkestone, we pre-let our last upgraded unit (17,333 sq ft) to an existing expanding occupier on a ten year lease at a contracted rent of £0.09 million pa and at the McKay Trading Estate at Poyle we renewed four leases with our largest occupier (32,251 sq ft) for a further six years at a contracted rent of £0.34 million pa.

Well located trade parks continue to attract demand as evidenced by our latest refurbishment at Oakwood Trade Park in Crawley (52,400 sq ft). Prior to completion of a refurbishment of Unit 1 (2,717 sq ft) we signed a ten year lease at a new record rent equating to £18.00 psf which helped drive ERV growth and a subsequent capital surplus across the Park of 23.5%.

As mentioned above, the exercise of a lease break at Sopwith Drive, Weybridge (63,140 sq ft) has provided the potential to add to the value of the building through refurbishment or redevelopment in this excellent outer London location. A number of schemes are under review at present.

Table 4: Portfolio yields and reversions

	31st March 2021			31st March 2020		
	£m pa	Yield[2]	Occupancy[3]	£m pa	Yield[2]	Occupancy[3]
Current rental income[1]	22.20	4.8%		21.90	4.0%	
Contracted rental income[1]	25.61	5.5%	85.3%	28.33	5.2%	88.7%
Uplifts at rent review/lease expiry	1.21			2.62		
Void properties (exc developments[3])	4.63		15.5%	2.48		7.4%
Void (developments)	–			1.48		3.9%
Portfolio reversion	5.84			6.58		
Total portfolio ERV	**31.45**	**6.7%**		**34.91**	**6.4%**	
Equivalent yield		6.1%			5.7%	

1. Net of ground rents
2. Yield on portfolio valuation with notional purchaser's costs (6.75%) added
3. By ERV

Property and Financial Review continued

Valuations

As at 31 March 2021 Knight Frank's independent valuation of the portfolio was £437.90 million (31 March 2020: £510.00 million).

The entire year has been characterised by Covid-19 and the economic uncertainty that it carried which is only now beginning to clear with the successful vaccine rollout. The total portfolio suffered to a greater degree in H1 with a valuation deficit of -3.4% followed by -1.3% in H2, delivering a total 12 month deficit of 4.7% set against the MSCI All Property Index of -2.9%. See Tables 2 and 3.

The valuers reflected uncertainty in the office sector by increasing void periods and rent free incentives while also pushing yields out to varying degrees depending on tenant covenant strength and lease length. These adjustments were more severe in H1 when there was still significant uncertainty at the September valuation date, resulting in a capital deficit in our office portfolio for H1 of -6.7%. Although the H2 valuation date of 31 March 2021 had the benefit of an improving outlook, there still remained uncertainty about the speed and quantum of a return to work. This resulted in further valuation risk adjustments and an H2 office portfolio deficit of -5.0%, delivering a total office portfolio deficit for the year of -11.8%. Rental value declines were less apparent and our office portfolio ERV fell by -2.6%. See Table 4.

There were two office assets which impacted our office portfolio performance which are worth highlighting. At the start of the year at Great Brighams Mead in central Reading (84,840 sq ft) discussions had been ongoing about the possibility of a lease extension with the sole tenant (expiry March 2022). However, towards Christmas the tenant confirmed that it would vacate at lease expiry, and at the valuation date the valuers had to assume vacancy at expiry, full refurbishment expenditure as well as estimated voids and rent free incentives.

Secondly at Corinthian House in Croydon, the valuation reduced due to the timing in the refurbishment cycle of the building, and the current vacancy and capex required for the launch of this re-positioned asset. Although strong pre-let interest is being pursued, at the date of valuation it had not crystallised.

Our industrial and logistics portfolio (28.0% by value) performed well, delivering a capital surplus of 16.4%. As referred to above, the letting at 135 Theale Logistics Park and the strength of investor demand generated a substantial 42.7% surplus of £10.88 million.

As at 31 March 2021 the portfolio net initial yield was 4.75% (31 March 2020: 4.02%) rising to 5.48% on the expiry of rent free periods (31 March 2020: 5.20%). This yield increase reflects the fall in values due to the Covid uncertainty coupled with the fact that we sold our largest asset at a low yield of 4.16%. The reversionary yield, adopting the full net ERV and current book value was 6.73% (31 March 2020: 6.41%).

Cash collection

The table below highlights the quarterly experience for the Group regarding cash collection. The overall result for the year shows 96.0% of contracted rents were collected in cash and a further 2.0% (£0.45 million) to be collected under agreements put in place during the year. Of the total contracted rent of £22.38 million demanded for the year to 31 March 2021, only £0.39 million has been impaired.

Table 5: Cash collection

	Mar 20 Quarter		Jun 20 Quarter		Sep 20 Quarter		Dec 20 Quarter		Total 4 Quarters	
	£	%	£	%	£	%	£	%	£	%
Paid within 7 days	3,342	62%	4,075	71%	3,872	69%	5,043	88%	16,333	73%
Paid after 7 days	1,714	31%	1,528	26%	1,477	26%	480	8%	5,200	23%
Cash received	5,056	94%	5,604	98%	5,348	96%	5,524	96%	21,532	96%
Paying monthly – O/S	0	0%	0	0%	0	0%	6	0%	6	0%
Not monthly – O/S	246	5%	19	1%	143	3%	34	1%	442	2%
Agreed but O/S	246	5%	19	1%	143	3%	40	1%	448	2%
Total received or agreed	5,302	99%	5,623	98%	5,491	98%	5,564	98%	21,980	98%
Impaired	78	1%	92	2%	92	2%	133	2%	395	2%
Total received or agreed	5,380	100%	5,715	100%	5,583	100%	5,697	100%	22,375	100%

Key: O/S – outstanding

Income statement

Adjusted profit before tax, our measure of recurring profit, increased by £0.23 million (2.4%) to £9.96 million (31 March 2020: £9.73 million). Gross rental income was 2.1% lower as a result of significant disposals in the current and prior period, offset by reduced interest costs on lower borrowings. Adjusted basic earnings per share increased by 2.3% to 10.56 pps (31 March 2020: 10.32 pps).

At headline level, the loss before tax (IFRS) of £16.58 million (31 March 2020: £9.49 million profit), was mainly as a result of the valuation deficit of £23.36 million (after the IFRS 16 adjustment) being bigger than the prior year (31 March 2020: deficit £2.20 million).

The 2.1% (£0.54 million) reduction in gross rental income to £24.62 million (31 March 2020: £25.16 million) was a result of the significant disposals of 30 Lombard St, EC3 and Station Plaza, Theale, offset by new rental income from the acquisitions at Willoughby Road, Bracknell and Rivergate, Newbury, the latter contributing a full year of rental income, and further increased by new lettings such as 135 Theale Logistics Park.

Property costs for the year of £3.15 million were £0.10 million less than the previous year (31 March 2020: £3.25 million) mainly due to the successful reclaiming of previously paid council rates received in the year which offset higher void costs.

The McKay Way

The McKay Way sets out our customer service commitment and describes our approach to achieve and maintain the important relationship between ourselves as landlord and our occupiers. Most of all, it is about McKay people directly managing our own properties; people who genuinely care and will always go the extra mile to assist our occupiers and do the right thing whilst maintaining excellent relationships with our suppliers and contractors to deliver exceptional service.

"At McKay, we believe our relationship with each and every occupier is key to our business. Accordingly, we set out our commitment to existing and future occupiers in 'The McKay Way'.

Lynda Perry
Head of Occupier Services

01 Transparency

If we say we will, it happens – our word is our bond. Everything is clear, easy to understand and transparent.

02 Directly managed

McKay people in McKay buildings – looking after your teams and your business every day in the right way.

03 Customer service

You are at the heart of everything we do. We give our best every day and respond when you need us to.

04 Value for money

Too much, too little or just right. We will find the right value not just for the lease but for the operations and running costs that impact upon your business.

05 Unique spaces

We will help you to create a space that meets your needs and is right for your people, teams and business to thrive.

06 Flexibility

Let us help you to find the right space. If you need more we can help – if you need less, we can help you with that too.

07 Approachable

It all begins and ends with a conversation. Talk to us – we are here to help.

08 Business Continuity

Constant review and implementation of measures in line with Government guidance as a minimum standard.

90%

of occupiers are happy with their McKay relationship with 10% remaining neutral.

Property and Financial Review continued

Administration costs before IFRS 2 charges reduced to £5.17 million (31 March 2020: £5.39 million), primarily due to the 2018 Performance Share Plan outturn of zero which reduced the National Insurance charge compared to the prior year, and Covid-19 related savings. The IFRS 2 charge increased during the year (£0.49 million) compared to the £0.22 million credit in the previous year. The credit in the previous year resulted from an accounting change in the calculation methodology of IFRS 2.

Whilst cash collection was strong during the Covid-19 affected period, as noted above, £0.39 million of the rents receivable have been impaired (31 March 2020: Nil). These relate to tenants that have gone into administration or amounts assessed as irrecoverable. The two tenants that account for half of this amount are a professional services firm and a hospitality tenant.

The interest cost for the year reduced to £6.35 million (31 March 2020: £7.36 million), due to lower drawings after the sale of 30 Lombard St, EC3, which reduced drawn debt to £144.00 million at 31 March 2021 (31 March 2020: £194.00 million). The weighted average cost of debt prior to amortisation and finance lease interest reduced slightly to 3.1% (31 March 2020: 3.4%).

Balance sheet

Shareholders' funds decreased from £309.17 million to £289.90 million over the period, primarily due to the revaluation deficit for the year of £23.36 million as detailed above. In addition, the sale of 30 Lombard Street EC3 resulted in a £2.82 million loss on disposal after adjustment for IFRS 16 (letting incentives).

EPRA NTA per share reduced by 6.1% over the period to 309 pence (31 March 2020: 329 pence) and IFRS NAV per share reduced by 5.8% to 309 pence (31 March 2020: 328 pence). The revaluation movement was the main driver for these changes.

Debt facilities at the year end remained at £245.00 million (31 March 2020: £245.00 million), providing £101.00 million of headroom over our current drawings to support operational flexibility, deliver further portfolio initiatives and provide increased scope for new investments. The reduction in drawings was driven by the receipt from the sale of 30 Lombard St, EC3 (£70.06 million), offset by the purchase of Willoughby Rd, Bracknell (£10.66 million), capex on the portfolio of £6.71 million and paid dividends of £6.79 million.

The ratio of net debt to portfolio value (LTV) at the year end was 32.4% (31 March 2020: 37.6%).

Net cash inflow from operating activities was £7.43 million (31 March 2020: inflow £6.81 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 2.49x (31 March 2020: 2.28x).

As a REIT, the Company is tax exempt in respect of qualifying capital gains and qualifying rental income, which covers the majority of the Company's activities. However the sale of 30 Lombard St, EC3, was within three years of practical completion and therefore triggered a capital gains tax charge of £1.26 million under REIT regulations. This was estimated in the prior year at £1.39 million, and finalised this year.

Defined benefit pension scheme

Under the application of accounting standard IAS19, the Company's pension deficit slightly increased over the period from £2.10 million to £2.18 million.

A triennial valuation was completed for the period to 31 March 2020, which shows a funding level of 77.8% on a SFO (Statutory Funding Objective) valuation basis. The previous triennial valuation showed a funding level of 87.5% on a SFO valuation basis. As a result of this valuation, the company will continue the annual cash contribution to the scheme of £0.24 million. The scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

Share buy-back programme

The buy-back programme commenced on 8 March 2021. The Board set the total size of the programme at up to £10.00 million, or approximately 5% of the Company's issued ordinary share capital. As at 31 March 2021, 538,542 shares had been purchased by the company at a cost of £1.15 million. The reported IFRS Basic NAV is 309 pps, however this equates to 307 pps prior to the buyback and can therefore be considered NAV accretive.

Dividends

The final dividend of 5.5 pence per share (31 March 2020: 4.4 pps) will be paid on 22 July 2021 to those on the register as at 28 May 2021. With the interim dividend of 2.8 pence per share, this takes the total dividend for the year to 8.3 pence per share (31 March 2020: 7.2 pps), an increase of 15.3% on the previous year.

As a REIT, the Company is required to distribute at least 90.0% of rental income profits arising each financial year by way of a Property Income Distribution ("PID"). After taking into account allowable costs the final dividend will be paid as an ordinary dividend rather than a PID.

Financial risks

The financial risks are documented in the principal risks and uncertainty section of the Strategic Report on page 47.

Signed on behalf of the Board of Directors

T. Elliott

Property Director and Head of Sustainability
17 May 2021

G. Salmon

Chief Financial Officer
17 May 2021

Top five Assets

The top five assets represent 36.0% of the portfolio.

Theale Logistics Park, Reading

Industrial and logistics freehold BREEAM 'excellent' warehouse developed by McKay in 2020 and fully let to Amazon.

135,095 sq ft

See more on **pages 14**

Mille, Brentford

Landmark freehold multi-let office on the 'Golden Mile'.

96,700 sq ft

Swan Court, SW19

Prime office freehold in Wimbledon, originally developed by McKay in 2006.

57,500 sq ft

Prospero, Redhill

Freehold BREEAM 'excellent' office building developed by McKay in 2016.

50,370 sq ft

Portsoken House, EC3

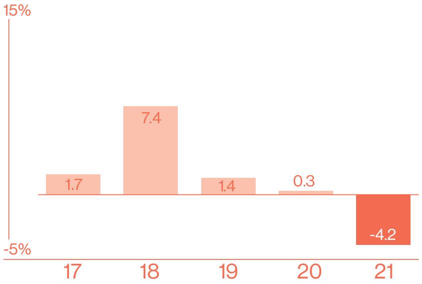
Prominent leasehold office building on the eastern edge of the City of London.

49,570 sq ft

Key Performance Indicators

Financial KPIs

Portfolio capital return (capital) ("PCR") (%) (IFRS)



Description

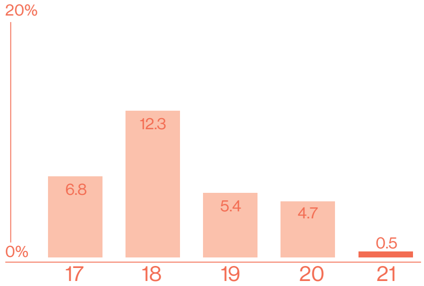
The annual valuation and realised surpluses from the Company's investment portfolio expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.

Performance

Negative returns as a result of the Covid-19 environment

Link to strategy: 01 02 03

Total portfolio return (capital and income) ("TPR") (%)



Description

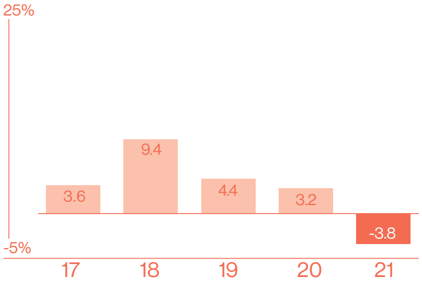
The portfolio capital return and net rental income from investment properties for the year expressed as a percentage return on the valuation at the beginning of the year, adjusted for acquisitions and capital expenditure.

Performance

Flat overall returns with positive income return offset by negative capital return

Link to strategy: 01 02 03

EPRA NTA value return ("NAV") (%)



Description

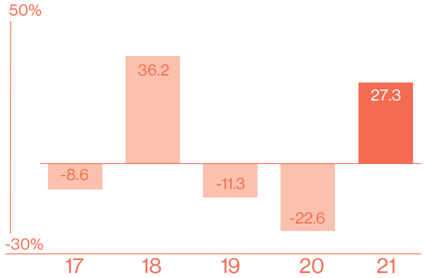
The growth in adjusted net asset value per ordinary share plus dividends reinvested per ordinary share expressed as a percentage of the adjusted net asset value per share at the beginning of the year.

Performance

Negative returns as a result of the Covid-19 environment

Link to strategy: 01 02 03

Total shareholder return ("TSR") (%)



Description

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.

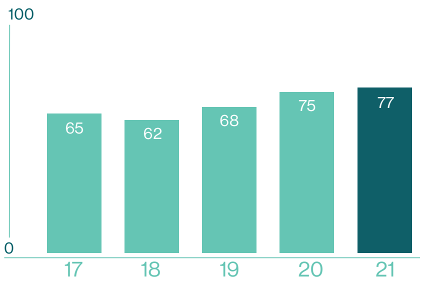
Performance

The post-lockdown response has driven the share price upward

Link to strategy: 01 02 03

Non-financial KPIs

ESG: GRESB score (%)



Definition

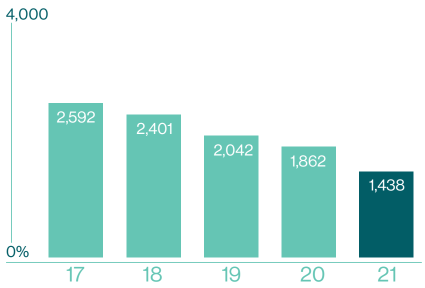
GRESB assess and benchmarks the environmental, social and governance ("ESG") performance of real estate assets. The GRESB Real Estate Assessment is the investor-driven global ESG benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate.

Performance

Over the past eight years of submitting to the GRESB Real Estate ESG Benchmark we have seen steady improvement in our scores from scoring 37% in 2014, to 77% in 2021, our highest score to date. This year's highest score also saw the achievement of a 4 star rating for the first time, demonstrating the business's clear commitment to the sustainability agenda. We can attribute this improvement in such a challenging year to both the ongoing engagement with our tenants and wider work the team untertakes to embed sustainability into the core of our business.

Link to strategy: 01 02 03

Portfolio carbon footprint (tonnes of CO_2e)



Definition

The portfolio carbon footprint is based on landlord-controlled energy consumption. The figures are calculated on a like-for like basis of the five-year period using UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting.

Performance

Like-for-like location based carbon emissions over the past five years have decreased from 2,592 tonnes in 2016/17 to 1,438 tonnes in 2020/21. This large reduction of 44.5% is due to both the ongoing energy efficiency measures being implemented at our assets and the ongoing decarbonisation of the grid. Location based emissions are still tracked to ensure continued improvement in energy efficiency at our assets even though they are all on renewable electricity tariffs.

Link to strategy: 01 02 03

Five-year Summary

Five-year summary

Financial measure	2021	2020	2019	2018	2017
Gross rental income (£'000)	**24,625**	25,164	21,608	21,844	20,790
Net rental income (£'000)	**21,634**	21,981	19,906	20,453	19,871
(Loss)/profit before taxation (£'000)	**(16,583)**	9,487	13,190	43,443	17,594
Adjusted profit before taxation (£'000)[1]	**9,959**	9,727	9,272	9,067	8,605
Investment properties (£'000)	**437,900**	510,000	482,700	460,150	429,915
Loans and borrowings (£'000)	**(141,369)**	(190,505)	(163,176)	(144,598)	(134,100)
Total equity (£'000)	**289,902**	309,166	311,083	306,440	270,792
Ordinary dividends per share (pence)	**8.3**	7.2	10.2	10.0	9.0
(Loss)/earnings per share – basic (pence)	**(17.5)**	8.6	14.0	46.3	18.8
Earnings per share – adjusted basic (pence)[1]	**10.6**	10.3	9.9	9.7	9.2
Net asset value per share (pence)	**309**	328	331	326	289
EPRA NTA/NAV per share (pence)[1]	**309**	329	326	322	303
Interest cover	**2.5**	2.2	2.1	2.0	2.0
Loan to value	**33**	38	33	32	32

1. See note 4 of the Financial Statements for APMs.

EPRA Metrics and Update

New EPRA Net Asset Value metrics

Over the last decade, the business model of many property companies has moved from long-term passive asset owners into active asset managers and capital allocators. As such, more than 16 years after the first introduction of the EPRA Best Practices Recommendations ("BPR") Guidelines, a review of its main KPI was performed.

This has resulted in the replacement of EPRA NAV and EPRA NNNAV with three new Net Asset Valuation metrics that have been introduced with the October 2019 EPRA BPR Guidelines and are applicable to McKay for the first time this financial year. A bridge between the historic and new NAV metrics can be found on page 127 of this report.

New scoring methodology

In November 2019, EPRA's Board of Directors decided to modify the methodology of the EPRA BPR survey to focus on stricter compliance. Not disclosing a KPI's calculation will now result in a zero score for that KPI.

Following on from this announcement we set out all EPRA metrics below, with supporting calculations on pages 126 to 128 of this report.

EPRA Metric	Rationale	FY21	FY20
EPRA Earnings (pence per share)	Measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	10.2	10.6
EPRA NTA (pence per share)	Reflects a company's tangible assets values and assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax liability.	309	329
EPRA NRV (pence per share)	Provides stakeholders the value required to rebuild the entity and assumes that no selling of assets takes place.	309	329
EPRA NDV (pence per share)	Provides stakeholders with the value under an orderly sale of business scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.	309	327
EPRA NIY	A comparable measure for portfolio valuations, which should make it easier for investors to judge themselves how the valuation of portfolio X compares with portfolio Y.	4.5%	3.8%
EPRA 'topped-up' NIY	Incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	5.2%	5.2%
EPRA Vacancy Rate	A 'pure' (%) measure of investment property space that is vacant, based on estimated rental value.	14.6%	11.3%
EPRA Cost Ratios (including vacant property costs)	A key measure to enable meaningful measurement of the changes in a company's operating costs. Companies are encouraged to use the EPRA Cost Ratios as a baseline to provide additional disclosures, where appropriate, on costs in the context of their own business model.	31.8%	34.3%
(excluding vacant property costs)		25.9%	25.3%

Sustainability Review

The Right Choice for a Sustainable Business.

Our sustainability vision and strategic framework aims to ensure that our business is future-proofed, resilient and responsive to changing stakeholder expectations. It is fully aligned to our corporate vision, mission and purpose and centred on the delivery of ten objectives aligned to our three long-term ESG priorities:

Environment

Providing low-carbon, resource-efficient and healthy buildings (E)

Social

Being a customer-focused and flexible landlord (S)

Governance

Operating as a progressive and transparent business (G)

"Across our portfolio we are actively seeking ways to support the shift to a low-carbon built environment while continuing to support our customers in these challenging times by providing them with well-managed, healthy and productive spaces."

Tom Elliott MRICS
Property Director and Head of Sustainability

ESG Highlights

During the year to 31 March 2021, we continued to build on our strong track record of sustainability achievements, despite the challenges posed by Covid-19. We are particularly proud to report that:

- Our score in the 2020 Global Real Estate Sustainability Benchmark ("GRESB") improved from 75 to 77, allowing us to achieve a 4-star rating for the first time, and placing us in the top 40% of the reporting entities
- Landlord-controlled energy consumption decreased by 16.4% on a like-for-like basis compared to our new baseline year 2019/20
- Landlord-controlled like-for-like carbon emissions are down by 22% against our new baseline year of 2019/20
- Increased utility data coverage has been achieved across the board, with a particular focus on tenant energy, GHG emissions and water use
- Measures have been put in place to ensure the continuity of our 100% zero-carbon electricity procurement status when new assets are acquired whilst we continue to seek ways to further reduce carbon at our developments
- We continue to support health and wellbeing at our sites and secured mental health first aid training for building staff in 2020

Our sustainability advisor, JLL, continues to provide ongoing support to implement our strategy and reviews progress made against targets on a quarterly basis.

In our Sustainability Strategy Framework outlined on the opposite page, we set out our three long-term priorities with corresponding material risks, opportunities and objectives aligned to the UN Sustainable Development Goals. We set out our performance against the corresponding targets for the year and these can also be found on the ESG section of our website.

Long-term Priorities

01 Environment:
Low-carbon, resource-efficient & healthy buildings

Focusing on long-term sustainability by creating low-carbon, resource-efficient and healthy buildings

02 Social:
A customer-focused and flexible landlord

Supporting our local communities and our occupiers' sustainability goals, and creating places where businesses and people can thrive

03 Governance:
A progressive & transparent business

Upholding high standards of corporate governance, managing and disclosing sustainability risk and unlocking sustainable value

Material risks and opportunities

Environment

- Accelerated building obsolescence without climate adaptation to a low-energy and low-carbon outlook
- Buildings more attractive to occupiers with improved building health, wellbeing and productivity integral to design and management
- High running costs with poor waste and resource management
- High levels of building accreditations to help improve sustainability performance across multiple metrics

Social

- Financial and representational benefit of high levels of occupier attraction, satisfaction and retention
- Improve market and occupier awareness of positive portfolio and building credentials
- Continued technological innovation to improve occupier experience
- Social and commercial benefits of community inclusivity and wellbeing as a local business

Governance

- The importance and appeal to all stakeholders of transparent compliance with the highest standards of governance guidelines
- Increasing pressure on investors to only consider companies that can demonstrate delivery of ESG commitments
- Improved portfolio resilience with a thorough and integrated approach to risk management, including climate and health and safety
- Business and employee benefits from high levels of engagement, wellbeing and equality

Objectives

Environment

- Actively participate in the transition towards a low-carbon economy by increasing our assets' energy efficiency, generating and procuring renewable sources of energy and providing infrastructure for electric vehicles
- Pursue a circular approach to resource use that reduces construction and fit-out costs, increases the flexibility of our buildings, benefits local communities, reduces operational costs and reduces environmental impacts from waste
- Put health at the forefront of our property development and management strategy to help our customers' businesses prosper and the people using our buildings to feel fit and well

Social

- Provide outstanding customer service by being an approachable, responsive and proactive landlord
- Invest in digital infrastructure that enables our customers to be better connected, more productive and have a lower environmental impact
- Seek to ensure that our assets support modern workplace requirements and continue to engage our existing customers
- Identify opportunities to support the local communities around our assets, co-creating places where people and business can thrive

Governance

- Communicate clearly and directly with our stakeholders and maintain our culture of high levels of corporate governance
- Monitor and report transparently on our sustainable business performance and KPIs linked to each of our long-term priorities. Maintain our position in the GRESB
- Protect and enhance current and future value of our assets and our business by anticipating and responding to evolving risks, including environmental and social trends

2030 UN Sustainable Development Goals

7 Affordable and clean energy | 12 Responsible consumption and production | 13 Climate action | 3 Good health and well-being | 8 Decent work and economic growth | 11 Sustainable cities and communities | 5 Gender equality | 10 Reduced inequalities

Sustainability Review continued

Environment

Low-carbon, resource-efficient and healthy buildings

It has now been six years since we committed to achieving better sustainability outcomes in relation to how our properties are operated, developed and refurbished. We continue to improve on the portfolio's resource efficiency, waste production and GHG emissions and in this way we are actively supporting the shift towards a more sustainable built environment, beneficial to occupiers, investors and wider-society. We set ourselves 14 targets to deliver low-carbon, resource-efficient and healthy buildings for the year to 31 March 2021, of which 93% were fully achieved.

Environmental performance

- Reduction in landlord-controlled, like-for-like energy consumption by 16.4% against 2019/20
- Renewable electricity contract in place which has ensured the continuity of our 100% zero-carbon electricity procurement status as soon as possible when new assets are acquired

Electric vehicle charging

- Currently in the process of reviewing electric vehicle charging infrastructure at Swan Court, 329 Bracknell, Pegasus Place and Sopwith Drive to help our occupiers in the transition to a low-carbon economy

EPC review and strategy

- Undertaken a full review of the Energy Performance Certificates across our portfolio and identified energy efficiency upgrade opportunities as well as climate adaptation measures to consider

IEQ sensor project

- We are currently in the process of trialling indoor environmental quality sensors measuring air quality and thermal comfort within our own offices and in a pilot building in our portfolio. We hope to then roll out the monitors across our portfolio to ensure we are providing our occupiers with an optimised workplace environment

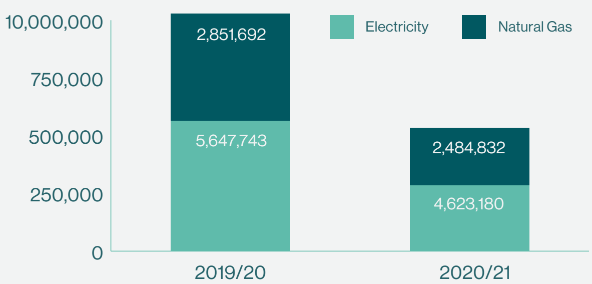
81%

absolute reduction in carbon emissions since 2016/17

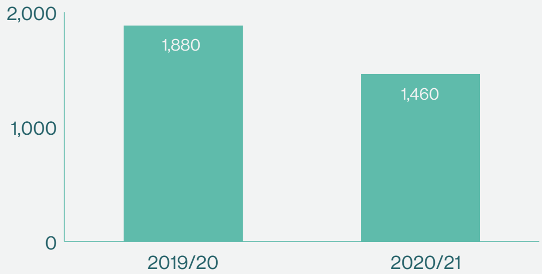
4

properties rated BREEAM 'Excellent' or 'Outstanding'

Like-for-like Energy Consumption (kWh)



Like-for-like Carbon Emissions – location-based (CO_2e)

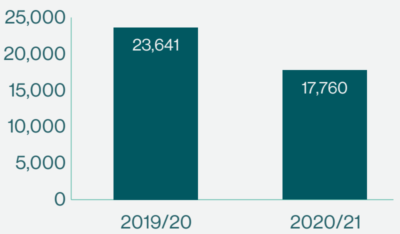


Total portfolio energy and carbon footprint

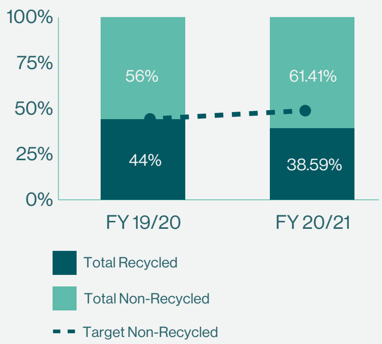
	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	% Change against FY16/17	% Change against FY19/20
Electricity (kWh)	6,307,689	6,205,282	7,022,083	7,296,264	7,220,294	14.47%	-1.04%
Natural Gas (kWh)	3,384,904	3,647,458	2,593,505	3,272,902	3,481,742	2.86%	6.38%
GHG (location-based)*	3,057	2,734	2,369	2,357	2,256	-26.21%	-4.30%
GHG (market-based)*	3,057	2,734	478	572	594	-80.57%	3.85%
Energy (kWh)	9,692,593	9,852,740	9,615,588	10,569,166	10,702,036	10.41%	1.26%
Intensity (energy / floor area)	6.73	6.90	6.73	7.79	7.21	7.04%	-7.49%

* Scope 3 business travel not included

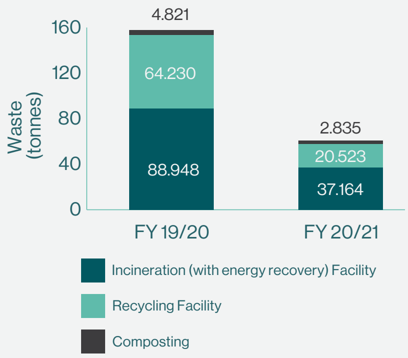
Water Like-for-like Consumption (m³)



Like-for-like Waste Recycling Rate (%)



Like-for-like Total Waste by Disposal Routes (kg)



Sources of greenhouse gas emissions			2020/21 tonnes of CO_2e (location-based calculation)[1]	2020/21 tonnes of CO_2e (market-based calculation)[2]	2019/20 tonnes of CO_2e (location-based calculation)[1]	2019/20 tonnes of CO_2e (market-based calculation)[2]
Scope 1	Energy	Gas (EPRA sBPR fuels – Abs)	594	594	572	572
	Fugitive emissions	Refrigerant emissions	De minimis	De minimis	De minimis	De minimis
Scope 2	Energy	Landlord-controlled electricity (EPRA sBPR Elec – Abs)	951	0	1,631	0
Scope 3	Energy	Transmission and distribution losses (EPRA sBPR 3.6)	132	0	160	0
	Tenant Energy	Landlord-obtained energy sub-metered to tenants (EPRA sBPR 3.6)	578	0	–	0
	Energy	Emissions from employee business travel for which the Company does not own or control	4	4	8	8
Total			**2,259**	**598**	**2,370**	**580**
Intensity		tCO_2e/$m Adjusted profit before tax (Scopes 1 and 2 only)	155.22	59.68	226.36	58.78

1. For the 'location-based' method of emissions calculations, standard emissions factors from the UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting 2020 were used.
2. For the 'market-based' method, the Company's contractual instruments for the purchase of certified renewable electricity were accounted for, resulting in a significant reduction in the Company's carbon footprint in practice.

Data qualifying notes:

- This is the Company's eighth year of disclosure under the Mandatory Greenhouse Gas Emissions Reporting regulations and second under the recently introduced Streamlined Energy and Carbon Reporting regulations.
- The Company's emissions for the year to March 2020 have been restated due to Q4 2019/20 data not being available at the time of reporting in 2020; this final period of data is estimated in every Annual Report.
- This statement has been prepared in line with the main requirements of the GHG Protocol Corporate Accounting and Reporting Standard and ISO 14064-1:2006.
- Within Scope 1 emissions, refrigerant-related emissions for the period were de minimis.
- Scope 2 dual reporting is undertaken, which discloses one Scope 2 emission figure according to a location-based method and another according to a market-based method.
- Emissions from employee business travel (by vehicle) have been calculated and reported under Scope 3 emissions for the first time. Emissions have been calculated on a distance travelled basis, where the relevant vehicle emissions factor has been applied to expensed mileage.
- Scope 3 Landlord-obtained energy sub-metered to tenants, is calculated through submeter recharge. These emissions are not included under Scope 2 to prevent double counting. 2020/21 is the first year this separation has been demonstrated.
- An operational control consolidation approach has been adopted.

Sustainability Review continued

Environment

Bracknell 329

Case study

McKay's net zero carbon ambition

One of the three core objectives of our sustainability strategy is to focus on creating low-carbon, resource-efficient and healthy buildings, and we have made significant progress already.

Taking our objective one step further, from 1 April 2021 we have aligned our approach on carbon reductions to the UK's net zero carbon goal, aiming to achieve a net zero carbon portfolio well in advance of the UK's 2050 ambition. We will continue to report on our progress against this goal each year.

The specifics of our high-level pathway to a net zero carbon portfolio are laid out below.

Developments and Major Refurbishments

Alignment with the RIBA Climate Challenge benchmark

- From 2021 onwards, for any new developments or major refurbishments entering planning, embodied carbon will be minimised to the furthest extent feasible using industry - accepted and practical measures and materials available at that point in time. We will aim to align with the RIBA Climate Challenge benchmark which starts at <800KgCO$_2$e/m^2 in 2020 and progressively reduces to <500KgCO$_2$e/m^2 in 2030.

Design and process innovations

- We will seek continuous improvements in building design through the advice from our contractors and consultants such that each development embraces architectural and construction innovations.

Certification

- We will monitor the situation as it evolves, but anticipate that every development will be aligned to the most appropriate carbon benchmark or certification available at that time.

Achieving net zero in operation

- All new developments will target zero carbon in operation with the goal of achieving this by 2030 – i.e. maximising onsite generation, incorporating low / zero carbon technologies and able to operate solely on carbon- free or carbon-neutral forms of power and fuel; this will reduce the need for McKay and our occupiers to purchase emissions offsets to cover the operations of those buildings.

Standing Portfolio and Acquisitions

Upgrades to asset ratings

- In addition to upgrading our assets' EPC ratings over time in line with our planned programme of improvement works, and investigate NABERS Certification as this matures.

Reductions in landlord- controlled energy consumption

- We will seek to continue to reduce the operational energy consumption of our portfolio to minimise running costs for our occupiers, and will aim to align our assets' energy performance with the UKGBC 'Paris Proof Targets' where asset type specific targets are available.

Implementing zero- carbon energy technology

- Landlord-controlled electricity is already supplied via zero- carbon tariffs and we will ensure this procured renewable energy demonstrates additionality in line with the principles of NZC. Our next goal is to significantly reduce – ideally eliminate – landlord- controlled gas consumption and associated Scope 1 carbon emissions from our buildings by 2040, by replacing gas-fuelled HVAC systems with electrical or other zero carbon systems whenever lease events allow for minimal disruption.

Working with our occupiers

- We will engage with each current and new occupier across our portfolio over the coming years and work with them on practical solutions to reduce or eliminate their own carbon footprints over time.
- We will review progress on an annual basis to ensure that we stay on track to reach a zero carbon portfolio well before 2050.

Targets

Low-carbon, resource-efficient and healthy buildings	Target Status
Actively participate in the transition towards a low-carbon economy by increasing our assets' energy efficiency, generating and procuring renewable sources of energy and providing infrastructure for electric vehicles	
Ensure the electricity procured for any new asset acquired in the year ended 31 March 2021 period is shifted to a renewable electricity tariff by the end of the year, to maintain McKay's 100% zero-carbon electricity procurement status	**Achieved**
Electricity: Achieve a year-on-year 4% reduction in like-for-like landlord controlled electricity consumption and work towards 20% reduction in carbon emissions by the year ended 31 March 2025 from the year ended 31 March 2020	**Achieved**
Gas: Achieve a year-on-year 4% reduction in like-for-like landlord controlled gas consumption and work towards 20% reduction in carbon emissions by the year ended 31 March 2025 from the year ended 31 March 2020	**Achieved**
Develop a long-term approach for decarbonising new developments and further reducing the carbon footprints of existing assets	**Achieved**
Review all EPC ratings, energy efficiency measures, and climate adaptation measures across the portfolio, and develop upgrade plans where needed	**Achieved**
Identify a development/refurbishment project (if a suitable opportunity arises) where McKay could seek to achieve net zero carbon (as a pilot) before the year ended 31 March 2022	**Achieved**
Continue to ensure that all new developments and major refurbishments achieve minimum BREEAM 'Excellent' rating and an EPC rating of at least B	**Achieved**
Conduct a feasibility study for installing electric vehicle charging infrastructure at selected assets	**Achieved**
Pursue a circular approach to resource use that reduces construction and fit-out costs, increases the flexibility of our buildings, benefits local communities, reduces operational costs and reduces environmental impacts from waste	
Waste: Increase the recycling rate for the portfolio by 5% across properties for which the Group has management control, and work towards a 25% increase by 2024/25 from the year ended 31 March 2025 from the year ended 31 March 2020	Not achieved
Water: Achieve a year-on-year 4% reduction in like-for-like landlord controlled water consumption, and work towards 20% reduction by the year ended 31 March 2025 from the year ended 31 March 2020	**Achieved**
Proceed with the implementation of water-saving technologies in a minimum of two assets	**Achieved**
Put health at the forefront of our property development and management strategy to help our customers' businesses prosper and the people using our buildings to feel fit and well	
Install indoor environmental quality sensors in a trial space to monitor the performance of both the space and the sensors	**Achieved**
Undertake a post occupancy evaluation at a suitable asset, to identify the extent to which occupier experience matches with the design intent	**Achieved**
McKay employees to tour an exemplary environmentally sustainable and healthy building, for inspiration and knowledge-building	Not achieved

Sustainability Review continued

Social

A customer-focused and flexible landlord

Serving our customers to the best of our ability is at the core of our business and in the year to 31 March 2021 we achieved 100% of our annual targets in relation to enhancing customer service and delivering high-quality workplaces.

Case study

Occupier survey

We directly manage all our assets and 'The McKay Way' documents our promise to create an environment that supports our occupiers' businesses. We believe that maintaining strong relationships with our occupiers is key to a successful and sustainable partnership. As part of our progressive customer service commitment, we undertook another occupier satisfaction survey in October 2020. Each of our occupiers was invited to take part in an online questionnaire. This was the third occupier survey, which enabled us to devise a questionnaire well-suited to providing meaningful answers. The purpose of the survey was to give a voice to our occupiers, to listen and to understand where we can improve.

The results of the occupier survey showed an overall increase in performance and occupier satisfaction between 2019 and 2020. Key statistics showed:

- 90% of occupiers are satisfied to very satisfied with their direct relationship with the Company (10% neutral);
- 89% of occupiers are satisfied to very satisfied with our response to Covid-19;
- 88% said we had good to exceptional understanding of occupier business needs; and
- 78% said they were likely to recommend us as a landlord.

While we believe these results are impressive, we are always striving to improve. Our Occupier Service Team undertook a detailed review of the results and contacted occupiers that had indicated there was room for improvement. We engaged tenants directly in this way to see how we could create a positive environment to further support their business growth.

As part of the survey, we also took the opportunity to link the responses with our commitment to the community. For each of the survey responses received we pledged a donation to charity. One of our employees suggested supporting the charity MIND, an organisation that supports mental health, which we felt was fitting given the increase in support needed as a result of Covid-19. We were delighted with the response from our occupiers and due to a government matching scheme, the Company's total donation to MIND's 'The Big Give' amounted to £3,000.

2020/21 has been a difficult year for all of us, including the need to adapt to new ways of working, almost overnight. We have been committed to supporting our customers to navigate the challenges brought about by the pandemic. Through focusing on health and wellbeing, alongside exploring the deployment of smart building technology across our portfolios, we are ensuring that our assets are both people-centric and high-performance spaces.

Occupier survey and action plan

- In 2020 we issued a survey to our occupiers which provided us with valuable feedback on occupiers' perceptions of us as a landlord and their experiences of the properties in which they occupy
- Overall, responses demonstrated a general increase in performance and satisfaction when compared to 2019 and 88% of respondents depict our understanding of their business as ranging from good to exceptional
- Covid-19 specific questions were asked and 89% of respondents were satisfied with our response to the pandemic
- Feedback was requested and received on issues such as natural light, acoustics, design and productivity, and an action plan was subsequently developed, with a view to bolstering performance in these areas

Mental health first aid training

- Mental health first aid training sessions have been organised for front-of-house and occupier services teams at all multi-let properties
- Our on-site teams at all of these locations were encouraged to attend this training, in efforts to promote health and wellbeing for all on site

Charity initiatives and contributions

- Despite the challenges posed by Covid-19 we remained committed to our community partners – not-for-profit social enterprise Ethical Reading and Reading University's Pathways to Property programme. We understand the importance of fostering young talent, and senior leaders continue to have a productive mentoring relationship with Reading University students
- We continue to be a supporter of the Land Aid charity and this year charitable contributions included MIND, a charity which has been dedicated to tackling mental health issues since 1946, NHS Charities Together and a local hospice

Targets

A customer-focused and flexible landlord	Target Status
Provide outstanding customer service by being an approachable, responsive and proactive landlord	
Carry out an occupier survey in the year to 31 March 2021, including questions on key sustainability issues	Achieved
Seek to ensure that our assets support modern workplace requirements and continue to engage our existing customers	
Implement a follow-up action plan based on the findings of the 31 March 2020 occupier survey	Achieved
Organise a mental health first aid training session for site teams and invite occupiers	Achieved
Identify opportunities to support the resilience of local communities around our assets, co-creating places where people and business can thrive	
Continue to support identified charity partners throughout the year. In light of Covid-19, consider how we can work with charity partners to help solve challenges created by the pandemic and enhance local community health and economic resilience going forward	Achieved
In relevant tender exercises, require suppliers to provide a Living Wage option	Achieved
Invest in digital infrastructure that enables our customers to be better connected, more productive and have a lower environmental impact	
Document our approach and standards for digital infrastructure and smart building technologies across the portfolio, to share with existing and potential tenants	Achieved

Portsoken House, EC3

Sustainability Review continued

Governance

A progressive and transparent business

Over the past year we've continued to strengthen our approach to sustainability performance management and disclosure, materially improving data coverage across our assets against a number of KPIs.

We've also made good progress towards integrating the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD") into our corporate governance, risk management and reporting, with this year being the first time we have integrated a TCFD statement into our Annual Report.

For this year end the TCFD requirements are not mandatory, however we have included additional disclosure to enhance transparency ahead of it becoming effective next year.

Case study

Working Practices Workshop – 'Lockdown Lessons'

Building on our commitment to increase employee engagement, in September 2020 the CEO invited the workforce to an internal workshop entitled 'Lockdown Lessons'. As part of the Company's response to Covid-19 and the first national lockdown, the key aims of the workshop were to:

- Enable the team to reflect on their own personal experiences throughout the first lockdown
- Discuss a wide range of ideas from staff welfare to improving business efficiency
- Consider what outcomes could be taken forward to a post-Covid age
- Feed back the views of the workforce to the Board
- At the end of the workshop, the groups shared their observations, ideas and conclusions. These included, but were not limited to:
  - Recognition that there had been a wide range of experiences throughout lockdown and that all staff felt they had been productive and had remained positive
  - Despite widespread working from home, McKay's IT systems remained effective, albeit personal contact had been missed and team spirit affected
  - Increased flexible working could enhance work/life balance
  - Employees felt safe in a Covid-safe work environment, however, it was considered essential that familiarity didn't lead to complacency and that standards were maintained or improved where necessary

Outputs from the session fed into new working practices for our staff, including proposed flexible working and improved IT support and training.

Since the workshop, we have been through two further lockdowns and the outcomes of the session have given our staff further confidence and experience to work their way through such challenges.

We set ourselves seven targets to advance our Progressive and Transparent Business objectives for the year ended 31 March 2021, all of which have been fully achieved. Moreover, another year of improving our Global Real Estate Sustainability Benchmark ("GRESB") rating provides evidence of the ongoing strength and validity of our approach.

GRESB performance

- Achieved a 4-star rating in 2020, increasing our GRESB score from 75 to 77
- Continued to expand our collection of occupier environmental data; contributing to higher scoring in the GRESB Performance Indicator section

Responsible procurement

- The year to March 2021 saw an update of our Responsible Procurement policy.The policy manages the Company's environmental and social risks in its supply chain and is supported by a set of minimum sustainability standards for contractors
- As part of the policy, we have committed to monitoring the performance of suppliers and their adherence to the Company's policies. We therefore conducted a Responsible Procurement audit of a selection of our top suppliers to ensure that our suppliers were maintaining their performance against our standards

Climate risk management (see our TCFD statement on page 44)

Employee engagement and adapting to Covid-19

- Our employees participate in an annual evaluation process undertaken by their line manager and receive feedback on current and future objectives
- We understand the importance of continuous professional development and support all our staff to pursue both on-the-job training and attend external additional courses and events as required to maintain and enhance their skills
- All staff are also required to complete yearly training on anti-bribery, data security and equality & diversity. For more information see the Nomination Committee Report page 62
- We also continue to expand and enhance our knowledge with regards to material ESG risks, most recently through a climate risk CPD session delivered by our sustainability advisors
- Covid-19 – our employees have risen to the various challenges they have been presented with through these unprecedented times and worked flexibly at home with the support of IT systems and keeping in touch with their teams through regular remote meetings. See case study on Working Practices Workshop
- DesNed, Nick Shepherd, held a workforce engagement meeting with employees in July 2020 and fed their views back to the Board

Targets

A progressive and transparent business	Target Status
Protect and enhance the value of our assets and future-proof our business by anticipating and responding to evolving environmental and social trends	
Review all asset websites and asset profiles on the corporate website to ensure that sustainability and health and wellbeing features are appropriately incorporated	Achieved
Risk Sub-committee to review the corporate risk register quarterly, including key climate risks	Achieved
Organise a CPD session for employees on climate risk	Achieved
Develop a checklist of climate adaptation measures to review for relevance for each asset development/refurbishment plan	Achieved
Monitor and report transparently on our sustainable business performance by using KPIs linked to each of our focus areas, and maintain our position in GRESB **Communicate clearly and directly with our stakeholders and maintain our culture of sound corporate governance**	
Continue reporting to the Global Real Estate Sustainability Benchmark and maintain performance relative to 2019	Achieved
Aim to increase data coverage across all aspects, with a particular focus on tenant energy, GHG emissions and water data	Achieved
Further align future reporting to the TCFD framework, agreeing new metrics to report on in 2020/21 as our approach to climate risk management evolves during this financial year	Achieved


Pegasus Place, Crawley

Sustainability Review continued

Task Force on Climate-related Financial Disclosures Statement

Governance

Disclosure of governance on climate-related risks and opportunities

Our climate and principal risk review processes have been joined up such that climate risk review is integrated within the core strategy, with the Board being ultimately responsible for determining the nature and the extent of the Group's principal risks. Physical and transitional climate risks are included within the risk register, which is in turn reviewed by the Risk Sub-committee on a quarterly basis in order to establish which are material to the Group. The Risk Sub-committee is supported by specialist advisors at JLL on how to assess both physical and transitional climate risks.

Strategy

Disclosure of actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning

We have identified that climate-related risks could impact on the Company by reducing:

1. Asset desirability to occupiers due to buildings no longer being fit for purpose, driven by obsolescence in relation to location, design or operation.
2. Our ability to dispose of assets, on account of the growing investor focus on climate-related risks.
3. Access to capital and also negatively impacting the firm's reputation, driven by concerns over how well assets are adapted for climate change and how effectively occupiers are positioned in relation to a low-carbon economy.

We have taken action to increase the resource efficiency of our assets and develop and refurbish properties to achieve higher sustainability standards. In this way we are actively supporting the shift towards a low-carbon economy and the circular built environment that offers our occupiers a better quality workplace at a competitive service cost. The result of this is bolstered occupier and investor confidence in the environmental performance of our assets. McKay additionally uses climate risk information to inform acquisition and disposal decisions, and asset business planning to maximise the long-term attractiveness of assets to the market and to decrease obsolescence risk.

Risk Management

Disclosure of the Company's process for identifying, assessing and managing climate related risks

Our Board is committed to ensuring that the business is resilient and responsive to changing stakeholder expectations and future events. The Board is fully supported in all activities relating to this by the Audit & Risk Committee, Risk Sub-committee and wider management team. The Company is continually improving on its understanding and assessing the potential impact of physical changes, including extreme weather such as flooding events and longer-term shifts in climate patterns, as well as the transitional changes in terms of emissions pricing, costs from adopting lower emission technology, regulation of products, legislation and consumer behaviour. Our risk register is reviewed on a quarterly basis and updated to keep track of the changing nature of these risks. Climate risks are assessed and managed in line with best practice guidelines and this information is then used to inform key business activities in the marketplace.

Metrics and Targets

Disclosure of metrics and targets that allow the Company to assess and manage climate-related risks and opportunities

The metrics that we use to assess all climate-related risks and opportunities are tracked within the corporate risk management process as outlined above. Material issues and associated objectives are reported publicly via a number of channels, such as in our Annual Report and yearly ESG Review documents, categorised under the headings of Environment, Social and Governance. Measures such as those listed under our Environment heading contribute to the mitigation of climate risks through limiting our environmental impact, and include the following:

- Reduced landlord-controlled, like-for-like energy consumption by 4% against 2019/20
- New renewable electricity contract in place covering 100% of landlord controlled assets and enabling a flexible arrangement to accommodate portfolio flux
- Energy reductions anticipated in 2020/21 through the installation of new HVAC systems at four properties
- Integration of climate adaption measures into our development checklist

Despite ambitious targets, we continue to achieve strong progress towards reducing our overall environmental impact and have reduced like-for-like energy consumption year-on-year since 2017/18 and like-for-like GHG emissions year-on-year since 2016/17.

Principal Risks and Uncertainties

Risk governance structure

The Board

The Board develops the Company's strategic approach to risk and maintains overall responsibility for monitoring the effectiveness of the Company's risk management and internal control systems.

The Audit and Risk Committee

Membership:
Independent Non-Executive Directors

The Audit and Risk Committee, on behalf of the Board, reviews the effectiveness of the Company's internal financial control and internal control risk management systems.

The Risk Sub-committee

Membership:
Executive Directors

The Risk Sub-committee maintains the Company's risk register, designs and maintains the Company's financial control and internal risk management systems and advises on emerging potential risk exposure.

The Board's overall strategy is based on a low/medium risk appetite determined by an assessment of the prospects within our chosen real estate markets and compliance with the stringent requirements of the REIT regime.

This consistent long-term strategy has proved to be successful through numerous property cycles with the inherent risks of property development and investment mitigated by internal portfolio management by professionals with extensive market experience located at the geographic centre of the portfolio.

On an individual property basis, risk can be high. This is especially the case with speculative development projects.

However, the risk is carefully assessed, taking into account financial, physical, legal, environmental sustainability and future climate-related impacts.

Any decisions made are not only in respect of the relevant property, but also on a portfolio-wide basis.

Decision making is based on an open culture, with clearly defined terms of reference for the internal Risk Sub-committee, overseen by an independent Board. Although economic conditions within our selected markets of the South East and London are beyond our control, they have proven to be more resilient and less volatile through the regular property cycles than the market as a whole.

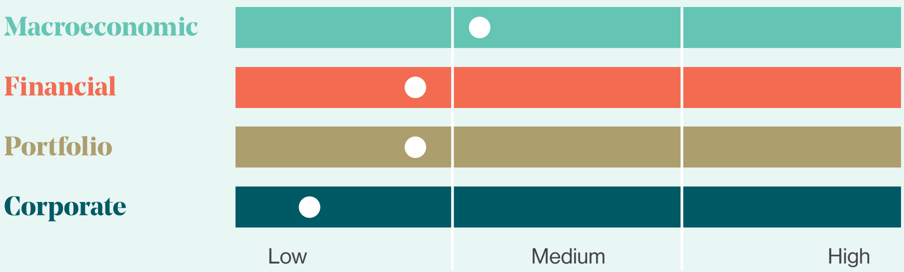
The Company's strategy of sector and geographic diversity within these markets adds value in positive market conditions and spreads risk in negative market conditions.

An ongoing process for identifying, evaluating and managing emerging and principal risks faced by the Company was in place throughout the year to 31 March 2021, as evidenced by the Covid-19 review, and up to the date of approval of the Annual Report and Financial Statements. Further detail can be found in the Corporate Governance Report on page 58.

A robust assessment of the emerging principal risks facing the Company has been carried out and the principal risks are listed on pages 46 to 49.

Risk appetite

The Board's appetite in respect of the four key areas of risk identified by the Risk Sub-committee is as follows:



Principal Risks and Uncertainties continued

Macroeconomic environment

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Covid-19 impact Stakeholder health and wellbeing, economic recession, negative impact on rents, capital values and portfolio performance, structure changes in working practices.	Continued compliance with government guidance. Developed Covid compliant measures throughout the business. Continued investment in IT to ensure operational resilience with closure of the Company's head office. Direct management of the portfolio properties to ensure close communication with occupiers and continued operational efficiency. Scenario testing to provide headroom guidance to loan covenants. Market awareness of occupier trends, and commercial flexibility to respond as appropriate. Assumptions within the Group's viability statement have been widened to include the impact of Covid-19 on the business.	Covid-19 is a continuing risk impacting the Company and its stakeholders since the beginning of March 2020. The impact has been unprecedented and is likely to continue throughout 2021.
Other macro economic risk Lack of economic growth and a recessionary environment leading to reduced occupier demand and higher voids. Disorderly Brexit damages the UK economy. Major climate-related shift in policy and investment decision making.	Whilst the Board recognises it has limited control over many external risks, it monitors economic indicators and tailors delivery of the Company's strategy accordingly. Climate risk is integrated into the updated due diligence process for purchasing , development, refurbishment and management. These risk assessments will help ensure existing and new assets at risk of negative impact are identified and the risk mitigated. Ensure and communicate to stakeholders high levels of governance and inform investors of our delivery of ESG commitments. External sustainability advisor retained to measure, advise and set comprehensive annual ESG targets.	Ongoing uncertainty in relation to the departure from the EU that could impact on corporate decision making and increased sector risk.

Key

Risk exposure in the last year:	Link to strategy:
▲ Increased	Delivery of development programme
▶ Unchanged	Release of portfolio income potential by capturing reversion
▼ Reduced	Scope for future growth

Financial

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Interest rate rise Leading to lower profits.	The Board's policy is to borrow at both fixed and floating rates of interest.	A £65 million fixed facility. Further hedging remains under review. ▶
Lack of liquidity Increasing the cost of borrowing and the ability to borrow.	This is managed through a mixture of short and long-term bank facilities to ensure sufficient funds are available to cover potential liabilities arising against projected cashflows.	A £180 million revolving credit facility secured in April 2019 with a syndicate of lenders replaced the previous bilateral facilities and secures debt facilities for the next three years. ▼
Breach of financial covenants on bank borrowings As a result of rental or capital movement.	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 Company complied with all such covenants. Covid-19 continues to increase this area of risk exposure. ▲
Major occupier default Losing a significant occupier that materially impacts profits.	This is monitored using Dun & Bradstreet checks for new occupiers together with ongoing credit checks and internal credit control. The Board receives regular information on rental arrears and rent collection activities. The impact of Covid-19 has resulted in tighter monitoring of rent collecting and outstanding rent due. Earlier intervention by asset managers to discuss occupiers' situations and development repayment plans has been actioned where appropriate. The historic Covid impact on rent collection was managed effectively for the year to 31 March 2021 resulting in 98% collected or agreed and 2% impaired. Part of our climate risk assessment process includes a high-level review of occupier business activities and the risk of impact of carbon/climate policies on occupier viability. Ensure our assets are technologically innovative and our occupiers are aware of the sustainability credentials to help increase tenant retention.	▲
Taxation REIT non-compliance.	As a REIT, the Company is required to distribute at least 90% of rental income profits each year. Internal monitoring is in place.	Throughout the period the Company complied with the regulations. ▶

Principal Risks and Uncertainties continued

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Portfolio		
Portfolio strategy Strategy at odds with economic conditions and occupier demand.	The Board continually reviews its strategy against its objectives, taking into consideration the economic conditions, future climate-related impacts, the property market cycle and occupier demand. The Company focuses entirely on the South East and London in established and proven markets. An experienced and proven acquisition team with a wide network of contacts and advisers ensure the Company is well placed to view and assess potential investment opportunities. The strategy reflects future-proofing assets to meet demand for low-carbon and climate-adapted work places. All investment opportunities are subject to full due diligence procedures including physical, legal, environmental and sustainability considerations.	Covid-19 has introduced greater market and economic uncertainty.
Development/ refurbishment Delays, overruns or other contractual disputes leading to increased costs, delayed delivery and reduced profitability. Failure of contractor. Construction cost inflation. Planning constraints. Not meeting market demand.	The Board is regularly presented with details of capital expenditure and progress on developments, including appraisals and sensitivity analysis. Regular appraisals of developments and refurbishments are carried out. Contractors are assessed for financial stability and historic performance. Design and build contracts are issued where appropriate; others are fully designed prior to commencement of works. The Company continually monitors planning and regulatory reform and takes advice from external advisers and industry specialists. All new developments and major refurbishments will target a minimum BREEAM 'Excellent' rating and an EPC rating of at least 'B' to improve carbon footprint and maximise occupier appeal. The newly updated development checklist takes into account climate adaptation needs and carbon emissions mitigation requirements up to 2030.	Development risk is limited to ongoing refurbishments.
Reduction in rental values Exposure to volatility of rental values.	Developing, refurbishing and managing the portfolio in order to offer new and Grade 'A' space performing well on environmental matters to attract and retain quality occupiers. Actively managing the portfolio, maintaining market awareness of appropriate rental values alongside lease length and maintaining an open dialogue and good relationship with occupiers. Climate risk is integrated into the updated due diligence process for purchasing, development, refurbishment and management. These risk assessments will help ensure existing and new assets at risk of negative rental value impact are identified and the risk mitigated.	Occupier demand in smaller lot sizes. Supply constraints in the Company's markets have contributed to improved rental values. Covid-19 has increased the risk of lower rental values if occupier demand reduces.
Reduction in capital values Exposure to volatility of capital values.	An open market valuation of the Company's properties is undertaken at the year end and half year by independent external valuers in accordance with RICS guidelines and analysed by the Company's auditors. Valuations are then reviewed by the Audit and Risk Committee and approved by the Board. The Company retains a borrowing headroom should there be an overall decline in capital values. The Company maintains market awareness of the prospects of positive and negative movements in the asset values. Constant review by management of occupier covenant, lease length and asset management (including environmental performance) of buildings to preserve/increase capital values.	Investor appetite and therefore capital values may reduce as a result of Covid-19.

Key

Risk exposure in the last year:	Link to strategy:
▲ Increased	Delivery of development programme
▶ Unchanged	Release of portfolio income potential by capturing reversion
▼ Reduced	Scope for future growth

Corporate

Principal risks and their impact	How risk is managed	Risk exposure change in the year
Reputational risk Adverse publicity/inaccurate media reporting. Major incident at a property. Actions by Directors or staff including fraud and bribery. Occupier's business model or specific activity negatively perceived by stakeholders. McKay performance on ESG/climate change negatively perceived by stakeholders.	The Company retains an external investor and public relations consultancy. Press releases are approved by the Chief Executive prior to release. The Company produces a staff handbook that sets out an employee code of conduct and other guidelines. Considered in the lease decision-making process. The Company has a transparent approach and has made good progress in managing its ESG risks and opportunities. McKay submits to the Global Real Estate Sustainability Benchmark ("GRESB") annually.	No significant main factors to increase risk. ▶
Legal and regulatory risk Non-compliance with regulations and laws resulting in planning and project delays, fines and loss of reputation (including future climate regulation).	The Company employs experienced staff and external advisers to provide guidance on regulatory requirements. The Board approves and adopts the Company's policies for compliance with current legislation.	Continued compliance with regulation. ▶
Retention/recruitment Failure to retain or attract key individuals could impact on major decision making and the future prosperity of the Company.	Reviews are undertaken with staff on a regular basis to maintain a positive and encouraging working environment. The remuneration package is at market levels to attract and retain individuals with the skills, knowledge and experience required for the business.	Sector employment opportunities remain constant. ▶
Health and safety Accidents to employees, contractors, occupiers and visitors to properties resulting in injury, litigation or the delay of refurbishment/ redevelopment projects.	The Health and Safety Committee ("HSC") meets regularly to review the health and safety risk profile and to implement new management systems required. These meetings review the Company's fire risk assessments, safety inspections, and contractors' insurance and safe working practices. The HSC is supported by specialist external advisers. With Covid-19, the scale of exposure to risk has increased and the management response across the portfolio is greater.	Continued compliance with regulation. ▲
IT/cyber Cyber attack resulting in IT systems failure.	Anti-virus software and firewalls protect IT systems. Data and programs are regularly backed up and backups are secured off-site. Implementation of Company's business continuity plan. Cyber fraud insurance is in place.	Increase in global incidents of this nature. ▲
Business continuity & terrorism Business unable to operate due to operational failure or unforeseen event.	The business operates a business continuity plan that is reviewed on a regular basis. In the aftermath of an unforeseen event the plan enables the business to be operational with minimal disruption. All buildings have insurance to cover a terrorist incident and loss of rent. All three Executive Directors generally avoid travelling over longer distances together.	The impact of Covid-19 triggered the business continuity plan. The Company shut the Reading office and operational continuity was maintained with all employees able to work remotely. ▶

Viability Statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code the Directors have assessed the viability of the Company beyond the 12-month period required by the going concern provision.

The Company is a specialist in the development, refurbishment and management of office, industrial and logistics property in the South East and London and has a highly experienced management team.

Assessment period

The viability assessment was undertaken on the basis of a five-year period, with particular focus on years one to three. The Directors reviewed this time frame and consider a five-year period to be an appropriate time horizon for the following reasons:

- The Company's internal modelling is for a five-year period.
- It is a reasonable period for matters including the assessment of income generation and the availability of debt funding.
- The majority of the Company's contracted income expires within five years.
- The Company's revolving credit facility is currently for a five-year term.
- In the past, property has proved cyclical and a five-year time horizon is considered a reasonable timeframe to assess future cycles.
- The time taken from acquiring an asset, finalising a strategy, obtaining planning permission through to letting is approximately three to five years.

Principal risks

The principal risks to the continued operation of the Group are regularly reviewed by the Risk Sub-committee, the Audit and Risk Committee and the Board. They are split into four areas of focus: macroeconomic; financial; property; and corporate.
Full details are set out on pages 46 to 49.

Assessment process

The four areas of principal risk were subjected to quantitative and qualitative analysis over the assessment period referred to above.

Scenario testing, based on current economic circumstances, was undertaken, including consideration of:

- the implications of a decline in income
- a decline in capital values
- increasing interest costs
- an increased length in the period an asset is vacant.

In order to stress test these risks on a quantitative financial basis, five key business areas were identified:

- dividend cover
- liquidity
- REIT compliance
- lending covenants ("LTV")
- lending covenants ("ICR").

These key business areas were using four core scenarios being:
Scenario 1: a 20% reduction in rental income
Scenario 2: a 25% reduction in capital values
Scenario 3: a 3% increase in interest cost
Scenario 4: increased length in the period an asset is vacant with specific emphasis upon recently developed and refurbished assets.

An additional scenario to reflect the uncertain economic impact of Covid-19 was identified:
Scenario 5: a 15% reduction in values and 10% reduction in income and a 2% increase in interest costs.

The above scenarios were selected in response to our principal risks and uncertainties that can be seen on pages 46 to 49.

Assumptions and future prospects

The main assumptions surrounding the Company's business model and its strategy remain unchanged. The Company continues to focus on the office, warehouse and logistics markets in the South East and London, to provide occupiers with a progressive sustainable working environment in which the businesses can thrive and as a REIT, investors continue to receive in excess of 90% of distributable profits. The Company's revolving credit facility terminates in April 2024 and this analysis assumes it is renewed at that time on the same basis.

The Company's strategy has built-in flexibility to enable the business to react to unexpected economic impacts, either by a reduction in its development/refurbishment programme (thereby reducing capital expenditure) or by selectively reducing the number of assets the Company holds.

Expectation

The result of the stress testing of these five scenarios against the Company's five-year profit forecast demonstrated that the Company can accommodate each of these scenarios, either without any mitigation, or with mitigation where the scenario imposes stress, for example suitable cash conservation strategies.

Conclusion

In conclusion, based upon the robust risk assessment described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2026.

This viability statement was approved by the Board on 4 February 2021.

Going Concern Statement

In accordance with Provision 30 of the 2018 UK Corporate Governance Code the Directors have reviewed cashflow forecasts which show that the Company has sufficient facilities to meet forecast outgoings and expects to comply with all covenants over the going concern period.

Given the significant impact of Covid-19 on the macroeconomic conditions in which the Company is operating, the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 31 March 2021. The Company's going concern assessment considers the Company's principal risks (see pages 46 to 49) and is dependent on a number of factors, including financial performance, continued access to borrowing facilities and the ability to continue to operate the Company's debt structure within its financial covenants.

In April 2019 the Company successfully renegotiated an increase in its facilities with its long-term lenders and entered into a new facility with a pool of lenders that runs until 2024.

The going concern assessment of lending covenants (LTV and ICR) considered the prospects of a significant reduction in rental income and capital values, as well as no receipts from planned disposals. Whilst there is headroom across the covenants, the covenants most likely to be affected are in relation to the ICR. In assessing this, the Directors undertook a reverse stress test to understand how much rental income was required to meet these covenants. Having considered rent collection patterns over the last 12 months there is sufficient headroom to meet loan covenants from a going concern perspective.

Should the impacts of the pandemic become more severe than currently forecast by the Directors, the Going Concern Statement would be dependent on the Group's ability to take further actions. Detailed consideration was given to the availability and likely effectiveness of mitigating actions that could be taken, including future cash conservation strategies and discussions with lenders regarding the terms of the loan agreements, being mindful of recent PRA guidance to lenders.

The Board took further comfort from the viability scenario testing which demonstrated a resilient financial position during the going concern period.

The going concern period assessed is 12 months from the balance sheet date.

Based on these considerations, together with available market information and the Directors' knowledge and experience of the Company's property portfolio and markets, the Directors have adopted the going concern basis in preparing the accounts for the year ended 31 March 2021.

Approval of Strategic Report

The Strategic Report for the year end 31 March 2021 has been approved by the Board and was signed on its behalf by:

Simon Perkins

Chief Executive Officer
17 May 2021

9 Greyfriars Road, Reading

Governance

Chair's Letter

Dear Shareholder

I am pleased to introduce our Corporate Governance Report for the year ended 31 March 2021.

During the year we have continued to strive for the highest standards of corporate governance throughout the business. We remain committed to working in the best interests of our shareholders and other stakeholders in a responsible, sustainable and ethical way and our positive achievements are reflected throughout this report.

Covid-19 has dominated how we have operated over the last year and as a Board, we have responded flexibly to the challenges that have arisen. Despite the restrictions on meeting in person, we have successfully discharged the responsibilities of the Board and its Committees, and our employees have continued to perform in an exemplary way. This has been facilitated by the investment in our internal IT systems over recent years which enabled a seamless transition to remote working. That said, we are looking forward to the lifting of restrictions and the ability to evolve our governance in a post-Covid-19 environment.

This has also been a year during which regulation and investor expectation has continued to grow in terms of ESG corporate reporting and transparency. For many years we have recognised the importance of these issues and how they relate to the way we operate the business, to our stakeholders and to society.

Our 2013 sustainability strategy was replaced in 2019 with our sustainability framework: 'The Right Choice for a Sustainable Business'. Based on this, we have continued to strengthen our reporting. A thorough review of our ESG targets and results are set out within our Sustainability Review on pages 34 to 44.

Our efforts were rewarded in 2020, when we improved our GRESB score and achieved a 4-star rating, and this year we have integrated a TCFD statement into our Annual Report in advance of the requirement to report in 2022, further evidencing our continued commitment to ESG discipline requirements. Our annual Sustainability Review can be found on pages 34 to 44 and on our website.

Under Section 172 of the Companies Act 2006, we are required to provide information on how the Directors have performed their duty to promote the success of the Company and in doing so, their regard to its various stakeholders. The principal decisions made by the Board during the year, and how we have taken our stakeholders into consideration when delivering the Company's strategic objectives, are set out on pages 18 to 21.

Succession planning is an ongoing responsibility of the Nomination Committee which has appointed an additional Non-Executive Director following the Board's desire to improve diversity. Although Covid-19 delayed appointment we are delighted to announce in April 2021 that Helen Sachdev was appointed an independent Non-Executive Director.

Due to Covid-19 a decision to carry out an external evaluation of our Board and Committees has been deferred for a year and therefore this year's annual Board, Committee and individual Director evaluations were carried out internally using our online questionnaire and remote one-to-one interviews with individual Directors. All Non-Executive Directors have confirmed to me their ability to provide the time commitment required to discharge their responsibilities effectively and further details of this year's evaluation process and outcomes can be found within the Nomination Committee Report on pages 63 to 64.

The Terms of Reference for the Board and its Committees were reviewed along with the Company's various policies in February 2021. These documents can be found on the Company's website, **mckaysecurities.plc.uk**.

As I reported last year, the Remuneration Committee recommended cancellation of the salary review for the financial year to 31 March 2020 for all Directors and employees in light of Covid-19. The Committee also recommended the postponement of the payment of any bonus until January 2021.

The Remuneration Committee Report sets out in detail the factors that have been taken into account in decision making this year, balancing a strong operational performance with investor returns. In terms of basic salary the Committee recommended to the Board a 2% increase across the workforce for the period from 1 April 2021. This recognises our employees' positive response throughout this challenging period and their continued commitment to the business.

Throughout the year to 31 March 2021 the Company has complied with the principles and provisions of the Corporate Governance Code 2018, with the exception of Code Provision 38 – Pension contribution rates for Executive Directors. During the year under review, it was agreed that contribution rates would be reduced in line with the workforce with effect from end of December 2022 and provision 40 on workforce engagement in relation to executive remuneration. Please see the Remuneration Report that starts on page 68.

Annual General Meeting arrangements

On behalf of the Board I am pleased to inform you that this year's Annual General Meeting ("AGM") will be held at 11.30am on 1 July 2020. This meeting will be held in Stage 4 of the Government's roadmap out of lockdown and therefore no restrictions are anticipated and we welcome shareholder attendance. In the event that the Government guidelines require a change to the arrangements, shareholders will be advised by means of an RNS press release.

However, some individuals may have some concerns about physically attending the AGM and choose not to be present this year. To enable all shareholders to have a voice at our AGM we have put in place an email address for shareholders to submit questions ahead of the meeting. If you would like to ask a question on the Company's Annual Report and Financial Statements or any of the proposed resolutions listed within the Notice of Meeting please send it to **info@mckaysecurities.plc.uk** marked for the attention of the Company Secretary ahead of the meeting and in any event to be received by 5.00pm on 29 June 2021. A response to the questions received will be made available on the Company's website as soon as practicable following the AGM.

In any event, I would strongly encourage you to vote ahead of the AGM by completing and returning your Proxy Form as early as possible prior to the meeting, and appointing the Chair of the AGM to act as your proxy to vote on your behalf. The Proxy Form should be completed, signed and returned in accordance with the instructions printed thereon at least 48 hours prior to the AGM.

Richard Grainger

Chair
17 May 2021

Board of Directors

				
Board member	**Richard Grainger ACA** Chair	**Simon Perkins MRICS** Chief Executive Officer	**Giles Salmon FCA** Chief Financial Officer	**Tom Elliott MRICS** Property Director and Head of Sustainability
Position	Appointed Chair in July 2016, having been appointed a Non-Executive Director in May 2014. Member of the Remuneration and Nomination Committees.	Joined the Company in August 2000. Appointed a Director in April 2001. Appointed the Chief Executive Officer in January 2003. Member of the Nomination Committee.	Joined the Company in May 2011. Appointed as Chief Financial Officer in August 2011.	Joined the Company in September 2016. Appointed a Director in April 2017.
Skills and Experience	Chartered Accountant. Richard has extensive board-level experience in the corporate finance and commercial sectors. He brings to the Group proven leadership skills and experience of complex corporate negotiations. Previous appointments: Chairman of Close Brothers Corporate Finance until 2009. Chairman of Safestore Plc until December 2013.	Chartered Surveyor. Simon has widespread knowledge of the real estate sector with direct operational experience in management, development and refurbishment, as well as strategic focus and management skills to successfully lead the executive team. Previous appointments: Nine years with business park developer, Arlington Securities PLC from 1990 to 1999.	Chartered Accountant. Giles has a wealth of experience at an operational and strategic level of corporate finance within the real estate sector, including corporate restructures and managing business change. Previous appointments: Finance Director at BAA Lynton operating the Airport Property Partnership from 2004 to 2008 and Managing Director from 2008 to 2010.	Chartered Surveyor. Tom has extensive experience within the commercial real estate sector and specialises in investment strategy, transactions, asset management and development. Previous appointments: Head of Investment for the London Portfolio of Land Securities Group PLC to 2016.
External positions	Chairman of Liberation Group.	None.	None.	None.

Jon Austen FCA

Senior Independent Director

Appointed a Non-Executive Director in July2016 and Senior Independent Director from April 2017.

Chair of the Audit and RiskCommittee.

Member of the Nomination and Remuneration Committees.

Chartered Accountant.

Jon has gained significant experience within the real estate sector in senior financial roles, with exposure to corporate takeovers and capital raising.

Previous appointments:

Group Finance Director of Urban&Civic plc to July 2016.

Chief Financial Officer of Audley Group Limited to December 2020.

Non-Executive Director of Supermarket Income REIT and their subsidiaries.

Non-Executive Director of Arnold White Group Ltd.

Jeremy Bates MRICS

Independent Non-Executive Director

Appointed a Non-Executive Director in January 2017.

Chair of the Nomination Committee.

Member of the Audit and Risk, and Remuneration Committees.

Chartered Surveyor.

Jeremy has many years of experience with Savills as a leading agent within the South East commercial real estate sector, with significant knowledge of occupier services and trends.

Director of Savills UK Limited, EMEA Head of Occupational Markets and UK Head of Transaction Services.

Helen Sachdev FCMA

Independent Non-Executive Director

Appointed in April 2021.

Member of the Audit and Risk, Nomination and Remuneration Committees.

Chartered Accountant.

Helen has extensive real estate and commercial experience following senior roles in a number of blue chip organisations.

Previous appointments:

Property Director of Tesco Stores Ltd, MD of Barclays plc, COO of Marsh and Parsons. Previous Non-Executive Director roles have included Communisis PLC, Athelney Trust PLC, Optivo Housing Association and Genesis Housing Association.

Chair of the Loughborough Building Society and a Non-Executive Director of Wilmington PLC.

Nick Shepherd FRICS

Independent Non-Executive Director

Appointed a Non-Executive Director in January 2015 and desNED from April 2019.

Chair of the Remuneration Committee.

Member of the Audit and Risk, and Nomination Committees.

Chartered Surveyor.

Nick has worked at the highest level of asset management, investment and development and has experience in corporate mergers and business integration.

Previous appointments:

Senior Partner of Drivers Jonas until 2010.

Vice Chair of Deloitte UK until May 2013.

Chair of the Property Income Trust for Charities.

Senior Adviser of Urban Legacies Ltd.

Governance Report

2018 Corporate Governance Code

1. Board Leadership and Company Purpose

A Board leadership
B Company's purpose, culture and values
C Provision of resources and framework of controls
D Stakeholder engagement
E Workforce policies and practices

2. Division of Responsibilities

F Company Chair
G Directors and their division of responsibilities
H Non-Executive Directors
I Board effectiveness and efficiency

3. Composition, Succession and Evaluation

J Board appointments
K Board membership
L Annual Board evaluation
Information including succession planning, evaluation and diversity can be found within the Nomination Committee Report on pages 62 to 64

4. Audit, Risk and Internal Control

M External audit function
N Assessment of the Company's position and prospects
O Risk management and internal control framework
Information can be found within the Audit and Risk Committee Report and the Principal Risks and Uncertainties on pages 65 to 67 and 45 to 49 respectively

5. Remuneration

P Remuneration policies and practices
Q Executive and senior management remuneration
R Remuneration linked to strategy and performance
Information, including current remuneration policies, can be found within the Remuneration Report from page 68

Introduction

McKay is a listed company incorporated in the United Kingdom and this year is reporting its appliance with the 2018 UK Corporate Governance Code, which can be found at frc.org.uk.

Board leadership

The Company is led by a highly experienced team of Executive and Non-Executive Directors who bring a wealth of knowledge and a wide range of skills to the boardroom.

Their collective role as a Board is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.

Biographical details of the Directors can be found on pages 56 and 57, and the Company's leadership structure can be seen on page 59.

Company purpose

The Company's purpose is to deliver outstanding services as a customer-focused and flexible landlord with occupiers at its heart, while being alert to the needs of its employees and the impact of the business on the environment and wider society.

The Board satisfies itself that the Company's purpose is aligned to its actions and strategy by receiving management reports, customer surveys and the outcomes from employee and shareholder engagement.

Culture and values

During the year the Board reviewed the Company's values, consulting with the workforce and with specific input from the Company Chair and desNED. From this, the Company's values were formalised and are set out on page 4. These values are reflected in the boardroom and at every level throughout the business. They are reinforced through the adoption and regular review of a schedule of matters reserved for the Board, Committee terms of reference and governance policies. Constructive debate is actively encouraged and the Board is satisfied that no individual or group of Directors dominate decision making. The Board is careful to ensure the business is able to succeed in the long term by promoting good relationships with stakeholders that uphold the values of sound corporate governance. The Board assesses and monitors the Company's culture through regular updates of corporate activity and is satisfied that the policies, practices and behaviour throughout the business are aligned with the Company's purpose values and strategy. Further details of the Company's approach to relationships with stakeholders are set out on pages 20 and 21, and its governance policies are available on the website mckaysecurities.plc.uk.

Board composition

The composition of the Board complies with Provision 11 of the 2018 UK Corporate Governance Code in that more than 50% of the Board, excluding the Chair, are Non-Executive Directors whom the Board considers to be independent. Jon Austen is the Senior Independent Director.

When appointing new Directors, the Board considers any other demands upon their time. Prior to appointment, significant commitments of new Directors are disclosed and these and any subsequent external appointments must be approved by the Board. No Director serves on the Board beyond a nine-year period.

Further details on the appointment of Helen Sachdev to the Board and its Committees on 13 April 2021 can be found within the Nomination Committee Report on pages 62 to 64.

Director independence

The Board considers the Non-Executive Directors to be independent in that they have no business or other relationship with the Company that might influence their independence or judgement.

Conflicts of interest

The Board has adopted a policy and effective procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest should they arise. Only Directors who have no interest in the matter being considered will be able to make the relevant decision and, in taking the decision, the Directors must act in a way they consider in good faith that will be the most likely to promote the success of the Company.

Professional advice and training

The Board and Committees have access to the advice and services of the Company Secretary and independent legal advice at the Company's expense, if required.

Continuing professional development training is available for Directors as necessary.

Risk management and internal control

The Board is responsible for establishing and reviewing the Company's system of internal control to safeguard shareholders' investment and the Company's assets.

The Audit and Risk Committee reviews the effectiveness of the Company's internal financial control and internal control risk management systems on behalf of the Board. Their report can be found on pages 65 to 67.

The Risk Sub-committee is responsible for identifying key risks and assessing their likely impact on the Company and maintaining the risk register. The Executive Directors make up the membership and the Risk Sub-committee reports directly to the Audit and Risk Committee. Significant areas within the risk register include property, financial and corporate risks. Areas of risk such as corporate taxation, legal matters, defined benefit pension scheme, detailed insurance cover and contracts including maintenance and property management all come under the direct control of the Executive Directors and are reviewed on an ongoing basis. Further details of the Company's principal risks and uncertainties can be found on pages 45 to 49 of the Strategic Report.

Board Leadership Structure

Governance / Leadership Structure

McKay Securities Plc

Board Members
1 Non-Executive Chair
4 Independent Non-Executive Directors
3 Executive Directors

Audit and Risk Committee Members
1 Non-Executive Chair
4 Independent Non-Executive Directors

Risk Sub-committee Members
3 Executive Directors

Remuneration Committee Members
1 Non-Executive Chair
4 Independent Non-Executive Directors

Nomination Committee Members
1 Non-Executive Chair
4 Independent Non-Executive Directors
1 Executive Director

Committees

There are three Committees that make their recommendations to the Board, all of which have clear terms of reference that comply with the 2018 UK Corporate Governance Code. These are reviewed annually and are available on the Company's website.

Audit and Risk Committee

Jon Austen FCA is Chair of the Audit and Risk Committee, which met three times in the last year. Jon is identified as having recent and relevant financial experience as required by the Code. Further details, along with the Committee's responsibilities and activities are set out in the Audit and Risk Committee Report on pages 65 to 67.

Remuneration Committee

Nick Shepherd FRICS is Chair of the Remuneration Committee which met four times in the last year. The Committee members, the Directors' Remuneration Policy and the Annual Report on Remuneration are set out in the Directors' Remuneration Report on pages 68 to 87.

Nomination Committee

Jeremy Bates MRICS is Chair of the Nomination Committee. The Committee met three times in the last year and its responsibilities and activities, including the appointment of new Directors and the performance evaluation of the Board are set out in the Nomination Committee Report on pages 62 to 64.

Board and Committee attendance (for the financial year to 31 March 2021)

Board meetings

The Board held 15 meetings in the year to 31 March 2021, including a Board Strategy Day, which is set aside to focus specifically on the Group's long-term strategy. The Board was provided with full and timely information in order to discharge its duties. Due to the multiple lockdowns throughout the year and social distancing guidelines, the Board met remotely on a more frequent basis ensuring the impact of Covid-19 on the Company and its stakeholders was regularly considered and where appropriate any mitigating action was approved.

	Board (15 meetings)	Audit and Risk Committee (3 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (3 meetings)
R Grainger	15	3[1]	4	3
S Perkins	15	3[1]	4	3
G Salmon	15	3[1]	–	–
T Elliott	15	2[1]	–	–
J Austen	15	3	4	3
J Bates	15	3	4	3
N Shepherd	15	3	4	3

1. In attendance by invitation.

2. H Sachdev was appointed to the Company's Board and Committees on 13 April 2021.

Governance Report continued

Relations with shareholders

The Board recognises the importance of maintaining an ongoing relationship with the Company's shareholders and the investment community.

Directors engage with current and prospective shareholders and analysts. Engagement is set around the financial reporting calendar, specifically following the announcement of the Company's final and interim results. In addition, regular market updates are made throughout the year on any acquisitions, major lettings or disposals of assets in the portfolio.

Throughout the year to 31 March 2021 the impact of Covid-19 meant that engagement with the investment community was held remotely and the 2021 AGM was a closed event. Shareholders were provided with an email address to enable them to submit questions in advance of the meeting. These questions and Board responses were posted on the Company's website following the meeting.

In addition, there is an investor relations section on the Company's website, which includes annual and interim reports. The website also includes stock exchange releases, details of the Company's portfolio, corporate policies and day-to-day contact details.

The Company has a share account management and dealing facility for all shareholders via Equiniti Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit shareview.co.uk or the investor relations section of the Company's website. The Shareview dealing service is also available by telephone on 03456 037 037 between 8.30am and 4.30pm Monday to Friday.

AGM arrangements and Covid-19

Shareholders are given at least 20 working days' notice of the Company's AGM and in normal circumstances have the opportunity to attend the AGM and to ask questions of the Board, including the Chairmen of the Risk and Audit Committee, the Nomination Committee and the Remuneration Committee who all attend.

Shareholders vote separately on each proposal and are informed of proxy voting figures. Following the meeting the voting figures are posted on the Company's website, mckaysecurities.plc.uk.

The 2021 AGM is scheduled for 1 July 2021. Under current government guidelines all Covid-19 restrictions will be lifted from 21 June 2021. Therefore the 2021 AGM will be open for all shareholders to attend. The meeting will be held at 11.30am at the Royal Thames Yacht club for full details see the Notice of Meeting. In the event that the Government guidelines require a change to the arrangements, shareholders will advised by means of an RNS press release.

The Board values the opportunity to meet shareholders in person at the AGM to listen and respond to their questions.

Shareholders are strongly encouraged to vote ahead of the AGM by completing and returning their Proxy Form as early as possible prior to the meeting, and appointing the Chair of the AGM to act as their proxy to vote on their behalf. The Proxy Form should be completed, signed and returned in accordance with the instructions printed thereon at least 48 hours prior to the AGM.

Workforce engagement

The Board has ultimate responsibility for ensuring that workforce policies and practices are in line with the Company's purpose and values and support the desired culture. Workforce policies and practices are encompassed within the Company's staff handbook which is made available to all employees on their induction and is available on the Company's intranet.

Despite the challenges of Covid-19, as part of the employee 2020 engagement programme, desNED, Nick Shepherd held a workforce engagement meeting in July 2020 and fed the views of employees back to the Board. In September 2020, CEO Simon Perkins hosted an employee workshop entitled 'Lockdown Lessons', the outcomes of this workshop were also fed back to the Board. Senior management supported the workforce throughout the lockdowns imposed by the impact of Covid-19 by ensuring good communication, facilitating flexible working and ensuring a safe and Covid compliant working environment as restrictions were lifted and employees returned to work. A case study on the employee workshop 'Lockdown Lessons' can be found within the Sustainability Review on page 42.

As well as annual employee evaluations held on a one-to-one basis with their respective line managers, all employees are required to complete the Company's annual online e-training programme. In 2020 this annual training progamme was extended to include Non-Executive Directors. The programme is made up of three modules:

- Equality and diversity;
- Bribery prevention; and
- Data security.

Whistleblowing policy

The purpose of this policy is to enable the Company to investigate possible malpractice and take appropriate steps to deal with it. If employees have concerns about the business, the whistleblowing procedures enable employees to raise such concerns in confidence, anonymously if they wish, at an early stage and in the right way. The whistleblowing policy is for concerns which are in the public interest where the interests of others or of the organisation itself are at risk. Further details of the policy can be found on the Company's website, mckaysecurities.plc.uk.

Relations with other key stakeholders

Directors have a duty to promote the success of the Company having regard to a range of key stakeholders and interests, as set out under s172 of the Company's Act 2006. Further information on the Company's stakeholders and the Company's approach to decision making can be found on pages 18 to 21.

Division of responsibilities

There is a clear division of responsibilities between the leadership of the Board and the Executive leadership of the Company's business. The roles of the Chair and Chief Executive are, and will continue to be, separate. The division of responsibilities between the Chair and the Chief Executive is set out in writing and approved by the Board.

Chair, Richard Grainger

Provide coherent leadership to the Board.

- Set the agenda, style and tone of Board discussions to promote effective decision making and constructive debate.
- Ensure constructive relations between the Executive and Non-Executive Directors.
- Ensure new Directors participate in a full, formal and tailored induction programme facilitated by the Company Secretary.
- Ensure the development needs of the Board and its Directors are identified and, with the Company Secretary having a key role, that these needs are met.
- Ensure the peformance of the Board, its Committees and individual Directors is evaluated at least once a year with the support of the Senior Independent Director.
- Ensure effective communications with shareholders and communicate their views to the Board.
- Promote the highest standards of integrity, probity and corporate governance.
- Ensure an appropriate balance is maintained between the interest of shareholders and other stakeholders.

Senior Independent Director, Jon Austen

Act as a sounding board for the Chair, providing support in delivering objectives.

- Serve as an intermediary for the other Directors and shareholders.
- To be available to shareholders and other Non-Executive Directors to address any concerns or issues outside of alternative channels.
- Lead the process to review the Chair's performance.

Non-Executive Directors (NEDs), Jon Austen, Jeremy Bates, Helen Sachdev and Nick Shepherd

- Provide external independent perspective and oversight to the Board.
- Create constructive challenge to executive decision making.
- Assist in setting the Company's strategy and objectives and apply their particular specialist expertise and exeperience.
- Promote the highest standards of corporate governance and integrity.
- Membership of the Company's Remuneration, Audit and Risk and Nomination Committees and undertake their responsibilities as set out in the Committee Terms of Reference.
- Attend the Company's Annual General Meeting and respond to shareholders' questions in their capacity as Chairs of the Company's Committees.

Designated NED, Nick Shepherd

- Engage with the Company's workforce to better understand their views.
- Facilitate employees' voices within the boardroom.

Chief Executive, Simon Perkins

Lead the Executive Directors and the senior team in the day-to-day running of the Company.

- Develop the Company's objectives and strategy having regard to the Company's responsibilities to its shareholders, customers, employees and other stakeholders.
- Successful achievement of objectives and execution of approved strategy and effective implementation of Board decisions.
- Manage the Company's risk profile, and internal controls in line with the extent and categories of risk identified as acceptable by the Board.
- Optimise as far as reasonably possible the use and adequacy of the Company's resources.
- Identifiy and execute acquisitions and disposals.
- Develop policies for Board approval and implementation and ensure all policies and procedures are followed and conform to the highest standards.
- Make recommendations to the Remuneration Committee on employee remuneration policy.
- Make recommendations to the Nomination Committee on the role and capabilities required in respect of the appointment of Executive Directors.

Chief Financial Officer, Giles Salmon

Support the Chief Executive in developing the Company's objectives and strategy.

- Lead and manage the day-to-day running of the finance team.
- Advise and present to the Board the Company's financial strategy.
- Responsible for the organisation's forecasting, budgets and cashflow and oversees all financial reporting.
- Head of Human Resources.
- Responsible for the Company's IT system and IT security.
- A member of the Risk Sub-committee and advises on all elements of financial risk.
- Responsible for internal financial controls and compliance.

Property Director, Tom Elliott

Supports the Chief Executive in developing the Company's objectives and strategy.

- Advise the Board on the Company's portfolio strategy.
- Lead the development and implementation of the Company's asset management and occupier services strategy.
- Responsible for, and implements, the Company's sustainability stategy.
- A member of the Risk Sub-committee and advises on all elements of property risk.
- Lead and manage the day-to-day running of the property team.

Company Secretary, Joanne McKeown

- Secretary to the Board.
- Prepare and disseminate Board and Committee Papers.
- Responsible for organising the Annual General Meeting.
- Guide the Board on corporate governance and regulatory compliance.
- Support the Board, Committees, Chair and Directors.

Nomination Committee Report

Dear Shareholder

I am pleased to present the report of the Nomination Committee for the year ended 31 March 2021.

The responsibilities of the Committee over the year are set outin detail in the Report below, and remain an essential contribution to efficient and effective Board governance.

One of the key areas of the Committee's work over the year has been the recruitment of a Non-Executive Director to improve the balance of Non-Executive representation on the Board. The process was hampered by the impact of Covid-19, but I am pleased to report we have recently announced the appointment of Helen Sachdev. Helen brings both Board and Committee experience in publicly listed companies, as well as commercial real estate experience from her previous roles. Her skills will not only complement those of existing Non-Executive Directors, but bring an additional dimension to the views of the Board and its Committees. Helen will offer herself for re-election at the 2021 AGM along with the remainder of the Board. Full biographical details of the Board can be found on pages 56 to 57.

I am also pleased to report that although Covid-19 has meant the office has been closed at times during the year, individuals have been able to work from home effectively, benefitting from recent investment in IT and systems.

Furthermore, this has not prevented desNED, Nick Shepherd, from meeting with employees to hear their views, for example on how they and the business were operating in the pandemic, and feed these back to the Board. Further details on employee engagement can be found on page 42.

In February 2021, the Committee's Terms of Reference were reviewed and no material amendments have been made. The Terms of Reference are available to view at the Company's website, mckaysecurities.plc.uk.

The year ahead will remain a challenging environment, but the Committee will continue to support the Board and its Committees, to ensure they have the appropriate balance of skills, experience and independence necessary to discharge their respective duties and responsibilities effectively.

Jeremy Bates

Chair of the Nomination Committee
17 May 2021

Committee role and responsibilities

The main roles and responsibilities of the Committee are set out within its Terms of Reference which are reviewed annually and are available on the Company's website, mckaysecurities.plc.uk.

These responsibilities include:

- Regularly reviewing the structure, size and composition of the Board;
- Membership of Board Committees;
- Succession planning for Directors and other senior executives;
- Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise including the role of Senior Independent Director and Employee Representative Non-Executive Director;
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board;
- Reviewing the equality and diversity policy of the Company; and
- Making recommendations to the Board concerning the re-election of Directors by shareholders.

Committee membership and meetings

Members of the Nomination Committee are:

J Bates MRICS – Chair
J Austen FCA
R Grainger ACA
H Sachdev FCMA (from 13 April 2021)
N Shepherd FRICS
S Perkins MRICS

The Nomination Committee met three times in the last year with 100% attendance.

The majority of the members of the Committee are independent Non-Executive Directors.

Provision 11 of the 2018 UK Corporate Governance Code states that at least half the Board should be Non-Executive Directors (for the purposes of this test the Chair of the Board is excluded.) The appointment of Helen Sachdev as an additional independent Non-Executive Director further strengthens compliance with this provision and the Board now comprises the Chair, three Executive Directors and four independent Non-Executive Directors.

The appointment of Helen Sachdev as a Non-Executive Director has also demonstrated the Board's commitment to the principles of the Hampton-Alexander review for greater female representation.

The Committee is also alert to ensuring the findings of the Parker Review on ethnic diversity are taken into consideration and has ensured that any list of candidates for any Board position included candidates with a wide range of backgrounds. However, the Board has been mindful that the right balance of skills and experience of the candidate is key and therefore to date no ethnic diversity targets have been set.

Succession planning

One of the main roles of the Nomination Committee is to consider succession planning for Directors and other senior executives. Due to the limited number of Executive Directors and other senior executives, and the importance of maintaining administration costs at an operational minimum, succession planning for this part of the workforce is generally on a replacement basis. For Non-Executive Directors, succession plans consider an approach over multiple years, are regularly reviewed and ensure a formal, rigorous and transparent procedure for new appointments.

Appointment of Directors

The Nomination Committee is responsible for identifying and nominating for approval by the Board, candidates to fill Board vacancies as and when they arise. The aim is to recruit Directors who will make a positive contribution to Board values, culture and strategic decision making.

In respect of the most recent Board appointment, in the first instance the Committee undertook a skills gap analysis and reassessed the composition of the existing Board, considering experience, diversity, knowledge and personal attributes. It then prepared a description of the role along with the professional and personal skills required and agreed the external process to be undertaken.

The Committee is mindful that candidates should be fully aware of the time commitment expected of them. The number of roles candidates already undertake is taken into consideration to ensure that individuals do not compromise their effectiveness through overcommitment. All letters of appointment set out the expected time commitment.

Third-party independent recruitment consultants, Spencer Stuart and Nurole, were identified and appointed to undertake the search for suitable candidates to put forward to the Committee for consideration and interview. Both recruitment specialists have no other connection nor provided any other services to the Company or individual Directors.

A list of candidates was submitted to the Committee for consideration and candidate interviews were undertaken remotely due to Covid restrictions. The Committee then recommended their preferred candidate to the Board.

The Committee considers that while Covid-19 may have had an impact on the search, the process undertaken has ensured that a thorough, transparent and effective search has been carried out. Full biographical details of Helen Sachdev can be found on page 57, contract details can be found with the Remuneration Report from page 68 onwards and details of re-election at the 2021 AGM can be found within the Company's Notice of Meeting.

Non-Executive Directors are appointed for an initial three-year term and are subject to annual re-election at the AGM. Any term beyond six years is subject to particularly rigorous review in line with the Company's strategy for progressive refreshing of the Board. The longest serving Non-Executive is Richard Grainger, who joined the Board in 2014.

Board and Committee evaluations

Formal annual evaluations of the Board and its Committees were undertaken in February 2021.

Consideration was given during the year to an externally run process but as a result of the impact of Covid-19 the Board agreed to reconsider this for the current financial year. Therefore, the process this year was an internally run exercise undertaken using the Company's digital board solution with a series of questionnaires submitted online. The process was administered by the Company Secretary.

The Board and Committee evaluations concluded that the Board and Committees operated in an effective manner with open and transparent dialogue, a high level of challenging and constructive debate, and a respect for individuals' opinions.

Nomination Committee Report continued

Individual Director performance evaluation

Formal individual Director performance evaluations were undertaken in March 2021. Each Director completed an online questionnaire, and this was submitted to the Board Chair who then discussed responses with individual Directors on a one-to-one basis and provided feedback. The Senior Independent Director undertook the exercise in relation to the Chair. Due to Covid-19, meetings were held via a remote conferencing facility.

The exercise concluded that each individual Director continued to make a positive contribution to Board effectiveness through their wide range of skills and experience in the commercial sector at a strategic and operational level, and demonstrated the commitment and independence required to deal with the future challenges to the business.

All evaluations identified:

- the need for greater diversity on the Board. This has been progressed with the appointment of Helen Sachdev
- resumption of visits by the Board to individual assets once the restrictions surrounding Covid-19 have been lifted
- improved visibility of the Board with the workforce.

Re-election of Directors

As recommended under Provision 18 of the 2018 UK Corporate Governance Code, all Directors of the Company, being eligible, will offer themselves for re-election at the 2021 AGM. The biographical details of the Directors are available on pages 56 and 57.

Policy on diversity and equality

The Company is committed to being an inclusive employer and our objective is to treat our workforce equally, equitably and with consideration. All aspects of diversity including gender and ethnicity are considered when recruiting at any level of the business.

While the Board has overall responsibility for the Company's equality and diversity policy, the responsibility of the Nomination Committee includes its regular review and approval. We believe every employee has a personal responsibility for implementation and as such the policy is an intrinsic part of the Company's staff handbook. All employees are required to complete online e-training in equality and diversity when joining the business and annually thereafter. The Company's policy on equality and diversity is available to view on our website mckaysecurities.plc.uk.

Over the course of the year, the Company took the following steps to address the importance of diversity and equality:

- enhanced maternity leave
- shared parental leave provision
- flexible working hours to assist parents in supporting their children's education throughout the pandemic lockdowns.

The Company's workforce, which totals 15 employees (excluding Directors), is an experienced and diverse group of individuals, who are committed to the success of the business.

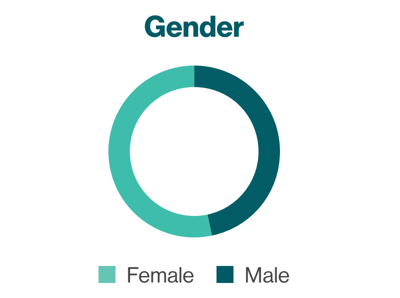
With a limited number of employees, diversity statistics are more meaningful for the business as a whole (excluding Directors), rather than specially for senior management (provision 23 of the UK Corporate Governance Code). Our workforce diversity statistics for the period to 31 March 2021 as illustrated opposite and include senior management and their direct reports.

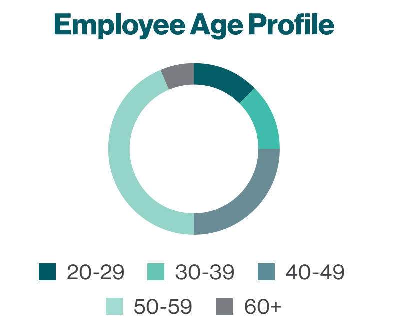
Modern slavery

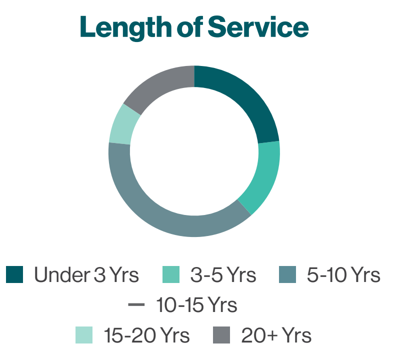
Under the UK Modern Slavery Act 2015 the Company is not required to produce a statement as its global turnover is less than £36 million, however we are committed to implementing best practice to combat all forms of human trafficking, forced labour and unlawful child labour in any activities carried out by the Company and throughout our supply chain.

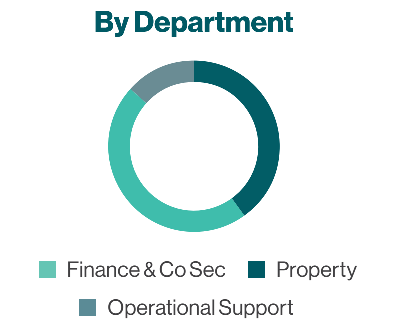
Our employees adhere to high standards of behaviour and integrity as part of our concerted effort to prevent slavery and human trafficking. All employees have a responsibility for promoting ethical and lawful employment practices throughout our business. All our employees are paid in excess of the National Living Wage and based on the small team directly employed, we believe the risk of any slavery or human trafficking in respect of our employees is low.

For more details, our Anti-Slavery, Human Trafficking and Child Labour Policy Statement is available on our website mckaysecurities.plc.uk. This statement sets out details on our approach and our due diligence processes in relation to our supply chain, including reference to the Company's Responsible Procurement Policy which can also be found on our website.









Audit and Risk Committee Report

Dear Shareholder

I am pleased to present the Audit and Risk Committee Report for the year to 31 March 2021.

The purpose of this Committee is to play a key role in maintaining the quality of our financial reporting, the adequacy and effectiveness of internal controls and the Company's risk management strategy. This year the Committee had to contend with the impact and effects of Covid-19 in all areas of its remit.

The Committee is committed to high standards of corporate governance and continues to operate in accordance with its Terms of Reference. These are reviewed annually, with the last review being carried out in February 2021.

No material changes were required at this review and the Terms of Reference of both the Audit and Risk Committee and the Risk Sub-committee are available on the Company's website, mckaysecurities.plc.uk.

The Committee's primary responsibility was to oversee both the half year review and the year end audit, and ensure they were undertaken effectively despite the restrictions of Covid-19. Particular areas of audit focus included portfolio valuation and both the viability and going concern statements. The practicalities of undertaking the various processes of the review and audit have been challenging and I would like to express my appreciation to both the finance team at McKay and the audit team at Deloitte for their endeavours in order to complete their work effectively in such difficult circumstances.

Details can be found within the following report and the Independent Auditor's Report can be found on pages 89 to 95.

The Committee also has responsibility for overseeing the Company's risk management and internal control functions. This responsibility has been delegated to the Risk Sub-committee which reports its findings to the Audit and Risk Committee through myself as Chair. The impact of Covid-19 has permeated throughout the risk profile of the Company. The business has developed, implemented, and continues to manage Covid-compliant measures to mitigate the risk of incidents within the portfolio. Tighter monitoring on rent collection to ensure any indicators of occupier distress were identified at an early stage, and the provision of support where appropriate, was key to mitigating increased risk. Processes were put in place to ensure our internal control measures retained their high standard as well as met the needs of individuals working remotely.

ESG continues to be high on our risk radar and I was particularly pleased to see that our GRESB score continues to improve, demonstrating through our objectives and targets that we are managing and responding to the risks that are material to our business on a progressive basis. Further details on these and other risks can be found in the Company's Principal Risks and Uncertainties on pages 45 to 49.

Jon Austen

Chair of the Audit and Risk Committee
17 May 2021

Audit and Risk Committee Report continued

Committee role and responsibilities

The main roles and responsibilities of the Committee are set out within its Terms of Reference which are reviewed annually and are available on the Company's website, mckaysecurities.plc.uk.

These responsibilities include:

- Financial reporting: monitoring and assessing the integrity of the financial statements of the Company including its Annual and Interim Reports, reporting to the Board on significant financial reporting issues and judgements and advising the Board on whether taken as a whole, the report and financial statements are fair, balanced and understandable;
- Risk management and internal controls: reviewing the Company's risk management and internal control systems and approving statements concerning internal control, principal risks and uncertainties and the viability statement;
- Specific to this year, continuing to ensure that the risk and uncertainty relating to Covid-19 is appropriately reflected throughout the Annual Report and Financial Statements;
- External and internal audit: recommending to the Board for shareholder approval at the AGM the appointment or reappointment of the external auditor and overseeing the relationship with the external auditor. Managing the selection process for the appointment of the external auditor and regularly reviewing its independence, objectivity and effectiveness. Committee consideration is also given annually to the requirement of an internal audit function;
- Compliance, whistleblowing and fraud: reviewing the adequacy and security of the Company's arrangements; and
- Reporting to the Board on how it has discharged its responsibilities.

Committee membership and meetings

The Committee consists solely of independent Non-Executive Directors.

The members of the Committee are:

J Austen FCA – Chair
J Bates MRICS
H Sachdev (from 13 April 2021)
N Shepherd FRICS

Jon Austen is identified as having recent and relevant financial experience and the Committee believes as a whole it has competence relevant to the sector in which the Company operates.

The Committee met three times in the last year with full Committee attendance at all meetings. These meetings were held to coincide with the financial reporting and audit cycle. The table of attendance is set out in the Corporate Governance Report on page 59.

The Chair of the Board, the Chief Executive ("CEO"), Chief Financial Officer ("CFO") and external auditors regularly attend by invitation. In a pre-Covid environment the Committee meet twice a year with the external audit engagement partner to provide the opportunity to discuss matters without executive management being present. In the current Covid environment the Chair of the Committee and the external audit engagement partner have communicated remotely.

Main reoccurring activities of the Committee during the year

Significant judgements and financial reporting

The Committee focused on the significant judgement in the Annual Report and Financial Statements in respect of the Company's property valuation.

The valuation of the Company's portfolio was undertaken by an external professional valuer, Knight Frank LLP, and the assumptions and judgements were discussed and reviewed with management and the Committee. The valuation was reviewed along with its associated risks, with particular focus given to the level of judgement that was applied as a result of the impact of Covid-19. The Committee gained comfort from the valuer's methodology and other supporting market information. The external auditor assessed the valuer's objectivity and experience through direct, robust discussions with the valuer. Deloitte LLP reviewed the valuation report prepared by Knight Frank LLP and their terms of engagement. Utilising their internal valuation experts, Deloitte Real Estate, underlying assumptions were challenged, the valuation methodology used assessed and the impact of Covid-19 considered.

The external auditor concluded that the methodology, assumptions and judgements were in line with their own findings.

The disclosures in the financial statements were considered and it was agreed property valuations had been appropriately recorded.

As part of monitoring the integrity of the financial statements the Committee reviewed the application of any enacted changes to significant accounting policies and concluded that there were no material changes to reflect in the Company's accounts. Further details on accounting policies can be found in note 1.

As requested by the Board, the Committee undertook a review of the Annual Report and Financial Statements for the year ended 31 March 2021 and advised the Board that, taken as a whole, these were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Risk management and internal control

The Committee is responsible for reviewing the Company's risk management and internal control systems. The Risk Sub-committee has delegated responsibilities including:

- overseeing, assessing and advising on the current and emerging risk exposure to the Company;
- maintaining the Company's risk register; and
- monitoring and reviewing the effectiveness of all the Company's material controls, including financial, operational and compliance controls.

The Risk Sub-committee met three times during the year and reported its findings to the Audit and Risk Committee through its Chair. It focused on:

- the emerging and continued risk of Covid-19 and its impact on the portfolio and our occupiers;
- the risks surrounding internal control measures as a result of increased working from home during the pandemic lockdown; and
- climate and sustainability risk on the portfolio and measures of mitigation through the setting of comprehensive annual ESG targets.

The Company's risk register was updated following each meeting.

The Committee believes the existing and emerging risks have been identified and in carrying out its review of the Sub-committee's findings it re-evaluated the level of the Company's risk appetite in the 'macroeconomic' key area and recommended to the Board that a lower level of risk appetite in light of the impact of Covid-19 be adopted. For full details on the Company's risk appetite, principal risks and uncertainties, the Company's long-term viability statement and going concern statement, please see pages 45 to 51.

Identification of business risks

The Company has an established system of internal financial control which is designed to ensure the maintenance of proper accounting records and the reliability of financial information used within the business. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Annual and long-term revenue, cashflow and capital forecasts are updated quarterly during the year. Results and forecasts are reviewed against budgets and regular reports are made to the Board on all financial and treasury matters.

The Directors confirm that they have specifically reviewed the framework and effectiveness of the system of internal control for the year to 31 March 2021.

External audit

In line with EU audit reforms and FRC guidance the Group, following an audit tender process, appointed Deloitte as auditor in 2019. Therefore, no tender process will be undertaken this year.

At the 2020 AGM shareholders resolved to authorise the appointment of Deloitte LLP as auditor to the Group.

Deloitte undertook the half year review as at 30 September 2020 and full audit of the Group for the year to 31 March 2021. The Group's audit partner, since the appointment of Deloitte in 2019, has been Stephen Craig.

The Committee is responsible for overseeing the relationship with the external auditor. As part of this responsibility the Committee reviewed Deloitte's audit plan, its terms of engagement and the engagement letter and authorised management to sign the representation letter.

Once again, the impact of Covid-19 has affected how the Company has been audited this year. The year end audit was conducted under Step 2 of the Government's roadmap out of lockdown.

This meant measures that were put in place for the 2020 audit, to submit documents electronically wherever possible, were reinstated.

When the audit was completed the Committee reviewed the findings with the external auditor and evaluated the independence and effectiveness of the audit process. This included:

- a review of the auditor's independence – confirmation that all Deloitte network firms and engagement teams are independent of the Company has been provided within the audit report; and
- an assessment of the quality of the audit by considering:
    - how the auditor dealt with the Company's significant judgement, the portfolio valuation;
    - the impact of Covid-19 on the audit process and outcomes; and
    - the response to questions put by the Committee on the process and findings of the audit.

The Committee concluded that the audit had been carried out in an effective and efficient manner and reported this to the Board.

As approved by shareholder resolution at the 2020 AGM, the Directors authorised the remuneration of the auditor. Audit fees for the full year were £147,000 (2020: £140,000) with related assurance work of £47,000 (2020: £45,000). Full details of audit fees are set out in note 3.

The Committee considers this assurance work does not impact the objectivity of the audit firm and is satisfied that the work is appropriate, being that ordinarily provided by the appointed auditor.

Non-audit fees, being tax services and debt advisory services, were provided by PwC.

The Committee believe there are no inconsistencies between the FRC's Ethical Standard and the Group's policy for the supply of non-audit services, nor any breaches.

It is proposed to put a resolution to shareholders at the 2021 AGM for the reappointment of Deloitte and a separate resolution to enable the Directors to determine their remuneration (full details can be found within the Company's Notice of Meeting).

Internal audit

The Committee reviewed the requirement for an internal audit function; and concluded that as there is a small management team operating from one location, enabling close involvement of the Executive Directors in the day-to-day operational matters of the Company, coupled with the comprehensive internal controls currently in place, no requirement to establish an internal audit function was needed at this time. This recommendation was made to the Board. The external auditor has confirmed that they consider that the absence of a formal internal audit function does not have a substantive impact on their audit approach.

Whistleblowing policy

The Committee, on behalf of the Board, reviewed arrangements by which employees of the Company may in confidence raise concerns in respect of the financial reporting and other matters. These detailed procedures are set out in the Company's staff handbook and the Company's policy is available on the website mckaysecurities. plc.uk.

Committee performance evaluation

The Committee's annual appraisal process was an internally run exercise using the Company's digital board solution in the format of a questionnaire, completed by all members and submitted online. This was reviewed by the Committee Chair and feedback was provided at a meeting of the Committee. The evaluation concluded that the Committee continued to operate in an efficient and effective way.

Going concern

The significant impact of Covid-19 on the macroeconomic conditions in which the Company is operating has meant the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year to 31 March 2021. The Company's going concern assessment considers the Company's principal risks (see pages 45 to 49); and is dependent on a number of factors, including financial performance, continued access to borrowing facilities and the ability to continue to operate the Company's debt structure within its financial covenants. The going concern statement can be found on page 51.

Directors' Remuneration Report

1. Annual Statement

The report is divided into three sections:

01 This **Annual Statement** of the Remuneration Committee Chair for the year ended 31 March 2021, which summarises remuneration outcomes and how the Remuneration Policy will operate for the year ending 31 March 2022;

02 The **Directors' Remuneration Policy**, which presents our Remuneration Policy which was approved by shareholders at the 2020 Annual General Meeting. No changes are proposed; and

03 The **Annual Report on Remuneration** which provides further detail on how the Remuneration Policy was implemented in the year ended 31 March 2021, and how the Remuneration Policy will operate for the year ending 31 March 2022.

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2021, which has been prepared by the Remuneration Committee ('the Committee') and approved by the Board.

Business context

The year to 31 March 20201 has been a hugely challenging year for everyone. Nevertheless, as presented elsewhere in this Report, the Executive Directors and employees remained totally focused on the Company's priorities for the year: completion of the sale of 30 Lombard Street, physical completion and letting of 135 Theale Logistics Park, maintaining rent collection levels, retaining our tenants and minimising voids in the portfolio.

Despite the impact of Covid-19, the Company was extremely successful in delivering these objectives. At the same time the Company did not seek or receive any government support during the year (eg furlough payments or government backed loans), nor has it made any Covid-19 related redundancies.

However, in considering remuneration issues the Committee is mindful of the reduced final dividend paid to shareholders for the year to 31 March 2020 and the impact on our stakeholders more generally.

Remuneration summary for the year

Executive Directors and employees received no salary increases during the year.

In terms of performance-related pay, the thresholds for the NAV and TSR targets for the PSP awards granted in 2018, which are due to vest in June 2021, were not achieved. Consequently the 2018 PSP awards will lapse in full in June 2021.

The annual bonus plan for Executive Directors comprises three elements: absolute NAV growth, adjusted earnings per share (EPS) and a range of strategic corporate targets. The NAV growth threshold was not met for the year, resulting in 0% award for that element of bonus (30% salary opportunity). The EPS target (45% salary opportunity) was achieved in full, due to a combination of factors, including additional income from 30 Lombard Street, earlier and better letting of 135 Theale Logistics Park, better than expected lease renewal of Swan Court, Wimbledon and a number of reductions in overheads. This resulted in an award of 45% of salary under the bonus formula.

Performance against the third area of bonus aligned to strategic corporate targets (25% salary opportunity) resulted in a partial award of 19.5% of salary, giving a total possible bonus award of 64.5% of salary before the application of negative discretion (see below).

Further details (including the targets and performance against them) are set out in the Annual Report on Remuneration.

Committee activities during the year

The Committee met four times during 2020/21. The main Committee activities during the year (full details of which are set out in the Annual Report on Remuneration) included:

- considering the Remuneration Committee's response to Covid-19;
- determining Executive Directors' base salary levels for 2021/22;
- setting the Executive Directors' bonus targets for 2020/21 and agreeing the outturn in respect of the 2019/20 annual bonus;
- agreeing the structure of the annual bonus for 2021/22;
- determining vesting of the 2018 PSP awards which reached the end of the three-year performance period on 31 March 2021;
- overseeing the grant of the PSP awards in 2020/21 which was made over shares worth 100% of salary to the Executive Directors and which vest subject to the achievement of a blend of challenging absolute NAV per share growth targets and relative TSR targets;
- considering remuneration policies and practices across the workforce;
- considering any conflicts of interest (none were identified) and risk in respect of the Remuneration Policy; and
- seeking shareholder approval for the new Remuneration Policy at the 2020 AGM and considering shareholder and shareholder representative views in this regard.

In addition, the Committee continually considers how McKay's Policy and practices are consistent with the six factors set out in Provision 40 of the 2018 UK Corporate Governance Code:

- **Clarity** – our Policy is well understood by our senior team and employees more generally and has been clearly articulated to our shareholders;
- **Simplicity** – the Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. As such, our executive remuneration policies and practices are as simple to communicate and operate as possible, while ensuring that they are aligned to our strategy;
- **Risk** – our Policy is based on: (i) a combination of both short and long-term incentive plans based on financial, non-financial and share price-linked targets; (ii) a combination of cash and equity (both in terms of deferred bonus and PSP awards); and (iii) a number of shareholder protections (i.e. bonus deferral, shareholding guidelines, malus/clawback provisions) have been designed to reduce the risk of inappropriate risk-taking;
- **Predictability** – our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The scenario charts in the Remuneration Policy illustrate how the rewards potentially receivable by our Executive Directors vary based on performance and share price growth;
- **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the structure of our short and long-term incentives, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded; and
- **Alignment to culture** – McKay's focus on office, industrial and logistics sectors across London and the South East combined with a number of successful development projects and intensive in-house portfolio management is fully supported through the metrics in both the annual bonus and long-term incentive which measure how we perform against main KPIs that underpin the delivery of our strategy.

Discretion

In view of the general climate of restraint, the Committee decided to use its discretion to reduce the bonus award from 64.5% of salary to 50.0% of salary. In the context of a 2.0% salary award for the year ended 31 March 2022 (0% for the year ended 31 March 2021), nil vesting of the 2018 PSP in 2021 and the successful achievement of the Company's principal commercial objectives in the year to 31 March 2021, the Committee believes this to be a fair award.

Changes to the Policy approved at the 2020 AGM

Following a detailed review of the existing Remuneration Policy approved by shareholders at the 2017 AGM, the Committee concluded the Remuneration Policy remained fit for purpose and well aligned to both our strategy and remuneration arrangements offered below Board level. As such, only a limited number of changes were made at the 2020 AGM to maintain compliance with good governance:

- The maximum pension contribution rate of 20% of salary was removed with the intention that the pension contribution for Executive Directors will be aligned with the workforce (10% of salary) by 31 December 2022. Going forward, pension provision for new Executive Directors and employees promoted to the Board will be aligned, in percentage of salary terms, to the general workforce contribution rate;
- Our informal post-cessation shareholding guideline was formalised and introduced into Policy. Going forward, Executive Directors will need to retain shares equal to 100% of the shareholding guideline (i.e. 200% of salary) up until the first anniversary of cessation, reducing to 50% of the guideline between the first and second anniversary. Own shares purchased and shares obtained from share awards granted prior to the 2020 AGM will be excluded from the post-cessation guideline;
- Rather than the default position under the leaver policy being that deferred bonus/PSP awards normally vest at cessation for a 'good leaver', the Policy was updated in line with best practice. Going forward, rather than vesting at cessation, deferred bonus/PSP awards will normally vest at the normal vesting date, subject to performance targets (where relevant) and time pro-rating; and
- Malus and clawback provisions in the bonus and PSP were enhanced.

Directors' Remuneration Report continued

Policy implementation for the year ending 31 March 2022

The Committee continues to give careful consideration to implementation of the Policy for 2021/22 given the ongoing impact of Covid-19. The proposed implementation of the Policy for 2021/22 is as follows:

- Base salary increases will be limited to that awarded to the general workforce.
- Any new Executive Director appointment will receive a workforce-aligned pension. Reflecting the difficulties of changing an existing contractual commitment materially (as noted in the FRC's implementation guidance in respect of implementing the new UK Corporate Governance Code), the level of Executive Director pension provision for the year to 31 March 2021 for Simon Perkins (18% of salary) and Giles Salmon (16% of salary) will continue albeit frozen in cash terms at the 2020/21 value. Pension provision for Tom Elliott (11% of salary) is already broadly aligned with the workforce provision.
- The maximum annual bonus potential will continue to be set at 100% of salary with 30% based on growth in Net Asset Value ("NAV") per share, 45% based on Earnings Per Share ("EPS") growth and 25% based on Strategic targets. While the Committee is unable to share the EPS and NAV targets for 2021/22 due to the commercial sensitivity, full retrospective disclosure of the targets, result and any bonus award will be set out in the Directors' Remuneration Report for the year ending 31 March 2022. The strategic targets will focus on rent collection, voids, occupier retention, ESG progress and projects.
- Annual Bonus deferral, whereby any bonus award in excess of 50% of salary will be deferred into shares for three years, will remain unchanged.
- PSP award levels will continue to be granted over shares worth no more than 100% of salary, with 40% of awards based on NAV growth targets and 60% of awards based on relative Total Shareholder Return against the selected constituents of the FTSE All Share Real Estate (Investment and Services REITs) index.
- Shareholding guidelines (both in employment and post-cessation) will remain at 200% of salary.

Shareholder consultation in respect of the new Policy

In taking our revised Policy to the 2020 AGM, the Committee consulted with our largest ten shareholders and the main representative bodies. The Committee was very grateful for the level of support received for the proposals and as such, no changes will be made to the Remuneration Policy, or the implementation of the Policy, for the year ending 31 March 2022.

Non-Executive Director fees

Following nil increase in 2020/21, Non-Executive Director fees will increase by 2.0% in 2021/22.

Conclusion

Implementation of the Policy for 2021/22 reflects the continued impact of Covid-19, whilst reflecting the need for an effective remuneration structure at McKay.

I therefore hope that you will be supportive of our approach and that you will therefore vote in favour of the Directors' Remuneration Report (excluding the Remuneration Policy) that will be tabled at the forthcoming AGM.

Nick Shepherd

Chair of the Remuneration Committee
17 May 2021

2. Remuneration Policy Report

This section of the Annual Report sets out a summary of the Directors' Remuneration Policy as approved by shareholders at the 2020 AGM.

The full Policy approved by shareholders is set out in the Annual Report and Financial Statements 2020 which can be found at www.mckaysecurities.plc.uk.

The principal objective of the Remuneration Committee is to design and implement a Remuneration Policy that promotes the long-term success of the Company. The Committee seeks to ensure that the senior executives are fairly rewarded in light of the Group's performance, taking into account all elements of their remuneration package. A significant proportion of executive remuneration is performance related, comprising an annual bonus and a Performance Share Plan ("PSP"). The fixed portion of remuneration comprises basic salary, benefits and a payment in lieu of pension.

Policy scope

The Policy applies to the Chair, Executive Directors and Non-Executive Directors.

Policy duration

Shareholders approved the current Policy at the 2020 AGM on 23 July 2020 and it will apply from this date for a maximum of three years.

30 Lombard Street, EC3

Directors' Remuneration Report continued

Summary Policy table

A summary of the Remuneration Policy is as follows:

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To recruit and reward executives of the quality required and with appropriate skills to manage and develop the Group successfully.	Reviewed annually by the Committee, on the basis of the performance of the individual Executive Director and comparability with other similarly sized companies within the sector and the market generally. Paid on a monthly basis.	The Committee is guided by the general salary increase for the broader employee population and market conditions but on occasions may need to recognise, for example, a change in the scale, scope or role and/or market movements. However, a formal cap on salaries will apply such that no incumbent Executive Director's base salary shall be increased beyond £500,000.	n/a
Benefits	To provide appropriate levels of benefits to executives of the quality required and appropriate skills to manage and develop the Group successfully.	The Company typically provides: • Car allowance (paid monthly) • Medical insurance • Life assurance The Committee reserves the discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice. Where appropriate, the Company will meet certain costs relating to Executive Director relocations (which are not subject to the benefits cap).	The aggregate value of any benefits provided to any single Director will not exceed £75,000.	n/a
Pension	To provide appropriate levels of pension provision to executives of the quality required and appropriate skills to manage and develop the Group successfully.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance or all can be paid as a cash supplement.	**New Executive Directors:** In line with the general workforce contribution rate (as a percentage of salary). **Current Executive Directors:** The Executive Directors have agreed to align their pension provision with the general workforce by 31 December 2022.	n/a

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	To incentivise and reward the delivery of the Company's strategic objectives.	Annual bonus plan levels and the appropriateness of measures are reviewed annually as close as is practicable to the commencement of each financial year to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Committee considers it to be necessary in its opinion to make appropriate adjustments. Annual bonus plan outcomes are paid in cash up to 50% of salary, with three-year deferral into shares for outcomes greater than 50% of salary. The number of shares subject to vested deferred share awards may be increased to reflect the value of dividends that would have been payable during the vesting period. Malus/clawback provisions apply (see below).	Up to 100% of salary	The performance measures applied may be financial or non-financial and corporate divisional or individual and in such proportions as the Committee considers appropriate. Where a sliding scale of targets is used, attaining the threshold level of performance for any measure will not typically produce a pay-out of more than 30% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance. The Committee will also retain the flexibility to adjust the bonus outturn based upon a formulaic assessment of performance against the targets if it believes that this outturn does not reflect overall performance and/or shareholders' experience.
Performance Share Plan ("PSP")	To incentivise and reward the delivery of the Company's strategic objectives. and to provide further alignment with shareholders through the use of shares and to aid retention.	Awards under the PSP may be granted as nil/nominal cost options or conditional awards which vest to the extent performance conditions are satisfied over a period of at least three years. A two-year post-vesting holding period will also normally apply. Part/all of vested awards may also be settled in cash. The PSP rules allow that the number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any dividends payable falling between the grant and the release of shares. Malus/clawback provisions apply (see below).	Normal grant policy: Up to 100% of salary Maximum normal grant level: Up to 150% of salary Exceptional grant level: Up to 200% of salary	The Committee may set such performance conditions on PSP awards as it considers appropriate, whether financial or non-financial and whether corporate, divisional or individual. Performance periods may be over such periods as the Committee selects at grant, which will not be less than, but may be longer than, three years. No more than 25% of awards vest for attaining the threshold level of performance.

Directors' Remuneration Report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Shareholding guidelines	To align executive and shareholder interests.	The Committee recognises the importance of Executive Directors aligning their interests with shareholders through building up significant shareholdings in the Group. Executive Directors are required to retain 100% of any PSP and deferred bonus shares acquired on vesting (net of tax) until they reach the ownership guideline.	**In employment:** 200% of salary. **Post employment:** 100% of the shareholding guideline (i.e. 200% of salary) up until the first anniversary of cessation, reducing to 50% of the guideline between the first and second anniversary. Own shares purchased and shares obtained from share awards granted prior to the 2020 AGM will be excluded from the post-cessation guideline.	n/a
Non-Executive Director fees	To attract and retain a high-calibre Chair and Non-Executive Directors by offering appropriate fees.	The fees paid to the Chair and Non-Executive Directors are set by reference to comparability with other similarly sized companies within the sector and the market generally. The fees payable to the Non-Executive Directors are determined by the Board, with the Chair's fees determined by the Committee. The Chair and Non-Executive Directors will not participate in any cash or share incentive arrangements. The Company reserves the right to provide benefits including travel and office support. Fees are paid on a monthly basis.	When determining fee increases, the Company is guided by the general increase for the broader employee population and market conditions but on occasion may need to recognise, for example, change in responsibility, time commitment and/or market movements. The aggregate fees and any benefits of the Chair and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees.	n/a

Notes

1. The Committee operates incentive plans according to their respective rules and where relevant in accordance with the Listing Rules. Consistent with market practice, the Committee retains discretion over a number of areas relating to the operation and administration of the plan. These include, but are not limited to, determining who participates, the timing of awards, award levels, setting performance targets, amending performance targets (if an event occurs, in exceptional circumstances, to enable the targets to fulfil their original purpose), assessing performance targets, treatment of awards on a change of control, treatment of awards for leavers and adjusting awards (e.g. as a result of a change in capital structure).
2. The annual bonus and PSP are based on performance against targets that are aligned with the Company's short, medium and long-term strategic plan. Where appropriate, a sliding scale of targets is set for each metric to encourage continuous improvement and the delivery of stretch performance.
3. There are currently no material differences in the broad structure of remuneration arrangements for the Executive Directors and the general employee population, aside from participation rates in incentive schemes. While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. To the extent that the Group's pay policy for Directors differs from its pay policies for groups of staff, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Executive Directors' remuneration policy.
4. For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority was given to the Company to honour any commitments entered into with current or former Directors (such as the payment of the prior year's annual bonus or the vesting/exercise of share awards granted in the past). Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.
5. The Regulations and related investor guidance encourages companies to disclose a cap within which each element of the Directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.
6. While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for Directors and in exceptional circumstances their families, may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.
7. The Committee may make minor amendments to the Policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

Malus and clawback provisions

Malus and clawback provisions operate in respect of the annual bonus and PSP:

- material misstatement of financial results
- an error in calculating a performance condition
- gross misconduct
- significant reputational damage
- corporate failure or insolvency

How the views of shareholders are taken into account

The Remuneration Committee considers shareholder feedback received each year following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of the operation of our remuneration practices. In addition, the Remuneration Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the Remuneration Policy. Details of votes cast for and against the resolution to approve this Remuneration Policy and last year's remuneration report and any matters discussed with shareholders during the year are set out in the Directors' Remuneration Report (subject to issues of commercial sensitivity).

How the views of employees are taken into account

When determining salaries and other elements of remuneration for our Executives, the Committee takes account of general pay movement and employment conditions elsewhere in the Group, as well as the relevant general markets. The Committee takes due account of employees' views when determining the design of the Group's senior executive Remuneration Policy although, reflecting typical current practice, the Committee does not formally consult with employees when determining remuneration of the Executive Directors.

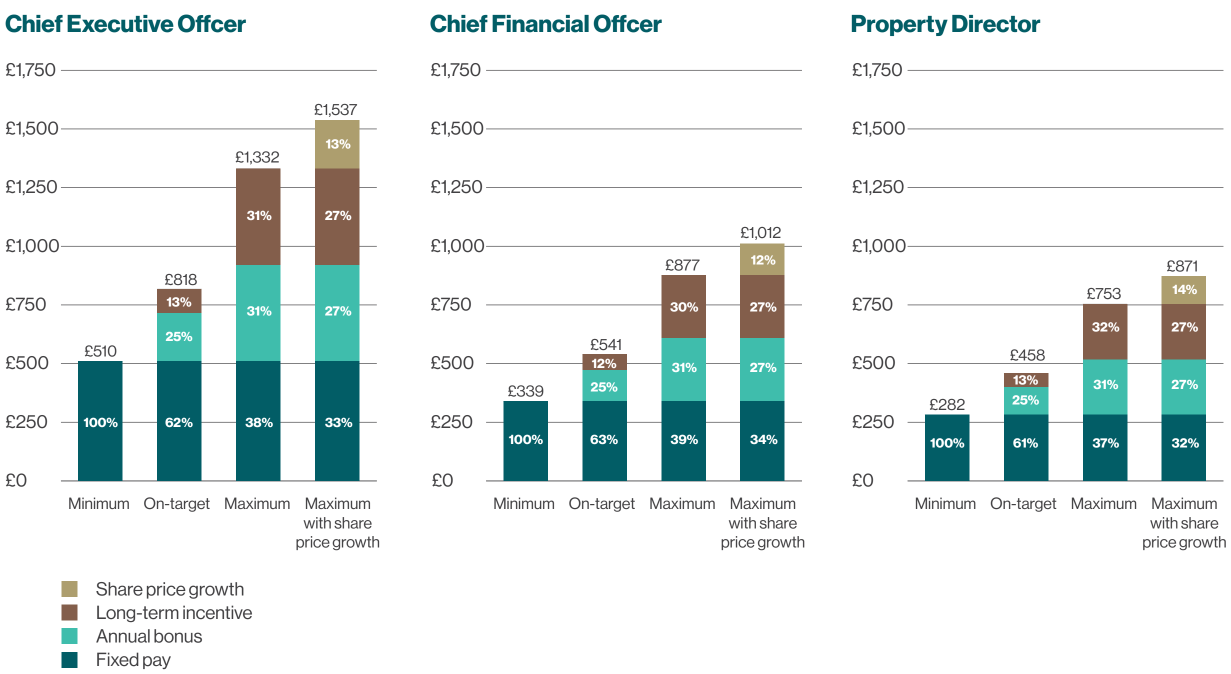
Remuneration-related risk

The Committee is satisfied that the Remuneration Policy, and the way that it is operated, does not encourage inappropriate risk taking or expose the Remuneration Committee to material remuneration-related risks. The remuneration arrangements at McKay:

- have been designed to align the interests of the Executives (and employees, given that there is strong alignment of packages internally) with shareholders and to support the sustainable delivery of the Company strategy; and
- contain a number of shareholder protections (i.e. malus and clawback provisions, shareholding guidelines, bonus deferral and post-vesting holding periods on PSP awards).

As such, the Committee remains satisfied the controls and procedures in place to mitigate remuneration-related risks for Executive Directors and the employee population more generally are appropriate and proportionate.

Performance scenario charts £'000



Directors' Remuneration Report continued

External appointments

The Company's policy is to permit an Executive Director to serve as a Non-Executive Director elsewhere when this does not conflict with the individual's duties to the Company, and where an Executive Director takes such a role they may be entitled to retain any fees which they earn from that appointment. Such appointments are subject to approval by the Chair. At present no Executive Director holds any such external appointments.

Service contracts

The Executive Directors' service contracts are terminable by the Company on not less than one year's notice. In each case the contracts (which are available for inspection at the Group's head office) are subject to six months' notice by the Executive Director. The service contracts are dated as follows:

Executive Director	Date of service contract
S. Perkins	16 March 2004
G. Salmon	2 May 2011
T. Elliott	8 July 2016

The Non-Executive Directors have rolling terms of appointment, providing for them to retire by rotation in accordance with the Articles of Association. In line with the UK Corporate Governance Code all Directors will submit themselves for re-election annually. The terms of appointment for the Non-Executive Directors are dated as follows:

Non-Executive Director	Date of service contract
R. Grainger	1 May 2014
J. Austen	8 July 2016
N. Shepherd	21 January 2015
J. Bates	17 January 2017
H. Sachdev	13 April 2021

Approach to recruitment and promotions

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual. Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may increase once expertise and performance has been proven and sustained. The caps on fixed pay in the Policy table will not apply to a new recruit, as provided for in the Regulations. The annual bonus potential would be limited to 100% of salary, and grants under the PSP would be limited to 100% of salary (up to 200% of salary in exceptional circumstances). In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions. For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its original terms. For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Approach to leavers

There are no predetermined provisions for compensation within the Executive Directors' service contracts in the event of loss of office. The Committee considers all proposals for the early termination of the service contracts for Executive Directors and senior executives and would observe the principle of mitigation.

It has been the Committee's general policy that the service contracts of Executive Directors (none of which are for a fixed term) should provide for termination of employment by giving up to 12 months' notice or by making a payment of an amount equal to a maximum of 12 months' basic salary and pension contributions in lieu of notice. It is the Committee's general policy that no Executive Director should be entitled to a notice period or payment on termination of employment in excess of the levels set out in his or her service contract. Any payments made to a departing Executive Director may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his/her cessation of office or employment.

Annual bonus may be payable in respect of good leavers with respect to the period of the financial year served although it will normally be prorated and paid at the normal pay-out date. Any share-based entitlements granted to an Executive Director under the Company's share plans will be determined based on the relevant plan rules. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, share awards will normally vest on the normal vesting date, and for performance-based share awards, vesting will normally be subject to the satisfaction of the relevant performance conditions at that time and the number of shares under award would be reduced pro rata to reflect the proportion of the performance period actually served, although the Remuneration Committee has the discretion to: (i) vest awards at cessation; and (ii) for performance-based awards, disapply the application of time prorating if it considers it appropriate to do so.

3. Annual Report on Remuneration

Committee role and membership

The Committee consists solely of Non-Executive Directors. The members of the Committee who served during the year are: N Shepherd – Chair; J Austen; J Bates; R Grainger. H Sachdev joined the Committee from 13 April 2021.

No member has any personal interest in the matters decided by the Committee, nor any day-to-day involvement in the running of the business and therefore all members are considered by the Company to be independent. The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided.

The Terms of Reference of the Remuneration Committee are available on the Company's website, www.mckaysecurities.plc.uk. Details of the Committee members' attendance at Committee meetings during the financial year are as follows:

Committee member	Number of meetings attended
N Shepherd	4 out of 4
J Austen	4 out of 4
J Bates	4 out of 4
R Grainger	4 out of 4

External and internal advisors

During the year the Committee received independent advice from FIT Remuneration Consultants LLP ("FIT") on a range of remuneration issues. FIT has no other connection nor does it provide any other services to the Company. Total fees paid to FIT in respect of its services to the Committee during the year, based on time and materials, were £23,754 ex VAT. FIT are long standing remuneration advisors and the Remuneration Committee is satisfied their advice was objective and independent. FIT is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial. The CEO attends meetings by invitation, but is not involved in the discussion of his own remuneration.

Portsoken House, EC3

Directors' Remuneration Report continued

Directors' remuneration for the year ended 31 March 2021 (audited)

Single figure table

The remuneration of the Directors for the years 2021 and 2020 was as follows:

Directors' remuneration		Salary/Fees £'000	Benefits[1] £'000	Pension including £'000	Total fixed pay £'000	Annual bonus[2] £'000	Value of long-term incentives[4] £'000	Total variable pay £'000	Total remuneration £'000
Executive									
S Perkins	2021	403	28	71	502	201	0	201	703
	2020	403	27	71	501	235	155	390	891
G Salmon	2021	264	32	42	338	132	0	132	470
	2020	264	34	43	341	154	102	256	597
T Elliott	2021	231	25	25	281	116	0	116	397
	2020	231	26	26	283	135	89	224	507
Non-Executive									
R Grainger	2021	90	–	–	90	–	–	–	90
	2020	90	–	–	90	–	–	–	90
J Austen	2021	46	–	–	46	–	–	–	46
	2020	46	–	–	46	–	–	–	46
J Bates	2021	41	–	–	41	–	–	–	41
	2020	41	–	–	41	–	–	–	41
N Shepherd	2021	46	–	–	46	–	–	–	46
	2020	46	–	–	46	–	–	–	46
Total	2021								1,792
	2020								2,215

Notes

1. Benefits comprise car allowance and medical insurance.
2. Zero % of the 2021 bonus figures presented above will be deferred into shares for three years.
3. The values for long-term incentive provision in the table above for 2021 would be estimated based on the average three-month share price to 31 March 2021 of £2.02, however the out-turn was zero.
4. The value of LTIP includes dividend equivalents.

Annual bonus

The annual bonus for the year ended 31 March 2021 was based on the following targets:

Metric	Weighting %	% of salary	Threshold %	Maximum %	Actual %	% of maximum	% of salary
NAV growth	30	30	RPI + 3	RPI + 10	<RPI + 3	0	0
EPS growth	45	45	90	110	>110	100	45
Strategic targets	25	25			See below	78	19.5
Total	**100**	**100**					**64.5**
Negative direction applied – see below							(14.5)
Revised bonus outcome							50.0

Strategic targets

Metric	Weighting	Target	Committee assessment	Out turn
Rent collection	5%	60% or more within 7 days 90% or more cash collection for 2020/21 Combined cash and 'agreed' target of 97% or more for 2020/21	72% of rent collected within 7 days 96% cash collected for year to 31 March 2021 98% cash agreed for year to 31 March 2021	5%
Voids	5%	Portfolio void to be less than 10% at the year end	Voids significantly higher than 10%, so target not met	0%
Occupier retention	5%	50% or more, for lease events where the tenant could exit	72% of tenants in this class were retained	5%
ESG	5%	Performance against targets (see ESG section)	Most targets met successfully	4.5%
Construction project progress	5%	Committee assessment of budget, programme and quality	Theale Logistics Park completed and let earlier than assumed	5%
Total	**25%**			**19.5%**

The Committee reviewed the absolute outcomes of each of the three bonus elements. Whilst the Group has achieved significant successes with the letting of Theale Logistics Park, sale of 30 Lombard Street, EC3 and the renewal at Swan Court, Wimbledon during a difficult operating environment, it was felt negative discretion was appropriate this year.

Bonus payments (cash or shares) are subject to clawback. Overpayments may be reclaimed in the event of performance achievements being found to be materially misstated or erroneous, or in the event of misconduct.

Directors' Remuneration Report continued

Long-term incentives – vesting of awards

The PSP award granted on 8 June 2018 was subject to performance, for the three years ended 31 March 2021. The performance conditions attached to this award and actual performance against these conditions were as follows:

Metric	Weighting %	Performance condition	Threshold target	Maximum	Actual performance	Vesting %
NAV growth	40	Average NAV per share growth of 12% (threshold) to 35% (full vesting) over three financial years	12%	35%	<12%	0%
Relative TSR	60	Relative TSR performance against a group of quoted real estate sector companies over three financial years. 30% of this part of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for achieving the stretch target.*	Median	Upper	< Median	0%
Total						**0%**

Based on the vesting percentage above, details of the shares under award and their estimated value (based on the three-month average share price to 31 March 2021 of £2.02 per share) is as follows:

	Number of shares at grant	Number[1] of shares to lapse	Number of shares to vest[1]	Estimated dividend equivalents	Total number of shares estimated to vest	Value of awards vesting	Impact of[2] share price on vesting
S Perkins	147,940	147,940	0	0	0	0	n/a
G Salmon	96,816	96,816	0	0	0	0	n/a
T Elliott	84,869	84,869	0	0	0	0	n/a

1. Based on the three-month average share price to 31 March 2021 of £2.02.
2. Based on the number of shares vesting (excluding dividend equivalents) multiplied by difference between the share price at the date of grant (£2.67) and the three-month average share price to 31 March 2021.

Long-term incentives – grant of awards (audited)

The following awards were granted to the Executive Directors on 23 June 2020:

	Type of award	Basis of award	Share price at grant[1]	Number of shares under award[1]	Face value of award £	% of award vesting at threshold	Performance period
S Perkins	Nil cost option	100% of salary	£2.01	200,448	402,900	25%	Three years to 31 March 2023
G Salmon	Nil cost option	100% of salary	£2.01	131,194	263,700	25%	Three years to 31 March 2023
T Elliott	Nil cost option	100% of salary	£2.01	114,975	231,100	25%	Three years to 31 March 2023

1. Based on the average five-day share price prior to 22 June 2020.

The performance targets were as follows:

Metric	Weighting	Performance condition	Threshold target	Maximum
NAV growth	40%	NAV per share growth over three financial years	12%	35%
Relative TSR	60%	Relative TSR performance against a group of quoted real estate sector companies over three financial years. 25% of this part of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for achieving the stretch target.	Median	Upper quartile

* Details of the TSR comparator companies can be found here: www.mckaysecurities.plc.uk/investor-relations/performance-share-plan.

Details of outstanding share awards (audited)

	31 March 2020 Number of shares	Granted in 2020/21 Number of shares	Vested in 2020/21 Number of shares	Lapsed in 2020/21 Number of shares	31 March 2021 Number of shares	Share price at grant £	Date from exercisable/ vesting	Expiry
PSP Awards								
S Perkins								
2017 PSP	167,467	–	80,987	86,480	–	2.29	18.07.2020	17.07.2027
2018 PSP	147,940	–	–	–	147,940	2.67	08.06.2021	07.06.2028
2019 PSP	169,286	–	–	–	169,286	2.38	09.06.2022	09.06.2029
2020 PSP	–	200,448	–	–	200,448	2.01	22.06.2023	22.06.2030
	484,693	**200,448**	**80,987**	**86,480**	**517,674**			
G Salmon								
2017 PSP	109,607	–	53,006	56,601	–	2.29	18.07.2020	17.07.2027
2018 PSP	96,816	–	–	–	96,816	2.67	08.06.2021	07.06.2028
2019 PSP	110,798	–	–	–	110,798	2.38	09.06.2022	09.06.2029
2020 PSP	–	131,194	–	–	131,194	2.01	22.06.2023	22.06.2030
	317,221	**131,194**	**53,006**	**56,601**	**338,808**			
T Elliott								
2017 PSP	96,070	–	46,459	49,611	–	2.29	18.07.2020	17.07.2027
2018 PSP	84,869	–	–	–	84,869	2.67	08.06.2021	07.06.2028
2019 PSP	97,101	–	–	–	97,101	2.38	09.06.2022	09.06.2029
2020 PSP	–	114,975	–	–	114,975	2.01	22.06.2023	22.06.2030
	278,040	**114,975**	**46,459**	**49,611**	**308,146**			
Deferred Bonus Awards[1]								
S Perkins								
2018 Deferred bonus	25,227	–	–	–	25,227	2.67	08.06.2021	07.06.2028
2019 Deferred bonus	22,820	–	–	–	22,820	2.38	10.06.2022	09.06.2029
2020 Deferred bonus	–	16,995	–	–	16,995	1.97	11.01.2023	10.01.2030
	48,047	**16,995**	**–**	**–**	**65,042**			
G Salmon								
2018 Deferred bonus	16,511	–	–	–	16,511	2.67	08.06.2021	07.06.2028
2019 Deferred bonus	14,934	–	–	–	14,934	2.38	10.06.2022	09.06.2029
2020 Deferred bonus	–	11,123	–	–	11,123	1.97	11.01.2023	10.01.2030
	31,445	**11,123**	**–**	**–**	**42,568**			
T Elliott								
2018 Deferred bonus	14,472	–	–	–	14,472	2.67	08.06.2021	07.06.2028
2019 Deferred bonus	13,091	–	–	–	13,091	2.38	10.06.2022	09.06.2029
2020 Deferred bonus	–	9,748	–	–	9,748	1.97	11.01.2023	10.01.2030
	27,563	**9,748**	**–**	**–**	**37,311**			

1. There was no deferred bonus award in 2017.

Prior year LTIPs

	Value at[1] 31 March 2020	Value at vesting
S Perkins	142	152
G Salmon	93	100
T Elliott	81	87

1. In respect of the values down for the 2020 PSP awards, the table above shows the change in value between the year end estimate and the actual pre-tax value at the vesting date.

Directors' Remuneration Report continued

Statement of Directors' shareholdings and share interests (audited)[5]

	Beneficially owned at 31 March 2020	Beneficially owned at 31 March 2021	Outstanding PSP performance awards	Outstanding deferred bonus awards	Shareholding[1,4] as a % of salary
S Perkins	347,696	347,696[2]	517,674	65,042	227%
G Salmon	167,334	167,334	338,808	42,568	178%
T Elliott	39,073	39,073[3]	308,146	37,311	78%
R Grainger	47,638	57,638	N/A	N/A	N/A
J Austen	20,500	25,350	N/A	N/A	N/A
J Bates	–	–	N/A	N/A	N/A
N Shepherd	23,315	23,315	N/A	N/A	N/A

1. Based on year end salaries and share price as at 31 March 2021 of £2.15 per share, and based on beneficially owned shares and vested PSP awards (using the net of tax numbers where awards are yet to be exercised).
2. Beneficial holdings, as defined by the Companies Act, would include a further 5,602 shares.
3. Beneficial holdings, as defined by the Companies Act, would include a further 5,200 shares.
4. Executive Directors are required to build up a holding of shares in the Company to the value of 200% of salary.
5. H Sachdev appointed to the Board on 13 April 2021 holds no shares in the Company.

Payments for loss of office and payments to past Directors (audited)

No payments were made for loss of office and no payments were made to past Directors in the year ended 31 March 2021.

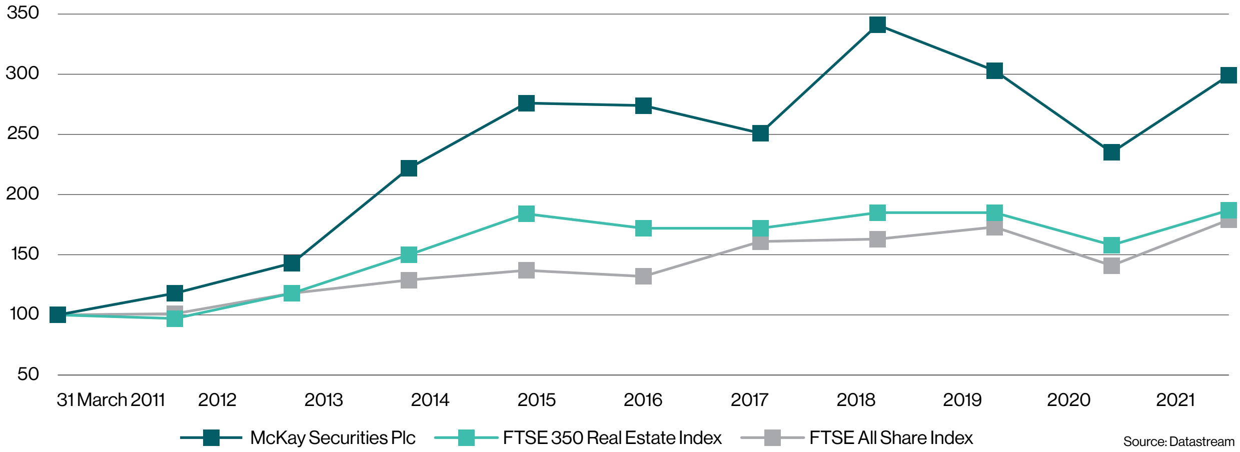
Percentage change in the remuneration of the Board

The table below shows the percentage change in each Director's remuneration (excluding the value of any long-term incentives and pension benefits receivable in the year) between 2019/20 and 2020/21 compared to that of the average for all employees of the Group.

	% Change from 2019/20 to 2020/21		
	Salary	Benefits	Bonus
S Perkins	0%	8%	-14%
G Salmon	0%	3%	-14%
T Elliott	0%	-4%	-14%
R Grainger	0%	N/A	N/A
J Austen	0%	N/A	N/A
J Bates	0%	N/A	N/A
N Shepherd	0%	N/A	N/A
Average employees	0%	-2%	-14%

TSR performance

The chart below shows the Company's TSR compared to the FTSE Real Estate Index and the FTSE All Share Index over the past ten years. This chart shows the value of £100 invested in the FTSE Real Estate Index and the FTSE All Share Index. These indices have been chosen by the Remuneration Committee as they are considered to be an appropriate benchmark against which to assess the relative performance of the Company.



Source: Datastream

CEO total remuneration

The total remuneration figures for the Chief Executive Officer during each of the last ten financial years are shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and PSP awards based on three-year performance periods ending just after the relevant year end. The annual bonus payout and PSP vesting level, as a percentage of the maximum opportunity, are also shown for each of these years.

31 March	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration (£'000)	£410	£413	£802	£1,139	£1,197	£690	£902	£805	£891	£703
Annual bonus[1] (% of salary)	10	13	45	55	70	28	68	64	58	50
PSP vesting (% of max)	0	0	60	100	100	40	40	14	48	0

1. From 2019 onwards.

Directors' Remuneration Report continued

Relative importance of the spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends.

31 March	2020	2021	% change
Staff costs (£'m)[1]	£3.70	£3.23	-13%
Dividends (£'m)[1]	£6.79	£7.75	+14%

£1.57 million of the staff costs in 2020/21 figures relate to pay for the Executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share-based awards are accounted for. The dividend figures relate to amounts payable in respect of the relevant financial year.

1. The final dividend of 5.5 pence per share will be paid on 93.02 million shares subject to further buybacks until the record date of 28 May 2021 (94.26 million for 2019/20).

CEO pay ratio

CEO pay ratio data is presented below on a voluntary basis for the year ended 31 March 2021 (as McKay has fewer than 250 employees, it is not required to disclose this information). The data shows how the CEO's single figure remuneration for 2020/21 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for full-time equivalent UK employees ranked at the 25th, 50th and 75th percentiles. Comparatives in respect of the ratio data for the prior two years is also shown.

Year	Method	25th percentile	Median	75th percentile
2020/21	Option A	5:1	7:1	12:1
2019/20	Option A	5:1	8:1	13:1
2018/19	Option A	5:1	8:1	11:1

No components of pay and benefits have been omitted for the purpose of the above calculations. Option A was selected by the Committee given that this method of calculation was considered to be the most robust approach statistically.

Option A is a single total remuneration figure for each employee on which to identify the lower quartile, upper quartile and median individuals for the calculation.

		Quartile salary data:				Quartile total pay and benefits data:		
Year	CEO salary data:	25th %tile	Median	75th %tile	CEO single figure:	25th %tile	Median	75th %tile
2020/21	£402,900	£42,600	£56,100	£84,700	£703,850	£60,836	£99,929	£136,855
2019/20	£402,900	£42,600	£55,600	£96,500	£877,000	£67,433	£107,695	£172,870
2018/19	£395,000	£46,400	£54,400	£94,600	£805,000	£71,560	£100,434	£164,222

Gender pay

McKay is not required to publish gender pay statistics given that it has fewer than 250 employees. However, the Board considers gender pay in detail and is committed to fairness. Voluntary disclosure will be kept under review although the calculations are not considered to be statistically robust at the current time given McKay's low number of employees.

Statement of shareholder voting

The following table presents the voting at the: (i) 2020 AGM in respect of the Directors' Remuneration Policy; and (ii) the 2020 AGM in respect of the Directors' Remuneration Report:

	Remuneration Policy 2020 AGM		Remuneration Report 2020 AGM	
	Number of votes	%	Number of votes	%
Proxy votes cast in favour	52,965,150	95.99	53,272,229*	99.94
Proxy votes cast against	2,214,714	4.01	31,822	0.06
Total votes cast	55,179,864	100	53,304,051	100
Proxy votes withheld	53,408		1,929,221	

* Includes discretionary votes of 880,161.

Implementation of the Remuneration Policy for the year ending 31 March 2022

Salaries

Base salaries will be increased by 2% from 1 April 2021 in line with the general workforce increase.

Current salary levels are as follows:

	Salary as at 1 April 2020 £	Salary as at 1 April 2021 £
S Perkins	402,900	411,000
G Salmon	263,700	269,000
T Elliott	231,100	235,700

Benefits and pension

No changes will be made to benefit or provision. However, as stated in last year's Directors' Remuneration Report:

- the Executive Directors have agreed to reduce their pension provision to 10% of salary by 31 December 2022 so that it is aligned with the workforce provision from the start of 2023 onwards; and
- any new Executive Director appointment would receive a workforce-aligned pension from appointment.

Annual bonus scheme

The maximum annual bonus potential will continue to be set at 100% of salary and performance metrics will be 30% based on growth in Net Asset Value ("NAV") per share, 45% based on Earnings Per Share ("EPS") growth and 25% based on Strategic targets with NAV and EPS targets straddling internal and external forecasts. While the Committee is unable to share the target ranges for 2021/22 at this point, full retrospective disclosure of the targets, result and any bonus award will be set out in the Directors' Remuneration Report for the year ending 31 March 2022. Annual bonus deferral, whereby any bonus award in excess of 50% of salary will be deferred into shares for three years, will remain unchanged.

Performance Share Plan

PSP awards to be granted in the year ending 31 March 2022 will be subject to the following targets:

Performance condition	Threshold target (25% vesting)	Stretch target (100% vesting)	End of performance period
Relative TSR against a bespoke group of quoted real estate companies as listed on the website (60% of award)	Median	Upper quartile	31 March 2024
Absolute NAV per share growth (40% of award)	Growth of 12%	Growth of 35%	31 March 2024

The Committee considers the above targets to be appropriately challenging. Consistent with previous years, Executive Directors will receive a PSP award equivalent in value to 100% of salary. Clawback provisions will continue to apply, as will a two-year post-vesting holding period.

Fees for the Chair and Non-Executive Directors[1,2]

	Fees as at 1 April 2020	Fees as at 1 April 2021
R Grainger	£90,000	£91,800
J Austen	£45,500	£46,400
J Bates	£40,500	£41,300
N Shepherd	£45,500	£46,400

1. Helen Sachdev joined the Board on 13 April 2021 on an annual salary of £41,300.
2. Article 87 of the Company's Articles of Association currently limits the payment of directors' fees to £250,000 in aggregate each year, or any higher sum decided on by an ordinary resolution at a general meeting. As part of a broader update to the Company's Articles which will be proposed at the Company's 2021 Annual General Meeting in order to bring the Articles in line with market practice and the 2018 UK Corporate Governance Code, the proposed new Articles increase the aggregate limit on Directors' fees to £400,000 per annum. The new proposed aggregate limit has been calculated taking account of the recent appointment of a Non-Executive Director to the Company and in order to ensure that there is adequate headroom for future appointments to the Board and/or for future changes to the fees payable to the Company's Directors, where that is considered to be in the best interests of the Company.

The Directors' Annual Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

By Order of the Board:

Nick Shepherd

Chair of the Remuneration Committee
17 May 2021

Directors' Report

The Directors present their report and audited financial statements for the year ended 31 March 2021.

Introduction

This report is prepared in line with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. As permitted under the Companies Act 2006 Section 414C (11) and Listing Rule 9.8.4R some of the matters in this report have been included in the following pages of the Annual Report:

Activity and assets

McKay Securities Plc is a Real Estate Investment Trust ("REIT") based in the United Kingdom. The subsidiary undertaking principally affecting the profits or net assets of the Company in the year is listed in note 13 of the Annual Report and Financial Statements. The Company is listed on the main market of the London Stock Exchange.

Property valuations

The Company's properties were valued by an external professional valuer at 31 March 2021. A decrease in value of £28.51 million (2020: decrease £2.20 million) has been included in the Consolidated Profit and Loss and Other Comprehensive Income Statement.

After taking into account retained profits and dividends paid during the year, basic net asset value per share at 31 March 2021 was 309 pence (2020: 328 pence).

Profit and dividend

The profit for the year is set out in the Consolidated Profit and Loss and Other Comprehensive Income Statement.

Profit before tax was £9.96million (31 March 2020: £9.12 million).

Under the REIT regime the Company will, in the normal course of business, be required to pay at least 90% of its relevant income arising in each accounting period, by way of a PID, but in addition may also make distributions to shareholders by way of non-PID dividend payments.

The Directors have recommended a final dividend of 5.5 pence per share, all of which will be paid as an ordinary dividend, making a total for the year of 8.3 pence per share (2020: 7.2 pence).If approved at the AGM on 1 July 2021 the dividend will be paid on 22 July 2021 to shareholders recorded on the register at the close of business on 28 May 2021.

Directors

The Board of Directors for the financial year to 31 March 2021 was:

R Grainger
S Perkins
G Salmon
T Elliott
J Austen
J Bates
N Shepherd

Mrs H Sachdev joined the Board and its Committees on 13 April 2021.

Details of the Chairs and members of the Audit and Risk Committee, Nomination Committee, and Remuneration Committee are provided in each of the Committee Reports.

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Companies Act 2006, legislation and the Company's Articles. In accordance with the Company's Articles and the 2018 UK Corporate Governance Code all the Directors being eligible will offer themselves for re-election at the 2021 AGM. Biographical details of the Directors are set out on pages 56 and 57.

Directors' interests

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report from page 68 onwards, no Director had a material business interest during the year in any contract with the Company.

Details of the Directors' interests in the ordinary shares of the Company and share options are provided in the Directors' Annual Remuneration Report on pages 80 to 82.

Directors' powers

The Company's Directors have powers set out within the Companies Act 2006, legislation and the Company's Articles of Association, in particular powers in relation to the allotment and repurchase of its own Company shares as granted by shareholders at the 2020 AGM.

Share buy-back programme

On 8 March 2021 the Company announced a share buy-back programme. The Board set the total size of the programme at up to £10.0 million or approximately 5% of the Company's issued ordinary share capital. As at 17 May 2021, 1,321,376 shares at a nominal value of £264,275.20 were repurchased and cancelled. This amounts to 1.41% of ordinary issued share capital.

Directors' and officers' liability insurance

In accordance with Article 140 of the Articles and to the extent permitted by the Companies Act 2006, the Company maintains Directors' and officers' liability insurance, which is reviewed annually.

Substantial shareholdings

In addition to the Directors' interests referred to on page 82 of the Directors' Annual Remuneration Report, the Company has been notified in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules of the following holdings of the Company's shares (see note 18 of the financial statements) as at 31 March 2021:

	Shares	%
Aberforth Partners LLP	13,185,559	14.02
Tristan Capital Partners LLP	12,392,709	13.15
Bank of Montreal* (BMO)	9,488,840	10.06

* 9.06% are held by Thames River Capital LLP.

Notification since 31 March 2021:

	Shares	%
Bank of Montreal* (BMO)	9,272,324	9.97

* 8.42% are held by Thames River Capital LLP.

Political donations

No political donations were made during the year (2020: nil).

Charitable donations

The Company donates to local and national charities as appropriate during the year. For details please see the Sustainability Review on page 40.

Change of control

Some of the Company's banking arrangements may be terminable upon a change of control of the Company.

The Company's Performance Share Plan has provisions with regard to vesting of awards in the event of a change of control.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover.

Share capital

The issued share capital of the Company as at 31 March 2021 was 93,800,933 ordinary shares of 20 pence each. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carry any special rights with regard to control of the Company.

There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements or restrictions on share transfers or voting rights. The Company has employee share schemes in which the voting rights in respect of the shares are exercisable by the employees.

Articles of Association

Changes to the Articles must be approved by shareholders in accordance with the Articles and applicable legislation. It is proposed to update the Company's Articles at the 2021 AGM as referred to under special resolutions and within note 19 of the Company's Notice of Meeting. The Company's Articles will be available for inspection at the AGM and in accordance with applicable legislation.

AGM

The 75th Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 1 July 2021 at 11.30am.

At the forthcoming AGM the following special resolutions will be proposed which constitute special business:

Power to allot shares[1] (special resolution)

The Directors were granted authority at the last AGM held in 2020 to allot relevant securities up to a nominal amount of £6,284,266. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company (i) up to a nominal amount of £6,201,206 and (ii) comprising equity securities up to a nominal amount of £12,402,413 (after deducting from such limit any shares or rights allotted or granted under (i)), in connection with an offer by way of a rights issue, (the 'Section 551 authority"), such Section 551 authority to apply until the end of the next AGM (or, if earlier, until close of business on 30 September 2022).

Two special resolutions will also be proposed to grant the Directors power to make non-pre-emptive issues for cash consideration with rights issues and otherwise up to a total nominal amount of £1,860,360.

Market purchase of shares[1] (special resolution)

At the 2020 AGM shareholders renewed the Directors' authority to repurchase up to 10% of the Company's issued share capital at that time (9,426,399 ordinary shares) in the market, subject to minimum and maximum price constraints. That authority will apply until the conclusion of this year's AGM. 538,542 number of shares were repurchased during the year to 31 March 2021 and cancelled. The Company does not hold any shares in treasury. Renewal of this authority by special resolution will be proposed at the 2021 AGM and the authority will be limited to a maximum of 9,301,809 ordinary shares.

1. These figures are as at 17 May 2021 and are subject to change given the ongoing share buyback programme.

General meetings

The calling of general meetings other than the AGM on not less than 14 days' clear notice.

Articles of Association

The Company will be looking to update the Company's current Articles of Association (the 'Current Articles") which were adopted in 2002 and adopt new Articles of Association (the 'New Articles"). The principal changes introduced in the New Articles are primarily to reflect changes to the UK Corporate Governance Code 2018 (the 'Code") requirements as well as best market practice.

Further information on the AGM including notes to the resolutions and how to vote has been included within the Notice of Meeting that has been sent to shareholders and is available to view online at mckaysecurities.plc.uk.

Auditor

Deloitte LLP undertook the audit for the year to 31 March 2021.

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of Deloitte LLP as auditor of the Company will be proposed at the forthcoming AGM.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given in accordance with Section 418(2) of the Companies Act 2006.

Important events since 31 March 2021

- The appointment of Helen Sachdev was made on 13 April 2021
- The issued share capital as of 17 May 2021 was 93,018,099 ordinary shares

J McKeown

Company Secretary
17 May 2021

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the report of the Directors includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

S Perkins

Chief Executive Officer
17 May 2021

G Salmon

Chief Financial Officer
17 May 2021

Independent Auditor's Report

For the year ended 31 March 2021

Report on the audit of the financial statements

1 Opinion

In our opinion:

- the financial statements of McKay Securities Plc (the 'parent company") and its subsidiaries (the 'Group") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 , and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Profit and Loss and other Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Cash Flow Statements;
- the Consolidated and Company Statements of Changes in Equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2 Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3 Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of the investment property portfolio; and • Going concern and covenant compliance Within this report, key audit matters are identified as follows: ! Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £4.3m which was determined on the basis of 1.5% of net assets. For testing of balances that impacted EPRA earnings, a lower materiality threshold of £470,000 was used based on 5% of EPRA earnings.
Scoping	We subject all components of the Group to full scope audit procedures, therefore accounting for 100% of the Group's net assets, revenue and profit before tax.
Significant changes in our approach	There have been no significant changes in our audit approach, other than adopting a controls reliance approach in our testing of rental income.

Independent Auditor's Report continued

4 Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.2.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of the investment property portfolio

Key audit matter description	The Group's investment properties are valued by an external valuer at £437.9m on 31 March 2021 (31 March 2020: £510.0m), thereby representing the most quantitatively material balance in the financial statements. Refer to note 10 for further disclosure on the investment property valuation. The investment properties are carried at fair value based on an appraisal by the Group's external valuers. Valuations are carried out at six-monthly intervals for the Group in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 (Red Book). The valuation of the investment property portfolio is a significant area of estimation that is underpinned by a number of key assumptions, including property yields and estimated future rental value. The property fair values are calculated by a third party external valuation experts using factual information, such as lease agreements and tenancy data, and their professional judgement in respect of market conditions and transactional evidence, in addition to factors impacting individual properties. Our key audit matter in relation to the valuation of the investment property portfolio is focused on the key estimates and assumptions applied in the determination of the valuation, specifically property yields and estimated future rental values. The property valuation has been impacted by the COVID-19 pandemic, resulting in a change in the key estimates and assumptions, resulting in an overall valuation loss in the year. We have identified a fraud risk pertaining to the valuation of the investment property portfolio in relation to management's incentive to manipulate the overall valuation. Specifically the fraud risk is focused on Management's ability to place pressure and undue pressure on the external valuer, to change their key estimates to materially misstate the valuation. Further detail is provided within key sources of estimation uncertainty in note 1, note 10 to the financial statements and the Audit and Risk Committee report on pages 65 to 67.

5.1 Valuation of the investment property portfolio continued

How the scope of our audit responded to the key audit matter	We obtained an understanding of the Group's relevant controls to address the risk over property valuations. We assessed management's process for reviewing the valuations of the property portfolio. We obtained the external valuation report and held a virtual meeting with the external valuers of the property portfolio to understand the valuation process, to discuss and challenge the performance of the portfolio and, for a sample of properties, challenged significant assumptions and critical estimation areas, including estimated rental values and property yields. We worked with our internal real estate valuation specialists, who are chartered surveyors, to assist us to challenge the significant estimates and assumptions applied in the valuation performed by the Group's external valuers. Our internal real estate valuation specialists also assisted us to assess the impact of the COVID-19 pandemic on the movement in the significant estimates and assumptions, and the external valuer's treatment of pandemic on the portfolio valuation. Our real estate specialist utilised relevant industry data to benchmark the portfolio performance and key assumptions used, to assess whether the external evidence supported the assumptions used by the external valuers. We considered the changes made to key valuation assumptions at a macro-level on the properties held by the Group and benchmarked these against changes in the wider market and against relevant market evidence including specific property sales and other external data. We assessed the valuation methodology being used and considered any departures from the Red Book guidance and additionally, tested the integrity of the model used. We compared the property specific assumptions made to ensure there is consistency within the portfolio as well as consistency with related assumptions used in other estimates. We tested the integrity of a sample of the data provided to the external valuer. This included verifying a sample of information provided to the external valuer to underlying lease agreements. We assessed the competence, independence and integrity of the external valuers. As part of our disclosures testing, we have reviewed the disclosures made in the financial statements and considered if the specific disclosures in relation to the estimation are considered reasonable.
Key observations	We concluded that the estimates and assumptions applied in arriving at the fair value of the Group's property portfolio were appropriate.

Independent Auditor's Report continued

5 Key audit matters continued

5.2 Going concern and covenant compliance

Key audit matter description	As at 31 March 2021, external borrowings had a carrying value of £141m (31 March 2020: £190.5m), representing a £65.0m term loan and a £180.0m revolving credit facility, which mature in 2030 and April 2024 respectively. The Group has £101m (31 March 2020: £51m) of undrawn revolving credit facility, in addition of cash of £2.2m (31 March 2020: £2.2m). We identified a key audit matter relating to the ability of the Group to meet the external loan covenant requirements during the year and for a period of one year from the date of the authorisation of the financial statements. The Group's banking covenants are linked to the borrowing to property valuation ratio and the interest cover achieved through rental income. While there is headroom in these ratios throughout the forecast period, a downward movement in property valuations because of the ongoing COVID-19 pandemic, where the valuation impacts may be greater and quicker than evidenced in recent years, could affect the available headroom. Under a downside forecast sensitivity scenario, the Group expects there to be a reduction in rental income in the forecast period because of a future trading restrictions due to any further the COVID-19 pandemic lockdowns that may arise. The impact of this potential reduction in rental income could affect the ability of the Group to meet its interest cover calculations. Management's consideration of the going concern basis of preparation is set out in the Going Concern statement on page 51 and note 1. Management has adopted the going concern basis of accounting for the Group and parent company; they have concluded that there are no material uncertainties that may cast significant doubt over the Group's and parent company's ability to adopt this basis for a period of at least 12 months from the date when the financial statements are authorised for issue. As at the date of this report, COVID-19 lockdown restrictions are gradually easing in the United Kingdom, however this is in contrast to the rest of Continental Europe, where lockdown restrictions are increasing. Despite the improving situation in the United Kingdom, there is still a degree of uncertainty in respect of the global outlook because of the COVID-19 pandemic. Should the COVID-19 pandemic deteriorate, and exacerbate the impact on the Group's tenants, compared to the Directors current forecasts and sensitivities, the risk in the Group's going concern status could increase, as disclosed in the Audit and Risk Committee report on pages 65 to 67.
How the scope of our audit responded to the key audit matter	We challenged the judgements and assumptions applied by management in their going concern assessment and associated forecasts of financial performance and financial position, considering the reasonableness of assumptions regarding uncertain cash inflows and the timing and quantum of cash outflows. As part of this, we assessed the historical accuracy of forecasts previously prepared by management. We assessed the appropriateness of Management's downside sensitivities, taking into consideration assumptions associated with rental collection levels impacted by the ongoing COVID-19 pandemic. We challenged Management's tenant risk assessment undertaken for the most significant clients, utilising external market research obtained to assess the appropriateness of these assumptions. We reviewed the Group's loan documentation to understand the principal terms, including financial covenants, and performed a review of the Group's existing and forecast compliance with debt covenants. We tested the mechanical accuracy of Management's covenant calculations, including the consistency with the contractual definitions. We assessed the appropriateness of the headroom available on covenants and compared management's projections with market information available associated with future income and property. As part of our disclosures testing, we have reviewed and assessed the appropriateness of the Going Concern disclosures within the annual report and financial statements.
Key observations	We concur with management's conclusion to prepare the Group and parent company financial statements on a going concern basis.

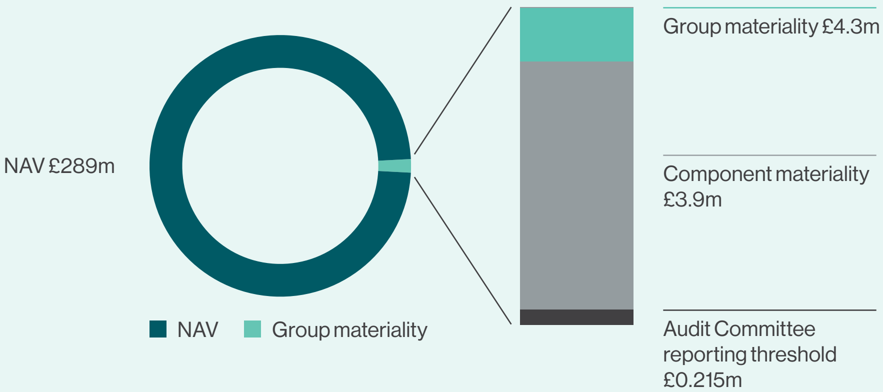
6 Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£4.3m (2020: £4.6m) For testing balances that impacted EPRA Earnings, a lower materiality threshold was applied, of £470,000 (2020: £482,000)	£3.9m (2020: £4.2m)
Basis for determining materiality	We have determined materiality for the Group and parent company based on: • 1.5% of net assets (2020: 1.5% of net assets); and • 5% of EPRA Earnings for testing of balances that impact that measure (2020: 5% of EPRA Earnings).	
Rationale for the benchmark applied	As an investment property company, the main focus of Management is to generate long-term capital value for investors and shareholders from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality to be applied for testing of the Group's and parent company's balance sheet items. We continue to consider EPRA earnings to be a critical performance measure for the Group and we therefore calculated and applied a lower materiality to testing of those items impacting EPRA earnings.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of Group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • Our risk assessment, including our understanding of the Group's overall control environment which we consider appropriate for the size and nature of the Group; • Low turnover over of staff within the executive management and key accounting personnel; and • Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identifed in the current and prior years.	

6.3 Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £215,000 (2020: £235,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report continued

7 An overview of the scope of our audit

7.1 Identification and scoping of components

We performed a full scope audit of the financial statements of the parent company and Group. These components subject to a full scope audit account for 100% of the Group's net assets, revenue and profit before tax.

7.2 Our consideration of the control environment

From our understanding of the relevant controls we adopted a controls reliance approach in our audit of rental income.

Our ability to adopt a controls reliance approach relied upon obtaining an understanding of the rental income process, identifying the relevant controls, and testing the operating effectiveness of those relevant controls in the business process throughout the year.

In addition, we obtained an understanding of the relevant controls such as those relating to the financial reporting process and the investment property valuation process.

8 Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10 Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management, and the Audit and Risk committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including valuations, pensions, and analytics specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: investment property valuation owing to the risk of management override of controls relating to the valuation process. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension's legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. The key laws and regulations we considered in this context included the Landlord and Tenant Act and the Health and Safety Act.

Audit response to risks identified

As a result of performing the above, we identified the valuation of the investment property portfolio as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12 Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13 Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 51;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 45;
- the directors' statement on fair, balanced and understandable set out on pages 50 - 51;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 45;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 66; and
- the section describing the work of the Audit and Risk committee set out on pages 65 - 67.

Independent Auditor's Report continued

14 Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15 Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit and Risk committee, we were appointed by the Board on 4 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ended 31 March 2020 to 31 March 2021.

15.2 Consistency of the audit report with the additional report to the audit and risk committee

Our audit opinion is consistent with the additional report to the audit and risk committee we are required to provide in accordance with ISAs (UK).

16 Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Craig

FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
17 May 2021

Financial Statements

Consolidated Profit and Loss and Other Comprehensive Income

For the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Gross rents and service charges receivable	2	**28,589**	**29,296**
Other property income		157	69
Direct property outgoings		(7,112)	(7,384)
Net rental income from investment properties	2	**21,634**	**21,981**
Administration costs		(5,175)	(5,385)
IFRS 2 charge		(489)	222
Total administration costs	3	**(5,664)**	**(5,163)**
Operating profit before gains on investment properties		**15,970**	**16,818**
(Loss)/profit on disposal of investment properties		(2,854)	1,668
Revaluation of investment properties	10	(23,356)	(2,199)
Operating (loss)/profit		**(10,240)**	**16,287**
Finance costs	5	(6,351)	(6,805)
Finance income	5	8	5
(Loss)/profit before taxation		**(16,583)**	**9,487**
Taxation	6	133	(1,392)
(Loss)/profit for the year		**(16,450)**	**8,095**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on defined benefit pension scheme		(278)	(185)
Total comprehensive (expense)/income for the year		**(16,728)**	**7,910**
(Loss)/earnings per share	8		
Basic		(17.45)p	8.59p
Diluted		(17.45)p	8.57p
Adjusted earnings per share figures are shown in note 8			
Dividends	9		
31 March 2020 final dividend of 4.4 pence (31 March 2019: 7.4 pence) paid during the year		4,148	6,965
30 September 2020 interim dividend of 2.8 pence (30 September 2019: 2.8 pence) paid during the year		2,642	2,639
Proposed final dividend of 5.5 pence (31 March 2020: 4.4 pence)		**5,116**	**4,148**

The total comprehensive income for the year is all attributable to the equity holders of the Parent Company.

The accompanying notes on pages 105 to 125 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March 2021

		Notes	2021 £'000	2020 £'000
Non-current assets				
Investment properties	– Valuation as reported by the valuers		437,900	510,000
	– Adjustment for tenant incentives recognised under IFRS 16		(7,403)	(10,637)
	– Assets held for sale		(13,500)	(79,365)
	– Adjustment for grossing up of headleases		3,683	4,403
		10	**420,680**	**424,401**
Plant and equipment		11	125	148
Other receivables		13	7,403	6,982
Total non-current assets			**428,208**	**431,531**
Current assets				
Trade and other receivables		13	3,063	3,200
Assets held for sale		10	13,500	83,020
Cash			2,249	2,245
Total current assets			**18,812**	**88,465**
Total assets			**447,020**	**519,996**
Current liabilities				
Trade and other payables		14	(9,233)	(12,433)
Lease liabilities		15	(229)	(180)
Current tax liability			(654)	–
Liabilities directly associated with assets classified as held for sale		15	–	(1,520)
Total current liabilities			**(10,116)**	**(14,133)**
Non-current liabilities				
Loans and other borrowings		14	(141,369)	(190,505)
Pension fund deficit		23	(2,180)	(2,097)
Deferred tax liability		6	–	(1,392)
Lease liabilities		15	(3,453)	(2,703)
Total non-current liabilities			**(147,002)**	**(196,697)**
Total liabilities			**(157,118)**	**(210,830)**
Net assets			**289,902**	**309,166**
Equity				
Called up share capital		18	18,760	18,853
Capital redemption reserve			108	–
Share premium account			75,541	75,541
Retained earnings			80,598	81,531
Revaluation reserve			114,895	133,241
Total equity			**289,902**	**309,166**
IFRS net asset value per share		21	**309p**	**328p**
EPRA NTA/NRV value per share		21	**309p**	**329p**

The accompanying notes on pages 105 to 125 form an integral part of these financial statements..

These financial statements were approved by the Board of Directors on 17 May 2021 and were signed on its behalf by R Grainger and S Perkins.

Company Statement of Financial Position

As at 31 March 2021

Registration number 421479

		Notes	2021 £'000	2020 £'000
Non-current assets				
Investment properties	– Valuation as reported by the valuers		433,400	437,500
	– Adjustment for tenant incentives recognised under IFRS 16		(7,403)	(6,982)
	– Assets held for sale		(13,500)	(13,500)
	– Adjustment for grossing up of head leases		3,682	2,883
		10	**416,179**	**419,901**
Plant and equipment		11	77	84
Investments in subsidiary			–	–
Other receivables		13	7,404	6,982
Total non-current assets			**423,660**	**426,967**
Current assets				
Trade and other receivables		13	3,062	46,933
Assets held for sale		10	13,500	13,500
Cash			2,249	2,245
Total current assets			**18,811**	**62,678**
Total assets			**442,471**	**489,645**
Current liabilities				
Trade and other payables		14	(34,750)	(12,423)
Lease liabilities			(229)	(180)
Total current liabilities			**(34,979)**	**(12,603)**
Non-current liabilities				
Loans and other borrowings		14	(141,369)	(190,505)
Pension fund deficit		23	(2,180)	(2,097)
Lease liabilities			(3,453)	(2,703)
Total non-current liabilities			**(147,002)**	**(195,305)**
Total liabilities			**(181,981)**	**(207,908)**
Net assets			**260,490**	**281,737**
Equity				
Called up share capital		18	18,760	18,853
Capital redemption reserve			108	–
Share premium account			75,541	75,541
Retained earnings			65,914	65,181
Revaluation reserve			100,167	122,162
Total equity			**260,490**	**281,737**

The accompanying notes on pages 105 to 125 form an integral part of these financial statements.

The loss for the financial year ended 31 March 2021 was £13,422,039 (2020 profit of: £8,340,645).

These financial statements were approved by the Board of Directors on 17 May 2021 and were signed on its behalf by R Grainger and S Perkins.

Consolidated Cashflow Statement

For the year ended 31 March 2021

	2021 £'000	2020 £'000
Operating activities		
(Loss)/profit before tax	(16,583)	9,487
Adjustments for:		
Depreciation	47	50
Amortisation of leasehold properties	1	1
Deferred bonus write-off	94	68
Fair value of share options	396	(290)
Letting fees amortisation	652	668
Defined benefit pension scheme adjustments	45	44
Taxation	133	(1,392)
Loss/(profit) on sale of investment properties	2,854	(1,668)
Movement in revaluation of investment properties	23,356	2,199
Net finance costs	6,342	6,800
Cashflow from operations before changes in working capital	**17,337**	**15,967**
Increase in debtors	(1,680)	(203)
Decrease in creditors	(2,394)	(2,903)
Cash generated from operations	**13,263**	**12,861**
Interest paid	(5,237)	(6,061)
Interest received	8	5
Corporation tax paid	(605)	–
Cashflows from operating activities	**7,429**	**6,805**
Investing activities		
Proceeds from sale of investment properties	70,777	8,056
Purchase and development of investment properties	(19,925)	(33,395)
Purchase of other fixed assets	(24)	(126)
Cashflows from investing activities	**50,828**	**(25,465)**
Financing activities		
Gross debt drawdowns	20,000	34,000
Gross debt repayments	(70,000)	(5,000)
Bank facility fees paid	(34)	(2,569)
Equity dividends paid	(6,790)	(9,604)
Share buybacks	(1,147)	–
Headlease interest and capital paid	(282)	(285)
Cashflows from financing activities	**(58,253)**	**16,542**
Net increase/(decrease) in cash and cash equivalents	4	(2,118)
Cash and cash equivalents at the beginning of the year	2,245	4,363
Cash and cash equivalents at the end of the year	**2,249**	**2,245**

The accompanying notes on pages 105 to 125 form an integral part of these financial statements.

Company Cashflow Statement

For the year ended 31 March 2021

	2021 £'000	2020 £'000
Operating activities		
(Loss)/profit before tax	(13,422)	8,341
Adjustments for:		
Depreciation	31	34
Amortisation of leasehold properties	1	1
Deferred bonus write-off	94	68
Fair value of share options	396	(290)
Letting fees amortisation	649	617
Defined benefit pension scheme adjustments	45	44
Profit on sale of investment properties	–	(1,668)
Movement in revaluation of investment properties	21,995	2,205
Net finance costs	6,205	5,374
Cashflow from operations before changes in working capital	**15,994**	**14,726**
Decrease/(increase) in debtors	43,403	(3,893)
Increase/(decrease) in creditors	24,677	(27)
Cash generated from operations	**84,074**	**10,806**
Interest paid	(5,125)	(6,061)
Interest received	92	1,327
Cashflows from operating activities	**79,041**	**6,072**
Investing activities		
Proceeds from sale of investment properties	–	8,056
Purchase and development of investment properties	(20,813)	(32,847)
Purchase of other fixed assets	(24)	(46)
Cashflows from investing activities	**(20,837)**	**(24,837)**
Financing activities		
Gross debt drawdowns	20,000	34,000
Gross debt repayments	(70,000)	(5,000)
Bank facility fees paid	(34)	(2,569)
Headlease interest and capital paid	(229)	(180)
Repurchase of shares	(1,147)	–
Equity dividends paid	(6,790)	(9,604)
Cashflows from financing activities	**(58,200)**	**16,647**
Net increase/(decrease) in cash and cash equivalents	4	(2,118)
Cash and cash equivalents at the beginning of the year	2,245	4,363
Cash and cash equivalents at the end of the year	**2,249**	**2,245**

The accompanying notes on pages 105 to 125 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2021

	Attributable to equity holders of the Parent Company					
	Share capital £'000	Capital redemption revenue £'000	Restated share premium £'000	Revaluation reserve £'000	Restated retained earnings £'000	Total equity £'000
At 31 March 2019	18,825	–	75,541	132,625	84,092	311,083
Profit for the year	–	–	–	–	8,095	8,095
Other comprehensive income:						
Transfer deficit on revaluation of properties	–	–	–	(2,200)	2,200	–
Transfer on disposal of investment properties	–	–	–	2,816	(2,816)	–
Remeasurement on defined benefit pension scheme	–	–	–	–	(185)	(185)
Total comprehensive income for the year	**–**	**–**	**–**	**616**	**7,294**	**7,910**
Issue of new shares net of costs	28	–	–	–	(28)	–
Dividends paid in year	–	–	–	–	(9,605)	(9,605)
Deferred bonus	–	–	–	–	68	68
Costs of share-based payments	–	–	–	–	(290)	(290)
At 31 March 2020	**18,853**	**–**	**75,541**	**133,241**	**81,531**	**309,166**
Loss for the year	–	–	–	–	(16,450)	(16,450)
Other comprehensive (expense)/income:						
Transfer deficit on revaluation of properties	–	–	–	(23,356)	23,356	–
Transfer on disposal of investment property	–	–	–	5,010	–	5,010
Remeasurement on defined benefit pension scheme	–	–	–	–	(278)	(278)
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(18,346)**	**6,628**	**(11,718)**
Issue of new shares net of costs	15	–	–	–	(15)	–
Repurchase of shares	(108)	108	–	–	(1,247)	(1,247)
Dividends paid in year	–	–	–	–	(6,789)	(6,789)
Deferred bonus	–	–	–	–	94	94
Costs of share-based payments	–	–	–	–	396	396
At 31 March 2021	**18,760**	**108**	**75,541**	**114,895**	**80,598**	**289,902**

The accompanying notes on pages 105 to 125 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 March 2021

	Share capital £'000	Capital redemption revenue £'000	Restated share premium £'000	Revaluation reserve £'000	Restated retained earnings £'000	Total equity £'000
At 31 March 2019	18,825	–	75,541	121,551	67,491	283,408
Profit for the year	–	–	–	–	8,341	8,341
Other comprehensive income:						
Transfer deficit on revaluation of properties	–	–	–	(2,205)	2,205	–
Transfer on disposal of investment properties	–	–	–	2,816	(2,816)	–
Remeasurement on defined benefit pension scheme	–	–	–	–	(185)	(185)
Total comprehensive income for the year	**–**	**–**	**–**	**611**	**7,545**	**8,156**
Issue of new shares net of costs	28	–	–	–	(28)	–
Dividends paid in year	–	–	–	–	(9,605)	(9,605)
Deferred bonus	–	–	–	–	68	68
Costs of share-based payments	–	–	–	–	(290)	(290)
At 31 March 2020	**18,853**	**–**	**75,541**	**122,162**	**65,181**	**281,737**
Loss for the year	–	–	–	–	(13,422)	(13,422)
Other comprehensive (expense)/income:						
Transfer deficit on revaluation of properties	–	–	–	(21,995)	21,995	–
Transfer on disposal of investment properties	–	–	–	–	–	–
Remeasurement on defined benefit pension scheme	–	–	–	–	(278)	(278)
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(21,995)**	**8,295**	**(13,700)**
Issue of new shares net of costs	15	–	–	–	(15)	–
Repurchase of shares	(108)	108	–	–	(1,247)	(1,247)
Dividends paid in year	–	–	–	–	(6,789)	(6,789)
Deferred bonus	–	–	–	–	93	93
Costs of share-based payments	–	–	–	–	396	396
At 31 March 2021	**18,760**	**108**	**75,541**	**100,167**	**65,914**	**260,490**

The accompanying notes on pages 105 to 125 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2021

1 Accounting policies

Basis of preparation

McKay Securities Plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is 20 Greyfriars Road, Reading, Berkshire RG1 1NL.

The principal activities of the Company and its subsidiaries ("the Group") and the nature of the Group's operations are set out in the Strategic Report on pages 16 to 17.

These financial statements are presented in GBP sterling, which is the currency of the primary economic environment in which the Group operates and are rounded to the nearest thousand.

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements are prepared on a going concern basis as explained in the Principal Risks and Uncertainties and going concern statement on page 51.

In accordance with Section 408 Companies Act 2006 a separate Profit and Loss and Other Comprehensive Income for the Company is not presented. The loss for the year after tax of the Company is £13,422,039 (2020: profit of £8,340,645).

The consolidated financial statements of the Company and its subsidiary ("the Group") have been prepared on a historical cost basis, except for investment property which is measured at fair value through the Profit and Loss and Other Comprehensive Income.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and leasing transactions that are within the scope of IFRS 16.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 16 was adopted for the first time for the year ended 31 March 2020.

For the year ended 31 March 2021 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies:

Subsidiary Name	Companies House Registration Number
Baldwin House Limited	00692181

Notes to the Financial Statements continued

For the year ended 31 March 2021

1 Accounting policies continued

Basis of consolidation

The subsidiary company is under the control of the Company. Control means being exposed or have rights to variable returns from its involvement and has the ability to affect those returns through its power over the subsidiary.

Control is achieved when the Company: has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affects its returns.

All intra-Group assets and liabilities, equity, income, expenses and cashflows relating to transactions between the members of the Group are eliminated on consolidation.

Critical accounting judgements and key sources of estimation uncertainty

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. Management does not consider there to be any critical accounting judgements in the preparation of the Group's financial statements. Management considers that the valuation of investment property represents a key source of estimation uncertainty, for which qualified external advisers are used. As a result of Covid-19, the level of estimation increased, as reflected by the inclusion of a material uncertainty clause within the valuation report, as at 31 March 2020. However no material uncertainty clause has been included for the year ended 31 March 2021. See further detail below and in note 10.

Investment properties

The Group's properties are held as investments to earn rental income and for capital appreciation and are stated at fair value at the balance sheet date. The value, reflecting market conditions, is determined at each reporting date by independent external valuers and any gain or loss arising from a change in value is recognised in the Profit and Loss and Other Comprehensive Income and transferred to the revaluation reserve in the Group Statement of Financial Position. Tenant incentives are recognised as a separate asset in accordance with the Group's accounting policy on lease incentives and are 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 legal completion. Gains and losses arising on the disposal of investment properties are recognised in the Profit and Loss and Other Comprehensive Income, being the difference between net sale proceeds and the carrying value of the property.

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

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

The Group owns a number of properties under long leaseholds. These are leased out to tenants under operating leases and included in the balance sheet at fair value (disclosed as head leases). The obligation to the freeholder for the buildings element of the leasehold is included in the balance sheet at the present value of the minimum lease payments at inception. The minimum lease payments are apportioned between finance charges in the Profit and Loss and Other Comprehensive Income and the reduction of the Group Statement of Financial Position liability. Contingent rents are charged as an expense in the Profit and Loss and Other Comprehensive Income in the period incurred.

Assets held for sale

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

Investment properties held for sale are carried at fair value in the Statement of Financial Position. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

1 Accounting policies continued

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 three and five years.

Cash

Cash comprises cash at bank and short-term deposits held on call.

Financial assets

Financial assets do not carry any interest and are stated initially at fair value and subsequently at amortised cost as reduced by appropriate credit loss allowances. The Group always recognises lifetime expected credit losses ("ECL") on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The Group derecognises a financial asset when the contractual right to the cashflows of the asset expire or on transfer of the asset and the associated risks and rewards to another party.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost. The Group derecognises trade and other payables liabilities when they are extinguished, which occurs when the obligation associated with the liability is discharged, cancelled or expires.

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 fair value measurement of the Group's properties and is not available for distribution until realised through sale. This forms part of retained earnings.

Segmental analysis

All of the Group's revenue is derived from the ownership of investment properties located in the South East and 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 an adjustment to rental income.

The revenue recognition policy for the following revenue streams are in line with IFRS 15, as revenue is recognised when it transfers control over a product or service to a customer.

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.

Operating profit

Operating profit is identified in the income statement and represents the profit on activities before finance costs and taxation.

Borrowing costs

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

Notes to the Financial Statements continued

For the year ended 31 March 2021

1 Accounting policies continued

Share-based payments

The Group operates an equity-settled share-based performance plan outlined in the Directors' Remuneration Report under which Directors and employees are able to acquire shares in the Company. Equity-settled share-based payments to employees' services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Post employment benefits

The Group operates two pension schemes. The defined benefit scheme is based on final pensionable pay and has been closed to new entrants since 1989. The assets of the scheme are held separately from those of the Group and are measured at fair value, the scheme obligations being calculated at discounted present value, with any net surplus or deficit recognised in the Group Statement of Financial Position. Current service cost and net interest on scheme liabilities and scheme assets are recognised as an expense in the Profit and Loss and Other Comprehensive Income. Actuarial gains and losses on scheme assets and liabilities are recognised in equity through the Profit and Loss and Other Comprehensive Income. The assumptions used by a qualified actuary are outlined in note 23.

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

Taxation

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

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

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

The Group converted to REIT status on 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 that are compliant with the REIT rules.

2 Net rental income from investment properties

	2021 £'000	2020 £'000
Gross rents receivable	22,854	22,873
IFRS 16 adjustment (spreading of rental incentives)	1,771	2,291
Gross rental income	**24,625**	**25,164**
Service charges receivable	3,964	4,132
Gross rents and service charges recievable	**28,589**	**29,296**
Other property income	157	69
Direct property outgoings	(7,112)	(7,384)
Net rental income from investment properties	**21,634**	**21,981**

Rent receivable under the terms of the leases is adjusted, in accordance with IFRS 16, for the effect of any incentives given.

3 Administration costs

		2021 £'000	2020 £'000
Group			
Directors'	– remuneration	1,204	1,203
	– bonus	449	523
Staff	– costs	1,061	1,167
	– bonus	252	239
Management fee service charge		(361)	(293)
National Insurance		227	507
Pension costs	– defined benefit scheme	45	44
	– defined contributions	308	275
Other staff costs		51	37
Share-based payment accounting charge (IFRS 2)		489	(222)
Staff related costs		**3,725**	**3,480**
Depreciation (note 12)		47	50
Office costs		676	575
Legal and professional fees		1,123	1,007
General expenses		93	51
Total administrations costs		**5,664**	**5,163**

The average number of persons employed by the Group and Company during the year was 18 (2020: 19).

Details of Directors' remuneration can be found on page 78 in the Directors' Annual Remuneration Report.

In advance of each audit, the Committee obtains confirmation from the external auditor that it remains independent and that the level and nature of non-audit fees are not an independence threat. The table below details the total fees paid to the auditor. The Committee considers the current auditor Deloitte to be independent of the Group and Company.

	2021 £'000	2020 £'000
Fees paid to auditor		
Statutory audit services		
McKay Securities Plc audit	137	130
Subsidiary audit	10	10
Assurance services		
Interim review	31	30
Service charge review	16	15
	194	**185**

Notes to the Financial Statements continued

For the year ended 31 March 2021

4 Alternative performance measures

APM	IFRS	Note reference
Adjusted profit before tax The Group adjusts to present recurring profits by removing items not under management control.	**Profit before tax IFRS**	Note 4
Total property return ("TPR") Management's indicator of return on portfolio during the period.		Note 4
Debt to portfolio value ("LTV") Management guide to gearing levels.		Note 4
EPRA net tangible asset value per share ("NTA") Assumes that entities buy and sell assets, crystalising unavoidable deferred tax.	**Net asset value per share**	Note 21
EPRA net reinstatement asset value per share ("NRV") Assumes that entities never sell assets, therefore the value required to rebuild the entity.	**Net asset value per share**	Note 21
EPRA net disposal asset value per share ("NDV") Represents a disposal scenario where deferred tax and other adjustments are calculated.	**Net asset value per share**	Note 21
EPRA net asset value per share A future looking matrix by adding in share options that may vest.	**Net asset value per share**	Note 21
EPRA ("NNNAV") EPRA NNNAV in the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation.	**Net asset value per share**	Note 21
Adjusted earnings per share Adjusted earnings as above by using recurring profits.	**Basic earnings per share**	Note 8
EPRA earnings per share Adjusted earnings per share except for surrender premiums (included in other property income) and share based payments are added back.	**Basic earnings per share**	Note 8
Portfolio valuation Valuation of total property portfolio at period end as per Knight Frank valuation.		

The Group uses a number of Alternative Performance Measures ("APMs") which are not defined or specified within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and allow greater comparability between periods but do not consider them to be a substitute for, or superior to, IFRS measures. The Directors consider adjusted profit before tax to be an additional informative measure of the ongoing profits from core rental activities before taxation, adjusted as set out. See further detail in the glossary.

These alternative performance measures are commonly used within the property sector.

	2021 £'000	2020 £'000
(Loss)/profit before tax	(16,583)	9,487
Movement in revaluation of investment properties (see note 11)	23,356	2,199
Other property income (see note 2)	(157)	(69)
Loss/(profit) on disposal of investment properties	2,854	(1,668)
IFRS 2 adjustment to share-based payments	489	(222)
Adjusted profit before tax	**9,959**	**9,727**

Total property return (TPR)

	2021 £'000	2020 £'000
Valuation (deficit)/surplus	(21,579)	111
Profit realised on disposal (excluding IFRS 16 write off)	2,155	1,668
Income from investment properties	21,633	21,981
	2,209	23,760
Book value	459,480	509,889
Total property return	0.5%	4.7%

As there are no remaining developments as at 31 March 2021, we have updated the table above to show TPR including developments to provide a more appropriate comparison.

4 Alternative performance measures continued

Debt to portfolio value ("LTV")

	2021 £'000	2020 £'000
Drawn debt	144,000	194,000
Cash balances	(2,249)	(2,245)
Net debt – bank debt net of cash balances	141,751	191,755
Valuation as reported by external valuers	437,900	510,000
LTV	32.4%	37.6%

5 Net finance costs

	2021 £'000	2020 £'000
Interest on bank overdraft and loans	4,606	5,602
Commitment fee	564	462
Lease interest on leasehold property obligations	282	397
Finance arrangement costs	899	895
Capitalised interest (note 7)	–	(551)
	6,351	**6,805**
Interest receivable	(8)	(5)
Net finance costs	**6,343**	**6,800**

The capitalisation of interest has no effect on taxation.

6 Taxation

	2021 £'000	2020 £'000
Total tax in the Consolidated Profit and Loss and Other Comprehensive Income	**133**	**(1,392)**
Reconciliation to effective rate of tax: **(Loss)/profit on ordinary activities before tax**	**(16,583)**	**9,487**
Tax charge on profit at 19% (2020: 19%)	**(3,151)**	**1,803**
Effects of:		
REIT tax exemption	3,151	(1,803)
Tax provision movement	133	(1,392)
Tax for period (as above)	**133**	**(1,392)**

The taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income relates to a movement in the taxation provision of £133,000 on the sale of 30 Lombard Street, EC3. As a REIT, the Group is tax exempt in respect of qualifying capital gains and qualifying rental income, which covers the majority of the Company's activities. The tax provision relating to the sale of 30 Lombard St arises as the completion of the sale was within three years of practical completion and therefore triggers a chargeable capital gain under REIT regulations.

7 Capitalised interest

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

Interest capitalised during the year amounted to nil (2020: £550,933 related to works to 135 Theale Logistics Park).

Total development interest capitalised amounts to £14,737,480 (2020: £14,737,480).

Interest is capitalised using the Group's weighted average cost of borrowings and the effective rate applied in the year was 3.10% (2020: 3.35%).

Notes to the Financial Statements continued

For the year ended 31 March 2021

8 Earnings per share

Basic earnings per share	2021 pence	2020 pence
Basic (loss)/earnings per share	(17.45)	8.59
Movement in revaluation of investment properties	24.77	2.33
Other property income	(0.17)	(0.07)
Loss/(profit) on disposal of investment properties	3.03	(1.77)
Taxation	(0.14)	1.48
Share-based payments	0.52	(0.24)
Adjusted earnings per share	**10.56**	**10.32**
Share-based payments	(0.52)	0.24
Other property income	0.17	0.07
EPRA earnings per share	**10.21**	**10.63**

Basic (loss)/earnings per share on ordinary shares is calculated on the loss in the year of (£16,450,000) (2020: profit of £8,095,000) and 94,292,376 (2020: 94,234,253) shares, being the weighted average number of ordinary shares in issue during the year.

EPRA earnings per share is calculated on the same profit after tax and on the weighted average number of shares in issue during the year of 94,292,376 (2020: 94,234,253) shares.

	2021 Number of shares	2020 Number of shares
Weighted average number of ordinary shares in issue	94,292,376	94,234,253
Number of shares under option	–	463,819
Number of shares that would have been issued at fair value	–	(244,272)
Diluted weighted average number of ordinary shares in issue	**94,292,376**	**94,453,800**

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

	2021 Number of shares	2020 Number of shares
Number of shares under option	**144,921**	–

8 Earnings per share continued

Diluted earnings per share	2021 pence	2020 pence
Basic (loss)/earnings per share	(17.45)	8.59
Effect of dilutive potential ordinary shares under option	0.00	(0.02)
	(17.45)	8.57
Movement in revaluation of investment properties	24.77	2.33
Other property income	(0.17)	(0.07)
Loss/(profit) on disposal of investment properties	3.03	(1.77)
Share-based payments	0.52	(0.24)
Taxation	(0.14)	1.47
Adjusted diluted earnings per share	**10.56**	**10.29**

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, share-based payments, deferred taxation, other property income, and the movement in revaluation of investment property.

The taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income relates to a taxation provision movement of £133,000 on the sale of 30 Lombard Street, EC3.

9 Dividends

The final dividend is not included in the accounts as a liability as at 31 March 2021, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2020 and interim for 2020 paid in the year are included in the Consolidated Statement of Changes in Equity on page 103.

	2021 £'000	2020 £'000
Ordinary dividends		
31 March 2020 final dividend of 4.4 pence (31 March 2019: 7.4 pence) paid during the year	4,148	6,965
30 September 2020 interim dividend of 2.8 pence (30 September 2019: 2.8 pence) paid during the year	2,642	2,639
Total recognised in financial statements	**6,790**	**9,604**
Proposed final dividend of 5.5 pence (31 March 2020: 4.4pence)	**5,116**	**4,148**

Notes to the Financial Statements continued

For the year ended 31 March 2021

10 Investment properties

	Group			Company		
	Freehold £'000	Long leasehold £'000	Total £'000	Freehold £'000	Long leasehold £'000	Total £'000
Valuation						
At 1 April 2020	401,998	101,768	503,766	401,998	31,402	433,400
Additions – capital expenditure	6,337	484	6,821	6,337	478	6,815
Additions – purchases	10,658	–	10,658	10,658	–	10,658
Revaluation deficit	(18,445)	(3,134)	(21,579)	(18,445)	(3,128)	(21,573)
Adjustment for tenant incentives recognised in advance under IFRS 16	(449)	(1,327)	(1,776)	(449)	28	(421)
Disposals	–	(69,520)	(69,520)	–	–	–
IFRS write off on disposal	–	5,009	5,009	–	–	–
Headlease adjustment	–	801	801	–	801	801
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	(1)	(1)
Book value as at 31 March 2021	**400,099**	**34,080**	**434,179**	**400,099**	**29,580**	**429,679**
Adjustment for grossing up of headlease liabilities	–	(3,682)	(3,682)	–	(3,682)	(3,682)
Adjustment for tenant incentives recognised in advance under IFRS 16	7,301	102	7,403	7,301	102	7,403
Valuation as at 31 March 2021	**407,400**	**30,500**	**437,900**	**407,400**	**26,000**	**433,400**

	Group			Company		
	Freehold £'000	Long leasehold £'000	Total £'000	Freehold £'000	Long leasehold £'000	Total £'000
Valuation						
At 1 April 2019	378,125	100,653	478,778	378,125	30,790	408,915
Additions – development	16,396	555	16,951	16,396	57	16,453
Additions – purchases	16,438	–	16,438	16,438	–	16,438
Revaluation (deficit)/surplus	(3,235)	3,346	111	(3,235)	393	(2,842)
Adjustment for tenant incentives recognised in advance under IFRS 16	474	(2,785)	(2,311)	474	163	637
Disposals	(6,200)	–	(6,200)	(6,200)	–	(6,200)
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	(1)	(1)
Book value as at 31 March 2020	**401,998**	**101,768**	**503,766**	**401,988**	**31,402**	**433,400**
Adjustment for grossing up of headlease liabilities	–	(4,403)	(4,403)	–	(2,882)	(2,882)
Adjustment for tenant incentives recognised in advance under IFRS 16	6,852	3,785	10,637	6,852	130	6,982
Valuation as at 31 March 2020	**408,850**	**101,150**	**510,000**	**408,850**	**28,650**	**437,500**

In accordance with the Group's accounting policy on properties there was an external valuation at 31 March 2021. These valuations were carried out by Knight Frank LLP, 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 £322 million (2020: £377 million) for the Group and £321 million (2020: £315 million) for the Company.

The amount of interest capitalised during the year was nil (2020: £550,933). 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 value for properties under development, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

10 Investment properties continued

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.

Losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £23.4 million (2020: £2.2 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

Due to Covid-19 there was a material uncertainty clause attached to the Knight Frank valuation for the year ended 31 March 2020. Whilst Covid-19 continues to impact financial markets and restrictions remain in place in many countries including the UK the stabilising conditions have meant that no material uncertainty clause is included in the year ended 31 March 2021.

The asset held for sale is The Planets, Woking totalling £13.5 million, all of which has been reclassified from investment property. This property remains held for sale at 31 March 2021, with the original exchange of sale contracts in March 2019. This sale remains conditional on the receipt of planning consent being achieved by the purchaser. Whilst the submitted planning consent was not approved on initial submission, management is confident that a successful appeal will be undertaken with an adjusted plan such that the disposal will be able to be completed within 12 months of the balance sheet date.

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

	London offices	South East offices	South East industrial
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation
Fair value	£56,000,000	£235,600,000	£122,400,000
ERV (psf pa) – average	£53.69	£23.62	£11.08
ERV (psf pa) – range	£7.50–£100.00	£14.50–£48.00	£5.00–£17.00
True equivalent yield – average	4.95%	7.84%	5.20%
True equivalent yield – range	4.36%–6.06%	5.95%–10.58%	4.25%–6.23%
Capital value psf	£741.20	£321.87	£216.70

A further £23.90 million has been designated 'other' and not included in the analysis above.

Definitions for ERV and true equivalent yield are provided in the glossary on page 129.

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Sensitivity analysis				
Change in value of investment properties	+£19m	-£19m	-£20m	+£22m

Notes to the Financial Statements continued

For the year ended 31 March 2021

11 Plant and equipment

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Cost				
Opening	231	151	133	133
Additions	24	24	132	52
Disposals	(20)	(20)	(34)	(34)
Closing	**235**	**155**	**231**	**151**
Depreciation				
Opening	83	67	61	61
Charge for year	47	31	50	34
Disposals	(20)	(20)	(28)	(28)
Closing	**110**	**78**	**83**	**67**
Net book value	**125**	**77**	**148**	**84**

12 Investments

	Shares in subsidiary undertakings £'000
Company	
At 1 April 2020	–
At 31 March 2021	**–**

At 31 March 2021 McKay Securities Plc owned 100% of the ordinary share capital of Baldwin House Limited, representing 100 shares with nominal value of £1. Baldwin House Limited operates in England and is registered in England and Wales with a registered address of 20 Greyfriars Road, Reading, Berkshire RG1 1NL.

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

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

13 Trade and other receivables

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Current				
Rent receivables	2,072	2,072	2,360	2,360
Amounts due from subsidiary undertakings	–	–	–	43,918
Prepayments	336	336	822	637
Other debtors	655	654	18	18
	3,063	**3,062**	**3,200**	**46,933**
Non-current				
IFRS 16 lease incentives	**7,403**	**7,404**	**6,982**	**6,982**

Rent receivables of £434,000 were written off during the year and are not included in the table above.

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

	2021 £'000	2020 £'000
Less than three months due	2,072	2,360
Between three and six months due	–	–
Between six and 12 months due	–	–
	2,072	**2,360**

The Group holds no collateral in respect of these receivables.

14 Liabilities

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Trade and other payables				
Rent received in advance	5,806	5,806	5,389	5,389
Amounts due to subsidiary undertaking	–	25,517	–	–
Other taxation and social security costs	521	521	1,736	1,726
Accruals	2,612	2,612	4,551	4,551
Other creditors	294	294	757	757
	9,233	**34,750**	**12,433**	**12,423**

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

Creditor days for the Group were one day (2020: ten 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:

	2021 £'000	2020 £'000
Group and Company		
Secured bank loans	144,000	194,000
Bank facility fees	(2,631)	(3,495)
	141,369	**190,505**

The bank loans are secured against land and buildings with a carrying amount of £412,250,000 (2020: £476,750,000).

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Repayable in:				
Less than one year	–	–	–	–
One to two years	–	–	–	–
Two to five years	77,181	77,181	126,373	126,373
Five to ten years	64,188	64,188	–	–
Greater than ten years	–	–	64,132	64,132
	141,369	**141,369**	**190,505**	**190,505**

	2021 £'000	2020 £'000
Changes in liabilities arising from financing activities		
Current loans as at 1 April		
Non-current loans as at 1 April	190,505	163,176
Total loans as at 1 April	**190,505**	**163,176**
Gross debt drawdowns	20,000	34,000
Gross debt repayments	(70,000)	(5,000)
Bank facility fees (cash)	(34)	(2,569)
Facility fee amortisation (non-cash)	898	898
Total loans as at 31 March	**141,369**	**190,505**

Notes to the Financial Statements continued

For the year ended 31 March 2021

14 Liabilities continued

	2021 £'000	2020 £'000
Present value of lease liabilities as at 1 April	4,403	4,404
Headlease cash payments	(282)	(285)
Impact of unwind of discount rate (non-cash)	282	284
Headlease adjustment	800	–
Headlease write off on disposal	(1,520)	–
Present value of lease liabilities as at 31 March	**3,683**	**4,403**

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:

	2021 £'000	2020 £'000
Expiring in less than one year	–	–
Expiring in one to two years	–	–
Expiring in two to five years	101,000	51,000
Expiring in five to ten years	–	–
	101,000	**51,000**

Liquidity risk

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

On 8 April 2019 the Company increased total facilities to £245 million. Three bilateral facilities (£125 million) were replaced with one revolving credit facility ("RCF") of £180 million.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cashflows of financial liabilities based upon the earliest dates on which the Group can be required to pay. The table includes both interest and principal cashflows. When the amount payable is not fixed, the amount disclosed has been determined by reference to the applicable interest rate as at the balance sheet date.

Financial instrument maturity

	Contractual cashflows					
	Total	2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
At 31 March 2021						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	144,000	–	–	–	79,000	65,000
Bank interest	28,304	–	4,114	4,114	9,349	10,727
Lease liabilities	22,252	–	230	230	690	21,102
Other taxation and social security costs	521	–	521	–	–	–
Accruals	2,612	–	2,612	–	–	–
Other creditors	294	–	294	–	–	–
	197,983	**–**	**7,771**	**4,344**	**89,039**	**96,829**

14 Liabilities continued

	Total	Contractual cashflows 2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
At 31 March 2020						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	194,000	–	–	–	129,000	65,000
Bank interest	38,798	–	5,709	5,709	14,040	13,340
Lease liabilities	25,798	–	285	285	857	24,371
Other taxation and social security costs	1,736	–	1,736	–	–	–
Accruals	4,551	–	4,551	–	–	–
Other creditors	757	–	757	–	–	–
	265,640	**–**	**13,038**	**5,994**	**143,897**	**102,711**

Credit risk

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

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

The Group has no exposure to currency risks.

Market risk

The Group is exposed to market risk through changes in interest rates or availability of credit. The Group actively monitors these exposures.

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.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity £197,500 (2020: £322,500). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings at the year end. The comparative figure for 2020 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 does not hold any interest rate derivatives as at 31 March 2021.

	2021	2020
Weighted average cost of borrowing	**3.10%**	**3.35%**

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

In both 2021 and 2020 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

Notes to the Financial Statements continued

For the year ended 31 March 2021

15 Lease liabilities

	Minimum lease payments	
	2021 £'000	2020 £'000
Group lease liabilities are payable as follows:		
Year one	230	285
Year two	230	286
Year three	230	286
Year four	230	285
Year five	230	285
Greater than five years	21,102	24,371
	22,252	**25,798**
Less future finance charges	(18,569)	(21,395)
Present value of lease obligations	**3,683**	**4,403**

The above lease liabilities relate to investment properties with a carrying value of £26,000,000 (2020: £95,900,000). The terms of these lease agreements are for periods of between 97 and 125 years. There are no restrictions imposed by the lease agreements.
No contingent rents are payable.

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

The annual obligation for the first five years is £230,000 pa.

16 Operating leases

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

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

	2021 £'000	2020 £'000
Not later than one year	20,081	20,224
Later than one year but not later than five years	52,613	52,964
Later than five years	24,987	55,336
	97,681	**128,524**

17 Share-based payments

During the year to 31 March 2021, the Group had one share-based payment arrangement, which is described below. In the case of the PSP awards, the expected volatility was determined by calculating historical volatility of the Group's share price.

Performance Share Plan

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

The nil cost awards outstanding at 31 March 2021 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	23 June 2020	10 June 2019	8 June 2018	18 July 2017
Share price	£1.94	£2.40	£2.67	£2.26
Term	3 years	3 years	3 years	3 years
Risk free rate	(0.05)%	0.49%	0.80%	0.26%
Dividend yield	0%	0%	0%	0%
Volatility – Company	37.0%	31.0%	31.0%	29.0%
TSR fair value	£1.10	£1.34	£1.73	£1.42
NAV fair value	£1.94	£2.40	£2.70	£2.26

Share-based payments

	2021 Number of shares	2020 Number of shares
Outstanding at the beginning of the period	**1,721,829**	**1,732,473**
Granted during the period	733,655	638,465
Forfeited during the period	–	(18,880)
Exercised during the period	(75,477)	(139,573)
Expired during the period	(273,287)	(490,656)
Outstanding at the end of the period	**2,106,720**	**1,721,829**

During the year 75,477 shares were issued to settle the 2017 PSP (First Grant) on 12 August 2020. These shares were issues out of distributable revenues under the Company's Articles of Association.

The above table includes outstanding shares at the end of the year relating to deferred bonus shares of 144,921 (2020: 107,055), of which 37,866 were granted during the year (2020: 50,845) and nil exercised in the period (2020: 57,480).

The weighted average life of the 2,106,720 shares outstanding is 7.82 years (2020: 8.29 years). The weighted average price on the date of exercise for options exercised during the year was £1.88 (2020: £2.40).

18 Called up share capital

	2021 Issued £	2021 Number of shares	2020 Issued £	2020 Number of shares
Ordinary 20 pence shares in issue				
At 1 April	18,852,794	94,263,998	18,824,879	94,124,425
Issue of shares in year[1]	15,095	75,477	27,915	139,573
Repurchase of shares	(107,708)	(538,542)	–	–
At 31 March	**18,760,181**	**93,800,933**	**18,852,794**	**94,263,998**

1. During the year 75,477 shares (2020: 139,573) were issued to settle the 2017 PSP (First Grant) on 12 August 2020.

Notes to the Financial Statements continued

For the year ended 31 March 2021

19 Capital management

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

The Group uses a number of key metrics[1] to manage its capital structure, including:

- gearing
- LTV[1]

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

1. See glossary.

20 Related party transactions

	Balance owed to/(owing from)	
	2021 £'000	2020 £'000
Subsidiary undertakings		
Baldwin House Limited	25,516	(43,918)
	25,516	**(43,918)**

There were no transactions with Directors, who are considered key management personnel, other than remuneration, details of which are provided in the Directors' Annual Remuneration Report on pages 68 to 85.

See note 23 for details on the pension scheme.

These related party transactions are between Baldwin House Limited and the Company. They relate to property payments and receipts for the two properties held in Baldwin House Limited during the year. This balance is zero at Group level.

The Parent Company funded capital expenditure on behalf of Baldwin House in the year amounting to £6,088 (2020: £544,795).

	2021 £'000	2020 £'000
Interest charge by McKay to Baldwin House	91	1,321
Management fee charged by McKay	174	338

21 Net asset value per share

In October 2019, EPRA issued new best practice reporting guidelines for Net Asset Value ("NAV") metrics. These recommendations are effective for accounting periods starting on 1 January 2020 and have been adopted by the Group in reporting the 31 March 2021 position.

EPRA have introduced three new NAV metrics: Net Tangible Assets ("NTA"), Net Reinvestment Value ("NRV") and Net Disposal Value ("NDV"). EPRA NTA is considered to be the most appropriate measure for McKay's operating activity and is now the primary measure of net asset value, replacing EPRA NAV.

	31 March 2021			31 March 2020		
	Net assets £'000	Shares '000	NAV per share pence	Net assets £'000	Shares '000	NAV per share pence
Basic	289,902	93,801	309	309,166	94,264	328
Number of shares under option	–	145	–	–	143	(1)
Diluted/EPRA NDV	**289,902**	**93,946**	**309**	**309,166**	**94,407**	**327**
Deferred taxation	–	–	–	1,392	–	2
EPRA NTA	**289,902**	**93,946**	**309**	**310,558**	**94,407**	**329**

The table below shows the calculation for each of the three new EPRA metrics compared to those previously reported.

	Current measures			Previous measures	
As at 31 March 2021	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000	EPRA NAV £'000	EPRA NNNAV £'000
Equity attributable to ordinary shareholders	**289,902**	**289,902**	**289,902**	**289,902**	**289,902**
Deferred taxation	–	–	–	–	–
Net assets	**289,902**	**289,902**	**289,902**	**289,902**	**289,902**
Diluted shares ('000)	**93,946**	**93,946**	**93,946**	**93,946**	**93,946**
Diluted net assets per share (pence)	**309**	**309**	**309**	**309**	**309**

	Current measures			Previous measures	
As at 31 March 2020	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000	EPRA NAV £'000	EPRA NNNAV £'000
Equity attributable to ordinary shareholders	**309,166**	**309,166**	**309,166**	**309,166**	**309,166**
Deferred taxation	1,392	1,392	–	1,392	–
Net assets	**310,558**	**310,588**	**309,166**	**310,558**	**309,166**
Diluted shares ('000)	**94,407**	**94,407**	**94,407**	**94,407**	**94,407**
Diluted net assets per share (pence)	**329**	**329**	**327**	**329**	**327**

22 Commitments and contingent liabilities

	2021 Group £'000	Company £'000	2020 Group £'000	Company £'000
Capital expenditure committed but not provided for	**–**	**–**	**672**	**672**

The 2020 commitments related to the Group's one development in place at the end of the year.

23 Pensions

The Group and Company operate a defined benefit pension scheme in the UK providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Group, being invested with insurance companies and managed funds. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the attained age method.The most recent actuarial valuation was as at 31 March 2020. The assumption which has the most significant effect on the results of the valuation are those relating to the rate of return on investments. It was assumed that the investment returns would be 5.0% per annum.

Notes to the Financial Statements continued

For the year ended 31 March 2021

23 Pensions continued

The Group contributes £240,000 per annum into the Scheme. This was reviewed as part of the 2020 triennial valuation.

At the 31 March 2020 actuarial valuation the scheme was 78.0% funded on the statutory funding objective basis. A recovery plan and schedule of contributions has been agreed designed to address this shortfall.

The IAS 19 valuation for the pension scheme disclosures is based on the most recent actuarial valuation at 31 March 2020 and updated by First Actuarial in order to assess the liabilities of the scheme at 31 March 2021. Scheme assets are stated at their market value at 31 March 2021.

The Scheme has been closed to new entrants since 1989.

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

	2021	2020
Inflation	3.3%	2.6%
Salary increases	n/a	n/a
Rate of discount	1.7%	2.3%
Pension in payment increases	3.2%	2.6%

The mortality assumptions adopted at 31 March 2021 imply the following life expectancies for members currently aged 60:

Male = 27.8 years

	2021 £'000	2020 £'000
The fair value of scheme assets are as follows:		
Equities	2,134	1,693
Gilts	557	264
Corporate and overseas bonds	266	252
Absolute return portfolios	2,173	1,984
Property	152	120
Cash	315	443
Other	89	83
	5,686	**4,839**

100.0% of the equities are in quoted equities.

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

The plan assets do not expose the entity to any significant concentration risk.

	2021 £'000	2020 £'000
Changes in the value of scheme assets over the year		
Market value of assets at start of year	4,839	5,332
Return on scheme assets	109	115
Actuarial gain	931	(417)
Employer contributions	240	240
Benefits paid	(433)	(431)
Market value of assets at end of year	**5,686**	**4,839**

23 Pensions continued

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

	2021 £'000	2020 £'000
Value of defined benefit obligation at start of period	**6,936**	**7,440**
Interest cost	155	159
Benefits paid	(433)	(431)
Actuarial gains: experience differing from that assumed	167	83
Actuarial gains: changes in demographic assumptions	313	–
Actuarial gains: changes in financial assumptions	728	(315)
Value of defined benefit obligation at end of period	**7,866**	**6,936**

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The RPI inflation assumption sensitivity factors in the impact of inflation on the rate of increase in pension in payment assumptions.

	Change in assumption	Change in defined benefit obligation
Assumption		
Discount rate	+/-0.5% pa	-/+5%
RPI inflation	+/-0.5% pa	+4%/-3%
Assumed life expectancy	+1 year	+6%

Analysis of the amount charged to operating profit:

	2021 £'000	2020 £'000
Operating profit		
Current service cost	**–**	**–**
Analysis of the amount (credited)/charged to finance (income)/costs		
Return on pension scheme assets	(109)	(115)
Interest on pension scheme liabilities	155	159
Total charge to profit and loss	**46**	**44**

Analysis of the movement in the balance sheet deficit:

	2021 £'000	2020 £'000
Deficit in scheme at beginning of year	(2,097)	(2,108)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(46)	(44)
Contributions	240	240
Actuarial loss	(277)	(185)
Deficit in scheme at end of year	**(2,180)**	**(2,097)**

The last active member reached retirement age in May 2013.

The weighted average maturity profile of the defined benefit obligation at the end of the year is ten years (2020: ten years).

24 Post balance sheet events

There has been no material post balance events between the balance sheet date and the signing of the accounts.

Supplementary information (unaudited)

Table 1: EPRA Summary

		2021		2020	
	Reference	£'000	Pence per share	£'000	Pence per share
EPRA Earnings	Table 2	9,626	10.21	10,019	10.63
EPRA NTA	Table 3	290,556	309	310,558	329
EPRA NRV	Table 3	290,556	309	310,558	329
EPRA NDV	Table 3	289,902	309	309,166	327
EPRA NIY	Table 4		4.5%		3.8%
EPRA NIY (topped-up)	Table 4		5.2%		5.2%
EPRA Vacancy rate	Table 5		14.6%		11.3%
EPRA Cost Ratio (excluding vacant property costs)	Table 6		25.9%		25.3%
EPRA Cost Ratio (including vacant property costs)	Table 6		31.8%		34.3%

Table 2: EPRA Earnings

	Notes	2021 £'000	2020 £'000
Earnings per IFRS income statement		**(16,450)**	**8,095**
Adjustments to calculate EPRA Earnings:			
Movement in revaluation of investment properties		23,356	2,200
Loss/(profit) on disposal of investment properties		2,854	(1,668)
Taxation		(134)	1,392
EPRA Earnings		**9,626**	**10,019**
Basic number of shares (000's)		94,292	94,234
EPRA Earnings per share		10.21	10.63
Company specific adjustments:			
Share Based Payments (IFRS 2)		489	(222)
Other property income		(157)	(70)
Adjusted earnings		**9,959**	**9,727**
Adjusted EPS		10.56	10.32

Table 3: EPRA Net Asset Measures

In October 2019, the European Public Real Estate Association ("EPRA") published new Best Practices Recommendations ("BPR") for financial disclosures by public real estate companies. The BPR introduced three new measures of net asset value: EPRA net tangible assets ("NTA"), EPRA net reinstatement value ("NRV") and EPRA net disposal value ("NDV").

These recommendations are effective for accounting periods starting on 1 January 2020 and have been adopted by the Group in reporting the 31 March 2021 position.

EPRA NTA is considered to be most consistent with McKay Securities' business as a UK REIT providing long-term progressive and sustainable returns. EPRA NTA now acts as the primary EPRA measure of net asset value.

A reconciliation of the three new EPRA NAV metrics is shown in the table below. The previously reported EPRA NAV and EPRA NNNAV have also been included for comparative purposes.

	Current Measures			**Previous Measures**	
As at 31 March 2021	**EPRA NTA £'000**	**EPRA NRV £'000**	**EPRA NDV £'000**	**EPRA NAV £'000**	**EPRA NNNAV £'000**
Equity attributable to ordinary shareholders	**289,902**	**289,902**	**289,902**	**289,902**	**289,902**
Deferred taxation	–	–	–	–	–
Net assets	**289,902**	**289,902**	**289,902**	**289,902**	**289,902**
Diluted shares ('000)	**93,946**	**93,946**	**93,946**	**93,946**	**93,946**
Diluted net assets per share (p)	**309**	**309**	**309**	**309**	**309**

	Current Measures			Previous Measures	
As at 31 March 2020	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000	EPRA NAV £'000	EPRA NNNAV £'000
Equity attributable to ordinary shareholders	309,166	309,166	309,166	309,166	309,166
Deferred taxation	1,392	1,392	–	1,392	–
Net assets	310,558	310,558	309,166	310,558	309,166
Diluted shares ('000)	94,407	94,407	94,407	94,407	94,407
Diluted net assets per share (p)	329	329	327	329	327

Table 4: EPRA NIY

	Notes	**2021 £'000**	2020 £'000
Investment property – wholly owned		437,900	510,000
Investment property – share of JVs/Funds		–	–
Trading property (including share of JVs)		–	–
Less: developments		–	(24,000)
Completed property portfolio		437,900	486,000
Allowance for estimated purchasers' costs			
Gross valuation of completed property portfolio	A	**437,900**	**486,000**
Annualised cash passing rental income		22,197	21,897
Property outgoings		(2,645)	(3,252)
Annualised net rents	B	**19,552**	**18,645**
Adjustment for notional rent and other lease adjustments		3,415	6,431
Topped-up net annualised rent	C	**22,967**	**25,076**
EPRA NIY	B/A	4.5%	3.8%
EPRA 'topped-up' NIY	C/A	5.2%	5.2%

Supplementary information (unaudited) continued

Table 5: EPRA Vacancy Rate

	Notes	2021 £'m	2020 £'m
Annualised estimated rental value of vacant premises	A	4.6	4.0
Annualised estimated rental value of the completed property portfolio	B	31.5	34.9
EPRA Vacancy Rate	A/B	**14.6%**	**11.3%**

Table 6: EPRA Cost Ratio

	Notes	2021 £'000	2020 £'000
Administrative expenses		5,175	5,385
Net service charge costs		1,191	986
Direct vacancy costs		1,454	2,266
Management fees		(361)	(293)
Other operating income		–	–
EPRA costs (including direct vacancy costs)	A	7,820	8,637
Group vacant property costs		(1,454)	(2,266)
EPRA costs (excluding direct vacancy costs)	B	6,366	6,371
Gross rental income less ground rents	C	24,624	25,164
EPRA costs ratio (including vacant property costs)	A / C	**31.8%**	**34.3%**
EPRA costs ratio (excluding vacancy property costs)	B / C	**25.9%**	**25.3%**

Glossary

Adjusted EPS
Earnings per share – based on profits and adjusted to exclude certain items as set out in note 8.

Adjusted profit before tax
Profit before tax adjusted to exclude profit from the disposal of investment properties, share-based payments, other property income, the change in fair value derivatives and the movement in revaluation of investment property. These items are excluded on the bases that they relate to non-core rental activity as set out in note 4.

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

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

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

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

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

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

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

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

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

EPRA
Standard calculation methods for adjusted EPS, NTA, NRV and NDV as set out by the European Public Real Estate Association (“EPRA”) in their Best Practice and Policy Recommendations.

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

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

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

Gearing
Drawn debt to shareholders’ funds.

GRESB
Global Real Estate Sustainability Benchmark.

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

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

Interest cover (“ICR”)
The number of times Group net interest payable is covered by adjusted profit before interest and taxation.

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

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

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

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

Net debt
Total borrowings less cash credit balances.

Portfolio capital return (“PCR”)
The annual valuation movement and realised surpluses/deficits from the Company’s directly held investment portfolio expressed as a percentage return on the value at the beginning of the period, adjusted for acquisitions and capital expenditure.

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.

Glossary continued

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

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

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

RPIX
Retail Price Index excluding mortgage interest.

Shareholders' funds
Total equity of the Company.

IFRS 16
The IFRS treatment in respect of letting incentives. It requires the Company 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.

Task Force on Climate-related Financial Disclosures ("TCFD")
The TCFDs recommendations are designed to promote advancements in the availability and quality of climate-related disclosure.

Total property return ("TPR")
Valuation surplus/(deficit) plus profit on disposal plus income from investment properties divided by the book value.

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

True equivalent yield
The constant capitalisation rate, which, if applied to all cashflows 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.

Company and Shareholder Information

Financial calendar

	2021
Annual Report posted to shareholders	2 June
Annual General Meeting	1 July
Final dividend	22 July
Interim announcement	November
Interim Statement posted to shareholders	November/December
	2022
Interim dividend	January
Financial year end	March
Preliminary announcement	May/June

Secretary

J McKeown ACIS

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Cautionary Statement

This Annual Report and McKay's website may contain certain 'forward-looking statements' with respect to McKay Securities Plc ("the Company") and the Company's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Company operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such works as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal', or 'estimates', or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance by their very nature, forward-looking statements are indefinitely unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Company's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the political conditions, economies and markets in which the Company operates (including the outcome of the negotiations to leave the EU and Covid-19 impacts); changes in the legal, regulatory and competition frameworks in which the Company operates; changes in the markets from which the Company raises finance; the impact of legal or other proceedings against or which affect the Company; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or McKay's website, or more subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or McKay's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

Shareholder Information

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars. The Company has a share account management and dealing facility for all shareholders via Equiniti Limited Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations sections of the Company's website. The Shareview Dealing service is also available by telephone on 03456 037 037 between 8.30am and 4.30pm Monday to Friday.

The best way to ensure that dividends are receiv ed as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. Dividend mandate forms are available from the registrars. This method also avoids the risk of dividend cheques being delayed or lost in the post.

Financial information about the Company including the Annual and Interim Reports, public announcements and share price data are available from the Company's website at www.mckaysecurities.plc.uk and on the internet at www.morningstar.co.uk.

* Lines are open 8.30am to 5.30pm, Monday to Friday, excluding Bank Holidays.

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