ST.MODWEN

Results for the year ended 30 November 2017

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This announcement contains inside information

ST. MODWEN PROPERTIES PLC
("St. Modwen" or "the Company")
Results for the year ended 30 November 2017

ST. MODWEN DELIVERS SOLID RESULTS AND MAKES GOOD PROGRESS IN EXECUTING NEW AND FOCUSED STRATEGY

Mark Allan, Chief Executive of St. Modwen, commented:
"2017 has been a positive year for us. Having established our new, more focused strategy, we started to shift our portfolio towards sectors with better structural growth characteristics, we increased commercial development activity, grew housebuilding profits and reduced net borrowings. This will continue in 2018 and beyond, so despite continuing uncertainty in the external environment, the significant potential in our existing pipeline means we expect to deliver a meaningful improvement in earnings and return on capital in the medium term."

Financial highlights

Non-statutory measures(1)	2017	2016	Statutory measures	2017	2016
EPRA NAV per share (pence)	471.2	460.5	NAV per share (pence)	450.9	431.0
Total accounting return(2) (%)	6.0	5.6	Total dividend per share (pence)	6.28	6.00
Trading profit (£m)	64.6	56.1	Profit before tax (£m)	70.3	66.9
Adjusted EPRA EPS(3) (pence)	13.3	9.7	Basic EPS (pence)	26.9	24.1
See-through loan-to-value (%)	24.2	30.5	Group net borrowings (£m)	433.8	470.0

- NAV per share up 4.6% to 450.9 pence (2016: 431.0 pence).
- Total accounting return(2) for the year up 0.4ppt to 6.0% (2016: 5.6%).
- Trading profit up 15.2% to £64.6m (2016: £56.1m).
- Total dividend up 4.7% to 6.28 pence per share (2016: 6.00 pence per share).
- See-through LTV down 6.3ppt to 24.2% (2016: 30.5%).
- Successfully refinanced majority of debt facilities with new £475m unsecured facility post year end, providing greater flexibility and longer debt maturity at lower cost.

Operational highlights

Building momentum in executing our more focused strategy based on four strategic objectives, with a clear focus on sectors with long-term structural growth characteristics.

- Portfolio focus and capital discipline:
  - Good progress achieved in shifting portfolio mix by increasing exposure to income producing assets to 51% (2016: 45%), with intention to further increase this over time.
  - Sold Nine Elms Square land for £190m net proceeds, £27m small assets, Swansea student housing for £87m net proceeds post year end and intend to sell £100-150m retail and small assets in 2018, with terms agreed on c. £40m of this.

- Accelerate our commercial development activity:
  - Delivered 1.4m sq ft new space with total GDV of £216m, including 0.9m sq ft industrial and logistics space of which we will retain £66m, with 1.6m sq ft committed pipeline at start of 2018 expected to grow further during the year.
  - Prepared pipeline to deliver continued growth in 2019 and 2020 subject to tenant demand, with 7.5m sq ft medium term A1 industrial and logistics pipeline which has a GDV of c. £700m and ERV of c. £45m of which we expect to retain the majority.

- Grow our residential and housebuilding business:
  - Sold 54 acres of residential land to third party housebuilders for £56m (2016: £48m) at or above book value, with at least similar volume expected for 2018.
  - Delivered 43% growth in St. Modwen Homes' volumes to 694 units sold (2016: 485), driving 52% growth in pre-tax profits to £23.3m (2016: £15.3m), with up to 25% growth in volumes expected for 2018.

- Cement and grow our regeneration reputation:
  - Started next phase of development of academic facilities and student housing at Bay Campus, Swansea, having released £87m of capital from the sale of the first phase.
  - Progressed development of NCGM market facilities following the sale of the first ten acres of land and further phases of mixed-use development at Longbridge.
  - Secured two major new residential schemes in Wantage and Buckover for combined 4,500 new homes on a 'capital light' basis.

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A presentation for analysts and investors will be held at 9.30am today at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD.

If you would like to attend please contact Ellie Sweeney at FTI on +44 (0)20 3727 1622 or stmodwen@fticonsulting.com. A live webcast of the presentation will be available at www.stmodwen.co.uk and presentation slides will also be available to download.

Alternatively, details for the live dial-in facility are as follows:

Participants (UK):	Tel: +44(0)20 3936 2999
Password:	18 08 40
Webcast link:	http://www.investis-live.com/st-modwen/5a1ecf36e8b9da0b00ecece8/ubfs

This announcement contains inside information as set out in Article 17 of the Market Abuse Regulation (MAR).

(1) Reconciliations between all the statutory and non-statutory measures and the explanations as to why the non-statutory measures give valuable further insight into the Group's performance are given in note 2 to the Group financial statements.

(2) Our definition of total accounting return was revised in the year so that it now represents dividends paid in the year plus the movement in NAV per share in the year, rather than the movement in EPRA NAV per share. This change reflects that our strategy includes the repositioning and recycling of our portfolio towards sectors with strong structural growth, whereas the EPRA model assumes that properties are retained. An analysis of the effect of this change on the measures is included in note 2 to the Group financial statements.

(3) Our key performance metrics include a new measure of adjusted EPRA earnings and an associated adjusted EPRA EPS calculation. This is a measure of profits which excludes non-cash valuation movements and will be used as a reference for dividend payments in the future. A detailed analysis of how this measure is calculated and reconciled to our statutory figures is included in note 3 to the Group financial statements.

While the financial information included in this announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the EU (EU IFRSs), this announcement does not itself contain sufficient information to comply with EU IFRSs. The Company expects to publish full financial statements that comply with EU IFRSs by the end of February 2018.

CHAIRMAN'S STATEMENT

2017 was a productive year for St. Modwen. With a new Chief Executive in post we undertook a full review of our business and portfolio and launched a new, more focused, strategy in the summer. This strategy is intended to improve returns on capital and enhance our operational flexibility and we believe that it will leave us well placed in what is an uncertain external environment that we expect to present both risks and opportunities.

Alongside the strategy review, the business continued to perform well. We delivered 4.6% growth in NAV per share for the year to 450.9 pence which, together with dividends, resulted in a total accounting return of 6.0% (2016: 5.6%), and profit before all tax increased 10.2% to £67.0m. We also achieved some significant milestones on our major projects, most notably the sale of the Nine Elms Square development site at New Covent Garden Market in August, which released capital for reinvestment back into the business and enabled us to keep borrowing levels firmly under control.

Our strategy is built around a clearly defined core purpose: Changing places. Creating better futures. This captures the regeneration heritage of the business and acts as an important reference point for our future activities, ensuring that our strategic objectives are not simply financially defined but reflect the value we seek to unlock more broadly. This is, of course, only possible as a result of the expertise and efforts of our people and I would like to recognise and congratulate them on another year of positive performance.

Dividend

Following the launch of our new strategy we have reviewed our dividend policy and are now making some changes to ensure that it is more closely linked to cash-backed profits. To facilitate this we are introducing a new profit measure, adjusted EPRA earnings per share, which is closely aligned to cash- backed profits. From the 2017/18 financial year we intend to distribute approximately 50% of this measure each year by way of dividend with the aim of providing a sustainable, progressive dividend for our shareholders.

For the year ended 30 November 2017, we intend to pay a total dividend per share of 6.28 pence, which marks an increase of 4.7% compared to the 6.00 pence for 2016. Taking account of the interim dividend paid of 2.02 pence, we are therefore proposing a final dividend of 4.26 pence per share to be paid on 4 April 2018 to shareholders on the register as at 9 March 2018.

Board changes

We were shocked and saddened by the sudden passing of Steve Burke, our Group Construction Director, in March 2017. Steve had been with St. Modwen for over 20 years and was a valued friend and colleague to many. He is sorely missed and our thoughts remain with his family and friends.

We have also recently announced some other changes to our Board which will become effective over the next couple of months. Jamie Hopkins, Chief Executive of Workspace plc, will join the Board as a non-executive director on 1 March 2018 while Kay Chaldecott and Richard Mully will step down from their non-executive positions at the next AGM, having served nearly six and five years respectively. Ian Bull will be assuming Richard's responsibilities as Senior Independent Director.

Jenefer Greenwood, who joined the Board in June 2017, will assume the position of Chair of the Remuneration Committee at the next AGM taking over from Lesley James who will be retiring from the Board later in 2018 having served nine years.

I would like to thank Kay, Richard and Lesley for their significant contributions to the Board, and wish Jamie, Jenefer and Ian well in their new roles.

Finally, I have informed the Board of my intention to step down as Chairman at the AGM in March 2019, at which point I will have been in post for 8 years. Having recently overseen the appointment of a new Chief Executive and the launch of a new, more focused strategy, it is now appropriate that the Board considers my succession in an orderly and timely manner. I remain enthusiastic about the business and its prospects and will continue to support the Board and management team in delivering our strategy in the year ahead.

Prospects

As we enter 2018, St. Modwen is well placed. Our deep pipeline of projects underpins meaningful growth targets for both residential and commercial development, our planned portfolio rotation towards sectors with good structural growth prospects is underway and we are in a strong position financially. Although the external environment remains unsettled and is likely to remain so for some time, the combination of our focused strategy and unrivalled track record and expertise mean that we approach the future with confidence.

CHIEF EXECUTIVE'S REVIEW

Overview

2017 has been an important year for St. Modwen. Following a full review of our business, our portfolio and our pipeline, we are pursuing a more focused strategy, better suited to the external environment we operate in, and have begun to build momentum in executing this strategy. We can deliver this strategy over the next few years through a targeted approach to our existing portfolio of projects rather than needing to acquire more, an important source of advantage in investment markets which remain very competitive.

Our strategy is intended to improve returns on capital by concentrating our activities on sectors that have long-term structural growth characteristics while also enhancing our flexibility through tightly controlling leverage and reducing the proportion of our portfolio invested in land. This is captured through our four strategic objectives: portfolio focus and capital discipline; accelerate our commercial development activity; grow our residential and housebuilding business; and cement and grow our regeneration reputation.

Our results for the year were solid. We delivered 4.6% growth in NAV per share to 450.9 pence (2016: 431.0 pence) which, together with dividends paid during the year, resulted in a total accounting return of 6.0% (2016: 5.6%). Our EPRA NAV per share rose 10.7 pence over the year to 471.2 pence (2016: 460.5 pence) and profit before all tax increased to £67.0m (2016: £60.8m) with EPS of 26.9 pence (2016: 24.1 pence).

Key financial performance metrics	2017	2016	Change
NAV per share (pence)	450.9	431.0	+4.6%
EPRA NAV per share (pence)	471.2	460.5	+2.3%
Dividend per share (pence)	6.28	6.00	+4.7%
Total accounting return (%)	6.0	5.6	+0.4ppt
Trading profit (£m)	64.6	56.1	+15.2%
Adjusted EPRA earnings (£m)	29.4	21.5	+36.7%
Profit before all tax (£m)	67.0	60.8	+10.2%
Profit before tax (£m)	70.3	66.9	+5.1%
Earnings per share (pence)	26.9	24.1	+11.6%
Adjusted EPRA earnings per share (pence)	13.3	9.7	+37.1%
See-through net borrowings(1) (£m)	388.2	517.0	-24.9%
See-through loan-to-value(1) (%)	24.2	30.5	-6.3ppt
See-through loan-to-value (excluding residential)(1) (%)	37.2	54.3	-17.1ppt

(1) Including the Group's share of net borrowings and property held in joint ventures and associates.

We achieved strong progress against all key performance indicators for the year. Looking forward, we will continue to focus on total return, earnings and net borrowings as our key performance measures.

Our key performance metrics include a new measure of adjusted EPRA earnings and an associated adjusted EPRA EPS calculation. This is a measure of profits which excludes non-cash valuation movements and will be used as a reference for dividend payments in the future. With effect from the 2017/18 financial year we intend to pay a dividend equivalent to approximately 50% of adjusted EPRA EPS, with the aim to provide a sustainable, progressive dividend for our shareholders. We will cease to use profit before all tax as a key performance measure with effect from the 2017/18 financial year.

Enhancing our organisation's design and culture

Successful execution of our strategy relies on having an organisation that is closely aligned to our strategic objectives and where individuals and teams understand the role they play in helping deliver the strategy. With this in mind, during the second half of the year we restructured the business from seven to three regions, each focused on accelerating commercial development activity and bringing forward residential land for development; a new central asset management function responsible for shaping and managing our income producing portfolio; and St. Modwen Homes as a standalone housebuilder within the Group. These discrete business units are supported by central functions such as HR and finance. As part of this restructuring, and with our growth objectives in mind, we have identified a total of ten new senior roles into which we are recruiting during 2018.

We are also focusing on creating a culture of empowerment, accountability and support in order to deliver the strategy. This started in 2017 with the organisational design work described above to create clear, consistent structures, roles and responsibilities across the Group and will continue in 2018 with the launch of tailored management and leadership development programmes. Recognising the need for our culture and organisation to be appropriate for the future, we have also taken the opportunity to refresh our branding and visual identity, which will be rolled out during 2018.

Our teams have performed extremely well throughout the year and remain the bedrock of the business, possessing considerable skills and experience that can help us continue to create significant value for all our stakeholders. Our focus on creating the right organisational design and culture will help them flourish in the years ahead.

Portfolio focus and capital discipline: reshaping our portfolio

Reflecting our new, focused strategy the shape of our portfolio began to shift over the course of 2017 and this process will continue into 2018 and beyond. The successful disposal of the Nine Elms Square development site at New Covent Garden Market in August for a gross consideration of £470m (net St. Modwen share £190m) released significant capital into the business and contributed towards the overall reduction in value of our land assets, meaning that income producing assets now make up 51% of our portfolio, up from 45% a year ago. We intend to increase this level further. The capital released from the sale allowed us to reduce leverage and also begin to invest in our other strategic priorities.

During 2018 we expect to be active in the disposal of many of our smaller assets and also in reducing our exposure to retail assets. We are targeting asset sales of this type of between £100m and £150m in total across the course of the year and have already made progress with terms agreed on the disposal of approximately £40m of such assets. The proceeds from our disposal programme will be recycled into retaining the majority of assets from our industrial and logistics development programme.

In terms of capital discipline, see-through net borrowings at 30 November 2017 stood at £388m, down from £517m a year earlier and our see-through LTV reduced to 24.2% (2016: 30.5%). Excluding residential, which is our preferred measure, see-through LTV fell from 54.3% to 37.2% at the year end.

Since the year end we have also refinanced the majority of our debt facilities such that we are now financed on a fully unsecured basis, providing a cost effective, greater level of flexibility as we execute our strategy.

Accelerating our commercial development activity: committed pipeline up 38%

Across the course of 2017 we increased commercial development activity, completing 1.4m sq ft of new space with a completed value of £216m. Of this total, £102m was pre-sold or has since been sold and £41m is held pending sale. The £73m we retained principally comprises developments completed towards the end of 2017 where occupancy currently stands at 54% by rental value, with a further 11% under offer and full occupancy targeted during 2018.

Entering the 2017/18 financial year our committed development pipeline stands at 1.6m sq ft with an expected value on completion of £326m, up 38% compared to the £237m of completed value at the beginning of 2017. We expect the pipeline to grow throughout 2018 as planning consent is granted to future schemes, subject to market demand. Around 90% of our committed pipeline is focused on sectors with good structural growth characteristics, such as industrial and logistics, PRS or student accommodation, and this will remain a feature of our development activity going forward. Approximately 40% of our industrial and logistics pipeline is pre-let or pre-sold, compared to 21% a year earlier.

Approximately £700m of our medium-term pipeline relates to industrial and logistics projects with an estimated rental value of

£45m. As part of our strategy to focus on sectors with growth characteristics underpinned by long term structural trends, we intend to retain the majority of this pipeline for the longer term.

Growing our residential and housebuilding business: Homes targeting c. 25% growth

Our residential activities performed well throughout 2017. In addition to the sale of Nine Elms Square, over 2,200 units of 'oven-ready' land were either transferred to St. Modwen Homes or sold in the open market, with a total value of £137m. Proceeds from third party sales totalled £56m (2016: £48m), with sales at or above book value. The market remains robust with a healthy outlook for 2018, for which we expect to secure at least a similar level of residential land sales.

At St. Modwen Homes we continued to grow sales volumes materially while maintaining a focus on quality and on-site safety. In total we sold 694 new homes, up from 485 in 2016 and achieved 5-star status from the HBF and a Gold safety accreditation from RoSPA. Margins improved to 13.9% (2016: 13.4%), resulting in an operating profit of £23.3m, and the growth in profits from St. Modwen Homes more than offset the reduction in profits associated with the wind-down of our Persimmon Joint Venture (£8.1m of operating profit compared to £11.8m in 2016). Average private sales prices increased 19% to £259,000 for the year. Like-for-like sales prices were up 6%, with the balance reflecting an increase in average unit size and greater levels of activity at Uxbridge, Greater London.

Looking forward, we expect sales volumes for St. Modwen Homes to grow by up to 25% in 2018 and, with a robust outlook for regional house prices as well as a range of internal initiatives being pursued, we expect margins to improve by a similar level again across the course of the year. We will continue to prioritise quality and safety and, as these features become more firmly embedded, we are confident they will form a foundation from which financial performance can be improved further.

Cementing and growing our regeneration reputation: good progress across the board

We made important progress at each of our major regeneration projects during the year and were also successful in securing new opportunities focused on large scale residential development.

At Bay Campus, Swansea we successfully completed the most recent phase of student accommodation and commenced work on the next phase of academic facilities and accommodation. Significant development opportunities remain and we continue to work in close partnership with Swansea University to unlock them. Since the year end we have sold the completed first 2,005 beds of student accommodation to UPP for a net cash consideration of £87m, introducing an experienced operator onto the campus and releasing capital to invest in the next phases of development.

At Longbridge, 2017 saw the successful completion of 180 beds of medical accommodation pre-sold to the MoD's DIO, a 260 apartment Extracare retirement village and further phases of new homes. Longbridge is now approximately 50% developed and significant further opportunities remain, which we will be focused on during 2018.

At New Covent Garden Market, held in our VSM joint venture with VINCI, we successfully sold the first ten acres of surplus land at Nine Elms Square. We also progressed the redevelopment of the market facilities with completion of both the interim flower market and the interim delivery unit, all of which unlocks the next phases of redevelopment. At this important juncture of the project we have undertaken a detailed review of our future obligations, resulting in an increase of our share of the cost provisions on the project by £24.6m. This reflects our experience of the project to date and, in particular, the constraints imposed by operating in a live environment. This was partly offset by a £14.5m increase in the value of the land.

Outside of our three major projects we were also successful in securing two new large scale residential development opportunities that provide an opportunity to showcase our infrastructure and planning capabilities. We have been appointed as master developer at both Wantage, South Oxfordshire for the construction of 1,500 new homes with associated infrastructure and Buckover, South Gloucestershire for the construction of a new 3,000 home garden village with associated infrastructure. Both of these opportunities have been secured on a 'capital light' basis whereby land is drawn down from the land owner on a phased basis linked to the pace of development and our return is linked to a share of planning gains and a margin on infrastructure works.

Looking forward

2018 promises to be a year of growth, focus and portfolio transition for St. Modwen. Having established our new strategy in 2017 and put in place the appropriate organisation to deliver it, we are now focused firmly on execution.

From a development perspective, we are confident that our activities are focused in areas that benefit from positive growth fundamentals, particularly in industrial/logistics and regional housebuilding, and we are seeking to accelerate activity in both of these areas during 2018. Importantly, this acceleration is based on increasing the rate at which we progress our existing pipeline of projects from our existing capital base; we have no need to acquire assets in what is a very competitive market and we have no need to attract additional funding given the opportunities for recycling capital out of our existing portfolio. As a result, we anticipate a meaningful improvement in both earnings and return on capital in the medium term.

Our commercial investment portfolio is beginning a period of transition as we seek to shift our focus towards industrial and logistics through retaining a greater proportion of our development pipeline and reducing our exposure to both retail and smaller, less efficient assets. This planned portfolio rotation is likely to result in some short-term volatility to our rental income profile, and therefore earnings, but will ultimately leave us with a higher quality earnings stream and more focused portfolio. Longer term, this should also provide the foundations for a meaningful increase in the income component of our returns.

The external environment is uncertain and is likely to remain so for some time, but we believe that our more focused strategy is well suited to such an environment. Our business is focused primarily in the regions, where there are less pronounced Brexit-related headwinds for property markets than in Central London, and on sectors that benefit from good structural growth prospects and, in the case of regional housebuilding, supportive Government policy.

The combination of our focused strategy, deep pipeline of projects, financial strength and unrivalled track record and expertise leaves us well placed for the future.

PORTFOLIO AND OPERATIONAL REVIEW

Portfolio focus and capital discipline

Valuation performance

Our portfolio was valued at £1.7bn at the end of November 2017. Adjusted for investments and disposals, our portfolio value increased by 2.6% during the year. This valuation uplift was largely driven by development gains and an increase in the value of our industrial portfolio, partly offset by a modest weakening in retail values and the New Covent Garden Market (NCGM) cost provision.

The value of our income producing portfolio, which makes up 51% of our total portfolio (2016: 45%), increased by 1.5%. Industrial/logistics values increased 6.2%, reflecting a combination of yield compression and rental value growth. Retail values were down 2.1% as valuation yields softened and other assets (mostly PRS/student housing) were up 0.8%. Overall, our income producing portfolio was valued at an equivalent yield of 7.5% at the end of November, which was down 20bps for the year on a like-for-like basis.

The remainder of our portfolio consists of a combination of current developments (19%) and land earmarked for future development (30%). Commercial land values were up 3.5% during the year, whilst commercial developments were up 15.9%. Residential land values were up 1.1%, as increases in value of land at NCGM and other sites including South Ockenden were partly offset by the increased cost provision for NCGM.

Looking forward to 2018, we expect retail values will continue to see some further softening, but good investment and occupational demand continues to underpin industrial/logistics values. We expect upside in land values to be largely reliant on potential further planning gains.

	Value £m	Valuation movement[1] %	Net initial yield %	Equivalent yield %	LFL equivalent yield shift bps	LFL ERV growth %
Industrial/logistics	306	6.2	6.7	8.2	(30)	3.9
Retail	343	(2.1)	6.4	7.7	10	(0.1)
Other	195	0.8	5.6	6.0	-	1.7
Income producing portfolio	**844**	**1.5**	**6.3**	**7.5**	**(20)**	**1.7**
Of which high yield	332	3.7	6.7	8.6	(40)	1.9
Of which investment	512	-	6.1	6.7	-	1.5

Residential developments[2]	203	N/A
Commercial developments	120	15.9
Total developments[3]	**323**	**15.9**
Residential land	358	1.1
Commercial land	139	3.5
Total land	**497**	**1.7**
Total portfolio	**1,664**	**2.6**

(1) Portfolio valuation movements exclude current residential developments.

(2) Includes land held by St. Modwen Homes for future development.

(3) Excludes inventories of £39m included within the income producing portfolio.

Operational performance

Our £844m income producing portfolio currently generates £60m in annualised passing rent. Like-for-like rent increased 3.3% during 2017, with 6.7% growth in industrial ahead of 1.2% growth in retail. Overall vacancy increased from 10.7% in November 2016 to 11.7% in November 2017, partly due to a number of larger lease expiries in assets which have been taken offline for planned refurbishment. Part of our vacancy is deliberately held back for future redevelopments.

Excluding developments, we signed almost two million sq ft of new leases and lease renewals during the year generating £11.6m of annualised rental income, on average 15% above previous passing rent and 1% above November 2016 ERVs. The overall ERV of our income portfolio currently stands at £74.8m. Our average remaining lease term to first break increased slightly to 5.3 years (2016: 5.2 years).

	ERV £m	Passing rent[1] £m	Vacancy %	LFL rent growth %
Industrial/logistics	27.2	21.7	13.1	6.7
Retail	31.2	23.5	13.8	1.2
Other	16.4	15.0	6.5	0.9
Total income producing portfolio	**74.8**	**60.2**	**11.7**	**3.3**

(1) Excluding £2.7m (ERV £3.6m) of passing rent on land and £0.8m of turnover rent at Trentham Gardens.

During the year we created a centralised asset management function as part of our new organisational design. Historically our income producing portfolio was largely held to cover the running cost of the business through its relatively high rental yield and to act as a source of future redevelopment potential, but over the next few years income producing assets will start to make up a much larger part of our portfolio and should become a performance driver in their own right. The planned sale of our c. 100 smallest assets of on average £1m each, retention of the majority of our industrial/logistics developments, disposal of more of our retail assets and focused asset management approach is expected to lead to opportunities to improve operational efficiency over the next few years. The effects of this will mostly become visible in 2019 and 2020 rather than 2018, as there is a time-lag before our current initiatives translate into actual results.

Investments and disposals

2017 has been an active year, marking the start of a significant shift in the shape of our portfolio. Excluding our housebuilding activities, we have invested £213m in developments and acquisitions, which was more than offset by £324m in disposals during the period and a further £165m since the year end.

As we have substantial potential to invest in our own pipeline at much higher returns than those available in the current investment market, we have been very selective in acquisitions. We acquired £68m of assets, of which £49m comprised land drawdowns under existing development agreements for near-term development starts, principally at Uxbridge and Wantage. We also acquired a £7m industrial asset in Speke (Merseyside) where we see potential to redevelop and significantly increase the current 368,000 sq ft space.

We have been very active on the disposal side, having sold £324m of assets during the year. The largest deal was the disposal of Nine Elms Square, New Covent Garden Market for a total consideration of £470m. This was in line with the May 2017 valuation and released £190m net proceeds for our share of the site. In addition, we have sold 25 small assets for a total amount of £27m (15% above book value), two industrial assets where we believe further upside was limited for £19m (18% above book value) and four non-industrial developments for £27m. We also stepped up the disposal of residential land and sold

54 acres of oven-ready land for the construction of 1,188 new homes for £56m (2016: £48m), capitalising on the continued good levels of demand from housebuilders.

Since the end of November 2017, we have completed the disposal of the existing 2,005-bed student accommodation at Bay Campus, Swansea University in a deal which releases £87m of capital, with gross proceeds of £139m partially offset by the transfer of the corresponding finance lease creditor. We have also disposed of an industrial asset in Eastleigh (£10m our share) and the last phase of residential land at Mill Hill, North London (£16m our share). On average, these deals were in line with the latest book value.

	Amount(1) £m	Initial yield(2) %
Acquisitions during 2017		
Residential land	47	N/A
Commercial land	14	N/A
Industrial	7	9.7
Total	**68**	9.7
Disposals during 2017(3)		
Nine Elms Square, NCGM	190	N/A
Residential land	56	N/A
Commercial land	5	N/A
Industrial	19	6.8
Retail/PRS/other	27	N/A
Small assets	27	6.1
Total	**324**	**6.4**
Disposals post-year end(3)		
Swansea University	139	5.7
Industrial	10	8.1
Residential land	16	N/A
Total	**165**	**5.9**

(1) Based on the Group's net share of amounts relating to joint ventures.

(2) Income producing assets excluding land.

(3) Excluding land transfers to St. Modwen Homes and completed home sales.

In 2018 we will continue to rebalance our portfolio to those sectors which offer the best return prospects. We expect to sell more of our remaining small asset portfolio, now comprising 80 assets valued at c. £80m, and more of our retail assets as we target a total disposal volume for these types of assets of around £100-150m. We plan to recycle this capital into retaining more of our industrial/logistics developments. We will also look to accelerate the release of capital from our land bank and plan to pursue new projects mostly on a 'capital light' development agreement basis where our initial capital outlay is limited. We have already increased our exposure to income producing assets to 51% (2016: 45%) and intend to grow this further over the next few years, recognising the significant cost of holding non-income producing land over time. We will remain very selective in terms of acquisitions, as we generally see better returns from investing our capital in our own developments than competing for existing assets.

Commercial development

In 2017 we invested £145m in commercial development, delivering £30.6m in profits (2016: £30.4m). Including 0.9m sq ft industrial/logistics space, we completed 1.4m sq ft of commercial projects, with a total GDV of £216m. We will retain £73m of this and have already secured 54% of the associated c. £6m ERV with a further 11% under offer. Around 60% of this was still held as development assets at 30 November 2017, whilst the rest has already been transferred to the income producing portfolio. Key completions included the latest 543-bed phase of student housing at Swansea, which we sold to UPP following the year end as part of a larger transaction, a 180-bed Royal Centre for Defence Medicine at Longbridge which we pre-sold to the MoD's DIO, 78,000 sq ft industrial space at Parkside which we let to Bosch and DB Schenker, and 153,000 sq ft logistics space at Tamworth which is currently being marketed and where we are seeing good levels of tenant interest.

Our current committed pipeline of 1.6m sq ft has a total GDV of £326m, development cost of £272m (2016: £198m) and a further £178m cost to complete. The majority of this 1.6m sq ft is focused on industrial and logistics, which we anticipate to deliver a yield on cost of c. 8% and a profit on cost of c. 20%, with an expected overall GDV of £126m, of which we expect to retain the majority. Around 90% of our committed pipeline is in sectors where the structural outlook is positive, including the next phase of development at Swansea Bay and PRS at Uxbridge. Reflecting the healthy occupational demand for our assets, our industrial and logistics committed pipeline is currently 40% pre-let/sold (2016: 21%), with key lettings of 164,900 sq ft to Spanish train manufacturer CAF at Celtic Business Park and 113,000 sq ft to global automotive manufacturing firm Grupo Antolin at Barton Business Park.

	No. of projects	Area msq ft	Total cost(1) £m	Cost to complete £m	ERV £m	Pre-let/sold %
Industrial/logistics - retained	8	0.7	61	46	5.1	19
Industrial/logistics - other	4	0.3	40	23		76
Industrial/logistics - total	**12**	**1.0**	**101**	**69**		**40**
Retail	2	0.1	28	23		49
Other	7	0.5	143	86		41
Total	**21**	**1.6**	**272**	**178**		**41**

(1) Including land.

As part of our strategic review during the year, we identified our existing commercial land bank had the potential to deliver 17.3m sq ft of industrial/logistics space in the long term. Of this, we identified 7.5m sq ft which could be delivered in the next five years based on planning and strength of location, most of which is located in the Midlands and South West. We plan to accelerate the delivery of this 7.5m sq ft over the next few years, but the short lead-time of these schemes means we retain flexibility should demand for space unexpectedly deteriorate. Including land preparation costs, the expected future capex on these projects is c. £490m, on top of a current land value of c. £90m. With an expected ERV of c. £45m these projects should deliver a yield on cost of c. 8% and profit on cost of c. 20%, with a yield on incremental capex investments of over 9%.

In 2018 we plan to grow the amount of industrial/logistics space we deliver by up to 25% subject to market demand and we will work on preparing our pipeline for 2019 and 2020 such that we maintain the potential to deliver a similar growth rate. Given the high quality of industrial and logistics assets we build and positive medium-term outlook for these locations, we intend to retain the majority of these developments. A large part of our development profits will therefore become non-cash revaluation gains, although this change has no impact on our overall profitability. We will also continue to progress our pipeline of PRS and student accommodation opportunities, but managing these assets efficiently in the long run requires a platform and scale we do not envisage building up ourselves. In addition, we intend to sharpen the focus of our commercial land holdings to those locations where we see most near-term development upside.

Residential development - housebuilding

The UK housebuilding market remains resilient, especially in the regions, which is where the bulk of our activities are focused. As such, we have continued to see good demand for new homes built by our housebuilding subsidiary St. Modwen Homes, which sold 694 units during the year. This marked a 43% increase for the year (2016: 485), whilst the average private sales price increased 19% to £259,000 (2016: £217,000). Like-for-like private sales prices increased 6%, reflecting the good demand for our high-quality houses, with the balance due to an increase in average unit size and the mix of sites, including Uxbridge.

St. Modwen Homes retained its 5-star customer service and quality status from the HBF and gained RoSPA Gold safety accreditation, demonstrating that growth does not have to come at the expense of quality or safety. This will remain a key focus going forward. Net operating margins increased to 13.9% (2016: 13.4%), but as we transfer land to St. Modwen Homes at market value instead of at historic cost and do so on a 'just in time' basis for development, we estimate this continues to artificially reduce margins by c. 3ppt.

St. Modwen Homes: key operating metrics	2017	2016	Change
Private units sold	619	438	41.3%
Affordable units sold	75	47	59.6%
Total units sold	**694**	**485**	**43.1%**
Private sales rate (units/week)	0.8	0.8	-
Average sales-active sites	15	11	36.4%
Average private selling price (£k)	259	217	19.4%
Average affordable selling price (£k)	97	90	7.8%
Operating margin (%)	13.9	13.4	0.5ppt

Overall, housebuilding activities contributed £31.4m operating profit for the year (2016: £27.1m). Reflecting its strong growth, St. Modwen Homes delivered a 52% increase in operating profit to £23.3m (2016: £15.3m). This more than offsets the reduction in operating profit from our Persimmon JV to £8.1m (2016: £11.8m) as this continues to scale down its activities as planned, having sold 227 units during the year (2016: 402).

For 2018, we expect sales volumes for St. Modwen Homes to grow by up to 25%, but despite this strong growth our focus remains first and foremost on retaining our high quality and safety standards. St. Modwen Homes was actively selling on an average of 15 sites during 2017 (2016: 11), which we expect to increase to 20 in 2018. We expect volumes in the Persimmon JV to reduce by around half as it continues to wind down its activities over the next two years, but we expect the reduction in profits from this to be more than offset by growth in St. Modwen Homes' profits. We expect St. Modwen Homes' operating margins to improve by a similar level as in 2017 and still see room to improve margins by 2-3ppt over the medium term.

Residential development - residential land

During 2017 we secured planning consent for more than 2,000 new homes (2016: 1,670), including 370 at Longbridge and 200 at Victoria Ground, Stoke-on-Trent. At the end of 2017 our residential land bank comprised approximately 22,000 plots (2016: 25,000), mostly in the Midlands and South West, plus an additional 2,400 plots where development is subject to third party consent.

As part of our strategic review this year, we indicated that we intend to grow sales volumes in St. Modwen Homes by up to 25% per year over the next couple of years, but even at this pace it would take us well over 15 years to work through our current land bank. We therefore earmarked 7,700 plots for St. Modwen Homes and plan to sell most of the remaining plots to other housebuilders over the next few years to realise the value we have created. We already sold 1,188 plots during the year and we continue to see good demand from housebuilders. Notable deals included sales at Mill Hill (609 units) and Ellesmere Port (327 units). Combined with the sale of Nine Elms Square, the sale of the final phase of Mill Hill following the year end reduced the London exposure of our residential land bank from approximately 46% to 11%.

Major regeneration projects

In 2017 we have continued to make good progress at our three major regeneration projects, Longbridge, New Covent Garden Market and Swansea, whilst we agreed two new major residential-led projects in Wantage and Buckover which will deliver a total of 4,500 homes.

At Bay Campus, Swansea we successfully completed the latest 543-bed phase of student accommodation ahead of the 2017/18 academic year, taking the total number of students living on campus to approximately 2,000. Since the year end we have sold the existing student accommodation to UPP for gross proceeds of £139m, with net proceeds of £87m reflecting the transfer of the associated finance lease creditor. This transaction introduces an experienced operator on campus whilst releasing funds for us to invest in the next phases of development. We have started the development of the next phase of academic facilities and the next 400 of the remaining 2,000 beds of student accommodation, which will complete in summer 2018 and early 2019 and have a GDV of over £50m, and we continue to work closely with Swansea University to progress the remaining substantial future development opportunities.

Longbridge saw the completion of the development of 180 beds of key worker accommodation for the MoD's DIO, a 260-apartment Extracare retirement village and further new homes by St. Modwen Homes and other housebuilders. With the overall project c. 50% developed, we will continue to progress further development.

At New Covent Garden Market, via our JV with VINCI, we sold ten acres of land at Nine Elms Square for £470m, crystallising a substantial profit and releasing net proceeds of £190m for our 50% share. The JV continues to work on the relocation of the existing market facilities, which will be ongoing for a number of years. Following the disposal of Nine Elms Square we have undertaken a full review of the remaining works. The complicated nature of working on a site with a live market and an anticipated extended duration of the project have resulted in an increase in expected construction costs, with our share of this increase being £24.6m. This was partly offset by a £14.5m increase in the value of our land holdings. Our share of the remaining ten acres of land, which will be released upon completion of the market relocation, is now valued at c. £6m per acre.

During the year we secured two new large residential-led developments. At Kingsgrove, Wantage we signed a development agreement to deliver a mixed-use community of 1,500 homes over the next 10-15 years across a 227-acre site and St. Modwen Homes commenced works in late 2017. We also signed a development agreement to deliver Buckover Garden Village, a new community of up to 3,000 homes in Gloucestershire over the next 25 years, together with our development partner, the Tortworth Estate. We anticipate submitting a planning application for the 536-acre site during the second half of 2018.

Looking forward, we will continue to pursue new regeneration opportunities on a 'capital light' basis, but as these new projects are opportunistic by nature, it is difficult to make specific forecasts for this.

FINANCIAL REVIEW

Overview

During the year, we have delivered a solid performance in spite of the continuing uncertain market environment and have made strong progress in delivering upon the portfolio focus and capital discipline element of our strategy. NAV per share increased 4.6% to 450.9 pence (2016: 431.0 pence) and EPRA NAV per share increased 2.3% to 471.2 pence (2016: 460.5 pence) in spite of an 8.3 pence or 1.8% reduction as a result of deferred tax crystallising on the sale of land at Nine Elms Square. The underlying business performed well, as evidenced by trading profits of £64.6m (2016: £56.1m), and total valuation gains increased considerably to £34.6m (2016: £4.1m). As previously noted, the review of NCGM resulted in an increase in our share of the forecast market cost estimate of £24.6m. However, the £34.6m valuation gains above include our share of an uplift in the value of the land at Nine Elms Square of £14.5m, which together with the market cost increase results in a combined charge to the income statement of £10.1m.

Shortly after the year end, we refinanced £488m of bilateral secured debt facilities with a £475m unsecured revolving credit facility with an initial maturity of five years which can be extended to a maximum of seven years, subject to lender consent. In line with our strategic plans, the refinancing provides a reduced cost of debt and improved operational flexibility. The transition to unsecured debt financing provides us with the option to extend further our debt maturity profile and diversify our sources of unsecured finance ahead of the maturity of our £100m convertible bond and £80m retail bond in 2019.

Presentation of financial information

Due to the number of significant joint venture arrangements, the statutory financial statement disclosures do not always provide a straightforward way of understanding our business. Reconciliations between all the statutory and non-statutory measures and the explanations as to why the non-statutory measures give valuable further insight into the Group's performance are given in note 2 to the Group financial statements. In particular, profit before all tax is used because it reflects the way the Group is run on a proportionally consolidated basis, and because it also removes the taxation effects on equity accounted entities from the statutory profit before tax figure. The Group has four material joint ventures, three of which are in partnership with VINCI and one in partnership with Salhia. The VINCI joint ventures comprise the NCGM operation and joint ventures at Uxbridge and Mill Hill (the latter through The Inglis Consortium), both of which are engaged in the remediation and subsequent sale of land. The Salhia joint venture, Key Property Investments (KPI), owns a portfolio of principally income producing industrial assets acquired between 1998 and 2002.

Our key performance metrics include a new measure of adjusted EPRA earnings and an adjusted EPRA EPS calculation, which exclude non-cash valuation gains and losses. As our residential developments are built to sell, residential profits are cash-based and therefore included in this metric, but as our commercial developments will now be predominantly built to hold, commercial development profits will be largely non-cash in the future. As such, these are excluded from adjusted EPRA earnings, other than development fee income. This change has no impact on our overall profitability.

Our current dividend policy is linked to NAV growth, but this includes non-cash items which cannot directly fund dividends. In order to align our dividend policy to cash profitability we therefore intend to pay a dividend equivalent to approximately 50% of adjusted EPRA EPS from the year ending 30 November 2018, with the aim of providing a sustainable, progressive dividend for our shareholders.

Our total dividend payable for 2017 is 6.28 pence (2016: 6.00 pence), an increase of 4.7% in line with NAV growth.

	2017			2016		
	Total[1]	**Adjusted EPRA earnings**	**Other**	Total[1]	Adjusted EPRA earnings	Other
	£m	**£m**	**£m**	£m	£m	£m
Gross rental and other income	**67.6**	**67.6**	**-**	60.8	60.8	-
Property outgoings	**(13.8)**	**(13.8)**	**-**	(14.9)	(14.9)	-
Other net income	**2.0**	**2.0**		4.2	4.2	
Net rental and other income	**55.8**	**55.8**	**-**	50.1	50.1	-
Commercial property profits	**30.6**	**3.8**	**26.8**	30.4	2.1	28.3

Residential property profits	**31.4**	**31.4**	**-**	27.1	27.1	-
Administrative expenses	**(29.0)**	**(29.0)**	**-**	(29.3)	(29.3)	-
Net cash finance costs	**(24.2)**	**(24.2)**	**-**	(22.2)	(22.2)	-
Trading profit	**64.6**	**37.8**	**26.8**	56.1	27.8	28.3
Investment property revaluation gains	**34.6**	**-**	**34.6**	4.1	-	4.1
Change in cost to establish market in Nine Elms	**(24.6)**	**-**	**(24.6)**	-	-	-
Net non-cash finance costs	**(7.6)**	**0.1**	**(7.7)**	0.6	0.1	0.5
Profit before all tax	**67.0**	**37.9**	**29.1**	60.8	27.9	32.9
Taxation	**(6.9)**	**(8.4)**	**1.5**	(7.2)	(6.3)	(0.9)
Profit for the year	**60.1**	**29.5**	**30.6**	53.6	21.6	32.0
Less non-controlling interests	**(0.5)**	**(0.1)**	**(0.4)**	-	(0.1)	0.1
Profit attributable to owners of the Company	**59.6**	**29.4**	**30.2**	53.6	21.5	32.1
Earnings per share (pence)	**26.9**	**13.3**		24.1	9.7	

(1) This table is presented on a proportionally consolidated basis, including the Group's share of profits and losses of joint ventures and associates in the income statement categories to which they relate, rather than on a statutory basis as one line representing the share of net losses of those joint ventures and associates.

Net rental and other income

The Group's share of net rental and other income has increased in the year to £55.8m (2016: £50.1m). The disposal of our student accommodation at Swansea completed after the year end and will result in a reduction of c. £5.8m net rental income in 2018, offset by a reduction of £2.1m in finance lease interest due to the sale. Our target to dispose of £100m to £150m of retail and small assets this year will likely result in a further temporary reduction in net rental and other income, given the time lag in recycling these proceeds into our industrial/logistics developments.

Overheads

Administrative expenses for the year were £29.0m (2016: £29.3m) reflecting a £1.5m one-off credit relating to the closure of our insurance captive. With planned investment in our organisational capabilities to deliver our planned growth, we expect costs in 2018 to increase from the underlying level by c. 5% next year.

Cash finance costs and income

Finance costs have increased during the year in line with increases in the average levels of see-through net debt prior to the sale of the land at Nine Elms. See-through net cash finance costs increased to £24.2m (2016: £22.2m). For the coming year, we expect finance costs to reduce as a result of lower net debt, a lower cost of debt due to the recent refinancing and the reduction in finance lease interest from the Swansea sale.

Non-cash finance costs and income

Net non-cash finance costs were £7.6m (2016: £0.6m income). The elements of these non-cash costs which recur at reasonably constant levels are a £5.2m (2016: £5.6m) charge for discount unwinds, principally on our share of the long-term liability to deliver the NCGM project, and a £2.2m (2016: £1.5m) charge for the amortisation of arrangement fees in relation to our loan facilities.

The other material components of these non-cash costs are inherently less predictable, as they are dependent on market movements. These relate to the valuation of our convertible bond, where we would expect a charge if the likelihood of conversion increases (i.e. if the share price increases), and the valuation of the derivatives we use to hedge our interest rate risk, where we would expect a charge if swap rates are lower than the prevailing rates at the time we entered into the derivatives. For the year just ended, the net effect of these two items was minimal, whereas in the prior year, a large favourable movement in the convertible bond more than offset the charge for discount unwinds and amortisation of arrangement fees.

Property valuation

All of our investment properties are independently valued every six months by our external valuers Cushman & Wakefield and Jones Lang LaSalle (the latter for NCGM only). Our valuers base their valuations upon an open market transaction between a willing buyer and a willing seller at the balance sheet date. Therefore, no value is taken for any future expected increases but discounts are applied to reflect any future uncertainties.

In accordance with accounting standards, valuation movements are reflected as gains or losses in the income statement. We will also independently assess our work in progress for any impairment issues. Valuations in all our asset classes have been validated wherever possible by open market transactions during the course of the year. The total valuation gain in the year was £34.6m, compared to £4.1m in 2016, for the reasons previously outlined.

Profit before all tax

Profit before all tax for the year was £67.0m (2016: £60.8m), and is stated before tax on joint venture income.

Taxation and profit after tax

Our total tax charge (including joint venture tax) for the year was £6.9m (2016: £7.2m) resulting in profit after tax on a proportionally consolidated basis of £60.1m (2016: £53.6m).

As a property group, tax and its treatment is often an integral part of transactions. The outcome of tax treatments, including tax planning, is recognised by the Group to the extent that the outcome is reasonably certain. Overall, the see-through effective rate of tax for the year was below the prior year at 10.3% (2016: 11.8%), resulting from a blend of a lower Group tax charge of 12.9% (2016: 14.0%) due to the reduction in the deferred tax rate, and a higher JV tax credit in the period. Following the freezing of indexation allowance from 31 December 2017 announced in the November budget, and as signalled in previous reporting updates, the effective tax rate is expected to move towards, but remain slightly below the standard rate of tax of 19%.

Balance sheet

At the year end the shareholders' equity value of net assets was £1,000.3m (2016: £955.2m) or 450.9 pence per share which represents a 4.6% increase over the year (2016: 431.0 pence per share). This growth is after the increased dividend payments (2017 interim and 2016 final) of £13.5m or 6.08 pence per share (2016: £12.8m or 5.79 pence per share). Our EPRA net asset value rose 2.3% to 471.2 pence per share from 460.5 pence per share in spite of an 8.3 pence or 1.8% reduction as a result of deferred tax crystallising on the sale of land at Nine Elms Square.

	2017			2016
	Group £m	**JVs £m**	**Total(1) £m**	Total(1) £m
Property portfolio	1,516.0	148.0	**1,664.0**	1,752.3
Other assets	85.5	82.0	**167.5**	170.6
Gross assets	**1,601.5**	**230.0**	**1,831.5**	1,922.9
Net borrowings	(433.8)	45.6	**(388.2)**	(517.0)
Finance leases	(57.0)	(0.9)	**(57.9)**	(57.7)
Other liabilities	(224.3)	(155.1)	**(379.4)**	(386.1)
Gross liabilities	**(715.1)**	**(110.4)**	**(825.5)**	(960.8)
Net assets	**886.4**	**119.6**	**1,006.0**	962.1
Non-controlling interests	(5.7)	0.0	**(5.7)**	(6.9)
Equity attributable to owners of the Company	**880.7**	**119.6**	**1,000.3**	955.2
NAV per share (pence)			**450.9**	431.0
EPRA NAV per share (pence)			**471.2**	460.5
See-through LTV (%)			**24.2**	30.5
See-through LTV (excluding residential) (%)			**37.2**	54.3
Total accounting return(2) (%)			**6.0**	5.6

(1) This table is presented on a proportionally consolidated basis, including the Group's share of assets and liabilities of joint ventures and associates in the balance sheet categories to which they relate, rather than on a statutory basis as one line representing the share of net assets of those joint ventures and associates.

(2) Our definition of total accounting return was revised in the year so that it now represents dividends paid in the year plus the movement in NAV per share in the year, rather than the movement in EPRA NAV per share. This change reflects that our strategy includes the repositioning and recycling of our portfolio towards sectors with strong structural growth, whereas the EPRA model assumes that properties are retained. Using the revised definition results in a total accounting return of 6.0% (2016: 5.6%) as noted above. Under the previous definition, total accounting return would have been 3.6% (2016: 4.5%). Further information is included in note 2 to the Group financial statements.

Financing

During 2017 we achieved a significant reduction in our year end see-through net borrowing position, mostly through the Nine Elms Square sale. The year end figure also benefited from a £49.0m share of the cash held in a Development Account for delivery of the NCGM project.

Cash generated (before new investment, tax and dividends) was £542.7m (2016: £306.4m) and new investment was managed tightly such that net borrowings, including our share of JVs, decreased to £388.2m (2016: £517.0m). Whilst inventories increased by £125.8m to £361.9m (2016: £236.1m) around half of this increase results from accelerated activity and land transfers for St. Modwen Homes with the remainder reflecting increased commercial development in line with our strategy. See-through loan-to-value of 24.2% (2016: 30.5%) improved markedly upon the prior year. Excluding residential, the Group's see-through loan-to-value ratio fell to 37.2% (2016: 54.3%) and, whilst the Company's capital structure remains strong, we are aiming to continue to reduce this over time.

	2017	2016
See-through borrowings (£m)	**463.3**	524.9
See-through net borrowings (£m)	**388.2**	517.0
See-through loan-to-value[1] (%)	**24.2**	30.5
See-through loan-to-value (excluding residential)[1] (%)	**37.2**	54.3

(1) See-through loan-to-values are reconciled in note 2i to the Group financial statements.

Refinancing

As noted above, shortly after the year end, we achieved a transformational refinancing, moving from bilateral secured facilities to an unsecured club structure. In doing so, we paid off the balance sheet liability for out of the money interest rate swaps for a cash outlay of £5.1m and entered into an interest rate cap. This hedging activity will result in initial annual savings of c. £2.5m. A non-cash expense of £3.4m will be recognised in the first half of the Group's 2018 financial year in respect of capitalised arrangement fees relating to the previous facilities. These actions increased our weighted average facility life to 4.1 years from 2.7 years at the year end (or to 5.5 years if the two one-year extensions are applied). With £690m of see-through committed facilities against see-through net borrowings of £388.2m, we have ample headroom to transact.

	2017 pro forma for refinancing	2017	2016
Average duration of facilities (years)	**4.1**	2.7	3.7
Weighted average interest rate[1] (%)	**3.7**	4.4	3.8
Percentage of net borrowings fixed or hedged (%)	**88.5**	82.8	50.0

(1) The weighted average interest rate is calculated using current interest rates and hedging profile applied to the Group net borrowings at 30 November 2017, thereby assuming constant net borrowing levels for 2018.

Hedging and cost of debt

We aim to have predictable costs attached to our borrowing and therefore hedge a significant portion of our interest rate risk. At the year end, 82.8% (2016: 50.0%) of our borrowings were fixed or hedged. Our ongoing interest rate risk will be managed via a combination of caps and hedges to maintain compliance with this policy.

Our spot year-end weighted average cost of borrowing increased to 4.4% (2016: 3.8%) as a result of lower borrowings at the lower marginal rates on our banking facilities. The refinancing actions described above shortly after the year end reduce this to 3.7%, despite the lower borrowings.

Corporate funding covenants

Covenant compliance continues at all levels and across all metrics and we continue to operate with considerable headroom against all measures. Our portfolio could withstand a 40% fall in values before our covenants would be breached.

Mark Allan	**Rob Hudson**
Chief Executive	*Chief Financial Officer*

5 February 2018

GROUP INCOME STATEMENT

for the year ended 30 November 2017

	Notes	2017 £m	2016 £m
Revenue	1	**318.6**	287.7
Net rental income	1	**48.8**	40.5
Development profits	1	**58.9**	51.7
Gains on disposals of investments/investment properties	1	**6.7**	9.5
Investment property revaluation gains	8	**16.2**	30.3
Other net income	1	**2.0**	4.2

	Notes	2017	2016
Losses of joint ventures and associates (post-tax)	9	**(8.5)**	(28.2)
Administrative expenses		**(35.9)**	(33.0)
Profit before interest and tax		**88.2**	75.0
Finance costs	4	**(30.0)**	(23.0)
Finance income	4	**12.1**	14.9
Profit before tax		**70.3**	66.9
Taxation	5	**(10.2)**	(13.3)
Profit for the year		**60.1**	53.6
Attributable to:			
Owners of the Company		**59.6**	53.4
Non-controlling interests		**0.5**	0.2
Profit for the year		**60.1**	53.6

	Notes	2017 Pence	2016 Pence
Basic earnings per share	6	**26.9**	24.1
Diluted earnings per share	6	**26.7**	19.8

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2017

	2017 £m	2016 £m
Profit for the year	**60.1**	53.6
Items that will not be reclassified to profit and loss:		
Pension fund actuarial losses	**(0.1)**	(0.1)
Total comprehensive income for the year	**60.0**	53.5
Attributable to:		
Owners of the Company	**59.5**	53.3
Non-controlling interests	**0.5**	0.2
Total comprehensive income for the year	**60.0**	53.5

GROUP BALANCE SHEET

as at 30 November 2017

	Notes	2017 £m	2016 (restated) £m
Non-current assets			
Investment properties	8	**1,168.5**	1,144.7
Operating property, plant and equipment		**5.1**	4.2
Investments in joint ventures and associates	9	**119.6**	184.8
Trade and other receivables	10	**2.3**	8.2
		1,295.5	1,341.9
Current assets			
Inventories	11	**352.7**	229.7
Trade and other receivables	10	**72.1**	104.1
Derivative financial instruments		**0.8**	1.6
Cash and cash equivalents		**0.5**	4.2
		426.1	339.6
Current liabilities			
Trade and other payables	12	**(176.0)**	(150.5)
Derivative financial instruments		**(4.8)**	(8.8)
Borrowings and finance lease obligations	13	**(0.6)**	(0.4)
Current tax liabilities	5	**(6.2)**	(7.1)
		(187.6)	(166.8)
Non-current liabilities			
Trade and other payables	12	**(20.1)**	(3.6)
Borrowings and finance lease obligations	13	**(491.3)**	(527.0)
Deferred tax	5	**(16.6)**	(22.0)
		(528.0)	(552.6)
Net assets		**1,006.0**	962.1
Capital and reserves			
Share capital	14	**22.2**	22.2
Share premium account		**102.8**	102.8

Retained earnings	**825.7**	779.7
Share incentive reserve	**5.1**	4.9
Own shares	**(1.7)**	(0.6)
Other reserves	**46.2**	46.2
Equity attributable to owners of the Company	**1,000.3**	955.2
Non-controlling interest	**5.7**	6.9
Total equity	**1,006.0**	962.1

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2017

	Share capital	Share premium account	Retained earnings	Share incentive reserve	Own shares	Other reserves	Equity attribute-able to owners of the Company	Non-control-ling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 30 November 2015	22.2	102.8	739.3	5.2	(1.0)	46.2	914.7	6.8	921.5
Profit for the year attributable to shareholders	-	-	53.4	-	-	-	53.4	0.2	53.6
Pension fund actuarial losses	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Total comprehensive income for the year	-	-	53.3	-	-	-	53.3	0.2	53.5
Share-based payments	-	-	-	1.6	-	-	1.6	-	1.6
Deferred tax on share-based payments	-	-	-	(0.8)	-	-	(0.8)	-	(0.8)
Settlement of share-based payments	-	-	(0.1)	(1.1)	0.4	-	(0.8)	-	(0.8)
Dividends paid (note 7)	-	-	(12.8)	-	-	-	(12.8)	(0.1)	(12.9)
Equity at 30 November 2016	**22.2**	**102.8**	**779.7**	**4.9**	**(0.6)**	**46.2**	**955.2**	**6.9**	**962.1**
Profit for the year attributable to shareholders	**-**	**-**	**59.6**	**-**	**-**	**-**	**59.6**	**0.5**	**60.1**
Pension fund actuarial losses	**-**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Total comprehensive income for the year	**-**	**-**	**59.5**	**-**	**-**	**-**	**59.5**	**0.5**	**60.0**
Share-based payments	**-**	**-**	**-**	**1.8**	**-**	**-**	**1.8**	**-**	**1.8**
Deferred tax on share-based payments	**-**	**-**	**-**	**0.3**	**-**	**-**	**0.3**	**-**	**0.3**
Settlement of share-based payments	**-**	**-**	**-**	**(1.9)**	**(1.1)**	**-**	**(3.0)**	**-**	**(3.0)**
Dividends paid (note 7)	**-**	**-**	**(13.5)**	**-**	**-**	**-**	**(13.5)**	**(1.7)**	**(15.2)**
Equity at 30 November 2017	**22.2**	**102.8**	**825.7**	**5.1**	**(1.7)**	**46.2**	**1,000.3**	**5.7**	**1,006.0**

Own shares represent the cost of 519,906 (2016: 269,334) shares held by The St. Modwen Properties PLC Employee Share Trust. The open market value of the shares held at 30 November 2017 was £2,031,793 (2016: £754,135).

The other reserves comprise a capital redemption reserve of £0.3m (2016: £0.3m) and the balance of net proceeds in excess of the nominal value of shares arising from an equity placing in 2013 of £45.9m (2016: £45.9m).

GROUP CASH FLOW STATEMENT

for the year ended 30 November 2017

	Notes	2017 £m	2016 £m
Operating activities			
Profit before interest and tax		**88.2**	75.0
Gains on disposal of investments/investment properties		**(6.7)**	(9.5)
Share of losses of joint ventures and associates (post-tax)	9	**8.5**	28.2
Investment property revaluation gains	8	**(16.2)**	(30.3)
Depreciation		**1.1**	0.7
Impairment losses on inventories	11	**2.0**	0.3

Increase in inventories		**(97.7)**	(31.2)
Decrease/(increase) in trade and other receivables		**36.1**	(14.3)
Increase in trade and other payables		**17.4**	4.3
Share options and share awards		**(1.2)**	-
Tax paid	5	**(16.2)**	(10.7)
Net cash inflow from operating activities		**15.3**	12.5
Investing activities			
Proceeds from investment property disposals		**60.1**	64.3
Investment property additions		**(61.6)**	(90.0)
Interest received		**12.3**	5.4
Capital injection into joint ventures and associates		**(1.4)**	-
Property, plant and equipment additions		**(2.0)**	(0.6)
Dividends received from joint ventures and associates	9	**58.1**	14.3
Net cash inflow/(outflow) from investing activities		**65.5**	(6.6)
Financing activities			
Dividends paid	7	**(13.5)**	(12.8)
Dividends paid to non-controlling interests		**(1.7)**	(0.1)
Interest paid		**(26.1)**	(20.7)
(Repayments of obligations)/amounts advanced under finance lease arrangements		**(3.3)**	0.6
Net borrowings drawn		**209.2**	160.5
Repayment of borrowings		**(249.1)**	(134.0)
Net cash outflow from financing activities		**(84.5)**	(6.5)
Decrease in cash and cash equivalents		**(3.7)**	(0.6)
Cash and cash equivalents at start of year		**4.2**	4.8
Cash and cash equivalents at end of year		**0.5**	4.2

GROUP ACCOUNTING POLICIES

for the year ended 30 November 2017

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU (EU IFRSs) as they apply to the Group for the year ended 30 November 2017, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties, derivative financial instruments, the convertible bond and the defined benefit section of the Group's pension scheme.

The financial information contained within this announcement has been prepared on the basis of the accounting policies applied in the Group's financial statements for the year ended 30 November 2017, which are not reproduced in this announcement. The financial information contained within this announcement does not constitute the Group's statutory accounts for the years ended 30 November 2016 or 30 November 2017, but is derived from those accounts.

Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered and made available on the Company's website www.stmodwen.co.uk following the Company's annual general meeting. The auditor has reported on these accounts; its report was unqualified, did not include any matters to which the auditor drew attention by way of emphasis without qualifying its report and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out above. The directors have considered these factors and reviewed the financial position of the Group, including its joint ventures and associates. The review included an assessment of future funding requirements based on cash flow forecasts extending for 18 months from the balance sheet date, valuation projections and the ability of the Group to meet covenants on existing borrowing facilities. The directors are satisfied that the forecasts and projections are based on realistic assumptions and that the sensitivities applied in reviewing downside scenarios are appropriate.

As described in note 15, having recently refinanced all of the Group's bank debt facilities, the only medium-term refinancing actions relating to the Group facilities are to replace some, but not all, of the liquidity provided by the Group's bonds ahead of their 2019 maturities. As a result, the directors are satisfied that the Group will have sufficient ongoing facilities available to meet its financing requirements. Based on their assessment, the directors are of the opinion that the Group has adequate available resources to fund its operations for the foreseeable future and so determine that it remains appropriate for the financial statements to be prepared on a going concern basis.

Prior year restatement

During the year ended 30 November 2017, the presentation of lease incentive assets arising from rent-free periods, stepped rent agreements and cash tenant incentives has been reviewed and compared with industry peers. These assets were previously reported as a separate receivable on the balance sheet and deducted from the external property valuation in arriving at the reported investment properties balance. In order to better reflect the property portfolio balance reported in note 2 and to align the presentation with that adopted by many industry peers, these assets of £13.5m have been reclassified from trade and other receivables to investment properties in the year ended

30 November 2017.

As a result of this change in accounting policy, the Group balance sheet as at 30 November 2016 has been retrospectively restated in these financial statements by reclassifying £11.7m from trade and other receivables to investment properties. This restatement has had no impact on the income statement, total assets, net assets or any of the numbers or metrics disclosed in note 2.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2017

1. Segmental information

a. Reportable segments

IFRS 8 *Operating Segments* requires the identification of the Group's operating segments, defined as being discrete components of the Group's operations whose results are regularly reviewed by the chief operating decision maker (being the Chief Executive) to allocate resources to those segments and to assess their performance. The Group divides its business into the following segments:

- housebuilding activity through St. Modwen Homes and the Persimmon joint venture; and
- the balance of the Group's portfolio of properties which the Group manages internally, and reports, as a single business segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

b. Segment revenues and results

	2017			2016		
	Portfolio	**House-building**	**Total**	Portfolio	House-building	Total
	£m	**£m**	**£m**	£m	£m	£m
Rental income	**61.0**	**-**	**61.0**	53.1	-	53.1
Development	**57.8**	**195.3**	**253.1**	77.8	150.0	227.8
Other income	**4.5**	**-**	**4.5**	6.8	-	6.8
Revenue	**123.3**	**195.3**	**318.6**	137.7	150.0	287.7

All revenues in the table above are derived from continuing operations exclusively in the UK.

In addition to the revenue stated above, the Group recognised service charge income of £10.7m (2016: £9.4m), for which there was an equivalent expense and interest income of £8.1m (2016: £5.4m).

	2017			2016		
	Portfolio	**House-building(1)**	**Total**	Portfolio	House-building(1)	Total
	£m	**£m**	**£m**	£m	£m	£m
Net rental income	**48.8**	**-**	**48.8**	40.5	-	40.5
Development profits	**20.3**	**38.6**	**58.9**	20.1	31.6	51.7
Gains on disposal of investments/investment properties	**6.7**	**-**	**6.7**	9.5	-	9.5
Investment property revaluation gains	**16.2**	**-**	**16.2**	30.3	-	30.3
Other net income	**2.0**	**-**	**2.0**	4.2	-	4.2
Losses of joint ventures and associates(2)	**(7.4)**	**-**	**(7.4)**	(18.4)	-	(18.4)
Administrative expenses	**(28.7)**	**(7.2)**	**(35.9)**	(28.5)	(4.5)	(33.0)
Allocation of administrative expenses	**3.9**	**(3.9)**	**-**	5.2	(5.2)	-
Cash finance costs(3)	**(22.9)**	**-**	**(22.9)**	(19.2)	-	(19.2)
Cash finance income(4)	**8.1**	**-**	**8.1**	5.4	-	5.4
Attributable profit	**47.0**	**27.5**	**74.5**	49.1	21.9	71.0
Other losses of joint ventures and associates(2)			**(1.1)**			(9.8)
Non-cash finance costs(3)			**(7.1)**			(3.8)
Non-cash finance income(4)			**4.0**			9.5
Profit before tax			**70.3**			66.9

(1) Operating profit from the housebuilding segment of £31.4m (2016: £27.1m) is stated before the allocation of administrative expenses of £3.9m (2016: £5.2m). This comprises £23.3m (2016: £15.3m) from St. Modwen Homes and £8.1m (2016: £11.8m) from the Persimmon joint venture.

(2) Stated before non-cash finance costs and income (being amortisation and movements in the fair value of derivative financial instruments) and tax of £1.1m (2016: £9.8m). These amounts are reclassified to other losses of joint ventures and associates.

(3) Cash finance costs represent interest payable on borrowings and finance lease obligations. Non-cash finance costs represent non-cash items, being amortisation, movements in the fair value of financial instruments and interest on pension scheme liabilities, as set out in note 4.

(4) Cash finance income represents interest receivable. Non-cash finance income represents non-cash items, being movements in the fair value of financial instruments and interest on pension scheme assets, as set out in note 4.

Other net income of £2.0m (2016: £4.2m) comprises revenue of £4.5m (2016: £6.8m) less associated costs of £2.5m (2016: £2.6m).

Cost of sales in respect of rental income comprise direct operating expenses (including repairs and maintenance) related to the investment property portfolio and total £12.2m (2016: £12.6m), of which £0.7m (2016: £0.3m) is in respect of properties that did not generate any rental income.

During the year the following amounts were recognised (as part of development revenue and cost of sales) in respect of construction contracts:

	2017	2016
	£m	£m
Revenue	**28.0**	27.5
Cost of sales	**(23.4)**	(21.5)
Gross profit	**4.6**	6.0

Amounts recoverable on contracts as disclosed in note 10 comprise £1.0m (2016: £12.1m) of contract revenue recognised and £8.8m (2016: £3.2m) of retentions.

Contracts in progress at 30 November 2017 include the aggregate amount of costs incurred of £1.7m (2016: £17.2m), recognised profits less recognised losses to date of £1.0m (2016: £8.6m) and advances received of £3.4m (2016: £25.6m).

c. Segment assets and liabilities

	2017			2016		
	Portfolio	**House-building**	**Total**	Portfolio	House-building	Total
	£m	**£m**	**£m**	£m	£m	£m
Investment property	**1,168.5**	**-**	**1,168.5**	1,144.7	-	1,144.7
Inventories	**161.1**	**191.6**	**352.7**	103.5	126.2	229.7
Investments in joint ventures and associates	**119.6**	**-**	**119.6**	184.8	-	184.8
Attributable assets	**1,449.2**	**191.6**	**1,640.8**	1,433.0	126.2	1,559.2
Operating property, plant and equipment			**5.1**			4.2
Trade and other receivables			**74.4**			112.3
Cash and cash equivalents			**0.5**			4.2
Trade and other payables			**(196.1)**			(154.1)
Derivative financial instruments			**(4.0)**			(7.2)
Borrowings and finance lease obligations			**(491.9)**			(527.4)
Tax payable			**(6.2)**			(7.1)
Deferred tax			**(16.6)**			(22.0)
Net assets			**1,006.0**			962.1

Investment and commercial property assets as defined in our banking facility agreement at 30 November 2017 were £958.2m (2016: £873.1m).

2. Non-statutory information

The purpose of this note is to explain, analyse and reconcile a number of non-statutory financial performance and financial position metrics, which are used extensively by the Group to monitor its performance. These metrics reflect the way in which the Group is run, that the Group is in the real estate sector, and in particular that the Group reviews and reports performance of its joint ventures and associates in the same way as it would if they were subsidiaries. This means that proportionally consolidated measures (often referred to as see-through) are particularly relevant whilst also having the benefit of removing the taxation effects on equity accounted entities from the statutory profit before tax figure. A number of these measures are explained below:

Profit before all tax (see note 2a): This proportionally consolidated measure adjusts profit before tax to remove taxation on joint venture and associate profits from the profit before tax figure and as such, Group profit before tax of £70.3m (2016: £66.9m) can be reconciled to profit before all tax of £67.0m (2016: £60.8m) by adjusting profit before tax for the tax credit relating to joint ventures and associates of £3.3m (2016: £6.1m).

Trading profit (see note 2a): Trading profit is derived similarly to profit before all tax, but is stated before the principal non-cash income statement items included in this measure, being revaluation gains and losses, changes in the estimate of the obligation to establish the new Covent Garden flower market and non-cash financing charges. For a property group with a low depreciation charge and no intangible amortisation charge, this therefore represents a more useful measure than the EBITDA alternative performance measure used by many other companies. A trading cash flow measure is also disclosed in note 2f, which represents cash flows before the non-trading items of finance leases, net borrowings and dividends.

Property profits (see note 2a): This measure represents proportionally consolidated development profits plus proportionally consolidated gains on disposals of investment properties and therefore, like profit before all tax, ostensibly represents the proportionally consolidated amounts in respect of these two income statement lines, after an adjustment for net realisable value provisions.

Total accounting return (see note 2e): The Group's shareholders measure their returns in terms of both the Group's growth and the dividend return and total accounting return combines these two items. Whilst this is often measured by Total Shareholder Return which combines share price growth and dividend return, in the real estate sector, it is also insightful to consider net asset growth, which therefore directly reflects the most recent valuation of assets.

The Group's definition of total accounting return was revised in the year so that it now represents the movement in net asset value per share for the year plus dividends paid per share during the year, expressed as a percentage of net asset value per share at the start of the year. Previously, this measure was defined using EPRA net asset value rather than net asset value. This change reflects that the Group's strategy includes the repositioning and recycling of the Group's portfolio towards sectors with strong structural growth, whereas the EPRA model assumes that properties are retained.

In particular, the disposal of a property for its carrying value in the financial statements and the resulting payment of its recognised deferred tax liability does not result in a change in net assets, but does result in a decrease in EPRA net assets because the deferred tax that crystallises on disposal is no longer adjusted for in arriving at EPRA net assets. Note 2e sets out a total accounting return of 6.0% (2016: 5.6%) using the revised definition. Under the previous definition, total accounting return would have been 3.6% (2016: 4.5%).

a. Trading profit and profit before all tax

The non-statutory measures of trading profit and profit before all tax, which include the Group's share of joint ventures and associates, have been calculated as set out below:

	2017			2016		
	Group	**Joint ventures and associates**	**Total**	Group	Joint ventures and associates	Total
	£m	**£m**	**£m**	£m	£m	£m
Gross rental income	**61.0**	**6.6**	**67.6**	53.1	7.7	60.8
Property outgoings	**(12.2)**	**(1.6)**	**(13.8)**	(12.6)	(2.3)	(14.9)
Net rental income	**48.8**	**5.0**	**53.8**	40.5	5.4	45.9
Development profits(1)(2)	**53.7**	**0.9**	**54.6**	47.5	-	47.5
Gains on disposal of investments/investment properties	**6.7**	**0.7**	**7.4**	9.5	0.5	10.0
Other net income	**2.0**	**-**	**2.0**	4.2	-	4.2
Administrative expenses(2)	**(28.7)**	**(0.3)**	**(29.0)**	(28.5)	(0.8)	(29.3)
Cash finance costs(3)	**(22.9)**	**(9.7)**	**(32.6)**	(19.2)	(9.2)	(28.4)
Cash finance income(4)	**8.1**	**0.3**	**8.4**	5.4	0.8	6.2
Trading profit/(loss)	**67.7**	**(3.1)**	**64.6**	59.4	(3.3)	56.1
Investment property revaluation gains/(losses)(1)	**14.2**	**20.4**	**34.6**	30.0	(25.9)	4.1
Change in estimated cost to establish a market in Nine Elms	**-**	**(24.6)**	**(24.6)**	-	-	-
Non-cash finance costs(3)	**(7.1)**	**(5.3)**	**(12.4)**	(3.8)	(5.8)	(9.6)
Non-cash finance income(4)	**4.0**	**0.8**	**4.8**	9.5	0.7	10.2
Profit/(loss) before all tax	**78.8**	**(11.8)**	**67.0**	95.1	(34.3)	60.8
Taxation	**(10.2)**	**3.3**	**(6.9)**	(13.3)	6.1	(7.2)
Profit/(loss) for the year	**68.6**	**(8.5)**	**60.1**	81.8	(28.2)	53.6
Effective tax rate	**12.9%**	**28.0%**	**10.3%**	14.0%	17.8%	11.8%

(1) Stated before the deduction of net realisable valuation provisions within the Group of £2.0m (2016: £0.3m). These are reclassified to investment property revaluation gains.

(2) Stated after the deduction of overheads directly attributable to the housebuilding business within the Group of £7.2m (2016: £4.5m). These are reclassified from administrative expenses. Of the £53.7m (2016: £47.5m) of development profits within the Group, £31.4m (2016: £27.1m) is attributable to the housebuilding segment, as set out in note 1.

(3) Cash finance costs represent interest payable on borrowings and finance lease obligations. Non-cash finance costs represent non-cash items, being amortisation, movements in the fair value of financial instruments and interest on pension scheme liabilities, as set out in note 4.

(4) Cash finance income represents interest receivable. Non-cash finance income represents non-cash items, being movements in the fair value of financial instruments and interest on pension scheme assets, as set out in note 4.

b. Property valuations

Property valuations, including, the Group's share of joint ventures and associates, have been calculated as set out below:

	2017			2016		
	Group	**Joint ventures and associates**	**Total**	Group	Joint ventures and associates	Total
	£m	**£m**	**£m**	£m	£m	£m
Property revaluation gains/(losses)	**16.2**	**20.4**	**36.6**	30.3	(25.9)	4.4
Net realisable value provisions	**(2.0)**	**-**	**(2.0)**	(0.3)	-	(0.3)
Property valuation gains/(losses)	**14.2**	**20.4**	**34.6**	30.0	(25.9)	4.1

c. Balance sheet

The balance sheet, including the Group's share of joint ventures and associates, is derived from the Group balance sheet as detailed below:

	2017 Group	2017 Joint ventures and associates	2017 Total	2016 Group	2016 Joint ventures and associates	2016 Total
	£m	**£m**	**£m**	£m	£m	£m
Property portfolio	**1,516.0**	**148.0**	**1,664.0**	1,370.5	381.8	1,752.3
Other assets	**85.5**	**82.0**	**167.5**	122.0	40.5	162.5
Gross assets	**1,601.5**	**230.0**	**1,831.5**	1,492.5	422.3	1,914.8
Net borrowings	**(433.8)**	**45.6**	**(388.2)**	(470.0)	(47.0)	(517.0)
Finance leases	**(57.0)**	**(0.9)**	**(57.9)**	(56.8)	(0.9)	(57.7)
Other liabilities	**(224.3)**	**(155.1)**	**(379.4)**	(188.4)	(189.6)	(378.0)
Gross liabilities	**(715.1)**	**(110.4)**	**(825.5)**	(715.2)	(237.5)	(952.7)
Net assets	**886.4**	**119.6**	**1,006.0**	777.3	184.8	962.1
Non-controlling interests	**(5.7)**	**-**	**(5.7)**	(6.9)	-	(6.9)
Equity attributable to owners of the Company	**880.7**	**119.6**	**1,000.3**	770.4	184.8	955.2

d. Property portfolio

The property portfolio, including the Group's share of joint ventures and associates, is derived from the Group balance sheet as detailed below:

	2017 Group	2017 Joint ventures and associates	2017 Total	2016 (restated) Group	2016 (restated) Joint ventures and associates	2016 (restated) Total
	£m	**£m**	**£m**	£m	£m	£m
Investment properties	**1,168.5**	**139.7**	**1,308.2**	1,144.7	376.3	1,521.0
Less assets held under finance leases not subject to revaluation	**(5.2)**	**(0.9)**	**(6.1)**	(3.9)	(0.9)	(4.8)
Inventories	**352.7**	**9.2**	**361.9**	229.7	6.4	236.1
Property portfolio	**1,516.0**	**148.0**	**1,664.0**	1,370.5	381.8	1,752.3

As at 30 November 2017 the Group had assets of £354.8m (2016: £328.3m) included within the Group property portfolio (excluding joint ventures and associates) which were wholly owned, unencumbered and able to be pledged as security for the Group's debt facilities.

The property portfolio, including the Group's share of joint ventures and associates, can be split by category as detailed below:

	2017 Group	2017 Joint ventures and associates	2017 Total	2016 Group	2016 Joint ventures and associates	2016 Total
	£m	**£m**	**£m**	£m	£m	£m
Industrial and logistics	**244.2**	**61.6**	**305.8**	224.3	59.2	283.5
Retail	**328.7**	**14.1**	**342.8**	327.9	14.3	342.2
Residential and other	**187.9**	**7.0**	**194.9**	151.6	9.4	161.0
Income producing property	**760.8**	**82.7**	**843.5**	703.8	82.9	786.7
Residential assets	**504.1**	**57.1**	**561.2**	460.2	281.8	742.0
Commercial assets	**251.1**	**8.2**	**259.3**	206.5	17.1	223.6
Property portfolio	**1,516.0**	**148.0**	**1,664.0**	1,370.5	381.8	1,752.3

e. Total accounting return

Total accounting return is calculated as set out below:

	2017 Pence per share	2016 Pence per share
Net asset value per share at end of year (note 3)	**450.9**	431.0
Less net asset value per share at start of year (note 3)	**(431.0)**	(413.5)
Increase in net asset value per share	**19.9**	17.5
Dividend paid per share (note 7)	**6.1**	5.8
Total accounting return per share	**26.0**	23.3
Total accounting return	**6.0%**	5.6%

f. Trading cash flow

Trading cash flows are derived from the Group cash flow statement as set out below:

	2017	**Joint ventures**

	Operating activities	Investing activities	Financing activities	Total	and associates	Total
	£m	£m	£m	£m	£m	£m
Net rent and other income	**50.8**	**-**	**-**	**50.8**	**5.0**	**55.8**
Property disposals	**260.8**	**60.1**	**-**	**320.9**	**258.8**	**579.7**
Property acquisitions	**(50.8)**	**(17.5)**	**-**	**(68.3)**	**-**	**(68.3)**
Property expenditure	**(246.8)**	**(44.1)**	**-**	**(290.9)**	**(15.5)**	**(306.4)**
Working capital and other movements	**53.5**	**(3.4)**	**-**	**50.1**	**(80.1)**	**(30.0)**
Overheads and interest	**(36.0)**	**12.3**	**(26.1)**	**(49.8)**	**(9.7)**	**(59.5)**
Taxation	**(16.2)**	**-**	**-**	**(16.2)**	**(7.8)**	**(24.0)**
Trading cash flow	**15.3**	**7.4**	**(26.1)**	**(3.4)**	**150.7**	**147.3**
Finance leases	**-**	**-**	**(3.3)**	**(3.3)**	**-**	**(3.3)**
Net borrowings	**-**	**-**	**(39.9)**	**(39.9)**	**(21.7)**	**(61.6)**
Net dividends	**-**	**58.1**	**(15.2)**	**42.9**	**(58.1)**	**(15.2)**
Movement in cash and cash equivalents	**15.3**	**65.5**	**(84.5)**	**(3.7)**	**70.9**	**67.2**

	2016					
	Operating activities	Investing activities	Financing activities	Total	Joint ventures and associates	Total
	£m	£m	£m	£m	£m	£m
Net rent and other income	44.7	-	-	44.7	5.4	50.1
Property disposals	244.9	64.3	-	309.2	25.1	334.3
Property acquisitions	-	(38.5)	-	(38.5)	-	(38.5)
Property expenditure	(208.8)	(52.1)	-	(260.9)	(10.1)	(271.0)
Working capital and other movements	(25.3)	-	-	(25.3)	3.8	(21.5)
Overheads and interest	(32.3)	5.4	(20.7)	(47.6)	(9.2)	(56.8)
Taxation	(10.7)	-	-	(10.7)	(1.0)	(11.7)
Trading cash flow	12.5	(20.9)	(20.7)	(29.1)	14.0	(15.1)
Finance leases	-	-	0.6	0.6	(0.3)	0.3
Net borrowings	-	-	26.5	26.5	(2.8)	23.7
Net dividends	-	14.3	(12.9)	1.4	(14.3)	(12.9)
Movement in cash and cash equivalents	12.5	(6.6)	(6.5)	(0.6)	(3.4)	(4.0)

Cash generated (before new investment, tax and dividends) of £542.7m (2016: £306.4m) is derived from the tables above by adjusting trading cash flow to exclude property acquisitions, property expenditure and taxation and to include finance leases.

g. Movement in net debt

The movement in net debt is set out below:

	2017	2016
	£m	£m
Movement in cash and cash equivalents	**(3.7)**	(0.6)
Borrowings drawn	**(209.2)**	(160.5)
Repayment of borrowings	**249.1**	134.0
Decrease/(increase) in net borrowings	**36.2**	(27.1)
Fair value movement on convertible bond	**(4.2)**	7.7
Finance leases	**(0.2)**	(1.7)
Decrease/(increase) in net debt	**31.8**	(21.1)

h. Net borrowing and net debt

Net borrowing and net debt are calculated as set out below:

	2017			2016		
	Group	Joint ventures and associates	Total	Group	Joint ventures and associates	Total
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	**0.5**	**74.6**	**75.1**	4.2	3.7	7.9
Bank overdraft	**-**	**(4.5)**	**(4.5)**	-	(1.6)	(1.6)
Borrowings due after more than one year	**(434.9)**	**(24.5)**	**(459.4)**	(470.6)	(49.1)	(519.7)
Adjustment to restate convertible bond at book value	**0.6**	-	**0.6**	(3.6)	-	(3.6)
Net borrowings	**(433.8)**	**45.6**	**(388.2)**	(470.0)	(47.0)	(517.0)
Reversal of adjustment to restate convertible bond at book value	**(0.6)**	-	**(0.6)**	3.6	-	3.6
Finance lease liabilities due within one year	**(0.6)**	**-**	**(0.6)**	(0.4)	-	(0.4)
Finance lease liabilities due after more than one year	**(56.4)**	**(0.9)**	**(57.3)**	(56.4)	(0.9)	(57.3)
Net debt	**(491.4)**	**44.7**	**(446.7)**	(523.2)	(47.9)	(571.1)

i. Gearing and loan-to-value

The Group's capacity to borrow is primarily linked to the value of the property portfolio excluding assets held under finance leases. Accordingly both adjusted gearing and see-through loan-to-value are calculated using the comparable measure of net borrowings and see-through net borrowings respectively. Reflecting that residential assets are less attractive for security purposes, we also disclose see-through loan-to-value (excluding residential) using the comparable measure of see-through net borrowings. These terms are defined as follows:

Net borrowings: total borrowings (at amortised cost and excluding finance leases and fair value movements on the Group's convertible bond) less cash and cash equivalents.

See-through net borrowings: total borrowings (at amortised cost excluding finance leases and fair value movements on the Group's convertible bond) less cash and cash equivalents (including the Group's share of its joint ventures and associates). This includes the development account beneficially owned by one of our joint ventures VSM (NGCM) Limited, held for the purpose of funding the establishment of a market at Nine Elms, which would otherwise need to be funded by injecting cash into the joint venture in the future.

Adjusted gearing: the ratio of net borrowings to total equity.

See-through loan-to-value: see-through net borrowings expressed as a percentage of the Group's property portfolio excluding valued assets held under finance leases, calculated on a proportionally consolidated basis (including the Group's share of its joint ventures and associates).

See-through loan-to-value (excluding residential): see-through net borrowings expressed as a percentage of the Group's property portfolio excluding valued assets held under finance leases and residential land and developments, calculated on a proportionally consolidated basis (including the Group's share of its joint ventures and associates).

	2017 Group	**2017** Joint ventures and associates	**2017** Total	2016 Group	2016 Joint ventures and associates	2016 Total
	£m	**£m**	**£m**	£m	£m	£m
Property portfolio (note 2d)	**1,516.0**	**148.0**	**1,664.0**	1,370.5	381.8	1,752.3
Less valued assets held under finance leases	**(59.0)**	**-**	**(59.0)**	(57.8)	-	(57.8)
Net property portfolio	**1,457.0**	**148.0**	**1,605.0**	1,312.7	381.8	1,694.5
Less residential assets (note 2d)	**(504.1)**	**(57.1)**	**(561.2)**	(460.2)	(281.8)	(742.0)
Net property portfolio (excluding residential)	**952.9**	**90.9**	**1,043.8**	852.5	100.0	952.5
Total equity	**1,006.0**	**N/A**	**1,006.0**	962.1	N/A	962.1
Net debt (note 2h)	**491.4**	**(44.7)**	**446.7**	523.2	47.9	571.1
Net borrowings (note 2h)	**433.8**	**(45.6)**	**388.2**	470.0	47.0	517.0
Gearing	**48.8%**		**44.4%**	54.4%		59.4%
Adjusted gearing	**43.1%**		**38.6%**	48.9%		53.7%
Loan-to-value	**29.8%**		**24.2%**	35.8%		30.5%
Loan-to-value (excluding residential)	**N/A**		**37.2%**	N/A		54.3%

3. EPRA performance measures

This note sets out two performance measures of the European Public Real Estate Association (EPRA), calculated in accordance with their Best Practices Recommendations (BPR). These measures are intended to provide comparability and are explained in detail below:

EPRA earnings (see note 3a): For investors of real estate companies, a key measure of ongoing operational performance and the extent to which dividend payments are underpinned by earnings is the level of income arising from operational activities. EPRA earnings exclude unrealised valuation movements and profits on disposal to provide an indicator of the leasing and property management performance of a business.

Adjusted EPRA earnings (see note 3a): Whilst EPRA earnings provides a comparable measure for investors, it is not a relevant measure for housebuilders as it excludes all profits from such activity. On the basis that these profits are realised in cash and represent a core ongoing activity for the Group, a company specific adjustment is made to EPRA earnings in respect of this profit. Furthermore, the amortisation of loan arrangement fees represents a non-cash interest charge on an ongoing basis and therefore a further company specific adjustment is made for this. After adjusting these two items for tax, EPRA earnings can be reconciled to adjusted EPRA earnings, which provides a relevant cash-based profit measure that underpins the dividend policy of the Group.

EPRA net asset value (see note 3b): The objective of EPRA net asset value is to highlight the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of derivative financial instruments and deferred taxes on property valuation surpluses are therefore excluded, which facilitates a more objective comparison with peer companies.

a. Adjusted EPRA earnings

Adjusted EPRA earnings is calculated as set out below:

	2017 Group	**2017** Joint ventures and associates	**2017** Total	2016 Group	2016 Joint ventures and associates	2016 Total
	£m	**£m**	**£m**	£m	£m	£m

	2017 Group	2017 Joint ventures and associates	2017 Total	2016 Group	2016 Joint ventures and associates	2016 Total
Profit for the year	**68.6**	**(8.5)**	**60.1**	81.8	(28.2)	53.6
Less non-controlling interests	**(0.5)**	**-**	**(0.5)**	(0.2)	-	(0.2)
Profit for the year	**68.1**	**(8.5)**	**59.6**	81.6	(28.2)	53.4
Investment property revaluation (gains)/losses	**(16.2)**	**(20.4)**	**(36.6)**	(30.3)	25.9	(4.4)
Gains on disposal of investments/investment properties	**(6.7)**	**(0.7)**	**(7.4)**	(9.5)	(0.5)	(10.0)
Change in estimated cost to establish a market in Nine Elms(1)	**-**	**24.6**	**24.6**	-	-	-
Development profits(2)	**(51.7)**	**(0.9)**	**(52.6)**	(47.2)	-	(47.2)
Fee income(3)	**3.8**	**-**	**3.8**	2.1	-	2.1
Amortisation of discount on deferred payment arrangements(4)	**0.3**	**4.9**	**5.2**	0.4	5.2	5.6
Taxation in respect of profits or losses on disposal	**13.7**	**14.2**	**27.9**	9.0	-	9.0
Movement in fair value of financial instruments	**1.1**	**(0.8)**	**0.3**	(7.2)	(0.4)	(7.6)
Deferred tax in respect of EPRA adjustments	**(5.0)**	**(18.0)**	**(23.0)**	3.6	(6.0)	(2.4)
Non-controlling interests in respect of the above	**0.4**	**-**	**0.4**	0.1	-	0.1
EPRA earnings	**7.8**	**(5.6)**	**2.2**	2.6	(4.0)	(1.4)
Residential development profits	**31.4**	**-**	**31.4**	27.1	-	27.1
Amortisation of loan arrangement fees	**1.8**	**0.4**	**2.2**	1.2	0.3	1.5
Taxation in respect of company specific adjustments	**(6.3)**	**(0.1)**	**(6.4)**	(5.6)	(0.1)	(5.7)
Adjusted EPRA earnings	**34.7**	**(5.3)**	**29.4**	25.3	(3.8)	21.5

(1) The change in estimated cost to establish a market in Nine Elms represents a loss on property development and therefore forms part of the profits or losses on sale of trading properties that should be adjusted in arriving at EPRA earnings.

(2) Development profits exclude overheads directly attributable to the residential housebuilding business as these form part of the profits or losses on sale of trading properties that should be adjusted in arriving at EPRA earnings.

(3) Fee income is included within development profits, but does not meet the definition of profits or losses on sale of trading properties and is therefore not adjusted in arriving at EPRA earnings.

(4) The unwinding of discounts on deferred payment arrangements are linked to the disposal of either investment properties or inventory and are therefore adjusted in arriving at EPRA earnings.

Whilst the BPR defines EPRA earnings with reference to adjustments to the reported profit for the year, it can also be presented in the form of an income statement, comprising those items in the income statement not adjusted for in the reconciliation above:

	2017			2016		
	Group	**Joint ventures and associates**	**Total**	Group	Joint ventures and associates	Total
	£m	**£m**	**£m**	£m	£m	£m
Net rental income	**48.8**	**5.0**	**53.8**	40.5	5.4	45.9
Fee income	**3.8**	**-**	**3.8**	2.1	-	2.1
Other net income	**2.0**	**-**	**2.0**	4.2	**-**	4.2
Administrative expenses	**(28.7)**	**(0.3)**	**(29.0)**	(28.5)	(0.8)	(29.3)
Finance costs(1)	**(25.5)**	**(10.1)**	**(35.6)**	(21.3)	(9.8)	(31.1)
Finance income(2)	**9.0**	**0.3**	**9.3**	6.4	1.1	7.5
Taxation in respect of EPRA earnings measures	**(1.5)**	**(0.5)**	**(2.0)**	(0.7)	0.1	(0.6)
Non-controlling interests in respect of the above	**(0.1)**	**-**	**(0.1)**	(0.1)	**-**	(0.1)
EPRA earnings	**7.8**	**(5.6)**	**2.2**	2.6	(4.0)	(1.4)
Housebuilding development profit	**31.4**	**-**	**31.4**	27.1	**-**	27.1
Amortisation of loan arrangement fees	**1.8**	**0.4**	**2.2**	1.2	0.3	1.5
Taxation in respect of company specific adjustments	**(6.3)**	**(0.1)**	**(6.4)**	(5.6)	(0.1)	(5.7)
Adjusted EPRA earnings	**34.7**	**(5.3)**	**29.4**	25.3	(3.8)	21.5

(1) Finance costs for the purposes of EPRA earnings exclude movements in the fair value of financial instruments and amortisation of discount on deferred payment arrangements, as set out in note 4.

(2) Finance income for the purposes of EPRA earnings excludes movements in the fair value of financial instruments, as set out in note 4.

	2017			2016		
	£m	**Pence per share(1)**	**Percentage movement**	£m	Pence per share(1)	Percentage movement
Earnings	**59.6**	**26.9**	**11.6%**	53.4	24.1	N/A
EPRA earnings	**2.2**	**1.0**	**(266.7)%**	(1.4)	(0.6)	N/A
Adjusted EPRA earnings	**29.4**	**13.3**	**37.1%**	21.5	9.7	N/A

(1) The number of shares in issue used to calculate the earnings per share is 221,697,244 (2016: 221,368,096), as disclosed in note 6, excluding those shares held by The St. Modwen Properties PLC Employee Share Trust.

b. EPRA net asset value

EPRA net asset value is calculated as set out below:

	2017 Group	2017 Joint ventures and associates	2017 Total	2016 Group	2016 Joint ventures and associates	2016 Total
	£m	£m	£m	£m	£m	£m
Total equity	**886.4**	**119.6**	**1,006.0**	777.3	184.8	962.1
Less non-controlling interests	**(5.7)**	**-**	**(5.7)**	(6.9)	-	(6.9)
Net asset value	**880.7**	**119.6**	**1,000.3**	770.4	184.8	955.2
Adjustments of inventories to fair value	**16.2**	**0.2**	**16.4**	13.6	-	13.6
EPRA triple net asset value	**896.9**	**119.8**	**1,016.7**	784.0	184.8	968.8
Deferred tax on capital allowances and revaluations	**18.8**	**4.2**	**23.0**	24.5	23.4	47.9
Mark-to-market of derivative financial instruments	**5.0**	**0.7**	**5.7**	2.4	1.4	3.8
EPRA net asset value	**920.7**	**124.7**	**1,045.4**	810.9	209.6	1,020.5

	2017 £m	2017 Pence per share[1]	2017 Percentage movement	2016 £m	2016 Pence per share[1]	2016 Percentage movement
Net asset value	**1,000.3**	**450.9**	**4.6%**	955.2	431.0	4.2%
EPRA triple net asset value	**1,016.7**	**458.3**	**4.8%**	968.8	437.2	4.4%
EPRA net asset value	**1,045.4**	**471.2**	**2.3%**	1,020.5	460.5	3.2%

(1) The number of shares in issue used to calculate the net asset values per share is 221,857,082 (2016: 221,607,654), as disclosed in note 14, excluding those shares held by The St. Modwen Properties PLC Employee Share Trust.

4. Finance costs and finance income

	2017	2016
	£m	£m
Interest payable on borrowings	**20.8**	18.1
Interest payable on finance lease obligations	**2.1**	1.1
Amortisation of loan arrangement fees	**1.8**	1.2
Amortisation of discount on deferred payment arrangements	**0.3**	0.4
Movement in fair value of convertible bond	**4.2**	-
Movement in fair value of derivative financial instruments	**-**	1.3
Interest on pension scheme liabilities	**0.8**	0.9
Total finance costs	**30.0**	23.0

	2017	2016
	£m	£m
Interest receivable	**8.1**	5.4
Movement in fair value of convertible bond	**-**	7.7
Movement in fair value of derivative financial instruments	**3.1**	0.8
Interest income on pension scheme assets	**0.9**	1.0
Total finance income	**12.1**	14.9

5. Taxation

a. Tax on profit on ordinary activities

The tax charge in the Group income statement is as follows:

	2017	2016
	£m	£m
Current tax		
Current year tax	**12.7**	11.9
Adjustments in respect of previous years	**2.6**	(5.2)
Total current tax	**15.3**	6.7
Deferred tax		
Impact of current year revaluations and indexation	**(2.6)**	2.9
Net use of tax losses	**-**	0.5
Other temporary differences	**1.2**	1.1
Change in rate for provision of deferred tax	**(2.4)**	-
Adjustments in respect of previous years	**(1.3)**	2.1
Total deferred tax	**(5.1)**	6.6
Total tax charge in the Group income statement	**10.2**	13.3

The tax charge relating to actuarial losses on pension schemes in the Group statement of comprehensive income is £nil (2016: £nil).

Following the sale of the student accommodation at Swansea University Bay Campus post-year end as disclosed in note 15 and excluding certain companies in the process of being liquidated, all of the Group's subsidiaries, joint ventures and associates are subject to full UK corporation tax.

b. Reconciliation of effective tax rate

	2017 £m	2016 £m
Profit before tax	**70.3**	66.9
Less loss/(profit) of joint ventures and associates (post-tax)	**8.5**	28.2
Pre-tax profit attributable to the Group	**78.8**	95.1
Corporation tax at 19.33% (2016: 20.00%)	**15.2**	19.0
Effect of non-deductible expenses and non-chargeable income	**0.1**	0.5
Impact of indexation on investment property	**(4.0)**	(3.1)
Change in rate used for provision of deferred tax	**(2.4)**	-
Current year charge	**8.9**	16.4
Adjustments in respect of previous years	**1.3**	(3.1)
Tax charge for the year	**10.2**	13.3
Effective rate of tax	**12.9%**	14.0%

The post-tax results of joint ventures and associates are stated after a tax credit of £3.3m (2016: a credit of £6.1m). The effective tax rate for the Group including joint ventures and associates is a charge of 10.3% (2016: 11.8%).

Legislation substantively enacted at 30 November 2017 included provisions which reduced the main rate of corporation tax from 20% to 19% from 1 April 2017 and 17% from 1 April 2020. Current tax has therefore been provided at 19.33% and deferred tax at rates from 17% to 19%. The £2.4m credit due to the change in rate used for the provision of deferred tax is predominantly due to reflecting the deferred tax arising on the majority of the investment property portfolio at the long-term rate of 17% rather than the previously used rate of 19%.

c. Balance sheet

	2017 Current tax £m	2017 Deferred tax £m	2016 Current tax £m	2016 Deferred tax £m
Balance at start of the year	**7.1**	**22.0**	11.1	15.4
Charged to the Group income statement	**15.3**	**(5.1)**	6.7	6.6
Recognised within the Group statement of changes in equity	-	**(0.3)**	-	-
Net payment	**(16.2)**	**-**	(10.7)	-
Balance at end of the year	**6.2**	**16.6**	7.1	22.0

An analysis of the deferred tax provided by the Group is given below:

	2017 Asset £m	2017 Liability £m	2017 Net £m	2016 Asset £m	2016 Liability £m	2016 Net £m
Property revaluations	**-**	**13.8**	**13.8**	-	19.4	19.4
Capital allowances	**-**	**5.0**	**5.0**	-	5.1	5.1
Appropriations to trading stock	**-**	**0.3**	**0.3**	-	0.3	0.3
Other temporary differences	**(2.5)**	**-**	**(2.5)**	(2.8)	-	(2.8)
Total deferred tax	**(2.5)**	**19.1**	**16.6**	(2.8)	24.8	22.0

At the balance sheet date, the Group has unused tax losses in relation to 2017 and prior years of £0.5m (2016: £0.8m), of which £nil (2016: £nil) has been recognised as a deferred tax asset. A deferred tax asset of £0.5m (2016: £0.8m) has not been recognised in respect of current and prior year tax losses as it is not considered sufficiently certain that there will be taxable profits available in the short term against which these can be offset. These unrecognised losses arise predominantly within connected parties, for which group relief is not available.

6. Earnings per share

	2017 Number of shares	2016 Number of shares
Weighted number of shares in issue	**221,697,244**	221,368,096
Weighted number of diluted shares relating to the convertible bond	**-**	18,888,595
Weighted number of diluted shares relating to share options	**1,832,311**	1,923,809
Weighted number of shares for the purposes of diluted earnings per share	**223,529,555**	242,180,500

	2017 £m	2016 £m
Earnings for the purposes of basic earnings per share, being profit for the year attributable to owners of the Company	**59.6**	53.4
Effect of dilutive potential ordinary shares:		
Interest on convertible bond (net of tax)	**-**	2.3
Movement in fair value of the convertible bond	**-**	(7.7)
Earnings for the purposes of diluted earnings per share	**59.6**	48.0

	2017 Pence	2016 Pence
Basic earnings per share	**26.9**	24.1
Diluted earnings per share	**26.7**	19.8

Shares held by The St. Modwen Properties PLC Employee Share Trust are excluded from the above calculation.

Note 3 sets out details of EPRA and adjusted EPRA earnings per share.

7. Dividends

Dividends paid during the year were in respect of the final dividend for 2016 and interim dividend for 2017. The proposed final dividend of 4.26 pence per share is subject to approval at the Annual General Meeting and has not been included as a liability in these financial statements.

	2017 Pence per share	2017 £m	2016 Pence per share	2016 £m
Paid				
Final dividend in respect of previous year	**4.06**	**9.0**	3.85	8.5
Interim dividend in respect of current year	**2.02**	**4.5**	1.94	4.3
Total paid	**6.08**	**13.5**	5.79	12.8
Proposed				
Current year final dividend	**4.26**	**9.5**	4.06	9.0

The St. Modwen Properties PLC Employee Share Trust waives its entitlement to dividends with the exception of 0.01 pence per share.

8. Investment property

	Freehold investment properties £m	Leasehold investment properties £m	Total £m
At 30 November 2015 (restated)	971.7	121.2	1,092.9
Property acquisitions	38.5	-	38.5
Additions	50.7	0.8	51.5
Net transfers to inventories (note 11)	(13.3)	-	(13.3)
Disposals	(51.3)	(3.7)	(55.0)
Movement in lease incentives	0.3	(0.5)	(0.2)
Gain on revaluation	24.0	6.3	30.3
At 30 November 2016 (restated)	**1,020.6**	**124.1**	**1,144.7**
Property acquisitions	**24.8**	**-**	**24.8**
Additions	**42.7**	**2.8**	**45.5**
Net transfers to inventories (note 11)	**(3.0)**	**-**	**(3.0)**
Disposals	**(58.1)**	**(2.8)**	**(60.9)**
Movement in lease incentives	**1.5**	**(0.3)**	**1.2**
Gain on revaluation	**16.2**	**-**	**16.2**
At 30 November 2017	**1,044.7**	**123.8**	**1,168.5**

Investment properties were valued at 30 November 2017 and 30 November 2016 by Cushman & Wakefield, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of market value. Cushman & Wakefield are professionally qualified independent external valuers and had appropriate recent experience in the relevant location and category of the properties being valued.

The historical cost of investment properties at 30 November 2017 was £927.8m (2016 (restated): £891.3m).

As at 30 November 2017, £790.2m (2016: £800.5m) of investment property was pledged as security for the Group's loan facilities. This security has subsequently been released as part of the Group's refinancing to move to unsecured facilities in December 2017, as disclosed in note 15.

Included within investment properties are £64.2m (2016: £61.7m) of assets held under finance leases.

9. Joint ventures and associates

The Group has the following four material joint venture companies, for which information is provided separately in this note:

Name	Status	Interest	Activity
Key Property Investments Limited	Joint venture	50%	Property investment and development
VSM Estates Uxbridge (Group) Limited	Joint venture	50%	Property investment
VSM Estates (Holdings) Limited	Joint venture	50%	Property investment
VSM (NCGM) Limited	Joint venture	50%	Property investment and development

A series of commercial contracts with Persimmon is commonly referred to as the 'Persimmon joint venture'. This is not a statutory entity and the results from these commercial contracts are not included in the figures disclosed in this note. Revenue and profit from the Persimmon joint venture are recognised in Group development profit on legal completion of housing unit sales to third-party customers.

The Group's share of the results for the year of its joint ventures and associates is:

	2017					
	Key Property Investments Limited	VSM Estates Uxbridge (Group) Limited	VSM Estates (Holdings) Limited	VSM (NCGM) Limited	Other joint ventures and associates	Total
	£m	£m	£m	£m	£m	£m
Net rental income	**4.9**	**(0.1)**	**-**	**-**	**0.2**	**5.0**
Development profits	**0.9**	**-**	**-**	**-**	**-**	**0.9**
Gains/(losses) on disposal of investments/investment properties	**0.1**	**-**	**(0.2)**	**0.8**	**-**	**0.7**
Investment property revaluation gains/(losses)	**9.5**	**(2.3)**	**(1.5)**	**14.5**	**0.2**	**20.4**
Change in estimated cost to establish a market in Nine Elms	**-**	**-**	**-**	**(24.6)**	**-**	**(24.6)**
Administrative expenses	**(0.1)**	**-**	**(0.1)**	**(0.1)**	**-**	**(0.3)**
Profit/(loss) before interest and tax	**15.3**	**(2.4)**	**(1.8)**	**(9.4)**	**0.4**	**2.1**
Finance cost	**(2.0)**	**(2.2)**	**(1.9)**	**(8.8)**	**(0.1)**	**(15.0)**
Finance income	**0.8**	**0.1**	**-**	**0.2**	**-**	**1.1**
Profit/(loss) before tax	**14.1**	**(4.5)**	**(3.7)**	**(18.0)**	**0.3**	**(11.8)**
Taxation	**(0.9)**	**0.5**	**(0.5)**	**4.2**	**-**	**3.3**
Profit/(loss) for the year	**13.2**	**(4.0)**	**(4.2)**	**(13.8)**	**0.3**	**(8.5)**

	2016					
	Key Property Investments Limited	VSM Estates Uxbridge (Group) Limited	VSM Estates (Holdings) Limited	VSM (NCGM) Limited	Other joint ventures and associates	Total
	£m	£m	£m	£m	£m	£m
Net rental income	5.5	(0.1)	-	-	-	5.4
Development profits	-	-	-	-	-	-
Gains/(losses) on disposal of investments/investment properties	0.8	-	(0.2)	-	(0.1)	0.5
Investment property revaluation gains/(losses)	1.2	(1.8)	(1.1)	(24.3)	0.1	(25.9)
Administrative expenses	(0.3)	-	(0.1)	(0.1)	(0.3)	(0.8)
Profit(loss) before interest and tax	7.2	(1.9)	(1.4)	(24.4)	(0.3)	(20.8)
Finance cost	(2.2)	(3.4)	(1.9)	(7.3)	(0.2)	(15.0)
Finance income	0.4	0.4	0.7	-	-	1.5
Profit/(loss) before tax	5.4	(4.9)	(2.6)	(31.7)	(0.5)	(34.3)
Taxation	(0.6)	0.9	(0.5)	6.3	-	6.1
Profit/(loss) for the year	4.8	(4.0)	(3.1)	(25.4)	(0.5)	(28.2)

Included in other joint ventures and associates above are results from associated companies of £0.1m (2016: £0.1m).

The Group's share of the balance sheet of its joint ventures and associates is:

	2017					
	Key Property Investments Limited	VSM Estates Uxbridge (Group) Limited	VSM Estates (Holdings) Limited	VSM (NCGM) Limited	Other joint ventures and associates	Total
	£m	£m	£m	£m	£m	£m
Property portfolio	**90.1**	**29.8**	**9.8**	**8.5**	**9.8**	**148.0**
Other assets	**5.7**	**-**	**34.8**	**36.7**	**4.8**	**82.0**
Gross assets	**95.8**	**29.8**	**44.6**	**45.2**	**14.6**	**230.0**
Net borrowings	**(26.5)**	**3.1**	**9.1**	**58.4**	**1.5**	**45.6**
Finance leases	**(0.9)**	**-**	**-**	**-**	**-**	**(0.9)**
Other liabilities	**(8.9)**	**(25.5)**	**(23.1)**	**(89.6)**	**(8.0)**	**(155.1)**
Gross liabilities	**(36.3)**	**(22.4)**	**(14.0)**	**(31.2)**	**(6.5)**	**(110.4)**
Net assets	**59.5**	**7.4**	**30.6**	**14.0**	**8.1**	**119.6**
Equity at 30 November 2016	**56.3**	**11.4**	**34.8**	**75.3**	**7.0**	**184.8**
Profit/(loss) for the year	**13.2**	**(4.0)**	**(4.2)**	**(13.8)**	**0.3**	**(8.5)**
Injection of capital	**-**	**-**	**-**	**-**	**1.4**	**1.4**
Dividends paid	**(10.0)**	**-**	**-**	**(47.5)**	**(0.6)**	**(58.1)**
Equity at 30 November 2017	**59.5**	**7.4**	**30.6**	**14.0**	**8.1**	**119.6**

	2016					
		VSM Estates	VSM		Other joint	

	Key Property Investments Limited	Uxbridge (Group) Limited	Estates (Holdings) Limited	VSM (NCGM) Limited	ventures and associates	Total
	£m	£m	£m	£m	£m	£m
Property portfolio	99.8	47.6	29.6	197.5	7.3	381.8
Other assets	3.4	4.5	28.3	0.5	3.8	40.5
Gross assets	103.2	52.1	57.9	198.0	11.1	422.3
Net borrowings	(37.3)	(12.6)	1.1	0.6	1.2	(47.0)
Finance leases	(0.9)	-	-	-	-	(0.9)
Other liabilities	(8.7)	(28.1)	(24.2)	(123.3)	(5.3)	(189.6)
Gross liabilities	(46.9)	(40.7)	(23.1)	(122.7)	(4.1)	(237.5)
Net assets	56.3	11.4	34.8	75.3	7.0	184.8
Equity at 30 November 2015	65.8	15.4	37.9	100.7	7.5	227.3
Profit/(loss) for the year	4.8	(4.0)	(3.1)	(25.4)	(0.5)	(28.2)
Dividends paid	(14.3)	-	-	-	-	(14.3)
Equity at 30 November 2016	56.3	11.4	34.8	75.3	7.0	184.8

Included in other joint ventures and associates above are net assets in relation to associated companies of £3.4m (2016: £3.3m).

New Covent Garden Market

The first parcel of land at Nine Elms, London, was released to VSM (NCGM) Limited during the year ended 30 November 2017 and was subsequently sold. The remaining liability to establish New Covent Garden Market continues to have a significant impact on the results and net assets of the Group's joint ventures.

Following the disposal during the year of the first parcel of land, the Group has undertaken a full review of the remaining works required to establish the market. The complicated nature of working on a site with a live market and an anticipated extended duration of the project have resulted in an increase in expected construction costs. Accordingly, VSM (NCGM) Limited increased its liability for the estimate of this forecast cost, with the Group's share of this increase being £24.6m.

The liability of VSM (NCGM) Limited to establish a new market facility for CGMA has been calculated by:

- the Board of VSM (NCGM) Limited, including representatives of VINCI and St. Modwen, assessing the costs of procuring the market facility at current rates;
- applying a current estimate of inflation for the period of the build of 2.5%; and
- discounting the forecast cash flows to today's value using a discount rate of 5%, considered by the Board of VSM (NCGM) Limited to appropriately reflect the risks and rewards of the procurement.

10. Trade and other receivables

	2017	2016 (restated)
	£m	£m
Non-current		
Amounts due from joint ventures and associates	**-**	6.0
Other receivables	**2.3**	2.2
Non-current receivables	**2.3**	8.2
Current		
Trade receivables	**8.5**	8.2
Prepayments and accrued income	**6.6**	8.1
Amounts due from joint ventures and associates	**26.5**	62.2
Amounts recoverable on contracts	**9.8**	15.3
Other receivables	**20.7**	10.3
Current receivables	**72.1**	104.1

11. Inventories

	2017	2016
	£m	£m
Income producing property	**38.3**	2.4
Residential assets	**202.6**	141.1
Commercial assets	**111.8**	86.2
Inventories	**352.7**	229.7

The movement in inventories during the two years ended 30 November 2017 is as follows:

	£m
At 30 November 2015	183.7
Acquisitions and additions	208.8
Net transfers from investment property (note 8)	13.3
Disposals (transferred to development cost of sales)	(176.1)
At 30 November 2016	**229.7**
Acquisitions	**67.4**
Additions	**246.8**
Net transfers from investment property (note 8)	**3.0**
Disposals (transferred to development cost of sales)	**(194.2)**

At 30 November 2017	352.7

The directors consider all inventories to be current in nature. The operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of issues including the strength of the property market.

Included within disposals of inventories are net realisable value provisions made during the year of £2.0m (2016: £0.3m).

As at 30 November 2017, £14.2m (2016: £19.7m) of inventory was pledged as security for the Group's loan facilities. This security has subsequently been released as part of the Group's refinancing to move to unsecured facilities in December 2017, as disclosed in note 15.

12. Trade and other payables

	2017	2016
	£m	£m
Current		
Trade payables	**44.2**	41.1
Amounts due to joint ventures and associates	**31.9**	17.8
Other payables and accrued expenses	**79.5**	82.9
Other payables on deferred terms	**20.4**	8.7
Current payables	**176.0**	150.5
Non-current		
Amounts due to joint ventures and associates	**8.5**	-
Other payables on deferred terms	**11.6**	3.6
Non-current payables	**20.1**	**3.6**

The payment terms of the other payables on deferred terms are subject to contractual commitments. In the normal course of events the payments will be made in line with either the disposal of investment properties held on the Group balance sheet, or the commencement of development. Net cash outflows on the settlement of the deferred consideration will therefore be limited.

13. Borrowings and finance lease obligations

	2017	2016
	£m	£m
Current		
Finance lease liabilities due in less than one year	**0.6**	0.4
Current borrowings and finance lease obligations	**0.6**	0.4
Non-current		
Amounts repayable between one and two years	**194.4**	-
Amounts repayable between two and five years	**240.5**	470.6
Non-current borrowings	**434.9**	470.6
Finance leases liabilities due after more than one year	**56.4**	56.4
Non-current borrowings and finance lease obligations	**491.3**	527.0

Where borrowings are secured, the individual bank facility has a fixed charge over a discrete portfolio of certain of the Group's property assets.

Note 15 gives details of the Group's refinancing exercise, completed and announced post-year end in December 2017.

14. Share capital

	2017		2016	
	Ordinary 10p shares	**Equity share capital**	Ordinary 10p shares	Equity share capital
	Number	**£m**	Number	£m
At start of year	**221,876,988**	**22.2**	221,876,988	22.2
Issue of shares	**500,000**	**-**	-	-
At end of year	**222,376,988**	**22.2**	221,876,988	22.2

The Company has a single class of share capital which is divided into ordinary shares of 10 pence each, all ranking pari passu. Each share carries the right to one vote at general meetings of the Company. The holders of ordinary shares are entitled to receive dividends when declared.

During the year ended 30 November 2017, the Group issued 500,000 Ordinary shares of 10p each at par. The shares were allotted and issued to The St. Modwen Properties PLC Employee Share Trust to satisfy the exercise of awards made under the Company's share-based incentive arrangements. No shares were issued during the year ended 30 November 2016.

Excluding 519,906 (2016: 269,334) of own shares held by The St. Modwen Properties PLC Employee Share Trust, shares in issue at 30 November 2017 are 221,857,082 (2016: 221,607,654).

15. Subsequent events

Completion of refinancing

The Group completed its refinancing in December 2017, replacing £488.0m of bilateral secured debt facilities with a £475.0m unsecured revolving credit facility with an initial maturity of five years which can be extended to a maximum of seven years, subject to lender consent. In line with our strategic plans, the refinancing provides a reduced cost of debt and improved operational flexibility.

The transition to unsecured debt financing provides the Group with the option to extend further its debt maturity profile and diversify its sources of unsecured finance ahead of the maturity of the Group's £100.0m convertible bond and £80.0m retail bond in 2019. In doing so, the Group settled its balance sheet liability for out of the money interest rate swaps for a cash outlay of £5.1m and entered into an interest rate cap. This hedging activity will result in initial annual savings of circa £2.5m. A non-cash expense of £3.4m will be recognised in the first half of the Group's 2018 financial year in respect of capitalised arrangement fees relating to the previous facilities. These actions increased the Group's weighted average facility life 2.7 years at 30 November 2017 to 4.1 years (or to 5.5 years if the two one-year extensions are applied).

Sale of Swansea student accommodation

In February 2018, the Group completed the sale of its 45-year leasehold interest in its purpose-built student accommodation at Swansea University Bay Campus for a total cash consideration of £87.3m to UPP Group Limited, a specialist provider of on-campus student accommodation infrastructure and support services. The assets that have been sold comprise the Group's interests in the completed student accommodation buildings, including ancillary commercial leases. The sale is by way of a disposal of the entire issued share capital of St. Modwen Properties VIII S.à.r.l. and St. Modwen (SAC 2) Limited and certain freehold interests.

The planned disposal follows a competitive sales process and was broadly in line with book value. The gross consideration for the 45-year leasehold asset is £139.3m, representing a yield of 5.7%, with a cash consideration of £87.3m reflecting the transfer of the associated finance lease liability. The disposal will result in the reduction of circa £5.8m of net rental income compared to 2017, offset by the reduction of £2.1m of interest payable on finance lease obligations.

PRINCIPAL RISKS AND UNCERTAINTIES

for the year ended 30 November 2017

St. Modwen's business model exposes the Group to a variety of external and internal risks. At a macro level, there is continued uncertainty due to political and economic factors outside of the Group's control which could have a significant impact, both positively and negatively, on the business. These include Government policy at both a national and local level, monetary policy, investor confidence and the availability and affordability of mortgages. The Group believes that this macro level uncertainty will continue in the medium term, particularly as the implications from the UK withdrawing from the EU are still to be fully understood. Whilst the Group's ability to influence external factors remains limited, the business continues to remain vigilant by proactively monitoring the wider business environment, operating an agile delivery model allowing the Group to respond quickly to changes in the risk profile and maintaining a strong financial position.

Following the Board's consideration of the Group's principal risks against the revised strategic objectives, the financial collapse or dispute with a key joint venture partner, included as a principal risk in 2016, is no longer considered to be a principal risk in 2017. This reflects the reduced risk as a consequence of the scaling down of the joint venture with Persimmon Homes and the sale of 10 acres at Nine Elms Square. The risk exposure relating to the construction of the New Covent Garden Market, which is being delivered in partnership with VINCI, is reflected within the risk of failing to manage major projects.

An additional risk has also been included within the 2017 principal risks and uncertainties, with respect to significant disruption to the Group's assets and business operations. This reflects the increased threat from terrorism, social disturbances and severe weather conditions as well as external cyber threats.

The following tables set out the principal risks which could prevent the achievement of the Group's strategic objectives and may have a material impact on the business. The risk levels disclosed represent residual risk after mitigation and references to strategic objectives are to the following:

A - Accelerate our commercial development
B - Grow our residential housebuilding business
C - Cement and grow our regeneration reputation
D - Portfolio focus and capital discipline

Economic market and environment

1. Downturn in market and economic conditions

Risk assessment: High	**Strategic objectives:** A,B,C	**Trend:** ↑

Impact

- Devaluation of assets
- Reduction in investor appetite
- Reduced occupier demand

Example risk indicators

- Weighted development pipeline

- Residential reservation rate
- Void rate

Commentary
During 2017 there has been continued uncertainty in the UK property market and broader UK economy.

The refreshed strategic plan ensures that we continue to focus on asset classes where there is continued, sustainable appetite and demand and in a variety of geographical regions. This diversification ensures that we are not exposed to any one sector or region. This is complemented by a considered medium-term disposal programme of drier assets which will see proceeds realised in tranches and reinvested in targeted asset classes.

We are in continuous communication with occupiers of our commercial assets to minimise the risk of rent default and void periods and invest in our residential sales team and customer services process to maximise upsell opportunities.

Mitigation
- Strategic focus on asset classes where there is the greatest demand and appetite
- Regional spread reduces risk exposure to any one area or location
- Active portfolio management of assets minimises revenue loss and achieves better than market utilisation of assets
- Extensive land bank with a continuing stream of planning applications
- Regular monitoring of macro level indicators

Construction, development and asset management

2. Changes to the planning framework at a national and regional level

Risk assessment: Low **Strategic objectives:** A,B,C **Trend:** →

Impact
- Failure to obtain planning permissions
- Failure to maximise returns from developments
- Loss of competitive advantage

Example risk indicators
- Weighted development pipeline
- Proportion of land bank with outline planning permission

Commentary
Recent policy announcements by the current UK Government have indicated a willingness to re-evaluate the planning framework to support the continued demand for brownfield development activity, particularly with respect to residential development, creating potential opportunities.

There is a continued focus on bringing forward land for redevelopment and our strategic plan and portfolio will enable us to take advantage of this demand.

Mitigation
- Regular dialogue with central and local government
- Active involvement in public consultations
- Use of high-quality professional advisors
- Constant monitoring of the planning framework by in-house experts

3. Failure to effectively manage major projects

Risk assessment: High **Strategic objectives:** A,B,C,D **Trend:** →

Impact
- Significant financial loss
- Negative reputational impact

Example risk indicators
- Speculative WIP exposure
- Commercial WIP exposure

Commentary
We use our extensive knowledge and experience in remediation, asset development and construction to manage our major projects. A number of our major projects are joint ventures which therefore shares the risk exposure whilst benefiting from the considerable expertise of both parties.

Major projects are subject to regular review by the Chief Executive, Senior Leadership Executive and the Board to ensure that we continue to manage these risks effectively.

Mitigation
- Joint ventures on a number of major projects reduce the overall risk exposure
- Significant in-house development skills and expertise
- Sites are often prime locations allowing flexibility over their use and increasing development options
- Regular performance review by Senior Leadership Executive and the Board

4. Unforeseen exposures or rising costs and liabilities on projects

Risk assessment: High **Strategic objectives:** A,B,C **Trend:** →

Impact
- Inability to deliver development scheme
- Financial loss on major projects

Example risk indicators
- Speculative WIP exposure
- Future development profits secured
- Client claims

Commentary
All developments are subject to financial appraisal and are approved in accordance with defined authority limits. Our

contractor selection and management processes are rigorous and we continue to favour financially stable and robust contractors. Subcontractor packages and direct material purchases are subject to our robust procurement processes and are competitively tendered to secure the best value.

All developments and cost forecasts are subject to regular review and challenge at a regional level and by the Senior Leadership Executive. Well-established processes also exist acting as early warning indicators for any potential claims or material increases in cost forecasts.

To date, labour and material costs have remained in line with expectations. It is, however, acknowledged that fluctuations in the value of sterling and inflationary pressures may lead to an increase in the cost of both labour and materials in the medium term. We continue to monitor this closely, with focus on the budgeting and forecasting process and continuing close working relationships with subcontractors.

Mitigation

- Use and close supervision of a preferred supply chain of high-quality trusted suppliers and professionals
- Robust procurement and purchasing processes in place
- Detailed budgets are established for each project which are regularly monitored with significant variances investigated
- Application of 'development' skills and expertise
- Projects, acquisitions and disposals are reviewed and financially appraised in detail, with clearly defined authority limits
- Contractual liability clearly defined
- Standard build specification continually reviewed

5. Absence of high-quality contractors, consultants and third parties

Risk assessment: Medium **Strategic objectives:** A,B,C **Trend:** ↑

Impact

- Adverse impact on the quality of work
- Reduced customer satisfaction impacting on St. Modwen's reputation
- Inability to meet demand and support the growth of the business
- Financial impact on the returns achieved on individual developments

Example risk indicators

- Quality satisfaction scores
- Considerate contractor scores

Commentary

The expansion of the business and increased volume of work, particularly in residential housing, has resulted in the need for additional contractors and consultants to meet this demand. Additionally, in the long term, any restriction on the movement of labour, as a result of negotiations with the EU, may result in the reduced availability of skills and expertise.

We continue to use trusted contractors and consultants working in a partnership approach. We also seek to continually develop our pool of third party expertise and ensure value for money at both a national and regional level through regular market testing. This ensures we do not become overly reliant on a single supplier.

Mitigation

- Regular tendering is undertaken for new consultants and contractors
- Reliance on a single consultant/contractor minimised through the use of pools of specialists
- Close monitoring of contractor/consultant performance and financial viability

Financial

6. Reduced availability of funding and unforeseen changes to cash flow requirements

Risk assessment: High **Strategic objectives:** A,B,C,D **Trend:** →

Impact

- Lack of liquidity
- Adverse impact on the saleability of assets
- Limits the ability of the business to meet its ongoing commitments
- Restricts the ability of the business to grow

Example risk indicators

- Minimum headroom
- Future facilities

Commentary

Our prudent approach to forward commitments, speculative development and asset disposals has enabled us to optimise operational cash flows and offset the impact of fluctuating market conditions.

Our banking relationships are strong, which enabled us, shortly after the year-end, to achieve one of our long-term goals of transitioning our banking facilities to unsecured from secured. This extended the maturities of these facilities as well as providing us with greater operational flexibility and access to more diverse sources of funding in the future.

The sale of land at Nine Elms Square, in addition to the sale of our residential assets at Swansea University subsequent to the year-end, considerably reduced our LTV whilst providing funds for additional development activity and over 80% of our borrowings were fixed or hedged at 30 November 2017.

At a regional level, we continue to focus on maximising income through rent reviews and lease renewals, and driving down operational cost.

Mitigation

- Recurring income from rent broadly covers the overhead and interest cost base
- Financial headroom is maintained to provide flexibility

- Regular and detailed cash flow forecasts enable monitoring of performance and management of future cash flows
- Strong relationships with key banks; all corporate debt refinanced until at least 2019

Regulatory and compliance

7. A major health and safety incident occurs or non-compliance with SHE legislation

Risk assessment: Medium **Strategic objectives:** A,B,C **Trend:** →

Impact

- Serious injury or death to an employee, client, contractor or member of the public
- Financial penalties
- Reputational damage

Example risk indicators

- Accident frequency rate

Commentary

The nature of our operations means that ensuring effective health and safety arrangements remains a priority as the Group has no appetite for health and safety risk exposure. Health and safety is discussed at each meeting of the Senior Leadership Executive and the Board.

The SHE committee has continued to meet during 2017 and is chaired by a member of the Senior Leadership Executive supported by a dedicated Health and Safety team who support in the development of policies and procedures, undertake health and safety audits and monitor health and safety incidents.

Furthermore, during the year a revised health and safety training programme was rolled out to all relevant staff.

Mitigation

- SHE Committee chaired by the St. Modwen Homes Managing Director
- Regular reporting of performance against indicators to the Senior Leadership Executive and the Board
- Dedicated in-house health and safety resource
- Annual cycle of SHE audits
- Defined business processes in place to proactively manage issues arising

8. Failure to manage long-term environmental issues relating to brownfield and contaminated sites

Risk assessment: Low **Strategic objectives:** A,B,C **Trend:** →

Impact

- Major environmental issue
- Financial and reputational damage

Example risk indicators

- Proportion of the land bank rated high for environmental risk factors
- Controllable reportable environmental incidents

Commentary

In line with our risk appetite, we are willing to accept a degree of environmental risk where opportunities for higher returns exist. The inherent risks are minimised or passed on wherever possible and the residual risk remains acceptably low.

We continue to undertake annual environmental audits of our portfolio to ensure we have visibility of, and can manage, environmental issues effectively. Actions arising from these audits are monitored through to implementation.

Mitigation

- Use of high-quality external advisors
- Risk assessments conducted as part of due diligence process
- Contamination remediated immediately following acquisition
- Cost plans allow for unforeseen remediation costs
- Annual independent audit of environment risk
- Full warranties for professional consultants and remediation contractors

Organisational

9. Inability to recruit and retain staff with the necessary skills and expertise

Risk assessment: Medium **Strategic objectives:** A,B,C,D **Trend:** ↑

Impact

- Significant disruption to the business
- Loss of intellectual property
- Adversely affects the ability to grow the business

Example risk indicators

- Voluntary employee turnover
- Employee satisfaction

Commentary

An HR Director was appointed in March 2017 to support in the delivery of the strategic plan through the 'organisational structure and its people' work stream. This has included the development of a detailed people plan which has been presented to the Board.

During 2017 there have been changes in the Senior Leadership Executive, supported by senior and experienced staff within each region. This has further strengthened the resilience of the business.

Mitigation

- Succession planning monitored at Board level and below
- Leadership and management development plans in place
- Regular review and benchmarking of remuneration packages

- Targeted recruitment with competitive, performance-driven remuneration packages to secure highly-skilled and motivated employees
- Key information is documented to safeguard knowledge

10. Significant disruption to our assets or business operations

Risk assessment: High **Strategic objectives:** A,B,C **Trend:** ↑

Impact

- Loss or corruption of data
- Inability to access St. Modwen assets
- Unavailability of IT systems
- Loss of revenue and potential financial penalties

Example risk indicators

- IT System availability
- Internal or external reportable data breaches

Commentary

Risk assessments are performed for those assets considered to be exposed to a higher risk of a significant event, such as terrorism, flood or fire occurring. Specific terrorism insurance is also in place across our asset portfolio.

Our IT resilience has been further strengthened during the year through incident penetration and information systems assessments. A GDPR Steering Group has been established with executive sponsorship supported by dedicated project resource to support the business in meeting the requirements of GDPR by May 2018.

Mitigation

- Asset risk assessments performed covering security, environmental and health and safety
- Specific terrorism insurance in place over Group portfolio
- Dedicated IT team to monitor IT security and performance of information systems
- Penetration and information systems reviews performed by independent third party
- Dedicated resource and project plan in place with defined activities for completion ahead of GDPR introduction in May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 30 November 2017

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations and this statement has been prepared in connection with the annual report and financial statements, certain parts of which are not included within this announcement.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including FRS 101 *Reduced Disclosure Framework*. 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 of the Company and of their profit or loss for that period.

In preparing each of the Group and 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, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs, as adopted by the EU;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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.

The directors are responsible for preparing a strategic report, corporate governance statement, directors' remuneration report and directors' report that complies with applicable law and regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website www.stmodwen.co.uk. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors in office as at the date of this report confirm that to the best of their 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 strategic report includes a fair review of the development and performance of the business and the

position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the directors in office as at the date of this report considers the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by:

Andrew Eames
General Counsel & Company Secretary (Interim)

5 February 2018

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