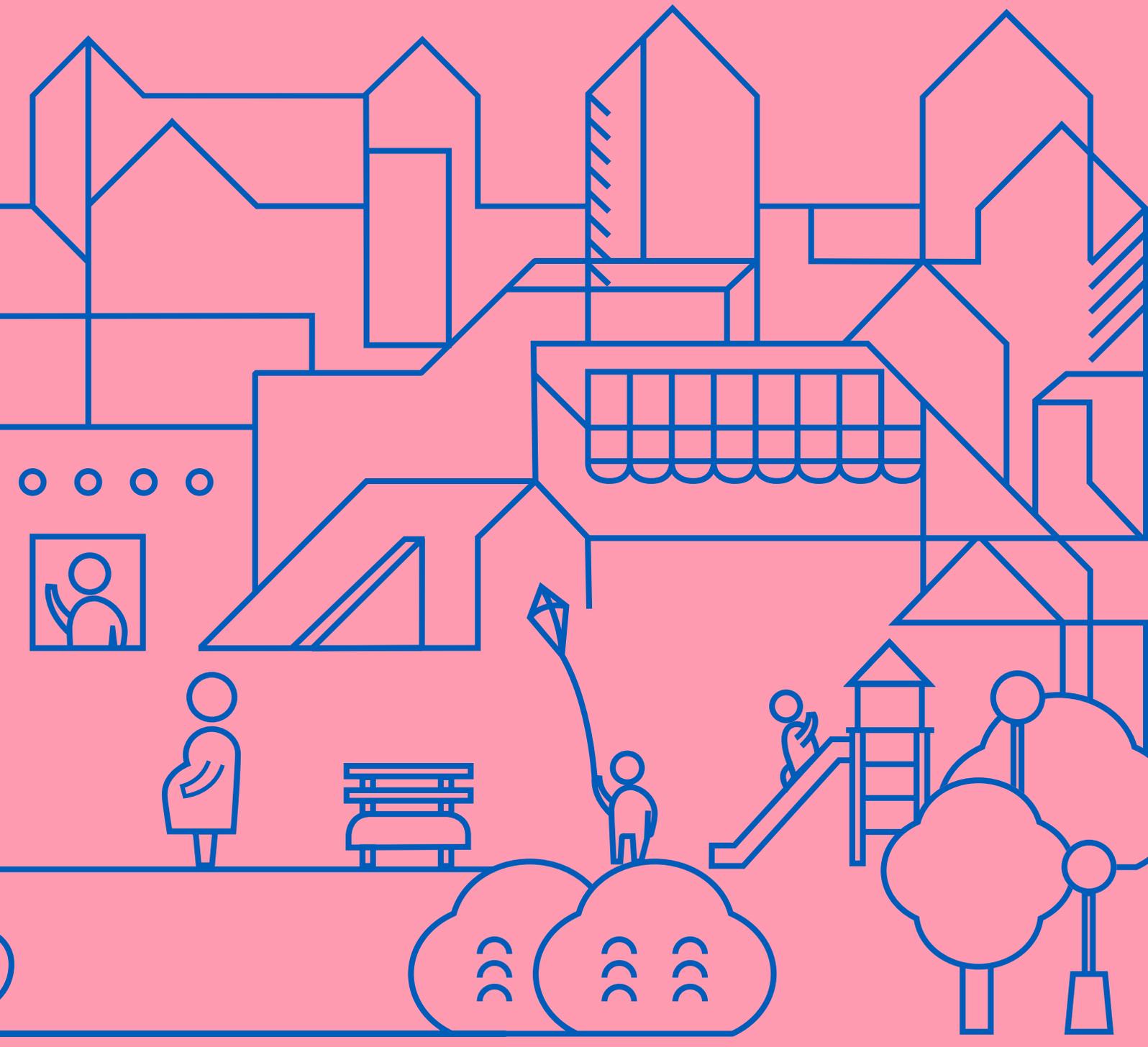


ST.MODWEN

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018



HIGHLIGHTS

STRATEGIC REPORT

1	Welcome
2	Our purpose
4	St. Modwen at a glance
7	Chairman's statement
8	Chief Executive's review
12	Our markets
14	Our business model
16	Our strategy and key performance indicators
22	Strategy in action
28	Stakeholder value creation
30	Our approach
40	Non-financial information statement
41	Portfolio and operational review
50	Financial review
54	Risk management
56	Principal risks and uncertainties
65	Viability statement

CORPORATE GOVERNANCE

67	Chairman's introduction to governance
68	Governance
70	The Board
77	Audit Committee report
86	Nomination Committee report
90	Directors' Remuneration report
114	Directors' report
119	Independent auditor's report

FINANCIAL STATEMENTS

128	Group income statement
128	Group statement of comprehensive income
129	Group balance sheet
130	Group statement of changes in equity
131	Group cash flow statement
132	Group accounting policies
140	Notes to the Group financial statements
176	Company balance sheet
177	Company statement of changes in equity
178	Company accounting policies
179	Notes to the Company financial statements
185	Five year record

ADDITIONAL INFORMATION

186	Glossary of terms
188	Notice of annual general meeting
194	Information for shareholders

2018 RESULTS

EPRA NAV per share⁽¹⁾

484.1 pence +2.7%

Total accounting return⁽¹⁾

6.0% +0ppt

Adjusted EPRA earnings⁽¹⁾

£31.7m +7.8%

Adjusted EPRA earnings per share⁽¹⁾

14.3 pence +7.5%

See-through loan-to-value⁽¹⁾

16.9% -6.3ppt

NAV per share

470.4 pence +4.3%

Total dividend per share

7.1 pence +13.1%

Profit for the year

£60.5m +0.7%

Basic earnings per share

27.1 pence +0.7%

Group net borrowings

£271.1m -37.5%

⁽¹⁾ These measures are non-statutory 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 notes 2 and 3 to the Group financial statements.

READY/ FOR THE FUTURE

This year has been one of focus, growth and portfolio transition for St. Modwen. Our progress has been strong.

We have sold £814m of assets, including £177m of non-core retail, in the past 18 months – more than 40% of our initial portfolio and well ahead of plan. Our net borrowings are reduced by 39%.

We have invested in our people, accelerated our development activity, and built a strong pipeline for growth. Our strategic focus is on sectors with long-term structural growth characteristics and we are well positioned for the opportunities that lie ahead.

These opportunities are significant. We have the knowledge, skills and resources to achieve our ambitious growth objectives, for the long-term success of our business and the benefit of all our stakeholders.

OUR PURPOSE IS THE HEART OF EVERYTHING



It's important we understand why we exist, what we are here to do and the value we want to create

Our values guide us, as individuals and teams, in how we approach our work, enabling us to live our purpose and deliver our strategy

Understanding, anticipating and responding to market drivers allows us to create a sustainable business model for long-term value

We have a clear strategy with focused objectives to ensure we capture growth opportunities effectively

For more on this topic
See below

For more on this topic
See page 4

For more on this topic
See pages 12 and 13

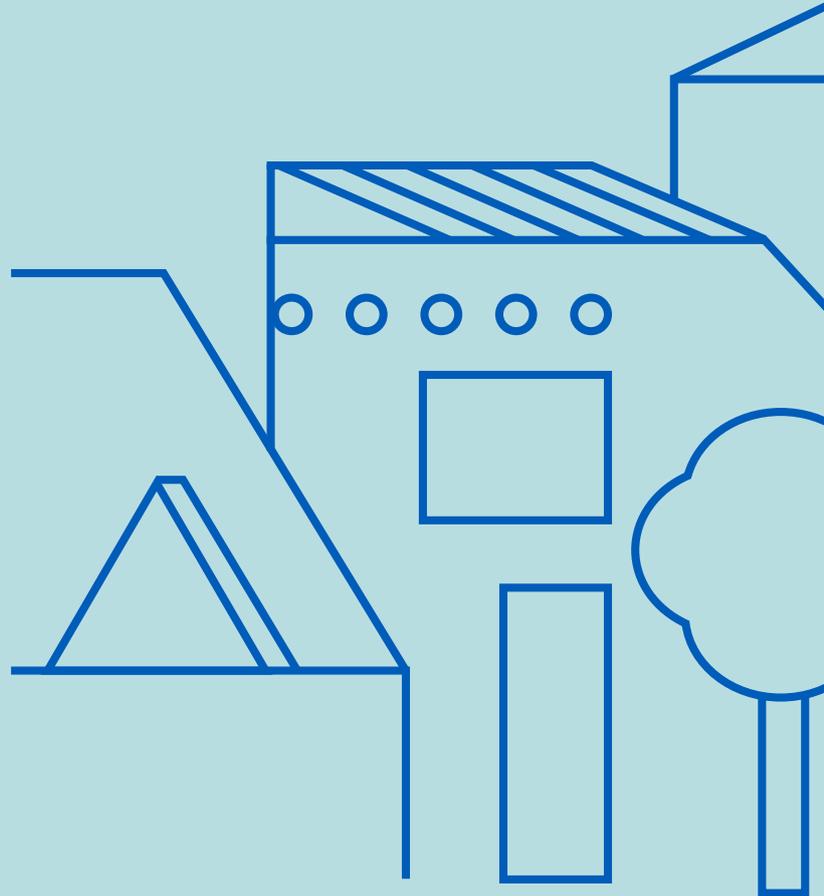
For more on this topic
See pages 14 to 17

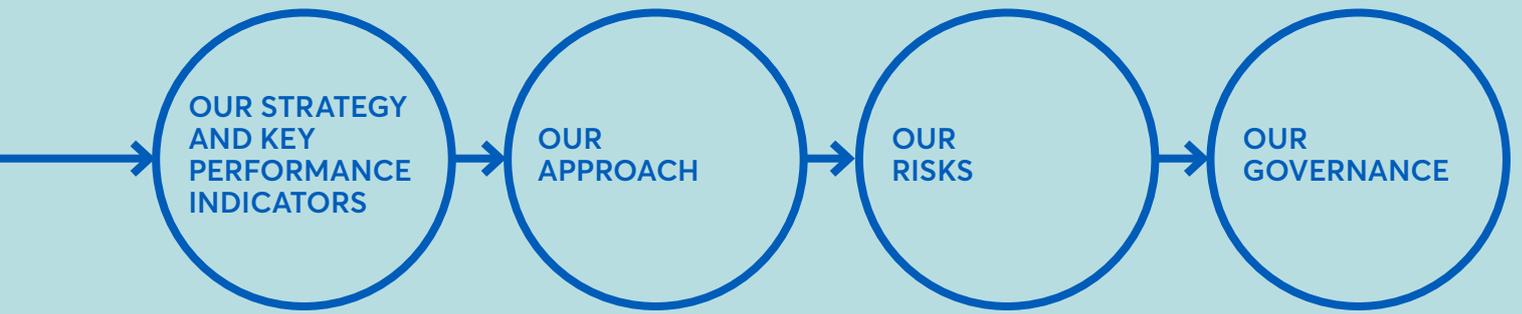
CHANGING PLACES/ CREATING BETTER FUTURES

We are leading the way in delivering quality places to live and work that enhance communities and create opportunities for growth and shared returns.

We transform, optimise and improve and our purpose is to give new meaning to those communities we live in and serve, and to the environments we develop.

Changing places. Creating better futures. This is our core purpose and the reason we exist as a business.





Our strategy is underpinned with three key objectives and our KPIs ensure we measure our progress and successful delivery

For more on this topic
See pages 18 to 21

We know that engaging with, and understanding the interests of, all our stakeholders is critical to the sustainability of our business

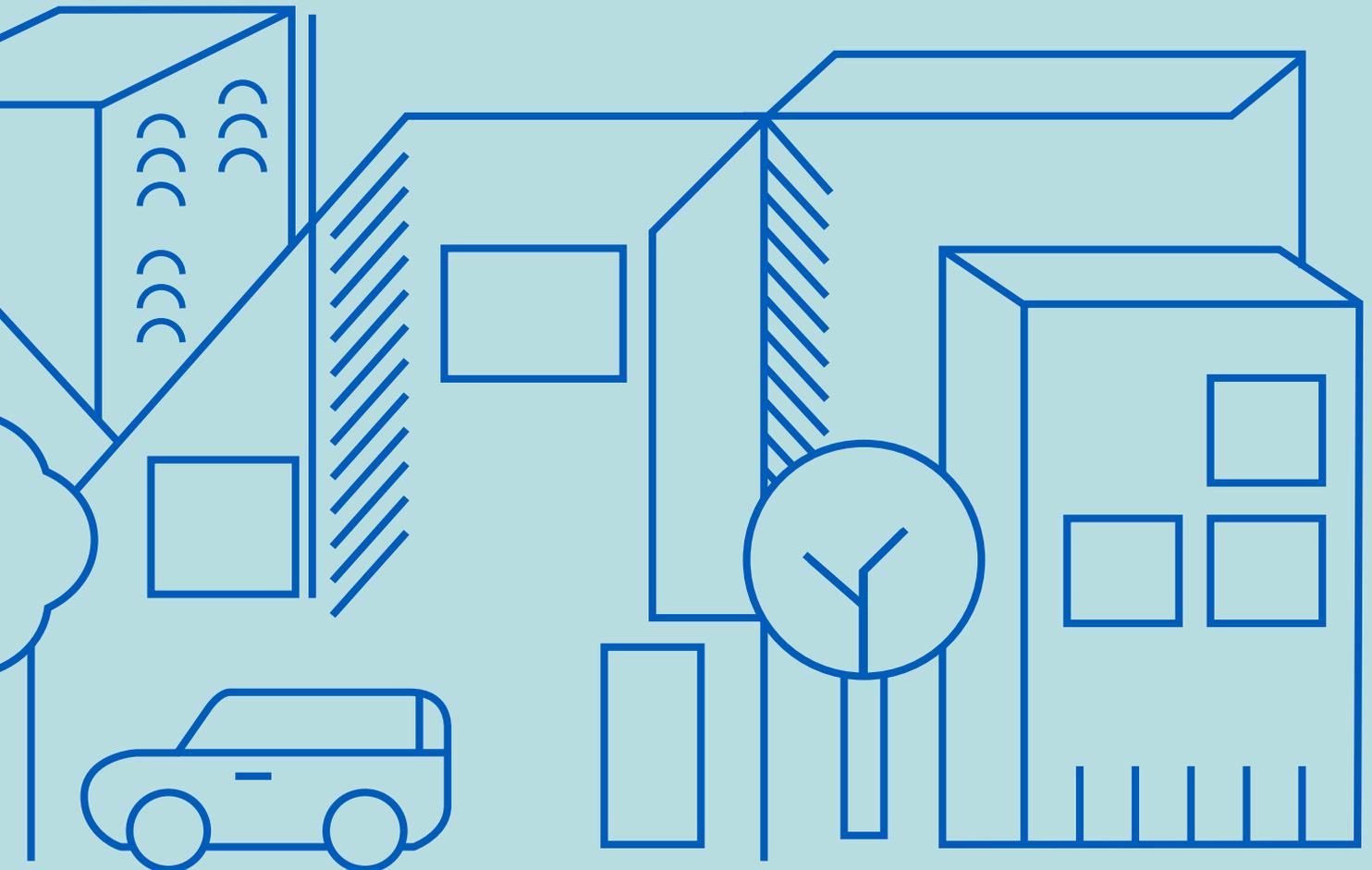
For more on this topic
See pages 30 to 39

We assess the risks to our business and strategy, taking action to mitigate any impact

For more on this topic
See pages 54 to 64

The stewardship of our Board ensures our business is managed effectively and appropriately

For more on this topic
See page 66 to 113



ST. MODWEN AT A GLANCE

WHO WE ARE

Over thirty years' experience as an expert developer and regeneration specialist, dealing with complex and challenging sites, has taught us to look at things differently, challenge the norm and create new and sustainable solutions to benefit all those involved.

We target strategic development sites that have the clear potential to benefit from our specialist skills. We turn these sites into inspirational and thriving new residential and business communities. We create places where communities grow, businesses flourish and people can feel and be at home.

WHAT WE DO

Today, we continue to unlock value and deliver quality outcomes across a wide range of activities, from regeneration to the long-term planning and development of industrial and logistics and residential assets, as well as active asset management.

We combine end-to-end expertise – through our network of regional offices, our residential business, our central asset management team and through joint ventures with public sector and industry leading partners – to deliver lasting results for all concerned.

We have an outstanding 30-year track record of adding value to schemes that we either own or partner on, managing projects through the planning process, delivery of infrastructure, direct development and packaging up and selling serviced land parcels.

KEY FACTS

Track record

30+ years

Income-producing portfolio

£598m

UK-wide portfolio

£1.4bn

Committed development pipeline

1.5m sq ft

Residential portfolio

£596m

Long-term industrial and logistics pipeline

15m+ sq ft

Total residential plots with planning recognition

15,500

People employed

599

WHERE WE OPERATE



OUR VALUES



WE UNLOCK POTENTIAL



WE BUILD QUALITY OUTCOMES



WE DO THE RIGHT THING



WE'RE JOINED UP



WE DO WHAT WE SAY



OUR STRATEGIC FOCUS

Build a high quality industrial and logistics business

We see long-term structural growth in the industrial and logistics sector, which will significantly improve the returns we generate for the business. We are developing high-quality industrial and logistics sites, offering occupiers well-located, premium specification units with excellent ease of access to transport links. Our speculative build programme continues, responding to robust occupier demand, and we have agreed terms on £5.6m of development lettings since the start of 2018, representing 0.8m sq ft of space.

For more on this topic
See pages 19 and 22 to 23

Industrial/logistics space delivered in 2018

0.9m sq ft

Committed industrial/logistics pipeline

1.5m sq ft

Long-term development pipeline

15m+ sq ft



Grow our residential and housebuilding business

The market for new-build housing in the UK regions remains resilient and we continue to see good demand for the new homes built by our housebuilding business, St. Modwen Homes. We also continue to see good demand from third-party housebuilders for 'oven-ready' development land. We have sold £53m of residential land this year and increased St. Modwen Homes volumes from 485 units in 2016 to 848 units in 2018, which has already driven a clear improvement in returns.

For more on this topic
See pages 20 and 24 to 25

Units delivered by St. Modwen Homes

848
(up 22.2%)

Operating profit for St. Modwen Homes

£31.3m
(up 34.3%)

Sales to housebuilders

49 acres
(for £53m)



Leverage our regeneration reputation

We believe in a different kind of regeneration, which creates places and experiences that deliver shared value, builds a lasting legacy and contributes to better futures for all. Regeneration sits at the heart of our purpose: Changing places. Creating better futures. Over the past three decades we have built up a strong track record and expertise in bringing complex sites back to life and creating places that matter. Places that offer employment, quality homes for families, and open spaces that make life better.

For more on this topic
See pages 21 and 26 to 27

Capital released out of first phases of development at Longbridge and Swansea Bay

£141m

Academic building for Swansea University delivered

40k sq ft





Bill Shannon
Chairman

CREATING VALUE/ NOW AND IN THE FUTURE

NAV per share

+4.3%

Adjusted EPRA EPS

+7.5%

Total dividend

+13.1%

Total accounting return

6.0%

In 2018, we delivered solid financial results for our shareholders and a measurable increase in momentum in delivering on our focused strategy, built around our core purpose, 'Changing places. Creating better futures.' This purpose captures our regeneration heritage and acts as an important reference point for all our activities. In delivering on our purpose we aim to create value for all our stakeholders, be it delivering high-quality homes for our customers; our investment in creating new, flourishing communities; or the investment in our people.

One of our main goals in the year was to realise certain non-core asset disposals to accelerate investment in the growth areas of St. Modwen Homes and industrial and logistics development. The momentum in this is illustrated by the sale of £529m of assets, including more than half of our retail portfolio, a 22% increase in St. Modwen Homes volumes and an increase in our committed industrial and logistics pipeline from 1.0m to 1.5m sq ft.

Our financial results included a 4.3% increase in NAV per share, a 7.5% increase in adjusted EPRA EPS and a 6.0% total accounting return. Pleasingly, we also reduced our see-through borrowings to £237m, reducing our see-through LTV to 16.9%. Based on the revised dividend policy we announced last year, we will distribute 50% of our adjusted EPRA EPS as dividend, resulting in a total dividend for the year of 7.1 pence per share; a 13.1% increase on the previous year.

Board changes

As announced this time last year, after eight years I will step down as Chairman at the AGM in March 2019. In September, we announced the appointment of Danuta Gray as Chair Designate, who will take over as Chairman after the upcoming AGM. She brings a wealth of Board and leadership experience to St. Modwen, amongst others from her positions as a non-executive director of Old Mutual plc, Direct Line Insurance Group plc and the Defence Board of the UK Ministry of Defence, her role as Senior Independent Director of Aldermore Group plc and her previous role as Chief Executive of Telefónica O2 Ireland. I am confident the business will benefit greatly from her broad knowledge and experience in the ongoing development and delivery of our strategy.

People and culture

In my eight years as Chair of St. Modwen I have come to regard us as a unique enterprise. Our regeneration credentials are truly proven and not only provide us with a competitive advantage in acquisitions, but also fuel the continued delivery of our purpose. There are many examples of this, but for me the living testament to this is Longbridge, which has gone from a redundant car factory to a vibrant place to live, work, shop and study for thousands of people in 14 years and which still has further exciting development opportunities ahead.

In order to be successful, businesses need a clear purpose and an agile strategy, but to deliver on this they need engaged people, with the right skills and motivation. For people to remain engaged requires a positive, supportive culture and values, which can be felt on any encounter with any member of St. Modwen. I have had very many opportunities to observe this and I want to thank everybody for their valued contribution.

Prospects

In signing off as Chair in March, I believe St. Modwen should be justifiably proud for what has been achieved so far and the business is well placed for the future. The external environment is unsettled but following more than £800m of disposals over the past 18 months our financial leverage is low, whilst our pipeline is focused on two sectors which benefit from structural growth; regional housebuilding and industrial and logistics. The short-cycle nature of our projects provides flexibility, but building on our unique track-record and expertise we are confident we can continue to create value for all our stakeholders. As the prospects for St. Modwen are positive, I am pleased to hand over to my successor when the business is in such great shape and I wish the business every success in continuing to deliver on its purpose: Changing places. Creating better futures.

Bill Shannon

Chairman

4 February 2019



Mark Allan
Chief Executive

READY FOR THE FUTURE/ MEANS BEING ABLE TO MEET THE NEEDS OF THE MARKET

Overview

2018 has been a year of excellent progress for St. Modwen. In line with our expectations, it has been a year of focus, portfolio transition and growth. We sold £529m of assets, on average in line with book value, increasing our focus on sectors with the strongest structural growth prospects; we completed on 0.9m sq ft of industrial and logistics developments; we grew St. Modwen Homes volumes by 22%; and we reduced our see-through net borrowings by 39%. The combination of all this has strengthened our asset and capital base and therefore leaves us well placed to deliver a meaningful improvement in earnings and return on capital in the years to come. At the same time, our purpose: 'Changing places. Creating better futures.' is starting to be more closely embedded; for example, in the product quality of St. Modwen Homes and the vision for our major regeneration projects.

Our results for the year were solid, especially against a backdrop of significant asset rotation, de-leveraging and ongoing macro uncertainty. NAV per share increased 4.3% to 470.4 pence (2017: 450.9 pence) which, combined with dividends paid during the year, resulted in a stable total accounting return of 6.0% (2017: 6.0%). EPRA NAV per share increased 2.7% to 484.1 pence (2017: 471.2 pence). Despite a further £151m reduction in see-through net borrowings and a £7.5m loss of net rental income due to our disposals, adjusted EPRA earnings increased 7.8% to £31.7m (2017: £29.4m). As such, adjusted EPRA EPS increased 7.5% to 14.3 pence (2017: 13.3 pence) which, based on a 50% pay-out ratio, results in a 13.1% increase in the total dividend for the year to 7.1 pence per share (2017: 6.28 pence).

Key financial performance metrics

	2018	2017	Change
NAV per share (pence)	470.4	450.9	+4.3%
EPRA NAV per share (pence)	484.1	471.2	+2.7%
Dividend per share (pence)	7.1	6.28	+13.1%
Total accounting return (%)	6.0	6.0	–
Adjusted EPRA earnings (£m)	31.7	29.4	+7.8%
Profit for the year (£m)	60.5	60.1	+0.7%
Earnings per share (pence)	27.1	26.9	+0.7%
Adjusted EPRA earnings per share (pence)	14.3	13.3	+7.5%
See-through net borrowings ⁽¹⁾ (£m)	236.9	388.2	-39.0%
See-through loan-to-value ⁽¹⁾ (%)	16.9	24.2	-7.3ppt
See-through loan-to-value (excluding residential) ⁽¹⁾ (%)	29.3	37.2	-7.9ppt

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

Our strategy

We have made considerable progress in delivering on the objectives we established as part of our new strategy set out in June 2017. We sold £814m of assets over the past 18 months, representing more than 40% of our initial portfolio, including 85% of our London residential development land, over half of our retail portfolio and around 75% of the c. £100m small assets we identified in mid-2017. This rate of progress is well ahead of our initial plans and expectations and has allowed us to reduce our see-through net borrowings by more than half to £237m, which has reduced our see-through LTV to 16.9%, providing financial stability and a solid base for investment in the future.

At the same time, we have invested in our people and organisational design, accelerated our development activity and prepared our pipeline for further growth. This successful repositioning means that following a period where our focus was on enablement, we can now look forward to the next phase of our strategy. This phase is very much focused on growth, built on the substantial existing opportunities and expertise in our business, captured in three strategic objectives:

- build a high quality industrial and logistics business;
- grow our residential and housebuilding business; and
- leverage our regeneration reputation.

The natural progression of our strategy, reflected in these updated objectives, focuses our business on three clearly-defined activities and sectors, each of which benefits from long-term structural growth characteristics; industrial and logistics, residential and housebuilding, and regeneration. Even though our strong financial position provides capacity to source new opportunities in these areas, the scale and scope of opportunities in our existing portfolio is significant, so we have no need to acquire, and equally, as we continue to recycle capital from existing assets into our pipeline, we have no need to attract additional funding to deliver on these.

Build a high quality industrial and logistics business

Industrial and logistics assets now make up 33% of our portfolio, up from 19% 18 months ago. We expect this to grow further, as we accelerate our development activity and retain most of the high-quality assets we develop. Non-core retail assets now make up only 6% of our portfolio and we only have a further 6% of other non-core commercial assets, including our residual small assets and surplus land. Combined, this amounts to c. £180m of assets which we intend to sell over the next three years. Having sold £390m of non-core commercial assets in 2018, we therefore expect disposals to slow from here.

As previously set out, we intend to reinvest the proceeds of our non-core disposals in our industrial and logistics pipeline. This has the potential to deliver over 15m sq ft of space in the long term, of which almost 10m sq ft already has planning. We estimate the latter could deliver over £60m of ERV in the medium term. With expected associated future capex of c. £635-685m and total development costs including land we already own of c. £740-790m, this reflects a c. 8% yield on cost and c. 9% yield on incremental capex, providing an attractive margin versus current valuation yields and the c. 5-6% net yield on the older, less efficient non-core assets we sell.

We continue to see good momentum in accelerating our development activity. Our committed pipeline currently stands at 1.5m sq ft, up from 1.0m sq ft a year ago, with a total development cost of £137m. We intend to retain 87% of this, with an expected ERV of £9.2m compared to £5.1m in early 2018. We have terms agreed on 19% of this and, subject to continued occupier demand, we expect our committed pipeline to grow to c. 2m sq ft in the next 1-2 years.

Q

Your portfolio seems very different now, compared to 18 months ago?

A

In June 2017, we set out a new, more focused strategy intended to improve returns on capital by focusing on sectors with the best structural growth prospects and accelerating the pace at which we work through our land bank.

We have made strong progress in this. We have sold over 40% of our initial portfolio, including more than half our non-core retail assets, c. 75% of the long tail of other small assets and 85% of our land in London. As a result, our borrowings are at an historically low level, which means we are now well placed for future growth.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Grow our residential and housebuilding business

Our residential investments make up 43% of our portfolio. This is broadly stable compared to the 40% it was 18 months ago, but we have made considerable progress in accelerating the monetisation of value in our land bank. We have sold £286m of residential land since June 2017 and increased St. Modwen Homes volumes from 485 units in 2016 to 848 units in 2018, which has already driven a clear improvement in returns. Our focus remains on accelerating the pace at which we work through our land bank to further grow our return on capital and deliver more of the high-quality homes at an affordable price level that the UK needs.

Our own land bank comprises c. 18,400 plots (2017: c. 19,000) of which c. 85% have planning, excluding land we hold under option which could deliver a further c. 11,800 homes in the long term. This provides us with clear visibility and control of a pipeline to continue to grow St. Modwen Homes volumes by up to 25% per annum over 2019-2021, in line with the 22% growth to 848 units we delivered in 2018 (2017: 694 units). In line with our target, during 2018 our operating margins increased to 14.4% (2017: 13.9%) and we expect a similar step up towards our 16-17% medium-term target in 2019. Customer demand has remained resilient since the year-end, so our order book is currently up 36% in terms of private units compared to the same time last year.

In addition to the homes we delivered via St. Modwen Homes, we also sold 860 plots to third party housebuilders for £53m during 2018 (2017: £56m). We will continue to invest in preparing land for development to monetise the value in our land bank and expect to sell at least a similar amount of land in 2019 as we sold during 2018.

Leverage our regeneration reputation

Regeneration sits at the heart of our purpose; 'Changing places. Creating better futures.', and therefore is an important part of our strategy for the future. Over the past three decades, we have built up a strong track-record and expertise in bringing complicated sites back to life. This not only comes through in large projects such as Swansea Bay Campus, Longbridge and New Covent Garden Market, but also underpins the two other elements of our business, as many of the sites in our residential and industrial and logistics pipeline have been brought forward via our regeneration activities.

We have made positive progress on our existing large regeneration projects. We released £141m of capital from the initial phases of development at Longbridge and Swansea during the year and are progressing the next phases of development, with significant opportunities remaining at both sites. We aim to leverage our regeneration reputation and apply our unique skill-set more broadly going forward but, recognising the long-term nature of these projects, we will pursue this in a capital-efficient way.

Our returns

Our returns have been resilient during the repositioning of our portfolio. While delivering on the disposal of more than 40% of our assets and a £343m reduction in see-through net borrowings, and despite a relatively uncertain market backdrop, over the last two years our NAV per share is up 9.1%, our adjusted EPRA EPS is up 47.4% and we generated a steady total accounting return of 6.0% per annum. With the portfolio repositioning now substantially complete and our pipeline prepared for growth, the next phase of our strategy should see returns improve meaningfully from current levels.

We are, by the very nature of our activities, a total return business.

Our ambition is to deliver a sustainable, low double-digit total return over time, with a significant part of this comprising income. The portfolio revaluation element of our returns is to a large extent cyclical, which makes it inherently difficult to forecast, yet we expect our improved portfolio quality and focus on sectors with the best structural growth prospects to underpin longer-term growth. The development element of our returns is driven by our regeneration activities and build-out of our industrial and logistics pipeline. Whilst these returns can vary on a year-by-year basis depending on the level of activity, the depth, breadth and quality of our pipeline is substantial, offering good visibility, and for industrial and logistics in particular, the c. 8% average yield on cost provides a healthy margin versus valuation yields.

This leaves the third key element of our returns: income, as measured by adjusted EPRA earnings. Driven by a combination of 1) reinvesting around £150m of the proceeds of our 2018 non-core disposals in our industrial and logistics pipeline; 2) recycling capital out of our remaining c. £180m non-core assets into this pipeline; 3) further growth in St. Modwen Homes to c. 1,300-1,400 units per annum, a level which could be sustained for the medium to longer term based on our current land bank; and 4) an improvement in St. Modwen Homes margins towards our 16-17% target, we see the potential to broadly double our adjusted EPRA EPS in the medium term from 2018 levels, assuming markets remain stable. This potential growth is broadly evenly split between industrial and logistics and housebuilding, reflecting the balance between these two parts of our business. Whilst we expect our borrowings to increase from the current low point due to the reinvestment in our pipeline, we maintain our target of keeping our LTV excluding residential below 40% over time and intend to keep our overall LTV in the mid 20 percents as part of this.

Based on our stated dividend policy, this potential medium-term growth in adjusted EPRA EPS should result in a meaningful increase in our dividend. This medium-term growth is not expected to be linear, as the large volume of disposals during 2018 will reduce our rental income in 2019 but, assuming no major disruption in current market conditions, we expect the impact on adjusted EPRA EPS to be more than offset by further growth in St. Modwen Homes profits, rental income from new developments and lower interest costs.

Given the heightened levels of uncertainty at present, it is of course important that we take sensible steps to protect our returns outlook in the near term. In addition to the repositioning of our portfolio towards structural growth sectors and the sharp reduction in borrowings since 2017, over the past few months we have also taken a number of proactive steps to insulate the business as much as possible from near-term disruption, particularly related to Brexit. For example, we are investing £10m in forward ordering all construction materials we import directly for six months of production in St. Modwen Homes and all our 2019 industrial and logistics projects; we have front-weighted our sales targets for the year in St. Modwen Homes, resulting in a 36% increase in our private order book versus the same point last year; and we are maintaining a tight control over discretionary spend. We intend to maintain this vigilance until such time as the economic outlook is more settled.

Our people and culture

The excellent progress on delivering our strategy during 2018 would not have been possible without the strong performance and dedication of our people. The new organisational design we introduced in 2017 has provided a clear alignment between individual roles and our strategic objectives, which, combined with a culture of more empowerment and accountability, is already driving positive results. This was reflected in our recent employee engagement survey, which showed high engagement and a marked improvement in the understanding of our strategy. Our people are key in delivering on the substantial opportunities we have in our business, so we will continue to invest in our workforce, not only in recruiting selective new roles, but also in personal development and training to support all levels of our business.

Looking forward

Following the successful repositioning over the last 18 months, for St. Modwen 2019 is set to be a year of improved focus, growth and ongoing delivery against our three strategic objectives.

The wider political and economic environment is uncertain and this is unlikely to change in the near term. The UK's planned exit from the European Union is likely to have an impact on international trade and the uncertainty around the longer-term effects of this could affect consumer and business confidence, although evidence of this in our current trading activity so far is limited. As mentioned, we have reduced our exposure to potential short-term trade disruption by forward ordering the materials we import directly for most of our 2019 pipeline, and having more than halved our net borrowings and reduced our exposure to challenging sectors such as retail and London residential land by c. £400m over the last 18 months, we are well placed to weather this uncertainty.

Meanwhile, our pipeline is focused on two sectors which continue to benefit from structural growth characteristics. Government policy remains supportive to continue to grow housebuilding in the UK and our focus on the regions, where affordability is much better than in and around London, leaves us in a good position, whilst industrial and logistics continues to benefit from structural changes in the way we work and shop. Combined with our strong balance sheet, this gives us confidence to continue to accelerate our development activity, although the short-cycle nature of our projects provides us with flexibility to adjust our pipeline should there be any unexpected changes in customer demand.

With clear visibility on the potential to drive a meaningful improvement in earnings and return on capital over time based on our existing pipeline of opportunities and capital base, without having to acquire, attract new capital or rely on a market upturn, we look forward to the next phase of our strategy with confidence. At this time, I would also like to thank our outgoing Chairman, Bill Shannon, on behalf of everyone at St. Modwen for his invaluable contribution to the company over the past eight years. His leadership, support and counsel have been instrumental in building St. Modwen into the focused, strong business it is today and he will leave the business in excellent shape when he retires at the upcoming AGM.

Mark Allan

Chief Executive

4 February 2019



Could you explain your three areas of strategic focus?



How will delivery of your strategy improve returns?



Our business is focused on three clearly-defined activities and sectors, each of which benefits from long-term structural growth characteristics; industrial and logistics, residential and housebuilding, and regeneration.

The rise in online retail and the need for efficient, modern warehouse space is driving structural growth in the industrial and logistics sector and the UK continues to have a shortage of sensibly priced, good-quality housing, whilst regeneration very much sits at the heart of our purpose and builds on our rich history. In each of these three areas, we have significant opportunities in our existing portfolio.



Our repositioning over the past 18 months has improved the quality of our asset base and provided us with the financial base we need to accelerate the delivery of the significant opportunities in our existing portfolio. This paves the way for a meaningful improvement in returns in the coming years.

We have no need to acquire land or attract new capital to deliver on this return improvement. A strong balance sheet, strong cash flow, a flexible debt structure and low gearing provide us with a robust financial platform for business growth and the depth, breadth and quality of our pipeline is substantial. We are well positioned for the opportunities that lie ahead.

CONTINUED GROWTH/ IN OUR KEY SECTORS



UK economy

Growth in GDP

1.3%
(1.8% in 2017)



Wage growth

3.3%
(2.3% in 2017)



Industrial and logistics market

Online retail sales proportion

18.0%
(16.5% in 2017)



Logistics take-up (sq ft)

34.1m
(24.5m in 2017)



Housing market

Growth in average UK house prices

2.8%
(4.3% in 2017)



Growth in average West Midlands house prices

4.6%
(5.2% in 2017)



UK economy

Following an encouraging start to 2018, uncertainty around the outlook for global economic growth increased as the year progressed, fuelled by rising trade tensions and tightening monetary policy. Against this backdrop, UK economic growth slowed, with the latest consensus estimates pointing to expected growth in GDP of 1.3% in 2018, down from 1.8% for 2017. However, the unemployment rate in the UK reduced slightly during the year and, as at the end of November, remained close to a four-decade low at 4.0%. This pushed regular wage growth to 3.3% for 2018 and, as CPI inflation fell to 2.0% from a high of 3.1% in 2017, real wage growth turned positive during the year.

Looking forward, the political uncertainty around the effects of the UK's planned exit from the European Union at the end of March and the shape of our future trading relationship with the rest of the world is high. Therefore, despite the strong employment market and modest economic growth, by the end of 2018, consumer confidence had fallen to its lowest level since 2013, whilst the Deloitte UK CFO survey showed business optimism and risk appetite also fell during the year.

The ambiguity around Brexit and general political uncertainty associated with this means the outlook for UK economic growth is dependent on a range of potential outcomes and the varying levels of disruption related to these, but most economic forecasters expect GDP growth over the next three years to remain below the long-term trend, broadly around the same levels as in 2017-18. We therefore expect growth in the overall UK property market to be modest over this period, although the availability and cost of financing is expected to remain supportive. Moreover, the difference between the outlook for various sub-sectors is marked: while the outlook for retail and London residential remains challenging, structural trends in our two key sectors, regional housebuilding and industrial and logistics, remain positive.

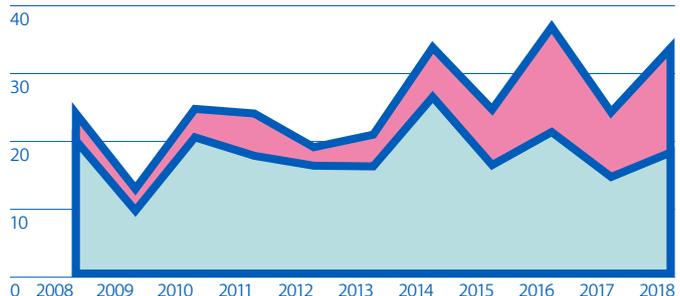
Industrial and logistics market

The UK logistics markets continues to benefit from continued growth in online retail, which made up 18.0% of all retail sales in 2018 according to the ONS. This is up from 16.3% in 2017 and only 12.5% three years ago, and is expected to grow to well over 20% in the next three years. This continues to drive demand for modern, well-located logistics space. The UK remains far ahead of other western economies in terms of the market share of online retail and data from Savills shows that, over the last three years, almost 45% of the overall take-up of units over 100,000 sq ft was either from pure online retailers or distribution and third-party logistics providers, whilst traditional retailers also continue to invest in their logistics supply chain to compete with online rivals. Over the past three years, more than 75% of total take-up was grade A space, highlighting occupiers' focus on modern buildings.

Logistics take-up

m sq ft

- Online retail & third party logistics
- Other sectors





Reflecting the strong demand for space, total take-up of units over 100,000 sq ft amounted to 34.1m sq ft in 2018 according to Savills, marking an increase of 32% compared to 2017 to a level some 30% above the ten-year average. This has triggered an increase in development activity, with 8.5m sq ft of speculative space under construction at the end of 2018 compared to 4.4m sq ft at the end of 2017; although most of this increase reflected a few very large units, with six units over 400,000 sq ft totalling 3.0m sq ft being built speculatively at the end of 2018, compared to only one such unit at the end of 2017. On an estimated total stock of around 500m sq ft, supply remains manageable and the vacancy rate was virtually unchanged over the year at 6.2% (2017: 5.9%), of which approximately half is grade A space. Below 100,000 sq ft, the market is more local, but demand for space remained strong, amongst others from light industrial and parcel delivery occupiers.

As a result, average UK industrial rents grew 5.0% over the year to September 2018 according to MSCI (September 2017: 5.0%), with rental growth in London and the south east outpacing the rest of the country. With grade A availability, even including speculative supply, at less than one year of total take-up, supply and demand remain balanced for now, so we expect rents to continue to grow in 2019. Whilst occupier demand is of course linked to the health of the overall UK economy, we expect long-term structural trends to remain supportive, so this should continue to underpin rents beyond 2019 as long as supply remains balanced.

The sector's positive growth characteristics continue to attract investment demand from domestic and international capital. According to Savills, industrial and logistics investment reached £8.3bn in 2018, which was below the record year in 2017 but above the five-year average. By comparison, investment in retail property fell to just £5.5bn, down from an average £12bn p.a. over 2014 to 2016. As a result, average UK industrial yields fell c. 50bps to 5.3% during the year to September 2018 according to MSCI, with prime yields at a lower 4 to 4.5%. We expect investment demand for industrial and logistics property to remain solid, although we expect capital value growth to be chiefly reliant on rental growth in the coming years, following the marked yield compression in recent years.

St. Modwen positioning

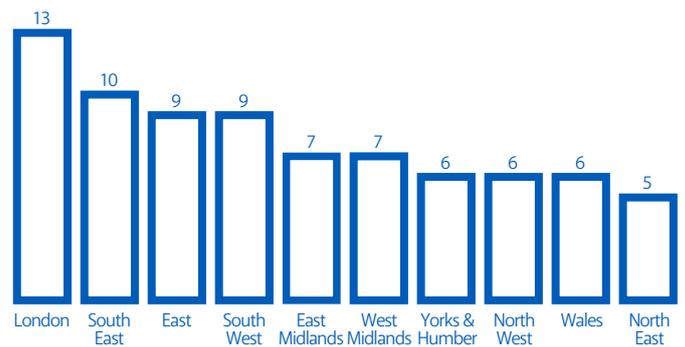
With many of our largest development sites located near major motorway junctions, offering good connectivity, and a total pipeline in excess of 15m sq ft, we are well placed to benefit from the demand for well-located, modern warehouse space. Combined with our low leverage and significant financial headroom, this provides us with a clear competitive advantage, as we can respond quickly to our customers' needs. We closely monitor demand and supply in our local markets, but we have no exposure to mega boxes where speculative supply has picked up most and the short-cycle nature of our projects means we can adjust our capital commitments quickly. Moreover, our average yield on cost of c. 8% provides a healthy margin compared with current valuation yields, so as we recycle capital out of assets with low growth prospects into retaining most of the high-quality industrial and logistics buildings we develop, this allows us to benefit from the longer-term growth in this sector.

Housing market

The UK housing market continues to show a divergence between London, the South East and the rest of the country. On average, UK house prices grew 2.8% for the year to November 2018 according to the ONS, but following years of above-average growth, house prices in London fell 0.7%, whilst growth in the South East slowed to 1.1%. House prices in the rest of the UK continued to grow at a higher rate, with prices in the East and West Midlands rising 4.4% and 4.6% respectively, and average prices in Wales rising 5.5% during the year, reflecting better affordability, the reduced liquidity of higher-value markets due to higher stamp duty and a greater impact of Brexit uncertainty in London.

Affordability in London and the South East remains stretched as, on average, house prices in London are more than 13 times earnings and almost 10 times earnings in the South East. Affordability in the regions is healthier, with house prices at c. 6 to 7 times earnings. Forecasts for house price growth over the next three years from the major agents differ markedly, but most expect London and the South East to underperform the national average. The outlook for UK house prices is sensitive to the general economic outlook but, assuming this remains stable, we expect further modest growth in regional markets – outperforming the less affordable London market.

House price to earnings ratio



The number of households in the UK is expected to grow from 27.4m in 2016 to 31.6m by 2039 according to the ONS and, despite further growth in construction activity, demand for homes continues to outpace supply. The net number of new homes built in England increased to 222,000 in the year to March 2018, up 2% from the 217,000 in the previous year, but this remains well below the official government target of delivering 300,000 new homes per annum in the medium term. Government policy therefore remains supportive to grow housebuilding activity further, so, alongside other innovative and supportive measures, in the Budget 2018 HM Treasury announced the introduction of a new Help to Buy scheme. This will start in April 2021 after the current scheme finishes and run until March 2023. The new scheme will solely be eligible for first-time buyers and include price caps which differ per region, which we believe supports demand where it is most needed. Meanwhile, availability of regular mortgage financing remains good and mortgage service costs remain attractive, with the average interest rate on a 75% LTV two-year fixed mortgage at 1.7% as at the end of 2018 (2017: 1.6%) according to the Bank of England. Absent any major disruption, we therefore expect demand for good quality homes priced at a reasonable level to remain solid.

St. Modwen positioning

With a land bank of c. 18,400 plots (excluding c. 11,800 plots under development agreements) that is predominantly focused on the regions and our own housebuilder, which delivers a contemporary, high-quality product at a relatively affordable private average sales price of £283,000, we are well placed to continue to grow our housebuilding activities in those parts of the UK market where the outlook is most attractive. Moreover, in the last 18 months we have sold c. 85% of our residential development land in the more challenging London market. We continue to target up to 25% growth in volumes per annum for St. Modwen Homes over the next three years, yet the short build period for new homes allows us to quickly adjust our activities in response to any unexpected changes in customer demand. We continue to sell 'oven-ready' land to other housebuilders to help accelerate the delivery of new homes from our pipeline.

OUR BUSINESS MODEL

St. Modwen has a strong track record of creating and capturing value by managing schemes through the planning process, remediation, infrastructure and active asset management and development. Our 30-year heritage and expertise are in the regeneration and renewal of spaces, taking on the challenges that others cannot and breathing life into places to create new and better opportunities, for our business and for all our stakeholders.

We seek to build success for our people, our shareholders, our partners, our customers and our communities.

We are, by the very nature of our activities, a total return business. Our ambition is to deliver a sustainable, low double-digit total return over time, with a significant component of this comprising income.

We expect our improved portfolio quality and focus on sectors with the best structural growth prospects to underpin longer-term growth.

The depth, breadth and quality of our pipeline is substantial, offering good visibility.

WHAT WE NEED TO CREATE VALUE

Key resources and relationships:

People

We have unparalleled skills in planning, infrastructure, development, delivery and asset management. Our experience and expertise give us an unmatched ability to bring complex, strategic sites forward to create value.

Strategic insight

We have the strategic insight and local market knowledge to exploit market demands and pursue those opportunities that generate the greatest value at any one time.

Financial strength

A strong balance sheet, strong cash flow, a flexible debt structure and low gearing provide us with a robust financial platform for business growth.

Land

Our focus remains on accelerating the pace at which we work through our land bank of 6,000 developable acres to further grow our return on capital.

Assets

Our retained asset portfolio currently has a value of £1.4bn. Like-for-like rents increased 1.9% compared to the same period last year. We are focused on the high-quality industrial and logistics sector where we see long-term structural growth and this sector represents 46% of our passing rent, up from 21% a year ago.

Partners

We develop strong, sustained relationships with our business partners and work collaboratively to deliver lasting, successful outcomes and a positive legacy.

Communities

We invest – and are invested – in the communities we help to build and consider carefully the economic, social and environmental impact of our work to ensure that we are locally appropriate.

Inputs

WHAT WE DO TO CREATE VALUE

Accelerate our development pipeline and retain most of the high-quality assets we build, growing income through higher yields on capex and margins. Bring forward residential land for development to grow volumes in our own housebuilding business and monetise land through sales to third-party housebuilders.

Invest in new assets and opportunities that complement our strategic objectives and where our specialist skills can unlock potential.

Apply our considerable development and asset management expertise to generate opportunities for growth, investment and momentum, creating employment in modern environments and inspirational and thriving new residential communities.



Our core business purpose is:

Changing places. Creating better futures.

We lead the way in delivering quality places to live and work that enhance communities and create opportunities for growth and shared returns. Working together with our partners, we deliver shared value, aim to build a lasting legacy and contribute to better futures for all.

CREATING SUSTAINABLE VALUE FOR ALL STAKEHOLDERS

We create vibrant new places where people can live, work and thrive. In doing so, we are helping to satisfy housing demand, create new jobs, improve the environment and provide a boost to the immediate regional and national economy.

Shareholders

Consistent delivery against our strategy has generated attractive financial returns for investors. Our total accounting return (NAV growth plus dividends paid) averaged 12.3% over the past five years and our see-through LTV is at a historically low level. We have a strong asset and capital base from which to grow.

Communities

We are committed to the care and stewardship of the communities and environments we regenerate and build. Our strong regional teams are embedded in their local areas and we work hard to build and maintain positive relationships with our partners, customers and local authorities. We deliver new employment and training opportunities, working with local experts and suppliers. We provide the catalyst for further economic growth and inward investment.

People

Our people are skilled, responsive and passionate and they take great pride in what they do. Our teams across the Group collaborate, sharing expertise and ideas, to ensure that we're delivering the best possible outcomes, for the benefit of all our stakeholders.

We are committed to the continuous professional development of our people and have comprehensive training and apprenticeship programmes to equip them with the right skills and expertise.

We are making significant investment in growing our talent for the future as well as in our workplace systems and environments.

Outputs

We aim to improve returns on capital by focusing our business on three clearly-defined activities and sectors, each of which benefits from long-term structural growth characteristics: industrial and logistics; residential and housebuilding; and regeneration.

We are also enhancing our operational flexibility through tightly controlling leverage and reducing the proportion of our portfolio invested in land.

We have a strong development pipeline, which we expect to grow further, and the scale of opportunities in our existing portfolio is significant.



Customer focus

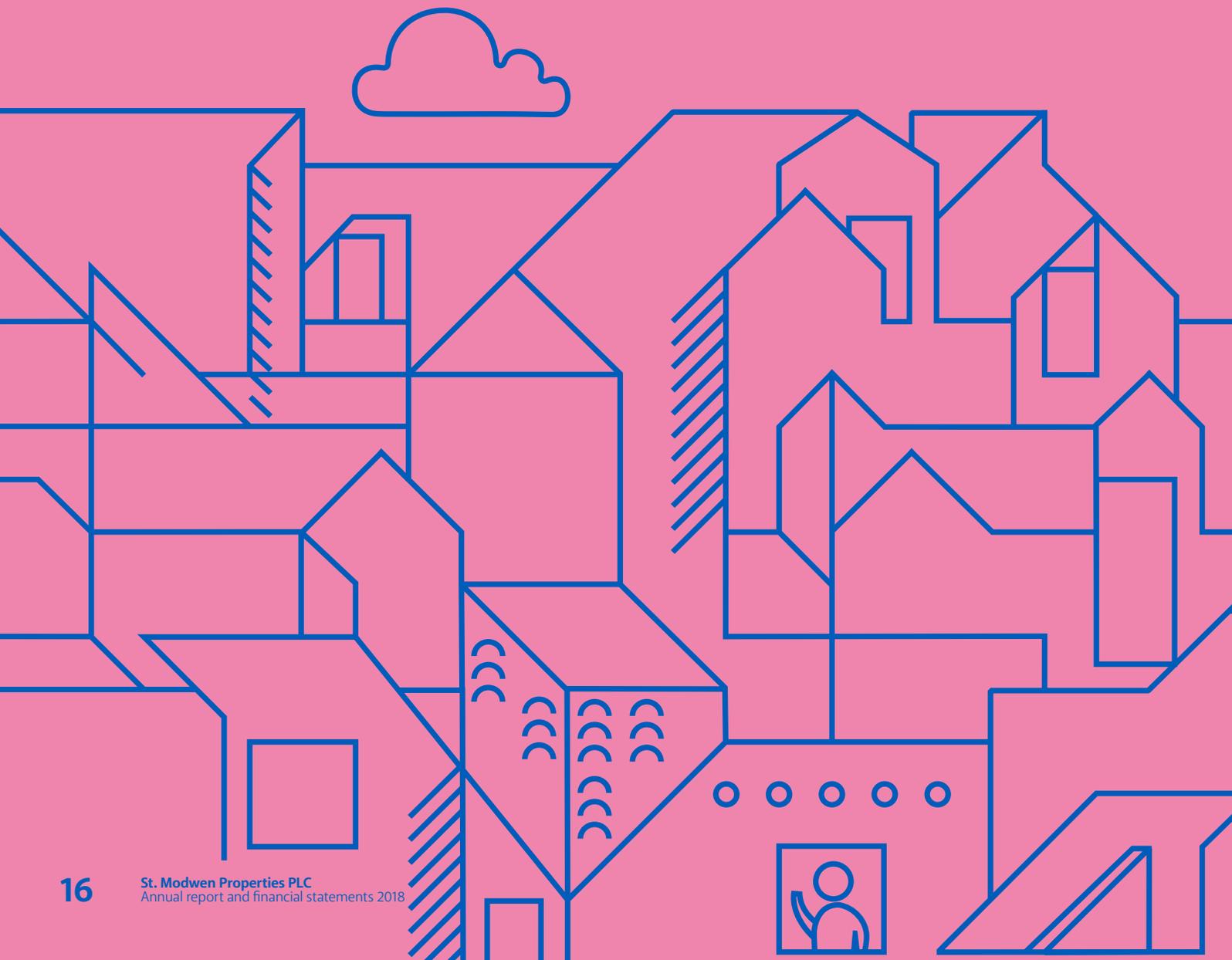
St. Modwen Homes' Bramshall Meadows offers idyllic semi-rural living.



Meeting occupier demand

114,000 sq ft of bespoke accommodation let to Grupo Antolin.

CHANGING PLACES/ CREATING BETTER FUTURES





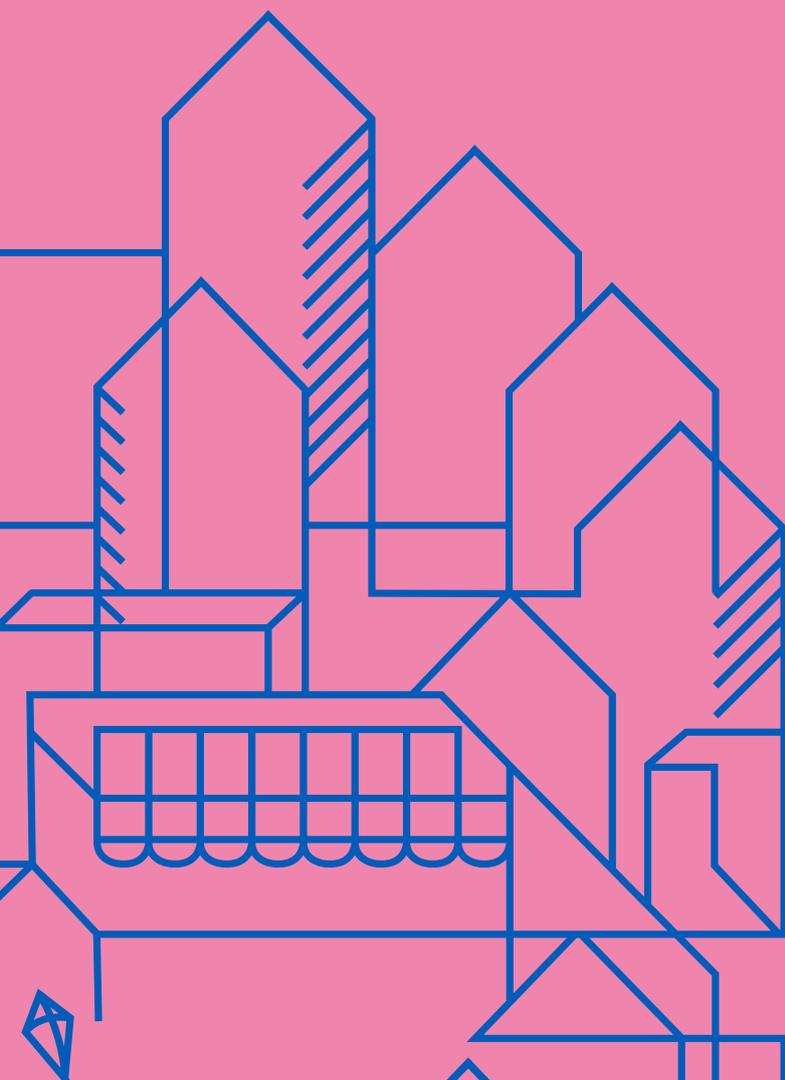
The strategy we defined in 2017 is intended to improve our returns on capital and enhance our operational flexibility through tightly managing leverage and reducing the proportion of our portfolio invested in land. We have made considerable progress on the objectives, in particular on focusing our portfolio through disposals and reducing our debt, which means we have been able to more than halve our see-through net borrowings to £236.9m, which has reduced our see-through loan-to-value to 16.9%; the lowest level in our more than 30-year history.

Our people remain central to the delivery of our strategy and we have invested in both them and our organisational design to ensure we have the right skills and structure in place to deliver against our plans. This progress over the last 12 months means we can now focus on the next phase of our strategy. This phase is focused on growth, built on the substantial opportunities and expertise in our business, captured in three strategic objectives:

BUILD A HIGH QUALITY INDUSTRIAL AND LOGISTICS BUSINESS

GROW OUR RESIDENTIAL AND HOUSEBUILDING BUSINESS

LEVERAGE OUR REGENERATION REPUTATION

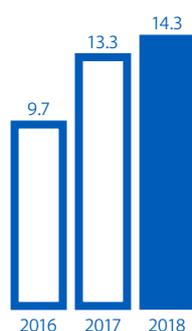


OUR STRATEGY AND KEY PERFORMANCE INDICATORS CONTINUED

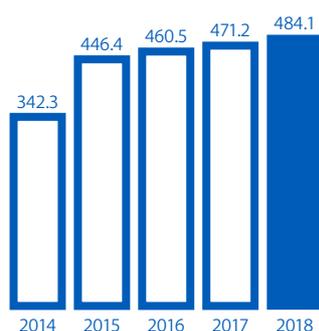
We are, by the very nature of our activities, a total return business. Our ambition is to deliver a sustainable, low double-digit total return over time, with a significant component of this comprising income.

Whilst we expect our borrowings to increase from the current low point due to the reinvestment in our pipeline, we maintain our target of keeping our see-through loan-to-value in the mid 20 percents.

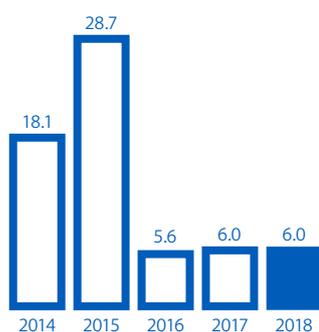
Adjusted EPRA earnings per share
£m



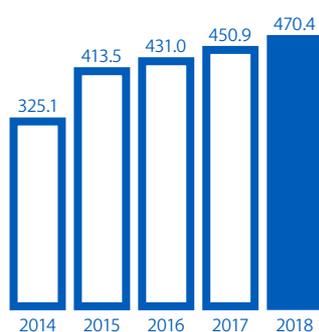
EPRA NAV per share
pence



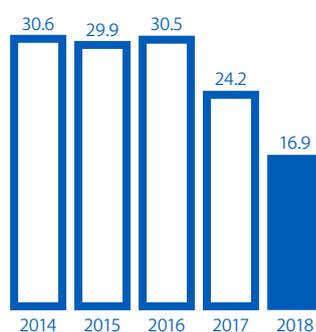
Total accounting return (TAR)
%



NAV per share
pence



See-through LTV
%



Objectives

- Improve our financial returns over time.
- Manage our leverage whilst investing to deliver the planned growth in our portfolio.

Progress

- The business has continued to perform strongly delivering adjusted EPRA earnings of £31.7m, up 7.8% on 2017.
- See-through LTV reduced 7.3ppt to 16.9%.
- We delivered 4.3% growth in NAV per share to 470.4 pence in 2018 and 2.7% growth in EPRA NAV per share to 484.1 pence.
- The response rate in our employee engagement survey was 84% (2017: 84%). 76% of our people were in the highest engagement category and 72% were in the highest enablement category, both of which are above general industry norms.

Next Steps

- Continue to execute on our strategy to improve returns over time and deliver increased operational flexibility.

Principal risks: See pages 56 to 64

Directors' remuneration: See pages 90 to 113

- Total accounting return and see-through LTV are both measures upon which the directors are targeted for remuneration.
- Adjusted EPRA earnings will be a remuneration measure for the year ending 30 November 2019, replacing trading profit, reflecting our strategy to grow income.

BUILD A HIGH QUALITY INDUSTRIAL AND LOGISTICS BUSINESS

We continue to make good progress in developing a high quality industrial and logistics portfolio, retaining 0.6m sq ft of new developments in 2018. We have a significant long-term pipeline that has the potential to deliver over 15m sq ft of space.

We plan to continue accelerating our commercial development activities, carefully monitoring risk and prevailing market conditions.

Objectives

- Invest in and focus our commercial development activity on those sites with the greatest potential, in terms of expected demand and deliverability.
- Grow our committed pipeline to c. 2m sq ft in the next one to two years, subject to occupier demand.

Progress

- We have hired a new National Head of Leasing, focusing on the market and enhancing our ability to let new developments.
- In 2018 we completed 0.9m sq ft of new industrial and logistics development through a combination of 'design and build' and speculative development, retaining 0.6m sq ft in our portfolio.
- We have a strong pipeline of development opportunities for 2019 and beyond, our current committed pipeline is 1.5m sq ft compared to 1.0m sq ft a year ago.
- We continue to progress planning on our long-term development pipeline with the potential to deliver over 15m sq ft.

Next steps

- Subject to demand and market conditions, we will continue to accelerate our commercial development activity through delivery of the committed pipeline in 2019 and through progressing planning on our strategic sites in key locations.
- Continue to develop our relationship with key occupiers across the UK industrial and logistics market.

Principal risks

- Brexit
- Changes in economic and market conditions
- Customer and supply chain management
- Product and service delivery

Industrial and logistics space delivered
Sq ft ('000)



See page 44 for more information

Industrial and logistics commercial pipeline
Sq ft ('000)



See page 44 for more information

OUR STRATEGY AND KEY PERFORMANCE INDICATORS CONTINUED

GROW OUR RESIDENTIAL AND HOUSEBUILDING BUSINESS

Our focus remains on accelerating the pace at which we work through our land bank to further grow our return on capital and deliver more of the high-quality homes this country needs.

Our current land bank comprises c. 18,400 plots, compared to c. 19,000 in 2017, of which c. 85% have planning, excluding land we hold under option which could deliver a further c. 11,800 homes in the long term. This gives us the platform to continue to grow St. Modwen Homes volumes in line with our plans.

Demand from third-party housebuilders also remains robust and we will continue to invest in preparing 'oven-ready' land to allow us to monetise the value in our land bank.

Objectives

- Subject to continued supportive market conditions, we plan to grow our St. Modwen Homes sales volumes by up to 25% per annum.

Progress

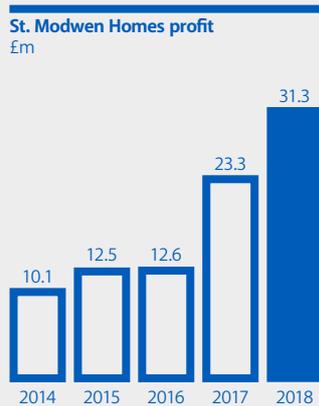
- We have grown our St. Modwen Homes sales volumes materially again in 2018, selling 848 new homes, up from 694 in 2017.
- Margins from St. Modwen Homes improved to 14.4% from 13.9% in 2017, resulting in an operating profit of £31.3m in the year.
- Proceeds from other third-party sales totalled £53m, in line with the £56m of proceeds in 2017.

Next steps

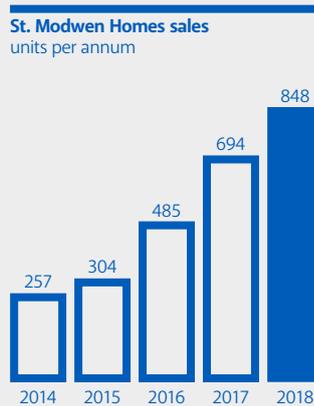
- Subject to market demand, we will continue to grow our residential and housebuilding business in 2019 and beyond through the sale or development of the c. 18,400 plots in our land bank.
- We will continue to place significant focus on quality and safety to develop a foundation upon which financial performance can be improved even further.

Principal risks

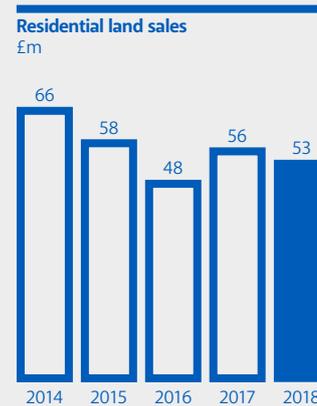
- Brexit
- Changes in economic and market conditions
- Customer and supply chain management
- Product and service delivery



See page 46 for more information



See page 46 for more information



See page 46 for more information

LEVERAGE OUR REGENERATION REPUTATION

During the year, we made good progress on our three existing major regeneration schemes at Longbridge, Swansea University and New Covent Garden Market, each of which have significant future development potential.

We aim to utilise our regeneration reputation and apply our expertise and skill-set more broadly but, recognising the long-term nature of these projects, we will pursue this in a capital-efficient way, carefully monitoring market conditions and managing risk.

Objectives

- We will continue to deliver brilliantly on our existing regeneration projects.
- We will leverage the expertise within our business to unlock the next generation of regeneration.

Progress

- At Swansea Bay Campus we released £87m of capital from the sale of the first phase of student accommodation and completed the latest 40,000 sq ft academic facility which was forward-sold to the global education provider Navitas.
- At Longbridge, we released £54m of capital via the sale of the shopping park, sold 8.5 acres of land to a third-party housebuilder for the delivery of 215 new homes and agreed terms on a 15-year fixed pre-let for a 21,100 sq ft office building.
- At NCGM we continued to progress the relocation of existing market facilities after the sale of the first 10 acres of land in 2017.

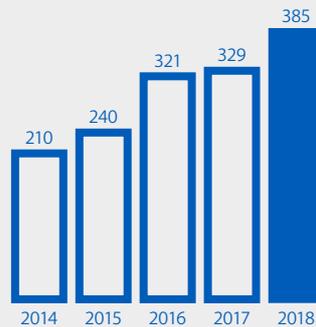
Next steps

- At Swansea, we continue to prepare plans for 150,000 sq ft of academic facilities and 600 student beds for delivery by 2021.
- At Longbridge, we continue to work on enhancing the vision for the 468-acre site, which is c. 50% developed.
- At NCGM, completion of the market relocation will release a further 10 acres of residential development land to the JV.

Principal risks

- Brexit
- Changes in economic and market conditions
- Product and service delivery

Prepared for development
acres



See page 48 for more information



Access 18, Avonmouth

Continuing to accelerate our commercial development activity, we now have a pipeline of 1.5m sq ft of committed industrial and logistics projects, up from 1.0m sq ft at the start of 2018. One such project is the development of a 151,000 sq ft unit at Access 18 in Avonmouth, the largest speculative build unit in the region.

Access 18 is a 212-acre site strategically located close to junction 18 of the M5. Acquired by St. Modwen in 2003, the former zinc smelting works required an 18-month programme of demolition and remediation works to prepare the site for development. This involved an extensive environmental clean-up whereby over 750,000 tonnes of earth were removed and over 99% of materials were recycled on site.

Rupert Joseland, Property Director – West and Wales, said:

“To date, approximately 1.0m sq ft of new warehouse and industrial accommodation has been built or is under construction. Access 18’s 151,000 sq ft Unit 15 provides sought-after industrial and logistics space close to the M5 and near to Bristol Port, which was awarded authorised economic operator (AEO) status in October 2018.”

We also own an adjoining 100 acres of land and ongoing development will reinforce Access 18’s location as the strategic employment site in Avonmouth, with potential for an additional 800,000 sq ft of accommodation. We have also built a new access road to link the site to Avonmouth Way and improved access to Avonmouth, the M5 and onwards to the South West and the M4.

BUILD A HIGH-QUALITY INDUSTRIAL AND LOGISTICS BUSINESS/ BRINGING JOBS AND PROSPERITY





STRATEGY IN ACTION

BUILD A HIGH QUALITY INDUSTRIAL AND LOGISTICS BUSINESS

Structural growth in this sector is being driven by the rise in online retail and the need for modern space. Industrial and logistics assets now make up 33% of our portfolio. We expect this to grow further as we accelerate our development activity, reinvesting the proceeds of our non-core disposals in our industrial and logistics pipeline, and retain most of the high-quality assets we develop. This has the potential to deliver over 15m sq ft of space in the long term, of which almost 10m sq ft already has planning.

We continue to see good momentum. Our committed pipeline currently stands at 1.5m sq ft, up from 1.0m sq ft a year ago. We intend to retain 87% of this, with an expected ERV of £9.2m, compared with £5.1m in early 2018.



Tamworth 318

After securing planning permission for almost 480,000 sq ft of industrial and logistics space at Tamworth Logistics Park, we have commenced the delivery of our largest ever speculative build unit.

Demonstrating our commitment to building a high quality industrial and logistics business, the single 318,500 sq ft unit will include 27 dock doors, a 50m deep yard and two-storey office space, located in a key strategic location off the M42 motorway in Staffordshire.

Guy Gusterson, Property Director – Midlands and North, said:

“Once complete, the 35-acre Tamworth Logistics Park will become one of the largest warehouse developments in the Midlands, expected to create up to 1,700 jobs for the area. The development of our largest speculatively-built unit showcases our confidence in the logistics market, with limited local competition of new stock and high occupier demand for units of this

Work began on the first phase of the development at the end of 2018, with three warehouse units ranging from 12,000 to 49,000 sq ft, due for completion in July 2019. Construction work on the 318,000 sq ft unit will begin in Q1 2019 with it being ready for occupation in December 2019.

Our ability to unlock the potential of excellently-located industrial and logistics space has been proven through our delivery of just under 1.0m sq ft of projects in the year. Good occupier demand has also seen us agree terms on £5.6m of development lettings since the start of 2018, representing 0.8m sq ft of space.





Cofton Grange

We continue to see strong regional demand for new homes through our housebuilding arm, St. Modwen Homes. With an objective to grow volumes by up to 25% per annum by 2021, it is continuing to accelerate delivery with sales now active on 20 sites.

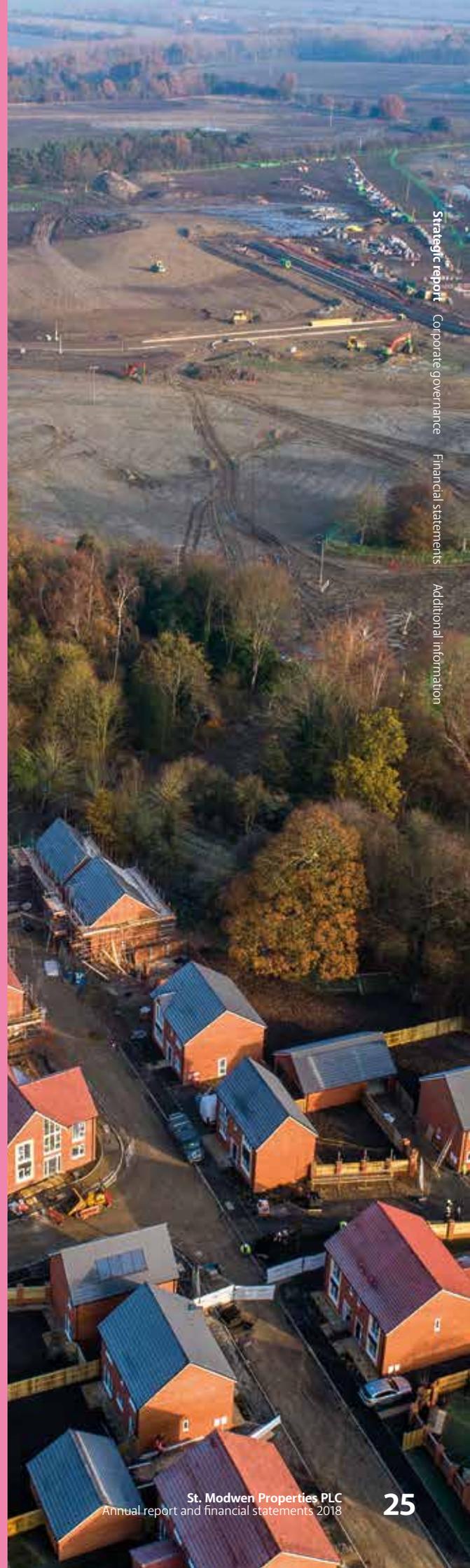
Delivering more than 600 new homes as part of St. Modwen's £1bn regeneration of the former MG Rover site in Longbridge, Cofton Grange has been recognised as one of the most successful regeneration projects in the UK by Housebuilder Magazine.

Dave Smith, Managing Director – St. Modwen Homes, said:

"Cofton Grange has seen the re-emergence of a 255-metre stretch of the River Rea, new public green spaces with play areas, as well as the delivery of a new £1m community centre which will become a vital hub and resource for local residents.

"The development has proven popular with prospective buyers, with its entire first phase of homes being reserved in just two months from release. Backed by the Government's Help to Buy scheme, Cofton Grange has been appealing to a range of purchasers, from first-time buyers to young professionals, growing families and downsizers."

GROW OUR
RESIDENTIAL
AND HOUSE-
BUILDING
BUSINESS/
PROVIDING
HIGH-QUALITY
HOMES
ACROSS THE
COUNTRY





STRATEGY IN ACTION

RESIDENTIAL AND HOUSEBUILDING

Our residential investments make up 43% of our portfolio and we have made considerable progress in accelerating the monetisation of value in our land bank.

With our current land bank comprising c. 18,400 plots, of which c. 85% have planning, excluding land we hold under option which could deliver a further c. 11,800 homes in the long term, we have clear visibility and control of a pipeline to continue to grow St. Modwen Homes volumes by up to 25% per annum over 2019 to 2021. Since the year-end, customer demand has remained resilient, with our order book up 36% in terms of private units compared to the same time last year.

In addition to the homes we delivered ourselves, we also sold more than 860 plots to third-party housebuilders for £53m during 2018. We will continue to invest in preparing 'oven-ready' land and expect to sell at least a similar amount of land in 2019.



Kingsgrove

Delivering 1,500 new homes to Wantage over the next 10 years, our Kingsgrove development demonstrates our ability to create new communities and bring forward quality housing and residential land. A new primary school, community centre, public house/restaurant, play park and mixed-use neighbourhood centre are all being delivered as part of the masterplan for the development, which is set around a central park.

The 227-acre site will be delivered in phases with St. Modwen providing infrastructure, services and access to the site to bring forward high-quality residential land. The development partnership with the private landowners was entered into only two years ago and St. Modwen Homes is already delivering the first phase of the development: 150 new homes where the first homeowners started moving in at the end of 2018.

Our business model also provides for land sales to third-party housebuilders. Following extensive infrastructure work undertaken over the preceding 18 months, the first land sale at Kingsgrove was concluded at the end of 2018, with CALA Homes acquiring almost 10 acres of fully-serviced land for the provision of 174 homes. The next phase of 81 units is currently being marketed and these two sites, together with the houses built by St. Modwen Homes, will accelerate the delivery of much needed new homes in the area.

Around 80 acres of land has been allocated to new green spaces which will include woodland, grassland planting and extensive landscaping to create spaces that will benefit not only those living in Kingsgrove, but also the wider existing community.

Tim Seddon, Property Director – South East, said:

“Kingsgrove demonstrates our ability to fulfil our core purpose – Changing places. Creating better futures. Our experience, track record and capability to deliver such a large-scale project as this made us the developer of choice for the consortium of land owners.”





The College, Swansea Bay Campus

During the year, we delivered a new state-of-the-art educational facility at Swansea University's £450m Bay Campus.

A collaboration between Swansea University and Navitas, 'The College' offers academic pathways aimed primarily at international students, transforming them into Swansea University graduates and lifelong learners. The new purpose-built academic building at the Bay Campus provides 18 teaching rooms, computer labs and breakout areas for individual and small group studies as well as space for social and cultural activity, which will be used by all staff and students of the university.

Richard Powell, Group Construction Director, said:

"Delivered by St. Modwen and lead contractor VINCI Construction UK, the building was completed five weeks ahead of schedule; a result attributed to the close collaboration between St. Modwen, Swansea University, third-party consultants and a skilled local workforce."

'The College' joins the 1.0m sq ft of academic and recreational space already delivered at the Bay Campus, cementing both our regeneration reputation and remediation expertise.

REGENERATION EXPERTISE/ BREATHING NEW LIFE INTO PLACES

Through our regeneration projects, we are changing the norm, unlocking potential through our expertise and our different approach. This is not only demonstrated by our major projects such as Swansea Bay Campus, Longbridge and New Covent Garden Market, but also underpins the two other elements of our business, as many of the sites in our residential and industrial and logistics pipeline have been brought forward via our regeneration activities.

We have made positive progress on our existing large regeneration projects, taking forward the next phases of development with significant opportunities remaining at all the sites.



ASSET MANAGEMENT/ CREATING SAFE AND SUSTAINABLE SITES

Our central asset management team ensures we proactively manage our income-producing portfolio to drive rental and capital growth; as at the end of the year, the annualised passing rent on our portfolio stood at £39.4m.

Like-for-like rents increased 1.9% compared to the same period last year, with rental growth in industrial up by 9.1%. Industrial and logistics represents 46% of our overall passing rent, up from 21% a year ago.



Moorgate Point, Knowsley

Following a £2.3m refurbishment at Moorgate Point Industrial Estate in Knowsley, we successfully let 200,000 sq ft of space in a significant deal to independent freight forwarding business Burhill DCR Logistics, which provides professional logistics services globally for the forestry, food and retail sectors.

The Liverpool-based firm's move into the unit will see it positioned as one of the largest independent warehouse companies in the UK, creating up to 30 new jobs and joining its other facilities in Liverpool and Felixstowe.

Rupert Wood, Property Director – Asset Management, said:

"The capital investment by St. Modwen into Moorgate Point was in response to a buoyant industrial market around Merseyside, with continuing demand for good-value, effective accommodation to complement new space being delivered in the regional market. The 10-year lease taken by Burhill DCR Logistics, soon after the building's refurbishment, demonstrates the continued strong demand for well-located, good-quality industrial buildings."

The positive publicity and market awareness generated by this letting attracted Allied Energy Services to the development, who have agreed terms on a 28,000 sq ft unit. These two lettings have seen the void level reduce at Moorgate Point from 50% to 13% over the course of the year, demonstrating our proactive approach to managing our portfolio to drive and deliver asset performance improvement.

WHAT WE DO/ MAKES A BIG IMPACT ON COMMUNITIES

We have an ability to see and realise potential and the expertise in delivering the infrastructure to make it happen, crafting a built environment that reflects our purpose: Changing places. Creating better futures. We create employment, opportunity and places for people to live, work and enjoy.

Be it brownfield, greenfield or green belt, we recognise that land is a finite resource. So we use it wisely and treat it with care. We look beyond the bricks and mortar to how we can contribute to the local area – creating jobs, investing in community spaces and protecting the environment. We have a strong track record of working with stakeholders to achieve this.

We are experts in the regeneration and renewal of spaces. Because we think differently, we can tackle challenging sites that have the clear potential to benefit from our specialist skills, turning them into inspirational and thriving new residential and business communities.

Acres prepared for development across the country

385

Acres of 'oven-ready' residential land sold to third parties

49

Tonnes of material recycled in accordance with the Specification for Highway Works, to avoid the use of natural quarried materials

170,000

Acres of public green spaces created, including parks and wildlife areas, across our sites

80+

Llanwern steelworks, Newport

One such example is our transformation of the old Llanwern steelworks near Newport, south Wales. The steel works opened in 1962 but steel-making at the sites ceased in 2001, resulting in the loss of 1,300 jobs. In 2004 the 'heavy end' of the steelworks, then owned by Corus, was demolished and we acquired the land. Following our purchase of the site, an active reclamation and remediation programme began in May 2008.

The vision was to transform the old steelworks into Glan Llyn, a residential development supporting mixed-use and employment land uses. The redeveloped site will provide 4,500 homes for around 12,500 people and will include two schools, community facilities, retail areas including a supermarket, public open space and a 42-hectare business park providing 6,000 permanent jobs for the local community.

- The first phases of housing were launched onto the market ready for occupancy in November 2011 and the first resident moved in during April 2012.
- In September 2013, together with the Welsh Government, we delivered 'Queensway,' a three-mile public highway between the A48 Newport Southern Distributor Road and the M4 at Junction 23A at Magor, to significantly improve access to Glan Llyn and east Newport.
- The construction of the first primary school completed in the autumn of 2018.
- The first 50,000 sq ft speculative warehouse/industrial unit and associated site works on Celtic Business Park was let to Amazon in 2017.
- A 165,000 sq ft rail-connected train assembly facility completed onsite in 2018 for Spanish rail company CAF.
- Plans for further speculative and bespoke development on behalf of occupiers are progressing with the 100-acre site capable of accommodating approximately 1.3m sq ft.

Construction contracts awarded

£200m+

New homes delivered by St. Modwen Homes

848

Industrial and logistics space delivered, creating thousands of jobs nationally

0.9m sq ft



Land and infrastructure delivered to support the construction of over 3,300 new homes

3,300+

Apprentices employed and work placements offered

126



Biodiversity

New waterbodies were created following remediation of land at Coed Darcy with additional ponds providing a 'newt corridor' with both breeding sites and resting places.

The translocated population of over 9,500 great crested newts is one of the largest translocations of this species recorded in Britain.

WE THINK LONG-TERM/ TO DELIVER SUSTAINABLE SUCCESS FOR ALL

Introduction

We have a long-term approach to everything we do, we consider and actively communicate and engage with all our stakeholders at every turn.

Corporate social responsibility (CSR) is an integral part of our business. Our approach to CSR recognises the effect the Company has on society and promotes activity that will contribute to improving the economic, social and environmental impact for all stakeholders, now and in the future.

Our CSR Committee meets every six weeks and is chaired by Rupert Wood, Property Director – Asset Management. Members include representatives from each of our business disciplines. The Committee sets the strategy and helps to integrate sustainable working practices and initiatives within our business. It reviews progress against our CSR objectives, ensures we maintain a best practice approach and that our CSR strategy evolves as the business grows.



“Our aim is to always deliver sustainable solutions to ensure that what is created is appropriate locally and lasting. We think long-term and deliver; inspiring and building success for our people, shareholders, occupiers, partners, supply chain, the environment and communities.”

Rupert Wood

*Property Director – Asset Management
Chair of the CSR Committee*





ENGAGING WITH ALL OUR PEOPLE/ TO BE THE BEST WE CAN



OUR PEOPLE

Being the best employer we can

Our people are the cornerstone for everything we do; they are pivotal to the delivery of our strategy. Ensuring we create the right working environment, which is enabling and empowering, is critical to our success. We therefore take every care to ensure we are communicating and engaging with all our people at every turn.

Our ultimate aim is to become an **Employer of Choice** and we have developed a clear people strategy and plan with our employees to achieve this.

Key elements of our people strategy

1. Alignment with our strategy and culture

Our purpose, vision and values were launched to all employees at the beginning of the financial year at an all-Company event. Together with the communication of our strategic goals, we outlined our desired employee experience and expected commitments. We also made a number of tangible commitments, our 'people pledges', which form part of our people strategy.

We want to create an inspiring place to work, where our people can contribute and be recognised, and where everyone can be themselves and grow.

We want to enable our people to promote our strategy, our shared purpose and our values – St. Modwen employees should embody our brand; everyone should understand what is expected of them and the commitment from the organisation to support them.

Our annual internal awards ceremony, 'The Mods', is an important time for us to recognise employees who demonstrate our values and thank them for their hard work and commitment.

It's important that the voice of our employees is prominent; they are the experts in their respective fields and we want to listen to and take on board their views, suggestions and ideas. Over the year we have been improving two-way communications. We have engaged focus groups to inform our purpose and values and involve employees in many other working groups and projects. In 2018, we launched our new People Matters Group, with representative members from across the Company to inform our people strategy. In 2019, one of our non-executive directors, Simon Clarke, will become a member of the People Matters Group as a representative from the Board.

"Our strong employee engagement results demonstrate the real pride and commitment our people have for the organisation. There is still much to do and we remain committed to investing in our people to ensure we become the very best employer we can."

Jane Saint
Group HR Director

OUR APPROACH CONTINUED



The year's employee engagement survey was well received with an 84% response rate (2017: 84%). Our results are moving in a positive direction and show that our workforce is 76% engaged and 72% enabled (2017: 73% engaged, 69% enabled).

Creating diversity and inclusion

We are striving to create a culture that is inspiring and inclusive, one where difference is valued, enabling us all to perform at our best and realise our potential. We are ambitious, for ourselves and for our employees. We are committed to attracting and retaining the best, diverse talent. We recognise the importance of creating a safe and inclusive environment where our people can bring their whole selves to work.

We are also clear that we should reflect the communities in which we live, work and serve and we are taking action to ensure that equality, diversity and inclusion are integral to all that we do. We know that reflecting our communities will give us a stronger understanding and help us to build shared values and deep, sustainable relationships. We are also mindful of our gender pay gap and are taking steps to reduce this⁽²⁾. Following a series of interviews, workshops and focus groups with employees from across the Company we have developed a diversity and inclusion business case that sets a clear strategy and an action plan for delivery.

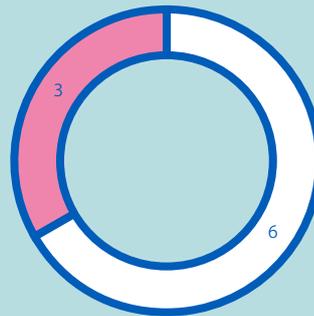
To deliver this, we have also set up a Diversity and Inclusion working group which will support the delivery of the strategy, chaired by our CFO, Rob Hudson. 

In addition, we are committed to raising awareness and creating an open culture to support and discuss mental health. We have provided 'mental health first aider' training through the charity MIND to 47 employees to become champions of mental health awareness within our offices. 

The accompanying charts set out the number of men and women employed (full- and part-time) as at 30 November 2018, across our business and split between the Board, our Senior Leadership Executive team and our employees.

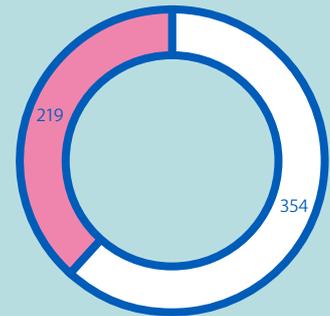
The Board

○ Male (67%)
○ Female (33%)



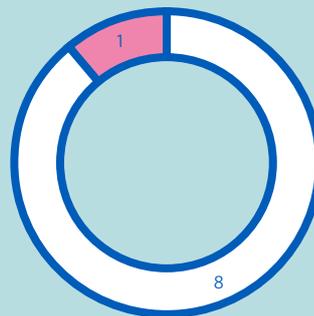
Employees

○ Male (62%)
○ Female (38%)



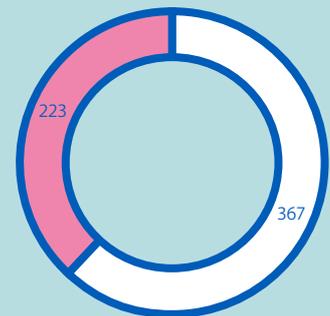
SLE⁽¹⁾

○ Male (89%)
○ Female (11%)



Total

○ Male (62%)
○ Female (38%)



(1) For the purposes of the charts above Mark Allan and Rob Hudson are only included in the Board figures.

(2) To view our latest gender pay gap results please visit www.stmodwen.co.uk/about-us/corporate-governance/gender-pay-gap-report/.

 This is one of our CSR objectives. For more information visit www.stmodwen.co.uk/csr



2. Strengthening our leadership and people management – The St. Modwen Academy

We are committed to developing leaders who can provide strong collaborative leadership and strategic direction to the business. Developing people managers who can manage performance effectively through their teams is equally critical. Our leaders and people managers need to act as role models in the business.

In the year, we invested in the development of a high-quality leadership development programme and people management programme to build these capabilities. **CSR** These 12-month programmes are accredited with the Institute of Leadership and Management. We are pleased that 42 St. Modwen managers graduated from the people management programme and 25 graduated from the leadership development programme in the year. These programmes form the foundation of 'The St. Modwen Academy' which will encompass training for all disciplines in our business.



Working collaboratively

By modernising our working environments we are supporting our employees to be more joined up and to embrace modern technology and efficient working practices.

3. Building capability

Our ultimate aim is to become a learning organisation skilled at creating, acquiring and transferring knowledge with the ability to modify our approach to reflect new knowledge and insights.

Following the organisational design work carried out in the previous financial year, it was important for us to ensure we utilised our resources in the most effective way to deliver our strategy, built on existing strengths and acquiring new capabilities where required.

A recruitment campaign internally, followed by an external campaign secured a number of high-quality candidates to support our strategy. These included a Head of Leasing, Head of Major Projects, Head of Commercial and a Customer Experience Director in St. Modwen Homes.

During the year, we invested in skills, learning and development opportunities for our workforce. This included providing good-quality training for GDPR, anti-bribery and corruption, health and safety and IT skills training.

We also recognise the importance of developing talent in the business – building a strong pipeline of successors at all levels with a commitment to internal progression.

In the year, we provided opportunities for 42 FTE trainees, graduates and apprentices across the Group and offered work placements to 82 students aged between 16 and 18 across our St. Modwen Homes business. **CSR** We have a commitment to continue to increase apprenticeships across the business and to launch a graduate scheme in 2020.

4. Modernising our working environment

We are committed to ensuring our people policies, ways of working and working environment support everyone to deliver the strategy. This year we have been working towards modernising our working environment and have refurbished both our London and Longbridge offices. The layouts now facilitate collaborative working and more flexible work practices including shared breakout spaces and investment in new IT which supports remote working and shared experiences.

OUR APPROACH CONTINUED

Stakeholder voices

"We have a positive relationship with St. Modwen and are pleased to be working with them, unlocking this area's potential by bringing this development forward."

"Once the construction has been completed, this site will not only boost the local economy but will also enable jobs to be created, something we are keen to encourage and support."

Councillor Richard Wright

Leader, North Kesteven District Council

PARTNERS

St. Modwen has numerous partnering agreements with private and public sector organisations, as well as landowners, across the UK. These key partnerships have enabled us to create new communities and develop hundreds of acres of land into residential, employment, leisure and education uses alongside green infrastructure and community facilities.

We work collaboratively and transparently and know the importance of understanding our partners' needs and objectives. We want to take their interests appropriately into account when making decisions and we listen to and communicate with our partners about their respective concerns and contributions.

Our experience and expertise enable us to cover all aspects of the development process on projects of scale. We are one of very few developers who operate directly in the residential and commercial sectors and the direct delivery of infrastructure.

Network 46

St. Modwen has a long history of development in Lincoln, having bought the Alstom portfolio in 2002. We own more than 30 acres of industrial land in the area, including Firth Road and Ruston Works.

In 2012, we worked closely with Siemens, North Kesteven District Council (NKDC) and Lincolnshire County Council to deliver the 135,000 sq ft state-of-the-art facility for Siemens at Teal Park.

The long-standing relationship with NKDC was further cemented when, in 2016, the opportunity arose to acquire land at Network 46, and breathe new life into what was the old RAF Swinderby airbase.

We are now speculatively building more than 95,000 sq ft of warehouse and manufacturing accommodation in one of the region's main strategic employment locations, in line with our strategy to increase our industrial development programme.

We have seen very encouraging levels of interest in Network 46 and we are on track to complete phase one in March 2019.



Network 46, Lincoln

Steelwork going up for phase one at Network 46, one of the region's main strategic employment locations.

CSR This is one of our CSR objectives. For more information visit www.stmodwen.co.uk/csr

SUPPLY CHAIN

We want to work collaboratively with all our supply chain partners, to deliver lasting, successful outcomes and a positive legacy. It's important that we can build and maintain positive relationships with the communities we serve and we spend time consulting with the wider community to ensure we are considering the future of those who live and work there.

Wherever possible, we work with local experts and suppliers and use nearby businesses to source sustainable construction materials that are inherently low in embodied carbon with a high recycled content. This ensures that we consider carefully the economic, social and environmental impact of our work and that we are locally appropriate. Our procurement process is environmentally conscious to minimise the waste sent to landfill.

We operate within specific protocols with which our supplier partners comply, and which ensure high standards of competence, productivity and performance management. We seek to develop long-term strategic partnerships with our supply chain, which give us a better consistency of approach as well as security of supply. In turn, our partners have greater visibility of our development pipeline and can thus better manage workloads and resources accordingly.

We aim to achieve a minimum Considerate Constructors score of at least 37/50 on all St. Modwen's new build, industrial projects* and continue to achieve a minimum Considerate Constructors score of at least 37/50 on all St. Modwen Home schemes. In 2018, we achieved 35.52/50 for St. Modwen as a whole; for St. Modwen homes, the score is 38/50. 

*For the purpose of this objective, our new build projects exclude land and infrastructure work.

We are a client partner for Considerate Constructors, instigating best practice and supporting and encouraging young people into rewarding careers in the construction industry.



Stakeholder voices

“As a key client within our organisation, St. Modwen recognises and rewards true value. Our long-standing relationship has flourished as we share the same values of working closely at all levels to achieve a common goal of exceeding expectations.

“We feel very much part of the team and are completely aligned on aiming to create better places.”

Paul Dunning

Managing Director, Prosurv Consult

Modern Slavery Act

As part of our ongoing commitment to ensure that modern slavery is not taking place anywhere within our businesses or supply chains, we have undertaken – and continue to undertake – further actions to build on the positive work we have done since the Modern Slavery Act came into force.

As a standard part of our tendering process, we have introduced enhanced procedures requiring all tendering contractors to provide a declaration, verifying their compliance with the Modern Slavery Act. Master services agreements with all our key consultants have been agreed, all of which contain stringent anti-slavery provisions.

St. Modwen Homes has introduced modern slavery compliance into their pre-qualification process for key trade contractors and have updated their trade contract to further enhance their anti-slavery safeguards.

Work is underway on a Company-wide programme to increase knowledge and training on Modern Slavery Act matters and to increase awareness on our sites.



St. Modwen requires all contractors to verify their compliance with the Modern Slavery Act.

OUR APPROACH CONTINUED



We're award winners of the Brownfield Briefing Awards, 2018 for the Best Brownfield Infrastructure Project at Littlecombe. The judges said:

"The project focuses on melding new development with the existing town centre and incorporates sensitive design of infrastructure. Elements included new bridges, complex level changes and reuse of material. The opening-up of the culverted river to a flood resistant river corridor is a great asset to the development."

ENVIRONMENT

Building and operating sustainable developments is central to our business model. By looking at the end to end asset journey this means we design efficient buildings, invest in clean energy and prioritise future-focused developments. We continually work to adapt our developments in line with current environmental challenges.

We embed low-energy design principles into building development from concept stage, put measures in place to reduce carbon emissions over the lifecycle of a development. We design resilient and intelligent buildings that can adapt to climate change. Our design standards are continually reviewed to improve and embed lessons learnt and evolve to comply with best practice. During the financial year, we commissioned a working group of senior leaders across St. Modwen to research and develop a strategy to further reduce our CO₂ emissions per full-time employee for which the Company is deemed to be directly responsible by 2020. **CSR**

We embrace innovative approaches to delivering energy. At our industrial and logistics sites this includes embedded generation, battery storage and electric vehicle charging through smart grid infrastructure. We install smart meters on all new developments to help our customers track, record, and reduce electricity, gas and water consumption. As part of our commitment to install smart meters across all of our income-producing properties by 2020, so far, 198 smart meters have been installed at our existing properties and we are on track to reach the target by 2020. **CSR**

We also consider the use of rainwater harvesting systems in our new developments to irrigate planting and landscaping and reduce demands on potable water. We are pleased that in the year we installed rainwater harvesting systems on 56% (by floor area) of our speculative⁽¹⁾, new build, industrial unit developments. **CSR**

Wherever possible, we recycle materials from site and reuse them in landscaped areas and sub-base preparation. In the financial year, we recycled and re-used 170,000 tonnes of material, in accordance with the Specification for Highway Works, to avoid the use of natural quarried materials. **CSR** In addition, St. Modwen Homes successfully reduced their waste by 12% on individual sites with 95% of the reduced waste now diverted from landfill. **CSR**

(1) For the purpose of this statistic, our speculative programme is defined as the point when construction commences on a building with no designated occupier.

CSR This is one of our CSR objectives. For more information visit www.stmodwen.co.uk/csr

A key consideration in all our developments is to include large, landscaped areas to improve the site's biodiversity. We plant only native species which will thrive in UK conditions and include bird boxes, bat boxes and insect hotels to provide ecologically valuable habitats for local wildlife. This year, we created 82 acres of public green spaces, including parks and wildlife areas, across our sites. **CSR**

In cases where we can add specific value for our customers, we implement measures to target (as a minimum) BREEAM 'Very Good' buildings under the New Construction 2018 criteria. To achieve this means engaging early with the design team and stakeholders to incorporate the most beneficial environmental measures.

Littlecombe, Dursley

The Littlecombe development is an on-going regeneration project, located on the outskirts of Dursley in Gloucestershire. It occupies the site of the former Lister-Petter works and comprises 37 hectares of brownfield land.

We are pleased that in the year, we were winners of the Brownfield Briefing Awards for best brownfield infrastructure project. This award showcases those projects that demonstrate ecological and social best practice with regards to sustainability.

The excavation and relocation of the River Ewelme was integral to the masterplan of Littlecombe in order to enhance biodiversity and local ecosystems as well as creating an excellent visual amenity to the future residents of the town.

By integrating infrastructure into the wider landscape and using local stone to clad structures, the new sustainable infrastructure blends into its environment and forms an attractive landscape for residents to use and enjoy.

The Local Authority and Environment Agency were a key part of the design process, allowing the structures to be built to adoptable standards but remaining protective of the sensitive watercourse.

The design of the infrastructure at Dursley is exceptional in how it has connected the fabric of old and new, between the historic market town of Dursley and the brownfield regeneration site at Littlecombe.

It has done so with minimal disruption and tangible amenity enhancement while breathing life into the river and reducing congestion on the narrow streets of the town centre. The level of experimentation, innovation and refinement seen on this development is rare on smaller complex sites. The rapid expansion of the development programme currently underway is evidence of the success achieved in delivering the vital infrastructure on this site.

HEALTH AND SAFETY

As part of our commitment to ensure the wellbeing of our employees, customers, the public, our supply chain and all stakeholders, in the last year we have developed a five-year health and safety strategy which promotes continual improvement and embedding of recently adopted management systems. The strategy will also grow our safety culture through a safety leadership programme across the Group.

There are five key elements to the strategy, each of which are linked to our values. We will commence new activities under each value every year. This will ensure our strategy is manageable and achievable and, importantly, progress will be visible year on year.

The Safety, Health and Environment (SHE) strategy will provide everyone with the tools and training required to take ownership of health and safety across this business.

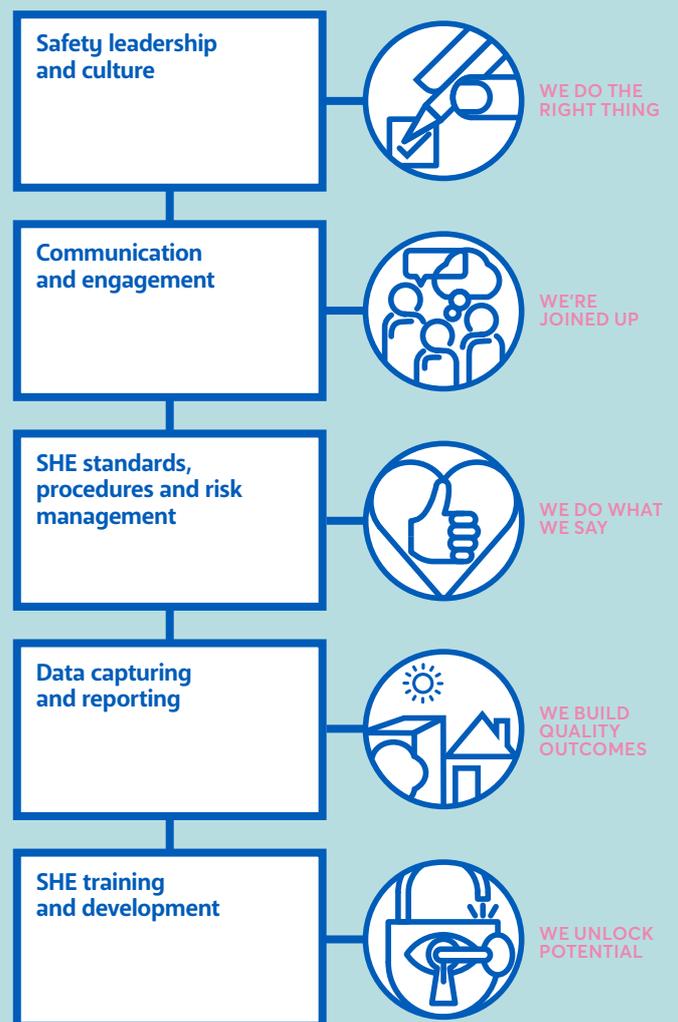
In the year, we have also worked hard to remain below the UK average accident frequency rate (AFR) of 0.4 and have exceeded this by scoring 0.15.  This indicates we have maintained a consistent performance following on from 2017 and we have maintained safe sites and workplaces across the Group. The Asset Management team have performed especially well, experiencing zero reportable injuries in the year.

Where we have experienced reportable accidents, these have not been life-changing, but we cannot accept that anyone could be adversely affected while working with us, so our focus for 2019 continues to be on eliminating RIDDOR reportable accidents and targeting zero life-changing injuries. We have also improved the reporting of incidents with a centralised Group-wide approach for reporting.

We are committed to the training and development of all our colleagues to ensure they are competent to undertake their roles and understand any risks that may affect them. In the year, 60 employees have carried out training on Construction (Design and Management) Regulations (CDM), 389 employees have completed a lone worker essentials course and 89 have completed an asbestos awareness course. 

We are also keen to develop safety leaders in our organisation who can influence not just our own colleagues, but also our supply chain and other organisations working with us. Our programme for 2018 has been focused not only on safety, but health, wellbeing and environmental risks.

As we move into 2019 and beyond, we will build on the progress made in 2018. We are excited about the opportunities for the Group to work collaboratively to make improvements and continue to live our value of doing the right thing.



COMMUNITIES

We believe an integral element to a successful development is a flourishing and inclusive community, with a sense of vision and identity.

We create and manage places where communities grow, businesses thrive and people can feel and be at home.

Our approach is to engage with and inspire all communities in which we work. We actively seek and nurture ongoing relationships with all those who live and work in the vicinity, including schools and wider community interest groups. We aim to give them an understanding of our purpose, and in turn, seek to better understand their interests and concerns.

Local community engagement

As the leading developer on the 227-acre residential scheme at Kingsgrove, Wantage, where a new 1,500-home community will be built, we have worked closely with Oxfordshire County Council (OCC) on the design of a new primary school. The design was informed by a consultation event in May 2018 followed by a public exhibition held in September 2018. Set in 2.2 hectares, the final proposed design is a contemporary building and features glass, timber, red brick and pitched roofs. The proposal also includes playing fields, sports pitches, a playground, a multi-use games area and car parking.

Subject to planning permission being granted, we hope to start building the primary school in summer 2019, with completion and handover to OCC for fit-out in summer 2020 and the school opening in September 2020, as one of the key community benefits that we are delivering as part of the development.

Education

In the year, we visited a total of 35 schools adjacent to our construction sites and have provided information on the relevant nearby project, careers insights and presentations on the construction process, health and safety. 

Through St. Modwen Homes, we have established key partnerships with educational institutions to encourage young people to think positively about a career in the industry.

 This is one of our CSR objectives. For more information visit www.stmodwen.co.uk/csr

Stakeholder voices

“Having gone through a lengthy selection process with our professional team, we considered St. Modwen the best organisation to work with as partners over the coming years to manage and construct the Kingsgrove development.”

Crab Hill Developments Ltd



Community consultation, Kingsgrove

St. Modwen consulted the local community on the proposals for the new school at Kingsgrove, including a public exhibition in September 2018.

St. Modwen Homes has partnered with Burton and South Derbyshire College since 2016. Every year, we offer work experience placements to students at the college, with 70 students, aged between 16 and 18, working with us this year. 

Further partnerships, more recently established, with Chesterfield College, Uxbridge College, Weston College, Newport College and Abingdon & Witney College enable us to provide more work experience placements and lectures. To ensure we engage with as many young adults as we can, work placements have included construction and trade opportunities as well as office-based roles and photography and interior design opportunities.

We participate in the Speakers 4 Schools initiative, which links students from state schools, academies and colleges to insights from leading figures. Our Chief Executive, Mark Allan, is committed to speaking at two schools per year and, in 2018, addressed pupils from Streetly Academy in Walsall and Bishop Walsh Catholic School in Sutton Coldfield.



Running to end youth homelessness

In 2018, 46 St. Modwen employees took part in the LandAid 10k and 5k run in Longbridge to end youth homelessness in the Midlands.

Charitable support

For the second consecutive year, in September 2018 we supported, sponsored and hosted the LandAid Midlands 10k and 5k run in Longbridge.  The run was a huge success and in total it raised over £30,000 for LandAid, the property industry charity helping to end youth homelessness. The event was also an opportunity for over 200 entrants to gather in Longbridge town centre to take part in a collective and meaningful cause. With live music, street-food vans and a warm up given by local college students, the event had a community feel about it and was well received by all.

For further examples of our engagement with communities, please see the case study on Longbridge on page 49.



WW1 centenary

Stoke-on-Trent City Council unveiled six galvanised steel silhouettes, depicting servicemen from the six local towns, created by renowned artist Andy Edwards.

WW1 centenary

November 2018 marked a very poignant anniversary as the country remembered the service personnel who paid the ultimate sacrifice.

Our strong ties with Stoke-on-Trent saw us pledge £10,000 to support the 'Stoke-on-Trent Remembers' campaign. As part of the commemorations, Stoke-on-Trent City Council unveiled six eight-foot tall silhouettes, made from galvanised steel. Created by renowned local artist Andy Edwards, the silhouettes depict servicemen from the six towns of Stoke-on-Trent with a passage that describes their valiant contributions and experiences in the conflict. The silhouettes will be installed in the servicemen's home towns.

'Stoke-on-Trent Remembers' also encompassed community events, with open days at the restored Bethesda Chapel, an art exhibition entitled 'For The Fallen' at the Potteries Museum and Art Gallery and a concert of celebration on Armistice Day.

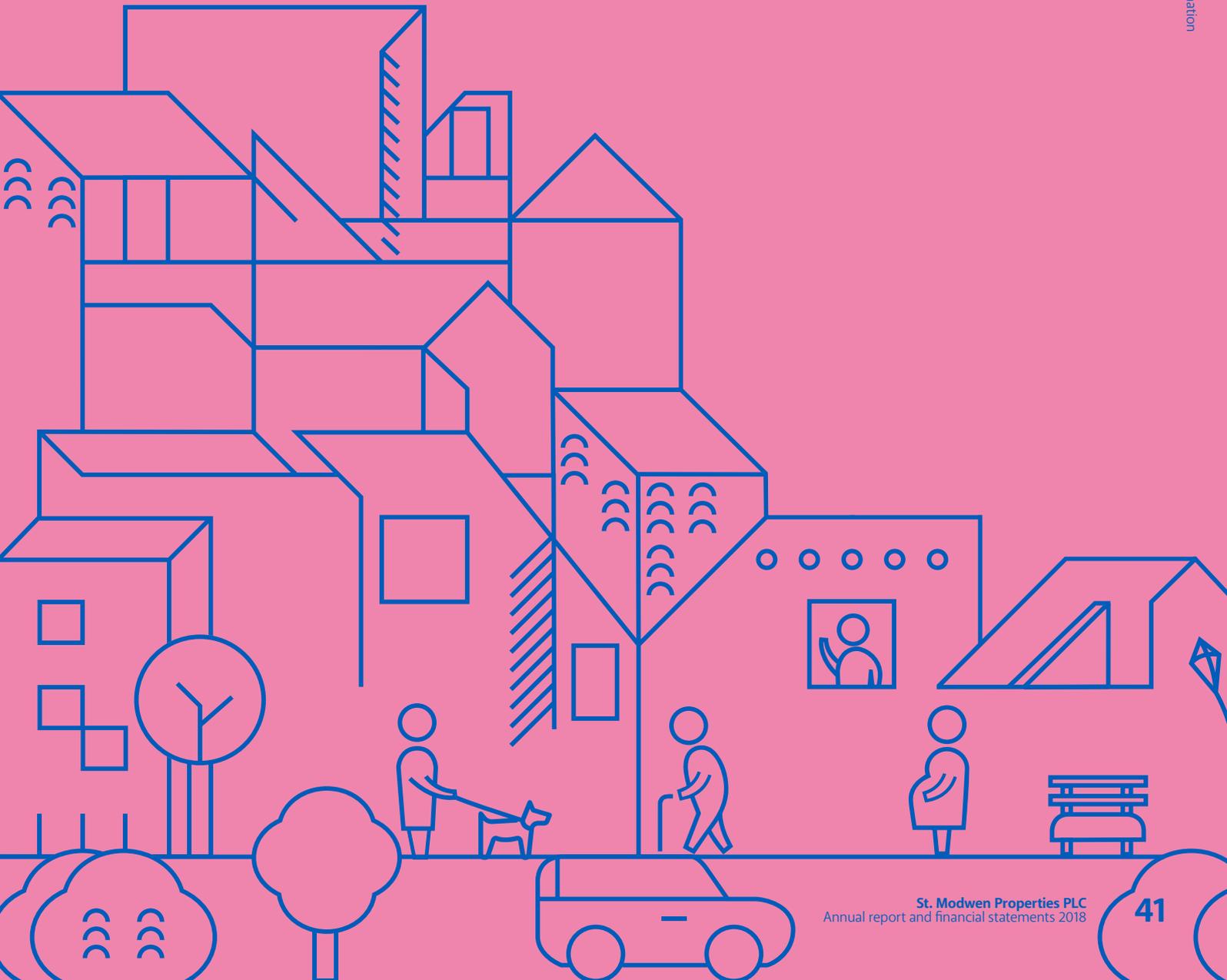
For more about our communities, please see our website: www.stmodwen.co.uk

NON-FINANCIAL INFORMATION STATEMENT

We have complied with the new non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This builds on the existing reporting we already perform under a number of frameworks.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information
Environmental matters	<ul style="list-style-type: none"> – Environmental statement – Waste management policy – Control of spills and pollution procedures 	Partners, see page 34 Environment, see page 36
Employees	<ul style="list-style-type: none"> – Health and safety policy – First aid management procedure – Safe system of work procedure – Starter, mover, leaver process – Family policies, including enhanced maternity, paternity, and adoption leave policies – Diversity and inclusion policy – Bullying and harassment policy 	Safety, health and environment, see page 37 Our people, see pages 31 to 33
Human rights	<ul style="list-style-type: none"> – Human rights policy statement – Anti-slavery and trafficking Statement – Privacy and data protection policy – Information handling policy – Information and data protection policy – Data retention policy – Employer, worker and contractor privacy notice 	Our people, see pages 31 to 33 Supply chain, see page 35 Audit Committee report, see pages 77 to 85
Social matters	<ul style="list-style-type: none"> – Charitable giving guidelines – CSR strategy and approach 	Communities, see page 38
Anti-bribery and corruption	<ul style="list-style-type: none"> – Anti-bribery and corruption policy – Fraud prevention policy – Anti-money laundering guidelines – Group whistleblowing policy – Risk management policy 	‘Doing the right thing’ Risk management, see pages 54 to 64 Audit Committee report, see pages 77 to 85
Description of the business model		Our business model, see pages 14 to 15 Our strategy and key performance indicators, see pages 14 to 21 Strategy in action, see pages 22 to 27
Non-financial key performance indicators		Our strategy and key performance indicators, see pages 14 to 21 Stakeholder value creation, see pages 28 to 29 Our approach, see pages 30 to 39

A RESHAPED PORTFOLIO/ WITH STRONG GROWTH PROSPECTS



PORTFOLIO AND OPERATIONAL REVIEW CONTINUED

PORTFOLIO OVERVIEW

Investments and disposals

Our portfolio has seen a major transformation during 2018. We sold £529m of assets, on average in line with book value, which more than offset the £191m we invested in acquisitions and developments (excluding housebuilding activities). Since we launched our new strategy in June 2017, we have now sold £814m of assets, representing more than 40% of our initial portfolio.

Our largest disposal during the year was the sale of our 45-year leasehold interest in the existing 2,005-bed student accommodation at Swansea Bay Campus for £139m in February, followed by the forward-sale of our 207-unit PRS development in Uxbridge for £75m in March. In May, we agreed the sale of Longbridge Shopping Park for £54m and Wembley Central shopping centre for £36m via two separate transactions. Just before the year end, we sold Edmonton Green shopping centre for £72m which, combined with the sale of three smaller retail assets, brought our total retail disposals for the year to £177m – on average less than 1% below the November 2017 book value of these assets.

In August, we sold a portfolio of 34 small assets for £47m (our share), so combined with the sale of two separate small assets, total proceeds from the sale of retail and small assets were £225m – almost double the £100-150m target we initially set for the year. We have now sold c. 75% of the c. £100m small assets we identified for sale in June 2017. We also sold £26m other non-core commercial assets and land, on average 11% above book value, and £53m of residential land, slightly above book value.

As we saw much better returns from investing our capital in our own pipeline than buying assets in the current investment market, we made no acquisitions during 2018 other than the drawdown of £51m of land for near-term development starts under existing development agreements, principally at Gatwick, Uxbridge and Chippenham.

	Amount ⁽¹⁾ £m	Initial yield ⁽²⁾ %
Acquisitions during 2018		
Residential land	42	N/A
Commercial land	9	N/A
Total	51	N/A
Disposals during 2018⁽³⁾		
Swansea student accommodation	139	5.4
Uxbridge PRS	75	N/A
Industrial & logistics	11	6.9
Non-core retail	177	6.2
Non-core other	74	7.8
Residential land	53	N/A
Total	529	6.1

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

(2) EPRA net initial yield on income-producing assets, excluding land.

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

Looking forward, we will continue to optimise our portfolio to further improve our return prospects but following the large volume of sales over the past 18 months, the pace of disposals is set to slow from here. We have only £88m of non-core retail assets left plus a further £93m of residual small assets, surplus commercial land and non-industrial and logistics assets we deem non-core. We intend to complete ongoing works at a few of these properties but plan to sell all these assets over the next three years.

Whilst we are open to new opportunities, we will remain very selective when it comes to acquisitions given the substantial opportunities in our existing pipeline. We continue to plan to grow the share of income-producing investment assets as part of our portfolio to c. 60-65% over time (2018: 43%) by retaining the majority of our industrial and logistics developments and reducing our exposure to land.

Portfolio valuation

Adjusted for investments and disposals, our portfolio value increased 3.6% during the year and is now valued at £1.4bn. Our industrial and logistics portfolio makes up 33% of this, up from 19% in May 2017. Our residential investments comprise 43% of our portfolio, whilst regeneration projects make up 12%. Non-core retail and other commercial assets now comprise only 12% of our portfolio; split evenly between the two and down from as much as 34% only 18 months ago.

Our industrial and logistics portfolio increased in value by 9.2% during the year, driven by gains on developments, some 30bps yield compression and 2.3% ERV growth. In line with our expectations, retail values softened during 2018, with our residual non-core retail down 10.5% in value, although our regeneration assets with current retail use were up 3.3%, driven by our Trentham Gardens leisure/retail investments which continue to perform well. As expected, residential land values were broadly stable, up 1.2%.

Going into 2019, occupier and investment demand for industrial and logistics remains strong. This has resulted in an increase in speculative development in the wider market, but this is largely driven by a small number of large units over 400,000 sq ft. Beyond this, speculative supply remains manageable in the context of the overall market and as take-up remains strong, supply and demand remain balanced. Following the marked yield compression in recent years, we believe future capital value growth is chiefly reliant on rental value growth.

Although demand for residential land remains robust, we expect upside in values to remain limited, as house price inflation is broadly offset by build cost inflation and the majority of our land bank already has planning consent. The sale of over half our retail portfolio at less than 1% below book value in 2018 shows there is demand for retail assets which are priced realistically, but the reduction in transaction volumes in the wider UK retail market shows this is not the case for all assets. We therefore expect retail values will continue to soften in 2019, but, at only 6% of our assets, our exposure to non-core retail is limited.

	Portfolio valuation £m	Portfolio movement %	Net initial yield ⁽¹⁾ %	Equivalent yield ⁽¹⁾ %	Life-for-like ERV growth ⁽¹⁾ %
Industrial and logistics/other					
Industrial and logistics	461	9.2	5.3	7.1	2.3
Non-core retail	87	(10.5)	6.2	9.9	(2.2)
Non-core other	93	7.4	6.1	7.0	5.2
Total industrial and logistics/other	641	5.7	5.5	7.6	1.0
Residential and housebuilding					
St. Modwen Homes	390	0.3			
Other development	206	2.8			
Total residential and housebuilding	596	1.2			
Regeneration					
Retail	85	3.3	7.5	8.1	2.7
Other	81	5.3	6.1	7.0	2.5
Total regeneration	166	4.3	7.1	7.8	2.6
Total portfolio	1,403	3.6	6.1	7.7	1.4

(1) On completed investment assets only, excluding current developments and land.

Operational performance

The annualised passing rent on our portfolio, which excludes contracted rent subject to rent-frees, stood at £39.4m at the end of November 2018, compared to £62.9m at the end of 2017, driven by disposals. Like-for-like rental income fell by 1.2% over the period, but this was solely driven by a £1m one-off at Trentham Gardens in the prior year, excluding which like-for-like rental income increased by 1.9%, with growth in industrial and logistics of 9.1%. Industrial and logistics now makes up 46% of our overall passing rent, up from 21% a year ago, and this share is expected to grow from here.

Overall vacancy is 18.9%, but around a quarter of our vacant space is deliberately held back for future developments and a further

c. 40% relates to recent industrial and logistics developments. Most of this completed shortly before the year-end and we expect this space to be substantially let during 2019. We have seen good momentum in improving the occupancy of our existing assets, with a 5ppt increase in occupancy on a like-for-like basis and we signed 3.3m sq ft of new leases and lease renewals during the year, generating £13.4m of annualised rental income (£10.0m our share). On average, re-lettings and renewals were 25% above previous passing rent and in line with ERV. The average remaining lease term to first break of our portfolio decreased from 5.3 years to 4.1 years, largely as the disposal of Longbridge Shopping Park reduced the average by 0.8 years.

	Passing rent ⁽¹⁾ £m	ERV £m	Vacancy %	Like-for-like rental growth %
Industrial and logistics/other				
Industrial and logistics	18.2	26.9	21.5	9.1
Non-core retail	6.7	10.0	26.8	(6.6)
Non-core other	2.5	3.1	21.2	5.9
Total industrial and logistics/other	27.5	40.0	22.8	4.9
Residential and housebuilding				
St. Modwen Homes	1.8	1.8	–	
Other development	1.0	1.4	17.9	
Total residential and housebuilding	2.8	3.2	7.7	
Regeneration				
Retail	6.8	7.8	8.8	(16.4)
Other	2.3	2.3	1.6	5.1
Total regeneration	9.1	10.1	7.1	(12.4)
Total portfolio	39.4	53.3	18.9	(1.2)⁽²⁾

(1) Excluding £0.9m of annualised turnover rent at Trentham Gardens.

(2) 1.9% adjusted for £1m one-off in retail regeneration in prior year.

PORTFOLIO AND OPERATIONAL REVIEW CONTINUED

INDUSTRIAL AND LOGISTICS

Development completions

We invested £76m in industrial and logistics capex during 2018. We completed 0.9m sq ft of space (2017: 0.9m sq ft), of which 0.3m sq ft was pre-sold. We will retain the remaining 0.6m sq ft, which, with an ERV of £4.5m and total development cost of £54m, is set to deliver an 8.3% yield on cost once fully let. This includes a 113,000 sq ft unit in Burton-on-Trent which was pre-let to global automotive manufacturing firm Grupo Antolin, the second phase of 119,000 sq ft across three units at Burton Gateway, the latest 116,000 sq ft across 14 units at Avonmouth and 125,000 sq ft across three units at Gloucester.

Most of our projects completed shortly before the year end, but we have secured 38% of the £4.5m retained ERV, with a further 17% under offer, compared to 54% and 11% respectively this time last year. The assets we retained from our 2017 pipeline are now 94% let and we are seeing good interest in the remaining space in our 2018 pipeline, so we are confident this will be substantially let during 2019. In total, we have agreed terms on £5.6m of development lettings since the start of 2018, representing 0.8m sq ft, including 153,000 sq ft at Tamworth to a global automotive supplier, the latest 119,000 sq ft at Burton Gateway, 80,000 sq ft at Gloucester to Amazon and Samworth Brothers and 35,000 sq ft at Avonmouth to pharma logistics firm Movianto.

Current developments

Our committed pipeline currently stands at 1.5m sq ft, up from 1.0m sq ft at the start of 2018, with total development cost of £137m compared to £101m in early 2018. We plan to retain 87% of this with an estimated ERV of £9.2m (early 2018: £5.1m), representing an expected yield on cost of 7.8%. This includes four units at Tamworth totalling 408,000 sq ft, a further 319,000 sq ft across six units at Avonmouth (ranging from 25,000 sq ft to 150,000 sq ft), a 104,000 sq ft unit at Burton Gateway, the first 106,000 sq ft building at Chippenham and the first 100,000 sq ft unit at Gatwick. In total, we have terms agreed to pre-let or sell 19% of our committed pipeline and we are seeing good interest in the remaining space.

Future pipeline

Our total pipeline stands at over 15m sq ft, of which c. 60% has planning. Over 10m sq ft of this is located at our key strategic sites, which are our largest sites in the best locations. These could be delivered over the next 5-8 years, partly subject to planning. In addition, we have a number of smaller sites which could deliver over 5m sq ft of potential space. Albeit smaller, these are in good locations and generally have planning, so they can support the near-term replacement of income following our retail and other non-core disposals.

During the year we secured planning consent for 1.0m sq ft of space at Chippenham, adjacent to junction 17 of the M4, 0.9m sq ft at Quedgeley, next to junction 12 of the M5 and we cleared planning

conditions and finalised consents for 0.2m sq ft at Gatwick, adjacent to junction 10 of the M23. In addition to our committed pipeline, this means we have a further 8.1m sq ft consented space in our future pipeline.

This consented future pipeline could deliver c. £51m of ERV which, with future capex of £550-600m and total development cost including land we already own of £620-670m, is expected to deliver a c. 9% yield on incremental capex and c. 8% yield on cost. Delivery of this pipeline is therefore expected to generate significant growth in rental income compared to the c. 7% gross yield on non-core assets we sell, especially as operating costs are much lower than the c. 30% on our older, less-efficient retail and small assets. Moreover, given the substantial margin versus current valuation yields, this pipeline is expected to deliver meaningful development upside. We will maintain a disciplined approach to accelerating our development activity but, subject to occupier demand, we intend to further grow our committed pipeline to c. 2m sq ft in the next 1-2 years.

Project	Size '000 sq ft	Units	Expected completion	Pre-let/sold %
Avonmouth	150	1	H1 2019	-
Avonmouth	70	2	H2 2019	-
Avonmouth	99	3	H1 2020	-
Tamworth	89	3	H2 2019	-
Tamworth	319	1	H1 2020	-
Gatwick	100	1	H2 2019	-
Chippenham	106	1	H2 2019	-
Burton	104	1	H2 2019	-
Burton	13	1	H1 2019	100
Stoke	43	1	H1 2020	-
Stoke	37	1	H2 2019	-
Bury	86	10	H1 2020	-
Lincoln	95	2	H1 2019	-
Industrial and logistics – to be retained	1,311	28		2
Burton	72		H1 2019	-
Bury	36		H1 2020	-
Stoke	43		H1 2020	100
Stoke	44		H2 2019	-
Industrial and logistics – to be sold	195			21
Uxbridge PRS	150		H1 2019	100
Swansea University student accommodation	75		H1 2019	100
Longbridge – 3 Devon Way	21		H1 2020	100
Other	246			100
Total	1,752			17

Project	Size '000 sq ft	Units	Pre-let/sold ⁽¹⁾ %	Development cost £m	Current book value £m	Future capex £m	ERV £m	Yield on cost %
Industrial and logistics – to be retained	1,311	28	2	119	35	84	9.2	7.8
Industrial and logistics – to be sold	195		21	18	4	11		
Other ⁽²⁾	246		100	35	28	6		
Total⁽²⁾	1,752		17	172	67	101		

(1) Based on ERV for projects to be retained and development cost for projects to be sold.

(2) The development cost, current book value and future capex exclude Uxbridge PRS which was forward-sold during the year.

Green spaces in West and Wales

Combining our purpose of 'Changing places. Creating better futures.' with our strategic objective to build a high quality industrial and logistics business, we are developing these schemes with people and wellbeing at their heart.

With the proportion of employers investing in workplace wellbeing initiatives at its highest ever – increasing from 36% in 2017 to 42% in 2018 – we have turned great attention to how our sites can prioritise employee wellbeing initiatives and enable tenants to retain a motivated and skilled workforce.

Our industrial and logistics sites across the West and Wales (from Gloucester to Newport) are leading the way in high-quality space, carefully designed to help prospective tenants meet essential wellbeing initiatives for their employees.

Not just a case of well-placed benches and flowerbeds, St. Modwen's schemes are unique environments. They incorporate green infrastructure that preserves open water and greenery, offering the likes of running and cycling tracks and provisions for lunch time yoga sessions.

Whilst still a work in progress, Access 18 in Avonmouth already prides itself on its integration of green landscaping, ponds and reens for the conservation of wildlife habitats, and cycle and running paths. Currently home to 15 companies, including Nisbets, Hermes Parcelnet, GB Liners and Auto Windscreens, the site boasts green areas that provide relaxing outdoor space and a home for regular fitness classes.

At Gateway 12 in Gloucester, land was set aside for the use and enjoyment of the occupiers of the site. We handed over an area of land adjacent to retail giant Amazon's book depository, working closely with it to enable the creation of an outdoor area for its staff to enjoy their breaks.

A walking and jogging route forms part of the masterplan at St. Modwen Park, Chippenham. Incorporated within 13 acres of strategic landscaping, the 79-acre scheme in Wiltshire will provide up to 1m sq ft of prime employment space and is expected to create up to 1,000 jobs.

PORTFOLIO AND OPERATIONAL REVIEW CONTINUED

RESIDENTIAL AND HOUSEBUILDING

Development completions

The market for new-build housing in the UK regions remained resilient and we continued to see good demand for the high-quality homes built by our housebuilding business, St. Modwen Homes. Reflecting this, we sold 848 units during the year, representing an increase of 22% versus last year (2017: 694 units), in line with our target to grow volumes by up to 25% p.a. in the period to 2021.

Our private average sales price increased 8.9% to £282,000 (2017: £259,000), with like-for-like prices up 3.1% and the remainder driven by changes in the mix of units and sites. St. Modwen Homes is now sales active on 20 sites, up from 15 at the end of 2017. In terms of quality and safety, we achieved a 4* rating from HBF but our net promoter score increased from 53 to 63 over the year and we retained our RoSPA Gold safety accreditation. St. Modwen Homes operating margin increased to 14.4% (2017: 13.9%), in line with our target to improve our margin by c. 0.5ppt.

As a result of its strong growth, St. Modwen Homes operating profit increased 34.3% to £31.3m (2017: £23.3m). This more than offset the planned reduction in profits from the Persimmon JV to £2.6m (2017: £8.1m), which continues to wind down its activities, having sold 95 units during the year (2017: 227). All in all, overall housebuilding profit therefore increased 8.0% to £33.9m (2017: £31.4m).

St. Modwen Homes: performance metrics	2018	2017	Change
Total units sold	848	694	22.2%
Private units sold	709	619	14.5%
Private sales rate	0.8	0.8	–
Private ASP (£k)	282	259	8.8%
Affordable ASP (£k)	118	97	21.6%
Operating margin (%)	14.4	13.9	0.5ppt

Current developments

Since the end of 2018, demand for our high-quality St. Modwen Homes product has remained robust. Reflecting this and our efforts to front-weight sales targets, our private order book is currently up 36% compared to the same time last year. Assuming market conditions remain stable, we expect to grow the number of sales active sites to 28 during 2019 and we continue to target growth in volumes of up to 25% this year.

As the land we transfer to St. Modwen Homes is held at market value, upside from house price inflation and planning gains is captured via revaluation gains elsewhere in the Group, which continues to reduce our margin by an estimated c. 2-3ppt relative to housebuilders who hold their land at historic cost. We maintain our target to improve margins to c. 16-17% in the medium term by optimising site coverage, scale efficiencies and a range of other initiatives and we target a further c. 0.5ppt step-up in margin in 2019. As we grow, we remain firmly focused on delivering a high-quality product for our customers and we target a 5* HBF rating for 2019. We expect activity in the Persimmon JV to wind down in the next two years, but this now makes up less than 10% of our overall housebuilding profits, so we expect the impact of this to be more than offset by further growth in St. Modwen Homes profits.

In addition to our housebuilding activities, we expect to complete and hand over our 207-unit PRS scheme in Uxbridge in Spring this year which we forward-sold for £75m in early 2018.

Future pipeline

At the end of 2018, our owned land bank comprised c. 18,400 plots (2017: c. 19,000), of which c. 85% have planning. The majority of this is located in the Midlands and the South West, including our two largest sites in South Wales which combined make up c. 7,000 plots. In addition, the land we control via development agreements could potentially cater for a further c. 11,800 new homes in the long term, around 40% of which is still subject to planning.

This substantial pipeline provides us with clear visibility to sustain the delivery of c. 1,300-1,400 units per annum. by St. Modwen Homes in the medium to longer term, with potential to grow beyond that, in line with our target to grow St. Modwen Homes volumes by up to 25% per annum in the period to 2021. To further accelerate the monetisation of the value in our land bank, we also continue to sell land to third-party housebuilders. During 2018, we sold 860 plots across 49 acres of land for £53m (2017: £56m), including the final phase at Mill Hill, north London and we expect to sell at least a similar amount in 2019.

Group Construction

The breadth of skills and experience within St. Modwen's in-house construction team has enabled the successful delivery of projects across the group. With construction contracts in excess of £200m in the year, the team has provided land and infrastructure to support the construction of over 3,300 new homes, delivered almost 1m sq ft of industrial and logistics space and reached significant milestones on major projects at St. Andrew's Park in Uxbridge, Swansea University's Bay Campus and New Covent Garden Market in London.

The team's ability to unlock value in brownfield and greenfield sites has enabled it to provide sought-after 'oven-ready' land to both St. Modwen Homes and third-party housebuilders, which accounted for £53m of land sales last year. We have secured a reputation for delivering high-quality land that accelerates the delivery of new homes and we count some of the UK's most notable housebuilders as our partners.

Responding to occupier demand, the team was able to swiftly deliver a new 114,000 sq ft facility for global automotive supplier Grupo Antolin. Having secured a contract to supply components to Jaguar Land Rover, Grupo Antolin urgently required a larger site. We were able to deliver the facility, which included production space and three-storey offices, in just 38 weeks, with the manufacturer occupying the site after just 21 weeks.

The team also reached practical completion of new teaching facilities at Swansea University's Bay Campus well ahead of schedule; in Uxbridge, the first phase of 207 private rented sector (PRS) units at St. Andrew's Park were handed over to housing provider Annington and in London, work commenced on the next phase of the new fruit and vegetable market at New Covent Garden Market.

The construction team's expertise in remediation of land saw it again win a Brownfield Briefing Award in the 'Best Brownfield Infrastructure Project' category for our mixed-use development in Littlecombe, Gloucestershire, whilst being highly commended in the 'Best Biodiversity Enhancement' category for Coed Darcy in Wales. It also became a client partner of the Considerate Constructors Scheme, to participate in improving standards across the construction industry.

REGENERATION

Development progress

We made good progress on our three existing major regeneration schemes during the year. At Swansea Bay Campus, we released £87m of capital from the sale of the first phase of student accommodation, net of the transfer of a £52m finance lease creditor, and we completed the latest 40,000 sq ft academic facility, which was forward-sold to global education provider Navitas. At Longbridge, we released £54m of capital via the sale of the Shopping Park and we sold 8.5 acres of land to a third-party housebuilder for the delivery of 215 new homes. At New Covent Garden Market, via our 50:50 joint venture with VINCI, we continued to progress the relocation of the existing market facilities following the sale of the first 10 acres of land in 2017.

Current developments

The release of capital from the first phases of development at Swansea and Longbridge has been important to unlock the next phases of development. At Swansea, we completed the latest 411 student beds in early 2019 which, like the first phase, we expect to sell in due course. At Longbridge, we agreed terms on a 15-year fixed pre-let for a 21,100 sq ft office building, which will complete the Devon Way office cluster and at NCGM, the ongoing process of relocating the market facilities is on track.

Future pipeline

Our three existing major regeneration projects have significant future development potential. We continue to work on enhancing the vision for our 468-acre Longbridge site, which is c. 50% developed. The next phase of development could deliver c. 0.7m sq ft employment space, but we want to make sure this fits our placemaking ambitions and that we create a lasting legacy at this important scheme. At Swansea Bay Campus, we continue to prepare plans for the next 85,000 sq ft of academic facilities and 600 student beds for delivery by 2021, with a further c. 250,000 sq ft and 1,000 beds development potential remaining beyond that. At NCGM, completion of the market relocation will release a further 10 acres of residential development land to the joint venture in the long-term.

Beyond these three projects, we have started preliminary discussions on a potential large-scale mixed-use redevelopment opportunity at Wythenshawe, between Manchester city centre and Manchester Airport, where we own an existing 1960s retail centre, and we have started to explore further opportunities at Trentham Gardens. There is no decision imminent on either scheme but even though the predominant use of both assets is currently retail, we intend to retain them for the time being to explore their wider development potential and, in the meantime, both assets continue to produce a good income return.

Longbridge

The £1bn regeneration of the former MG Rover manufacturing plant, Longbridge has been transformed from 468 acres of post-recession brownfield land into a thriving and sustainable community which has created more than 2,800 jobs.

Approximately 50% of the way through, we have, to date, delivered over 965 homes, a £70m town centre, a Technology Park for innovation, education and community space including a £66m purpose-built facility for Bournville College, 180 beds of bespoke medical accommodation for the MoD's Defence Infrastructure Organisation and a 260 apartment Extracare retirement village. We also saw the creation of the three-acre £2.0m Austin Park, which uncovered 255 metres of the River Rea for the first time in nearly 100 years.

We are delivering a £1m village hall on land known formerly as 'Eastworks' that will benefit both our new community of homes at Cofton Hackett as well as the village's long-standing residents. Furthermore, St. Modwen has committed £70,000 to the nearby Grade 1 listed church, St. Michael's, to provide the building with gas and water.

A comprehensive programme of public art, events and entertainment has made Longbridge a fantastic place to live, work and play. We have partnered with local organisation WERK to create the Longbridge Public Art Project, a long-term project designed to stimulate the cultural growth of the area that has delivered 235 local events, exhibitions and workshops that have been attended by more than 18,000 people. A partnership with Birmingham-born Digbeth Dining Club regularly brings award-winning street food to the town centre, Christmas Craft Markets have been introduced, as well as a music festival with local artists and theatrical performances from local theatre group Women In Theatre.

An online community hub 'Longbridge Life' was also created, providing support to local businesses, information on activities and events in the area, showcasing local charities and giving all generations a platform on which to share their news, views and concerns.

E CAMBRIDGE

Biofirst



Rob Hudson
Chief Financial Officer

FINANCIAL STABILITY/ GIVES US A ROBUST PLATFORM FOR GROWTH

Overview

Our financial performance for the year was solid. Despite the significant portfolio rotation, NAV per share increased 4.3% to 470.4 pence (2017: 450.9 pence) and EPRA NAV per share increased 2.7% to 484.1 pence (2017: 471.2 pence). Adjusted EPRA earnings increased 7.8% to £31.7m (2017: £29.4m), despite our substantial de-leveraging via disposals, which reduced see-through net borrowings by £151.3m and see-through loan-to-value by 7.3ppt to 16.9% (2017: 24.2%), as the associated reduction in rental income was more than offset by a fall in interest costs. As a result, adjusted EPRA EPS grew 7.5% to 14.3 pence (2017: 13.3 pence) and including the dividends paid during the year, our total accounting return was stable at 6.0% (2017: 6.0%).

Our dividend policy is aligned to cash profitability and we intend to pay a dividend equivalent to c. 50% of adjusted EPRA EPS per year, with the aim of providing a sustainable, progressive dividend for our shareholders. Reflecting this, we will pay a final dividend of 4.0 pence per share, to be paid on 4 April 2019 to shareholders on the register as at 8 March 2019. This brings the total dividend for 2018 to 7.1 pence per share, marking an increase of 13.1% compared to last year (2017: 6.28 pence).

	2018			2017		
	Total ⁽¹⁾ £m	Trading profit £m	Other £m	Total ⁽¹⁾ £m	Trading profit £m	Other £m
Gross rental income	59.7	59.7	–	67.6	67.6	–
Property outgoings	(12.9)	(12.9)	–	(13.8)	(13.8)	–
Other net income	2.2	2.2	–	2.0	2.0	–
Net rental and other income	49.0	49.0	–	55.8	55.8	–
Housebuilding operating profit	33.9	33.9	–	31.4	31.4	–
Development fee income	3.4	3.4	–	3.8	3.8	–
Administrative expenses	(32.5)	(32.5)	–	(29.0)	(29.0)	–
Net interest costs	(14.6)	(14.6)	–	(24.1)	(24.2)	0.1
Taxation on adjusted EPRA earnings	(7.2)	–	(7.2)	(8.4)	–	(8.4)
Less non-controlling interests	(0.3)	–	(0.3)	(0.1)	–	(0.1)
Adjusted EPRA earnings	31.7	39.2	(7.5)	29.4	37.8	(8.4)
Property development gains	37.0	37.0	–	19.4	19.4	–
Property disposal (losses)/gains	(7.1)	(7.1)	–	7.4	7.4	–
Property revaluation gains	11.4	–	11.4	34.6	–	34.6
Change in discounted NCGM liability	4.7	–	4.7	(24.6)	–	(24.6)
Net other finance costs	(12.7)	–	(12.7)	(7.7)	–	(7.7)
Taxation on other earnings	(4.8)	–	(4.8)	1.5	–	1.5
Less non-controlling interests	–	–	–	(0.4)	–	(0.4)
Profit attributable to owners of the Company	60.2	69.1	(8.9)	59.6	64.6	(5.0)
Earnings per share (pence)	27.1			26.9		

(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.

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 notes 2 and 3 to the Group financial statements. 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.

We use adjusted EPRA earnings and adjusted EPRA EPS as key performance measures, 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 are predominantly built to hold, commercial development profits are largely non-cash. As such, these are excluded from adjusted EPRA earnings, other than development fee income. As trading profit is no longer used as a key performance measure in our new strategy, we will no longer report this from 2019 onwards.

Net rental and other income

As expected, disposals reduced our net rental income during 2018 by £7.5m. This was partly offset by £2.1m income from retained developments, but overall the Group's share of net rental and other income decreased to £49.0m (2017: £55.8m). The full-year impact of last year's disposals and the time-lag between these and developing and leasing our industrial and logistics pipeline means we expect net rental income to reduce further in 2019 before growing over subsequent years.

FINANCIAL REVIEW CONTINUED

Administrative expenses

Due to our investment in preparing our business for future growth, administrative expenses for the year increased as expected to £32.5m from an underlying level of £30.5m for 2017, adjusted for a £1.5m one-off gain that year. During 2018 we capitalised £1.1m of costs directly related to commercial development activities, which improves the consistency of adjusted EPRA earnings, as property development gains are excluded from this measure. We expect overhead costs for 2019 to be broadly in line with 2018 and our portfolio repositioning to improve efficiency in the medium term.

Interest and other finance costs

Net interest costs for the year fell to £14.6m (2017: £24.1m) on a see-through basis, principally due to a reduction in debt due to our disposals, a lower average cost of borrowing following the refinancing of our bank facilities in December 2017 and the capitalisation of £2.3m interest costs on commercial developments. We expect net interest cost to reduce further in 2019, principally due to the early redemption of our retail bond in November 2018 which reduces our interest expense by c. £3m.

Net other finance costs were £12.7m (2017: £7.7m). This includes a £3.5m charge for discount unwinds, principally on our share of the long-term commitment to deliver the NCGM project, and a £1.8m charge for the amortisation of arrangement fees in relation to our loan facilities. The combined effect of this was less than the c. £7m of costs in the last two years, but we expect this to revert to this level in 2019 and recur at relatively similar levels. Other finance costs also included an aggregate £7.3m one-off expense related to the refinancing of our bank facilities and the early redemption of our retail bond. The final element of our other finance costs relates to the mark-to-market valuation of our convertible bond and derivatives, which is driven by the movement in our share price and swap rates and resulted in a £0.1m expense in the year.

Investment property revaluation and disposal gains/losses

All our investment properties are independently valued every six months by our external valuers, Cushman & Wakefield and Jones Lang LaSalle (the latter for NCGM only), who base their valuations upon open market transactions between a willing buyer and a willing seller at the balance sheet date. In accordance with accounting standards, valuation movements are reflected as gains or losses in the income statement. We also independently assess our work in progress for any impairment issues.

During 2018, our portfolio saw a revaluation gain of £11.4m and a £4.7m credit from changes to the NCGM build programme. In 2017, the portfolio recorded a revaluation gain of £34.6m, but this was partly offset by a £24.6m charge related to an increase in the liability to establish a market at Nine Elms. We recorded a £7.1m loss on property disposals for the year (2017: £7.4m gain), but this was partly offset by a £3.4m gain on asset disposals included in commercial development gains. As a result of this and an increase in development activity, gains on commercial developments increased to £37.0m (2017: £19.4m).

Taxation and profit

Our total tax charge (including joint venture tax) for the full year was £12.0m (2017: £6.9m) resulting in a net profit after tax of £60.5m (2017: £60.1m).

As a property group, tax and its treatment is often an integral part of transactions. The outcome of tax treatments is recognised by the Group to the extent that the outcome is reasonably certain. Overall, the Group effective tax rate for the full year of 16.6% (2017: 10.3%) increased, principally due to the freezing of indexation allowance from 31 December 2017. As signalled previously, the effective tax rate is expected to remain at broadly similar levels, slightly below the standard rate of tax of 19%.

Balance sheet and net asset value

The net asset value attributable to shareholders of the Group increased to £1,044.4m (2017: £1,000.3m) or 470.4 pence per share, which represents a 4.3% increase over the year (2017: 450.9 pence). Combined with the dividend of 7.36 pence per share (2017: 6.08 pence per share) paid during the year, this reflects a total accounting return of 6.0% (2017: 6.0%). EPRA NAV per share increased by 2.7% to 484.1 pence (2017: 471.2 pence), partly reflecting the crystallisation of £5.1m interest rate swap liabilities upon refinancing our bank facilities, which reduced EPRA NAV by 1.9 pence per share.

	30 Nov 2018			30 Nov 2017
	Group £m	Joint ventures and associates £m	Total ⁽¹⁾ £m	Total ⁽¹⁾ £m
Property portfolio	1,302.6	100.7	1,403.3	1,664.0
Other assets	118.3	80.3	198.6	167.5
Gross assets	1,420.9	181.0	1,601.9	1,831.5
Net borrowings	(271.1)	34.2	(236.9)	(388.2)
Finance leases	(3.0)	(0.9)	(3.9)	(57.9)
Other liabilities	(185.6)	(125.2)	(310.8)	(379.4)
Gross liabilities	(459.7)	(91.9)	(551.6)	(825.5)
Net assets	961.2	89.1	1,050.3	1,006.0
Non-controlling interests	(5.9)	–	(5.9)	(5.7)
Equity attributable to owners of the Company	955.3	89.1	1,044.4	1,000.3
NAV per share (pence)			470.4	450.9
EPRA NAV per share (pence)			484.1	471.2

(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.

Net borrowings

We saw a substantial reduction in our see-through net borrowings during 2018. Driven by our disposal activity, we generated cash before new investment, tax and dividends during the year of £655.8m (2017: £542.7m), well in excess of new investment, and a £14.1m increase in inventories to £376.0m (2017: £361.9m).

As a result, see-through gross borrowings fell £141.8m during 2018 to £321.5m (2017: £463.3m). See-through net borrowings reduced by £151.3m to £236.9m (2017: £388.2m). This excludes £37.5m (representing our 50% share) held in a development account for the delivery of the NCGM project which continues to be held in a one-year deposit account and therefore does not qualify as cash in our net borrowings calculation. In addition to reducing our borrowings, the sale of the Swansea student accommodation also reduced our finance lease liabilities by £51.8m to £3.9m.

Consequently, our see-through LTV fell 7.3ppt to 16.9% (2017: 24.2%), or 14.2% including the £37.5m held on one-year deposit. Excluding residential investments, our see-through LTV decreased to 29.3% (2017: 37.2%), or 24.7% including the £37.5m held on one-year deposit, which remains below our 40% target. Since we announced our new strategy in June 2017, see-through net borrowings are down by more than half, whilst our see-through LTV is down from 33.1% to 16.9%. We expect see-through net borrowings to increase in 2019 as we reinvest part of the proceeds from our disposals during 2018 into our pipeline, but to remain below 2017 year-end levels.

See-through	30 Nov 2018 ⁽¹⁾	30 Nov 2017 ⁽¹⁾
Gross borrowings (£m)	321.5	463.3
Net borrowings (£m)	236.9	388.2
Loan-to-value ⁽²⁾ (%)	16.9	24.2
Loan-to-value (excluding residential) ⁽²⁾ (%)	29.3	37.2

(1) Proportionally consolidated, including the Group's share of joint ventures and associates.

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

Financing

We refinanced nearly all our debt during the year. In December 2017, we refinanced £488m of secured bilateral debt facilities expiring in 2019/2021 with a new £475m unsecured club facility with an initial maturity of five years and two one-year extension options. We recently agreed the first one-year extension of this facility. In November, we announced we had signed a £75m facility from the Homes England Home Building Fund, with an initial maturity of seven years and an option to extend this to ten years. We also redeemed our £80m retail bond which was scheduled to mature in November 2019, which means other than the refinancing of our small KPI JV facility, which is almost complete, the only debt maturing before December 2023 is our £100m convertible bond. With £236.9m see-through net borrowings compared to £680m facilities we have ample financial headroom, so with the shares currently trading below the conversion price, we intend to repay this bond upon its maturity in March 2019.

As a result of our financing activities, our average debt maturity increased to 4.5 years at the end of 2018 (2017: 2.7 years). Pro-forma for the refinancing of the KPI facility, drawdown of the Homes England facility and the planned convertible bond repayment, our average debt maturity would be 5.2 years.

See-through	Pro-forma ⁽¹⁾ 31 Nov 2018	30 Nov 2017	
Available facilities (£m)	565.0	680.0	703.0
Average duration of facilities (years)	5.2	4.5	2.7
Weighted average interest rate ⁽²⁾ (%)	3.7	3.8	4.5
Percentage of net borrowings fixed or hedged (%)	65.8	66.9	87.5

(1) November 2018 pro-forma for drawdown of £75m Homes England facility, refinancing of the KPI facility, repayment of £100m convertible bond maturing in March 2019 and associated hedging transactions.

(2) The weighted average interest rate is calculated using current interest rates, commitment fees and hedging profile applied to the see-through gross borrowings at 30 November 2018, thereby assuming constant net borrowing levels for 2018.

Hedging and cost of debt

Our weighted average interest rate reduced to 3.8% (2017: 4.5%) due to the refinancing of our bank facilities and the repayment of our retail bond which carried a 6.25% coupon. The interest cost of the Homes England facility is similar to our bank facilities, so pro-forma for the drawdown of this loan, the refinancing of the KPI facility, the convertible bond repayment and associated hedging transactions, our weighted average interest rate would be 3.7%.

We aim to have predictable costs attached to our borrowings, so our policy is to hedge a significant portion of our interest rate risk. The proportion of borrowings which are fixed or hedged is 66.9% (2017: 87.5%), or 65.8% on a pro-forma basis, and we continue to manage our interest rate risk via a combination of caps and hedges.

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 an almost 40% fall in values before our tightest covenant would be breached.

Mark Allan
Chief Executive

Rob Hudson
Chief Financial Officer

4 February 2019

RISK MANAGEMENT

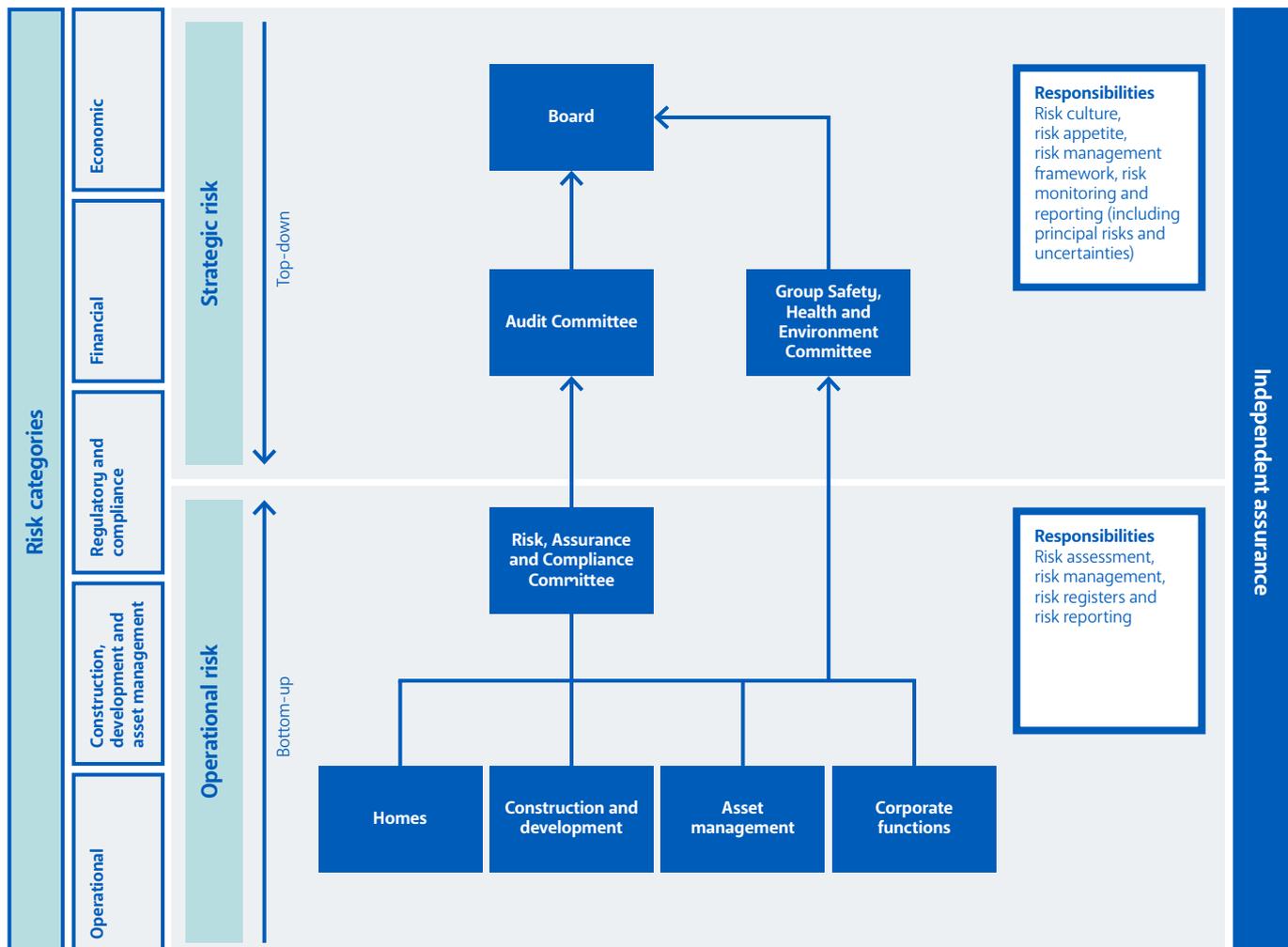
The Board is ultimately responsible for the Group's risk management framework and system of internal control. In meeting its responsibility, the Board regularly reviews and updates the governance and risk management framework, along with the appetite for risk, key risks and risk mitigation activities in meeting the Group's strategic goals.

During the year, as the Group has executed its strategy, a number of changes were made to the governance and risk management framework along with the continued assessment of the risks. These changes have been made to ensure that we continue to operate the right embedded culture for effective risk management along with ensuring an effective link between the top-down strategic risks and bottom-up operational risk assessment.

The Board recognises that risk is inherent within the Group's regeneration, development and asset management activities. In line with the Group's strategy for growth in residential housebuilding and industrial and logistics, in a period of uncertainty, not least as a result of the ongoing Brexit negotiations, we continue to review and assess those risks that affect the achievement of our strategic goals.

OVERALL RISK MANAGEMENT FRAMEWORK

The Group has an established, integrated framework for risk management that ensures an alignment in the strategic top-down approach to risk assessment with the bottom-up operational assessment of risk by the business and a clear and effective structure for the monitoring and reporting of risk. In striving to ensure that the framework meets the needs of the business, a number of enhancements have been made during the year.





The main changes in our risk management framework in 2018 have been the:

- establishment of a Board-level Group Safety, Health and Environment Committee;
- establishment of an executive Risk, Assurance and Compliance Committee, chaired by the Chief Financial Officer and attended by the Chief Executive, members of Senior Leadership Executive, risk function and internal audit, to support the Chief Executive in carrying out responsibilities for:
 - the development and implementation of effective risk management processes;
 - establishing risk treatment strategies and compliance activities for key risks; and
 - supporting the application of an effective assurance framework;
- appointment of risk champions within the business areas and head office functions to support the SLE in the ongoing embedding of our risk culture and the regular review of risk and risk registers, in conjunction with the risk function;
- completion of a strategic risk assessment aligned with strategic planning, including mapping strategic risks to Group-wide operational risks assessed by the business; and
- implementation of a web-based software tool, 4risk, to enhance the embedding and real-time capture, monitoring and reporting of risks across the business.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The key features of the risk management and internal control framework include:

- establishment of a clearly defined corporate governance framework;
- establishment of a Group-wide policy framework, organisational structure, roles, responsibilities and delegations of authority;
- a robust system of strategic and business planning and budgeting, monthly reporting and operational reviews, re-forecasting and the monitoring of key financial and operational performance indicators;
- Board and Audit Committee monitoring and review of business performance, risk management and internal controls;
- SLE and Risk, Assurance and Compliance Committee review of key risks;
- regular assessment of risk at business and functional level, maintenance of risk registers and reporting of changes in risks or how effectively they are managed; and
- assurance on the management of key risks including:
 - independent reports from internal audit on the design and operation of controls according to the risk-based internal audit plan approved by the Audit Committee;
 - annual environmental audit undertaken at St. Modwen sites; and
 - independent health and safety audits and management reporting of health and safety incidents and incident responses.

RISK APPETITE

The Board is ultimately responsible for the Group's approach to risk management, including consideration of the level of risk appetite that supports the Group's strategy. The Board considers that improved performance and a risk-focused culture is best promoted through a clear articulation of the Board's appetite for risk, thus providing an effective mechanism to inform investment decisions, facilitate discussion of risk, set parameters within which objectives must be delivered and support awareness of risk by staff and delivery partners alike.

The Board has considered the nature and extent of risk that it is willing to take in pursuit of a focus on positive growth fundamentals, particularly in industrial and logistics and regional housebuilding, balanced against controlled financial leverage and disciplined asset management.

A top-down approach has been undertaken in the development of the Group's risk appetite, through the strategic planning process, the setting of operational objectives and an assessment of the strategic and operational risk profile. Individual risk appetite statements relating to development, financial, operational and compliance risk are set in order to provide the business with guidance on the nature and extent of risk that the Board is prepared to take. These individual statements are then used to define key risk measures that are aligned to our performance management reporting in order that the Board and executive management can assess the effectiveness of the management of risks.

In meeting its strategic objectives, the Board has set out its appetite for risk as follows:

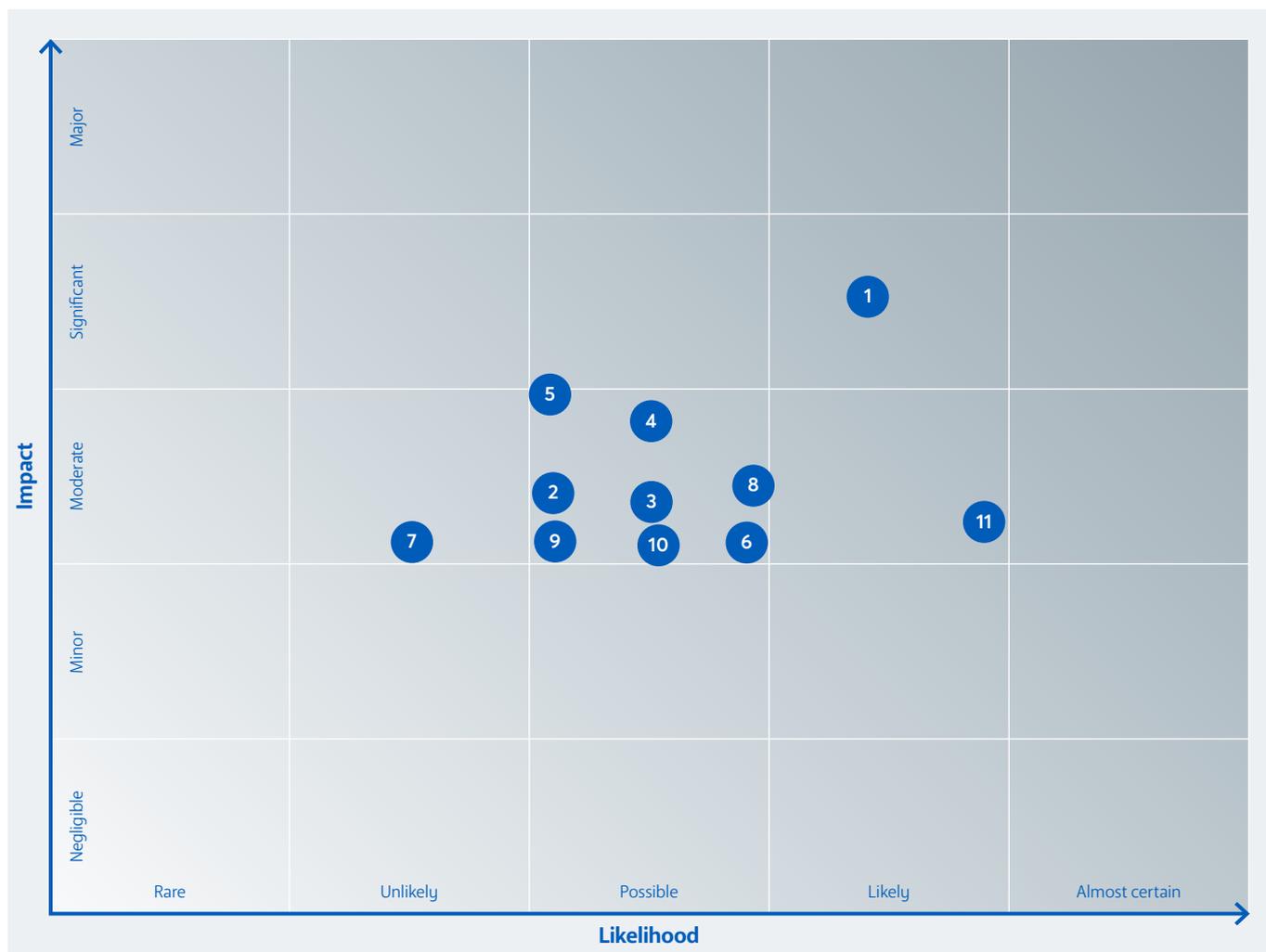
- a moderate to high risk appetite in the pursuit of construction, development and asset management opportunities in line with its strategic objective and chosen markets;
- a low financial and tax risk appetite, in ensuring the maintenance of availability of funding for investment and keeping low financial leverage, as it does not want to combine moderate to high construction and development risk appetite with high financial risk; and
- a low appetite for operational, regulatory and compliance risk, in maintaining high standards of compliance with health and safety and environmental legislation combined with ensuring the Group operates an efficient business that provides for the development and retention of talent.

The Board and executive management, through the SLE, Risk, Assurance and Compliance Committee and Audit Committee review the process of risk management and monitor risks in line with the Group's appetite for risk.

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS AND UNCERTAINTIES

The graph below shows the impact and likelihood of each of our principal risks and uncertainties after mitigating controls (i.e. residual risk):



	Principal risk	Risk category
1	Changes in economic and market conditions	Economic
2	Political change	Economic
3	Social and technological change	Economic
4	Product and service delivery	Construction, development and asset management
5	Customer and supply chain management	Construction, development and asset management
6	Management of the portfolio and future pipeline	Construction, development and asset management
7	Environment management	Construction, development and asset management
8	Financial	Financial
9	Health and safety	Regulatory and compliance
10	People	Operational
11	Brexit	All

The key changes between the Board's assessment of the principal risks and uncertainties disclosed in 2017 and 2018 are as follows:

Risk and uncertainty disclosed in 2017	Reason for change in the Board's assessment	Risk and uncertainty disclosed in 2018
1 Downturn in market and economic conditions	Changing market conditions not just downturn, whether nationally influenced by Brexit negotiations or local changes in sentiment and investment decisions, impact our ability to implement our strategic goals and the resultant value of our portfolio.	1 Changes in economic and market conditions
2 Changes to the planning framework at a national and regional level	The Group is impacted by a number of aspects of political change, not just in relation to planning frameworks. Such change includes macro political changes such as those relating to Brexit negotiations, stability within the UK political landscape, or national or local changes in policy setting and planning.	2 Political change
3 Failure to effectively manage major projects	The Board, as a result of changes through 2017 and 2018, has reassessed the risks relating to major projects and cost exposures, to be more accurately reflected in the risk of effective product and service delivery in the development and management of residential housebuilding and industrial and logistics assets.	4 Product and service delivery
4 Unforeseen exposures, costs and liabilities on projects		
5 Absence of high quality contractors, consultants and third parties	The risk includes the effective identification and management of both customers and supply chain in ensuring sustainable tenant occupancy and growth, along with enduring, trusted partnerships with third parties and suppliers in meeting our development objectives. In addition, our customer and supply chain risk is impacted by ongoing Brexit uncertainty.	5 Customer and supply chain management
6 Reduced availability of funding and unforeseen changes to cash flow requirements	Having made significant changes in our balance sheet in terms of realisation of assets and reducing our debt, the key risk relates to effective financial planning and management of financial risk, in order to successfully and sustainably manage our business.	8 Financial
7 A major health and safety incident occurs or non-compliance with SHE legislation	The Board has reassessed the risk as the management of health and safety risk, not just the occurrence of an incident or non-compliance with SHE legislation.	9 Health and safety
8 Failure to manage long-term environmental issues relating to brownfield and contaminated sites	The Board has reassessed the risk as the management of environmental issues, whether related to brownfield and contaminated sites subject to regeneration, or those issues relating to energy efficiency of assets, or other environmental factors.	7 Environment management
9 Inability to recruit and retain staff with the right skills and expertise	We have continued to strengthen the skills and capabilities within the business, implemented leadership development programmes and continue to review future skills needs. People are, however, at the heart of our future and remain key to our success.	10 People
10 Significant disruption to our assets or business operations	Information technology and the maintenance of operations are important to the Group. With the diversity of locations, significant investment in, and testing of, our IT infrastructure and security, successful implementation of our GDPR response and limited exposure to high risk terrorist locations, the Board has revised the assessment of the risk. The Board consider that with the combination of our business model and the ongoing effective operation of our business resilience, data and IT security processes, and controls, the current risk is not a principal risk to the Group in meeting its strategic goals.	N/A
N/A	Social and technological change impact the Group's capability and capacity to support growth, the future business model and demand for residential homes and industrial and logistics space. This includes the need for the organisation to keep pace with technological advancements and associated cyber-security risks. Our GDPR and Data Protection Act 2018 project was delivered successfully, including appointing a Data Protection Officer, updating all required documentation and processes and a full training and awareness programme.	3 Social and technological change
N/A	Whilst significant actions have been taken to realign the portfolio to the future strategy, our ability to effectively manage our current portfolio and future pipeline impacts on the delivery of our strategy for growth in industrial and logistics and housebuilding.	6 Management of the portfolio and future pipeline
N/A	Brexit continues to produce uncertainty and short-term disruption risk and is therefore explicitly recognised as a principal risk.	11 Brexit

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

The Group's risk profile continues to evolve in light of progress in the achievement of our strategic goals, changes in the environment in which we operate and the effectiveness of our mitigation, aligned to our risk appetite.

In 2018, the Board has continued to review its exposure to a wide range of external and internal risks. During the year the Board has, in conjunction with the review of the strategic plan, undertaken a strategic risk assessment, which has included consideration of the effect of macro-level political and economic factors such as the ongoing Brexit negotiations as they affect our risk profile, along with other externally-generated risk factors, such as developments in technology impacting our business and that of occupiers, including cyber threats. Each area of our business and the head office functions have also continued to review Group risks. The results of the strategic risks and Group-wide risk assessment were reviewed by the Risk Assurance and Compliance Committee, in support of the Board's review of its principal risks.

Following the Board's review of the principal risks impacting the achievement of our strategic objectives, the Board has revised its view of those risks that could have a material impact on the business. These are not an exhaustive list of all of the risks facing the Group, but provide a snapshot of the key risk profile as at 30 November 2018.

BREXIT

At the time of writing in early February, the position in relation to the UK's exit from the EU remains inherently uncertain. The Board has therefore carefully considered the potential impacts of a disorderly exit and activities we could undertake to mitigate them.

In focusing our strategy on longer-term growth sectors, we have already taken a number of actions through de-risking our portfolio and the profile of the business along with a significant reduction in debt, which reduces some of the impacts associated with Brexit.

There, however, remains continued uncertainty regarding the final outcomes of the Brexit negotiation and the timing of any UK political approval of any agreement. The Board has adopted an approach, along with delivering on its strategy, that it considers will allow the Group to manage the risks and uncertainties presented by the short-term disruption risk associated with a disorderly or hard Brexit. These measures ensure that we have control over critical elements of project delivery and include:

- investing £10m in forward ordering all construction materials we import directly for six months of production in St. Modwen Homes and all our 2019 industrial and logistics projects;
- front-weighting our sales targets for the year in St. Modwen Homes, resulting in a 36% increase in our private order book versus the same point last year and we are maintaining tight control over discretionary spend. We intend to maintain this vigilance until such time as the economic outlook is more settled;
- reviewing the supply chain as a whole and those critical suppliers who themselves may fail as a result of Brexit. We continue to liaise with suppliers to understand their Brexit plans, strategies and seek assurances;
- reviewing our commitments by project over the period up to and after any political agreement in the UK and acceptance of a deal with the European Union;
- reviewing all discretionary spend (e.g. advisor expenditure, events) and headcount, as well as contractors, to ensure we manage costs over this period; and
- drawing up action plans for scenarios in which sales growth could be impacted.

Integral to our overall approach to risk is understanding the cause of risk, with Brexit being one such cause. As a result, the majority of the Group's responses to Brexit-related risks are also encompassed in the ongoing mitigating actions in addressing risks such as product and service delivery, customer and supply chain management, and management of the portfolio and future pipeline.

Also, in line with our business plan and in reviewing and approving the budget, the Board has considered downside scenarios relating to Brexit. This has enabled the Board to assess the impact on revenues, valuation of land and the Group's portfolio, cash flow and borrowings. The Board have satisfied themselves that the Group has and can continue to take the necessary actions to mitigate the risks associated with Brexit as currently assessed.

Economic

1
Changes in economic and market conditions

Residual risk level	High
Risk trend	Increasing

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business

Impact

- Portfolio valuation
- Occupier and investor demand and void rate
- Residential reservations and sales

Commentary

The Group has made considerable progress in repositioning its portfolio towards sectors with better long-term growth prospects and in accelerating the delivery of the development pipeline, despite the uncertainties presented by the inconclusive Brexit negotiations and their potential impact on the UK economic outlook.

The development programme for both residential homes and industrial and logistics continues to have a short development lead time which enables the Group to respond nimbly to changing market conditions.

Inherently this risk, given Brexit and associated economic uncertainties, remains high.

Mitigation

- Annual strategic review
- Improved portfolio mix through asset disposals
- Recycling capital out of existing assets into industrial and logistics
- Scenario planning and business plan modelling and re-forecasts
- Monitoring of Brexit and macro level indicators
- Monitoring industrial and logistics demand
- Monitoring of residential reservations rates and voids
- Significant land bank and continuing planning applications

2
Political

Residual risk level	Medium
Risk trend	Increasing

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business

Impact

- Economic uncertainty
- Failure to obtain planning permissions

Commentary

National, international and local political uncertainties, whether related to Brexit or local planning, affect the Group.

Continued support from the Help to Buy scheme helps mitigate some of the risks associated with residential housebuilding.

We also continue to maintain strong local relationships with respect to local planning.

The risks associated with political uncertainty, and any greater Brexit impact, continue to be assessed and addressed.

Mitigation

- Monitoring of political opinion and Brexit negotiations
- Regular dialogue with national and local government
- Use of high quality professional advisors
- Monitoring of national and local planning frameworks
- Scenario and downside planning

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Economic continued

3	
Social and technological change	
Residual risk level	Medium
Risk trend	New
Strategic objectives	
<ul style="list-style-type: none"> • Build a high quality industrial and logistics business • Grow our residential and housebuilding business 	
Impact	
<ul style="list-style-type: none"> • Portfolio valuation • Occupier demand • Development costs • Development pipeline • Growth 	
Commentary	
<p>The Board recognises that the pace of both social and technological change continues, affecting demand for, and location of, both residential homes and industrial and logistics space, along with developments in our response to changes in associated risks, such as cyber risks in our use of technology.</p> <p>Supply chain automation continues to develop as occupiers and logistics companies look to stay ahead. In addition, the way we do business and how we interact with customers and suppliers is becoming increasingly subject to automation and technological change.</p>	
Mitigation	
<ul style="list-style-type: none"> • Realisation of small and retail assets • Appointment of a Head of Leasing • Monitoring of market trends and customer demand • Active engagement with occupiers • Operation of the protecting information programme <ul style="list-style-type: none"> • Schedule of audits and testing of business continuity plan and disaster recovery • Completion of GDPR response project • Data Protection Officer • Privacy by Design and third-party assurance audits for suppliers 	

Construction, development and asset management

4	
Product and service delivery	
Residual risk level	Medium
Risk trend	Unchanged
Strategic objectives	
<ul style="list-style-type: none"> • Build a high quality industrial and logistics business • Grow our residential and housebuilding business • Leverage our regeneration reputation 	
Impact	
<ul style="list-style-type: none"> • Financial loss • Reputational damage • Work in progress exposures • Delayed delivery of asset development pipeline • Delayed residential sales pipeline 	
Commentary	
<p>The Group has significant experience in regeneration, remediation and asset development to manage development projects.</p> <p>All developments are subject to financial appraisals and selection of contractors and material purchases are subject to robust procurement processes, including competitive tenders in order to secure value in meeting financial goals.</p> <p>Development delivery and cost forecasts are regularly reviewed by the Senior Leadership Executive and the Board.</p> <p>Whilst Brexit also presents a number of risk exposures in terms of materials, labour availability and costs, these are continually reviewed at an operational level and actions taken accordingly, locally or through Group responses, in seeking to secure best value and sustainability of supply.</p>	
Mitigation	
<ul style="list-style-type: none"> • Joint venture arrangements • In-house development and asset management capability • Appointment of a Head of Leasing • Development appraisals, detailed budgets, monitoring of actuals, variances to budget and remedial action • Regular portfolio reviews by Senior Leadership Executive • Performance review by Senior Leadership Executive and Board • Brexit contingency planning including accelerated procurement of key risk items whether UK, EU or globally sourced 	

5

Customer and supply chain management

Residual risk level Medium

Risk trend Increasing

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business
- Leverage our regeneration reputation

Impact

- Customer satisfaction
- Customer demand
- Quality of delivery
- Timeliness of delivery
- Cost of delivery

Commentary

We continue to seek and work with trusted contractors, sub-contractors and other third parties in partnership, developing a pool nationally and locally to reduce the risk of over-reliance on any one supplier within the supply chain. We are also reviewing and monitoring the possible impacts of Brexit on the contractor market.

In addition, in implementing the Group's strategy, steps continue to be taken to develop relationships with customers and enhance the customer journey, to obtain and retain quality and sustainable occupancy and demand.

Mitigation

- Tendering programme
- Appointment of pool of specialists
- Monitoring contractor and sub-contractor performance
- Customer management
- Brexit contingency planning including accelerated procurement of key risk items whether UK, EU or globally sourced

6

Management of the portfolio and future pipeline

Residual risk level Medium

Risk trend New

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business

Impact

- Portfolio valuation

Commentary

In meeting our strategic goals, the management of the portfolio and pipeline are key to success. The Board's view is that the effective management of the portfolio and future pipeline raise what was previously an operational risk, to a new principal risk.

Steps have been taken in accelerating developments, a focus on asset management, including the appointment of a Head of Leasing, amongst other actions to manage the risk.

Mitigation

- Strategic decision to focus on future growth sectors
- Ongoing review and assessment of market conditions and geographical locations in alignment with long-term strategy
- Industrial and logistics pipeline in place
- Monitoring industrial and logistics demand
- Monitoring of residential reservations rates and voids
- Flexible development cycle

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Construction, development and asset management continued

7 Environment management

Residual risk level **Low**

Risk trend **Unchanged**

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business
- Leverage our regeneration reputation

Impact

- Delayed development
- Reputational damage
- Financial loss
- Unforeseen environmental issue

Commentary

In line with our experience of regeneration and risk appetite, we 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

- Environmental risk assessments
- Environmental management and contamination remediation plans post-site acquisition
- Annual independent environment audits
- Warranties for professional and remediation contractors

Financial

8 Financial

Residual risk level **Medium**

Risk trend **Decreased**

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business
- Leverage our regeneration reputation

Impact

- Liquidity
- Availability of development funding
- Indebtedness
- Covenant compliance

Commentary

Significant steps have been taken to reduce or mitigate the Group's financial risk exposures, having sold a number of assets, improved the portfolio, reduced our net borrowings, and refinanced our facilities to 2023 and beyond. This provides us with the headroom and flexibility to respond to changes in the economic environment and development plans.

Our banking relationships remain strong, appropriate facilities are in place and we continue to focus on the management of operational costs.

Mitigation

- Refinancing of core debt over the last 12 months
- Regular engagement with financial institutions
- Growth in recurring rental incomes
- Regular and detailed cash flow forecasts
- Scenario modelling including impact of Brexit

Regulatory and Compliance

9

Management of Health & Safety

Residual risk level	Medium
Risk trend	Unchanged

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business
- Leverage our regeneration reputation

Impact

- Financial loss
- Reputational damage
- Injury or death
- Development delay

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 SLE and the Board.

Recent establishment of a Board-level Group Safety, Health and Environment (SHE) Committee, supported by the SLE, and 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.

Mitigation

- Health and safety policies and procedures in place and regularly reviewed
- Defined business processes in place to proactively manage any issues arising
- SHE Committee
- Regular reporting of performance against indicators to the SLE and the Board
- Dedicated in-house health and safety resource
- Staff SHE training
- Annual cycle of SHE audits

Operational

10

People

Residual risk level	Medium
Risk trend	Decreased

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business
- Leverage our regeneration reputation

Impact

- Availability of skills
- Business disruption
- Management capacity to deliver strategy

Commentary

Significant investment continues to be made in the development of the Senior Leadership Executive, along with staff across St. Modwen. The last year has seen the Group increase the skills and capabilities across the team whilst also continuing to enhance our performance management and staff retention processes as part of the ongoing people plan.

Mitigation

- Recruited into identified skills gaps
- Leadership development programme
- Training programmes

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Brexit

11

Brexit

Residual risk level Medium

Risk trend New

Strategic objectives

- Build a high quality industrial and logistics business
- Grow our residential and housebuilding business
- Leverage our regeneration reputation

Impact

- Availability of goods and labour
- Business disruption
- Non-delivery of pipeline

Commentary

We have taken short-term actions to complement our longer-term strategy that will help ensure that we can mitigate the inherent risks of a disorderly Brexit.

Our longer-term strategy focused on growth sectors, reduced developments in London and reduced borrowings. Our refinancing has increased headroom and provided flexibility.

Other short-term actions include the advance procurement of goods to safeguard the delivery of current developments along with liaison with our supply chain to ensure we can proactively respond to changes to supplier risk as required.

Mitigation

- Advance procurement of goods
- Liaison with supply chain
- Alternative suppliers identified and being liaised with accordingly

VIABILITY STATEMENT

Assessment of prospects

In accordance with provision C.2.2 of the UK Corporate Governance Code and taking into account the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, a business plan and downside case was prepared to assess the prospects of the Group, which was reviewed and considered by the Audit Committee and the Board. In delivering against our strategy, we have substantially de-risked the business through realignment of our portfolio away from retail and other non-core assets and towards the industrial and logistics sector where we see stronger growth prospects, whilst materially reducing our debt. Our business plan has been prepared in the context of the Group's evolving strategy, outlined on pages 14 to 17 and its principal income streams, which are:

- rental income from industrial and logistics income-producing properties, which have an average lease length of 3.8 years;
- residential development, for which we have plans reaching out to 2021; and
- major regeneration projects, which combine elements of the above two income streams.

Our strategic shift over the past two years sees us well placed for future growth, with secure income from our investment portfolio benefiting from strong sectoral growth in the industrial and logistics market, in particular with the growth of online retail. This is accompanied and strengthened by a regional residential market where the fundamentals of insufficient supply combined with robust demand look set to persist, despite the uncertainties associated with the UK's exit from the European Union.

Asset sales over the past two years have not only enabled us to halve our net debt, but also to divest out of the more difficult physical retail market and London

residential development land. We have also extensively refinanced in the past two years, meaning that we can allow our £100m convertible bond to mature in March 2019 with no need to replace it, at which point our earliest facility maturity will be in December 2023, almost five years away.

As in the prior year, we have used a three-year period for our business planning exercise, which reflects the length of the development cycle and that our development income streams are more forecastable and certain over the shorter term. This period allows for relative certainty in the modelling of future capital expenditure, asset recycling and development programmes planned, whilst also reflecting the cash flows generated by the projects currently under development.

Assessment of viability

Reporting on the Company's viability requires the directors to consider those principal risks that could impair the solvency and liquidity of the Company. To determine those risks, the directors robustly assessed the Group-wide principal risks. Through this assessment, the directors identified low probability, high loss scenarios with the potential magnitude to severely impact the Group's solvency and/or liquidity.

To assess the impact on the Group's viability, we have performed scenario analysis based on the impact of a hard Brexit and considered through which of the principal risks detailed on pages 56 to 64 this would manifest itself. In this scenario, we assume monetary policy would be supportive and interest rates to remain lower for longer, similar to the response following the financial crisis and the EU referendum. We would expect economic growth to fall and imported inflation to pick up on account of a fall in the value of sterling, although we would expect this to be positive for exports. We have made the following assumptions:

Risk	Scenario	Cash mitigation/further analysis
Changes in economic and market conditions	A graduated decrease 15% fall in house prices and a resulting 30% fall in residential land values, noting that the Group's experience during the global financial crisis of 2008-9 was a fall in the value of the portfolio of 24% whilst the fall in UK house prices was c. 19%, and that our housebuilding volumes continue to benefit from Help to Buy. We assume a gradual recovery in prices after this back to pre-Brexit levels by 2023, with margins beyond 2020 helped by the consequent lower cost base, similar to the post-2009 recovery for housebuilders.	At current operating margins in our housebuilding business, a 15% fall in house prices erodes our housebuilding profits, although the falls in all residential land would support future margins. We would look to renegotiate land prices under development agreements and reduce overheads rather than expanding for growth. Given the relatively short build period of c. six months, we can reduce our activity quickly. Completions fell by c. 40% in the previous downturn and we would reduce activity accordingly, principally on our lowest margin sites.
	A fall in industrial and logistics values similar to the house price fall above, less severe than our 24% fall in the previous downturn, predicated on there being much less leverage in the wider property sector and interest rates being substantially lower, leading us to conclude that the sector is unlikely to see the same amount of forced selling.	At forecast debt levels, our portfolio could withstand an almost 40% fall in property values before our tightest covenant would be breached. We assume new development lettings will stall for the remainder of 2019 as businesses take stock and assess their future space requirements, delaying the recovery in rental income and leaving rental income broadly stable. Our success in implementing our strategy to reduce exposure to the retail sector means that we have also reduced the risk of tenant failure.
	Moreover, we have little exposure to central London, where Brexit risks would likely be highest, and unlike offices and retail, structural growth drivers in industrial and logistics remain positive. Again, we assume a gradual recovery beyond 2020.	We would pause new starts during the remainder of 2019 and, subject to demand, restart activity at a lower level in 2020. Our pipeline is expected to remain profitable due to the substantial margin between our c. 8% yield on cost and industrial and logistics valuation yields. We would also act to reduce forecast overheads.
Financial	Increased funding requirement in the event of an economic downturn.	With over £350m headroom, we have enough financial flexibility to absorb an economic shock at a magnitude similar to the global financial crisis of 2008-9.

In addition to the above, we are investing £10m in forward ordering all construction materials we import directly for six months of production in St. Modwen Homes and all our 2019 industrial and logistics projects. We have front-weighted our sales targets for the year in St. Modwen Homes, resulting in a 36% increase in our private order book versus the same point last year and we are maintaining a tight control over discretionary spend. We intend to maintain this vigilance until such time as the economic outlook is more settled.

In the above scenario, our 2019 and 2020 forecast adjusted EPRA earnings (to which our dividend policy is linked) would of course be impacted and the Board would therefore consider the dividend in the light of the prevailing economic environment and outlook, whilst noting that our low debt balance provides us with the headroom to support our normal range of dividend options.

The scenarios used are hypothetical and necessarily severe so as to create outcomes that could threaten the viability of the Group, however, multiple control measures are in place to mitigate any such occurrences from taking place. Based on the results from this analysis and having considered the established controls for the risks and the available mitigating actions, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their detailed assessment.

Our recent refinancing activity extends our banking facilities out to 2023 and beyond, which provides further support to our viability assessment. This longer-term assessment process supports the directors' statements on both viability, as set out above, and going concern, set out on page 117.

Approval of Strategic report

The Strategic report for the year ended 30 November 2018 has been approved by the Board and was signed on its behalf by:

Mark Allan
Chief Executive

4 February 2019

CREATING VALUE/ THROUGH GOOD GOVERNANCE

IN THIS SECTION

- 67** **Chairman's introduction to governance**
- 68** **Leadership**
The Board, our governance framework and how the Board operates
- 73** **Effectiveness**
Nomination Committee report and evaluation
- 75** **Relations with shareholders**
- 76** **Statement of Compliance**
- 77** **Accountability**
Audit Committee report
- 90** **Remuneration**
Directors' Remuneration report
- 114** **Directors' report**





CHAIRMAN'S INTRODUCTION TO GOVERNANCE



THE BOARD'S FOCUS DURING THE YEAR WAS TO OVERSEE DELIVERY OF OUR STRATEGY AND ENSURE THAT OUR GOVERNANCE ARRANGEMENTS WERE FIT FOR THE BUSINESS.

Bill Shannon
Non-executive Chairman

Dear shareholders

As a Board, we are responsible for leading and setting the overall strategic direction of the business in addition to playing a pivotal role in shaping our corporate culture, defined by our values and purpose. In supporting the business in its delivery of the strategy, the Board focused much of its time during the year on strategic matters, particularly on considering our key growth areas: industrial and logistics and housebuilding. For more details on the Board's agenda for the year and our key areas of focus, see page 72.

We believe that, in order to have a sustainable business over the long term and safeguard shareholders' interests, it is vital to operate in an open and transparent manner, supported by a strong and accountable executive team with a clear approach to governance throughout the business.

The Board were keen to enhance their role and oversight of health and safety at Group level. Although St. Modwen already has a well-established Safety, Health and Environment (SHE) Committee at executive level, the Board agreed to form a new committee to further enhance the Group's approach to health and safety risk management. The role of the Group SHE Committee is summarised on page 69. The Nomination Committee recommended to the Board the appointment of Mark Allan as the Chairman and Jamie Hopkins as a member of the Group SHE Committee, which was unanimously approved in November. The Group SHE Committee will meet at least twice a year and officially commence its work in the coming months. Its terms of reference will be approved at its inaugural meeting and will be made available on our website, www.stmodwen.co.uk, in due course.

The executive governance framework was also refreshed during the year to ensure that it remained fit for purpose and aligned with our strategy as we progress. As a result the Risk, Assurance and Compliance Committee was established, to advise and support the Board and SLE with their responsibilities for the oversight of risk and to ensure that the business has the correct risk framework to identify, monitor and manage risk effectively. A further three committees were established to monitor and review the business performance of each strategic focus area: industrial and logistics, residential and housebuilding and strategic and major projects. For more information on our governance framework see pages 68 and 69.

Accountability

During the year the Audit Committee has provided assurance to the Board with regular updates on the work it has undertaken in relation to the integrity of our financial reporting process, relationships with our external and internal auditors as well as the development of our risk management systems and internal control processes.

Board changes

The Board was delighted to welcome Danuta Gray as Chair Designate in October and Jamie Hopkins as a non-executive director in March 2018. Details of the appointment process is set out on pages 87 and 88 of the Nomination Committee report. For an overview of Danuta's experience of joining St. Modwen, please see page 73. Danuta will take over as Chairman following my departure at the conclusion of the AGM in March.

During the year, Lesley James, Kay Chaldecott and Richard Mully stepped down from the Board. I am very grateful for their support and wise counsel over the years.

AGM

The notice of meeting which includes the special business to be transacted and an explanation of all resolutions to be considered at the AGM is set out on pages 188 to 193.

Looking forward

The Board completed a review of the 2018 Corporate Governance Code and assessed our governance arrangements to ensure that they were in line with the new requirements. We are pleased to report that in most cases the Company has already been progressing projects or has planned initiatives in the upcoming year so that we are well placed to comply with the 2018 Code in FY19/20. Where gaps have been identified, proposals are being presented to the Board and its Committees for consideration over the course of the upcoming year.

Our approach to governance is outlined in the following report which describes how we integrate into our business the main principles of the 2016 UK Corporate Governance Code (the Code).

I look forward to seeing you in March, which will be my final AGM as Chairman.

Bill Shannon
Chairman

4 February 2019

LEADERSHIP/ GOVERNANCE FRAMEWORK

The Board is supported by several Board committees, the Senior Leadership Executive Committee and a variety of sub-committees which are established to focus on specific areas of the business. The governance framework illustrates how decisions are made, where responsibilities fall and who is accountable for what and to whom. There is a clear division of responsibility between the Chairman, who is accountable for the leadership of the Board, and the Chief Executive, who manages and leads the business and its operations on a day-to-day basis.

The Board discharges its responsibilities through an annual programme of Board and committee meetings which are supplemented by visits to sites within the Group's property portfolio. In the year ended 30 November 2018, the Board met formally on eight occasions, which included a visit to a development site in Tamworth, a residential development at Hilton, Derby in April as well as a strategy day in July. The Chairman also met the non-executive directors periodically without the executives present and maintained regular contact with the Chief Executive.

Board meeting agendas are prepared collaboratively with input from the Chairman, Chief Executive, CFO, members of the SLE and the Company Secretary. Each agenda is carefully planned to ensure sufficient time is given to strategic matters and regular operational and financial reports, as well as topical items and matters of interest or concern.

For directors unable to attend the meeting, their views are made known to the Chairman ahead of each meeting. Members of the SLE and certain advisers are invited to attend meetings in relation to specific agenda items. Meetings are typically set well ahead of time to minimise any clashes with non-executive directors' other commitments as far as possible. Board papers and meeting minutes are sent to directors in a timely manner to enable sufficient time to consider and review ahead of meetings and are circulated via a secure online portal.

The Company Secretary supports the Chairman and Chief Executive in fulfilling their duties and is available to all directors for advice, support and assistance. He is responsible for keeping the Board regularly updated on governance matters. He attends and maintains a record of the matters discussed and approved at Board and committee meetings and facilitates effective information flows between the Board, its committees, non-executive directors and the SLE on which he also sits.

The Board

Responsible for the overall strategic direction and long-term success of the Company: includes oversight of the Group's activities, monitoring execution of strategy, reviewing performance, considering acquisition and disposal of large assets, ensuring that only acceptable risks are taken and that the appropriate people and resources are in place to deliver long-term value to shareholders and benefits to the wider community.

Certain key matters requiring Board approval are set out in a formal schedule of matters reserved which the Board reviews periodically.

Board committees

The Board discharges some of its responsibilities in relation to audit and risk, board composition, succession planning, remuneration and health and safety to its principal Board committees.

Full details of the committees' responsibilities and their activities during the year can be found in the respective committee report.

Executive committees

The SLE is supported by several committees in the performance of its duties and in discharging its governance responsibilities. The authority, membership, responsibilities of the executive committees and how they operate are set out in their respective terms of reference.

Performance and Pipeline Review Committees

Three committees established recently to review and monitor performance for each strategic business stream:

Industrial and logistics

Residential and housebuilding

Strategic and major projects

- Board governance framework
- Executive governance framework

Chairman

- Leads the Board effectively and sets appropriate agendas
- Maintains a culture of openness and constructive challenge between the NEDs and the SLE
- Ensures effective dialogue between St. Modwen and its shareholders

Senior Independent Director

- A sounding board for the Chairman
- Acts as a trusted intermediary for the other directors if required
- Provides an additional channel of communication for shareholders

Non-executive directors

- Work with and challenge the executive directors in the execution of the strategy
- Offer an independent external perspective and bring wide and varied commercial expertise

Chief Executive

- Leads the business and is responsible for day-to-day management
- Leads senior management via the SLE

Chief Financial Officer

- Develops and implements financial strategy and policies
- Responsible for the preparation and integrity of financial reporting

Audit Committee

- Oversees financial and narrative reporting
- Reviews property portfolio valuations
- Assesses internal control and risk management systems
- Reviews external audit processes and effectiveness of auditors

See Audit Committee report for more information on pages 77 to 85.

Nomination Committee

- Leads board appointment process and its composition ensuring a balance of skills, experience and diversity
- Reviews executive succession plans

See Nomination Committee report for more information on pages 86 to 89.

Remuneration Committee

- Develops the remuneration policy
- Sets executive directors, Chairman and Company Secretary's remuneration arrangements
- Approves long-term performance objectives and awards

See Directors' Remuneration report for more information on pages 90 to 113.

Group Safety, Health & Environment (SHE) Committee

- Oversees effectiveness of the Group's SHE strategy
- Supports management in maintaining a robust health and safety culture
- Reviews impact of any changes in regulation to business
- Reviews key health and safety risks

The Committee will report on its work in the next annual report.

Investment Committee

- Reviews and approves or recommends for approval any significant transactions above an agreed financial value to the Board

Senior Leadership Executive Committee

- Focuses on delivery of strategy
- Monitors operational and financial performance
- Oversees assessment and control of risk
- Reviews prioritisation and allocation of resources

Risk, Assurance and Compliance Committee

- Oversight of the development and implementation of risk management
- Reviews key Group strategic risks
- Assesses mitigation strategies, considering the Company's appetite for risk

See Risk management section on pages 54 to 64.

Corporate Social Responsibility (CSR) Committee

- Develops Group CSR strategy and co-ordinates implementation
- Reviews progress against CSR objectives

See Corporate social responsibility section on page 30.

People Matters Group

- Oversees the development and implementation of people initiatives and activities
- Enhances strategic people objectives
- Reviews progress against the people plan

See Our people section on pages 31 to 33.

Safety, Health & Environment (SHE) Committee

- Develops Group SHE strategy
- Identifies and monitors key SHE risks
- Co-ordinates effective communication of SHE matters across the Group

See page 37 for more information on the Group H&S strategy.

THE BOARD



Bill Shannon
Non-executive Chairman

Appointed: November 2010 as Non-executive Director and Chairman Designate, March 2011 as Non-executive Chairman.

Key strengths: significant management and board experience across retail, leisure, financial services and property sectors.

Experience: a 30 year career at Whitbread plc which culminated in his appointment as a main board director for 10 years until his retirement in 2004. Former Chairman of AEGON UK plc, Gaucho Grill Holdings Ltd and Pizza Hut (UK) Ltd, and former non-executive director of The Rank Group plc, Barratt Developments plc and Matalan plc. A qualified Chartered Accountant (Scotland).

External appointments: Deputy Chairman and Senior Independent Director of LSL Property Services plc, Non-executive Chairman of Johnson Service Group plc and Council Member of the University of Southampton.

N R



Danuta Gray
Chair Designate and Independent Non-executive Director

Appointed: October 2018.

Key strengths: extensive operational and board experience in both executive and non-executive roles in FTSE 100 and FTSE 250 companies across the global telecommunications and IT, consumer and financial services sectors.

Experience: over 26 years' experience in the telecommunications industry; including as Chief Executive of Telefónica O2 in Ireland from 2001 to 2010 and Chair from 2010 to 2012. A former Non-executive Director of PageGroup plc, Paddy Power Betfair plc, Aer Lingus Group plc and Irish Life & Permanent plc. Has also served on several remuneration committees. Prior to Telefónica O2, held various senior positions within BT Group from 1984 to 2001.

External appointments: Non-executive director of Direct Line Insurance Group plc, Senior Independent Director at Aldermore Group plc, a non-executive director of Old Mutual plc and a Defence Board Member of the Ministry of Defence People Committee.

N R



Mark Allan
Chief Executive

Appointed: November 2016 as Chief Executive Designate, December 2016 as Chief Executive.

Key strengths: extensive knowledge and experience of the property sector combined with strong operational leadership and financial and strategic management skills.

Experience: joined St. Modwen from The Unite Group plc where he had been Chief Executive since 2006. He moved to Unite in 1999 from KPMG and held a number of financial and commercial roles in the business, including Chief Financial Officer from 2003 to 2006. A qualified Chartered Accountant and a member of the Royal Institution of Chartered Surveyors.

External appointments: Trustee director on the non-executive board of Anchor Hanover Group.

H



Simon Clarke, DL
Non-executive Director

Appointed: October 2004.

Key strengths: strong commercial and management experience in both farming and property and extensive knowledge of the Company's history.

Experience: the son of Sir Stanley Clarke, the founder and former Chairman of St. Modwen, he represents the interests of the Clarke family, one of the Company's largest shareholders, on the Board. Former Deputy Chairman of Northern Racing plc and Director and Vice-Chairman of The Racecourse Association Ltd. An Honorary Doctor of Staffordshire University.

External appointments: Chairman of Dunstall Holdings Ltd. Trustee of Racing Welfare and Chairman of Racing Homes. Member of Staffordshire University's Development Board. Deputy Lieutenant for Staffordshire.



Jenefer Greenwood, OBE
Independent Non-executive Director

Appointed: June 2017.

Key strengths: extensive knowledge of the retail and regeneration sectors of the real estate industry combined with significant board-level experience.

Experience: over 30 years' experience in the real estate sector with companies such as Hillier Parker (now CBRE) and Grosvenor Ltd, where she was Director of Sales and Lettings, Great Britain and Ireland before retiring in 2012. Currently serves the board of Assura plc and LiveWest Homes. Formerly served on the board of The Crown Estate and has chaired the National Skills Academy for Retail. Awarded an OBE in 2014 for services to the UK Real Estate Industry and for voluntary services to young people. A Fellow of the Royal Institution of Chartered Surveyors.

External appointments: Non-executive director for both Assura plc and LiveWest Homes, member of the supervisory board of INTERNOS Global Investors Ltd and trustee of the Ernest Cook Trust.

A N R



Jamie Hopkins
Independent Non-executive Director

Appointed: March 2018.

Key strengths: strong commercial, strategic and operational management skills and significant knowledge and experience of asset management services and the real estate sector.

Experience: joined the board of Workspace Group plc in 2010 and appointed Chief Executive Officer in 2012. Formerly served as Chief Executive and then a non-executive director of Mapeley plc from 2002 until 2010 and a director of Chester Properties from 2009 to 2012. Also acted as Investment Director of Delancey Estates and Savills between 1990 to 2002. A member of the Royal Institution of Chartered Surveyors.

External appointments: Chief Executive Officer of Workspace Group plc.

A N R H



Rob Hudson
Chief Financial Officer

Appointed: September 2015.

Key strengths: strong financial management, commercial and operational experience in financial services, information services and commercial property sectors.

Experience: over 20 years' experience in finance, most recently as Group Financial Controller at British Land plc from 2011. Joined PricewaterhouseCoopers on graduating then moved to Experian plc in 2000 where he held a number of senior financial roles, including Global Finance Director of its Decision Analytics business and UK Finance Director. A qualified Chartered Accountant.

External appointments: none.



Ian Bull
Senior Independent Director

Appointed: September 2014 as Non-executive Director, March 2018 as Senior Independent Director.

Key strengths: strong financial management and operational experience in major commercial businesses across a range of sectors.

Experience: Chief Financial Officer of Parkdean Resorts Group from March 2016 to June 2018. Previously Chief Financial Officer and main board Director at Ladbrokes plc from 2011 to 2016 and Group Finance Director of Greene King plc from 2006 to 2011. Over 20 years' financial experience with companies such as Whitbread plc, Buena Vista Home Entertainment (Walt Disney Company) and BT Group. Former non-executive director of Paypoint Ltd. A Fellow of the Chartered Institute of Management Accountants.

External appointments: none.

A N R



Andrew Eames
General Counsel & Company Secretary

Appointed: November 2017.

Experience: a lawyer with over 15 years of legal, commercial and governance experience across a number of different sectors. Joined St. Modwen from Mothercare Plc where he was Group General Counsel and Company Secretary (Interim), having previously held various positions at Nomura International Plc including Co-Head of Corporate Legal and Company Secretary.

Key responsibilities: leads the legal, company secretarial, compliance, risk and insurance functions and is responsible for legal, compliance and governance activity across the Group. Provides advice and support to the Board and its Committees and oversees the Group's relationship with its external law firms.

External appointments: none.



Lesley James, CBE
Non-executive Director
(retired from the Board 30 November 2018)

Appointed: October 2009.

Key strengths: extensive executive remuneration and human resources experience and considerable board experience across public, private, voluntary and education sectors.

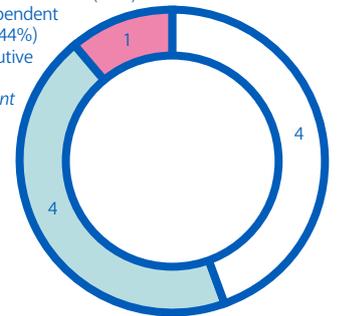
Experience: HR Director for Tesco plc from 1985 to 1999 and a main board Director from 1994. Former non-executive director for various companies including Alpha Airports Group plc, Anchor Trust, Care UK plc, Inspecio plc, Liberty International plc and the West Bromwich Building Society. Former trustee of the charity I CAN. Awarded a CBE in 2003 for services to the DTI Partnership at Work Assessment Panel. A Companion of the Chartered Institute of Personnel and Development.

External appointments: none.

N R

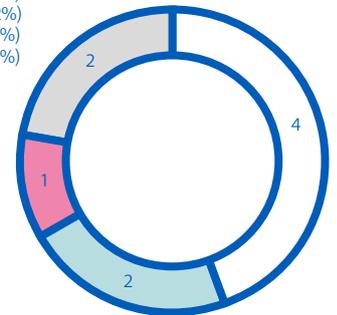
Composition of the Board as at 30 November 2018

- Independent directors (44%)
- Non-independent directors (44%)
- Non-executive Chairman independent (12%)



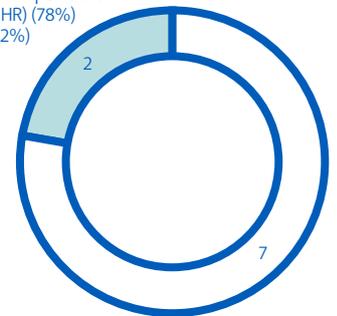
Length of directors' tenures

- < 3 yrs (44%)
- 3-6 yrs (22%)
- 7-9 yrs (12%)
- > 9 yrs (22%)



Directors' core area of expertise

- Property and operations (including HR) (78%)
- Finance (22%)



Changes to the Board

- **Richard Mully** stepped down from the Board on 28 March 2018.
- **Kay Chaldecott** stepped down from the Board on 28 March 2018.
- **Lesley James** retired from the Board on 30 November 2018.
- **Jamie Hopkins** joined the Board on 1 March 2018.
- **Danuta Gray** joined the Board on 1 October 2018.

- A** Member of the Audit Committee
- N** Member of the Nomination Committee
- R** Member of the Remuneration Committee
- H** Member of the Group Safety, Health & Environment Committee
- Denotes Committee Chairman

Board activities 2017/18

The Board's agenda and activities are planned to ensure appropriate time is dedicated to key areas and is further developed throughout the year to enable the Board to consider current developments, opportunities and risks, all in order to support the delivery of our strategy.

Following the conclusion of the strategy review in 2017, the Board's discussions and focus in the year centred around our key strategic objectives and their achievement.

The regular matters considered at each meeting include a Chief Executive report on business performance which contains an 'executing strategy' dashboard, from which the Board has visibility of progress against the key strategic objectives as well as H&S performance updates. Finance and regulatory reporting also feature as well as principal governance matters including policy reviews and a Board annual programme review.

Strategy

- Dedicated Board strategy day relating to future years' outlook for residential and industrial and logistics activity.
- Strategic plan update for the period 2019 to 2023 including scenario analysis.

Operational and performance

- Updates and presentations from SLE members relating to the key business project areas and transactions, such as asset management and St. Modwen Homes.
- Approved various disposals as part of the strategic objective to refocus the portfolio.

People and culture

Further details regarding our work on people can be found on pages 31 to 33.

- Presentation of findings of diversity and inclusion exercise undertaken, with the Board considering the full recommendations for implementation.
- Update on progress made against delivery of our people strategy and plan developed in 2017.
- Consideration and approval of Group Safety, Health and Environment Committee.

Governance

- Review of matters reserved and Committees' terms of reference.
- Overview of management workstream and consideration of company initiatives that align to the new requirements of the 2018 UK Corporate Governance Code.
- Directors' duties briefing.

Attendance at Board meetings

Director	Role	Director since	Meetings attended in year out of maximum possible	Percentage attended in year out of maximum possible
Mark Allan	Chief Executive	Nov 2016	8/8	100%
Ian Bull	Senior Independent Director	Sep 2014	8/8	100%
Kay Chaldecott ⁽¹⁾	Former Non-executive Director	Oct 2012	2/2	100%
Simon Clarke ⁽²⁾	Non-executive Director	Oct 2004	7/8	87.5%
Danuta Gray ⁽³⁾	Chair Designate	Oct 2018	2/2	100%
Jenefer Greenwood	Non-executive Director	Jun 2017	8/8	100%
Jamie Hopkins ⁽⁴⁾	Non-executive Director	Mar 2018	7/7	100%
Rob Hudson	Chief Financial Officer	Sep 2015	8/8	100%
Lesley James	Former Non-executive Director	Oct 2009	8/8	100%
Richard Mully ⁽⁵⁾	Former Senior Independent Director	Sep 2013	1/2	50%
Bill Shannon	Chairman	Nov 2010	8/8	100%

(1) Kay Chaldecott stepped down from the Board on 28 March 2018.

(2) Unable to attend September Board meeting due to a prior personal commitment.

(3) Appointed to the Board as a Non-executive Director and Chair Designate on 1 October 2018.

(4) Appointed to the Board as a Non-executive Director on 1 March 2018.

(5) Unable to attend the Board meeting in January 2018 due to a prior business commitment and stepped down from the Board on 28 March 2018.

EFFECTIVENESS/ MOVING THE BUSINESS FORWARD

At a glance: Chair Designate, Danuta Gray's induction

Meetings

Internal: **Board introduction:** Ian Bull, Audit Committee Chair and Senior Independent Director; Jenefer Greenwood, Remuneration Committee Chair; and other non-executive directors.

HR: People strategy and people plan.

Regions: To cover our objectives to grow residential and housebuilding business and accelerate commercial development activity.

St. Modwen Homes: Strategic objective for growth, the business plan and pipeline overview.

Asset management and strategy and research: Portfolio focus and capital discipline.

External: External auditor – KPMG, Internal auditors – PwC, Joint brokers – JPMC and Numis and other advisers of the Company.

Visits to: Residential development at Cofton Grange, Longbridge and commercial developments sites at Newport and Access 18, Avonmouth.

Induction of a new director

The Chairman, assisted by the Company Secretary, is responsible for the induction of all new directors. As part of the outcome of the 2017 Board evaluation, the Company Secretary undertook a review and refresh of the director induction process to ensure that newly appointed directors obtained a good understanding of St. Modwen, the complexities of the business and our values, history and governance (including the duties and responsibilities of directors).

In addition to a formal induction pack, meetings are arranged with the executive directors for briefings on strategy and performance, as well as SLE members to cover the key business areas such as St. Modwen Homes, asset management and commercial development across the regions as well as HR and strategy and research. Visits to key sites within the Group's property portfolio are scheduled and external training, particularly on matters relating to membership of Board committees, is arranged as appropriate. Major shareholders are also offered the opportunity to meet newly appointed directors should they express a desire to do so.

Q&A with Danuta Gray: looking forward to being part of St. Modwen



Q What attracted you to join St. Modwen as Chair Designate?

A It was a combination of the quality of the management team and Board members that I met during the interview process, together with the clarity of strategy in markets with excellent opportunities for growth.

Q A few months in, what are your impressions of St. Modwen?

A There is a loyal, energetic team that is proud of the Company's history and is committed to its core business purpose. Mark Allan and the executive team have achieved a great deal in a short period of time to refocus the strategy and we're well on the path to implementation. The Board is open with a fully supportive culture and is customer-focused.

Q What is your opinion on the induction process? What was the most informative element of your induction and what worked well?

A It has been a chance to get to know the business and its people and provided opportunities to visit a variety of sites and to meet with teams and key business partners. The most informative element has been spending time with people, helping me understand both the business and culture. I plan to continue my induction, including meeting shareholders, in the coming months.

Q In your opinion, what makes a Board effective and a company like St. Modwen successful for its shareholders?

A A boardroom culture of trust, respect and openness which enables challenge and constructive conversations. Boards should be diverse in skills and experience, helping management 'see around corners'. Spending time in the business also helps improve the quality of decision making.

St. Modwen has a clear strategy, excellent values and culture, invests in its people, has financial strength and the team is ambitious. By consistently delivering on the strategy and meeting its commitments, St. Modwen will generate attractive returns for shareholders at the same time as regenerating and building communities and creating a great place to work for our people.

GOVERNANCE CONTINUED

Director development

The Company is committed to the continuing development of directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which St. Modwen operates.

Training and development needs are discussed with each director by the Chairman as part of the annual individual performance evaluation process and kept under review. Development activities include visits to sites within the Group's property portfolio, both as a Board and individually. This year the Board visited our industrial development site at Tamworth and our residential development at Hilton, Derby. Regular presentations to the Board by members of the SLE and senior management on key issues and major projects are also scheduled.

The attendance by members of Board Committees at courses relevant to aspects of their respective Committee specialisms is also encouraged.

Director independence and re-election to the Board

As previously announced, Bill Shannon will not be standing for re-election. The Board considered Bill Shannon to be independent on his appointment as Chairman in 2011 and that he remains so until he steps down on 29 March 2019. As also previously announced, Lesley James retired from the Board on 30 November 2018 and for the purposes of the Code, was considered for the period 19 October 2018 to 30 November 2018 as non-independent, having served on the board for more than nine years from the date of her first election (19 October 2009). The Board resolved to extend Lesley's appointment beyond nine years for this short period (19 October 2018 to 30 November 2018) in order to support the induction of the Chair Designate, due to Lesley's extensive experience as a non-executive director of the Company. During this period the Company remained compliant with B.1.2. of the Code; half the Board, excluding the Chairman was independent.

Simon Clarke, a non-executive director, represents the interests of the Clarke family and has held the position for over nine years. Consequently, the Board has determined that Simon Clarke is not independent for the purposes of the Code.

The Board considers that all other non-executive directors are independent and is not aware of any relationship or circumstance likely to affect the judgement of any director.

At the 2019 AGM, and in accordance with the Company's Articles of Association, Danuta Gray will retire and offer herself for election. All other directors apart from Bill Shannon will retire and offer themselves for re-election in accordance with the provisions of the Code.

The explanatory notes set out in the Notice of AGM state the reasons why the Board believes that the directors proposed for re-election at the AGM should be re-appointed. The Board has based, in part, its recommendation for re-election on its review of the results from the Board evaluation process and the Chairman's review of individual evaluations. It has concluded that the performance of each director continues to be effective, that they continue to demonstrate commitment to their respective roles and that their respective skills complement one another to enhance the overall operation of the Board.

External appointments

On appointment, directors are advised of, and requested to make, the necessary time commitment required to discharge their responsibilities effectively. This time commitment is also outlined in the letters of appointment issued to non-executive directors.

The Chairman reviews annually the time each director has dedicated to St. Modwen as part of their individual performance evaluations and is satisfied that their other duties and time commitments do not conflict with those as directors of the Company. Similarly, the Board is content that the Chairman's external appointments do not impact on his ability to allocate sufficient time to discharge his responsibilities to St. Modwen.

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage any conflicts of interest affecting directors. This enables the Board to consider and, if thought appropriate, to authorise a director's actual or potential conflict of interest, taking into consideration what is in the best interests of the Company and whether the director's ability to act in accordance with his or her wider duties is affected. The Company Secretary maintains a register of directors' conflicts of interest, which includes details of any conditions applied on any authorisation given by the Board. The register is reviewed periodically, and in respect of any changes to authorisations as and when they need to be considered.

Notice of AGM

Pages 188 to 193

PERFORMANCE EVALUATION

To ensure its continued effectiveness, the Board undertakes performance evaluations. The Code (B.6.2) states that an externally facilitated Board evaluation should be undertaken every third year. For St. Modwen this was last carried out in 2015. Following due consideration, the Board decided however, to defer its external evaluation until later in 2019, once the Chair Designate has had sufficient time to establish herself in the role of Chairman.

Internal Board effectiveness review

The approach for the 2018 Board effectiveness review consisted of one-to-one interviews between the Chairman and individual directors to discuss progress on the action plan arising from last year's evaluation and to consider each individual's contribution and seek qualitative feedback around how the Board operates, namely (1) what should the Board start doing more of, (2) what should the Board do less of and (3) what should the Board continue to do to remain effective.

Whilst the feedback of the Board's performance was generally positive and directors agreed that good progress had been made in respect of the previous year's review actions in terms of areas of focus, the following themes were highlighted and will be implemented:

- (1) to introduce horizon planning when developing strategic planning;
- (2) to enhance the clarity of the three-year development pipeline for our strategic growth areas; and
- (3) to more closely monitor the corporate culture of the business.

Results and conclusions are considered by the Board at its February meeting and a programme of actions and recommendations is then implemented and progressed in the year.

The good progress made against recommendations arising from the 2017 Board evaluation, include the following:

- Processes: meeting packs are issued at least five working days prior to Board and committee meetings and the Board is invited to ask questions or request more information.
- Forward planning: reviews and discussion around a 12 month rolling agenda is now a standing meeting item and prioritisation and content agreed to ensure the effectiveness of meetings.
- Greater visibility of the SLE and senior management, with individuals regularly presenting in relation to key areas of their respective business areas. This enables the Board to consider the Group's depth of talent and assists in succession planning within the business.
- Induction: as detailed on page 73, the Company Secretary has refreshed and developed the induction programme for new Board members.
- People and culture: the Board receives updates on the people strategy, people plan and talent reviews to gain a greater understanding and visibility of the workforce and the developing workstreams relating to people diversity and inclusion and culture within the business.

RELATIONS WITH SHAREHOLDERS

Interests in voting rights

Information provided to the Company pursuant to the FCA's Disclosure and Transparency Rules (DTR 5) is published on a regulatory information service and on the Company's website. As at 30 November 2018, the information in the table below had been received in accordance with DTR 5 from holders of notifiable interests in the Company's issued share capital.

The information provided was correct at the date of notification, however, the date the notification received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. Notification of any change is not required until a notifiable threshold is crossed.

Shareholder	Date of notification	Nature of holding	Total voting rights	Percentage of total voting rights
Simon Clarke and close family members	28/09/17	Direct interest	15,175,196	6.82%
Aviva plc	25/06/18	Direct interest	13,494,710	6.07%
		Indirect interest	863,094	0.39%
		Total	14,357,804	6.46%
Royal London Asset Management Ltd	21/11/17	Direct interest	15,579,630	7.01%
TR Property Investment Trust plc	12/07/12	Direct interest	6,802,638	3.40%

There were no changes to the interests in the voting rights notified to the Company in accordance with DTR 5 between 30 November 2018 and 4 February 2019.

Dialogue with investors

The Board has a comprehensive investor relations programme which aims to provide existing and potential investors with a means of developing their understanding of St. Modwen. The programme is split between institutional shareholders (who, in aggregate, hold over 80% of the issued share capital in the Company), private shareholders and debt investors. Feedback from the programme of events is provided to the Board to ensure that directors develop an understanding of the views of the Company's major investors.

Programme of events

As part of the programme, the Chief Executive and CFO undertake roadshows comprising both face-to-face meetings and conference calls with institutional investors, analysts and the media. This year, the executive directors conducted a roadshow in the US to support the fostering of a US investor presence, in addition to the roadshows following the half-year and annual results. Details of these, together with trading updates, are published and available on the Company's website at www.stmodwen.co.uk. Feedback from analysts and institutional investors that took part was collated and reviewed by the Board, with the key messaging around the continuing delivery of our strategy welcomed, as well as a general consensus that there was a continuing good level of disclosure by the Company.

Additionally, the executive directors attended equity conferences in London and Amsterdam to meet with investors. Institutional investors were also given the opportunity to tour sites as part of showcasing St. Modwen's portfolio.

As in the prior year, a capital markets day was held for investors and analysts on 5 June 2018. Held in the West and Wales region to showcase the existing and planned development pipeline (both commercial and residential) and supplemented with a strategy update presentation, investors were presented to, by both executive directors and senior management. The strategy update focused on demonstrating how St. Modwen's earnings profile will grow with the build-out of the development pipeline. A copy of the capital markets day presentation can also be found on the website. The Company also continued to maintain regular dialogue with its key relationship lenders throughout the year.

The Chairman is available to meet with institutional shareholders and investor representatives to discuss matters relating to strategy and governance. Private shareholders are encouraged to give feedback and may communicate with the Board through the Company Secretary.

Annual General Meeting

The AGM provides an opportunity for all shareholders to vote on the resolutions proposed and to question the Board and the chairs of the Board committees on matters put to the meeting. Resolutions for consideration at the 2019 AGM will be voted on by way of a poll rather than by a show of hands as the Board believes that this is a more transparent method of voting as it allows the votes of all shareholders to be counted, including those cast by proxy. The results of the poll vote will be published on the Company's website, www.stmodwen.co.uk, after the meeting.

STATEMENT OF COMPLIANCE

This corporate governance report, together with the Audit Committee report, the Nomination Committee report, the Directors' Remuneration report and the section entitled 'Risk management' provide a description of how the main principles of the UK Corporate Governance Code 2016 (the Code) have been applied by St. Modwen in the year ended 30 November 2018. The Board acknowledges the publication of the new UK Corporate Governance Code (the 2018 Code). The Board and its committees have already taken steps to ensure compliance with the 2018 Code and will be reporting on progress in the coming years. The Corporate Governance Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

The UK Corporate Governance Code 2016

The Code is not a rigid set of rules. It consists of principles (main and supporting) and provisions. The Listing Rules require us to apply the main principles and report to shareholders on how we have done so. The principles are the core of the Code and the way in which they are applied should be a central question for a board as it determines how to operate.

It is the Board's view that, throughout the financial year ended 30 November 2018, the Company has complied with and applied all the Code principles, with the exception of those detailed below. Due to the forthcoming change in the Chairman of the Board, the Company has not complied with provisions A.4.2, B.6.2 and B.6.3.

Code provision B.6.2 – Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.

Explanation: For St. Modwen, an external evaluation was last undertaken in 2015. The Board has determined not to undertake an external evaluation for the financial year ended 30 November 2018 and to defer this until later in 2019, to allow the Chair Designate enough time to establish herself into the role of Chairman. An internal Board effectiveness review was however carried out, details for which are set out on page 75.

Code provision A.4.2 – Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate; and

Code provision B.6.3 – The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

Explanation: As announced, Bill Shannon will be stepping down at the close of the AGM in March and has been working closely with Danuta Gray, the Chair Designate to ensure a smooth handover. Following due consideration by the Nomination Committee, it was resolved not to undertake a performance evaluation of the outgoing Chairman for the financial year ended 30 November 2018 as any feedback for implementation would not be fully actioned in the remaining period.

Further information can be found throughout the 'Our governance' section on pages 66 to 113.

With the exception of disclosures required by Rule 7.2.6, which are set out in the directors' report, the corporate governance report contains the information required by Rule 7.2 of the Disclosure and Transparency Rules of the Financial Conduct Authority.



IN THIS REPORT, WE EXPLAIN THE COMMITTEE'S ACTIVITIES AND ITS KEY AREAS OF FOCUS IN THE YEAR AS OUR STRATEGY PROGRESSES.

Ian Bull
Chairman of the Audit Committee

Attendance and composition of the Committee

All Committee members are non-executive directors and considered independent under the UK Corporate Governance Code. They have a range of commercial, financial and property sector experience. The Board is of the view that the Committee as a whole has competence relevant to the sector in which the Company operates. As a qualified accountant with extensive experience as a Finance Director, the Chair, Ian Bull (appointed in March 2015) is also considered by the Board to have the relevant financial experience to chair the Committee.

Committee member ⁽¹⁾	Member since	Meetings attended in year out of maximum possible	% attended in year out of maximum possible
Ian Bull Fellow of the Chartered Institute of Management Accountants	Sep 2014	5/5	100%
Jenefer Greenwood A Fellow of the Royal Institution of Chartered Surveyors	June 2017	5/5	100%
Jamie Hopkins ⁽²⁾ A member of the Royal Institution of Chartered Surveyors	March 2018	3/3	100%
Richard Mully ⁽³⁾	Sep 2013	2/2	100%

(1) For full biographies of the Committee members see the Board biographies on pages 70 and 71.

(2) Joined the Committee (and the Board) with effect from 1 March 2018.

(3) Resigned from the Committee (and the Board) on 28 March 2018.

Attendees and contributors to the Committee (by invitation):

Chairman
Bill Shannon

Chair Designate
Danuta Gray⁽⁴⁾

Chief Executive
Mark Allan

Chief Financial Officer
Rob Hudson

Non-executive Director
Simon Clarke

Group Financial Controller and Treasurer
Simon Redfern

Company Secretary and Secretary to the Committee
Andrew Eames

Head of Internal Audit
Representatives from PwC

External auditor
Representatives from KPMG

External valuers
Representatives from Cushman & Wakefield and Jones Lang LaSalle

External advisers
Representatives from RSM (risk management)

(4) Appointed as a non-executive director and Chair Designate with effect from 1 October 2018.

Principal duties delegated to the Audit Committee:

Financial reporting – monitoring the integrity of the financial statements, obtaining assurance that appropriate financial systems and financial controls are in place, the implementation of new accounting standards and reviewing and challenging the completeness and clarity of financial disclosures.

Internal controls and processes of risk management – reviewing the Group's management of risk and its internal controls for effectiveness.

External audit – overseeing the relationship with the external auditor and assessing its independence and objectivity, making auditor appointment recommendations to the Board.

Internal audit – assessing the remit of the internal audit function, setting the internal audit plan and monitoring the responsiveness of Group management to findings and recommendations resulting from audits.

The Committee's role and responsibilities are set out in its terms of reference, which are reviewed annually by the Committee and approved by the Board.

AUDIT COMMITTEE REPORT CONTINUED

Dear Shareholders

As Chairman of the Audit Committee I am pleased to present the Committee's report for the financial year ended 30 November 2018.

The report is intended to provide insight into the Committee's activities in the year and sets out how we have performed our principal duties outlined above.

The Committee met five times as scheduled and has had another busy year, ensuring that our approach is updated in the context of the Group further progressing its strategy.

Key activities in 2017/18

- Assessment of the valuation of the Group's property portfolio as it evolves as the Group's strategy is executed, considering whether the valuation assumptions at the half and full year are appropriate, independent and in accordance with the valuers' professional standards.
- Review of the Group's processes and progress to comply with new accounting standards to be adopted over the coming years, in particular IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and the amendments to IAS 40 *Investment Property*.
- In tandem with the Board, monitoring GDPR and information security as part of an enhanced risk assurance framework, in particular monitoring the GDPR project and delivery in advance of the May 2018 effectiveness date.
- Evaluation of compliance requirements including the introduction and roll-out of a new Group-wide policy in relation to the prevention of the facilitation of tax evasion, Criminal Finance Act 2017 and the payment practices reporting requirements.
- A review of the Group risk profile to ensure ongoing alignments to Group strategy and that it is a continually evolving operational and financial process embedded in the business.

The Group has continued to undertake extensive work on the Group's risk and compliance and its overall governance, which has in the year, led to the formation of the Risk, Assurance and Compliance Committee (RACC) which reports regularly to the Committee on its activities, enhancing the reporting to the Committee regarding strategic risks and the Group's risk profile (see pages 54 and 56 of section 'Risk Management').

The Committee also continues to focus on those matters it considers to be important by virtue of their size, complexity, level of judgement required or impact on the financial statements. These included reviewing the policy on the capitalisation of interest and overheads and a deep-dive on some of the more complex areas of revenue recognition in the Group, particularly accounting for development agreements.

Both the external auditors (KPMG) and the internal auditors (PwC) have now completed their second years in post and have continued to gain a good understanding of the business. As indicated in last year's report, effectiveness assessments of both have been completed now that they are established in their respective roles and the results of these are discussed in this report on pages 83 and 84.

The Audit Committee, management and KPMG are committed to ensuring that audit quality is delivered. The Committee considered several areas in this regard, including KPMG's action plan to address general and specific matters raised by the FRC's AQR team. In terms of challenge:

- the Committee and management have observed an in-depth audit and deep questioning;
- consistent with last year, specialists from KPMG on property valuations, tax and pensions have enhanced the core audit team;
- in addition, KPMG major projects advisory team resources have been applied to some of our key judgemental areas; and
- management understands KPMG has used a larger number of standardised work programmes to increase the robustness and documentation of audit procedures.

Finally, I would like to thank my fellow Committee members for their continued support and commitment to ensuring effective governance through the Committee's activities. We were pleased to welcome Jamie Hopkins to the Committee following his appointment to the Board in March, with his commercial experience further strengthening the Committee, and thank Richard Mully for his contribution prior to leaving the Board in March. I would also like to thank the executive team for their continued positive engagement on the matters within the Committee's remit and contributions to Committee meetings.

I hope that the report provides a useful overview to the activities of the Committee during the year.

Ian Bull

Chairman of the Audit Committee

4 February 2019

How the Committee operates

The Committee met five times during the year; the schedule included meetings with the external valuers to review and discuss their valuation reports for the half year and year end results. Meetings of the Committee generally take place just prior to a Board meeting to maximise the efficiency of interaction with the Board. The Committee Chairman reports to the Board, as a separate agenda item, on the activity of the Committee and matters of relevance to the Board in the conduct of its work.

As part of their main Board induction (see page 73 for further information), members of the Committee receive an appropriate induction to ensure that they have an understanding of the principles of, and recent developments in, financial reporting, key aspects of the Company's accounting policies and judgements, and internal control and risk management arrangements, as well as the role of the internal and external auditors. Ongoing training is undertaken as required or requested and this year a briefing session on accounting for development agreements was provided by the finance team, following the Committee proactively identifying that, in the context of the evolving strategy, this was an accounting area where more information would be insightful. There is also the opportunity for Committee members to speak with various key employees within the Group as they present to the Committee on material issues and workstreams such as cyber security, GDPR, tax compliance and financial reporting.

At least once a year, usually preceding a Committee meeting, the Committee meets separately with the external audit Engagement Partner and with the Head of Internal Audit to give them the opportunity to discuss matters without executive management present. The Committee Chairman also holds separate one-to-one meetings with the Chief Financial Officer, the Head of Internal Audit, the external audit Engagement Partner and the non-executive director committee members, typically ahead of Committee meetings, to better understand the issues and areas of concerns and to make sure adequate time is devoted to these matters at the subsequent meeting.

The Committee has direct access to the Head of Internal Audit, the external audit Engagement Partner and the external valuers outside of formal Committee meetings. Whilst permitted to do so, no member of the Committee, nor the Committee collectively, sought outside professional advice beyond that which was provided directly to the Committee during the financial year.

Committee evaluation

The performance of the Committee was evaluated by way of an online questionnaire which was completed by all members of the Committee as well as those who attended Committee meetings.

Overall the results were positive, particularly in relation to how the Chairman facilitated debate and discussion during meetings and steered the Committee to a conclusion. There was consensus that visibility and understanding of the Company's principal risks and risk management processes, together with oversight of business and financial reporting, had improved from the previous year. Feedback received highlighted the following areas as requiring further consideration or improvement: (1) mix of skills and succession planning; and (2) oversight of whistleblowing procedures. The Nomination Committee has a brief for current non-executive director recruitment to include being a member of the Audit Committee with appropriate finance and accounting experience. Secondly, the Company Secretary is already undertaking an audit of the whistleblowing arrangements, the outcome of which will be reported to the Committee later in the year.

Activities of the Committee during the year Reporting

The Committee undertook its primary responsibility in relation to the Group's financial reporting, to review with both management and the external auditor the integrity of the half-year and annual financial statements to satisfy itself and the wider Board that the annual report, 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. Further details on the directors' considerations can be found in the statement of directors responsibilities on pages 117 and 118.

AUDIT COMMITTEE REPORT CONTINUED

Accounting policies and practices

The Committee devoted significant time to reviewing the prospective impacts of the adoption of new and amended accounting standards following initial reviews in the previous year as outlined below:

Standard	Expected impact	Committee's work
IFRS 9 <i>Financial Instruments</i>	Limited to the calculation of bad debt provision to focus on expected losses (past, present and expected future experience) rather than incurred losses. Given the low level of bad debt provision held, the impact of this change will not be material.	A review of both the proposed revised bad debt provisioning policy and the impact of the new standard on each of the categories of financial instruments has taken place in the year with the impacts being a de minimis increase in the bad debt provision. The timetable for adoption of the standard was also reviewed and will be adopted for the year ending 30 November 2019.
IFRS 15 <i>Revenue from Contracts with Customers</i>	Has the potential to result in different revenue recognition profiles, particularly on certain construction contracts and non-standard elements of housebuilding (part-exchange and social housing sales).	A review of the detailed exercise undertaken by the accounting teams to consider the impact of the change in standard across all revenue streams has taken place. This review indicated that there would be no material impact on profits post-adoption and an immaterial (c. £3m based on 2018 part-exchange volumes) increase in revenue and cost of sales in respect of part-exchange sales in St. Modwen Homes. The timetable for the adoption of the standard was also reviewed and will be adopted for the year ending 30 November 2019.
IFRS 16 <i>Leases</i>	Recognition of 'right of use assets' and associated liabilities for operating leases, limited to certain premises, motor vehicles and office equipment.	A review of the detailed exercise undertaken by the finance team to consider the impact of the change across all leases has taken place. The Group currently leases certain office buildings, some IT equipment and company cars and vans. It is anticipated that the Group will recognise an asset and liability of c. £6m on adoption. The Group income statement impact, in summary, is to replace an operating lease charge with depreciation and an interest element, the latter of which will be recognised on an actuarial basis rather than on a straight-line basis. This will result in a small portion of the overall income statement charge being recognised in earlier years of the lease term than it would have been under the current standard. Further to the Committee's review the standard was agreed to be transitioned for the financial year ending 30 November 2019, one year earlier than required, as the Committee felt that adopting this change in the same year as the other accounting standard changes discussed above would make the accounts more understandable.
Amendments to IAS 40 <i>Investment Property</i>	Minor changes in the wording of the definitions of the 'change in use' evidence criteria required to be met in order to make transfers to and from investment properties and inventories.	A review of the detailed papers prepared by the finance team to consider the impact of this change has taken place. The standard has been adopted early for the year ended 30 November 2018 (as is permitted) as it assists in making our accounts more fair, balanced and understandable by better aligning the treatment of existing property assets with new property assets and its impact is as disclosed in the accounting policies note.

Following due consideration and discussion with KPMG, there is no significant impact of any of the other standards applicable for the year. The Committee was satisfied that the accounting policies and related disclosure in this annual report were appropriate.

Accounting policies

See pages 132 to 139

Significant judgements and financial issues

The Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results, or the level of complexity, judgement or estimation involved in their application to the Group financial statements. The significant financial issues considered by the Committee in relation to the 2018 financial statements, and how these were addressed, are outlined below. The Committee discussed these with the external auditor and, where appropriate, how these were addressed by KPMG's audit scope.

Independent auditor's report

See pages 119 to 127

Significant issues	Work undertaken by and conclusion of the Committee
<p>Valuation of investment properties (see note 9 to the Group financial statements)</p> <p>The valuation of St. Modwen's investment properties is a key determinant of the Group's balance sheet and performance as well as impacting executive variable remuneration.</p> <p>Although the portfolio valuation is conducted externally by independent valuers, the nature of valuation estimates is inherently subjective and requires significant judgements and assumptions to be made by them. These include market comparable yields, estimates in relation to future rental income, void periods, purchaser costs, together with remediation and other costs to complete, some of which require management input. These judgements and assumptions are also subject to market forces and will change accordingly.</p>	<p>The Committee adopts a formal approach by which the valuation process, methodology, assumptions and outcomes are reviewed and robustly challenged. This includes separate review and scrutiny by both management and the Committee of the external valuations, with members of the Committee discussing the valuations both prior to and at Committee meetings in January and June. This approach also includes the external auditor which is assisted by its own specialist team of chartered surveyors who are familiar with the valuation approach and UK property market.</p> <p>The external auditor has direct access to the Group's valuers and their remit extends to investigating and confirming that no undue influence has been exerted by management in relation to the valuations. The external auditor reviewed the valuations and process and reported its findings to the Committee.</p> <p>Both Cushman & Wakefield and Jones Lang LaSalle submit their valuation reports to the Committee as part of the half year and full year results process. Both valuers were asked to present their valuation reports at Committee meetings and highlight any significant judgements made or disagreements between themselves and management and with KPMG; there were none.</p> <p>Against the backdrop of the continued uncertainty created by the UK's vote to leave the EU, the Committee also considered the extent to which this could impact the property investment and lettings market in terms of both activity and liquidity.</p> <p>Based on the degree of oversight and challenge applied to the valuation process, the Committee concluded that the valuation as a whole had each been conducted appropriately, independently and in accordance with the valuers' professional standards.</p>
<p>Net realisable value of inventories (see note 13 to the Group financial statements)</p> <p>The Group's inventories, comprising property held for sale, property under development and land held under option with a view to sale, is of significant value.</p> <p>All inventory is carried at the lower of cost and net realisable value and appropriate allowances are made for remediation and other costs to complete. For the majority of inventories held, management rely on their own internal procedures for assessing the carrying value of inventory. This requires a number of estimates to be made, in respect of forecast revenue and costs, from which a profit margin over the development is derived and which also provides an indication of the recoverability of the inventory.</p>	<p>The Committee reviewed management's assessment as to whether any provision was required against the carrying value of inventory, either at Group level or within any joint venture arrangements.</p> <p>The assessment process undertaken to determine net realisable value was considered by the Committee, which included ongoing monitoring by management as well as detailed reviews at both the half and full year. Cushman & Wakefield also provided valuations for certain sites, typically new-build units not yet sold.</p> <p>The Committee concluded that the judgements and estimates made by management were in line with Group policy, reasonable and appropriate and were supported by KPMG.</p>

AUDIT COMMITTEE REPORT CONTINUED

Significant issues	Work undertaken by and conclusion of the Committee
<p>Accrual for costs in relation to the NCGM site (see note 11 to the Group financial statements) The project to procure a market at the Nine Elms site for CGMA is a significant project which is forecast to continue for a number of years.</p> <p>Our share of the costs of the market construction are forecast (pre-discounting) to be c. £145m but this assessment is an area of significant accounting judgement for the Group.</p> <p>The Group engages with external experts to form a reliable estimate of the costs associated with the project.</p>	<p>During 2018, the Committee has:</p> <ul style="list-style-type: none"> • reviewed a report from the external expert to form a view on the appropriateness of the liability included for the NCGM project; • assessed and discussed the sensitivities, risks and opportunities inherent in the project highlighted in this report; • assessed the range of outcomes discussed in this report to satisfy itself that the liability has been struck at a level which fairly represents the likelihood of the sensitivities, risks and opportunities materialising; and • reviewed KPMG's findings in relation to the level of contingency <p>The Committee concluded that the liability recognised in respect of this project was appropriate.</p>
Other issues	Work undertaken by and conclusion of the Committee
<p>Tax provisions (see note 6 to the Group financial statements) As a property group, tax and its treatment is often an integral part of transactions undertaken by St. Modwen. The outcomes of tax treatments are recognised by the Group to the extent the outcome is reasonably certain.</p> <p>Where tax treatments have been challenged by HMRC, or management believe that there is a risk of such challenge, or new tax regulation is introduced, provision is made for the best estimate of potential exposure based on the information available at the reporting date.</p>	<p>Based on reports from management and PwC (the Group's tax compliance advisor), the Committee has continued to assess the risk of challenge and individual judgements made by management in respect of tax provisions and was satisfied that the mitigating actions and resultant level of tax provisioning at both the full year and half year remained appropriate.</p> <p>Further disclosure on taxation is set out in note 6 to the Group financial statements and in the Group accounting policies on pages 132 to 139.</p>
<p>Assessment of alternative performance measures (APMs) As part of its key considerations for the half year and full year results disclosures the Committee carefully considered the set of APMs used and that the reasons for choosing them remained valid, being that they continued to represent the main performance measures used by internal and external stakeholders to measure the execution of the business's strategy and for remuneration purposes.</p> <p>For further details see notes 2 and 3 to the Group financial statements.</p> <p>Viability and going concern The Committee provides advice to the Board on the form and basis underlying both the going concern statement and the longer-term viability statement.</p> <p>As both statements rely on forecasts, the Committee considered the assumptions and judgements applied by management in relation to the timing of receipts and payments, the ongoing availability of funding and covenant compliance, noting the positive outcome of refinancing activity during both this year and the last. The Committee also reviewed the appropriateness of the downside scenario analysis, including the specific impacts on income and valuations of a hard Brexit, prepared by management, including the assumptions made.</p> <p>The Committee concluded that it remains appropriate for the financial statements to be prepared on a going concern basis and recommended the viability statement to the Board.</p>	<p>Fair, balanced and understandable When reporting to shareholders, the Board aims to present a fair, balanced and understandable assessment of the Company's position and performance and is assisted in this by the Committee. This responsibility covers the annual and half-year reports and financial statements, as well as trading updates and other financial reporting in the year.</p> <p>The Committee is satisfied and has confirmed to the Board that the 2018 annual report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.</p> <p>In reaching this view, the Committee considered the robust and well-established processes in place to prepare the annual report and financial statements which includes:</p> <ul style="list-style-type: none"> • regular debates and challenge with senior management and with both external and internal auditors around clarity, tone and items of judgement; • revisions to regulatory requirements and governance principles, including the Code, are continually monitored and, as explained on page 66, the Board and senior management are making preparations under the 2018 UK Corporate Code; and • focused review and approval of specific sections by the relevant Board Committees, supported by regular reporting by Board Committees to the Board on their activities.
<p>Going concern statement See page 117</p>	<p>Ultimately the Board takes into account the view of the Committee when undertaking its own review of the document prior to giving final approval.</p>
<p>Viability statement See page 65</p>	

External auditor

KPMG, as the external auditor, is engaged to express an opinion on the Company's and wider Group's financial statements. Their audit includes a review and test of the systems of internal control and data contained in the financial statements to the extent necessary to express an audit opinion on them. With Bill Holland of KPMG as the Senior Audit Partner, the Company has complied with the Statutory Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Responsibilities) order 2014. Under the current regulations, the Company will be required to retender the audit by no later than 2026/2027 and the Committee will keep the external auditor tender under review and act in accordance with any changes in regulations and best practice relating to the tenure of the external auditor.

External audit Audit plan

The Committee is responsible for overseeing the relationship with the external auditor and, in respect of the audit for the financial year ended 30 November 2018, KPMG presented their second year audit plan to the Committee in October. The plan outlined the proposed audit approach and took into account the key changes in the business and the impact of these on materiality, scope and risk assessment and included details of the enhanced auditor reporting requirements (see the independent auditor's report on pages 119 to 127).

The audit fee, which was approved by the Committee, was felt to be appropriate given the scope of work, whilst not adversely affecting KPMG's independence or objectivity.

Independence

The Committee is responsible for monitoring and reviewing the objectivity and independence of the external auditor. In respect of KPMG's second year as external auditor, the Committee has reviewed:

- the confirmation from KPMG that they maintain appropriate internal safeguards in line with applicable professional standards;
- the mitigating actions taken by the Committee in seeking to safeguard KPMG's independent status, including the operation of policies designed to regulate the appointment of former employees of the external audit firm and the extent of non-audit services provided by the external auditor; and
- the skills and experience within the audit team.

Taking the above review into account, the Committee concluded that KPMG was objective and independent in their role as external auditor.

Non-audit fees

In order to safeguard the objectivity, independence and effectiveness of its external auditor, the Company continues to adopt a policy on the provision of non-audit services by its external auditor (or any member of the external auditor's network) to the Group and, having refreshed the policy in the previous year, the Committee reviewed the current policy in place, and approved it. In accordance with the policy non-audit services fall into one of three categories:

1. where the involvement of the external auditor is prohibited;
2. where the external auditor can be engaged, subject to the approval of the Chief Financial Officer; and
3. where the external auditor can be engaged, subject to Audit Committee approval.

In categories 2 and 3, the skills and experience of the external auditor to perform the required services, the effect of the non-audit services on the audited financial statements, the potential impact of each project on the external auditor's independence and objectivity and the resulting ratio of non-audit to audit fees will be taken into consideration. The non-audit fees paid to KPMG in the year totalled £nil (2017: £nil) representing 0% (2017: 0%) of the fees paid for audit and audit-related assurance services.

During the year, KPMG has adopted a firm-wide policy that will prohibit the provision of non-audit services to FTSE350 companies where they are the auditor.

The Committee is advised of all non-audit services provided, irrespective of value, and reviews all expenditure annually. Save for any fees payable for non-audit work required to be carried out by the external auditor by law or regulation, the policy limits the total fees payable to the external auditor for non-audit services to no more than 70% of the average of the audit fees paid in the last three consecutive financial years for the audit of the Company and the Group.

Further information on the remuneration of the external auditor can be found in note 4b to the Group financial statements.

Effectiveness of external audit process

As reported last year, the Committee resolved to complete a first effectiveness review of KPMG as external auditor in 2018 when sufficient time had passed with them in post (appointed December 2016).

The Committee considered KPMG's experience and expertise, the extent to which the audit plan had been met, its robustness and perceptiveness with regard to key accounting and audit judgements and the content of its audit reports. As part of its considerations, the Committee reviewed a report on the audit firm's own internal quality control procedures together with the policies and processes for maintaining independence and monitoring compliance with relevant requirements.

AUDIT COMMITTEE REPORT CONTINUED

KPMG's performance was assessed in the year via the completion of an effectiveness questionnaire by Committee members, regular attendees and contributors within the Company to the external audit process. Questions were posed around the reputation, calibre and independence of the audit firm, the effectiveness and performance as well as the technical competence of the audit team, the output, quality and cost effectiveness of the audit process and the effectiveness of communications with the audit team. KPMG presented the findings of the firm's AQR report and provided assurance to the Committee that improvement actions were being effectively implemented into the audit process. The Committee will continue to monitor agreed improvement actions and accepted the conclusion of the review. Furthermore, the Committee remains satisfied with the performance of KPMG as external auditor and is of the view that there is nothing of concern that would impact the effectiveness of their external audit processes.

Internal audit

The internal auditor's key objectives are to provide independent and objective assurance that each business area implements and maintains appropriate and effective controls. There is a rolling three-year plan informed by the Group's strategy and key risks identified by the Risk, Assurance and Compliance Committee, which covers the nature and timing of internal audit plans and focus. The annual audit plan is designed to assist in improving the effectiveness of governance and key risk management and internal controls processes. It also has input into ensuring that adequate resources are made available and that the necessary support is provided by the business to accomplish the agreed work programme. The Committee Chairman meets with the Head of Internal Audit regularly to discuss activities and the nature of any significant issues which may have arisen. This year the timing of the Governance review was brought forward on the internal audit agenda at the request of the Committee and GDPR and IT disaster recovery reviews were added to the schedule and completed.

Internal audit governance review – case study

An internal audit governance review was completed earlier in the year to help identify gaps in the current executive governance framework in the context of the strategy. The review noted numerous areas of good practice, however, given the size of the Company and the industry in which St. Modwen operates, it highlighted several areas which could be improved. Led by the executive management, the governance framework was updated and terms of reference formats for all executive level committees enhanced to address any inconsistencies and control design issues that had been identified in the review. The revised governance framework clarified the purpose, authority, accountabilities and reporting responsibilities for each executive committee ensuring transparency around decision making and effective oversight; governance arrangements that will successfully support our strategic aims, objectives and priorities.

Governance framework

See pages 68 and 69

Internal audit is a regular agenda item at Committee meetings. Reports from the Head of Internal Audit usually include updates on audit and assurance activities, progress of the Group internal audit plan, the results of reviews and monitoring the status of implementation of recommendations and actions to address any unsatisfactory areas. Any overdue actions on the status tracker can be escalated as appropriate in order to ensure they have been completed.

As previously advised, the Committee intends that no significant new areas of work will be allocated to PwC to safeguard their independence and objectivity, with Committee approvals as necessary, should a conflict arise. There were none reported in the year.

Effectiveness of the internal audit process

The effectiveness of the internal audit function is reviewed annually by the Committee, primarily by assessing performance against the internal audit charter. During the year, the Committee reviewed its effectiveness and performance via the completion of an effectiveness questionnaire, completed by Committee members, regular attendees and contributors within the Company to internal audits. The key findings were presented to the Committee whereupon some continuous improvement actions in respect of these findings were agreed with PwC, principally around supporting Head of Internal Audit access to SLE members and ensuring ongoing effective communication to maintain group-wide understanding of the purpose and remit of internal audit.

The Committee remains satisfied with the performance of PwC as internal auditor and is of the view that there is nothing of concern that would impact the effectiveness of their internal audit processes.

Risk management and internal control

During the year, the Committee monitored and reviewed the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls, as well as the Company's statements on internal controls, before they were agreed by the Board for this annual report.

In doing so, the Committee considered:

- implementation of the Group strategy and the progress made;
- the Group's risk register, including significant and emerging risks, mitigating controls in place and how exposures have changed over the reporting period;
- the scope, membership and output of the newly established Risk, Assurance and Compliance Committee;
- external views from RSM in relation to emerging risks and best practice risk management;
- internal audit reports on key audit areas and any significant deficiencies in the control environment;
- management reports on the system of internal controls and risk management, including tax compliance;
- external audit reports from KPMG which included details of their audit risk assessment process;
- actual and potential legal claims and litigation involving the Group;
- internal audit reports on potential fraudulent activities perpetrated against the Group;
- the effectiveness of the internal and external audit functions; and
- the Group's approach to IT, information security and GDPR.

The Committee has received regular updates on enhancements to the management and oversight of risk within the business, along with updates on its key risks. This has included a review of the revised risk management policy and the terms of reference and minutes of the Risk, Assurance and Compliance Committee, which has carried out a robust review of the principal risks facing the Company, including those that could threaten its business model, future performance, solvency or liquidity. The Group's risk management framework incorporates both a top-down, strategic, and bottom-up, operational, approach to the evaluation of key risks, to ensure there is a common understanding of the risks to which the Group is exposed and their potential impact on the performance of the business and achievement of strategy. Its evaluation of solvency risks in the context of the new strategy is described further in the going concern and viability statements.

PwC, as internal audit service providers, continue to deliver a programme of internal audit reviews approved by the Committee. Progress against the programme, and outcomes from internal audit reviews, have been considered by the Committee along with progress made by the business in implementing actions to improve the control environment.

The Board is ultimately responsible for maintaining a sound system of risk management and internal control and for determining the nature and extent of the risks it is willing to take to achieve its strategic objectives. During 2018, the Board has continued to review the Group's risk management framework to ensure it continues to remain aligned with the refreshed strategic objectives and changes to the internal governance structures. This review has also included a detailed review of the Group strategic risk register, the risk appetite framework and risk management strategy.

Risk management

See pages 54 to 64

Whistleblowing and fraud

The Group's whistleblowing policy encourages employees to report, in confidence and anonymously if preferred, concerns about suspected impropriety or wrongdoing in any matters affecting the business. Any matters reported are thoroughly investigated and escalated to the Committee. During the year, there were no whistleblowing incidents reported to the Committee. The Company Secretary is undertaking an audit of the Group's whistleblowing arrangements and will report the outcome of the review to the Committee later in the year.

The Group's fraud prevention policy requires employees to be alert to the possibility of the threat of fraud and to report immediately any concerns they have. The Company remains vigilant against such risk, including fraudulent payment requests, and continues to ensure the adequacy of controls and procedures to prevent such fraud. The Committee is made aware of all potential fraudulent activity. The Committee reviewed the policy in the year resulting in only minor amendments to reflect changes in job roles within the Group.

NOMINATION COMMITTEE REPORT



IN THIS REPORT, WE EXPLAIN THE KEY ACTIVITIES AND FOCUS OF THE COMMITTEE DURING THE YEAR.

Bill Shannon
Chairman of the Nomination Committee

Attendance and composition of the Committee

All members of the Committee who served during the year are considered to be independent. Under its terms of reference, the Committee is responsible for keeping its composition under review and for making recommendations to the Board as to its membership.

Committee Member ⁽¹⁾	Member since	Scheduled meetings attended in year out of maximum possible	Percentage attended in year out of maximum possible
Ian Bull	Sep 2014	3/3	100%
Kay Chaldecott ⁽²⁾	Mar 2013	1/1	100%
Danuta Gray ⁽³⁾	Oct 2018	1/1	100%
Jenefer Greenwood	Jun 2017	3/3	100%
Jamie Hopkins ⁽⁴⁾	Mar 2018	2/2	100%
Lesley James ⁽⁵⁾	Oct 2009	3/3	100%
Richard Mully ⁽⁶⁾	Sep 2013	0/1	0%
Bill Shannon (Chairman)	Nov 2010	3/3	100%

(1) For full biographies of the Committee members see the Board biographies on pages 70 and 71.

(2) Resigned from the Committee (and the Board) on 28 March 2018.

(3) Joined the Committee (and the Board) with effect from 1 October 2018.

(4) Joined the Committee (and the Board) with effect from 1 March 2018.

(5) Resigned from the Committee (and the Board) with effect from 30 November 2018.

(6) Resigned from the Committee (and the Board) on 28 March 2018.

Attendees and contributors to the Committee (by invitation):

Chief Executive

Mark Allan

Non-executive Director

Simon Clarke

General Counsel and Company Secretary (Secretary to the Committee)

Andrew Eames

Dear Shareholders

This has been another busy year for the Nomination Committee, in particular with the search for my successor. In doing so, the Committee has taken care to ensure that the Company continues to be led by directors who have the required skills and experience to deliver the Group's strategy.

It has been my privilege to serve as Chairman of the Board and Chairman of the Nomination Committee for over eight years. In line with evolving best practice regarding director tenure, I made the decision last year to step down from the Board at the conclusion of this year's AGM to be held on 29 March 2019. Our Senior Independent Director, Ian Bull, led the Committee's search for my replacement as both Chairman of the Board and Nomination Committee Chairman and, following the conclusion of this process, Danuta Gray was appointed by the Board as Chair Designate in October 2018. She has extensive operational and board experience in both executive and non-executive roles in FTSE 100 and FTSE 250 companies (see page 70 for Danuta's biography). I am confident that Danuta will set the Board's agenda so that key strategic, operational and governance issues receive appropriate review and that under her stewardship all directors will continue to contribute to the Board's deliberations.

In addition to the appointment of Danuta, the Committee finalised the search and appointment of Jamie Hopkins as a non-executive director in March 2018. Jamie brings with him significant commercial, strategic and operational management experience and knowledge of the property sector with a career spanning 20 years, culminating in his current role as CEO of Workspace Group PLC.

I also wish to congratulate Ian Bull on his appointment as Senior Independent Director in March 2018, taking over from Richard Mully, a role that he has already made his own, as evidenced by his key leadership role in relation to the search for the Chair Designate. Lastly, I am very pleased that our General Counsel and Company Secretary, Andrew Eames, was appointed during the year having previously held the role in an interim capacity.

The Committee also supported the strengthening of the Group's Board and executive governance and, recognising the particular significance of health, safety and environmental matters, the Board approved the establishment of a new Group Safety, Health and Environment (SHE) Committee. Following due consideration of the Group SHE Committee's remit and responsibility, the Committee recommended to the Board that Mark Allan and Jamie Hopkins be appointed as Chairman and committee member respectively. Further information relating to the Group SHE Committee can be found on page 69. The Committee also recommended to the Board the appointment of Simon Clarke as the Board's designated employee engagement non-executive director.

Looking forward, the Nomination Committee is well placed to meet the increased requirements of the 2018 UK Corporate Governance Code. We also welcome the increased emphasis on diversity and inclusion, particularly in relation to succession planning for senior management as well as the wider workforce. The full Board received an update during the year of the work management has undertaken to understand the levels of diversity throughout the Group and is fully supportive of the programme of activities proposed to further enhance St. Modwen as having a safe and inclusive environment to work in. Furthermore, we will continue to review the Board's composition in the context of our strategy.

The remainder of the report details further information on key activities the Committee has undertaken during the year in discharging its responsibilities as well as providing an overview of how it operates.

Finally, I would like to take the opportunity to thank Committee members for their continuing hard work and commitment and welcome our new members. Whilst I am naturally sad to be leaving, I believe that the Committee is well placed with Danuta to take over as Committee Chairman to continue to support the Board and wider Group.

Bill Shannon

Chairman of the Nomination Committee

4 February 2019

How the Committee operates

The Committee agrees an annual programme of matters to be covered for the forthcoming year and meetings are arranged at appropriate times throughout the period. During 2018 there were three scheduled meetings and three ad-hoc meetings convened in relation to finalising new appointments to the Board. Several informal meetings, conference calls and discussions took place between Committee members, search consultants and potential candidates during the recruitment process for new non-executive directors.

During the year the Chairman of the Board chaired all meetings of the Committee unless they related to the appointment of his successor; in which case the Senior Independent Director, Ian Bull, was invited to take the Chair.

Following each meeting, the Committee Chairman provides formal updates to the Board on the Committee's activities and highlights matters of particular relevance.

Key activities of the Committee in the year

Succession planning

To support its activities in respect of succession planning at Board level, the Committee revisited the Board skills matrix to consider the need for any changes to the desired skills and experience required to support the delivery of our strategic objectives. The appointments of Danuta Gray and Jamie Hopkins have significantly added to the strength and experience of the Board. Our current Chairman is working closely with Danuta as Chair Designate in order to ensure a smooth transition.

Following a successful year of appointments, the Committee remains mindful of the balance of skills, experience, independence and knowledge to support the elements of our strategy and the Committee is currently in the early stages of a search for a potential further non-executive director.

The Committee also recognises the importance of developing employees of St. Modwen, particularly in relation to succession planning for senior positions within the Company. People pipeline and development was reviewed by both the Committee and the Board to ensure that plans are in place to recognise and grow internal talent in order to effectively deliver our strategy, see pages 31 to 33 for further information.

Appointment of new directors

The Committee leads the process for Board appointments and makes recommendations to the Board when suitable candidates have been identified in line with Board-approved procedures. When a vacancy arises, the Committee prepares a description of the role and capabilities required for that appointment having identified skills gaps that exist or will exist in the future, in addition to taking diversity considerations into account. Where appropriate, external recruitment consultants are engaged to assist with the search process. During the year, the Committee successfully conducted two separate search processes for additional non-executive directors in line with succession planning and made two appointment recommendations to the Board.

NOMINATION COMMITTEE REPORT CONTINUED

In looking for a future Chairman, the Committee set up a sub-committee led by the Senior Independent Director. The sub-committee met with several well-known search firms and recommended the appointment of Heidrick & Struggles, a leading executive search firm. Heidrick & Struggles prepared a long list, followed by a short list of candidates for consideration, several of whom were interviewed by the sub-committee and executive management but most particularly the Chief Executive, given the critical nature of the relationship between the Chairman and Chief Executive. Following the sub-committee's recommendation, the Board unanimously approved Danuta's appointment to the Board with effect from 1 October 2018. In order to familiarise herself with the Board's activities Danuta joined both the Nomination and Remuneration Committees at the time of her appointment and has been working closely with the Chairman, Chief Executive, CFO, Company Secretary and executive management as part of the induction and handover process.

Zygos Partnership were also engaged to work with the Committee in its search for a new non-executive director. Several candidates were shortlisted, who were interviewed by the Committee and selected members of executive management, which concluded with the Committee recommending Jamie Hopkins to join the Board as an additional non-executive director in March 2018.

In relation to both appointments, candidates from a range of backgrounds were considered, including both male and female candidates and comprehensive profiles were prepared by the agencies for the Committee's consideration.

Neither Heidrick & Struggles nor Zygos Partnership had any connection with the Company other than conducting these two searches.

The Committee is also responsible for overseeing a new director's induction. Further details on our induction process is provided on page 73.

Independence and re-appointment of non-executive directors

The terms of service of the Chairman and the other non-executive directors are contained in letters of appointment. These set out the time commitment expected from each non-executive director to ensure they perform their duties satisfactorily.

At the time of their appointment each non-executive director confirms that they are able to allocate the time required to carry out their duties and thereafter to reconfirm this, as part of their individual annual performance evaluation undertaken by the Chairman.

The Committee and the Board are satisfied that all directors offering themselves for re-election at this year's AGM continue to be effective in, and demonstrate commitment to, their respective roles on the Board and that each makes a valuable contribution to the leadership of the Company. All directors offering themselves for re-election are independent with the exception of Simon Clarke. Simon represents the interests of the Clarke family, one of the Company's largest shareholders and has served on the Board for 14 years. Simon has a unique knowledge of our corporate history which makes him well placed to provide invaluable continuity and stability. During the year, the Committee agreed to recommend to the Board his appointment as the Board's designated employee engagement non-executive director, as he was well positioned to liaise between employees and the Board.

The Board therefore recommends that shareholders approve the resolutions to be proposed at the AGM relating to the re-election of the directors. Further supporting information in respect of the non-executive directors can be found on page 190.

Following her appointment by the Board in October 2018, Danuta Gray will offer herself, for the first time, for election by shareholders at the AGM.

As previously announced, the current Chairman, Bill Shannon will be stepping down from the Board at the conclusion of the AGM, having served on the Board for over eight years.

Board diversity

All aspects of diversity are considered during the recruitment process at every level within the business, including appointments to the Board. The Board is committed to promoting diversity in all forms and recognises the benefits that it can bring, both to the boardroom and across the business by drawing on a range of thought, experience and expertise. Differences in skills, industry experience, background, ethnicity, gender and other qualities can combine to provide different perspectives and impact positively on the Group's performance and wider organisational effectiveness.

Regarding gender diversity, in line with the Board's commitment to increase female representation at Board and senior management level, the Committee will only engage executive search firms who have signed up to the 'enhanced voluntary code of conduct' which supports more female appointments to FTSE 350 boards. To date, however, the Board has not set prescriptive gender targets for gender or any other aspect of diversity as it does not believe these are in the best interests of either the Company or its shareholders. Both the Committee and the Board have a fundamental obligation to ensure that the best candidates, selected on merit against objective criteria are appointed.

The Committee was mindful of the balance between male and female representation on the Board during the year. It was cognisant of both the Parker Review and the latest Hampton-Alexander Review. At the time of the Hampton-Alexander Review, the Company's female representation at Board level was 25%, resulting in the Company being ranked in 12th position (out of 22 companies) in the real estate sector and 108th in the FTSE 350 index. The Board's female representation has fluctuated in the year between 25% and 33% and with Lesley James retirement on 30 November 2018, currently stands at 25%. The Committee is focused on the issue and committed to increasing female representation on the Board, within the context of appointing the best candidates whilst taking into account the 33% representation at Board level recommended by the Hampton-Alexander Review by 2020. This is made clear when engaging search consultants.

The Board's diversity and inclusion policy is kept under regular review as guidance and market practice in this area continues to evolve. In addition, the Board and Committee are aware that management is undertaking a Group-wide review of the Group's policies and practices in relation to diversity and inclusion and will take this review and any resulting recommendations into account when considering the Board's own policy. See page 32 of the 'Our people' section for further information on the Group's approach and the Board male to female ratio as at 30 November 2018.

Evaluation

The performance of the Committee was evaluated during the year by way of an online questionnaire which was completed by all members of the Committee as well as by its regular attendees.

The questionnaire required respondents to indicate the extent to which they agreed with a number of statements relating to the Committee's effectiveness. Respondents were also able to provide additional comments. Feedback received reflected that members and attendees were supportive of the manner in which the Committee operated. The feedback highlighted that there was a desire to further increase the Committee's visibility of internal talent for succession planning. Wishing to build upon the Committee's visibility this year, in relation to the organisational design and people development, it is intended that the Group HR Director will be invited to attend selected meetings to provide continuing detail on bench strength and talent within the business. Further developments in this area will also be brought to the Committee.

As outlined in the corporate governance report, the Chairman has conducted a wider evaluation in relation to the Board's effectiveness. The Committee agreed that it would not undertake an external Board evaluation during this financial year given that the role of Chairman is transitioning and resolved to delay the external evaluation until later in 2019. As announced, Bill Shannon will be stepping down at the close of the Company's AGM in March and has been working closely with the Chair Designate to ensure a smooth handover. Following due consideration by the Nomination Committee, it was resolved not to undertake a performance evaluation of the outgoing Chairman for the year ended 30 November 2018 as any feedback for implementation would not be fully actioned in the remaining period. A Chairman's effectiveness review for the new Chairman, Danuta Gray, will be undertaken in late 2019 once she has been established in the role.

Governance

The Committee reviewed its terms of reference to ensure that it reflected best practice and remained appropriate covering all aspects of the Committee's remit and will progress its consideration of the forthcoming 2018 UK Corporate Governance Code requirements with respect to those areas relating to the Committee.

DIRECTORS' REMUNERATION REPORT



IN THIS REPORT WE EXPLAIN HOW REWARDS DELIVERED TO OUR MANAGEMENT TEAM REFLECT ANOTHER YEAR OF STRONG PERFORMANCE AT ST. MODWEN.

Jenefer Greenwood, OBE
Chair of the Remuneration Committee

Attendance and composition of the Committee

The Committee's composition is kept under review by the Nomination Committee, which is responsible for making recommendations to the Board as to its membership. All members of the Committee receive an appropriate induction to ensure that they have a sound and objective understanding of the principles of, and recent developments in, executive remuneration matters. Ongoing training is undertaken as required.

Committee Member ⁽¹⁾	Member since	Scheduled meetings attended in year out of maximum possible	Percentage attended in year out of maximum possible
Ian Bull	Sep 2014	3/3	100%
Kay Chaldecott ⁽²⁾	Mar 2013	1/1	100%
Danuta Gray ⁽³⁾	Oct 2018	1/1	100%
Jenefer Greenwood, OBE ⁽⁴⁾	Jun 2017	3/3	100%
Jamie Hopkins ⁽⁵⁾	Mar 2018	2/2	100%
Lesley James, CBE ⁽⁶⁾	Oct 2009	3/3	100%
Richard Mully ⁽⁷⁾	Sep 2013	0/1	0%
Bill Shannon	Nov 2010	3/3	100%

(1) For full biographies of the Committee members see the Board biographies on pages 70 and 71.

(2) Resigned from the Committee (and the Board) on 28 March 2018.

(3) Joined the Committee (and the Board) with effect from 1 October 2018.

(4) Appointed as Remuneration Committee Chair on 28 March 2018 in place of Lesley James.

(5) Joined the Committee (and the Board) with effect from 1 March 2018.

(6) Resigned from the Committee (and the Board) with effect from 30 November 2018.

(7) Resigned from the Committee (and the Board) on 28 March 2018.

INTRODUCTION

Dear Shareholders

On behalf of the Board I am pleased to present the report on directors' remuneration for the financial year ended 30 November 2018, my first since taking over from Lesley James in March as Committee Chair. I thank Lesley for her Chairmanship of the Committee over the previous eight years.

This report includes our annual report on remuneration (pages 93 to 113) which describes how the shareholder approved directors' remuneration policy was implemented for the year ended 30 November 2018 and how we intend to apply the policy for the year ending 30 November 2019. This report, together with this annual statement, will be put to an advisory shareholder vote at the 2019 AGM.

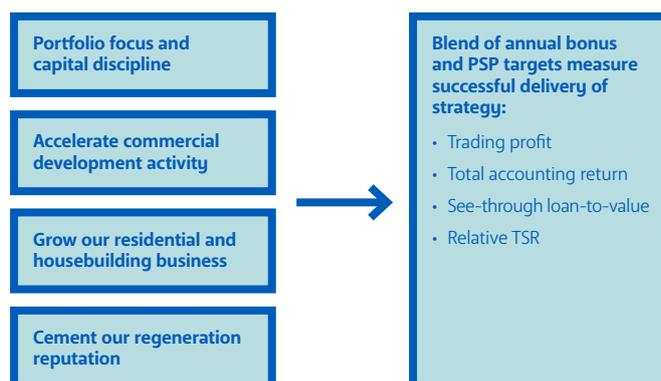
Our approach to remuneration continues to be governed by our directors' remuneration policy which received shareholder approval at the 2017 AGM (with 96% of votes cast in favour). We are proposing no changes to our policy at the 2019 AGM as we believe it continues to support the Company's key strategic goals as we progress with our strategy; providing a clear link between the Company's success and individuals' remuneration outcomes and equips us to attract and retain the best talent at St. Modwen. We judge that the policy continues to effectively incentivise management to deliver strong returns for our shareholders and promotes the long-term success of the Company. To enable you to cross reference our remuneration practice against our directors' remuneration policy, we have republished the key parts of our policy report (which can be found on pages 94 to 101).

The Committee is mindful of the need to seek shareholder approval to renew our policy at the 2020 AGM. Consequently, we shall undertake a thorough review over the coming months and shall consult with our major shareholders well in advance of seeking their approval for the new policy next year.

Remuneration outcomes in 2017/18

In the year to 30 November 2018, the Company delivered a solid performance against a backdrop of continued market uncertainty. Our focus was firmly on executing the new, more focused strategy we set out in 2017, based on four key strategic objectives: portfolio focus and capital discipline; accelerate our commercial development activity; grow our residential and housebuilding business; and cement our regeneration reputation.

These strategic objectives are fully reflected in our approach to senior executive reward for the year. A significant portion of the executive directors' remuneration is linked to performance via the annual bonus and Performance Share Plan (PSP), with the metrics used in these plans firmly supporting our strategy:



Reflecting both the financial results for the year and individual performance, Mark Allan and Rob Hudson were awarded bonuses equivalent to 114.1% and 111.2% respectively of their base salaries (76.1% and 74.1% of the maximum) for the year ended 30 November 2018. Full details of the Committee's assessment of performance against bonus objectives for the year can be found on pages 103 and 104.

The PSP awards granted in 2016 were subject to performance conditions measured over the three financial years to 30 November 2018. Reflecting the approach followed at the time of their grant (a different approach has been used for subsequent awards), vesting of half of this award was subject to TSR performance relative to the FTSE All-Share Real Estate Investment & Services Index, with the remaining 50% subject to an absolute TSR condition. As explained in more detail on page 104, 50% of this award vested.

These bonus and PSP outturns reflect how the Committee envisages these incentive plans operating, in that they continue to deliver rewards commensurate with our underlying performance.

Approach to regulatory changes

The Committee continues to monitor the various changes to the regulatory environment as they relate to executive remuneration, particularly the new Corporate Governance Code (the new Code) and new legislation that will require companies to make additional pay disclosures. Notwithstanding the fact that these changes are not technically applicable to St. Modwen until the financial year ending 30 November 2020, the Committee anticipates early adoption by the year ending 30 November 2019, for those elements relevant to the Remuneration Committee, and these changes will be at the forefront of our policy review during 2019. Preparatory steps have already been taken in a number of areas, such as:

- The operation of the annual bonus plan and the PSP have been reviewed to ensure that the Committee has necessary discretion to override formulaic outcomes (again as required by the new Code).
- The recovery provisions in the annual bonus plan and PSP have been reviewed and now reflect the new best practice requirements.
- The Company's People Matters Group has been identified as the body with which the Board will liaise through the appointment of a 'designated NED'. Following due consideration, the Nomination Committee recommended Simon Clarke be appointed to the role (see page 88 of the Nomination Committee report for further information) to ensure that the views of employees on all matters (including remuneration) are taken into account. The Committee looks forward to continuing to engage with and be informed of views with regards to wider company remuneration. Further information on the People Matters Group can be found on page 31.

In addition, the Committee's terms of reference will be reviewed to ensure that they reflect the expanded scope required by the new Code (i.e. (i) responsibility for setting remuneration for the Board and senior management, and (ii) taking account of Group-wide remuneration and policies when setting executive pay).

Whilst the review of our current policies and practices will be framed against the six factors listed in the new Code, we believe that our current approach is already well positioned against them:

- **Clarity** – our policy is well understood by our management team and has been clearly articulated to our shareholders. Furthermore, as noted above, we are engaging with our wider employee base via our People Matters Group on many key issues (including remuneration) and continue to be committed to developing communications with all employees.
- **Simplicity** – the Committee is very mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, one of the Committee's objectives is to ensure that our executive remuneration policies and practices are as simple to communicate and operate as possible, while also supporting our strategy.
- **Risk** – our remuneration policy is designed to ensure that inappropriate risk-taking is not encouraged and will not be rewarded via (i) the balanced use of both short- and long-term incentive plans which employ a blend of financial, non-financial and shareholder return targets, (ii) the significant role played by equity in our incentive plans (together with shareholding guidelines) and (iii) malus/clawback provisions.
- **Predictability** – our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The scenario charts on page 99 illustrate how the rewards potentially receivable by our executive directors vary based on performance delivered and, now, share price growth.
- **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance as demonstrated in the diagram on page 90. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the executive directors' service contracts, ensures that poor performance is not rewarded.
- **Alignment to culture** – St. Modwen's core purpose is 'Changing places. Creating better futures.' Our regeneration and development projects have allowed us to clean up thousands of acres of contaminated brownfield land to create areas that provide homes and thriving communities for thousands of people, new business parks, manufacturing facilities, warehousing and retail parks that support employment throughout the country. Our executive pay policies are fully aligned to this core purpose through the use of metrics in both the annual bonus and PSP that measure how we perform against main KPIs that underpin the delivery of our strategy.

In addition, we have included some of the new disclosure requirements prescribed by recent legislation, e.g. how share price appreciation impacts executive pay (both in the 'single figure table' and the 'scenario charts' on pages 102 and 99 respectively). The Committee is also aware that St. Modwen will be required to disclose the ratio of Chief Executive pay to all-employee pay going forward. The Committee will calculate the ratio and accompanying narrative and envisages complying with this requirement in its report relating to the year ending 30 November 2019 (i.e. one year earlier than technically required).

DIRECTORS' REMUNERATION REPORT CONTINUED

How we will apply our remuneration policy in 2018/19

The structure of remuneration arrangements for 2018/19 will remain largely unchanged from that applied in 2017/18. Executive directors will continue to have the opportunity to earn a bonus of up to 150% of salary and will be granted long-term incentive awards to the same value, both subject to stretching and rigorously applied performance conditions aligned to our business KPIs (with, as explained on page 110, adjusted EPRA earnings replacing trading profit as the profit metric employed for bonus purposes to ensure alignment with our external reporting).

The salaries of the executive directors have been increased by 2.5% effective 1 December 2018. This is in line with the average cost of living increase awarded to the Company's employees and is considered appropriate in light of the executive directors' continued delivery to the Company.

Conclusion

I hope that you find the report clear and informative and I look forward to receiving your support for the resolution approving this report at the 2019 AGM.

Jenefer Greenwood, OBE

Chairman of the Remuneration Committee

4 February 2019

This report complies with the requirements of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 (the Regulations), the principles of the UK Corporate Governance Code and the Listing Rules of the Financial Conduct Authority.

AT A GLANCE

How we performed

EPRA NAV per share⁽¹⁾

484.1 pence +2.7%

Total accounting return⁽¹⁾

6.0% +0ppt

Adjusted EPRA earnings⁽¹⁾

£31.7m +7.8%

Adjusted EPRA earnings per share⁽¹⁾

14.3 pence +7.5%

See-through loan-to-value⁽¹⁾

16.9% -6.3ppt

NAV per share

470.4 pence +4.3%

Total dividend per share

7.1 pence +13.1%

Trading profit⁽¹⁾

£69.1m +7.0%

Basic earnings per share

27.1 pence +0.7%

Group net borrowings

£271.1m -37.5%

⁽¹⁾ These measures are non-statutory, 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 and 3 to the Group financial statements.

How our policy was implemented in the year ending 30 November 2018

Key component	Feature	Metrics/targets	How we implemented
Base salary	Competitive base salary to attract and retain individuals of the necessary calibre to execute the strategy	N/A	Chief Executive: £579,125 CFO: £325,000
Pension/benefits	To provide competitive post-retirement and other benefits in a cost-effective manner	N/A	Chief Executive and CFO: 15% of salary cash allowance in lieu of pension, plus standard benefits
Annual bonus	To incentivise and reward the delivery of stretching, near-term strategic, financial and operational measures at Company and personal levels consistent with the budget and strategic plan. Compulsory investment in shares aligns to shareholders' interests in the creation of sustainable, long-term value, maximum opportunity = 150% of salary	Trading profit – 25% Total accounting return – 25% See-through loan-to-value – 25% Personal/strategic – 25%	Chief Executive – £660,782 (76.1% of maximum) CFO – £361,482 (74.1% of maximum) 40% of net bonus received applied to acquire shares which are retained for at least three years
PSP	To incentivise and reward the delivery of strong returns to shareholders and sustained, long-term performance. Payable in shares delivered under the Performance Share Plan. Three year performance period plus two year post-vesting holding period	Relative TSR vs bespoke sector peer group – 50% Total accounting return – 50%	2016 award vested based on performance up to end of FY 17/18 2018 awards made at 150% of salary
Shareholding requirements	To ensure alignment of interests of executive directors and shareholders	Executive directors are required to build up and maintain a shareholding worth at least 200% of base salary, which is normally expected to be reached within five years of appointment	Chief Executive – 239% of salary CFO – 91% of salary (on track to meet holding requirement)

The Remuneration Committee**Principal role**

Determines the policy for the remuneration of the executive directors, which is designed to promote the long-term success of the Company, be compatible with risk policies and controls and be aligned to the Company's long-term strategic goals, culture and values.

Key activities in 2017/18

- Agreed how our remuneration policy should be applied for 2017/18 in terms of fixed pay levels, the operation of the annual bonus and awards under the PSP and approved share awards granted in 2018 together with associated performance criteria.
- Ensured the performance metrics and targets selected for incentive plans continued to be aligned with our long-term strategic goals built around our core purpose.
- Continued to closely monitor market trends in remuneration arrangements and developments in the corporate governance environment, including the new Corporate Governance Code.
- Reviewed the executive directors' base salaries and agreed the fee arrangements for Danuta Gray as Chair Designate and Andrew Eames as General Counsel and Company Secretary.
- Assessed and approved the outturn of PSP awards granted in 2016 and the recruitment-related awards made to Mark Allan.

- Set corporate and personal objectives for the 2017/18 annual bonus arrangements for executive directors and undertook an assessment of performance against targets for 2016/17.
- Agreed the launch of the all-employee SAYE plan which enabled employees to be granted options at a larger 20% discount to the share price (increased from 10%) and increased the maximum monthly savings limit to £500 (increased from £250) to provide the maximum incentive for all employees to become shareholders.
- Considered investor feedback from last year's report and prepared this report on directors' remuneration.

Areas of focus for 2018/19

- Take appropriate steps regarding compliance with the new Corporate Governance Code and legislative changes to further enhance the role of the Committee.
- Review the implementation of the remuneration policy to ensure it remains appropriate in light of our evolving business strategy, culture and values whilst also taking due account of wider company pay structures.
- Review our remuneration policy in advance of its renewal at the 2020 AGM.

Terms of reference

www.stmodwen.co.uk/about-us/corporate-governance

DIRECTORS' REMUNERATION REPORT CONTINUED

DIRECTORS' REMUNERATION POLICY

The key parts of the policy report that was approved by shareholders at the 2017 AGM are set out below to enable the reported remuneration to be assessed in the context of the relevant aspects of the policy. The current intention is that this policy will operate until the 2020 AGM. The original policy report approved at the 2017 AGM is published in its entirety in the Company's annual report for the year ended 30 November 2016, which is available to view at www.stmodwen.co.uk.

Base salary	
Purpose	<ul style="list-style-type: none">• To attract, retain and motivate individuals of the necessary calibre to execute the Company's strategy.• To provide competitive base remuneration relative to the external market.• To recognise and reward performance, skills and experience.
Operation	Normally reviewed annually with changes typically effective from 1 December. Review reflects: <ul style="list-style-type: none">• individual and corporate performance;• the individual's level of skill and experience;• increases throughout the Company (including 'cost of living' awards);• internal relativities; and• prevailing market conditions through periodic benchmarking for comparable roles in companies of a similar size and scope. The Committee is mindful of institutional investors' concerns on the upward ratchet of base salaries and does not consider benchmark data in isolation.
Opportunity	Salaries may be adjusted and salary increases will normally be (in percentage of salary terms) no higher than those awarded to the wider workforce. Larger increases may be awarded at the Committee's discretion to take account of exceptional circumstances such as: <ul style="list-style-type: none">• changes in scope and responsibility of a role; and• where a new director is appointed at a salary which is at a lower level to reflect their experience at that point, the Committee may award a series of increases over time to achieve the desired salary position subject to satisfactory performance and market conditions. Actual salary levels are disclosed in the annual report on remuneration for the relevant financial year (see page 110 for those effective 1 December 2018).
Performance measures	None, although overall performance of the individual is considered by the Committee as part of the annual review.
Benefits	
Purpose	<ul style="list-style-type: none">• To provide a competitive and cost-effective benefits package.• To assist with recruitment and retention.
Operation	The Company provides a range of non-pensionable benefits to executive directors which may, for example, include a combination of a company car or car allowance, private fuel, driver, private medical insurance, permanent health insurance, life assurance, holiday and sick pay, and professional advice in connection with their directorship. Other benefits such as relocation allowances may be offered if considered appropriate and reasonable by the Committee. Executive directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms. Any reasonable business-related expenses can be reimbursed, including the tax thereon if determined to be a taxable benefit. Executive directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees.
Opportunity	There is no maximum limit set. Benefits are set at a level which the Committee considers to be appropriately positioned against comparable roles in companies of a similar size and scope and provides a sufficient level of benefit based on the role and individual circumstances.
Performance measures	None.

Pension	
Purpose	<ul style="list-style-type: none"> To provide competitive post-retirement benefits in a cost-effective manner. To assist with recruitment and retention.
Operation	<p>The Company offers an allowance (expressed as a percentage of base salary) which can be taken as:</p> <ul style="list-style-type: none"> an employer contribution to the defined contribution section of the Company's pension scheme; a cash allowance (which is not counted as salary for bonus purposes); or a blend of the two. <p>The Committee may amend the form of any executive director's pension arrangements in response to changes in pensions legislation or similar developments, provided any amendment does not increase the cost to the Company of a director's pension provision.</p>
Opportunity	Up to 15% of base salary for all executive directors.
Performance measures	None.
Annual bonus	
Purpose	<ul style="list-style-type: none"> To incentivise and reward the delivery of stretching, near-term strategic, financial and operational measures at Company and personal levels. Corporate measures selected are consistent with the budget and strategic plan. An element of compulsory investment in shares to align to shareholders' interests in the creation of sustainable, long-term value.
Operation	<p>All measures, weightings and targets are reviewed and set annually by the Committee at the beginning of the financial year and specific performance criteria will be aligned to the Company's strategic objectives at that time. Levels of award determined by the Committee after the year end will be based on performance against the targets set.</p> <p>The Committee retains an overriding discretion to ensure that overall bonus payments reflect its view of corporate performance during the year.</p> <p>Bonuses are paid in cash and are non-pensionable. Directors are required to invest an amount equal to 40% of the net bonus received in the Company's shares and to retain these shares for a minimum period of three years.</p> <p>Withholding (malus) and recovery (clawback) provisions apply to all bonuses paid such that, in exceptional circumstances such as misstatement of performance or misconduct, the Committee has discretion to reduce some or all of the value of an award within a period of four years following the end of the relevant bonus year.</p>
Opportunity	Maximum bonus potential of up to 150% of salary for all executive directors. On-target performance would result in a bonus payment of half of the maximum potential.
Performance measures	<p>Performance is assessed using the following metrics:</p> <ul style="list-style-type: none"> a majority of the award will be based on corporate measures; and a minority (no more than 25% of the overall bonus opportunity) will be based on personal measures⁽¹⁾. There is also a cap on the amount of bonus awarded for performance in respect of personal measures, set at one-third of the total actual bonus awarded. <p>The specific measures that will apply for the year ending 30 November 2019 are described in the annual report on remuneration on page 110. Measures for subsequent years will be summarised in the annual report on remuneration for the relevant year.</p>

DIRECTORS' REMUNERATION REPORT CONTINUED

Long-term incentives

Purpose	<ul style="list-style-type: none"> To incentivise and reward the delivery of strong returns to shareholders and sustained, long-term performance. Aligns the long-term interests of directors and shareholders. Promotes retention.
Operation	<p>Awards are normally made under the Performance Share Plan (PSP) annually with vesting dependent on the achievement of stretching performance conditions set by the Committee.</p> <p>A holding period will apply to awards granted in the financial year ended 30 November 2017 and beyond. The holding period will require executive directors to retain at least the after-tax value of shares acquired for a minimum period of 24 months from the vesting date and will remain in place if the executive leaves employment during the two-year holding period.</p> <p>A dividend equivalent provision exists which allows the Committee to pay an amount (in cash or shares) equivalent to the dividends paid or payable on vested shares between the date of grant and the vesting of an award (or, if later, and only whilst an option remains unexercised in respect of vested shares, the expiry of the holding period). An amount payable may assume the reinvestment of dividends.</p> <p>Withholding (malus) and recovery (clawback) provisions apply to all awards granted such that, in exceptional circumstances such as misstatement of performance or misconduct, the Committee has discretion to reduce some or all of the value of an award within a period of four years following the end of the relevant performance period.</p>
Opportunity	<p>The maximum annual grant level is 150% of salary (or 200% in exceptional circumstances, such as recruitment). The normal annual award limit is 150% of salary for all executive directors.</p> <p>Awards vest on the following basis:</p> <ul style="list-style-type: none"> threshold performance delivers 20% of the shares awarded; and maximum performance delivers 100% of the shares awarded, <p>with straight line vesting between.</p>
Performance measures	<p>Performance is normally measured over three years.</p> <p>Awards to vest are based on performance against stretching financial targets and relative TSR performance, set and assessed by the Committee in its discretion⁽²⁾. Within these parameters, the Committee may introduce or re-weight specific performance measures so that they are directly aligned with the Company's strategic objectives for each performance period.</p> <p>The Committee has discretion to decide whether and to what extent performance conditions have been achieved and must also be satisfied that certain underpinning conditions are met before permitting awards to vest (for example, that the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the performance period). The underpin conditions will be set so that they are directly aligned with the Company's strategic objectives for each performance period.</p> <p>The specific measures that will apply for awards made in the year ending 30 November 2019 are described in the annual report on remuneration on page 111. Measures for subsequent years will be summarised in the annual report on remuneration for the relevant year.</p>

Shareholding requirement⁽³⁾

Purpose	To ensure alignment of interests of executive directors and shareholders.
Operation	The Company operates a shareholding requirement which is subject to periodic review.
Opportunity	<p>Executive directors are required to build up and maintain a shareholding worth at least 200% of base salary, which is normally expected to be reached within five years of appointment.</p> <p>Executive directors are required to retain all of the post-tax shares acquired as a result of the compulsory investment of bonus into shares and half of the post-tax shares vesting under the PSP until the shareholding requirement is met.</p>
Performance measures	None.

Fees payable to Chairman and non-executive directors

Purpose	To attract and retain the calibre of Chairman and non-executive directors necessary to promote the long-term success of the Company by offering market competitive fee levels.
Operation	<p>Normally reviewed annually with changes effective typically from 1 December.</p> <p>Any increase will be guided by changes in market rates, time commitment and responsibility levels, as well as by increases made throughout the Company.</p> <p>Fees are structured as follows:</p> <ul style="list-style-type: none"> the Chairman is paid an all-inclusive fee for all Board responsibilities. This fee is determined by the Board on the recommendation of the Committee; and non-executive directors are paid a basic fee, plus additional fees for chairing Board Committees or for undertaking the Senior Independent Director role, which are determined by the Board on the recommendation of the executive directors. <p>Fees are normally paid in cash.</p> <p>Neither the Chairman nor the other non-executive directors participate in the annual bonus or long-term incentive arrangements or in the pension scheme, nor do they receive benefits in kind.</p> <p>Any reasonable business-related expenses can be reimbursed, including the tax thereon if determined to be a taxable benefit.</p>
Opportunity	<p>Fees are set at a level which reflects the commitment and contribution that is expected and is appropriately positioned against comparable roles in companies of a similar size and scope.</p> <p>Overall fees paid to directors will remain within the limit set out in the Company's Articles of Association.</p> <p>Actual fee levels are disclosed in the annual report on remuneration for the relevant financial year (see page 111 for those effective from 1 December 2018).</p>
Performance measures	None, although overall performance of the individual is considered as part of the annual review.

(1) The annual bonus metrics are designed to ensure that annual performance is focused on key corporate measures which support the Company's strategic targets.

These are supported by individual performance measures to ensure that executive directors are incentivised to deliver across a range of objectives. Targets are set in line with the Company's budget and strategic plan for the year with a stretch element to reward substantial outperformance.

(2) The Committee believes that a combination of relative TSR and key financial measures provides strong alignment with the interests of shareholders and complements the focus on operational performance measures in the annual bonus arrangements. Targets are set to ensure that only modest awards are available for delivering on-target performance with maximum rewards requiring substantial outperformance of the Company's budget and strategic plans.

(3) The Committee is aware of the developing guidance around share ownership guidelines (both during and post cessation of employment) and this will form part of the remuneration policy review in 2019, with it noted that the post vesting shareholding requirement that already exists in the PSP survive cessation of employment.

How the Committee sets the remuneration policy

The primary objective of the Company's remuneration policy is to promote the long-term success of the Company through the operation of competitive pay arrangements which are structured so as to be in the best interests of shareholders. The executive directors' remuneration includes a significant proportion of performance-related elements with demanding targets to align their interests with shareholders and to reward success. The policy is structured so as to be aligned with key strategic priorities, reflect the Company's culture and values and to be consistent with a Board-approved level of business risk.

The Committee also considers developments in institutional investors' best-practice expectations and the views expressed by shareholders. For example, the Committee is aware of the support expressed by some shareholders for the downward harmonisation of executive pension allowances to bring them into line with percentages for the wider workforce. Current allowances for the Company's executive directors are 15% of base salary, which reflects mid-market practice and previous commitments made on appointment. However, the Committee is closely monitoring how market practice and investor views about this topic develop and will reflect on this issue as part of the policy review to be undertaken in 2019.

In setting and operating the remuneration policy for the executive directors, the Committee takes into consideration the remuneration practices found in other UK companies of comparable size and scope and has regard to the remuneration arrangements for the Company's employees generally. Greater emphasis is placed on variable pay for executive directors and senior employees, albeit with lower maximum incentive opportunities at levels below the Board. Similarly, long-term incentives are offered only to those expected to have the greatest impact on Company performance.

DIRECTORS' REMUNERATION REPORT CONTINUED

Engaging with the wider workforce

The Committee is giving active consideration as to how best to engage further with the wider workforce to explain broader pay policies and practices. As noted above, the Company's People Matters Group has been identified as the body with which the Board (via Simon Clarke who has been appointed as designated NED for these purposes) will liaise, to ensure that the views of employees on all matters (including remuneration) are taken into account. In addition, when considering the level and structure of remuneration to apply to executive directors, the Committee takes into account the overall approach to reward for employees across the business and is kept updated of any changes. Salary increases for executive directors are normally (in percentage of salary terms) no higher than those awarded to the wider workforce and all qualifying employees are eligible to participate in the Group's Saving Related Share Option Scheme (SAYE). The Committee was very pleased to note the positive impact on take up of the 2018 SAYE following its decision to increase the discount at which employees could be granted options to 20% of the market value of shares (from the 10% discount previously offered) and increased the maximum savings limit from £250 to £500 per month. Almost 50% of eligible employees now participate in a live St. Modwen SAYE scheme.

Engaging with our shareholders

The Committee is committed to an ongoing dialogue with shareholders and seeks the views of its major investors when considering significant changes to remuneration arrangements. The Committee also considers shareholder feedback received in relation to the directors' remuneration report each year following the AGM. This, plus any additional feedback received from time to time, is then considered as part of the Committee's annual review of remuneration policy and its implementation.

Committee discretions

The Committee retains discretion to make any payments, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) before the policy came into effect, or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are determined at the time the award is granted. Details of any such payments will be disclosed in the annual report on remuneration for the relevant year.

The Committee will operate the annual bonus and long-term incentive arrangements according to their respective rules and in accordance with the Listing Rules where relevant. Consistent with market practice the Committee retains certain discretions in respect of the operation and administration of these arrangements which include, but are not limited to, the following:

- the participants;
- the timing of the grant of an award or payment;
- the size of an award;
- the determination of the extent to which performance measures have been met and the corresponding vesting or payment levels;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the respective arrangement and the appropriate treatment chosen, including the pro rating of awards;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- the annual review of performance measures, weighting and targets from year to year; and
- the manner in which share awards can be satisfied (i.e. through the use of new issue, market purchased or treasury shares or by way of a cash payment).

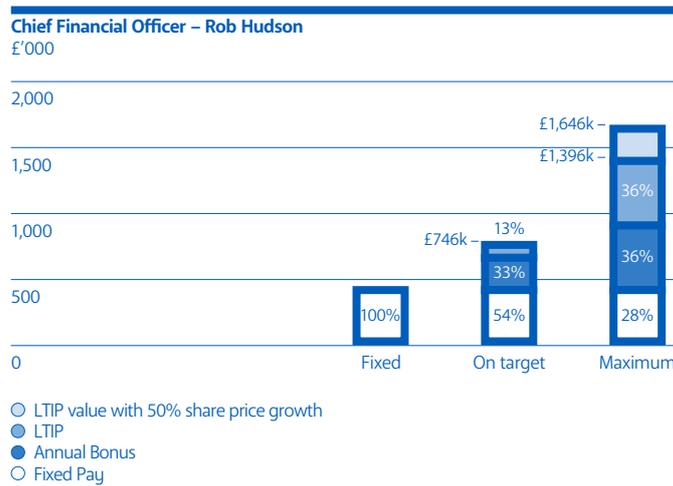
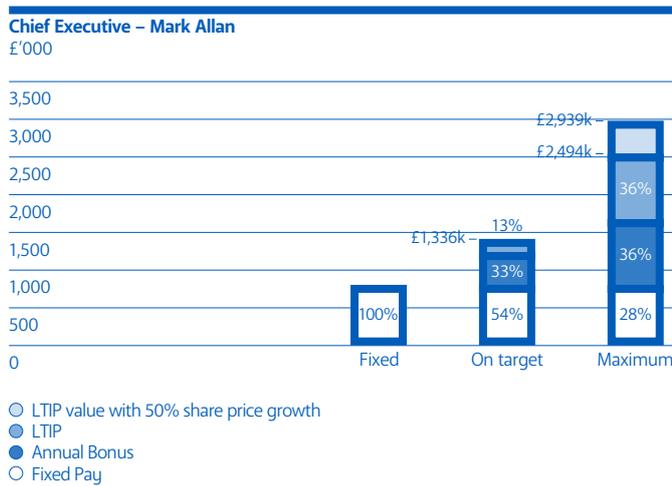
In addition, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. a material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

Any use of the above discretions would be explained in the annual report on remuneration for the relevant year and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Illustration of remuneration policy

The following charts illustrate the remuneration opportunity provided to each executive director under the remuneration policy at different levels of performance for the 2018/19 financial year. In line with the new legislative requirements, the maximum scenario illustrates the potential remuneration payable if the share price increased by 50% (i.e. the value of the PSP award increased by 50% between grant and vesting).

Three scenarios have been illustrated for each director:



- (1) Minimum performance: comprising the minimum remuneration receivable (i.e. fixed pay only, being base salary effective 1 December 2018, pension allowances for the 2018/19 financial year and benefits calculated using the 2017/18 figure as set out in the table on page 102).
- (2) On-target performance: comprising fixed pay, an annual bonus payment of 50% of the maximum opportunity (75% of salary) and PSP awards vesting at 20% of maximum opportunity (30% of salary).
- (3) Maximum performance: comprising fixed pay, 100% of annual bonus (150% of salary) and 100% vesting of PSP awards (150% of salary). The maximum performance scenario also illustrates potential payout under the PSP with a 50% share price growth.

The illustrations do not take into account dividends and exclude the value of any all-employee share plan awards.

DIRECTORS' REMUNERATION REPORT CONTINUED

Recruitment arrangements

The remuneration package for a new executive director would be set in accordance with the terms of the prevailing approved remuneration policy at the time of the appointment and take into account the skills and experience of the individual, the market rate for a candidate of that level of experience and the importance of securing the relevant individual.

Base salary levels for new recruits will be set in accordance with the policy, taking into account the experience and calibre of the individual recruited. Where it is appropriate to offer a lower salary initially to reflect the individual's experience at that point, the Committee may award a series of increases over time to achieve the desired salary position subject to performance and market conditions. Pension arrangements will be in line with the policy.

The maximum level of variable pay which may be awarded to new executive directors, excluding the value of any buyout arrangements, will be in line with the policy. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay, or benefit arrangements, forfeited by an executive leaving a previous employer. In doing so the Committee will take account of relevant factors including the form (e.g. cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. The Committee will generally seek to structure buyout awards on a comparable basis to awards forfeited. Replacement share awards, if used, will, to the extent possible, be granted using the Company's existing share schemes, although awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

The Committee may also apply different performance measures, performance periods and/or vesting periods for initial awards made following appointment under the annual bonus and/or long-term incentive arrangements, subject to the rules of the scheme, if it determines that the circumstances of the recruitment merit such alteration. A long-term incentive award can be made shortly following an appointment provided the Company is not in a closed period.

Where a position is filled internally, the Committee may honour any pre-existing remuneration obligations or outstanding variable pay arrangements in relation to the individual's previous role such that these shall be allowed to continue according to the original terms (adjusted as relevant to take account of the Board appointment).

For internal and external appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Fees payable to a newly-appointed Chairman or non-executive director will be in line with the fee policy in place at the time of appointment.

External appointments

The Board recognises the benefit which the Company can obtain if executive directors serve as non-executive directors of other companies. Subject to review in each case, the Board's general policy is that an executive director can accept one non-executive directorship of another company (but not the chairmanship) and can retain the fees in respect of such appointment.

Executive director service agreements and payments for loss of office

The Company's policy is for executive directors to have service agreements which may be terminated by the Company for breach by the executive or with no more than 12 months' notice from the Company to the executive and six months' notice from the executive to the Company.

If notice is served by either party, the executive director can continue to receive base salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Company may elect to make a payment in lieu of notice equivalent in value to a maximum of 12 months' base salary and benefits including pension contribution but excluding bonus, payable in monthly instalments, which would be subject to mitigation if alternative employment is taken up during this time. Alternatively, the Committee retains discretion to provide this payment as a lump sum. In the event of termination for cause (e.g. gross misconduct) neither notice nor payment in lieu of notice will be given and the executive director will cease to perform their services immediately.

In redundancy situations, the Committee will comply with prevailing relevant legislation. In addition, and consistent with market practice, the Company may pay a contribution towards the executive director's legal fees for entering into a statutory agreement, may pay a contribution towards fees for outplacement services as part of a negotiated settlement, or may make a payment to compromise claims the executive director may have. There is no provision for additional compensation on termination following a change of control. Payment may also be made in respect of accrued benefits, including untaken holiday entitlement.

The principles set out in the table below will apply to annual bonus and long-term incentive arrangements in the event of loss of office.

In respect of all-employee share schemes and the Company's Employee Share Option Schemes, the same leaver conditions will be applied to executive directors as those applied to other employees.

Remuneration element	'Good' leavers	Other leavers
Annual bonus	<p>An executive director will be treated as a good leaver in certain circumstances, for example if he or she dies or ceases employment due to injury, disability, retirement with the Company's agreement, or sale of the business in which he or she is employed, or for any other reason at the discretion of the Committee.</p> <p>In these circumstances, the executive director remains eligible to be paid a bonus, subject to the applicable performance measures. Any payment awarded may be pro-rated to reflect the period of time served from the start of the financial year to the date of termination, but not for any period in lieu of notice.</p>	<p>Unless the Committee exercises its discretion to treat the executive director as a good leaver, no bonus will be payable.</p>
Long-term incentive awards (As apply to the Company's current Performance Share Plan approved at the 2017 AGM)	<p>An executive director will be treated as a good leaver in certain circumstances, for example death, injury, disability or for any other reason at the discretion of the Committee.</p> <p>Awards will normally vest at the normal vesting date, subject to the satisfaction of the relevant performance conditions at that time and reduced pro rata to reflect the proportion of the vesting period actually served. However, under the plan rules, the Committee has discretion to determine that awards vest at cessation of employment and/or to disapply the time pro rating if it considers it appropriate to do so.</p> <p>A good leaver may exercise their vested awards for a period of 12 months following the individual's cessation of employment and unvested awards may be exercised for a period of 12 months from vesting.</p>	<p>All awards will lapse in full where termination is by reason of summary dismissal.</p> <p>In other circumstances, unvested awards will lapse in full unless the Committee applies discretion to treat the executive director as a good leaver.</p>

Non-executive director terms of appointment

The terms of service of the Chairman and the other non-executive directors are contained in letters of appointment. Appointments are for a fixed term of three years, during which period the appointment may be terminated by three months' notice by either party. Non-executive directors are typically expected to serve two three-year terms subject to mutual agreement and satisfactory performance reviews. There are no provisions for payment in the event of termination, early or otherwise.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION

This part of the report has been prepared in accordance with Part 3, Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 and with the requirements of the Financial Conduct Authority's Listing Rules.

Remuneration payable (audited information)

Director	Base salary/fees £000		Benefits ⁽¹⁾ £000		Annual bonus ⁽²⁾ £000		Share plans vesting ⁽³⁾ £000		Pension contribution/ allowance ⁽⁴⁾ £000		Other items £000		Total £000	
	2018	2017	2018	2017	2018	2017	2018 ⁽³⁾	2017	2018	2017	2018	2017	2018	2017
Executive directors														
Mark Allan	579	565	30	23	661	684	–	–	87	85	1,077 ⁽⁵⁾	1,235	2,434	2,592
Rob Hudson	325	282	14	19	361	346	210 ⁽³⁾	–	49	42	2 ⁽⁶⁾	–	961	689
Non-executive directors														
Danuta Gray ⁽⁷⁾	28	–	–	–	–	–	–	–	–	–	–	–	28	–
Bill Shannon	167	163	–	–	–	–	–	–	–	–	–	–	167	163
Ian Bull ⁽⁸⁾	61	54	–	–	–	–	–	–	–	–	–	–	61	54
Kay Chaldecott ⁽⁹⁾	15	45	–	–	–	–	–	–	–	–	–	–	15	45
Simon Clarke	46	45	–	–	–	–	–	–	–	–	–	–	46	45
Jamie Hopkins ⁽¹⁰⁾	34	–	–	–	–	–	–	–	–	–	–	–	34	–
Lesley James ⁽¹¹⁾	49	54	–	–	–	–	–	–	–	–	–	–	49	54
Jenefer Greenwood ⁽¹²⁾	52	22	–	–	–	–	–	–	–	–	–	–	52	22
Richard Mully ⁽¹³⁾	18	54	–	–	–	–	–	–	–	–	–	–	18	54
	1,374	1,284	44	42	1,022	1,030	210	–	136	127	1,079	1,235	3,865	3,718

(1) All benefits for the executive directors (comprising mainly the provision of company car/car allowance, private fuel and medical insurance) arise from employment with the Company and do not form part of final pensionable pay.

(2) Bonus payable in respect of the relevant financial year. Further information as to how the level of bonus awarded for the year ended 30 November 2018 was determined is provided on pages 103 and 104. 40% of the after tax amount of any bonus earned is required to be invested in shares and held for three years.

(3) The performance period for the 2016 PSP awards ended on 30 November 2018, 50% of the award is due to vest on and become exercisable on 22 February 2019. Of the final vesting value of this award, £29,000 is attributable to share price growth since grant. The Committee has not exercised any discretion in connection with the impact of share price appreciation on the value of this award. Further information on awards and performance conditions to which they were subject can be found on page 104. As the awards had not vested as at the date of this report, their value has been estimated using a share price of 381.65 pence, being the three month average to 30 November 2018, plus 19.23 pence per share which is the value of the dividend equivalent deliverable in shares on the awards that vest. The dividend equivalent is based on dividends paid to shareholders with record dates occurring between the date of grant and 30 November 2018.

(4) Further details regarding pension entitlements can be found on page 107.

(5) Mark Allan's share plan award vesting relates to tranches 3 and 4 of a share award granted in connection with his recruitment, as detailed on page 90 of the 2015/16 Directors' Remuneration report. Tranche 3 (relating to 105,708 shares) was subject to performance conditions relating to Mark Allan's original employer Unite plc which were met in full, thereby resulting in full vesting of this award on 10 April 2018. Tranche 4 (originally relating to 159,134 shares) was subject to performance conditions relating to Unite plc which were met in part, thereby resulting in vesting of 152,991 shares on 2 April 2018. The share award includes an entitlement to a cash payment following a tranches vesting date in respect of a dividend equivalent that would have accrued under the forfeited awards to the extent they had vested. The dividend equivalent following the exercise of tranches 3 and 4 was £63,111, paid to Mark Allan in April 2018. The share price on the date of vesting used to value tranche 3 was 387.4 pence and tranche 4 was 394.2 pence. The amount shown in the table above also reflects the grant of a Sharesave option on 13 August 2018, with the value based on the market value on the date of grant (381.6 pence), less the option price (330.0 pence), multiplied by the number of options granted. Further details can be found on page 106.

(6) Reflects the grant of a Sharesave option on 13 August 2018, with the value based on the market value on the date of grant (381.6 pence), less the option price (330.0 pence), multiplied by the number of options granted. Further details can be found on page 106.

(7) Appointed to the Board as Chair Designate on 1 October 2018.

(8) Took the role of Senior Independent Director with effect from 28 March 2018.

(9) Ceased to be a director with effect from 28 March 2018.

(10) Appointed to the Board on 1 March 2018.

(11) Resigned as Remuneration Chair in March 2018. Retired from the Board on 30 November 2018.

(12) Appointed to the Board 1 June 2017. Took the role of Remuneration Committee Chair with effect from 28 March 2018.

(13) Ceased to be a director with effect from 28 March 2018.

Annual bonus outturn (audited information)

In the financial year ended 30 November 2018, both executive directors had the opportunity to be awarded an annual bonus of up to 150% of base salary as at 1 December 2017. Of this, 112.5% of salary (75% of overall opportunity) was dependent on achieving corporate measures and 37.5% of salary (25% of overall opportunity) on meeting personal objectives.

Performance against targets and resulting bonus awards are set out in the tables below.

Measure	Link to strategy	Weighting as % of award	Threshold performance (25% of maximum)	On-target performance (50% of maximum)	Stretch performance (75% of maximum)	Super stretch performance (100% of maximum)	Actual performance achieved ⁽¹⁾	Payout (% of maximum)
Corporate:								
Trading profit	Reflects profitability of the business after operating costs	25%	£59.0m (-10%)	£65.6m	£72.2m (+10%)	£78.7m (+20%)	£69.1m	63.3%
Total accounting return	Recognises the delivery of significant added value	25%	21.8 pence per share (-15%)	25.7 pence per share	29.5 pence per share (+15%)	33.3 pence per share (+30%)	26.9 pence per share	57.9%
See-through loan-to-value	Ensures continued balance sheet strength	25%	30.3% (+5%)	28.9%	27.4% (-5%)	26.0% (-10%)	16.9%	100.0%
Personal:								
Individual targets for executive directors	Ensures that each director focuses on his individual contribution in the broadest sense through business performance, leadership role, people and team, and personal development objectives	25%	Substantially met	Met	Exceeded	Significantly exceeded	Mark Allan: Above stretch Rob Hudson: Stretch	Mark Allan: 31.0% Rob Hudson: 28.1%
Award (% of salary)			37.5%	75.0%	112.5%	150.0%		Mark Allan: 114.1% Rob Hudson: 111.2%
Award (% of maximum opportunity)			25.0%	50.0%	75.0%	100.0%		Mark Allan: 76.1% Rob Hudson: 74.1%

(1) Details of performance versus personal objectives for both of the executive directors is further explained in the supplementary table overleaf.

DIRECTORS' REMUNERATION REPORT CONTINUED

	Key personal objectives	Assessment of achievement of objectives
Mark Allan	<p>Ensure progress is made in the delivery of the Group's longer-term business plan objectives, including acceleration of the development pipeline and portfolio rebalancing.</p> <p>Oversee the launch of the Group's purpose, strategy, values and brand throughout 2018. Success to be measured according to outputs from the next employee engagement survey.</p> <p>Oversee the continued development of the SLE, both as an effective leadership team for the business, and also as individuals.</p> <p>Support the Chairman and Nomination Committee in ongoing Board succession agenda.</p>	<p>Comprehensive strategic plan presented in summer 2018. Long-term clarity of pipeline progression for both industrial and logistics and residential and disposal strategy successfully executed. KPIs exceeded in the year.</p> <p>Successful launch of the strategy, enhanced understanding within the business. Employee engagement survey conducted in the year (see page 32 for further details of the satisfying results).</p> <p>Leadership and team development programmes launched with the SLE, with clear personal development appraisals undertaken.</p> <p>Successful support provided leading to the appointment of Danuta Gray as Chair Designate in October 2018.</p>
Rob Hudson	<p>Delivery of Company finance related KPIs, in particular those relating to interest cost, leverage and overheads in finance and IT. Development of a more flexible, intuitive approach to financial modelling across the Group, providing a clear link between the strategic objectives, performance measures and external communication.</p> <p>Ensure the alignment of IT strategy to business strategy and delivery of plans for preparation of GDPR and information security for the Group.</p> <p>Ensure successful embedding of organisational design across finance, IT and legal to include successful induction and performance of new senior management appointments.</p>	<p>Core modelling support to strategic plan delivered in the year, with project appraisal models introduced to further support assessment of delivery on strategic objectives. Relevant financial related KPIs on track or ahead of plan.</p> <p>IT strategy finalised and communicated, continuing alignment to the business agenda throughout 2019 planned. Effective delivery of GDPR and information security projects in the year.</p> <p>New recruitments in IT and finance departments have been successfully embedded and well integrated across the business.</p>

In light of both corporate and individual performance, the Committee determined that the following bonus awards be made:

Executive director	Award – Corporate (as a % of salary)	Award – Personal (as a % of salary)	Total award (as a % of salary)	Salary on which bonus award is calculated	Total bonus award
Mark Allan	83.1%	31.0%	114.1%	£579,125	£660,782
Rob Hudson	83.1%	28.1%	111.2%	£325,000	£361,482

Bonus payments to Mark Allan and Rob Hudson were conditional upon the executive director undertaking to invest at least 40% of the bonus received, after payment of income tax and national insurance, in the Company's shares and to retain those shares for a minimum period of three years.

Long-term incentives (audited information)

Performance Share Plan (PSP)

The three-year performance period for the 2016 PSP awards ended on 30 November 2018. The performance conditions which applied to the awards together with actual performance are summarised in the table below.

Performance measure	Weighting	Threshold performance	Vesting of award at threshold performance	Maximum performance	Vesting of award at maximum performance	Actual performance	Proportion of award to vest
Absolute TSR growth	50% of award	20%	12.5%	50%	50%	-6.91%	0%
TSR relative to FTSE All-Share Real Estate Investment & Services Index	50% of award	Equal to Index (i.e. -12.43%)	12.5%	120% of Index (i.e. -10.36%)	50%	Maximum	50%
Total							50%

In addition, the award was subject to certain underpin conditions. Firstly, the Committee must be satisfied that the extent of vesting is appropriate given the general financial performance of the Company over the performance period. Secondly, the Committee has the discretion to reduce the level of vesting if the level of stretch in the Index TSR condition is considered insufficient. Thirdly, if no dividend was paid on the last normal dividend date prior to the vesting date or if the Committee believes that no dividend would be paid in respect of the year in which the award vests, the award will not vest at that time and vesting will be delayed (subject to continued employment) until dividend payments are resumed. The dividend-related underpin was satisfied. The Committee also determined that the first two underpins had been met, taking account of St. Modwen's strong underlying financial performance and relative outperformance of its sector peers over the relevant vesting period.

On 20 March 2018, the following PSP awards were granted to executive directors as nil cost options:

Executive director	Basis of award	Face value of award £000 ⁽¹⁾	Number of shares	% of award that would vest for threshold performance
Mark Allan	150% of salary	869	222,700	20%
Rob Hudson	150% of salary	488	124,977	20%

(1) Calculated using the average share price of 390.07 pence which was, in accordance with the rules of the PSP, used to determine the number of shares to be awarded (being the average over the three dealing days immediately preceding the date of grant).

The performance conditions which apply to these PSP awards are summarised below. The performance period started on 1 December 2017 and will end on 30 November 2020.

Performance measure	Link to strategy	Threshold performance	Vesting of award at threshold performance ⁽²⁾	Maximum performance	Vesting of award at maximum performance ⁽²⁾
Relative TSR performance ⁽¹⁾ (50% of award)	<ul style="list-style-type: none"> Rewards outperformance of the returns generated by a comparator group comprising listed company peers Directly correlates reward with the return delivered to shareholders through share price growth and dividend payments Provides an objective measure of the Company's long-term success 	Company's TSR is ranked at median of the comparator group's TSR	20%	Company's TSR is ranked at or above the upper quartile of the comparator group's TSR	100%
Total accounting return (50% of award)	<ul style="list-style-type: none"> Rewards delivery of continued long-term significant added value Key internal measure of the Company's long-term performance Reflects value added by the Company's asset management activities 	5% average per annum	20%	11% average per annum	100%

(1) The constituents of the TSR peer group for the 2018 awards are:

A&J Mucklow Group	Grainger	Land Securities Group	Shaftesbury
British Land Company	Great Portland Estates	LondonMetric Property	St. Modwen Properties
Capital & Counties Properties	Hammerson	Picton Property Income	Town Centre Securities
Capital & Regional	Hansteen Holdings	Regional REIT	U and I Group
Derwent London	Helical	SEGRO	Workspace Group

(2) Vesting of awards between threshold and maximum performance will be on a straight-line basis. Performance below threshold would result in nil vesting for that measure.

The 2017/18 awards will be subject to an additional performance condition whereby the Committee must be satisfied that the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the three-year performance period.

The 2017/18 awards will also be subject to a compulsory two-year post-vesting holding period, which will require executive directors to hold any shares vesting (after tax) for a period of two years, meaning there can be no disposal of shares for a period of at least five years from grant. The holding period will remain in place if the executive leaves employment during the two-year holding period.

DIRECTORS' REMUNERATION REPORT CONTINUED

All PSP awards held by the executive directors who served during the year, together with any movements, are shown below.

Executive director	Date of grant	Awards held on 1 December 2017	Awards made during year	Awards vested during year	Awards lapsed/forfeited during year	Awards held on 30 November 2018 ⁽¹⁾	End of performance period	Exercise period
Mark Allan	02/11/16 ⁽⁴⁾	105,708	–	(105,708) ⁽⁵⁾	–	–	31/12/16	10/04/18 to 10/10/18
		159,134	–	(152,991) ⁽⁵⁾	(6,143) ⁽⁶⁾	–	31/12/17	02/04/18 to 02/10/18
		79,591	–	–	–	79,591	31/12/17	02/04/19 to 02/10/19
	07/07/17	278,500	–	–	–	278,500	30/11/19	07/07/20 to 06/07/27
	20/03/18	–	222,700 ⁽³⁾	–	–	222,700	30/11/20	20/03/21 to 19/03/28
		622,933	222,700	(258,699)	(6,143)	580,791		
Rob Hudson	02/10/15	119,018	–	–	(119,018) ⁽²⁾	–	30/11/17	02/10/18 to 01/10/25
	22/02/16	104,664	–	–	–	104,664	30/11/18	22/02/19 to 21/02/26
	07/07/17	115,785	–	–	–	115,785	30/11/19	07/07/20 to 06/07/27
	20/03/18	–	124,977 ⁽³⁾	–	–	124,977	30/11/20	20/03/21 to 19/03/28
			339,467	124,977	–	(119,018)	345,426	

(1) The performance conditions for the 2016 awards are based 50% on relative TSR compared to a peer group and 50% based on a range of absolute TSR targets, as described on page 104, in addition, all awards are subject to two underpin conditions, namely that (a) the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the performance period; and (b) if no dividend has been paid on the last normal dividend date prior to the vesting date or if the Committee believes that no dividend will be paid in respect of the year in which the award vests, the award will not vest at that time and vesting will be delayed (subject to continued employment) until dividend payments are resumed.

(2) 2015 award granted on 2 October 2015 on Rob Hudson joining. Awards lapsed on 2 October 2018.

(3) The share price used to calculate the number of shares awarded, under the rules of the PSP, was 390.07 pence, the three-day average share price before the date of the award.

(4) The Company agreed to compensate Mark Allan for unvested share-based incentives awarded to him by his previous employer and forfeited as a consequence of him leaving to join St. Modwen on 1 November 2016. The compensation comprised the grant, on 2 November 2016, of an award over 694,325 shares in the Company.

(5) Vesting of two tranches of the award occurred on 10 April and 2 April 2018 respectively and Mark Allan exercised the awards on 10 April 2018. Further details of the recruitment arrangements for Mark Allan can be found on page 90 of the 2015/16 remuneration report.

(6) Award exercised reduced from 159,134 to 152,991 due to Unite plc's 2015 LTIP (Mark Allan's previous employer) vesting at 96.14% of maximum.

Saving Related Share Option Scheme (SAYE)

SAYE awards held by the executive directors who served during the year, together with any movements, are shown below.

Executive director	Date of grant	Options held on 1 December 2017	Options granted during year	Options exercised during year	Options lapsed during year	Options held on 30 November 2018	Exercise price	Exercise period
Mark Allan	13/08/18	–	9,090	–	–	9,090	330 pence	01/10/23 to 31/03/24
Rob Hudson	15/08/16	3,658	–	–	–	3,658	246 pence	01/10/19 to 31/03/20
	13/08/18	–	4,545	–	–	4,545	330 pence	01/10/23 to 31/03/24

The closing mid-market share price on 30 November 2018 was 382.2 pence and the price range during the year was 365.0 pence to 426.0 pence.

Pension entitlements (audited information)

All executive directors receive a pension contribution of 15% of base salary which is paid either into the defined contribution section of the Company's pension scheme or as a cash allowance in lieu of pension contribution (or a combination of both). No compensation is offered for any additional tax suffered by an executive director in the event that the value of their pension exceeds the statutory Lifetime Allowance.

	Cash allowance in lieu of pension contribution £		Total £	
	2018	2017	2018	2017
Executive director				
Mark Allan	86,869	84,750	86,869	84,750
Rob Hudson	48,750	42,281	48,750	42,281
	135,619	127,031	135,619	127,031

Further information on the Company's pension scheme is shown in note 19 to the Group Financial Statements.

Payments to past directors and for loss of office (audited information)

Details of payments to past director Bill Oliver and Steve Burke were disclosed in the 2017 Directors' Remuneration reports and can be found on page 102 of that report.

Statement of directors' shareholding and share interests (audited information)

The interests of the directors and their connected persons in the issued ordinary share capital of the Company are shown in the table below.

	As at 30 November 2018 or on date of leaving the Board if earlier			
	Ordinary shares	Long term incentive awards vested but unexercised	Long term incentive awards not yet vested	SAYE awards
Executive directors				
Mark Allan	362,537	–	580,791	9,090
Rob Hudson	76,985	–	345,426 ⁽²⁾	8,203
Non-executive directors				
Danuta Gray	10,500	–	–	–
Bill Shannon	95,000	–	–	–
Ian Bull	35,000	–	–	–
Kay Chaldecott ⁽¹⁾	21,025	–	–	–
Simon Clarke	2,704,157	–	–	–
Jenefer Greenwood, OBE	10,359	–	–	–
Jamie Hopkins	12,564	–	–	–
Lesley James, CBE	30,000	–	–	–
Richard Mully ⁽¹⁾	70,000	–	–	–

(1) As at 28 March 2018 when ceased to be a director.

(2) Of awards not yet vested as at 30 November 2018, the performance conditions for the 2016 PSP award have after 30 November been tested and 52,332 will vest on 22 February 2019 and 52,332 will lapse.

There have been no changes in these shareholdings or interests between 30 November 2018 and the date of this report.

DIRECTORS' REMUNERATION REPORT CONTINUED

In order to reinforce the alignment of their interests with those of shareholders, executive directors are required to build up a holding of ordinary shares in the Company worth at least 200% of their base salary. Until this has been achieved, an executive director is required to retain all the shares acquired through the bonus investment process as well as 50% of any exercised long-term incentive award.

Executive director	Ordinary shares held as at 30 November 2018	Shareholding requirement as % of base salary	Value of shareholding at 30 November 2018 as % of base salary ⁽¹⁾
Mark Allan	362,537	200%	239%
Rob Hudson	76,985	200%	91%

(1) Based on the closing mid-market share price on 30 November 2018 382.2 pence and salary as at 30 November 2018.

External appointments (unaudited information)

Mark Allan is a trustee director on the non-executive board of Anchor Trust. For the period from 1 December 2017 to 30 November 2018 he received and retained fees from Anchor Trust of £25,000.

Historic Company performance and Chief Executive remuneration (unaudited information)

The following information allows comparison of the Company's TSR (based on share price growth and dividends reinvested) with the remuneration of the Chief Executive, over the last ten financial years.

Total Shareholder Return

£



- St. Modwen
- FTSE 250
- FTSE All-Share Real Estate Investment & Services

The chart is prepared in accordance with the Regulations. It shows the Company's TSR and that of the FTSE 250 and the FTSE All-Share Real Estate Investment & Services Indices based on an initial investment of £100 on 30 November 2008 and values at intervening financial year ends over a ten-year period to 30 November 2018. Since the Company was a constituent of both the FTSE 250 and the FTSE All-Share Real Estate Investment & Services Indices during the majority of the period, these are considered to be appropriate benchmarks for the graph.

Chief Executive remuneration for year ended 30 November	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total remuneration (£000) ⁽¹⁾	876	902	1,049	1,672	2,419	3,083	1,931	867	2,592	2,434
Annual bonus awarded (as a % of maximum opportunity)	50.0 ⁽²⁾	80.0	95.0	90.0	95.0	100.0	100.0	53.3	80.7	76.1
PSP vesting (as a % of maximum opportunity)	–	–	–	45.8 ⁽³⁾	100.0	100.0	100.0	–	–	–
Share Award (Mark Allan)	–	–	–	–	–	–	–	–	100.0 ⁽⁴⁾	97.7 ⁽⁵⁾

(1) Total remuneration includes those elements shown in the single total figure of remuneration table on page 102.

(2) In addition to the annual bonus, the Chief Executive was also awarded a one-off, exceptional payment of £100,000 in relation to the successful equity raising and financial restructuring undertaken in the year.

(3) Comprises 45.64% of the 2009 PSP awards and 45.89% of the 2010 PSP awards.

(4) This relates to the value, on vesting, of Tranches 1 and 2 of Mark Allan's recruitment award (i.e. not awards granted under the PSP).

(5) This relates to the value, on vesting of Tranches 3 and 4 of Mark Allan's recruitment award (i.e. not awards granted under the PSP). Tranche 3 of the award vested at 100% and Tranche 4 at 96.14%, giving a weighted average of 97.70%. As at the date of this report, Tranche 5 of the recruitment award remains outstanding, 76,518 shares vesting on 2 April 2019.

Change in remuneration of Chief Executive compared to employees (unaudited information)

The table below shows the percentage change in salary, benefits and annual bonus between the years ended 30 November 2017 and 30 November 2018 for the Chief Executive, and the average for all permanent employees of the Group.

	Change in base salary %	Change in benefits %	Change in annual bonus %
Chief Executive	2.5	31.9 ⁽²⁾	(3.3)
All permanent employees	2.5 ⁽¹⁾	0.0 ⁽³⁾	7.0 ⁽⁴⁾

(1) General cost of living increase for permanent employees. Including adjustments for promotions and recognition of exceptional performance, the weighted average increase in salary was 6.8%.

(2) The Chief Executive's benefits are detailed on page 102.

(3) There was no change to the overall structure of benefits available to permanent employees.

(4) Weighted average increase.

Relative spend on pay (unaudited information)

The table below shows the total expenditure on remuneration for all employees of the Group (including pension, variable pay and social security costs) compared to other key financial indicators as reported in the audited Group Financial Statements for the last two financial years. Information in respect of profit and net asset value performance has been provided for context.

Measure	Reference to the Group financial statements	Year ended 30 November 2017	Year ended 30 November 2018	% Increase
Total spend on pay	Note 4c	£33.5m	£41.0m	22.4%
Profit for the year	Group income statement	£60.1m	£60.5m	0.7%
Dividends paid	Note 8	£13.5m	£16.4m	21.5%
Equity attributable to owners of the Company	Group balance sheet	£1,000.3m	£1,044.4m	4.4%

Whilst total spend on pay in the above table increased by 22.4% in the year, as disclosed in note 4c of the Group financial statements, this is principally because average employee numbers increased by 18.9% in the year.

DIRECTORS' REMUNERATION REPORT CONTINUED

How we will apply our remuneration policy for 2018/19

Base salary

In line with the general cost of living salary increase awarded to the Company's permanent employees and reflecting their continued strong performance, Mark Allan and Rob Hudson received an annual salary increase of 2.5% with effect from 1 December 2018.

Executive director	Base salary as at 30 November 2017	Base salary with effect from 1 December 2018	% Increase
Mark Allan	£579,125	£593,603	2.5%
Rob Hudson	£325,000	£333,125	2.5%

Benefits and pension arrangements

Benefits will be consistent with the policy detailed on page 94. Mark Allan and Rob Hudson will receive cash allowances in lieu of pension contributions of 15% of salary.

Annual bonus

Executive directors will have the opportunity to be awarded a bonus of up to 150% of salary.

Bonus awards will be based on achievement of the following measures:

Measure	Link to strategy	Weighting as % of award	Threshold performance	On-target performance	Stretch performance	Super-stretch performance
Corporate:						
Adjusted EPRA Earnings	Reflects profitability of the business after operating costs	25%	Budget -5%	Budget	Budget +5%	Budget +10%
Total accounting return	Recognises the delivery of significant added value	25%	Budget -15%	Budget	Budget +15%	Budget +30%
See-through loan-to-value	Ensures continued balance sheet strength	25%	Budget -5%	Budget	Budget +5%	Budget +10%
Personal:						
Individual targets for executive directors	Ensures that each director focuses on his individual contribution in the broadest sense through business performance, leadership role, people and team, and personal development objectives	25%	Substantially met	Met	Exceeded	Significantly exceeded

For the forthcoming year, adjusted EPRA earnings will be used as the profit-related measure in the annual bonus in place of trading profit that has been used in recent years. The Committee has made this change to reflect the fact that adjusted EPRA earnings is now St. Modwen's preferred profit measure used in all external reporting (see page 110) and is the profit measure used to determine our dividend policy.

The Committee has set specific targets for all corporate measures, which reflect the Committee's judgement of the ability of management to influence performance within the year. Threshold performance will deliver 25% of the maximum opportunity, on-target performance 50% of the maximum, stretch 75% of the maximum and super stretch 100% of the maximum. Stretch targets are demanding and will require a very substantial outperformance of budget to achieve maximum payout.

The threshold, target, stretch and super stretch performance requirements for financial objectives, together with outcomes, will be disclosed in the Remuneration Report for the year ending 30 November 2019. This report will also include detailed commentary on the key deliverables, and assessment of outcomes, for personal objectives. The proportion of the overall bonus that is awarded for personal performance will be capped at one-third of the total actual bonus awarded. Any bonus awarded will be subject to the requirement to invest 40% of the net amount received in purchasing shares in the Company and to retain these shares for at least three years, irrespective of whether the executive director has met the shareholding requirement.

Long-term incentives

PSP awards are to be granted to executive directors shares worth 150% of salary and will be consistent with the long-term incentives policy detailed on page 96.

The performance measures and targets are summarised in the table below. The Committee is satisfied that the targets are suitably stretching. Performance against each target will be measured independently over the three financial years ending on 30 November 2021.

Performance measure	Link to strategy	Threshold performance	Vesting of award at threshold performance	Maximum performance	Vesting of award at maximum performance
Relative TSR performance versus a bespoke group of real estate companies (50% of award)	<ul style="list-style-type: none"> Rewards outperformance of the returns generated by a comparator group comprising listed company peers Directly correlates reward with the return delivered to shareholders through share price growth and dividend payments Provides an objective measure of the Company's long-term success 	Company's TSR is ranked at median of the comparator group's TSR	20%	Company's TSR is ranked at or above the upper quartile of the comparator group's TSR	100%
Total accounting return (50% of award)	<ul style="list-style-type: none"> Rewards delivery of continued long-term significant added value Key internal measure of the Company's long-term performance Reflects value added by the Company's asset management activities 	5% average per annum	20%	11% average per annum	100%

Vesting of awards between threshold and maximum performance will be on a straight-line basis. Performance below threshold would result in nil vesting for that measure.

In calculating TSR, a three-month average is used at both the start and the end of the performance period to ensure that the calculation is not impacted by potential volatility arising from day-to-day share price fluctuations. The comparator group comprises the following companies:

A&J Mucklow Group	Grainger	Land Securities Group	Shaftesbury
British Land Company	Great Portland Estates	LondonMetric Property	St. Modwen Properties
Capital & Counties Properties	Hammerson	Picton Property Income	Town Centre Securities
Capital & Regional	Hansteen Holdings	Regional REIT	U and I Group
Derwent London	Helical	SEGRO	Workspace Group

The 2018/19 awards will be subject to an underpin condition which the Committee must be satisfied has been met before permitting awards to vest, namely that the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the three-year performance period.

The awards will also be subject to a compulsory two-year post-vesting holding period, which will require executive directors to hold any shares vesting (after tax) for a period of two years, meaning there can be no disposal of shares for a period of at least five years from grant. The holding period will remain in place if the executive leaves employment during the two-year holding period.

Chairman and non-executive director fees

Following a review by the Board, the annual base fees payable to the non-executive directors have been increased in line with the cost of living salary increase awarded to the Company's employees with effect from 1 December 2018. There was no increase applied to the Chairman's fee.

	Fee as at 30 November 2017 (£000)	Fee with effect from 1 December 2018 (£000)	% Increase
Base fee			
Chairman	167,190	167,190	–
Chair Designate	–	170,000	–
Non-executive directors	45,921	47,069	2.5%
Additional fees			
Senior Independent Director	9,000	9,000	–
Audit Committee Chairman	9,000	9,000	–
Remuneration Committee Chairman	9,000	9,000	–

DIRECTORS' REMUNERATION REPORT CONTINUED

Dates of appointment of directors

Director	Date of appointment	Date of contract/original letter of appointment	Expiry of current term
Executive directors			
Mark Allan	1 November 2016	6 April 2016	N/A
Rob Hudson	28 September 2015	20 April 2015	N/A
Non-executive directors			
Danuta Gray ⁽¹⁾	1 October 2018	11 September 2018	30 September 2021
Bill Shannon	1 November 2010	18 October 2010	29 March 2019
Ian Bull	1 September 2014	21 August 2014	31 August 2020
Kay Chaldecott ⁽²⁾	22 October 2012	22 October 2012	N/A
Simon Clarke	11 October 2004	4 October 2004	10 October 2019
Jenefer Greenwood, OBE	1 June 2017	1 June 2017	31 May 2020
Jamie Hopkins ⁽³⁾	1 March 2018	29 January 2018	28 February 2021
Lesley James, CBE ⁽⁴⁾	19 October 2009	19 October 2009	N/A
Richard Mully ⁽⁵⁾	1 September 2013	16 July 2013	N/A

(1) Appointed to the Board as Chair Designate on 1 October 2018.

(2) Ceased to be a director with effect from 28 March 2018.

(3) Appointed to the Board on 1 March 2018.

(4) Ceased to be a director with effect from 30 November 2018.

(5) Ceased to be a director with effect from 28 March 2018.

Dilution limits

In line with the rules of the PSP and Employee Share Option Plan, and the current SAYE Plan, the Company observes the recommendation of the Investment Association that the number of new shares that may be issued to satisfy awards is restricted to 10% (5% for discretionary schemes) of the issued ordinary share capital of the Company in any rolling 10-year period.

The total number of shares which could be allotted under the Company's share schemes compared to the dilution limits as at 30 November 2018 was as follows:

Type of scheme	Limit	Actual
All schemes	10%	4.38%
Executive schemes only	5%	3.91%

As at 30 November 2018, the Company's Employee Share Trust (the Trust) held 345,744 shares (2017: 519,906 shares) in the Company to enable it to satisfy the vesting and exercise of awards. In accordance with the Trust deed, the Trust has waived the right to receive dividends paid on these shares with the exception of a hundredth of a penny per share.

Committee membership and attendees

The Committee's composition is kept under review by the Nomination Committee, which is responsible for making recommendations to the Board as to its membership.

All members of the Committee receive an appropriate induction to ensure that they have a sound and objective understanding of the principles of, and recent developments in, executive remuneration matters. Ongoing training is undertaken as required. For details of Committee members and their attendance please see page 90 of the Report.

Remuneration Committee attendees (by invitation)	
Mark Allan	Chief Executive
Simon Clarke	Non-executive director
Jane Saint	Group HR Director
Andrew Eames	General Counsel and Company Secretary and secretary to the Committee
Representatives from Remuneration Committee adviser	Korn Ferry

Advice provided to the Committee

Korn Ferry was appointed by the Committee with effect from 1 December 2017 following a tender process to provide independent advice on remuneration matters. Representatives from Korn Ferry attend Committee meetings and provide advice and briefings to the Committee Chairman outside of meetings as necessary.

Fees are charged on a cost incurred basis and the fees charged by Korn Ferry in the year ended 30 November 2018 totalled £77,604.

Korn Ferry is a founder member of the Remuneration Consultants Group and operates voluntarily under the Group's code which sets out the scope and conduct of the role of executive remuneration consultants when advising UK listed companies. Following a tender process Korn Ferry were additionally engaged by management to provide support services for the employee engagement survey undertaken. Korn Ferry has no other connection with the Company, and the Committee is satisfied that the advice provided on matters of remuneration remains objective and independent.

The Committee also receives input from the Chief Executive and the Group HR Director on the remuneration arrangements of the other executive directors and of the Company Secretary, and advice from the Company Secretary on governance matters. Neither the Chief Executive nor the Company Secretary were present when their own remuneration was discussed.

Statement of shareholder voting at the AGM

The table below details the results of the shareholder vote to approve the Directors' Remuneration report at the 2018 AGM.

Resolution	AGM	Votes for	% of vote for	Votes against	% of vote against	Total votes cast	Votes withheld ⁽¹⁾
Approval of Directors' Remuneration report	2018	167,585,033	98.28%	2,927,278	1.72%	170,512,311	1,934,470

(1) A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast for or against a resolution.

This report on remuneration has been approved by the Board and signed on its behalf by

Jenefer Greenwood

Chairman of the Remuneration Committee

4 February 2019

DIRECTORS' REPORT

The directors present their report for the year ended 30 November 2018.

As permitted by legislation, some of the matters historically included in this report have instead been included in the strategic report on pages 1 to 65 as the Board considers them to be of strategic importance and should be read in conjunction with these pages. Specifically these relate to the Company's business model and strategy, future business developments and risk management. The corporate governance statement as required by the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) is set out on pages 66 to 113 and is incorporated into this report by reference.

Dividend

An interim dividend of 3.10 pence per ordinary share (2017: 2.02 pence) was paid on 4 September 2018.

The directors recommend a final dividend of 4.00 pence per ordinary share in respect of the year ended 30 November 2018 (2017: 4.26 pence), making a total dividend for the year of 7.1 pence per share (2017: 6.28 pence), payable on 4 April 2019 to shareholders on the register on 8 March 2019.

Other than as referred to under the heading 'Share capital' below, during the year there were no arrangements under which a shareholder had waived or agreed to waive any dividends nor any agreement by a shareholder to waive future dividends.

Share capital

Capital structure

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.

At 30 November 2018, there were 222,376,988 ordinary shares in issue and fully paid. Further details relating to share capital are set out in note 18 to the Group financial statements.

Share allotments

At the 2018 AGM, shareholders renewed the directors' authority to allot shares in the Company. No shares were allotted during the year. A resolution to renew this standard authority will be proposed at the 2019 AGM.

Purchase by the Company of its own shares

At the 2018 AGM, shareholders renewed the Company's authority to make market purchases of up to 22,237,698 ordinary shares, representing 10% of the issued share capital at that time. No shares were repurchased during the year and the Company does not hold any shares in treasury. This standard authority will expire at the 2019 AGM and a resolution to renew it will be proposed.

Employee Share Trust (the Trust)

As at 30 November 2018, the Trust held 345,744 shares (2017: 519,906 shares), representing 0.16% (2017: 0.23%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in respect of shares held by the Trust, such that dividends are waived with the exception of a hundredth of a penny per share. Any voting or other similar decisions relating to shares held by the Trust would be taken by the Trustee, who may take account of any recommendations of the Company. There were no purchases of shares by the Trust during the financial year.

Further details regarding the Trust and of shares issued pursuant to the Company's share-based incentive arrangements are set out in note 18 to the Group financial statements.

Rights and obligations attaching to shares

The holders of ordinary shares in the Company are entitled to receive dividends when declared, to receive the Company's annual report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the 2019 AGM are set out in the notice of meeting on pages 188 to 193.

Restrictions on the transfer of shares

As at 30 November 2018 and the date of this report, except as referred to below:

- there were no restrictions on the transfer of ordinary shares in the Company;
- there were no limitations on the holding of ordinary shares;
- there were no requirements to obtain the approval of the Company, or of other holders of ordinary shares in the Company, for a transfer of shares; and
- no person held shares in the Company carrying any special rights with regard to control of the Company.

The directors may refuse to register the transfer of a share in certificated form which is not fully paid or on which the Company has a lien, where the instrument of transfer does not comply with the requirements of the Company's Articles of Association (the Articles), or if the transfer is in respect of more than one class of share or is in favour of more than four joint holders. The directors may also refuse to register a transfer of a certificated share, which represents an interest of at least 0.25% in a class of shares, following the failure by the member or any other person appearing to be interested in the shares to provide the Company with information requested under section 793 of the Companies Act 2006 (the Act).

Transfers of uncertificated shares must be carried out using CREST and the directors can refuse to register the transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Directors

The biographical details of all the directors, including details of their relevant experience and other significant commitments, are shown on pages 70 and 71.

The Directors' Remuneration report, which includes details of directors' service agreements and their interests in the Company's shares, is set out on pages 90 to 113. Copies of the service agreements of the executive directors and the letters of appointment for the non-executive directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Appointment and replacement of directors

The appointment and replacement of directors is governed by the Articles, the UK Corporate Governance Code (the Code), the Act and related legislation. Under the Articles:

- the number of directors is not subject to any maximum, but must not be less than three, unless otherwise determined by the Company in a general meeting;
- directors may be appointed by an ordinary resolution of the Company or by resolution of the directors, either to fill a casual vacancy or as an additional director; and
- all directors must retire at each AGM and shall, subject to his or her terms of appointment, be eligible for election or re-election.

At the 2019 AGM, Danuta Gray, who was appointed by the directors in October 2018, will retire and offer herself for election; all other directors will offer themselves for re-election.

A director may be removed by a special resolution of the Company. In addition, a director must automatically cease to be a director if he or she:

- resigns from his or her office by notice in writing to the Company or, in the case of an executive director, the appointment is terminated or expires and the directors resolve that his or her office be vacated;
- becomes bankrupt or makes any arrangement or composition with his or her creditors generally;
- becomes physically or mentally incapable of acting as a director and may remain so for more than three months, as certified with a written opinion to the Company by a registered medical practitioner who is treating the director;
- is absent from meetings of the directors for more than six consecutive months without permission of the directors and the directors resolve that his or her office be vacated; or
- becomes prohibited by law from acting as a director.

Powers of the directors

The Board may exercise all the powers of the Company, subject to the Articles, UK legislation, including the Act, and any directions given by the Company in general meeting.

The directors have been authorised by the Articles to allot ordinary shares and to make market purchases of the Company's own shares. These powers are referred to shareholders for renewal at each AGM. Further information is set out under the heading 'Share capital' on page 114.

Conflicts of interest

With the exception of service agreements or those contracts detailed in note 22 to the Group financial statements, no director had a material interest in any significant contract with the Company or any of its operating companies at any time during the year.

Under the Act, directors have a statutory duty to avoid conflicts of interest with the Company. As permitted by the Act, the Articles enable non-conflicted directors to authorise actual or potential conflicts of interest, either with or without limits or conditions. Formal procedures for the notification and authorisation of such conflicts are in place. Any potential conflicts of interest in relation to newly appointed directors are considered by the Board prior to appointment. All directors have a continuing duty to update any changes to conflicts.

Indemnities and insurance

The Company has granted indemnities to each of its directors and the Company Secretary to the extent permitted by law in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Act, were in force during the year ended 30 November 2018 and remain in force as at the date of this report.

A copy of the indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Company also maintains directors' and officers' liability insurance which gives appropriate cover for any legal action taken against its directors.

Articles of Association

The Articles can only be amended, or new Articles adopted, by a special resolution passed at a general meeting of the Company. The Company's current Articles are available on its website, www.stmodwen.co.uk.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. These include committed bank facilities, which would be terminable at the bank's discretion, and the Company's convertible bonds, holders of which would have an option to require the Company to redeem the bonds.

The Company's share-based incentive arrangements contain provisions that take effect in the event of a change of control but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs specifically as a result of a takeover bid.

Financial instruments

The Group's exposure to and management of capital risk, market risk, credit risk and liquidity risk is set out in note 17 to the Group financial statements.

DIRECTORS' REPORT CONTINUED

Employee involvement

St. Modwen is committed to regular communication and consultation with its employees and encourages employee understanding of and involvement in its performance. News concerning St. Modwen, its activities and performance is published on the Company's intranet. In the year, the People Matters Group was established, for further information on this and St. Modwen's approach to involving its people please see our people pages on pages 31 to 33. Regular management meetings are held to inform senior staff about matters affecting them as employees, at which their feedback is sought on decisions likely to affect their interest, and where a common awareness of the financial and economic factors affecting the Company's performance is developed; this information is then cascaded to all employees. A performance-related annual bonus scheme and share option arrangements are designed to encourage and support employee share ownership. For the 2018 all-employee Saving Related Share Option Scheme (Sharesave), options were offered at the maximum 20% discount to the market share price and the monthly savings amount was increased from £250 to £500 in total across all schemes.

Employment of disabled persons

It is the policy of the Company to give full and fair consideration to applications for employment received from disabled persons, having regard to their aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment with the Company and the provision of appropriate training. St. Modwen provides the same opportunities for training, career development and promotion for disabled as for other employees.

Greenhouse gas emissions

The disclosures required by law relating to the Group's greenhouse gas emissions (GHG) are set out in the table beneath. GHG from those sources for which the Company is deemed to be directly responsible are monitored for reporting purposes, namely gas and electricity purchased for consumption at properties under the Company's operational control (such as its head office, certain regional offices, St. Modwen Homes' sales offices and vacant space) and petrol and diesel used in Company cars and vans.

For information on our energy initiatives, please see our CSR reports and www.stmodwen.co.uk/corporate-social-responsibility

GHG	2018 intensity ratio			2017 intensity ratio		
	CO ₂ emissions Tonnes	tCO ₂ emissions/ full-time employees ⁽¹⁾	tCO ₂ emissions/ £m property portfolio ⁽²⁾	CO ₂ emissions Tonnes	tCO ₂ emissions/ full-time employees ⁽¹⁾	tCO ₂ emissions/ £m property portfolio ⁽²⁾
Scope 1:						
Total purchased gas	230.6			107		
Petrol and diesel	861.0			781		
Total scope 1	1,091.6	2.1	0.7	888	2.1	0.5
Scope 2:						
Total purchased electricity	255.1			658		
Total scope 2	255.1	0.5	0.2	658	1.5	0.4
Total scope 1 & 2	1,346.7	2.6	0.9	1,546	3.6	0.9

(1) Equivalent CO₂ emissions per full-time employee.

(2) Equivalent CO₂ per £m of property portfolio held by the Company.

Methodology

Emissions from gas and electricity consumption have been calculated using the main requirements of the GHG Protocol Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014. The measurement of emissions from Company cars is based on the 'Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance' (June 2013) issued by the Department for Environment, Food and Rural Affairs (Defra). Defra's 2013 conversion factors have also been used within the reporting methodology.

Organisation boundary and responsibility

The Company does not have responsibility for GHG that are beyond the boundary of the Company's operational control. As such, gas and electricity purchased and consumed by tenants is not included within the scope 1 and 2 data above. Data also excludes the purchase for and consumption by those sites which fall within the Persimmon joint venture as Persimmon controls the procurement of utilities to these sites. GHG for all other joint ventures has been included as the Company is deemed to be wholly responsible for such GHG.

Political donations

In accordance with the Company's policy, no political donations were made and no political expenditure was incurred during the year.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. 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.

Having refinanced all our bank debt facilities in December 2017 and agreed an additional facility with Homes England in October 2018, no further refinancing action is required to replace the £100m liquidity provided by our convertible bond ahead of its 2019 maturity. After adjusting for this maturity, adjusted year-end headroom would be £279m, which provides a robust defence for the short-term impacts of a hard Brexit, even before the positive impact of any corrective measures we might choose to implement in this eventuality. Our property portfolio could withstand almost a 40% fall in values before our tightest covenant would be breached.

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 believe 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.

Disclosure required by Listing Rule 9.8.4R

The information required to be disclosed by LR 9.8.4R of the FCA's Listing Rules can be found on the following pages of this Annual Report:

Section	Topic	Page reference
(1)	Interest capitalised	153
(2)	Publication of unaudited information	N/A
(4)	Details of long-term incentive plans established specifically to recruit or retain a director	106
(5) & (6)	Waiver of emoluments by a director	N/A
(7) & (8)	Non-pre-emptive issues of equity for cash	170
(9)	Parent company participation in placing N/A by a listed subsidiary	
(10)	Contracts of significance	N/A
(11)	Provision of services by a controlling shareholder	N/A
(12) & (13)	Shareholder waiver of dividends	114
(14)	Agreements with controlling shareholders	N/A

Important events since 30 November 2018

There have been no important events affecting the Company or any subsidiary since 30 November 2018.

Auditor

Resolutions to re-appoint KPMG LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2019 AGM.

Management report

The strategic report and the directors' report together comprise the 'management report' for the purposes of the FCA's Disclosure and Transparency Rules (DTR 4.1.8R).

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and Group and Company financial statements in accordance with applicable law and regulations.

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.

DIRECTORS' REPORT CONTINUED

Under applicable law and regulations, the directors are responsible for preparing a strategic report, corporate governance statement, Directors' Remuneration report and directors' report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website 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 confirms 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 Group's position and performance, business model and strategy.

Each of the directors in office at the date this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

The Directors' report, prepared in accordance with the requirements of the Act and the FCA's Listing and Disclosure and Transparency Rules and comprising pages 114 to 118, was approved by the Board and signed on its behalf by

Andrew Eames

General Counsel and Company Secretary

4 February 2019

St. Modwen Properties PLC
Company No: 00349201

1. Our opinion is unmodified

We have audited the financial statements of St. Modwen Properties PLC (the Company) for the year ended 30 November 2018 which comprise the Group income statement, Group statement of comprehensive income, Group balance sheet, Group statement of changes in equity, Group cash flow statement, Company balance sheet, Company statement of changes in equity and the related notes, including the Group accounting policies on pages 132 to 139 and the Company accounting policies on page 178.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 November 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 23 February 2017. The period of total uninterrupted engagement is for the two financial years ended 30 November 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality	£15.0m (2017: £18.0m)	
Group financial statements as a whole	1.0% (2017: 1.0%) of total assets	
Coverage	100% (2017: 99%) of Group total assets	
Risks of material misstatement:		vs 2017
Group key audit matters	New: The impact of uncertainties due to Britain exiting the European Union on our audit	▲
	Recurring: Valuation of investment properties	◀▶
	Recurring: Carrying value of housebuilding and portfolio inventory and profit recognition on housebuilding sales	◀▶
	Recurring: New Covent Garden Market liability	◀▶
	New: Going concern	▲
Company key audit matter	Carrying value of investments in subsidiaries and joint ventures	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
<p>The impact of uncertainties due to Britain exiting the European Union on our audit</p> <p><i>Refer to page 82 (Audit Committee report).</i></p>	<p>Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters on the valuation of investment properties, the carrying value of housebuilding and portfolio inventory and profit recognition on housebuilding sales and the New Covent Garden Market liability (together referred to as the key audit matters affected), and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the annual report including the principal risks disclosure and the viability statement and to consider the directors' statement that 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 Group's position and performance, business model and strategy.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ol style="list-style-type: none"> 1. Our Brexit knowledge: Considering the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. 2. Sensitivity analysis: When addressing the key audit matters affected and other areas that depend on forecasts, comparing the directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considering adjustments to discount rates for the level of remaining uncertainty. 3. Assessing transparency: As well as assessing individual disclosures as part of our procedures on the key audit matters affected, considering all of the Brexit-related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. <p>Our results As reported under the key audit matters affected, we found the resulting estimates and related disclosures of the valuation of investment properties, the carrying value of housebuilding and portfolio inventory and profit recognition on housebuilding sales and the New Covent Garden Market liability and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</p>

	The risk	Our response
<p>Valuation of investment properties £939.3m (2017: £1,168.5m)</p> <p><i>Refer to page 81 (Audit Committee report), page 133 (accounting policy) and pages 156 to 159 (financial disclosures).</i></p>	<p>Subjective valuation Valuation of investment properties held at fair value is the key area of judgement in the financial statements. It is considered a risk due to its magnitude, reliance on input data and the subjective nature of the valuations, particularly the estimates made in relation to market comparable yield rates and estimated rental value (ERV).</p> <p>Brexit, as discussed in the key audit matter above, adds further uncertainties to the valuation of investment properties.</p>	<p>Our procedures, assisted by our own property valuation specialist (for procedures 1, 2, 3 and 4), included:</p> <ol style="list-style-type: none"> 1. Understanding of valuation approach: Meeting with the Group's external valuers to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the external valuers to support their assumptions. We also obtained an understanding of directors' involvement in the valuation process to assess whether appropriate oversight has occurred. 2. Assessing valuers' credentials: Critically assessing the independence, professional qualifications, competence and experience of the external valuers used by the Group. 3. Methodology choice: Critically assessing the methodology used by the valuers by considering whether their valuations were in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards. 4. Benchmarking assumptions: Challenging the key assumptions upon which the valuations were based for a sample of properties, including those relating to ERV and yield rates by making a comparison to our own assumption ranges derived from market data. This also included considering reasonably possible Brexit effects on the assumptions used in the valuations. 5. Input assessment: Agreeing observable inputs used in the valuations, such as rental income, occupancy rates, lease incentives, break clauses and lease lengths back to lease agreements for a sample of properties. 6. Assessing transparency: Critically assessing the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties. <p>Our results We found the valuation of investment properties to be acceptable (2017: acceptable).</p>

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
<p>Carrying value of housebuilding and portfolio inventory and profit recognition on housebuilding sales</p> <p>Housebuilding inventory: £292.3m (2017: £191.6m)</p> <p>Portfolio inventory: £74.1m (2017: £161.1m)</p> <p>Development profits on housebuilding sales: £44.7m (2017: £38.6m)</p> <p><i>Refer to page 81 (Audit Committee report), pages 133 and 138 (accounting policies) and pages 140 to 141 and 163 to 164 (financial disclosures).</i></p>	<p>Subjective valuation</p> <p>Housebuilding and portfolio inventories comprise properties which have been previously developed and are ready for sale, properties which are under construction with a view to sell and land which has been acquired for future development with a view to subsequent sale.</p> <p>In order to assess the net realisable value of housebuilding and portfolio inventory and profit recognised on housebuilding sales, appraisals are prepared for each site, which include forecast revenue and costs and provide an indication of the recoverability of the inventory.</p> <p>The risk is that these site appraisals include a number of estimates, such as forecast revenue and costs, that could be subject to error resulting in the net realisable value not being accurately measured or profit on housebuilding sales not being appropriately recognised. The margin allocation drives the recognition of housebuilding profit as each unit is sold, which is a key judgement and is where fraud could occur.</p> <p>Brexit, as discussed in the key audit matter above, adds further uncertainties to the valuation of inventories.</p>	<p>Our procedures included:</p> <ol style="list-style-type: none"> 1. Control design: Testing the design and implementation and operating effectiveness of controls relating to the allocation of margin to housebuilding sales throughout the year and the authorisation of cost transfers between housebuilding sites. 2. Tests of detail: Verifying a sample of housebuilding and portfolio inventory additions, disposals and transfers to source documentation and analysing the additions to highlight any items that potentially should have been recorded as an expense. 3. Our sector expertise: Discussing a sample of housebuilding and portfolio development sites with management to obtain an understanding of the status of the site, focusing on matters relevant to the site valuation, including the status of the development and ensuring that the appraisal reflects any additional unexpected costs. We selected a risk based sample using criteria including quantum of work in progress, low profit margin and length of development project. This also included considering reasonably possible Brexit effects on the appraisal forecasts. 4. Historical comparisons: Where a housebuilding or portfolio development site has been appraised over a period of time, seeking an understanding of the changes to assumptions over time for the sample of sites and considering whether those changes were consistent with our site-specific and market expectations. 5. Historical comparisons: For a sample of housebuilding sales, comparing the actual sales value achieved to the forecast sales value to assess management's ability to forecast accurately. We also analysed average cost per square foot across the housebuilding developments to identify any anomalies to investigate. 6. Assessing transparency: Critically assessing the adequacy of the Group's disclosures in relation to judgement and estimation in relation to these balances. <p>Our results</p> <p>We found the carrying value of housebuilding and portfolio inventory and profit recognition on housebuilding sales to be acceptable (2017: acceptable).</p>

	The risk	Our response
<p>New Covent Garden Market liability £71.9m (2017: £78.9m), representing the Group's share of the liability, included within the Group's investment in VSM (NCGM) Limited of £15.2m (2017: £14.0m) and the Group's share of VSM (NCGM) Limited's profit for the year of £1.2m (2017: loss of £13.8m)</p> <p><i>Refer to page 82 (Audit Committee report), page 138 (accounting policy) and pages 160 to 162 (financial disclosures).</i></p>	<p>Forecast-based valuation There is a risk arising from the accounting estimate in relation to the total costs expected to be incurred on the delivery of the replacement New Covent Garden Market due to the judgements involved in assessing the appropriateness of the measurement of the obligation, including the assumptions on quantum and timing of costs made by the external expert and the discount rate used by management to come to the liability to be recorded in the financial statements.</p>	<p>Our procedures included:</p> <ol style="list-style-type: none"> 1. Understanding of valuation approach: With the assistance of our own major projects advisory specialists, undertaking meetings with the external quantity surveyor expert to understand and assess the reasonableness of the assumptions, such as cost inflation and cash flow timings, and the methodologies used by the expert in arriving at the gross construction cost liability. We also assessed the reasonableness of the discount rate applied to the expert's gross cost cash flows. This also included considering any reasonably possible Brexit effects on the assumptions used in cash flow projections. 2. Assessing expert's credentials: Critically assessing the independence, professional qualifications, competence and experience of the external expert used by the Group. 3. Sensitivity analysis: Assessing the sensitivity of the calculation of the liability to the discount rate by performing a sensitivity analysis on the rate applied to the expert's gross cost cash flows. We also re-performed the discounting calculation to confirm it had been calculated properly. 4. Assessing transparency: Critically assessing the adequacy of the Group's disclosures in relation to the New Covent Garden Market liability. <p>Our results We found the liability recognised in respect of the New Covent Garden Market development to be acceptable (2017: acceptable).</p>

INDEPENDENT AUDITOR'S REPORT CONTINUED

	The risk	Our response
<p>Going concern</p> <p><i>Refer to page 82 (Audit Committee report) and page 132 (accounting policy).</i></p>	<p>Potential disclosure omission</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, in particular, risks associated with Brexit, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources over this period were mainly driven by Brexit and were:</p> <ul style="list-style-type: none"> • significant cost overruns on development projects; • significant falls in real estate value; and • the impact of Brexit on the Group's supply chain. <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>Our procedures included:</p> <ol style="list-style-type: none"> 1. Funding assessment: Confirming the Group has sufficient resources to repay the debt falling due in at least the 12 months from the date of approval of the financial statements by analysing the Group's financing terms and reviewing directors' forecasts and assumptions for ongoing covenant compliance and available headroom. 2. Benchmarking assumptions: Comparing the Group's assumptions used in the cash flow projections to externally derived data in relation to key inputs such as projected growth, forecast property market valuations and cost inflation. 3. Sensitivity analysis: Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, such as a fall in house prices and property values as a result of Brexit. 4. Assessing transparency: Assessing the completeness and accuracy of the disclosures in the annual report and ensuring that they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern. <p>Our results</p> <p>We found the going concern disclosure without any material uncertainty to be acceptable.</p>
<p>Carrying value of investments in subsidiaries and joint ventures</p> <p>£770.9m (2017: £773.5m)</p> <p><i>Refer to page 178 (accounting policy) and pages 179 to 183 (financial disclosures).</i></p>	<p>Low risk/high value (Company key audit matter)</p> <p>Investments in subsidiaries and joint ventures represent 43% (2017: 43%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement.</p> <p>However, due to their materiality in the context of the Company financial statements, this is considered to be the area that will have the greatest effect on our overall Company audit.</p>	<p>Our procedures included:</p> <ol style="list-style-type: none"> 1. Tests of detail: Re-performing the equity method calculations used to determine the carrying value of the investments in subsidiaries and joint ventures and assessing the recoverable amount of the individual investments by comparing the carrying value to their net assets, being an approximation of their minimum recoverable amount, to ensure they were in excess of their carrying amount. Assessing the work performed on the audit of those subsidiaries and joint ventures and considering the results of that work in relation to the valuation of investment properties and inventories (the key inputs used in the relevant subsidiaries' net assets). <p>Our results</p> <p>We found the carrying value of investments in subsidiaries and joint ventures to be acceptable (2017: acceptable).</p>

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £15.0m (2017: £18.0m), representing 1.0% of Group total assets of £1,548.9m (2017: 1.0% of Group total assets of £1,721.6m).

We applied a lower materiality, set at £3.5m (2017: £3.0m), to the specific Group income statement items which may be of specific interest to users regarding the Group income statement and that could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group. These comprise net rental and other income, housebuilding operating profit, portfolio development profits, investment property disposal gains, administrative expenses and net interest costs. Materiality for these items are determined with reference to trading profit (as defined by the Group in note 2a to the financial statements).

Materiality for the Company financial statements as a whole was set at £11.3m (2017: £13.5m), determined with reference to a benchmark of Company total assets of which it represents 0.6% (2017: 0.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5m (2017: £0.5m) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it were a single aggregated set of financial information. The audit was performed using the materiality levels set out above. The audit of the Company was performed by the Group team.

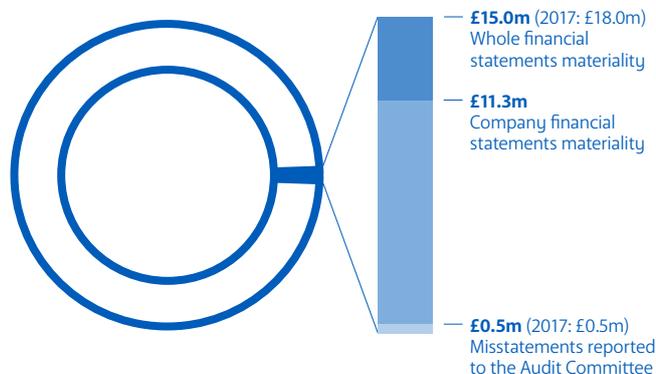
Group total assets £1,548.9m (2017: £1,721.6m)

○ Group total assets

● Group materiality

Group materiality

£15.0m (2017: £18.0m)

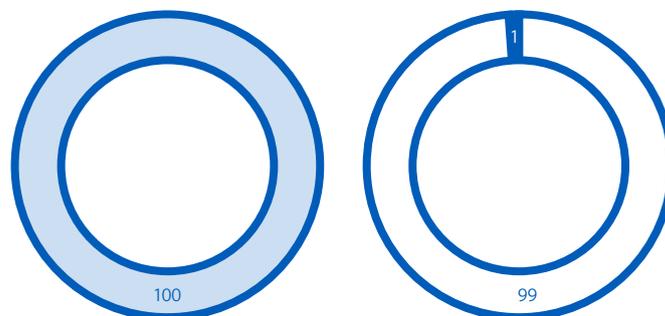


Group revenue

○ Full scope for Group audit purposes 2018 (100%)

○ Full scope for Group audit purposes 2017 (99%)

● Out of audit scope 2017 (1%)

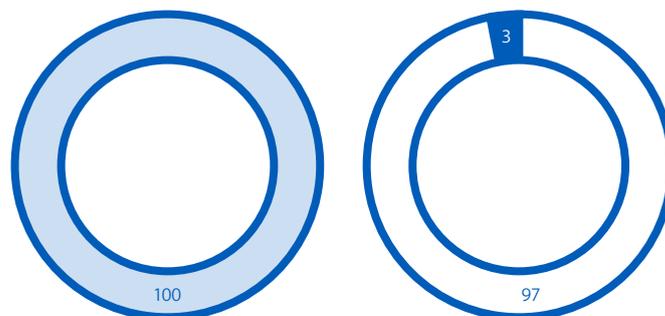


Group profit before tax

○ Full scope for Group audit purposes 2018 (100%)

○ Full scope for Group audit purposes 2017 (97%)

● Out of audit scope 2017 (3%)

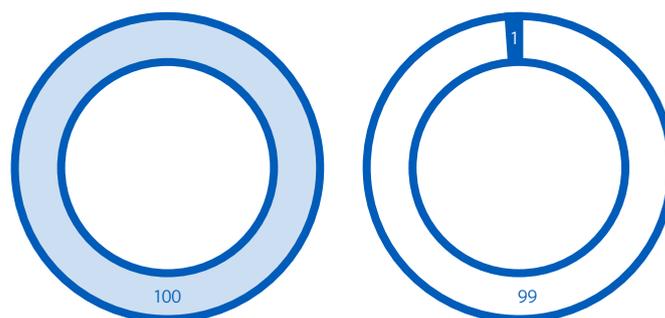


Group total assets

○ Full scope for Group audit purposes 2018 (100%)

○ Full scope for Group audit purposes 2017 (99%)

● Out of audit scope 2017 (1%)



INDEPENDENT AUDITOR'S REPORT CONTINUED

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least 12 months from the date of approval of the financial statements (the going concern period).

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in the Group accounting policies on page 132 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 117 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements.

Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration report

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

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 65 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that 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 Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the corporate governance statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us;
- the Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities Directors' responsibilities

As explained more fully in their statement set out on pages 117 and 118, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Bill Holland (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

4 February 2019

GROUP INCOME STATEMENT

for the year ended 30 November 2018

	Notes	2018 £m	2017 £m
Revenue	1	433.0	318.6
Net rental income	1	41.4	48.8
Development profits	1	72.2	58.9
Investment property disposal gains	1	7.1	6.7
Investment property revaluation gains	9	19.2	16.2
Other net income	1	2.2	2.0
Net loss of joint ventures and associates (post-tax)	11	(3.1)	(8.5)
Administrative expenses	4	(43.2)	(35.9)
Profit before interest and tax		95.8	88.2
Finance costs	5	(25.8)	(30.0)
Finance income	5	2.4	12.1
Profit before tax		72.4	70.3
Taxation	6	(11.9)	(10.2)
Profit for the year		60.5	60.1
Attributable to:			
Owners of the Company		60.2	59.6
Non-controlling interests		0.3	0.5
Profit for the year		60.5	60.1

	Notes	2018 Pence	2017 Pence
Basic earnings per share	7	27.1	26.9
Diluted earnings per share	7	25.5	26.7

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2018

	Notes	2018 £m	2017 £m
Profit for the year		60.5	60.1
Items that will not be reclassified to profit and loss:			
Pension fund actuarial losses	19	–	(0.1)
Total comprehensive income for the year		60.5	60.0
Attributable to:			
Owners of the Company		60.2	59.5
Non-controlling interests		0.3	0.5
Total comprehensive income for the year		60.5	60.0

GROUP BALANCE SHEET

as at 30 November 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investment properties	9	939.3	1,168.5
Property, plant and equipment and intangibles	10	17.4	5.1
Investments in joint ventures and associates	11	89.1	119.6
Trade and other receivables	12	6.7	2.3
		1,052.5	1,295.5
Current assets			
Inventories	13	366.4	352.7
Trade and other receivables	12	90.2	72.1
Derivative financial instruments	17	0.9	0.8
Cash and cash equivalents		38.9	0.5
		496.4	426.1
Current liabilities			
Trade and other payables	14	(158.2)	(176.0)
Derivative financial instruments	17	(0.9)	(4.8)
Borrowings and finance lease obligations	15	(100.2)	(0.6)
Current tax liabilities	6	(0.9)	(6.2)
		(260.2)	(187.6)
Non-current liabilities			
Trade and other payables	14	(5.7)	(20.1)
Borrowings and finance lease obligations	15	(213.0)	(491.3)
Deferred tax	6	(19.7)	(16.6)
		(238.4)	(528.0)
Net assets		1,050.3	1,006.0
Capital and reserves			
Share capital	18	22.2	22.2
Share premium account		102.8	102.8
Retained earnings		869.8	825.7
Share incentive reserve		4.7	5.1
Own shares		(1.3)	(1.7)
Other reserves		46.2	46.2
Equity attributable to owners of the Company		1,044.4	1,000.3
Non-controlling interests		5.9	5.7
Total equity		1,050.3	1,006.0

These financial statements were approved by the Board and authorised for issue on 4 February 2019.

Mark Allan
Chief Executive

Rob Hudson
Chief Financial Officer

Company Number: 00349201

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2018

	Share capital £m	Share premium account £m	Retained earnings £m	Share incentive reserve £m	Own shares £m	Other reserves £m	Equity attributable to owners of the Company £m	Non- controlling interests £m	Total equity £m
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	–	–	59.6	–	–	–	59.6	0.5	60.1
Pension fund actuarial losses (note 19)	–	–	(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 8)	–	–	(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
Profit and total comprehensive income for the year	–	–	60.2	–	–	–	60.2	0.3	60.5
Share-based payments	–	–	–	1.8	–	–	1.8	–	1.8
Deferred tax on share-based payments	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Settlement of share-based payments	–	–	0.3	(2.1)	0.4	–	(1.4)	–	(1.4)
Dividends paid (note 8)	–	–	(16.4)	–	–	–	(16.4)	(0.1)	(16.5)
Equity at 30 November 2018	22.2	102.8	869.8	4.7	(1.3)	46.2	1,044.4	5.9	1,050.3

Own shares represent the cost of 345,744 (2017: 519,906) shares held by The St. Modwen Properties PLC Employee Share Trust. The open market value of the shares held at 30 November 2018 was £1.3m (2017: £2.0m).

The other reserves comprise a capital redemption reserve of £0.3m (2017: £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 (2017: £45.9m).

GROUP CASH FLOW STATEMENT

for the year ended 30 November 2018

	Notes	2018 £m	2017 £m
Operating activities			
Profit before interest and tax		95.8	88.2
Net loss of joint ventures and associates (post-tax)	11	3.1	8.5
Investment property disposal gains		(7.1)	(6.7)
Investment property revaluation gains	9	(19.2)	(16.2)
Depreciation	10	1.0	1.1
(Decrease)/increase in net realisable value provisions	13	(0.4)	2.0
Increase in inventories		(21.9)	(97.7)
(Increase)/decrease in trade and other receivables		(29.1)	36.1
(Decrease)/increase in trade and other payables		(27.0)	17.4
Share-based payments expense and settlement		0.4	(1.2)
Tax paid	6	(14.2)	(16.2)
Net cash (outflow)/inflow from operating activities		(18.6)	15.3
Investing activities			
Proceeds from investment property disposals		322.7	60.1
Investment property additions		(112.5)	(61.6)
Interest received		1.2	12.3
Capital injection into joint ventures and associates		(0.4)	(1.4)
Property, plant and equipment and intangibles additions	10	(6.3)	(2.0)
Dividends received from joint ventures and associates	11	27.8	58.1
Net cash inflow from investing activities		232.5	65.5
Financing activities			
Dividends paid	8	(16.4)	(13.5)
Dividends paid to non-controlling interests		(0.1)	(1.7)
Interest paid		(17.6)	(26.1)
Repayments of obligations under finance lease arrangements		(0.5)	(3.3)
Refinancing outflows		(16.6)	-
Borrowings drawn		612.0	209.2
Repayment of borrowings		(736.3)	(249.1)
Net cash outflow from financing activities		(175.5)	(84.5)
Increase/(decrease) in cash and cash equivalents		38.4	(3.7)
Cash and cash equivalents at start of year		0.5	4.2
Cash and cash equivalents at end of year		38.9	0.5

GROUP ACCOUNTING POLICIES

for the year ended 30 November 2018

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 2018, 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 statements have been prepared on a going concern basis. The directors have considered the factors likely to affect the future development, performance and position of the Group and reviewed the current financial position of the Group, including its joint ventures and associates. This review included an assessment of future funding requirements, valuation projections and the ability of the Group to meet covenants on its existing borrowing facilities, taking into consideration the ability of the Group to robustly defend the short-term impacts of a hard Brexit. As a result of this review, the directors believe that the Group has adequate resources to fund its operations for the foreseeable future and so have determined that it remains appropriate for the financial statements to be prepared on a going concern basis. Further detail is contained in the going concern statement on page 117 and in the viability statement on page 65.

In the current year the Group has adopted:

- Amendments to IAS 7 *Disclosure Initiative*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 40 *Transfers of Investment Property*
- Amendments to IFRSs *Annual Improvements to IFRSs 2014 – 2016 Cycle*

The adoption of the amendments to IAS 7 *Disclosure Initiative* has resulted in a reconciliation of liabilities arising from financing activities being disclosed in note 15d to the Group financial statements.

The adoption of the amendments to IAS 40 *Transfers to Investment Property* has resulted in the Group changing its accounting policy for transferring inventories to investment properties. Previously these transfers occurred on commencement of an operating lease and now they occur when a change in use is evidenced, for example by the inception of an operating lease. This amendment has been applied prospectively from 1 December 2017 as it was not considered to be possible to apply this retrospectively without the use of hindsight.

The impact of adopting these amendments to IAS 40 has been to increase investment properties by £25.1m, reduce inventories by £19.5m, increase development profits by £5.6m and increase the taxation charge and liability by £1.1m. This has resulted in increases of £4.5m in profit for the year, 2.0p in basic earnings per share and 1.8p in diluted earnings per share.

The adoption of the other amendments above has had no material impact to the Group's financial statements.

The Company's functional currency (together with that of all of its subsidiaries) and the presentation currency for the Group is pounds sterling and its principal EU IFRS accounting policies are set out below.

Basis of consolidation

The Group's financial statements consolidate the financial statements of St. Modwen Properties PLC and the entities it controls. Control comprises exposure, or rights, to variable returns, the power to direct the relevant activities of the investee and the investor's ability to use its power over the investee to affect the returns. This is achieved through direct or indirect ownership of voting rights or by contractual agreement. A list of the entities controlled is given in note C to the Company financial statements.

All entities are consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-Group transactions, balances, income and expense are eliminated on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately within equity in the Group balance sheet.

Interests in joint arrangements

Arrangements under which the Group has contractually agreed to share control with another party or parties are assessed to determine whether they represent joint ventures or joint operations. Joint arrangements are classified as joint ventures where the parties have rights to the net assets of the arrangement. Should the parties have rights to each of the assets and obligations for each of the liabilities relating to the arrangement they would instead be classified as joint operations. Currently, all arrangements where the Group has contractually agreed to share control have been determined to be joint ventures.

The Group recognises its interests in joint ventures using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in the value of individual investments. The Group income statement reflects the Group's share of the joint venture's results after interest and tax.

Financial statements of joint ventures are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group.

The Group statement of comprehensive income reflects the Group's share of any income and expense recognised by the joint venture entities outside the Group income statement.

Interests in associates

The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint arrangements, are accounted for using the equity method of accounting, as described above.

Investment properties

Investment properties, being freehold and leasehold properties held to earn rental income, for capital appreciation and/or for undetermined future use, together with land options where the land is for an undetermined future use, are carried at fair value following initial recognition at the present value of the consideration payable. To establish fair value, investment properties are independently valued on the basis of market value. Any surplus or deficit arising is recognised in the Group income statement for the year. Investment properties are not depreciated.

Once classified as an investment property, a property remains in this category until development with a view to sale commences, at which point the asset is transferred to inventories at current valuation.

Where an investment property is being redeveloped for continued use as an investment property, the property remains within investment property and any movement in valuation is recognised in the Group income statement. Capital expenditure, including capitalised interest on qualifying assets and labour costs where applicable, that is directly attributable to the redevelopment or refurbishment of investment property, up to the point of it being completed for its intended use, is included in the carrying value of the property.

Investment property disposals are recognised on completion. Profits and losses arising are recognised through the Group income statement and the profit or loss on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset.

Inventories

Inventories principally comprise properties previously developed and held for sale, properties under construction with a view to sale and land under option with a view to future sale. All inventories are carried at the lower of cost and net realisable value.

Cost comprises land, direct materials and, where applicable, capitalised interest on qualifying assets and direct labour costs that have been incurred in bringing the inventories to their present location and condition. When inventory includes a transfer from investment properties, cost is recorded as the book value at the date of transfer. Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal. Inventory is transferred to investment properties only when the asset meets the definition of an investment property and there is evidence of a change in use, for example, the inception of an operating lease.

Property, plant and equipment and intangibles

Operating property, plant and equipment

Operating property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the purchase price and costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all operating property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life as follows:

- leasehold operating properties – over the shorter of the lease term and 25 years;
- office fit out and equipment – over three to 10 years; and
- plant and equipment – over two to five years.

Owner-occupied property

Owner-occupied property is held at fair value following initial recognition at the present value of the consideration payable or the transfer value from investment properties. To establish fair value, owner-occupied property is independently valued on the basis of market value. Any surplus or deficit arising is recognised in the Group statement of comprehensive income for the year within a separate revaluation reserve. Any deficits in excess of the balance within this revaluation reserve are recognised in the Group income statement.

Intangibles

Intangibles are stated at cost less accumulated amortisation and accumulated impairment losses. Such cost includes the purchase price and costs directly attributable to the asset.

Amortisation is provided on all intangibles at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

- software – over the software licence term; and
- other intangibles – over two to five years.

GROUP ACCOUNTING POLICIES

for the year ended 30 November 2018

continued

Leases

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Non-property assets held under finance leases are capitalised at the inception of the lease with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Group income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Non-property assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Interests in leasehold investment properties are accounted for as finance leases with the value of minimum lease payments inherent within the carrying value of the property and the liability reflected within long-term liabilities. On payment of a ground rent, initially the majority of such costs is charged to the Group income statement as interest payable, with the balance reducing the liability.

Rentals payable under operating leases are charged to the Group income statement on a straight-line basis over the lease term.

The Group as lessor

Rental income from operating leases, adjusted for the impact of any cash incentives given to the lessee and to reflect any rent-free incentive periods, is recognised in the Group income statement on a straight-line basis over the lease term.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

The tax currently payable is based on the taxable result for the year. The taxable result differs from the result as reported in the Group income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that will not be taxable or deductible. In particular, as a property group, the effective tax rate for the year reflects the benefit of certain investment gains not being taxable because of historical indexation, capital allowances, land remediation and other reliefs on certain property expenditure.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements on an undiscounted basis, using the rates of tax expected to apply based on legislation enacted or substantively enacted at the balance sheet date, with the following exceptions:

- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is charged or credited directly to equity or other comprehensive income if it relates to items that are credited or charged to equity or other comprehensive income. Otherwise, income tax is recognised in the Group income statement.

As a property group, tax and its treatment is often an integral part of transactions. The outcome of tax treatments are recognised by the Group to the extent that the outcome is reasonably certain. Where tax treatments have been challenged by HMRC, or management believe that there is a risk of such challenge, provision is made for the best estimate of potential exposure based on the information available at the balance sheet date and supported by the Group's tax advisors, where such exposure is considered more likely than not to occur.

All of the Group's subsidiaries, joint ventures (other than those in liquidation processes) and associates are resident in the UK for tax purposes and therefore subject to full UK corporation tax.

Pensions

The Group operates a pension scheme with both defined benefit and defined contribution sections. The defined benefit section is closed to new members and, from 1 September 2009, to future accrual.

The cost of providing benefits under the defined benefit section is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the Group income statement on the earlier of:

- the date on which the plan amendment or curtailment occurs; or
- when the Company recognises related restructuring costs or termination benefits.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised in the Group income statement as finance cost.

Actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised in full in the Group statement of comprehensive income in the year in which they occur. The defined benefit pension asset or liability in the Group balance sheet comprises the present value of the defined benefit obligation, less the fair value of plan assets out of which the obligations are to be settled directly.

When a pension asset (net surplus) arises from the above calculation, it is limited to the present value of any economic benefits that will be available to the Company in accordance with the requirements of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

Contributions to defined contribution schemes are recognised in the Group income statement in the year in which they become payable.

Own shares

Shares in St. Modwen Properties PLC held by the Group are classified as a deduction from equity attributable to owners of the Company and are recognised at cost.

Dividends

Dividends are recognised when declared and approved and dividends declared and approved after the balance sheet date are not recognised as liabilities at the balance sheet date.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received (including the fair value of any residential properties received in part-exchange), excluding discounts, rebates, VAT and other sales taxes or duty. Where required, revenue is allocated between components in a multi-element transaction (e.g. where there is simultaneously a sale of land and a construction contract with the purchaser of the land) based on their respective fair values of the components.

The following criteria must also be met before revenue is recognised:

Sale of property

Revenue arising from the sale of property is recognised on legal completion of the sale.

Construction contracts

Revenue arising from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below). An appropriate proportion of revenue from construction contracts is recognised by reference to the stage of completion of contract activity.

Rental income

Rental income arising from investment properties is accounted for on a straight-line basis over the lease term.

Management and performance fees

Where the Group is solely providing development management services (without being responsible for the performance of the underlying construction), management fees receivable are recognised over time as the service is performed in the period to which they relate. Performance fees are recognised when the Group has substantially fulfilled its obligations in respect of the transaction and hence the amount of revenue can be measured reliably and it is probable that economic benefits will flow to the Group.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income from joint ventures is recognised when the shareholders' rights to receive payment have been established.

GROUP ACCOUNTING POLICIES

for the year ended 30 November 2018

continued

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The extent to which the contract is complete is determined by the total costs incurred to date as a percentage of the total anticipated costs of the entire contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Borrowing costs

Interest is capitalised if it is directly attributable to the acquisition, construction or production of inventory or the redevelopment of investment properties. Capitalisation commences when the activities to develop the property start and continues until the property is substantially ready for its intended use. Capitalised interest is calculated with reference to the weighted average interest rate of incremental borrowings.

Government grants

Government grants relating to property are treated as deferred income and released to the Group income statement over the expected useful life of the assets concerned.

Share-based payments

Share-based payments to employees are equity-settled and are measured at the fair value of the equity instruments at the grant date, using an appropriate option pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

Fair value hierarchy

Assets and liabilities that are measured subsequent to initial recognition at fair value, are required to be grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for any amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or expire.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value or recoverable amount. Provision is made when there is evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short-term deposits with banks with initial maturity less than three months.

Trade and other payables

Trade and other payables are recorded at amortised cost. Where payment is on deferred terms the liability is initially recorded by discounting the nominal amount payable to net present value. The discount to nominal value is amortised over the period of the deferred arrangement and charged to finance costs.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, loans and borrowings are measured at amortised cost.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in finance income or finance expense, as appropriate.

The effective interest rate method is used to charge interest to the Group income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently re-measured at fair value. The Group has determined that the derivative financial instruments in use do not qualify for hedge accounting and, consequently, any gains or losses arising from changes in the fair value of derivatives are taken to the Group income statement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments issued by the Group are recorded at the proceeds received less direct issue costs.

Convertible bonds

Convertible bonds are assessed on issue as to whether they should be classified as a financial liability, as equity or as a compound financial instrument with both debt and equity components. This assessment is based on the terms of the bond and in accordance with IAS 32 *Financial Instruments: Presentation*. The Group's convertible bonds have been designated as at fair value through profit and loss.

Critical judgements in applying the Group's accounting policies

In the application of the Group's accounting policies outlined above, the directors are required to make judgements relating to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Complex transactions

Certain property transactions entered into by the Group involve an element of complexity and the need to exercise judgement to determine the most appropriate accounting policy. Such transactions include the accounting for the right to secure the interest in the surplus land at New Covent Garden Market together with the associated obligation to procure the new market for the Covent Garden Market Authority (further details of which are set out below).

New Covent Garden Market accounting treatment

The contractual arrangement between VSM (NCGM) Limited (the Group's 50:50 joint venture with Vinci in respect of New Covent Garden Market) and the Covent Garden Market Authority (CGMA) involves VSM (NCGM) Limited committing to procure a new market in Nine Elms for the CGMA and in return receiving an option to acquire the surplus land on the site. In substance the arrangement represents a barter of development and construction services for the interest in the land.

In determining the most appropriate accounting policy for the arrangement, consideration was given as to whether to account for the transaction as the acquisition of an interest in the surplus land for non-cash consideration or to account for the development as a construction contract under IAS 11 *Construction Contracts*, with the consideration taking the form of the non-cash interest in the surplus land. It was concluded that the former more faithfully and fairly represented the substance of the arrangement, reflecting that the key strategic rationale for entering into the transaction was to secure the interest in the surplus land and then to unlock its significant value, rather than to secure construction activity in building a new market.

Judgement was also applied in determining the appropriate classification for the interest in the surplus land, which legally takes the form of an option. Given the intention to take physical delivery of the land and that, at the point of initial recognition, it had not been determined whether to hold the surplus land for capital appreciation or to sell it on to a third party, the surplus land interest was judged to meet the definition of an investment property under IAS 40 *Investment Properties*, and hence has been accounted for in this way (rather than as a financial asset or as inventory).

Subsequent to initial recognition of the interest in the land as investment property and the recognition of the liability to procure the new market facilities, judgement was also applied in determining whether there should be any ongoing interaction between the two balances – for example, whether any subsequent adjustment to the estimate of the liability should be accounted for as an adjustment to the original investment property purchase price (which ultimately would give rise to an investment property revaluation gain or loss) or as a separate provision remeasurement gain or loss in the income statement. As, going forward, the two balances operate entirely independently of each other, it was determined that they should also be accounted for separately in accordance with the requirements of their respective applicable accounting standards.

Consequently, remeasurements of both the investment property valuation and provision liability are recognised, separately, in VSM (NCGM) Limited's income statement in accordance with the requirements of IAS 40 *Investment Property* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* respectively. Remeasurements of both the investment property valuation and provision liability are reflected together as component parts of the 'net profit/loss of joint ventures and associates (post-tax)' line within the Group income statement.

Key sources of estimation uncertainty

In the application of the Group's accounting policies outlined above, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and so actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

GROUP ACCOUNTING POLICIES

for the year ended 30 November 2018

continued

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. Where sensitivities are provided in the notes to the Group financial statements, these are based on a reasonably possible range of outcomes within the next financial year, each of which having been considered with all other variables remaining constant.

Valuation of investment properties

Investment properties are held at fair value, which is determined by independent valuations undertaken by external valuation experts in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. These valuations are based on prevailing market conditions and evidence of transaction prices for similar properties together with assumptions including yields, estimated rental values, gross development values and the appropriateness of remediation expenditure and costs to complete. Market conditions and assumptions are expected to change over time and any increase in yields or costs to complete or any decreases in estimated rental values or gross development values in subsequent periods would result in a decrease in the fair value of investment properties. The Group adopts the valuation performed by its independent valuers as the fair value of its investment properties, following review by management. The sensitivity of the carrying amount of the liability to the assumptions and estimates used is disclosed in note 9 to the Group financial statements.

Cost to establish a market in Nine Elms

The Group engages an external expert to estimate the costs to complete the market in Nine Elms, based on experience of construction to date, recent tendering activity and wider trends in relevant build costs, including inflation. In determining the appropriate liability to recognise, the reasonably possible range of outcomes estimated by the external expert is reviewed, together with an assessment of the likelihood of sensitivities, risks and opportunities inherent in this complex, long-term project materialising. Any cost increases or decreases on the project would result in a decrease or increase respectively of the Group's share of its investment in the joint venture. The sensitivity of the carrying amount of the liability to the assumptions and estimates used is disclosed in note 11 to the Group financial statements.

Net realisable value of inventories

In order to determine the profit that the Group is able to recognise on its developments in any given year, the Group has to allocate site-wide development costs between units built in the current year and those to be built in future years, which has an impact on the carrying value of inventories. The Group has ongoing procedures for assessing the carrying value of inventories and identifying where this is in excess of net realisable value with reference to estimates of costs to complete and remaining revenues. The assumptions and estimates for both revenue and costs are based on conditions existing at the balance sheet date, with reference to recent experience on similar properties and site-specific knowledge. The Group does not have any key assumptions or sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing a material adjustment to the carrying amounts of inventory within the next financial year. Notwithstanding this, as a significant portion of the Group's activities are undertaken through housebuilding and development, the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change.

Standards and interpretations not yet effective

At the date of approval of these financial statements, the following standards, amendments and interpretations which have not been adopted in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- IFRS 17 *Insurance Contracts*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 3 *Definition of a Business*
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to IAS 1 and IAS 28 *Definition of Material*
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
- Amendments to *References to the Conceptual Framework in IFRS Standards*
- Amendments to IFRSs *Annual Improvements to IFRSs 2015 – 2017 Cycle*
- Clarifications to IFRS 15 *Revenue from Contracts with Customers*

The directors are still assessing the impact that the adoption of the majority of these standards, amendments and interpretations will have on the financial statements of the Group in future periods. Adoption of the majority of these standards, amendments and interpretations is expected to have little or no impact on the reported results of the Group, although amended disclosures may be required.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments*, which is effective for the Group's year ending 30 November 2019, concerns the classification, measurement and disclosure of financial instruments.

The classification of all financial assets of the Group, excluding derivative financial assets, will change from loans and receivables to amortised cost, but this will not have a quantitative impact on the financial statements as loans and receivables are currently, subsequent to initial recognition, measured at amortised cost. The classification of all other financial instruments will remain unchanged.

The introduction of an expected credit loss model will result in the Group evaluating its provision against trade and other receivables using a probability-weighted approach of a range of possible outcomes, which differs from the existing approach of providing against estimated irrecoverable trade and other receivables past due. However, as the existing provision is not material and the increase to the provision on the implementation of this new provisioning policy is not anticipated to be significant, the impact on the Group income statement for the year ending 30 November 2019 of adopting IFRS 9 is not expected to be material.

The new hedging requirements of IFRS 9 are not applicable to the Group as the Group does not currently hedge account and does not intend to designate any hedging instruments in a hedging relationship with hedged items.

The release of IFRS 9 also introduced new disclosure requirements to IFRS 7 *Financial Instruments: Disclosures* and these changes will result in some limited disclosure changes to the financial instruments note to the Group financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers*, which is effective for the Group's year ending 30 November 2019, replaces a number of existing revenue standards and interpretations and introduces a five-step, principles-based, model for the recognition of revenue.

The new standard does not apply to the rental income revenue stream, which will be accounted for under IFRS 16 *Leases*, but does apply to the remainder of the Group's revenue streams. The Group intends to apply IFRS 15 retrospectively to each prior reporting period presented on adoption.

The only quantitative impact arising from the Group's existing contracts with customers relates to the recognition of revenue on the sale of part-exchange properties. Revenue is currently recognised as a reduction in housebuilding cost of sales as the purchase and subsequent sale of part-exchange properties is considered an integral part of the sale of the associated St. Modwen Homes unit. However, under IFRS 15, as the sale of a part-exchange property is a distinct contract with a separate customer, the proceeds should be recognised as revenue. This will have no impact on the overall profit, cash flow or taxation of St. Modwen Homes, but will slightly alter the presentation of its results. Applying IFRS 15 for the year ended 30 November 2018 would have resulted in an additional £3.2m of income and an equivalent £3.2m of expense being recognised.

The Group considered the potential impact on adopting IFRS 15 of unbundling contracts due to an assessment of the performance obligations to be delivered to customers. The assessment will vary depending on the terms of the specific contracts entered into by the Group. However, the Group's assessment concluded that this impact was immaterial for contracts in progress at the date of implementation and therefore no transitional adjustment to equity will be required.

IFRS 15 also establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. This will increase the extent of some of the revenue-related disclosures in the financial statements.

IFRS 16 Leases

IFRS 16 *Leases* is not mandatorily effective for the Group until the year ending 30 November 2020, but the Group intends to early adopt the standard at the same time as IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* in the year ending 30 November 2019. The new standard removes the existing distinction between finance leases and operating leases and requires all lessee contracts in excess of 12 months to be recognised in the Group balance sheet as a right-of-use asset, depreciated on a straight-line basis, and a lease liability recognised at amortised cost, amortised using the effective interest method. There is no impact on the Group's lessor accounting.

The Group intends to apply IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at 1 December 2018.

On transition, the Group anticipates recognising a right-of-use asset and corresponding lease liability of c. £6m in respect of its leases of certain office premises, motor vehicles and office equipment that are currently accounted for as operating leases. As there is no impact on the Group's lessor accounting and the Group does not have a significant annual charge for operating leases as lessee, the impact on the Group income statement for the year ending 30 November 2019 of adopting IFRS 16 is not expected to be material.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018

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.

As discussed in the strategic report, following the Group's recent focus on the enablement of its strategy during the year ended 30 November 2018, the Group is now focusing on its three strategic objectives and is currently amending some of its internal financial reporting systems to align more closely to these objectives. The Group intends to report on this basis to the chief operating decision maker, but has not yet concluded whether this reporting will be used to assess performance and allocate resources. The Group anticipates reviewing the identification of its operating segments in accordance with IFRS 8 for the year ending 30 November 2019.

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

b. Segment revenues and results

	2018			2017		
	Portfolio £m	Housebuilding £m	Total £m	Portfolio £m	Housebuilding £m	Total £m
Rental income	53.5	–	53.5	61.0	–	61.0
Development	147.1	227.8	374.9	57.8	195.3	253.1
Other income	4.6	–	4.6	4.5	–	4.5
Revenue	205.2	227.8	433.0	123.3	195.3	318.6

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

	2018			2017		
	Portfolio £m	Housebuilding ⁽¹⁾ £m	Total £m	Portfolio £m	Housebuilding ⁽¹⁾ £m	Total £m
Net rental income	41.4	–	41.4	48.8	–	48.8
Development profits	27.5	44.7	72.2	20.3	38.6	58.9
Investment property disposal gains	7.1	–	7.1	6.7	–	6.7
Investment property revaluation gains	19.2	–	19.2	16.2	–	16.2
Other net income	2.2	–	2.2	2.0	–	2.0
Losses of joint ventures and associates ⁽²⁾	(0.1)	–	(0.1)	(7.4)	–	(7.4)
Administrative expenses	(32.4)	(10.8)	(43.2)	(28.7)	(7.2)	(35.9)
Allocation of administrative expenses	1.7	(1.7)	–	3.9	(3.9)	–
Interest costs (note 5)	(15.6)	–	(15.6)	(23.7)	–	(23.7)
Interest income (note 5)	2.0	–	2.0	9.0	–	9.0
Attributable profit	53.0	32.2	85.2	47.1	27.5	74.6
Other losses of joint ventures and associates ⁽²⁾			(3.0)			(1.1)
Other finance costs (note 5)			(10.2)			(6.3)
Other finance income (note 5)			0.4			3.1
Profit before tax			72.4			70.3

(1) In the strategic report, operating profit from the housebuilding segment of £33.9m (2017: £31.4m) is stated before the allocation of administrative expenses of £1.7m (2017: £3.9m). This comprises £31.3m (2017: £23.3m) from St. Modwen Homes and £2.6m (2017: £8.1m) from the Persimmon joint venture.

(2) Stated before other finance costs and income (being amortisation and movements in the fair value of derivative financial instruments) and tax of £3.0m (2017: £1.1m). These amounts are reclassified to other losses of joint ventures and associates.

Cost of sales in respect of rental income comprise direct operating expenses (including repairs and maintenance) related to the investment property portfolio and total £12.1m (2017: £12.2m), of which £0.3m (2017: £0.7m) is in respect of properties that did not generate any rental income.

1. Segmental information continued

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

	2018 £m	2017 £m
Revenue	83.5	28.0
Cost of sales	(74.6)	(23.4)
Gross profit	8.9	4.6

Amounts recoverable on contracts as disclosed in note 12 comprise £23.9m (2017: £1.0m) of contract revenue recognised and £nil (2017: £8.8m) of retentions.

Contracts in progress at 30 November 2018 include the aggregate amount of costs incurred of £96.3m (2017: £1.7m), recognised profits less recognised losses to date of £7.0m (2017: £1.0m) and advances received of £85.3m (2017: £3.4m).

There were amounts due to customers of £0.9m (2017: £nil) included in trade and other payables in respect of contracts in progress at the balance sheet date.

c. Segment assets and liabilities

	2018			2017		
	Portfolio £m	Housebuilding £m	Total £m	Portfolio £m	Housebuilding £m	Total £m
Investment properties	939.3	–	939.3	1,168.5	–	1,168.5
Inventories	74.1	292.3	366.4	161.1	191.6	352.7
Investments in joint ventures and associates	89.1	–	89.1	119.6	–	119.6
Attributable assets	1,102.5	292.3	1,394.8	1,449.2	191.6	1,640.8
Property, plant and equipment and intangibles			17.4			5.1
Trade and other receivables			96.9			74.4
Cash and cash equivalents			38.9			0.5
Trade and other payables			(163.9)			(196.1)
Derivative financial instruments			–			(4.0)
Borrowings and finance lease obligations			(313.2)			(491.9)
Current tax liabilities			(0.9)			(6.2)
Deferred tax			(19.7)			(16.6)
Net assets			1,050.3			1,006.0

Investment and commercial property assets, as defined in our facility agreements, at 30 November 2018 was £619.7m (2017: £958.2m).

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 in the strategic report) 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, together with the EPRA-based measures that are discussed in note 3.

Trading profit (See note 2a): Trading profit is calculated on a proportionally consolidated basis and is stated before the principal non-cash income statement items, being revaluation gains and losses, changes in the estimate of the obligation to establish the new Covent Garden flower market, non-cash financing charges and tax. For a property group with a low depreciation charge and no intangible amortisation charge, this has historically represented a more useful measure than the EBITDA alternative performance measure used by many other companies.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

2. Non-statutory information continued

Total accounting return (see note 2f): 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.

a. Income statement

The non-statutory measures of adjusted EPRA earnings and trading profit, which include the Group's share of joint ventures and associates, are calculated as set out below:

	2018				
	Group £m	Joint ventures and associates £m	Total £m	Trading profit £m	Other £m
Gross rental income	53.5	6.2	59.7	59.7	–
Property outgoings	(12.1)	(0.8)	(12.9)	(12.9)	–
Other net income	2.2	–	2.2	2.2	–
Net rental and other income	43.6	5.4	49.0	49.0	–
Housebuilding operating profit (note 1)	33.9	–	33.9	33.9	–
Development fee income (note 2b)	3.4	–	3.4	3.4	–
Administrative expenses (note 1)	(32.4)	(0.1)	(32.5)	(32.5)	–
Interest costs (note 5)	(15.6)	(2.8)	(18.4)	(17.6)	(0.8)
Interest income (note 5)	2.0	1.8	3.8	3.0	0.8
Taxation on adjusted EPRA earnings	(6.2)	(1.0)	(7.2)	–	(7.2)
Less non-controlling interests on adjusted EPRA earnings	(0.3)	–	(0.3)	–	(0.3)
Adjusted EPRA earnings	28.4	3.3	31.7	39.2	(7.5)
Property development gains (note 2b)	35.7	1.3	37.0	37.0	–
Property disposal losses (note 2b)	(4.9)	(2.2)	(7.1)	(7.1)	–
Property valuation gains/(losses) (note 2c)	19.6	(8.2)	11.4	–	11.4
Credit from increased discount of market liability	–	4.7	4.7	–	4.7
Other finance costs (note 5)	(10.2)	(3.5)	(13.7)	–	(13.7)
Other finance income (note 5)	0.4	0.6	1.0	–	1.0
Taxation on other earnings	(5.7)	0.9	(4.8)	–	(4.8)
Profit for the period attributable to owners of the Company	63.3	(3.1)	60.2	69.1	(8.9)

2. Non-statutory information continued

	2017				
	Group £m	Joint ventures and associates £m	Total £m	Trading profit £m	Other £m
Gross rental income	61.0	6.6	67.6	67.6	–
Property outgoings	(12.2)	(1.6)	(13.8)	(13.8)	–
Other net income	2.0	–	2.0	2.0	–
Net rental and other income	50.8	5.0	55.8	55.8	–
Housebuilding operating profit (note 1)	31.4	–	31.4	31.4	–
Development fee income (note 2b)	3.8	–	3.8	3.8	–
Administrative expenses (note 1)	(28.7)	(0.3)	(29.0)	(29.0)	–
Interest costs (note 5)	(23.7)	(9.7)	(33.4)	(32.6)	(0.8)
Interest income (note 5)	9.0	0.3	9.3	8.4	0.9
Taxation on adjusted EPRA earnings	(7.8)	(0.6)	(8.4)	–	(8.4)
Less non-controlling interests on adjusted EPRA earnings	(0.1)	–	(0.1)	–	(0.1)
Adjusted EPRA earnings	34.7	(5.3)	29.4	37.8	(8.4)
Property development gains (note 2b)	18.5	0.9	19.4	19.4	–
Property disposal losses (note 2b)	6.7	0.7	7.4	7.4	–
Property valuation gains (note 2)	14.2	20.4	34.6	–	34.6
Change in estimated cost to establish a market in Nine Elms	–	(24.6)	(24.6)	–	(24.6)
Other finance costs (note 5)	(6.3)	(5.3)	(11.6)	–	(11.6)
Other finance income (note 5)	3.1	0.8	3.9	–	3.9
Taxation on other earnings	(2.4)	3.9	1.5	–	1.5
Less non-controlling interests on other earnings	(0.4)	–	(0.4)	–	(0.4)
Profit for the year attributable to owners of the Company	68.1	(8.5)	59.6	64.6	(5.0)

b. Portfolio property profits

Non-housebuilding property profits, including the Group's share of joint ventures and associates, comprise development fee income and gains and losses arising from property development and property disposals, as shown in note 2a. These are derived from development profits in the Group income statement as set out below:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Inventory development gains	75.3	1.3	76.6	50.5	0.9	51.4
Inventory disposal losses	(12.0)	–	(12.0)	–	–	–
Pre-sold property construction contract profits	5.5	–	5.5	4.6	–	4.6
Development fee income	3.4	–	3.4	3.8	–	3.8
Development profits	72.2	1.3	73.5	58.9	0.9	59.8
Investment property disposal gains/(losses)	7.1	(2.2)	4.9	6.7	0.7	7.4
Net realisable value provisions (note 2c)	(0.4)	–	(0.4)	2.0	–	2.0
Less residential development profits (note 1)	(44.7)	–	(44.7)	(38.6)	–	(38.6)
Portfolio property profits	34.2	(0.9)	33.3	29.0	1.6	30.6
Development fee income (note 2a)	3.4	–	3.4	3.8	–	3.8
Property development gains (note 2a)	35.7	1.3	37.0	18.5	0.9	19.4
Property disposal losses (note 2a)	(4.9)	(2.2)	(7.1)	6.7	0.7	7.4
Portfolio property profits	34.2	(0.9)	33.3	29.0	1.6	30.6

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

2. Non-statutory information continued

c. Property valuations

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

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Property revaluation gains/(losses)	19.2	(8.2)	11.0	16.2	20.4	36.6
Net realisable value provisions	0.4	–	0.4	(2.0)	–	(2.0)
Property valuation gains/(losses)	19.6	(8.2)	11.4	14.2	20.4	34.6

d. 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:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Property portfolio	1,302.6	100.7	1,403.3	1,516.0	148.0	1,664.0
Other assets	118.3	80.3	198.6	85.5	82.0	167.5
Gross assets	1,420.9	181.0	1,601.9	1,601.5	230.0	1,831.5
Net borrowings	(271.1)	34.2	(236.9)	(433.8)	45.6	(388.2)
Finance leases	(3.0)	(0.9)	(3.9)	(57.0)	(0.9)	(57.9)
Other liabilities	(185.6)	(125.2)	(310.8)	(224.3)	(155.1)	(379.4)
Gross liabilities	(459.7)	(91.9)	(551.6)	(715.1)	(110.4)	(825.5)
Net assets	961.2	89.1	1,050.3	886.4	119.6	1,006.0
Non-controlling interests	(5.9)	–	(5.9)	(5.7)	–	(5.7)
Equity attributable to owners of the Company	955.3	89.1	1,044.4	880.7	119.6	1,000.3

e. 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:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Investment properties	939.3	92.0	1,031.3	1,168.5	139.7	1,308.2
Less assets held under finance leases not subject to revaluation	(3.1)	(0.9)	(4.0)	(5.2)	(0.9)	(6.1)
Inventories	366.4	9.6	376.0	352.7	9.2	361.9
Property portfolio	1,302.6	100.7	1,403.3	1,516.0	148.0	1,664.0

2. Non-statutory information continued

As discussed in the strategic report, following the Group's recent focus on the enablement of its strategy during the year ended 30 November 2018, the Group is currently amending some of its internal financial reporting systems to align more closely to its three strategic objectives. The analysis of the property portfolio, including the Group's share of its joint ventures and associates, presented below is based on categorisation of property as at 30 November 2018:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Industrial and logistics	437.6	23.1	460.7	344.8	33.3	378.1
Non-core retail	73.9	13.9	87.8	256.2	15.9	272.1
Non-core other	79.4	13.4	92.8	268.2	21.5	289.7
Industrial and logistics/other	590.9	50.4	641.3	869.2	70.7	939.9
St. Modwen Homes	371.4	19.0	390.4	316.4	30.1	346.5
Other residential	182.3	23.4	205.7	191.9	38.7	230.6
Residential and housebuilding	553.7	42.4	596.1	508.3	68.8	577.1
Retail-led regeneration	85.3	–	85.3	82.4	–	82.4
Other regeneration	72.7	7.9	80.6	56.1	8.5	64.6
Regeneration	158.0	7.9	165.9	138.5	8.5	147.0
Property portfolio	1,302.6	100.7	1,403.3	1,516.0	148.0	1,664.0

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Investment	550.7	47.4	598.1	790.7	77.3	868.0
Development	166.5	18.4	184.9	178.6	23.5	202.1
Land	585.4	34.9	620.3	546.7	47.2	593.9
Property portfolio	1,302.6	100.7	1,403.3	1,516.0	148.0	1,664.0

f. Total accounting return

Total accounting return is calculated as set out below:

	2018 Pence per share	2017 Pence per share
Net asset value per share at end of year (note 3)	470.4	450.9
Less net asset value per share at start of year (note 3)	(450.9)	(431.0)
Increase in net asset value per share	19.5	19.9
Dividend paid per share (note 8)	7.4	6.1
Total accounting return per share	26.9	26.0
Total accounting return	6.0%	6.0%

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

2. Non-statutory information continued

g. Cash generated before new investment, tax and dividends

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

	2018					
	Operating activities £m	Investing activities £m	Financing activities £m	Total £m	Joint ventures and associates £m	Total £m
Net rent and other income	43.6	–	–	43.6	5.4	49.0
Overheads and interest	(41.8)	1.2	(34.2)	(74.8)	(1.1)	(75.9)
Property disposal and development proceeds	353.1	322.7	–	675.8	58.7	734.5
Finance leases	–	–	(0.5)	(0.5)	(0.1)	(0.6)
Working capital and other movements	(12.8)	(6.7)	–	(19.5)	(31.7)	(51.2)
Cash generated before new investment, tax and dividends	342.1	317.2	(34.7)	624.6	31.2	655.8
Taxation	(14.2)	–	–	(14.2)	(6.9)	(21.1)
Net dividends	–	27.8	(16.5)	11.3	(27.8)	(16.5)
Property acquisitions	(48.6)	(16.4)	–	(65.0)	–	(65.0)
Property and development expenditure	(297.9)	(96.1)	–	(394.0)	(7.9)	(401.9)
Net repayment of borrowings	–	–	(124.3)	(124.3)	(17.5)	(141.8)
Movement in cash and cash equivalents	(18.6)	232.5	(175.5)	38.4	(28.9)	9.5

	2017					
	Operating activities £m	Investing activities £m	Financing activities £m	Total £m	Joint ventures and associates £m	Total £m
Net rent and other income	50.8	–	–	50.8	5.0	55.8
Overheads and interest	(36.0)	12.3	(26.1)	(49.8)	(9.7)	(59.5)
Property disposal and development proceeds	260.8	60.1	–	320.9	258.8	579.7
Finance leases	–	–	(3.3)	(3.3)	–	(3.3)
Working capital and other movements	53.5	(3.4)	–	50.1	(80.1)	(30.0)
Cash generated before new investment, tax and dividends	329.1	69.0	(29.4)	368.7	174.0	542.7
Taxation	(16.2)	–	–	(16.2)	(7.8)	(24.0)
Net dividends	–	58.1	(15.2)	42.9	(58.1)	(15.2)
Property acquisitions	(50.8)	(17.5)	–	(68.3)	–	(68.3)
Property and development expenditure	(246.8)	(44.1)	–	(290.9)	(15.5)	(306.4)
Net repayment of borrowings	–	–	(39.9)	(39.9)	(21.7)	(61.6)
Movement in cash and cash equivalents	15.3	65.5	(84.5)	(3.7)	70.9	67.2

2. Non-statutory information continued

h. Movements in net borrowings and net debt

The movements in net borrowings and net debt are set out below:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Movement in cash and cash equivalents	38.4	(28.9)	9.5	(3.7)	70.9	67.2
Borrowings drawn	(612.0)	(15.0)	(627.0)	(209.2)	–	(209.2)
Repayment of borrowings	736.3	32.5	768.8	249.1	21.7	270.8
Decrease/(increase) in net borrowings	162.7	(11.4)	151.3	36.2	92.6	128.8
Fair value movement on convertible bond	(0.4)	–	(0.4)	(4.2)	–	(4.2)
Finance leases	2.1	–	2.1	(0.2)	–	(0.2)
Decrease/(increase) in net debt	164.4	(11.4)	153.0	31.8	92.6	124.4

i. Net borrowings and net debt

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

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Cash and cash equivalents	38.9	45.7	84.6	0.5	74.6	75.1
Bank overdraft	–	–	–	–	(4.5)	(4.5)
Borrowings due within one year	(100.2)	–	(100.2)	–	–	–
Borrowings due after more than one year	(210.0)	(11.5)	(221.5)	(434.9)	(24.5)	(459.4)
Adjustment to restate convertible bond at book value	0.2	–	0.2	0.6	–	0.6
Net borrowings	(271.1)	34.2	(236.9)	(433.8)	45.6	(388.2)
Reversal of adjustment to restate convertible bond at book value	(0.2)	–	(0.2)	(0.6)	–	(0.6)
Finance lease liabilities due within one year	–	–	–	(0.6)	–	(0.6)
Finance lease liabilities due after more than one year	(3.0)	(0.9)	(3.9)	(56.4)	(0.9)	(57.3)
Net debt	(274.3)	33.3	(241.0)	(491.4)	44.7	(446.7)

j. 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).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

2. Non-statutory information continued

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Property portfolio (note 2d)	1,302.6	100.7	1,403.3	1,516.0	148.0	1,664.0
Less valued assets held under finance leases	–	–	–	(59.0)	–	(59.0)
Net property portfolio	1,302.6	100.7	1,403.3	1,457.0	148.0	1,605.0
Less residential assets	(553.7)	(42.4)	(596.1)	(504.1)	(57.1)	(561.2)
Net property portfolio (excluding residential)	748.9	58.3	807.2	952.9	90.9	1,043.8
Total equity	1,050.3	N/A	1,050.3	1,006.0	N/A	1,006.0
Net debt (note 2i)	274.3	(33.3)	241.0	491.4	(44.7)	446.7
Net borrowings (note 2i)	271.1	(34.2)	236.9	433.8	(45.6)	388.2
Gearing	26.1%		22.9%	48.8%		44.4%
Adjusted gearing	25.8%		22.6%	43.1%		38.6%
Loan-to-value	20.8%		16.9%	29.8%		24.2%
Loan-to-value (excluding residential)	N/A		29.3%	N/A		37.2%

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.

3. EPRA performance measures continued

a. Adjusted EPRA earnings

Adjusted EPRA earnings is calculated as set out below:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Profit for the year	63.6	(3.1)	60.5	68.6	(8.5)	60.1
Less non-controlling interests	(0.3)	–	(0.3)	(0.5)	–	(0.5)
Profit for the year	63.3	(3.1)	60.2	68.1	(8.5)	59.6
Investment property revaluation (gains)/losses	(19.2)	8.2	(11.0)	(16.2)	(20.4)	(36.6)
Investment property disposal (gains)/losses	(7.1)	2.2	(4.9)	(6.7)	(0.7)	(7.4)
Credit from increased discount of market liability ⁽¹⁾	–	(4.7)	(4.7)	–	–	–
Change in estimated cost to establish a market in Nine Elms ⁽¹⁾	–	–	–	–	24.6	24.6
Inventory development gains ⁽²⁾	(64.5)	(1.3)	(65.8)	(43.3)	(0.9)	(44.2)
Pre-sold property development gains ⁽³⁾	(5.5)	–	(5.5)	(4.6)	–	(4.6)
Inventory disposal losses	12.0	–	12.0	–	–	–
Amortisation of discount on deferred payment arrangements ⁽⁴⁾	0.1	3.4	3.5	0.3	4.9	5.2
Taxation in respect of profits or losses on disposal	11.2	1.5	12.7	13.7	14.2	27.9
Movement in fair value of financial instruments	0.7	(0.6)	0.1	1.1	(0.8)	0.3
Early redemption of retail bond ⁽⁵⁾	3.7	–	3.7	–	–	–
Deferred tax in respect of EPRA adjustments	1.9	(2.3)	(0.4)	(5.0)	(18.0)	(23.0)
Non-controlling interests in respect of the above	–	–	–	0.4	–	0.4
EPRA earnings	(3.4)	3.3	(0.1)	7.8	(5.6)	2.2
Residential development profits	33.9	–	33.9	31.4	–	31.4
Amortisation of loan arrangement fees	5.3	0.1	5.4	1.8	0.4	2.2
Taxation in respect of company specific adjustments	(7.4)	(0.1)	(7.5)	(6.3)	(0.1)	(6.4)
Adjusted EPRA earnings	28.4	3.3	31.7	34.7	(5.3)	29.4

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

(2) Inventory development gains 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) Pre-sold property development gains arise from property disposals and their development and therefore should be adjusted in arriving at EPRA earnings.

(4) The amortisation 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.

(5) The early redemption of the retail bond represents a material close-out cost associated with debt and therefore should be adjusted in arriving at EPRA earnings.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

3. EPRA performance measures continued

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:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Net rental and other income	43.6	5.4	49.0	50.8	5.0	55.8
Development fee income	3.4	–	3.4	3.8	–	3.8
Administrative expenses	(32.4)	(0.1)	(32.5)	(28.7)	(0.3)	(29.0)
Interest costs ⁽¹⁾	(20.9)	(2.9)	(23.8)	(25.5)	(10.1)	(35.6)
Interest income ⁽²⁾	2.0	1.8	3.8	9.0	0.3	9.3
Taxation in respect of EPRA earnings measures	1.2	(0.9)	0.3	(1.5)	(0.5)	(2.0)
Non-controlling interests in respect of the above	(0.3)	–	(0.3)	(0.1)	–	(0.1)
EPRA earnings	(3.4)	3.3	(0.1)	7.8	(5.6)	2.2
Housebuilding development profit	33.9	–	33.9	31.4	–	31.4
Amortisation of loan arrangement fees	5.3	0.1	5.4	1.8	0.4	2.2
Taxation in respect of company specific adjustments	(7.4)	(0.1)	(7.5)	(6.3)	(0.1)	(6.4)
Adjusted EPRA earnings	28.4	3.3	31.7	34.7	(5.3)	29.4

(1) Interest costs for the purposes of EPRA earnings exclude movements in the fair value of financial instruments, amortisation of discount on deferred payment arrangements and the early redemption of the retail bond, as set out in note 5.

(2) Interest income for the purposes of EPRA earnings excludes movements in the fair value of financial instruments, as set out in note 5.

	2018			2017		
	£m	Pence per share ⁽¹⁾	Percentage movement	£m	Pence per share ⁽¹⁾	Percentage movement
Earnings	60.2	27.1	0.7%	59.6	26.9	11.6%
EPRA earnings	(0.1)	–	(100.0)%	2.2	1.0	(266.7)%
Adjusted EPRA earnings	31.7	14.3	7.5%	29.4	13.3	37.1%

(1) The number of shares in issue used to calculate the earnings per share is 221,964,567 (2017: 221,697,244), as disclosed in note 7, excluding those shares held by The St. Modwen Properties PLC Employee Share Trust.

3. EPRA performance measures continued

b. EPRA net asset value

EPRA net asset value is calculated as set out below:

	2018			2017		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Total equity	961.2	89.1	1,050.3	886.4	119.6	1,006.0
Less non-controlling interests	(5.9)	–	(5.9)	(5.7)	–	(5.7)
Net asset value	955.3	89.1	1,044.4	880.7	119.6	1,000.3
Adjustments of inventories to fair value	6.7	0.7	7.4	16.2	0.2	16.4
EPRA triple net asset value	962.0	89.8	1,051.8	896.9	119.8	1,016.7
Deferred tax on capital allowances and revaluations	20.5	2.2	22.7	18.8	4.2	23.0
Mark-to-market of derivative financial instruments	0.2	0.2	0.4	5.0	0.7	5.7
EPRA net asset value	982.7	92.2	1,074.9	920.7	124.7	1,045.4

	2018			2017		
	£m	Pence per share ⁽¹⁾	Percentage movement	£m	Pence per share ⁽¹⁾	Percentage movement
Net asset value	1,044.4	470.4	4.3%	1,000.3	450.9	4.6%
EPRA triple net asset value	1,051.8	473.7	3.4%	1,016.7	458.3	4.8%
EPRA net asset value	1,074.9	484.1	2.7%	1,045.4	471.2	2.3%

(1) The number of shares in issue used to calculate the net asset values per share is 222,031,244 (2017: 221,857,082), as disclosed in note 18, excluding those shares held by The St. Modwen Properties PLC Employee Share Trust.

4. Other income statement disclosures

a. Administrative expenses

Administrative expenses have been arrived at after charging:

	2018 £m	2017 £m
Depreciation and amortisation	1.0	1.1
Operating lease costs	1.9	1.3

b. Auditor's remuneration

The table below sets out the fees payable to the Company's auditor and their associates for the following services:

	2018 £'000	2017 £'000
The audit of the Company's annual report and financial statements	171	125
The audit of the Company's subsidiaries and joint ventures	177	175
Total audit fees	348	300
The review of the Company's half-year report and condensed financial statements	52	50
Total audit-related fees	52	50
Total fees	400	350

The Company's auditor does not permit non-audit services to be provided to the Group. Further information is included in the Audit Committee report.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

4. Other income statement disclosures continued

c. Employees

The monthly average number of full-time employees (including executive directors) employed by the Group during the year was as follows:

	2018 Number	2017 Number
Property and administration	217	218
Housebuilding and associated administration	248	161
Leisure and other activities	48	53
Total employees	513	432

The total payroll costs of these employees were:

	2018 £m	2017 £m
Wages and salaries	35.6	29.1
Social security costs	3.8	3.5
Pension costs	1.8	0.9
Total payroll costs	41.2	33.5

d. Share-based payments

The Group has a Save As You Earn share option scheme open to all employees. Employees must ordinarily remain in service for a period of three or five years from the date of grant before exercising their options. The option period ends six months following the end of the vesting period.

The Group also operates a discretionary Executive Share Option Plan (ESOP). Options are granted at a fixed price equal to the market price at the date of grant. Employees must ordinarily remain in service for a period of three years from the date of grant before exercising their ESOP awards. The option ends on the tenth anniversary of the date of grant.

Details of the Group's Performance Share Plan (PSP) are given in the Directors' Remuneration report.

The following table illustrates the movements in share options during the year. As the PSP includes the grant of options at £nil exercise price, the weighted average prices below are calculated including and excluding the options under this plan.

	2018			2017		
	Number of options	Weighted average price		Number of options	Weighted average price	
All options £		Excluding PSP £	All options £		Excluding PSP £	
Outstanding at start of year	7,167,213	2.63	3.15	7,686,602	2.27	2.83
Granted	2,156,851	2.18	3.74	1,870,261	2.78	3.52
Forfeited	(772,492)	2.37	3.52	(687,501)	1.43	3.25
Exercised	(960,539)	2.00	2.74	(1,702,149)	1.68	2.11
Outstanding at end of year	7,591,033	2.61	3.29	7,167,213	2.63	3.15
Exercisable at year end	2,049,827	3.28	3.28	2,051,181	2.73	2.73

4. Other income statement disclosures continued

Share options are priced using a Black-Scholes-Merton valuation model. The aggregate of the fair values calculated and the assumptions used for share options granted during the year are as follows:

	Aggregate of fair values £m	Risk-free interest rate %	Expected volatility %	Dividend yield %	Share price ⁽¹⁾ £
30 November 2018	2.2	0.8–1.1	26.6–28.7	1.5–1.6	3.81–4.10
30 November 2017	1.9	0.3–0.5	28.6–33.1	1.1	3.37–3.57

(1) Based on the closing share price on the date of grant.

The charge to the Group income statement during the year in respect of share-based payments was £1.8m (2017: £1.8m).

The fair value of the share incentive reserve in respect of share options outstanding at the year end was £4.7m (2017: £5.1m) and included £2.3m (2017: £1.9m) in respect of options that had vested at the year end.

In arriving at fair value it has been assumed that, when vested, shares options are exercised in accordance with historical trends. Expected volatility was determined by reference to the historical volatility of the Group's share price over a period consistent with the expected life of the options.

The weighted average share price at the date of exercise was £4.00 (2017: £3.69). The share options outstanding under the ESOP at the year end had a range of exercise prices between £1.74 and £4.74 (2017: £1.56 and £4.74) with all PSP options exercisable at £nil (2017: £nil). Outstanding options had a weighted average maximum remaining contractual life of 6.7 years (2017: 6.1 years).

5. Finance costs and finance income

	2018 £m	2017 £m
Interest costs		
Interest payable on borrowings	14.3	20.8
Interest payable on finance lease obligations	0.5	2.1
Interest on pension scheme liabilities	0.8	0.8
Interest costs	15.6	23.7
Other finance costs		
Amortisation of loan arrangement fees	5.3	1.8
Amortisation of discount on deferred payment arrangements	0.1	0.3
Movement in fair value of convertible bond	–	4.2
Movement in fair value of derivative financial instruments	1.1	–
Early redemption of retail bond	3.7	–
Other finance costs	10.2	6.3
Total finance costs	25.8	30.0

Interest of £2.2m was capitalised into investment properties and inventories during the year ended 30 November 2018.

	2018 £m	2017 £m
Interest income		
Interest receivable	1.2	8.1
Interest income on pension scheme assets	0.8	0.9
Interest income	2.0	9.0
Other finance income		
Movement in fair value of convertible bond	0.4	–
Movement in fair value of derivative financial instruments	–	3.1
Other finance income	0.4	3.1
Total finance income	2.4	12.1

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

6. Taxation

a. Tax on profit on ordinary activities

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

	2018 £m	2017 £m
Current tax		
Current year tax	9.6	12.7
Adjustments in respect of previous years	(0.7)	2.6
Total current tax	8.9	15.3
Deferred tax		
Impact of current year revaluations, indexation and disposals	2.3	(2.6)
Other temporary differences	(1.4)	1.2
Change in rate for provision of deferred tax	–	(2.4)
Adjustments in respect of previous years	2.1	(1.3)
Total deferred tax	3.0	(5.1)
Total tax charge in the Group income statement	11.9	10.2

All of the Group's subsidiaries, joint ventures (other than those in liquidation processes) and associates are resident in the UK for tax purposes and therefore subject to full UK corporation tax.

b. Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit before tax	72.4	70.3
Net loss of joint ventures and associates (post-tax)	3.1	8.5
Profit before tax attributable to the Group	75.5	78.8
Corporation tax at 19.00% (2017: 19.33%)	14.3	15.2
Effect of non-deductible expenses and non-chargeable income	(3.7)	0.1
Impact of indexation on investment property	(0.1)	(4.0)
Change in rate used for provision of deferred tax	–	(2.4)
Current year charge	10.5	8.9
Adjustments in respect of previous years	1.4	1.3
Tax charge for the year	11.9	10.2
Effective rate of tax	15.8%	12.9%

The post-tax results of joint ventures and associates are stated after a tax charge of £0.1m (2017: a credit of £3.3m). The effective tax rate for the Group including its share of joint ventures and associates is 16.6% (2017: 10.3%).

Legislation substantively enacted at 30 November 2018 included provisions which reduce the main rate of corporation tax from 19% to 17% with effect from 1 April 2020. Current tax has therefore been provided at 19% and deferred tax at rates from 17% to 19%.

c. Balance sheet

	2018		2017	
	Current tax £m	Deferred tax £m	Current tax £m	Deferred tax £m
At start of the year	6.2	16.6	7.1	22.0
Charged to the Group income statement	8.9	3.0	15.3	(5.1)
Recognised within the Group statement of changes in equity	–	0.1	–	(0.3)
Net payment	(14.2)	–	(16.2)	–
At end of the year	0.9	19.7	6.2	16.6

6. Taxation continued

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

	2018			2017		
	Asset £m	Liability £m	Net £m	Asset £m	Liability £m	Net £m
Property revaluations	–	17.2	17.2	–	13.8	13.8
Capital allowances	–	3.3	3.3	–	5.0	5.0
Appropriations to trading stock	–	0.8	0.8	–	0.3	0.3
Other temporary differences	(1.6)	–	(1.6)	(2.5)	–	(2.5)
Total deferred tax	(1.6)	21.3	19.7	(2.5)	19.1	16.6

At the balance sheet date, the Group has unused tax losses in relation to 2018 and prior years of £0.1m (2017: £2.6m). A deferred tax asset of £nil (2017: £0.5m) has not been recognised in respect of these 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.

7. Earnings per share

	2018 Number of shares	2017 Number of shares
Weighted number of shares in issue ⁽¹⁾	221,964,567	221,697,244
Weighted number of diluted shares relating to the convertible bond	19,177,294	–
Weighted number of diluted shares relating to share options	2,166,608	1,832,311
Weighted number of shares for the purposes of diluted earnings per share	243,308,469	223,529,555

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

	2018 £m	2017 £m
Earnings for the purposes of basic earnings per share, being profit for the year attributable to owners of the Company	60.2	59.6
Effect of dilutive potential ordinary shares:		
Interest on convertible bond (net of tax)	2.3	–
Movement in fair value of the convertible bond	(0.4)	–
Earnings for the purposes of diluted earnings per share	62.1	59.6

	2018 Pence	2017 Pence
Basic earnings per share	27.1	26.9
Diluted earnings per share	25.5	26.7

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

In the year ended 30 November 2018, the convertible bond has a dilutive (2017: anti-dilutive) impact on earnings per share due principally to a credit (2017: charge) in the movement in the fair value of the convertible bond resulting in incremental earnings per share being lower (2017: higher) than basic earnings per share.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

8. Dividends

Dividends paid during the year were in respect of the final dividend for 2017 and interim dividend for 2018. The proposed final dividend of 4.0 pence per share is subject to approval at the Annual General Meeting and has not been included as a liability in these financial statements.

	2018		2017	
	Pence per share	£m	Pence per share	£m
Paid				
Final dividend in respect of previous year	4.26	9.5	4.06	9.0
Interim dividend in respect of current year	3.10	6.9	2.02	4.5
Total paid	7.36	16.4	6.08	13.5
Proposed				
Current year final dividend	4.00	8.9	4.26	9.5

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

9. Investment properties

a. Fair value reconciliation

	2018 £m	2017 £m
At start of year	1,168.5	1,144.7
Property acquisitions	9.1	24.8
Additions	95.5	45.5
Net transfers from/(to) inventories (note 13)	13.7	(3.0)
Net transfers to owner-occupied properties (note 10)	(7.0)	–
Disposals	(360.4)	(60.9)
Movement in lease incentives	0.7	1.2
Gain on revaluation	19.2	16.2
At end of year	939.3	1,168.5

Investment properties were valued at 30 November 2018 and 30 November 2017 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.

As at 30 November 2018, £15.0m (2017: £790.2m) of investment property was pledged as security for the Group's loan facilities. All security was released as part of the Group's refinancing to move to unsecured facilities in December 2017. Two assets were subsequently secured as part of the Homes England facility in October 2018.

Included within investment properties are £3.1m (2017: £64.2m) of assets held under finance leases.

9. Investment properties continued

The following tables provide an analysis of the categorisation of the Group's investment properties:

	2018 £m	2017 £m
Industrial and logistics	423.5	291.5
Non-core retail	64.5	247.0
Non-core other	72.2	221.2
Industrial and logistics/other	560.2	759.7
St. Modwen Homes	85.5	128.0
Other residential	164.7	147.4
Residential and housebuilding	250.2	275.4
Retail-led regeneration	85.3	82.4
Other regeneration	40.5	45.8
Regeneration	125.8	128.2
Investment property portfolio	936.2	1,163.3
Assets held under finance leases ⁽¹⁾	3.1	5.2
Investment properties	939.3	1,168.5

	2018 £m	2017 £m
Investment	481.7	731.8
Development	100.6	63.0
Land	353.9	368.5
Assets held under finance leases ⁽¹⁾	3.1	5.2
Investment properties	939.3	1,168.5

(1) £3.1m (2017: £5.2m) of the Group's assets held under finance leases are not subject to valuation. These assets represent head leases on certain investment property and are carried at the value recognised at inception less repayments of principal. This did not include lease arrangements at Swansea University, which were subject to revaluation prior to their disposal in February 2018.

b. Fair value measurement and sensitivity disclosures

The split of investment properties according to the valuation techniques applied and their fair value hierarchies is set out below:

	Valuation technique	Fair value hierarchy	2018 £m	2017 £m
Income-producing assets	Investment method	Level 3	568.8	722.5
Residential assets	Residual development method	Level 3	206.0	219.1
Other land assets	Comparable land value method	Level 3	161.4	221.7
Assets held under finance leases	Value of minimum lease payments	N/A	3.1	5.2
Investment properties			939.3	1,168.5

Income-producing assets

Income-producing assets have been valued using the investment method which involves applying a yield to rental income streams. Inputs include equivalent yields, current rent and estimated rental value (ERV). The resulting valuations are cross checked against the resulting initial yields and, for certain assets, the land value underpin if the assets were to be redeveloped.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

9. Investment properties continued

Equivalent yields and ERV are considered to be unobservable inputs. Details of the aggregate ERV and weighted average equivalent yields used for each category of income-producing assets are provided in the following table:

	2018			2017		
	Fair value £m	Aggregate ERV £m	Weighted average equivalent yield %	Fair value £m	Aggregate ERV £m	Weighted average equivalent yield %
Industrial and logistics	320.2	25.1	7.2	243.5	20.7	8.0
Retail	147.9	16.1	9.0	326.0	26.5	7.6
Other	100.7	7.9	5.5	153.0	8.4	5.1
Total income-producing assets	568.8	49.1	7.4	722.5	55.6	7.2

As the Group holds property both directly and through joint ventures and associates the strategic report discusses yields applied to investment property on a weighted average see-through basis. This provides a composite position with respect to the Group's exposure to asset types by sector. The aggregate ERVs and weighted average equivalent yields provided above are disclosed for those assets held by the Group excluding its joint ventures and associates.

The Group's portfolio has a wide spread of yields as it includes assets that are at various stages of the property lifecycle. Income producing assets are generally acquired at high yields where the Group has the opportunity to add significant value. As assets are enhanced and development activity is undertaken, improved and new assets are created and valued at lower yields.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of an asset and an increase in the current or estimated future rental stream would have the effect of increasing the capital value, and vice versa. However, there are inter-relationships between the unobservable inputs which are partially determined by market conditions, which would impact on these changes.

The table below sets out a sensitivity analysis for each of the key sources of estimation uncertainty with the resulting increase/(decrease) in the fair value of income-producing assets at 30 November 2018:

	Increase in sensitivity £m	Decrease in sensitivity £m
Change in estimated rental value of 5.0%	28.4	(28.4)
Change in net equivalent yields of 25 basis points	(28.2)	25.0

Residential assets

Residential assets are valued using the residual appraisal development method. To derive the value of land, the valuers estimate the gross development value of completed residential units on a site from which deductions will be made for build costs (including costs to remediate and service land), finance costs and an appropriate profit margin.

Sales prices, build costs and profit margins are considered to be unobservable inputs and details of the ranges used are provided in the following table:

	Fair value £m	Sales price per sq ft £	Build cost per sq ft £	Profit margin %
At 30 November 2018	206.0	184–240	90	19.5–20.0
At 30 November 2017	219.1	148–345	85–120	19.0–20.0

All other factors being equal, a higher sales price would lead to an increase in the valuation of an asset, a higher profit margin would lead to a decrease in the valuation of an asset, and a decrease in the build costs would have the effect of increasing the capital value, and vice versa. However, there are inter-relationships between the unobservable inputs which are partially determined by market conditions, which would impact on these changes.

The table below sets out a sensitivity analysis for each of the key sources of estimation uncertainty with the resulting increase/(decrease) in the fair value of residential assets at 30 November 2018:

	Increase in sensitivity £m	Decrease in sensitivity £m
Change in sales price of 5.0%	85.3	(85.3)
Change in build cost of 5.0%	(39.1)	39.1

9. Investment properties continued

Other land assets

Other land assets are valued using the comparable land value method, which comprises a land value per acre less costs to remediate and service the land. Land value per acre is considered to be an unobservable input and details of the ranges used are detailed in the following table:

	2018		2017	
	Fair value £m	Land value per acre ⁽¹⁾ £'000	Fair value £m	Land value per acre ⁽¹⁾ £'000
Commercial	135.8	7–787	149.8	7–449
Residential	25.6	170–660	71.9	83–872
Other land assets	161.4		221.7	

(1) Excluding ransom strips and substantially complete assets.

All other things being equal, a higher value per acre would lead to an increase in the valuation of an asset and vice versa.

The table below sets out a sensitivity analysis for the key source of estimation uncertainty with the resulting increase/(decrease) in the fair value of other land assets at 30 November 2018:

	Increase in sensitivity £m	Decrease in sensitivity £m
Change in land value per acre of 5.0%	7.8	(7.8)

10. Property, plant and equipment and intangibles

	Operating properties £m	Owner-occupied properties £m	Plant and equipment £m	Intangibles £m	Total £m
Cost					
At 30 November 2016	4.5	–	5.7	0.8	11.0
Additions	0.3	–	1.5	0.2	2.0
Disposals	–	–	(0.1)	–	(0.1)
At 30 November 2017	4.8	–	7.1	1.0	12.9
Additions	–	–	4.4	1.9	6.3
Transfers from investment properties	–	7.0	–	–	7.0
Disposals	–	–	(0.4)	–	(0.4)
At 30 November 2018	4.8	7.0	11.1	2.9	25.8
Depreciation and amortisation					
At 30 November 2016	1.1	–	4.9	0.8	6.8
Charge for the year	0.4	–	0.5	0.2	1.1
Disposals	–	–	(0.1)	–	(0.1)
At 30 November 2017	1.5	–	5.3	1.0	7.8
Charge for the year	–	–	0.8	0.2	1.0
Disposals	–	–	(0.4)	–	(0.4)
At 30 November 2018	1.5	–	5.7	1.2	8.4
Net book value					
At 30 November 2016	3.4	–	0.8	–	4.2
At 30 November 2017	3.3	–	1.8	–	5.1
At 30 November 2018	3.3	7.0	5.4	1.7	17.4

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

11. Joint ventures and associates

a. Details of material joint ventures

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 and development
VSM Estates (Holdings) Limited	Joint venture	50%	Property investment
VSM (NCGM) Limited	Joint venture	50%	Property investment and development

The remainder of the Group's joint ventures and associates are listed in note C to the Company financial statements and included in aggregate below.

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

	2018					Total £m
	Key Property Investments Limited £m	VSM Estates Uxbridge (Group) Limited £m	VSM Estates (Holdings) Limited £m	VSM (NCGM) Limited £m	Other joint ventures and associates £m	
Net rental income	5.3	–	–	–	0.1	5.4
Development profits	1.3	–	–	–	–	1.3
Investment property disposals losses	(1.8)	–	(0.4)	–	–	(2.2)
Investment property revaluation losses	(7.3)	(0.1)	–	(0.8)	–	(8.2)
Credit from increased discount of market liability	–	–	–	4.7	–	4.7
Administrative expenses	(0.1)	–	–	–	–	(0.1)
(Loss)/profit before interest and tax	(2.6)	(0.1)	(0.4)	3.9	0.1	0.9
Finance costs	(1.4)	(1.1)	(0.1)	(3.5)	(0.2)	(6.3)
Finance income	0.6	–	0.8	1.0	–	2.4
(Loss)/profit before tax	(3.4)	(1.2)	0.3	1.4	(0.1)	(3.0)
Taxation	(0.8)	0.8	0.1	(0.2)	–	(0.1)
(Loss)/profit for the year	(4.2)	(0.4)	0.4	1.2	(0.1)	(3.1)

	2017					Total £m
	Key Property Investments Limited £m	VSM Estates Uxbridge (Group) Limited £m	VSM Estates (Holdings) Limited £m	VSM (NCGM) Limited £m	Other joint ventures and associates £m	
Net rental income	4.9	(0.1)	–	–	0.2	5.0
Development profits	0.9	–	–	–	–	0.9
Investment property disposal gains/(losses)	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 costs	(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)

Included in other joint ventures and associates above are profits from associated companies of £0.1m (2017: £0.1m).

11. Joint ventures and associates continued

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

	2018					Total £m
	Key Property Investments Limited £m	VSM Estates Uxbridge (Group) Limited £m	VSM Estates (Holdings) Limited £m	VSM (NCGM) Limited £m	Other joint ventures and associates £m	
Property portfolio	64.1	18.4	–	7.9	10.3	100.7
Other assets	3.6	3.2	9.5	58.0	6.0	80.3
Gross assets	67.7	21.6	9.5	65.9	16.3	181.0
Net borrowings	(10.6)	5.9	13.0	24.8	1.1	34.2
Finance leases	(0.9)	–	–	–	–	(0.9)
Other liabilities	(5.9)	(20.5)	(14.3)	(75.5)	(9.0)	(125.2)
Gross liabilities	(17.4)	(14.6)	(1.3)	(50.7)	(7.9)	(91.9)
Net assets	50.3	7.0	8.2	15.2	8.4	89.1
Equity at 30 November 2017	59.5	7.4	30.6	14.0	8.1	119.6
(Loss)/profit for the year	(4.2)	(0.4)	0.4	1.2	(0.1)	(3.1)
Injection of capital	–	–	–	–	0.4	0.4
Dividends paid	(5.0)	–	(22.8)	–	–	(27.8)
Equity at 30 November 2018	50.3	7.0	8.2	15.2	8.4	89.1

	2017					Total £m
	Key Property Investments Limited £m	VSM Estates Uxbridge (Group) Limited £m	VSM Estates (Holdings) Limited £m	VSM (NCGM) Limited £m	Other joint ventures and associates £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

Included in other joint ventures and associates above are net assets in relation to associated companies of £3.6m (2017: £3.4m). These net assets comprise total assets of £4.3m (2017: £4.0m) and total liabilities of £0.7m (2017: £0.6m).

In the strategic report a series of commercial contracts with Persimmon is 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.

Many of the shareholder agreements for joint ventures and associates contain change of control provisions, as is common for such arrangements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

11. Joint ventures and associates continued

b. 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 a new market at Nine Elms continues to have a significant impact on the results and net assets of the joint venture.

The Group continues to regularly monitor the remaining works required to establish the market. The Board of VSM (NCGM) Limited, including representatives of VINCI and St. Modwen, engages an external quantity surveyor to assess the costs of procuring the market facility. The complicated nature of working on a site with a live market has resulted in changes to the phasing of the project during the year ended 30 November 2018, but not an increase to the overall cost of the project. As this liability is recorded at its net present value, these phasing changes have resulted in the recognition of a finance credit in VSM (NCGM) Limited, with the Group's share of this credit being £4.7m. In the year ended 30 November 2017, 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 at Nine Elms for CGMA has been calculated by:

- estimating the costs of procuring the market facility at current rates;
- applying a current estimate of inflation for the period of the build of 2.0%; 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.

The table below sets out a sensitivity analysis for each of these key sources of estimation uncertainty with the resulting (increase)/decrease in the Group's share of the carrying value of the liability at 30 November 2018:

	Increase in sensitivity £m	Decrease in sensitivity £m
Change in costs of procuring the market facility at current rates of 5.0%	(2.2)	2.2
Change in inflation of 0.5%	(1.1)	1.1
Change in discount rate of 0.5%	1.2	(1.2)

c. Summarised financial information

The following disclosures are required by IFRS 12 *Disclosure of Interests in Other Entities* in respect of the gross financial information for the Group's material joint ventures:

	2018			
	Key Property Investments Limited £m	VSM Estates Uxbridge (Group) Limited £m	VSM Estates (Holdings) Limited £m	VSM (NCGM) Limited £m
Revenue	19.4	–	–	–
(Loss)/profit for the year and total comprehensive (expense)/income	(8.5)	(0.9)	0.6	2.5
Non-current assets	125.1	36.8	–	15.8
Current assets	11.6	18.1	29.9	165.5
Current liabilities	(10.9)	(39.5)	(18.9)	(1.6)
Non-current liabilities	(25.3)	(1.4)	(0.1)	(149.3)
Net assets	100.5	14.0	10.9	30.4

	2017			
	Key Property Investments Limited £m	VSM Estates Uxbridge (Group) Limited £m	VSM Estates (Holdings) Limited £m	VSM (NCGM) Limited £m
Revenue	18.1	–	–	–
Profit/(loss) for the year and total comprehensive income/(expense)	26.7	(7.9)	(5.6)	(27.5)
Non-current assets	176.9	59.6	13.1	17.0
Current assets	18.9	6.3	58.5	190.2
Current liabilities	(26.0)	(48.0)	(29.7)	(11.9)
Non-current liabilities	(50.8)	(3.0)	(1.1)	(167.4)
Net assets	119.0	14.9	40.8	27.9

12. Trade and other receivables

	2018 £m	2017 £m
Non-current		
Other receivables	6.7	2.3
Non-current receivables	6.7	2.3
Current		
Trade receivables	14.4	8.5
Prepayments and accrued income	10.9	6.6
Amounts recoverable on contracts	23.9	9.8
Amounts due from joint ventures and associates	18.5	26.5
Other receivables	22.5	20.7
Current receivables	90.2	72.1

Included within trade receivables are £2.8m (2017: £nil) due on the disposal of inventories and £4.1m (2017: £nil) billed under construction contracts that has been subsequently settled.

Amounts recoverable on contracts represent the cumulative spend incurred on the development of land not under the control of the Group less the progress payments received in respect of such development. Where this development is for the construction of assets on property pre-sold by the Group, the construction expenditure and progress payments profile are not materially different. On larger infrastructure projects undertaken by the Group through a development agreement, there are often limited receipts in the early phases of development and more significant receipts as the project advances, resulting in amounts recoverable on contracts being recognised that reduce over time.

13. Inventories

The movement in inventories during the two years ended 30 November 2018 is as follows:

	2018 £m	2017 £m
At start of year	352.7	229.7
Acquisitions	51.7	67.4
Additions	207.0	246.8
Net transfers (to)/from investment properties (note 9)	(13.7)	3.0
Disposals	(231.7)	(192.2)
Decrease/(increase) in net realisable value provisions	0.4	(2.0)
At end of year	366.4	352.7

The following tables provide an analysis of the categorisation of the Group's inventories:

	2018 £m	2017 £m
Industrial and logistics	14.1	53.3
Non-core retail	9.4	9.2
Non-core other	7.2	47.0
Industrial and logistics/other	30.7	109.5
St. Modwen Homes	285.9	188.4
Other residential	17.6	44.5
Residential and housebuilding	303.5	232.9
Other regeneration	32.2	10.3
Regeneration	32.2	10.3
Inventories	366.4	352.7

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

13. Inventories continued

	2018 £m	2017 £m
Investment	12.1	27.2
Development	129.7	154.9
Land	224.6	170.6
Inventories	366.4	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.

The value of inventories expensed during the year ended 30 November 2018 and included in development profits was £231.3m (2017: £194.2m).

As at 30 November 2018, £nil (2017: £14.2m) of inventory was pledged as security for the Group's loan facilities. This security was released as part of the Group's refinancing to move to unsecured facilities in December 2017.

14. Trade and other payables

	2018 £m	2017 £m
Current		
Trade payables	44.7	44.2
Amounts payable on contracts	0.9	–
Amounts due to joint ventures and associates	18.3	31.9
Other payables and accrued expenses	74.6	79.5
Other payables on deferred terms	19.7	20.4
Current payables	158.2	176.0
Non-current		
Amounts due to joint ventures and associates	–	8.5
Other payables on deferred terms	5.7	11.6
Non-current payables	5.7	20.1

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.

15. Borrowings and finance lease obligations

	2018 £m	2017 £m
Current		
Convertible bond	100.2	–
Finance lease liabilities	–	0.6
Current borrowings and finance lease obligations	100.2	0.6
Non-current		
Bank loans	210.0	254.3
Convertible bond	–	100.6
Retail bond	–	80.0
Non-current borrowings	210.0	434.9
Finance lease liabilities	3.0	56.4
Non-current borrowings and finance lease obligations	213.0	491.3

15. Borrowings and finance lease obligations continued

a. Borrowings

Maturity profile of committed borrowing facilities

The Group's debt is provided by a floating rate unsecured revolving credit facility of £475.0m (providing the flexibility to draw and repay loans as required) together with a £100.0m convertible bond and a £75.0m facility from the Homes England Home Building Fund. The maturity profile of the Group's committed borrowing facilities is set out below:

	2018			2017		
	Drawn ⁽¹⁾ £m	Undrawn £m	Total £m	Drawn ⁽¹⁾ £m	Undrawn £m	Total £m
One to two years	-	-	-	13.8	111.2	125.0
Three to four years	-	-	-	240.5	122.5	363.0
More than five years	-	15.0	15.0	-	-	-
Secured floating rate borrowings	-	15.0	15.0	254.3	233.7	488.0
More than five years	210.0	325.0	535.0	-	-	-
Unsecured floating rate borrowings	210.0	325.0	535.0	-	-	-
Less than one year	100.2	-	100.2	-	-	-
One to two years	-	-	-	180.6	-	180.6
Unsecured fixed rate borrowings	100.2	-	100.2	180.6	-	180.6
Total committed borrowing facilities	310.2	340.0	650.2	434.9	233.7	668.6

(1) In addition to the principal amounts included above, £1.2m (2017: £1.6m) of interest payable was committed at the year end. These amounts all fall due within three months of the year end.

Interest rate profile

The interest rate profile of the Group's borrowings after taking into account the effects of hedging is:

	2018		2017	
	£m	Applicable interest rate	£m	Applicable interest rate
Floating rate bank debt	115.0	Margin + LIBOR	75.3	Margin + LIBOR
Fixed rate bank debt	95.0	Margin + 0.87% weighted average swap and cap rate	179.0	Margin + 2.22% weighted average swap rate
Retail bond	-	N/A	80.0	6.25% fixed rate
Convertible bond	100.2	2.875% fixed rate	100.6	2.875% fixed rate
Total borrowings	310.2		434.9	

Convertible bond

On 6 March 2014 St. Modwen Properties Securities (Jersey) Limited (the issuer) issued £100.0m 2.875% Guaranteed Convertible Bonds due 2019 at par. The Company has unconditionally and irrevocably guaranteed the due and punctual performance by the issuer of all its obligations (including payments) in respect of the convertible bonds and the obligations of the Company, as Guarantor, constitute direct, unsubordinated and unsecured obligations of the Company.

Subject to certain conditions, the convertible bond is convertible into preference shares of the issuer which are automatically transferred to the Company in exchange for ordinary shares in the Company or (at the Company's election) any combination of ordinary shares and cash. The convertible bond can be converted at any time from 16 April 2014 up to the seventh dealing day before the maturity date.

The initial exchange price was £5.29 per ordinary share, a conversion rate of approximately 18,889 ordinary shares for every £100,000 nominal of the convertible bond. Under the terms of the convertible bond, the exchange price is adjusted on the occurrence of certain events including the payment of dividends by the Company in excess of a yield of 1.0% of the average share price in the 90 days preceding the dividend ex date. The exchange price was modified during the year ended 30 November 2017 due to the payment of dividends and now stands at £5.21 per ordinary share, a conversion rate of approximately 19,177 ordinary shares for every £100,000 nominal.

The convertible bond may be redeemed at par at the Company's option subject to the Company's ordinary share price having traded at 30% above the conversion price for a specified period, or at any time once 85% of the convertible bond has been traded or cancelled. If not previously converted, redeemed or purchased and cancelled, the convertible bond will be redeemed at par on 6 March 2019. A total of £100.0m nominal value of the convertible bond was issued and remains outstanding at 30 November 2018. The convertible bond is designated as at fair value through profit and loss and so is presented on the balance sheet at fair value with all gains and losses taken to the Group income statement. At 30 November 2018 the fair value of the convertible bond was £100.2m (2017: £100.6m) with the change in fair value charged to the Group income statement. The convertible bond is listed on the Official List of the Channel Islands Security Exchange.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

15. Borrowings and finance lease obligations continued

b. Financial instruments classified at fair value through profit or loss

The Group's derivative financial instruments, which are classified as fair value through profit or loss, consist of sterling denominated interest rate swaps. The change in fair value of all derivative financial instruments charged or credited to the Group income statement is disclosed in note 5. Further information on the instruments held by the Group is detailed below:

Sterling denominated interest rate swaps from floating rate to fixed rate

These swaps hedge the Group's floating rate bank debt as at 30 November 2018. The fixed rates for these swaps range from 0.49% to 1.37% (2017: 0.49% to 5.16%) and details of their maturity profile are given below. The weighted average maturity of the interest rate swaps below is 3.2 years (2017: 2.4 years).

	2018		2017	
	£m	% ⁽¹⁾	£m	% ⁽¹⁾
Less than one year	–	–	10.0	5.16
One to two years	–	–	75.0	2.98
Two to three years	45.0	0.49	10.0	1.60
Three to four years	–	–	84.0	1.26
Four to five years	30.0	1.37	–	–
Total floating rate to fixed rate swaps	75.0	0.84	179.0	2.22

(1) Weighted average interest rate.

Sterling denominated interest rate cap from floating rate to fixed rate

An interest rate cap hedges the Group's floating rate bank debt as at 30 November 2018 by capping the rate at 1.00%. The cap fixes a variable balance ranging from £nil to £140.0m and the balance hedged at 30 November 2018 was £20.0m. The maturity of the interest rate cap is 1.6 years. There were no interest rate caps in place at 30 November 2017.

Forward starting sterling denominated interest rate swaps from floating rate to fixed rate

These swaps provide continuity of hedging beyond the term of the existing interest rate swaps and the fixed-rate convertible bond and increase interest rate certainty through to bank facility renewal dates. These swaps fix £120.0m with fixed rates ranging from 1.41% to 1.44% and a weighted average rate of 1.43%. These swaps all start within one year and mature between four and five years. There were no forward starting swaps at 30 November 2017.

c. Obligations under finance leases

Finance lease liabilities payable in respect of certain leasehold investment properties are as follows:

	2018			2017		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	0.2	(0.2)	–	2.9	(2.3)	0.6
Between one and five years	0.9	(0.7)	0.2	11.6	(9.1)	2.5
More than five years	5.2	(2.4)	2.8	113.2	(59.3)	53.9
Total obligations under finance leases	6.3	(3.3)	3.0	127.7	(70.7)	57.0

Finance leases are for periods of up to 999 years from inception and a discount rate of 6.0% (2017: 6.0%) has been used to derive the fair value of the principal amount outstanding. All lease obligations are denominated in sterling.

15. Borrowings and finance lease obligations continued

d. Liabilities arising from financing activities

A reconciliation of liabilities arising from financing activities is set out below:

	2018				
	Borrowings £m	Derivative financial instruments £m	Accrued interest £m	Finance leases £m	Total £m
At 1 December 2017	434.9	4.0	2.3	57.0	498.2
Net cash outflows from financing activities ⁽¹⁾	(128.0)	(5.1)	(17.6)	(0.5)	(151.2)
Interest payable (note 5)	–	–	14.3	0.5	14.8
Interest capitalised (note 5)	–	–	2.2	–	2.2
Movement in fair value of financial liabilities (note 5)	(0.4)	1.1	–	–	0.7
Early redemption of retail bond (note 5)	3.7	–	–	–	3.7
Disposal of finance leases associated with investment property	–	–	–	(54.0)	(54.0)
At 30 November 2018	310.2	–	1.2	3.0	314.4

(1) The total net cash outflow from financing activities on the cash flow statement of £175.5m includes £151.2m as stated above, £16.5m of dividends paid and £7.8m of arrangement and other fees incurred on refinancing activity.

16. Operating leases

Operating lease commitments where the Group is the lessee

The Group leases certain of its premises, motor vehicles and office equipment under operating leases. Future aggregate minimum lease rentals payable under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
In one year or less	1.5	1.1
Between one and five years	2.4	1.9
Total minimum lease rentals payable	3.9	3.0

Operating leases where the Group is the lessor

The Group leases its investment properties to tenants under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
In one year or less	29.8	48.6
Between one and five years	78.9	144.1
In five years or more	208.9	736.6
Total minimum lease rentals receivable	317.6	929.3

Contingent rents, calculated as a percentage of turnover for a limited number of tenants, of £0.9m (2017: £0.8m) were recognised during the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

17. Financial instruments

a. Categories and classes of financial assets and liabilities

	2018 £m	2017 £m
Loans and receivables: ⁽¹⁾		
Cash and cash equivalents	38.9	0.5
Trade and other receivables	58.1	55.3
Fair value through profit and loss: ⁽²⁾		
Derivative financial instruments	0.9	0.8
Total financial assets	97.9	56.6

	2018 £m	2017 £m
Amortised cost: ⁽¹⁾		
Bank loans and overdrafts	210.0	254.3
Retail bond	–	80.0
Trade and other payables	99.6	107.6
Other payables on deferred terms	25.4	32.0
Finance lease liabilities	3.0	57.0
Fair value through profit and loss: ⁽²⁾		
Convertible bond	100.2	100.6
Derivative financial instruments	0.9	4.8
Total financial liabilities	439.1	636.3

(1) The directors consider that the carrying amounts recorded in the financial statements approximate their fair value.

(2) Fair values are calculated using quoted market prices relevant for the term and instrument.

Trade and other receivables above comprise other receivables, trade receivables and amounts due from joint ventures as disclosed in note 12, for current and non-current amounts, after deduction of £4.0m (2017: £2.7m) of non-financial assets.

Trade and other payables above comprise trade payables, amounts due to joint ventures and other payables and accrued expenses as disclosed in note 14, for current and non-current amounts, after deduction of £38.0m (2017: £48.0m) of non-financial liabilities.

Derivative financial instruments and the convertible bond are externally valued based on the present value of estimated future cash flows and discounted based on the applicable yield curves derived from market expectations for future interest rates at the balance sheet date. Where applicable, the value of early termination or conversion options in favour of the issuing party are included in the external valuations. The following table sets out the net assets and liabilities in respect of financial instruments held at fair value through profit and loss:

		2018 £m	2017 £m
Derivative financial instrument assets	Level 2	0.9	0.8
Derivative financial instrument liabilities	Level 2	(0.9)	(4.8)
Convertible bond liability	Level 2	(100.2)	(100.6)
Net financial liability held at fair value through profit and loss		(100.2)	(104.6)

b. Risk management objectives

Capital risk

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt (as disclosed in note 15), cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings as disclosed in the Group statement of changes in equity. The capital structure of the Group is reviewed with reference to gearing (as disclosed in note 2) which the Group intends to keep low to provide a robust financial platform for business growth.

Market risk

Market risk is the potential adverse change in the Group's income or the Group's net worth arising from movements in interest rates or other market prices. Interest rate risk is the Group's principal market risk and the Group is exposed to interest rate risk as some of its borrowings are at variable interest rates. The Group uses a combination of variable rate borrowings and interest rate hedging to manage the risk.

17. Financial instruments continued

The following table details the Group's sensitivity, after tax, to a reasonably possible change in interest rates of 100 basis points based on year end levels of debt:

	2018 £m	2017 £m
Interest on borrowings	(1.7)	(2.1)
Effect of interest rate swaps	0.6	1.4
Effect of interest rate cap	0.2	–
Net impact on profit of an increase of 100 basis points in interest rates	(0.9)	(0.7)

	2018 £m	2017 £m
Interest on borrowings	1.7	2.1
Effect of interest rate swaps	(0.6)	(1.4)
Net impact on profit of a decrease of 100 basis points in interest rates	1.1	0.7

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due.

The credit risk on the Group's liquid funds and derivative financial instruments is limited because the counterparties are banks with strong credit ratings. Bank deposits are only placed with banks in accordance with Group policy that specifies minimum credit rating and maximum exposure. Credit risk on derivatives is closely monitored.

Trade and other receivables consist of amounts due from a large number of parties spread across geographical areas. The Group does not have any significant concentrations of credit risk as the tenant base is large and diverse with the largest individual tenant accounting for £1.6m (2017: £8.1m) of gross rental income.

The carrying amount of financial assets, as detailed above, represents the Group's maximum exposure to credit risk at the reporting date.

Included within trade and other receivables is £1.4m (2017: £0.8m) which is provided against as it represents estimated irrecoverable amounts. This allowance has been determined by a review of all significant balances that are past due considering the reason for non-payment and the creditworthiness of the counterparty. A reconciliation of the changes in this account during the year is provided below:

	2018 £m	2017 £m
At start of year	0.8	0.6
Impairment losses recognised	1.7	0.5
Amounts written off as uncollectable	(0.6)	(0.2)
Impairment losses reversed	(0.5)	(0.1)
At end of year	1.4	0.8

Trade and other receivables include £2.3m (2017: £2.3m) which are past due as at 30 November 2018 for which no provision has been made because the amounts are considered recoverable. The following table provides an ageing analysis of these balances:

	2018 £m	2017 £m
1 to 30 days	0.6	0.6
31 to 60 days	0.7	0.6
More than 60 days	1.0	1.1
Total trade and other receivables past due but not impaired	2.3	2.3

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources available to meet its obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities and through the use of borrowing facilities, overdrafts and cash to ensure continuity of funding. Borrowing facilities are monitored with reference to their maturity dates, with detailed plans in place for any facilities maturing within 18 months, and available undrawn facilities, details of which are disclosed in note 15. The weighted average maturity of the Group's borrowing facilities at 30 November 2018 was 4.5 years (2017: 2.7 years).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

17. Financial instruments continued

The maturity profile for the cash flows of the Group's non-derivative financial liabilities, on an undiscounted basis, is as follows:

	2018					Total £m
	Less than one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m	
Bank loans, overdrafts and bonds	1.0	1.7	108.0	233.9	–	344.6
Trade and other payables	88.0	1.8	9.8	–	–	99.6
Finance leases – minimum lease payments (note 15)	0.1	–	0.1	0.9	5.2	6.3
Other payables on deferred terms	–	–	19.7	5.7	–	25.4
Total cash flows	91.7	3.5	135.0	240.5	5.2	475.9

	2017					Total £m
	Less than one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m	
Bank loans, overdrafts and bonds	0.1	4.0	12.1	471.7	–	487.9
Trade and other payables	62.9	1.0	35.2	8.5	–	107.6
Finance leases – minimum lease payments (note 15)	0.7	–	2.2	11.6	113.2	127.7
Other payables on deferred terms	–	–	20.4	11.6	–	32.0
Total cash flows	63.7	5.0	69.9	503.4	113.2	755.2

The Group's approach to cash flow, financing and bank covenants is discussed further in the financial review section of the strategic report.

18. Share capital

	2018		2017	
	Ordinary 10p shares Number	Equity share capital £m	Ordinary 10p shares Number	Equity share capital £m
At start of year	222,376,988	22.2	221,876,988	22.2
Issue of shares	–	–	500,000	–
At end of year	222,376,988	22.2	222,376,988	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.

No shares were issued during the year ended 30 November 2018. During the year ended 30 November 2017, the Group issued 500,000 Ordinary shares of 10 pence 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. See note 4d for details of outstanding options to acquire ordinary shares.

Excluding 345,744 (2017: 519,906) of own shares held by The St. Modwen Properties PLC Employee Share Trust, shares in issue at 30 November 2018 are 222,031,244 (2017: 221,857,082).

19. Pensions

The Group operates a UK-based pension scheme, the St. Modwen Pension Scheme, with both defined benefit and defined contribution sections. The defined benefit section is closed to new members and, from 1 September 2009, future accrual. The Group income statement includes the following charges:

	2018 £m	2017 £m
Defined benefit section	0.3	0.2
Defined contribution section	1.5	0.9

19. Pensions continued

The St. Modwen Pension Scheme is governed by the trustee company, St. Modwen Pensions Limited. It is regulated by the UK regulatory regime, overseen by the Pensions Regulator.

The last formal actuarial valuation of the scheme was at 5 April 2017, when the market value of the net assets of the scheme was £32.1m and the funding level was 107% based on the Trustees' proposed assumptions for technical provisions. The main actuarial assumptions were:

	% per annum
Rate of increase in pensions	2.7
Discount rate	3.0
Inflation rate	2.7

The next formal actuarial valuation of the scheme is expected to be prepared as at 5 April 2020.

Funding policy

As the scheme is fully funded, the current schedule of contributions requires the Group to fund the Scheme to such an extent as to cover administrative expenses only. The contribution for the year ended 30 November 2019 is expected to be £nil, consistent with the current year contributions of £nil. From 1 January 2015, administrative expenses have been met by St. Modwen Properties PLC.

The actuarial valuation of the defined benefit section, a final salary scheme, was updated to 30 November 2018 on an IAS basis by a qualified independent actuary. The valuation was performed using the Projected Unit Credit Method under IAS 19. The major assumptions used by the actuary were:

	2018 %	2017 %
Rate of increase in deferred pensions	2.40	2.30
Rate of increase in pensions in payment (pre 6 April 1997 benefits)	2.60	2.55
Rate of increase in pensions in payment (post 5 April 1997 benefits)	3.30	3.20
Discount rate	2.90	2.60
Inflation rate	2.40	2.30

Following the closure of the defined benefit section to future accrual, the assumption regarding the rate of increase in salaries is no longer applicable as retirement benefits will be based on salaries at 31 August 2009. Benefits earned up to the point of the scheme closure will be protected and will be increased in line with inflation, subject to a maximum of 5% per annum. From 2010 the basis of the inflation assumption has been amended, in line with market practice, from the Retail Price Index to the Consumer Price Index.

The mortality rates adopted are from 85% of the S2Px tables with CMI 2017 core model (previously the CMI 2016 core model) and a long-term improvement of 1.25% per annum. The resultant assumptions are, for example:

- Average future life expectancy (in years) for a pensioner aged 65 at 30 November 2018: 23.2 (male) and 25.1 (female).
- Average future life expectancy (in years) at age 65 for a non-pensioner aged 40 at 30 November 2018: 25.1 (male) and 27.0 (female).

Analysis of the amounts recognised in the Group income statement

	2018 £m	2017 £m
Recognised within administrative expenses:		
Total operating charge	(0.3)	(0.3)
Recognised within finance costs and finance income:		
Interest income on scheme assets	0.8	0.9
Interest on pension scheme liabilities	(0.8)	(0.8)
Total net interest	–	0.1
Total recognised in the Group income statement	(0.3)	(0.2)

The actual return on pension scheme assets was a gain of £1.1m (2017: £2.5m).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

19. Pensions continued

Analysis of the amount recognised in the Group statement of comprehensive income

	2018 £m	2017 £m
The returns on scheme assets (excluding amounts included in net interest)	0.3	1.6
Experience gains and losses arising on fair value of scheme liabilities	0.3	0.5
Actuarial gains and losses arising from changes in demographic assumptions	0.2	(0.5)
Actuarial gains and losses arising from changes in financial assumptions	0.8	(0.5)
Change in unrecognised surplus	(1.6)	(1.2)
Remeasurement of the net defined benefit asset	-	(0.1)

Analysis of the fair value of assets

	2018 £m	2017 £m
Equities:		
Overseas equity	0.2	5.6
Debt securities:		
UK corporate bonds	6.4	1.0
Overseas corporate bonds	8.1	5.6
UK government bonds	0.3	-
Overseas government bonds	0.2	-
UK index-linked gilts	6.6	9.0
Derivatives	-	0.1
Investment fund	-	5.3
Property	5.2	4.8
Cash	4.8	0.6
Fair value of assets	31.8	32.0
Actuarial value of liabilities	(27.0)	(28.8)
Unrecognised surplus	(4.8)	(3.2)
Recognised surplus	-	-

The cumulative amount of actuarial gains and losses (before the unrecognised surplus of £4.8m) recorded in the Group statement of comprehensive income is a loss of £3.4m (2017: £4.4m).

Analysis of the movement in the present value of the scheme liabilities

	2018 £m	2017 £m
At start of year	28.8	29.4
Interest cost	0.8	0.8
Experience gains and losses arising on fair value of scheme liabilities	(0.3)	(0.5)
Actuarial gains and losses arising from changes in demographic assumptions	(0.2)	0.5
Actuarial gains and losses arising from changes in financial assumptions	(0.8)	0.5
Benefits paid	(1.3)	(1.9)
At end of year	27.0	28.8

19. Pensions continued

Analysis of the movement in the fair value of the scheme assets

	2018 £m	2017 £m
At start of year	32.0	31.4
Interest income	0.8	0.9
Return on assets excluding amounts included in net interest	0.3	1.6
Benefits paid	(1.3)	(1.9)
At end of year	31.8	32.0

Information about the defined benefit obligation

	2018		2017	
	Liability split %	Duration years	Liability split %	Duration years
Deferred members	25	18	27	19
Pensioners	75	12	73	12
Total	100	13	100	14

Risk factors

The Group is exposed to a number of risks related to its defined benefit scheme, the most significant of which are detailed below:

Asset volatility

Pension scheme liabilities are calculated using discount rates set with reference to bond yields. If the assets within the scheme deliver a return which is lower than the discount rate this will create or increase a deficit within the scheme. This risk is reduced by holding a significant proportion of the scheme assets in matching assets (bonds or similar). As the scheme matures, it is anticipated that this proportion will increase to better match the assets and liabilities of the scheme.

Changes in bond yields

A decrease in bond yields will typically increase liabilities, although this will be partially offset by an appreciation in the value of scheme assets held in bonds.

Inflation risk

As the pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities. The asset portfolio includes a significant proportion of inflation linked bonds to reduce this risk.

Member longevity

The pension obligations provide benefits for the life of the members, therefore increases in life expectancy will result in an increase in liabilities (and vice-versa).

Sensitivity analysis

The following sets out the sensitivity of the actuarial value of liabilities to reasonably possible changes in assumptions compared with the actuarial assumptions adopted at 30 November 2018:

- A 0.5% decrease in the discount rate would increase the actuarial value of liabilities by £1.8m to £28.8m.
- A one-year increase in life expectancy would increase the actuarial value of liabilities by £1.4m to £28.4m.
- A 0.5% increase in the inflation rate would increase the actuarial value of liabilities by £1.1m to £28.1m.
- A 0.5% increase in the rate of increase in deferred pensions would increase the actuarial value of liabilities by £0.1m to £27.1m.
- A 0.5% increase in the rate of increase in pensions in payments would increase the actuarial value of liabilities by £1.1m to £28.1m.

20. Capital commitments

At 30 November 2018 the Group had contracted capital expenditure of £19.0m (2017: £38.8m). In addition the Group's share of the contracted capital expenditure of its joint venture undertakings was £5.2m (2017: £9.0m). All capital commitments relate to investment properties.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

21. Financial guarantees

The Group has a joint and several unlimited liability with VINCI PLC and the Ministry of Defence under guarantees in respect of the financial performance of VSM Estates (Holdings) Limited. This is a guarantee in the ordinary course of business and would require the guarantors to step into VSM's place in the event of a default on Project MoDEL. Completion of the project is not considered onerous as the forecast revenues exceed the anticipated costs and it is not expected that there would be any net outflow in this regard.

The Group, together with VINCI PLC, has provided a joint and several guarantee in respect of the obligations of VSM (NCGM) Limited relating to the redevelopment of New Covent Garden Market, London. This is a guarantee in the ordinary course of business and would require the guarantors to comply with the terms of the development agreement and to indemnify Covent Garden Market Authority against any breach of those terms.

The Group, together with Salhia Real Estate K.S.C., has provided a parent company guarantee in respect of the £65.0m bank facility provided to Key Property Investments Limited. The guarantee provided by the Group is capped at 50% of the total commitment under the agreement from time to time, limiting the Group guarantee to £32.5m as at 30 November 2018. The Group's share of the loan balance outstanding at 30 November 2018 was £11.3m.

St. Modwen Properties PLC has guaranteed the liabilities of the following subsidiaries in order that they qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 30 November 2018:

Name of subsidiary	Company registration number
Blackpole Trading Estate (1978) Limited	00581658
Boltro Properties Limited	02616865
Broomford Vange Limited	05697168
Chaucer Estates Limited	00456386
Coed Darcy Estates Management Limited	07848407
Festival Waters Limited	04354481
Glan Llyn Management Limited	07848409
Holaw (462) Limited	03666441
Killingholme Energy Limited	08320277
Killingholme Land Limited	08320297
Leisure Living Limited	02106984
Shaw Park Developments Limited	04625000
St. Modwen (SAC1) Limited	08296927
St. Modwen Corporate Services Limited	06163437
St. Modwen Developments (Blackburn) Limited	05732825
St. Modwen Developments (Connah's Quay) Limited	05726352
St. Modwen Developments (Eccles) Limited	05867740
St. Modwen Developments (Hatfield) Limited	04354480
St. Modwen Developments (Hillington) Limited	04150262
St. Modwen Developments (Holderness) Limited	05726995
St. Modwen Developments (Hull) Limited	05593517
St. Modwen Developments (Kirkby 2) Limited	09746395
St. Modwen Developments (Longbridge) Limited	02885028
St. Modwen Developments (Weston) Limited	05411348
St. Modwen Hungerford Limited	06160323
St. Modwen Securities Limited	00460301

22. Related party transactions

All related party transactions involving directors, and those involving a change in the level of the Group's interest in non-wholly owned subsidiaries, joint ventures and associates are specifically reviewed and approved by the Board. Monitoring and management of transactions between the Group and its non-wholly owned subsidiaries, joint ventures and associates is delegated to the executive directors. All related party transactions are clearly justified and beneficial to the Group, are undertaken on an arm's-length basis on fully commercial terms and in the normal course of business.

22. Related party transactions continued

Joint ventures and associates

The following table sets out the income and expenditure with joint ventures and associates during the year, together with the balances outstanding at the year end:

	2018				2017			
	Management fee income/ (expense) £m	Interest income/ (expense) £m	Funding repaid/ (provided) £m	Balance receivable/ (payable) £m	Management fee income/ (expense) £m	Interest income/ (expense) £m	Funding repaid/ (provided) £m	Balance receivable/ (payable) £m
Barton Business Park Limited	–	–	(0.1)	(3.6)	–	–	(0.1)	(3.7)
Baglan Bay Company Limited	–	–	–	0.1	–	–	(0.1)	0.1
Coed Darcy Limited	–	–	0.4	(0.6)	–	–	0.2	(0.2)
Key Property Investments Limited	0.2	–	4.7	(2.4)	0.3	–	(0.8)	2.1
Meaford Energy Limited	–	–	(1.5)	2.0	–	–	–	0.5
Meaford Land Limited	–	–	–	0.1	–	–	–	0.1
Skypark Development Partnership LLP	–	0.2	–	5.0	–	0.6	(2.7)	4.8
VSM (NCGM) Limited	–	(0.4)	(12.9)	(8.6)	–	3.8	49.3	(21.1)
VSM Estates (Ashchurch) Limited	–	–	(0.1)	0.1	–	–	0.2	–
VSM Estates (Holdings) Limited	–	0.1	(9.5)	–	–	1.8	11.4	(9.6)
VSM Estates Uxbridge (Group) Limited	–	0.9	6.0	6.2	–	1.7	15.3	11.3
Wrexham Land Limited	–	–	(0.1)	0.2	–	–	–	0.1
Wrexham Power Limited	–	–	–	1.7	–	–	(0.2)	1.7
Total	0.2	0.8	(13.1)	0.2	0.3	7.9	72.5	(13.9)

Pension

The Group occupies offices owned by the St. Modwen Pension Scheme with an annual rental payable of £0.1m (2017: £0.1m). The balance due from the Group at year end was £1.0m (2017: £0.1m).

Non-wholly owned subsidiaries

The Company provides administrative and management services and provides a central purchase ledger system to subsidiary companies. In addition, the Company also operates a central treasury function which lends to and borrows from subsidiary undertakings as appropriate. The following table sets out the income and expenditure during the year, together with the balances outstanding at the year end, with subsidiaries in which the Company has a less than 90% interest:

	2018		2017	
	Interest income/ (expense) £m	Balance receivable/ (payable) £m	Interest income/ (expense) £m	Balance receivable/ (payable) £m
Norton & Proffitt Developments Limited	0.1	12.0	0.2	11.8
Stoke-on-Trent Regeneration (Investments) Limited	–	(0.5)	–	(0.6)
Stoke-on-Trent Regeneration Limited	(0.2)	(10.1)	(0.2)	(9.1)
Uttoxter Estates Limited	0.1	4.8	–	(0.4)
Widnes Regeneration Limited	–	(1.3)	–	(1.5)
Total	–	4.9	–	0.2

All amounts due to the Group are unsecured, will be settled in cash and are stated before provisions for doubtful debts of £nil (2017: £nil). No guarantees have been given or received from related parties.

Transactions in which directors have an interest

The Group is party to a development agreement in respect of land partly owned by Simon Clarke, a non-executive director. No amounts have been paid or received between parties to this development agreement during the year and there are no outstanding balances payable or receivable as at 30 November 2018 (2017: £nil).

Key management personnel

The directors are considered to be the Group's key management personnel and their remuneration is disclosed in the Directors' Remuneration report.

COMPANY BALANCE SHEET

as at 30 November 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Plant and equipment and intangibles	B	7.0	1.5
Investments in subsidiaries and joint ventures	C	770.9	773.5
Trade and other receivables	D	475.0	475.0
Deferred tax	E	1.6	2.7
		1,254.5	1,252.7
Current assets			
Trade and other receivables	D	518.4	530.4
Derivative financial instruments		0.9	0.8
Tax receivables		19.2	13.7
Cash and cash equivalents		0.1	0.3
		538.6	545.2
Current liabilities			
Trade and other payables	F	(424.6)	(411.0)
Derivative financial instruments		(0.9)	(5.8)
Borrowings	G	(11.6)	–
		(437.1)	(416.8)
Non-current liabilities			
Trade and other payables	F	(101.6)	(107.5)
Borrowings	G	(210.0)	(273.3)
		(311.6)	(380.8)
Net assets		1,044.4	1,000.3
Capital and reserves			
Called up share capital		22.2	22.2
Share premium account		102.8	102.8
Retained earnings		190.7	336.1
Fair value reserve		679.1	489.6
Share incentive reserve		4.7	5.1
Own shares		(1.3)	(1.7)
Other reserves		46.2	46.2
Total equity		1,044.4	1,000.3

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement or statement of comprehensive income in these financial statements. The Company's profit for the year ended 30 November 2018 was £60.2m (2017: £0.5m).

These financial statements were approved by the Board and authorised for issue on 4 February 2019.

Mark Allan
Chief Executive

Rob Hudson
Chief Financial Officer

Company Number: 00349201

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2018

	Share capital £m	Share premium account £m	Retained earnings £m	Fair value reserve £m	Share incentive reserve £m	Own shares £m	Other reserves £m	Total equity £m
Equity at 30 November 2016	22.2	102.8	350.1	429.6	4.9	(0.6)	46.2	955.2
Profit for the year	–	–	59.6	–	–	–	–	59.6
Pension fund actuarial losses (note 19)	–	–	(0.1)	–	–	–	–	(0.1)
Total comprehensive income for the year	–	–	59.5	–	–	–	–	59.5
Share-based payments	–	–	–	–	1.8	–	–	1.8
Deferred tax on share-based payments	–	–	–	–	0.3	–	–	0.3
Settlement of share-based payments	–	–	–	–	(1.9)	(1.1)	–	(3.0)
Transfer of unrealised losses to fair value reserve	–	–	(60.0)	60.0	–	–	–	–
Dividends paid (note 8)	–	–	(13.5)	–	–	–	–	(13.5)
Equity at 30 November 2017	22.2	102.8	336.1	489.6	5.1	(1.7)	46.2	1,000.3
Profit and total comprehensive income for the year	–	–	60.2	–	–	–	–	60.2
Share-based payments	–	–	–	–	1.8	–	–	1.8
Deferred tax on share-based payments	–	–	–	–	(0.1)	–	–	(0.1)
Settlement of share-based payments	–	–	0.3	–	(2.1)	0.4	–	(1.4)
Transfer of unrealised gains to fair value reserve	–	–	(189.5)	189.5	–	–	–	–
Dividends paid (note 8)	–	–	(16.4)	–	–	–	–	(16.4)
Equity at 30 November 2018	22.2	102.8	190.7	679.1	4.7	(1.3)	46.2	1,044.4

Own shares represent the cost of 345,744 (2017: 519,906) shares held by The St. Modwen Properties PLC Employee Share Trust. The open market value of the shares held at 30 November 2018 was £1.3m (2017: £2.0m). In addition, the Trust has £0.1m (2017: £0.1m) of cash and an intercompany receivable of £18.6m (2017: £17.4m), that can only be used for the benefit of employees.

The other reserves comprise a capital redemption reserve of £0.3m (2017: £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 (2017: £45.9m).

Unrealised gains and losses arising from the revaluations of investments in subsidiaries and joint ventures and investment properties are recognised within profit for the year and subsequently transferred to the fair value reserve.

COMPANY ACCOUNTING POLICIES

for the year ended 30 November 2018

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 *Application of Financial Reporting Requirements*. Accordingly, the Company's financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework* as issued by the Financial Reporting Council, 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 and the defined benefit section of the Company's pension scheme.

The Company has taken advantage of the disclosure exemptions included within paragraph 8 of FRS 101. The main impact of these disclosure exemptions is that these separate financial statements do not include a cash flow statement, financial instruments and related party disclosures and comparative information for plant and equipment and investment properties.

Certain disclosures required for the Company are included within the Group financial statements and are therefore not repeated within these separate financial statements. Specifically, the following information relevant to the Company is found in the respective notes to the Group financial statements:

- Share-based payments (note 4d)
- Dividends (note 8)
- Share capital (note 18)
- Pensions (note 19)
- Contingent liabilities (note 21)
- Related party transactions (note 22)

The Company's functional and presentational currency is pounds sterling and its principal accounting policies are as set out for the Group on pages 132 to 139, except for the additional policy below:

Investments in subsidiaries and joint ventures

The Company recognises its investments in subsidiaries and joint ventures using the equity method of accounting. Under the equity method, the interest in the subsidiary or joint venture is carried in the Company balance sheet at cost plus post-acquisition changes in the Company's share of its net assets, less distributions received and less any impairment in value of individual investments. The income statement reflects the Company's share of the subsidiary's or joint venture's results after interest and tax.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2018

A. Auditor's remuneration

The table below sets out the fees payable to the Company's auditor for the following services:

	2018			2017		
	Audit services £'000	Audit-related services £'000	Total £'000	Audit services £'000	Audit-related services £'000	Total £'000
The audit of the Company's annual report and financial statements	171	–	171	125	–	125
The review of the Company's half-year report and condensed financial statements	–	52	52	–	50	50
Total fees	171	52	223	125	50	175

B. Plant and equipment and intangibles

	Plant and equipment £m	Intangibles £m	Total £m
Cost			
At 30 November 2017	4.8	1.0	5.8
Additions	4.4	1.9	6.3
At 30 November 2018	9.2	2.9	12.1
Depreciation			
At 30 November 2017	3.3	1.0	4.3
Charge for the year	0.6	0.2	0.8
At 30 November 2018	3.9	1.2	5.1
Net book value			
At 30 November 2017	1.5	–	1.5
At 30 November 2018	5.3	1.7	7.0

C. Investments in subsidiaries and joint ventures

	Cost of investment			Investment valuation		
	Subsidiaries £m	Joint ventures £m	Total £m	Subsidiaries £m	Joint ventures £m	Total £m
At 30 November 2017	294.9	24.0	318.9	662.0	111.5	773.5
Write-off of investments	(192.1)	–	(192.1)	(192.1)	–	(192.1)
Revaluation of investments	–	–	–	220.4	(30.9)	189.5
At 30 November 2018	102.8	24.0	126.8	690.3	80.6	770.9

All of the Group's subsidiaries, joint ventures (other than those in liquidation processes) and associates are resident in the UK for tax purposes and therefore subject to full UK corporation tax.

Many of the shareholder agreements for joint ventures and associates contain change of control provisions, as is common for such arrangements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

C. Investments in subsidiaries and joint ventures continued

The following is a list of all subsidiary undertakings, joint ventures and associates owned by the Company or Group at 30 November 2018. Unless otherwise stated, all are incorporated in England and Wales with registered office at Park Point, 17 High Street, Longbridge, Birmingham, B31 2UQ. The share capital of each of the companies, where applicable, comprises of ordinary shares.

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
Wholly-owned subsidiaries					
Blackpole Trading Estate (1978) Limited	00581658	100.0%	0.0%	100.0%	Property investment
Boltro Properties Limited	02616865	0.0%	100.0%	100.0%	Ceased trading
Boughton Enterprises Limited	05068420	0.0%	100.0%	100.0%	Dormant
Boughton Holdings	04112012	0.0%	100.0%	100.0%	Dormant
Branston Properties Limited	02893827	0.0%	100.0%	100.0%	Property investment/ development
Broomford Vange Limited	05697168	0.0%	100.0%	100.0%	Ceased trading
Chaucer Estates Limited	00456386	100.0%	0.0%	100.0%	Property investment/ development
Chertsey Road Property Limited	06899060	0.0%	100.0%	100.0%	Dormant
Coed Darcy Estates Management Limited	07848407	0.0%	100.0%	100.0%	Property management
Festival Waters Limited	04354481	100.0%	0.0%	100.0%	Property development
Glan Llyn Management Limited	07848409	100.0%	0.0%	100.0%	Property management
Great Yarmouth Regeneration Limited	05594264	100.0%	0.0%	100.0%	Dormant
Heenan Group Pensions Limited	00548316	100.0%	0.0%	100.0%	Dormant
Holaw (462) Limited	03666441	0.0%	100.0%	100.0%	Ceased trading
Killingholme Energy Limited	08320277	0.0%	100.0%	100.0%	Property development
Killingholme Land Limited	08320297	0.0%	100.0%	100.0%	Property development
Lawnmark Limited	04089229	0.0%	100.0%	100.0%	Dormant
Leisure Living Limited	02106984	100.0%	0.0%	100.0%	Ceased trading
Newcastle Regeneration Partnership Limited	02741086	0.0%	100.0%	100.0%	Dormant
Petre Court Management (Number 1) Limited	06160268	100.0%	0.0%	100.0%	Dormant
Redman Heenan Properties Limited	00073265	100.0%	0.0%	100.0%	Property investment/ development
Sandpiper Quay (Management Company No.2) Limited	02485456	0.0%	100.0%	100.0%	Dormant
Shaw Park Developments Limited	04625000	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Developments (Meon Vale) Limited	05294589	0.0%	100.0%	100.0%	Dormant
St. Modwen Securities Limited	00460301	100.0%	0.0%	100.0%	Ceased trading
St. Modwen (SAC1) Limited	08296927	100.0%	0.0%	100.0%	Ceased trading
St. Modwen (Shelf 1) Limited	02741186	0.0%	100.0%	100.0%	Dormant
St. Modwen Corporate Services Limited	06163437	100.0%	0.0%	100.0%	Property management
St. Modwen Development (Coed Darcy) Limited	06163563	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Bedford) Limited	05411282	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Belle Vale) Limited	04145782	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Blackburn) Limited	05732825	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Bognor Regis) Limited	06160250	100.0%	0.0%	100.0%	Dormant

C. Investments in subsidiaries and joint ventures continued

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
St. Modwen Developments (Brighton West Pier) Limited	04069008	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Chorley) Limited	05727011	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Clay Cross) Limited ⁽¹⁾	123891	0.0%	100.0%	100.0%	Property investment/development
St. Modwen Developments (Colne) Limited	05726325	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Connah's Quay) Limited	05726352	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Cranfield) Limited	06163509	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Daresbury) Limited	06163550	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Eccles) Limited	05867740	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Edmonton) Limited	02405853	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Developments (Facility Services) Limited	08996358	0.0%	100.0%	100.0%	Dormant
St. Modwen Developments (Hatfield) Limited	04354480	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Hillington) Limited	04150262	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Holderness) Limited	05726995	100.0%	0.0%	100.0%	Property development
St. Modwen Developments (Hull) Limited	05593517	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Kirkby 2) Limited	09746395	0.0%	100.0%	100.0%	Property investment/development
St. Modwen Developments (Llanwern) Limited ⁽¹⁾	123892	0.0%	100.0%	100.0%	Property investment/development
St. Modwen Developments (Longbridge) Limited	02885028	0.0%	100.0%	100.0%	Property investment
St. Modwen Developments (Longbridge East Works) Limited ⁽¹⁾	123893	0.0%	100.0%	100.0%	Property investment
St. Modwen Developments (Queens Market) Limited	05289380	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Quinton) Limited	01479159	0.0%	100.0%	100.0%	Dormant
St. Modwen Developments (Silverstone) Limited	05594232	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Skelmersdale) Limited	06163591	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (St Helens) Limited	05726666	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Swansea 1) Limited	11554302	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Telford) Limited	05411357	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Weston) Limited	05411348	100.0%	0.0%	100.0%	Property investment
St. Modwen Developments (Wythenshawe 2) Limited	05851760	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Wythenshawe) Limited	05594279	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments Limited	00892832	100.0%	0.0%	100.0%	Property investment/development
St. Modwen Holdings Limited	01991339	100.0%	0.0%	100.0%	Dormant
St. Modwen Homes Limited	09095920	100.0%	0.0%	100.0%	Property development
St. Modwen Hungerford Limited	06160323	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Investments Limited	00528657	100.0%	0.0%	100.0%	Dormant
St. Modwen Neath Canal Limited	06160309	0.0%	100.0%	100.0%	Dormant
St. Modwen Pensions Limited	00878604	100.0%	0.0%	100.0%	Dormant

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

C. Investments in subsidiaries and joint ventures continued

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
St. Modwen Properties Securities (Jersey) Limited ⁽¹⁾	114977	100.0%	0.0%	100.0%	Financing company
St. Modwen Residential Living Limited	09266033	100.0%	0.0%	100.0%	Property investment
St. Modwen Services Limited	02885024	100.0%	0.0%	100.0%	Dormant
St. Modwen Ventures Limited	01486151	100.0%	0.0%	100.0%	Property investment/ development
Statedale Limited	03656832	0.0%	100.0%	100.0%	Dormant
Trentham Gardens Limited	00533242	0.0%	100.0%	100.0%	Dormant
Trentham Leisure Limited	03246990	100.0%	0.0%	100.0%	Property investment/ operation
Tukdev 11 Limited	02885000	0.0%	100.0%	100.0%	Dormant
Walton Securities Limited	02314059	100.0%	0.0%	100.0%	Dormant
Woking Developments Limited	05411325	100.0%	0.0%	100.0%	Dormant
Woodingdean Estate Management Company Limited	09293061	0.0%	100.0%	100.0%	Dormant
Non-wholly owned subsidiaries					
Castle Hill Dudley Limited	05411315	81.0%	0.0%	81.0%	Ceased trading
Stoke on Trent Regeneration (Investments) Limited	04289476	0.0%	100.0%	81.0%	Property investment
Stoke-on-Trent Regeneration Limited	02265579	81.0%	0.0%	81.0%	Property investment/ development
Uttoxeter Estates Limited	02725709	81.0%	0.0%	81.0%	Property development
Widnes Regeneration Limited	03643210	81.0%	0.0%	81.0%	Ceased trading
Norton & Proffitt Developments Limited	03717397	0.0%	75.0%	75.0%	Property investment
The Company of Proprietors of the Neath Canal Navigation Limited	11533400	0.0%	64.4%	64.4%	Property operation
Littlecombe Community Interest Company	05896419	0.0%	51.0%	51.0%	Property management
Joint ventures					
Baglan Bay Company Limited ⁽²⁾	06383208	0.0%	50.0%	50.0%	Property monitoring
Barton Business Park Limited	03807742	0.0%	50.0%	50.0%	Ceased trading
Bay Campus Developments LLP ⁽³⁾	OC389022	0.0%	50.0%	50.0%	Dormant
Key Property Investments Limited	03372175	50.0%	0.0%	50.0%	Property investment/ development
Meaford Energy Limited	08575649	0.0%	50.0%	50.0%	Property development
Meaford Land Limited	08575760	0.0%	50.0%	50.0%	Property development
SkyPark Development Partnership LLP	OC343583	0.0%	50.0%	50.0%	Property development
Spray Street Quarter LLP ⁽⁴⁾	OC404205	0.0%	50.0%	50.0%	Property development
VSM (NCGM) Limited	08333203	50.0%	0.0%	50.0%	Property investment/ development
VSM Estates (Ashchurch) Limited	09494284	50.0%	0.0%	50.0%	Property development
VSM Estates (Holdings) Limited	05867718	50.0%	0.0%	50.0%	Property development
VSM Estates Uxbridge (Group) Limited	08083799	50.0%	0.0%	50.0%	Property investment/ development
Wrexham Land Limited	06748467	0.0%	50.0%	50.0%	Property development
Wrexham Power Limited	06762265	0.0%	50.0%	50.0%	Property development

C. Investments in subsidiaries and joint ventures continued

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
Associates					
Coed Darcy Limited ⁽²⁾	00577934	0.0%	49.0%	49.0%	Property investment
Saxon Business Centre (Management) Limited	02470756	0.0%	40.0%	40.0%	Dormant
Snipe Centre (Management) Limited	02485535	0.0%	33.3%	33.3%	Dormant
Swan Business Park (Management) Limited	02424524	25.0%	0.0%	25.0%	Dormant

(1) The registered office of this company is 47 Esplanade, St Helier, Jersey, JE1 0BD, United Kingdom.

(2) The registered office of these companies is Dumfries House, Dumfries Place, Cardiff, South Glamorgan, Wales, CF10 3ZF, United Kingdom.

(3) The registered office of this company is Finance Department, Swansea University, Singleton Park, Swansea, Wales, SA2 8PP, United Kingdom.

(4) The registered office of this limited liability partnership is Bruce Kenrick House, 2 Killick Street, London, England, N1 9FL, United Kingdom.

D. Trade and other receivables

	2018 £m	2017 £m
Non-current		
Amounts due from subsidiaries	475.0	475.0
Non-current receivables	475.0	475.0
Current		
Trade receivables	1.9	0.1
Prepayments and accrued income	8.5	4.2
Amounts due from subsidiaries	492.9	505.6
Amounts due from joint ventures	13.0	20.4
Other receivables	2.1	0.1
Current receivables	518.4	530.4

E. Deferred taxation

	2018 £m	2017 £m
Balance at start of the year	2.7	2.8
Credited to the Company income statement	(1.0)	(0.4)
Recognised within the Company statement of changes in equity	(0.1)	0.3
Balance at end of the year	1.6	2.7

The deferred tax balance consists of net deductible temporary differences.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2018
continued

F. Trade and other payables

	2018 £m	2017 £m
Current		
Trade payables	1.6	(2.6)
Amounts due to subsidiaries	403.0	374.3
Amounts due to joint ventures	14.2	31.7
Other payables and accrued expenses	5.8	7.6
Current payables	424.6	411.0
Non-current		
Amounts due to subsidiaries	99.9	97.0
Amounts due to joint ventures	–	8.5
Other payables and accrued expenses	1.7	2.0
Non-current payables	101.6	107.5

G. Borrowings

	2018 £m	2017 £m
Current		
Bank overdrafts	11.6	–
Current borrowings	11.6	–
Non-current		
Amounts repayable between one and two years	–	115.8
Amounts repayable between two and five years	–	157.5
Amounts repayable after more than five years	210.0	–
Non-current borrowings	210.0	273.3

H. Operating leases

Operating lease commitments where the Company is the lessee

The Company leases certain of its premises, motor vehicles and office equipment under operating leases. Future aggregate minimum lease rentals payable under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
In one year or less	1.5	1.1
Between one and five years	2.4	1.9
Total minimum lease rentals payable	3.9	3.0

FIVE YEAR RECORD

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Net rental income ⁽¹⁾	37.1	38.7	45.9	53.8	46.8
Adjusted EPRA earnings ⁽¹⁾	N/A	N/A	21.5	29.4	31.7
Revaluation surplus ⁽²⁾	93.5	201.7	4.1	34.6	11.4
Profit for the year attributable to owners of the Company	118.6	216.4	53.4	59.6	60.2
Earnings per share (pence)	53.8	97.9	24.1	26.9	27.1
Dividends paid per share (pence)	4.13	5.04	5.79	6.08	7.36
Dividend cover (times)	13.0	19.4	4.2	4.4	3.7
Shareholders' equity net assets per share (pence)	325.1	413.5	431.0	450.9	470.4
Increase on prior year	16.6%	27.2%	4.2%	4.6%	4.3%
Net assets employed					
Investment properties	862.3	1,092.9	1,144.7	1,168.5	939.3
Investments	127.2	227.3	184.8	119.6	89.1
Inventories	201.0	183.7	229.7	352.7	366.4
Other net liabilities	(106.5)	(80.3)	(73.9)	(143.4)	(70.2)
Net debt	(360.0)	(502.1)	(523.2)	(491.4)	(274.3)
Non-controlling interests	(5.9)	(6.8)	(6.9)	(5.7)	(5.9)
Net assets attributable to owners of the Company	718.1	914.7	955.2	1,000.3	1,044.4
Financed by					
Share capital	22.1	22.2	22.2	22.2	22.2
Reserves	697.8	893.5	933.6	979.8	1,023.5
Own shares	(1.8)	(1.0)	(0.6)	(1.7)	(1.3)
Equity attributable to owners of the Company	718.1	914.7	955.2	1,000.3	1,044.4

(1) Stated on a proportionally consolidated basis, including the Group's share of joint ventures and associates.

(2) Including net realisable value provisions and stated on a proportionally consolidated basis including the Group's share of joint ventures and associates.

The figures above are all presented under EU IFRSs as restated, where applicable.

GLOSSARY OF TERMS

Adjusted EPRA earnings – EPRA earnings adjusted to include development profits from the housebuilding operating segment, the amortisation of loan arrangement fees (including the Group's share of this item from its joint ventures and associates) and tax associated with both of these company-specific adjustments.

Adjusted EPRA earnings per share – Adjusted EPRA earnings divided by the weighted number of shares in issue during the period (excluding shares held by The St. Modwen Properties PLC Employee Share Trust).

Adjusted gearing – the level of the Group's net borrowings (at amortised cost and excluding finance leases) expressed as a percentage of net assets.

Average lease length – the weighted average lease term to the first tenant break.

EPRA – the European Public Real Estate Association, a body that has put forward recommendations for best practice in financial reporting by real estate companies.

EPRA earnings – the Group profit for the year, excluding investment property revaluation gains/losses, gains/losses on disposal of investment properties and inventories and associated items, and movements in the fair value of financial instruments. Each of these adjustments is made for both the Group and the Group's share of its joint ventures and associates and is net of current and deferred tax charges/credits.

EPRA net asset value (EPRA NAV) – net asset value, adjusted to include the fair value of inventories and exclude deferred tax on capital allowances and revaluations, and the mark-to-market of derivative financial instruments.

EPRA net asset value per share – EPRA net asset value divided by the number of ordinary shares in issue at the period end (excluding shares held by The St. Modwen Properties PLC Employee Share Trust).

EPRA triple net asset value (EPRA NNAV) – the Group balance sheet net assets, adjusted to include the fair value of inventories.

Equivalent yield – the weighted average income return (after adding notional purchaser's costs) a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent is received annually in arrears.

Equivalent yield shift – the movement in the equivalent yield of a property asset during the period.

Estimated rental value (ERV) – the Group's external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of the property.

EU IFRSs – International Financial Reporting Standards as adopted by the European Union.

Gearing – the level of the Group's net debt expressed as a percentage of net assets.

Gross development value (GDV) – the sale value of property after construction.

IFRSs – International Financial Reporting Standards.

Interest – net finance costs (excluding the mark-to-market of derivative financial instruments, amortisation of loan arrangement fees and other non-cash items) for the Group (including its share of joint ventures and associates).

Investment portfolio – income-generating assets held for further optimisation through active asset management.

Land bank – 100% of the land and property owned and controlled by the Group together with joint ventures and associates (including land under option and development agreements).

Like-for-like – adjusts a reported measure to exclude the impact of property acquisitions and disposals.

Loan-to-value (LTV) – the level of the Group's net borrowings expressed as a percentage of the Group's property portfolio excluding valued assets held under finance leases (representing amounts that could be used as security of that debt).

Market value – an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation, as determined by the Group's external valuers. In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees.

Net asset value (NAV) – equity attributable to owners of the Company.

Net asset value (NAV) per share – net asset value divided by the number of ordinary shares in issue at the period end (excluding shares held by The St. Modwen Properties PLC Employee Share Trust).

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.

Net debt – total borrowings and finance leases including cumulative fair value movements in the Group's convertible bond less cash and cash equivalents.

Net initial yield (NIY) – the yield that would be received by a purchaser, based on the current annualised rental income, net of non-recoverable outgoings (as determined by the external valuers), expressed as a percentage of the acquisition cost, being the market value plus assumed actual purchasers' costs at the reporting date. The calculation is in line with EPRA guidance.

Net rental income – the rental income receivable in the period less non-recoverable property costs for the Group (including its share of joint ventures and associates).

Operating costs – administrative expenses plus net finance costs (excluding the mark-to-market of derivative financial instruments, amortisation of loan arrangement fees and other non-cash items) for the Group (including its share of joint ventures and associates).

Other income – other rental-type income generated from the operating assets of the Group (including its share of joint ventures and associates).

Passing rent – the annualised rental income of a property net of outstanding rent-free lease incentives.

Persimmon joint venture – a series of commercial contracts with Persimmon to develop residential units on agreed sites within St. Modwen's land bank.

Project MoDEL – Project MoDEL originally saw six former London-based RAF sites freed up for disposal and development as the MoD relocated to an integrated site at RAF Northolt. VINCI St. Modwen (VSM) was appointed by the MoD in 2006 to secure planning consent to redevelop the six sites of which VSM disposed of four, retaining RAF Mill Hill and RAF Uxbridge. The latter was removed from the MoD arrangement and transferred to a separate joint venture with VINCI in 2012.

Property portfolio – investment properties and inventories of the Group (including its share of joint ventures and associates) comprising income producing properties together with residential and commercial assets, but excluding assets held under finance leases not subject to revaluation.

Portfolio property profits – development profit (excluding residential development profits and before the deduction of net realisable value provisions made during the period) plus gains on disposals of investments/investment properties for the Group (including its share of joint ventures and associates).

RICS – Royal Institution of Chartered Surveyors.

See-through – 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 see-through property portfolio excluding assets held under finance leases and residential land and developments.

Total accounting return (TAR) – the increase in net asset value per share for the period, plus dividends paid per share during the period, expressed as a percentage of net asset value per share at the start of the period.

Total development costs – the expected development costs of a project, including the value of land at the start of the project and any associated land capital expenditure.

Total shareholder return (TSR) – the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of stock.

Trading profit – the total of net rental income, other net income and property profits for the Group (including its share of joint venture and associates) less operating costs.

Vacancy – the ERV attributable to vacant space expressed as a percentage of total ERV (including the Group's share of joint ventures and associates).

Weighted average term of borrowings – each tranche of the Group's borrowings is multiplied by the remaining period to its maturity and the result is divided by total Group borrowings at the period end.

Weighted average interest rate – the Group's annualised loan interest and derivative financial instrument costs at the period end, divided by total Group borrowings at the period end.

Yield on capex – the yield on cost, excluding the carrying value of land if the land is owned by the Group in the reporting year prior to commencement of the development.

Yield on cost – the expected headline ERV on completion of a property under development expressed as a percentage of the estimated total development cost.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the seventy-eighth Annual General Meeting (AGM) of St. Modwen Properties PLC (the Company) will be held in the Evolution Suite, Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham B31 2TS on Friday, 29 March 2019 at 12.00 noon to consider and, if thought fit, to pass the following resolutions. Resolutions 1 to 13 inclusive will be proposed as ordinary resolutions and resolutions 14 to 17 will be proposed as special resolutions.

Ordinary business

Annual report and financial statements

1. To receive the Company's annual report and financial statements for the financial year ended 30 November 2018.

Directors' Remuneration report

2. To approve the Directors' Remuneration report (excluding the part containing the directors' remuneration policy) as set out on pages 90 to 113 of the annual report and financial statements for the financial year ended 30 November 2018.

Dividend

3. To declare a final dividend for the financial year ended 30 November 2018 of 4.0 pence per ordinary share, payable on 4 April 2019 to those shareholders on the register of members at the close of business on 8 March 2019.

Election and re-election of directors

4. To elect Danuta Gray as a director.
5. To re-elect Mark Allan as a director.
6. To re-elect Ian Bull as a director.
7. To re-elect Simon Clarke as a director.
8. To re-elect Jenefer Greenwood as a director.
9. To re-elect Jamie Hopkins as a director.
10. To re-elect Rob Hudson as a director.

Appointment and remuneration of auditor

11. To re-appoint KPMG LLP as the Company's auditor until the conclusion of the next general meeting of the Company at which accounts are laid.
12. To authorise the Audit Committee to determine the remuneration of the Company's auditor on behalf of the Board.

Special business

Authority to allot shares

13. To generally and unconditionally authorise the directors in accordance with section 551 of the Companies Act 2006 (the Act) to exercise all the powers of the Company to:
 - (a) allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £7,412,566; and
 - (b) allot equity securities (within the meaning of section 560(1) of the Act) up to a further aggregate nominal amount of £7,412,566 in connection with an offer by way of a rights issue to:
 - (i) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

subject to such exclusions or other arrangements as the directors consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, or legal, regulatory or practical problems in, or under the laws of, any country or territory or any other matter.

Unless previously renewed, revoked or varied, the authorities conferred by this resolution 13 shall apply in substitution for all existing authorities under section 551 of the Act until the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28 June 2020, but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would or might require shares to be allotted or rights to be granted after the authority expires and the directors may allot shares or grant such rights under such an offer or agreement as if the authority had not expired.

Disapplication of pre-emption rights

Special resolution

14. That, subject to the passing of resolution 13, the directors be generally empowered pursuant to section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 13 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:
 - (a) any such allotment and/or sale in connection with an offer or issue by way of rights or other pre-emptive offer or issue, open for acceptance for a period fixed by the directors, to:
 - (i) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,
- subject to such exclusions or other arrangements as the directors consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, or legal, regulatory or practical problems in, or under the laws of, any country or territory or any other matter; and
- (b) any such allotment and/or sale, other than pursuant to paragraph (a) of this resolution 14, having, in the case of ordinary shares, an aggregate nominal amount or, in the case of other equity securities, giving the right to subscribe or convert into ordinary shares having an aggregate nominal amount, not exceeding £1,111,884.

Unless previously renewed, revoked or varied, the powers conferred by this resolution 14 shall apply in substitution for all existing powers under sections 570 and 573 of the Act until the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28 June 2020, but, in each case, so that the Company may make offers and enter into agreements before the power expires which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold for cash after the power expires and the directors may allot equity securities and/or sell equity securities held as treasury shares for cash under such an offer or agreement as if the power had not expired.

Special resolution

15. That, subject and in addition to the passing of resolution 13, the directors be generally empowered pursuant to section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 13 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

- (a) limited to any such allotment and/or sale of equity securities having, in the case of ordinary shares, an aggregate nominal amount or, in the case of other equity securities, giving the right to subscribe or convert into ordinary shares having an aggregate nominal amount, not exceeding £1,111,884; and
- (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

Unless previously renewed, revoked or varied, the powers conferred by this resolution 15 shall apply in substitution for all existing powers under sections 570 and 573 of the Act until the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28 June 2020, but, in each case, so that the Company may make offers and enter into agreements before the power expires which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold for cash after the power expires and the directors may allot equity securities and/or sell equity securities held as treasury shares for cash under such an offer or agreement as if the power had not expired.

Purchase of own ordinary shares by the Company**Special resolution**

16. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the Act) to make market purchases (as defined in section 693 of the Act) of ordinary shares of 10 pence each in its capital (Ordinary Shares) on such terms and in such manner as the directors may from time to time determine provided that:

- (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 22,237,698;
- (b) the minimum price which may be paid for an Ordinary Share is 10 pence (exclusive of expenses);
- (c) the maximum price which may be paid for an Ordinary Share is the highest of (in each case exclusive of expenses):
 - (i) an amount equal to 105% of the average market value of an Ordinary Share for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and
 - (ii) the higher of the price of the last independent trade and the highest current independent bid for any number of Ordinary Shares on the London Stock Exchange; and
- (d) this authority shall, unless previously renewed, expire at the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28 June 2020, except in relation to the purchase of any Ordinary Shares the contract for which was concluded before the date of expiry of the authority and which would or might be completed wholly or partly after that date.

Notice of meetings other than AGMs**Special resolution**

17. To authorise the Company to call a general meeting other than an AGM on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next AGM of the Company after the date on which this resolution is passed.

Recommendation

The Board confirms that, in its opinion, all of the resolutions are in the best interests of the Company and its shareholders as a whole. The directors unanimously recommend that shareholders vote in favour of each of the above resolutions, as they intend to do in respect of their own beneficial shareholdings.

By order of the Board

Andrew Eames

General Counsel and Company Secretary

22 February 2019

St. Modwen Properties PLC
Registered number: 349201
Registered office: Park Point,
17 High Street, Longbridge,
Birmingham B31 2UQ

Explanatory notes to proposed resolutions**Ordinary resolutions**

For a resolution proposed as an ordinary resolution to be passed, more than half of the votes cast must be in favour of the resolution.

Resolution 1 – Annual report and financial statements

Resolution 1 is an ordinary resolution to receive the annual report and financial statements for the financial year ended 30 November 2018. Copies will be available at the AGM.

Resolution 2 – Directors' remuneration

Resolution 2 is an ordinary resolution to approve the Directors' Remuneration report, other than the part containing the directors' remuneration policy. In accordance with the Companies Act 2006 this vote is advisory only and the directors' entitlement to receive remuneration is not conditional on it. The resolution and vote provide a means for shareholders to give feedback to the Board on directors' remuneration. A resolution to approve the directors' remuneration policy (set out in full in the annual report and financial statements for the year ended 30 November 2016 which is available at www.stmodwen.co.uk) was approved by shareholders at the 2017 AGM. As required, the Company will at the next AGM in 2020 seek shareholder approval for a new directors' remuneration policy.

Resolution 3 – Declaration of final dividend

Resolution 3 is an ordinary resolution by which shareholders are asked to declare a final dividend. The directors recommend a final dividend for the financial year ended 30 November 2018 of 4.0 pence per ordinary share. If approved, this will be paid on 4 April 2019 to shareholders on the register of members at the close of business on 8 March 2019.

Resolutions 4 to 10 – Election and re-election of directors

Resolutions 4 to 10 are ordinary resolutions which deal with the election and re-election of the directors. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, all directors must retire at each AGM and shall, subject to his or her terms of appointment, be eligible for election or re-election.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

Following her appointment to the Board on 1 October 2018, Danuta Gray will retire and offer herself for election.

As announced, Bill Shannon will not be standing for re-election at the AGM. All other directors will retire and offer themselves for re-election.

Biographical details of all directors are set out on pages 70 and 71. The performance of and contribution made by individual directors has been reviewed by the Chairman during the course of the year and the Chairman has confirmed that the performance of each director continues to be effective, that they continue to demonstrate commitment to their respective roles, and that their respective skills complement one another to enhance the overall operation of the Board. The Board therefore recommends the reappointment of all directors standing for re-election. Further supporting information regarding the non-executive directors can be found below.

Danuta Gray (resolution 4)

Danuta was appointed to the Board in October 2018 as Chair Designate and sits on the Remuneration and Nomination Committees. Provided resolution 4 is approved by shareholders, she will assume the role of Chairman and Nomination Committee Chair from Bill Shannon following the conclusion of the 2019 AGM.

Danuta has joined the Company with significant Board and leadership experience. Until 2012 she was Chair of Telefónica O2 in Ireland, having previously been its Chief Executive Officer from 2001 to 2010 and has served as a non-executive director on a number of Boards, across the global telecommunications and IT, consumer and financial services sectors.

Ian Bull (resolution 6)

Ian was appointed to the Board in September 2014 and is Chairman of the Audit Committee and Senior Independent Director (since March 2018). His career in finance spans over 25 years, including board level finance roles at Ladbrokes plc and Greene King plc. Ian brings to the Board a wealth of corporate and financial knowledge, together with a sound understanding of accounting and regulatory matters.

During the past year, as Audit Committee Chair, he has ensured that the Audit Committee considered risk and various new financial compliance requirements including new reporting standards. As Senior Independent Director, Ian led the search for the Chair Designate, Danuta Gray.

Simon Clarke (resolution 7)

Simon was appointed to the Board in October 2004 following the death of his father, Sir Stanley Clarke, the founder and former Chairman of the Company. He is currently Chairman of Dunstall Holdings Ltd, Trustee of Racing Welfare and Chairman of Racing Homes.

Whilst not considered to be independent for the purposes of the UK Corporate Governance Code, as the longest serving director Simon brings continuity and extensive knowledge of the business to the Board as well as strong commercial and management experience.

Jenefer Greenwood, OBE (resolution 8)

Jenefer was appointed to the Board in June 2017 and was appointed Chairman of the Remuneration Committee in March 2018 and is a member of the Audit and Nomination Committees. She has over 30 years' experience and knowledge of the real estate sector starting with Hillier Parker and subsequently working for Grosvenor Ltd until 2012 when she retired as director of sales and lettings.

Jenefer has strengthened further the existing expertise of the Board in relation to real estate and has effectively assumed the role of Remuneration Committee Chair.

Jamie Hopkins (resolution 9)

Jamie was appointed to the Board as a non-executive director with effect from 1 March 2018. Chief Executive of Workspace Group plc since 2012, he is experienced in real estate, asset management services and acquisitions in both public and private companies, as well as having strong operational skills including in financing and reporting. Jamie complements the Board's skillsets and expertise and brings current commercial experience.

Resolutions 11 and 12 – Auditor appointment and remuneration

At last year's AGM shareholders appointed KPMG as auditor of the Company to hold office until the conclusion of the 2019 AGM. KPMG has expressed a willingness to continue in office and the Audit Committee has reviewed the effectiveness of the audit process and recommends their re-appointment. Therefore resolutions 11 and 12 are ordinary resolutions to re-appoint KPMG LLP as auditor until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Audit Committee to determine their remuneration on behalf of the Board.

Resolution 13 – Authority to allot shares

The authority conferred on the directors at last year's AGM to allot shares in the Company expires at the conclusion of the 2019 AGM. Resolution 13 is an ordinary resolution to renew this authority.

The Investment Association (IA) guidelines on directors' authority to allot shares state that IA members will permit, and treat as routine, resolutions seeking authority to allot new shares representing up to one-third of a company's issued share capital. In addition, they will treat as routine a request for authority to allot shares representing an additional one-third of a company's issued share capital provided that it is only used to allot shares pursuant to a fully pre-emptive rights issue.

Paragraph (a) of resolution 13 will, if resolution 13 is passed, authorise the directors to allot shares up to a maximum aggregate nominal amount of £7,412,566, which represents one-third of the Company's issued ordinary share capital as at 8 February 2019 (being the latest practicable date prior to the publication of the notice of AGM). Paragraph (b) of resolution 13 proposes that, in accordance with IA guidance, an additional authority be conferred on the directors to allot shares in connection with a rights issue up to a further maximum aggregate nominal amount of £7,412,566.

The authorities sought in paragraphs (a) and (b) of resolution 13 are in substitution for all existing authorities granted in the Company's Articles of Association or otherwise, and are without prejudice to previous allotments or agreements or offers to allot made under such existing authorities. The authorities will each expire at the earlier of the conclusion of the next AGM of the Company or 28 June 2020.

The directors have no present intention of exercising these authorities other than to fulfil the Company's obligations under its share incentive plans approved previously by shareholders, but believe that it is in the best interests of the Company to have the authorities available to respond to market developments and to enable allotments to take place without the need for a general meeting should they determine that it is appropriate to do so.

Special resolutions

For a resolution proposed as a special resolution to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolutions 14 and 15 – Authority to disapply pre-emption rights

If the directors wish to allot new shares or other equity securities, company law requires that these shares are offered first to shareholders in proportion to their existing holdings. At last year's AGM a special resolution was passed, under section 570 of the Companies Act 2006, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. It is proposed that this authority be renewed in line with institutional shareholder guidelines.

Under resolution 14, it is proposed that the directors be authorised to issue shares for cash and/or sell shares from treasury (if any are so held) without offering them first to existing shareholders in proportion to their current holdings:

- (a) in respect of a rights issue, open offer or other offer that generally provides existing shareholders with the opportunity to subscribe for new shares pro rata to their existing holdings. This part of the authority is designed to give the directors flexibility to exclude certain shareholders from such an offer where the directors consider it necessary or desirable to do so in order to avoid legal, regulatory or practical problems that would otherwise arise; or
- (b) up to an aggregate nominal amount of £1,111,884 (up to 11,118,840 new ordinary shares of 10 pence each). This amount represents approximately 5% of the Company's issued ordinary share capital as at 8 February 2019 (being the latest practicable date prior to the publication of the notice of AGM). This part of the authority is designed to provide the Board with flexibility to raise further equity funding and to pursue acquisition opportunities as and when they may arise.

The authority proposed under resolution 15 is in addition to the authority granted by resolution 14. Under resolution 15, it is proposed that the directors be authorised to disapply statutory pre-emption rights in respect of an additional 5% of the Company's issued ordinary share capital as at 8 February 2019 (being the latest practicable date prior to the publication of the notice of AGM). This further authority may only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or that has taken place in the preceding six-month period and is disclosed in the announcement of the issue as contemplated by the Pre-Emption Group's March 2015 Statement of Principles.

Excluding any shares issued in connection with an acquisition or specified capital investment as described above, the directors do not intend to issue more than 7.5% of the Company's issued ordinary share capital on a non-pre-emptive basis in any rolling three-year period without prior consultation with shareholders.

The authorities sought in resolutions 14 and 15 are in substitution for all existing authorities granted in the Company's Articles of Association or otherwise, and are without prejudice to previous allotments or agreements or offers to allot made under such existing authorities. The authorities will each expire at the earlier of the conclusion of the next AGM of the Company or 28 June 2020.

The directors have no present intention of exercising these authorities other than to fulfil the Company's obligations under its share incentive plans approved by shareholders, but consider it prudent to obtain the flexibility that these authorities provide.

Resolution 16 – Authority to purchase shares

Resolution 16 is a special resolution to renew the authority granted to the directors at last year's AGM to make purchases of its own ordinary shares through the market as permitted by the Companies Act 2006 and in line with institutional shareholder guidelines. No shares were purchased during the year and the Company does not hold any shares in treasury.

If passed, the resolution gives authority for the Company to purchase up to 22,237,698 of its ordinary shares, which represents 10% of the Company's issued ordinary share capital as at 8 February 2019 (being the latest practicable date prior to the publication of the notice of AGM). The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire at the earlier of the conclusion of the next AGM of the Company and 28 June 2020.

The directors have no present intention for the Company to exercise the authority granted by this resolution to purchase its own shares. They would do so only after taking account of the overall financial position of the Company and in circumstances where to do so would be regarded by the Board as being in the best interests of shareholders generally and result in an increase in earnings per ordinary share. The Company may either cancel any shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

As at 8 February 2019 (being the latest practicable date prior to the publication of the notice of AGM), the Company had options outstanding over 7,363,083 ordinary shares, representing 3.31% of the issued share capital on that date. If the Company was to purchase the maximum number of shares permitted pursuant to this resolution, the options outstanding at 8 February 2019 would represent 4.14% of the issued share capital.

Resolution 17 – Notice period of general meetings

The Company must give at least 21 clear days' notice of any general meeting, but is permitted to call meetings other than the AGM on at least 14 clear days' notice if annual shareholder approval is obtained beforehand. The Company must also offer, for any meeting held on less than 21 clear days' notice, a facility to vote by electronic means that is accessible to all shareholders.

Resolution 17 is a special resolution to renew the authority granted at last year's AGM to allow the Company to hold general meetings (other than AGMs) on not less than 14 clear days' notice. This authority will be effective until the Company's next AGM.

The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

Shareholder notes

1. Entitlement to attend and vote

To be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), shareholders must be entered on the Company's register of members at 6.30pm on Wednesday, 27 March 2019 (or, in the event of any adjournment, at 6.30pm on the date which is two days before the date of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting in respect of the number of shares registered in their name at that time. It is proposed that all votes on the resolutions at the AGM will be taken by way of a poll.

2. Appointment of proxies – general

A shareholder entitled to attend and vote at the meeting convened by the notice of AGM is entitled to appoint a proxy to exercise all or any of his or her rights to attend and to speak and vote on his or her behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company but must attend the meeting in person.

For the appointment to be effective, a proxy form (or electronic appointment of proxy, see note 4 below) must be received by the Company's registrar not less than 48 hours before the time of the meeting, i.e. not later than 12.00 noon on Wednesday, 27 March 2019. The appointment of a proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if he or she is entitled to do so and so wishes.

3. Appointment of proxies – proxy form

A form which may be used to appoint a proxy and give proxy instructions has been sent to shareholders. If you do not have a proxy form and believe that you should have one, or if you require additional forms to appoint more than one proxy, please contact the Company's registrars, Equiniti, on 0371 384 2198 (overseas callers should dial +44 (0)121 415 7047). Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. Alternatively, photocopy the proxy form which has been sent to you. All forms must be signed and should be returned together in the same envelope.

The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote. Please note that the vote withheld option on the proxy form is provided to enable you to abstain on any particular resolution; it is not a vote in law and will not be counted in the calculation of votes for or against the resolution. If you sign the proxy form and return it without any specific directions your proxy will vote or abstain from voting at his or her discretion. If you wish to appoint a proxy other than the Chairman of the meeting, please insert the name of your chosen proxy holder in the space provided on the proxy form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if the proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

In the case of joint holders, the vote of the senior joint holder who tenders a vote, whether in person or by proxy, in respect of the holding will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names appear in the Company's register of members in respect of the joint holding. In the case of a corporate

shareholder, the proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer or attorney. In the case of an individual, the proxy form must be signed by the appointing shareholder. Any alterations made to the proxy form should be initialled.

4. Appointment of proxies electronically

Shareholders who would prefer to register the appointment of their proxy electronically via the internet can do so through Equiniti's website at www.sharevote.co.uk using their personal Voting ID, Task ID and Shareholder Reference Number (which are printed on the proxy form). Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk using your usual user ID and password. Once logged in simply click 'View' on the 'My Investments' page, click on the link to vote then follow the on-screen instructions. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 12.00 noon on Wednesday, 27 March 2019.

5. Appointment of proxies through CREST

CREST members who wish to appoint a proxy or proxies for the AGM, and any adjournment(s) thereof, through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Ltd's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual (available at www.euroclear.com). The message, regardless of whether it relates to the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

6. Changing and revoking proxy instructions

To change your proxy instruction simply submit a new proxy appointment using the methods set out above. Where two or more valid separate appointments of proxy are received in respect of the same share and for the same meeting, those received last by Equiniti will take precedence.

In order to revoke a proxy instruction, a shareholder will need to inform the Company by sending a signed hard copy notice clearly stating his/her intention to revoke a proxy appointment to Equiniti Ltd, Aspect House, Spencer Road, Lancing BN99 6DA. In the case of a corporate shareholder, the revocation notice must be executed under its common seal or signed on its behalf by a duly authorised officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of attorney) must be included with the revocation notice. Termination of proxy appointments made through CREST must be made in accordance with the procedures described in the CREST Manual.

7. Corporate representatives

A corporate shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares. Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the AGM. Please contact Equiniti for further guidance.

8. Nominated persons

Any person to whom this notice is sent who is not a shareholder but is a person nominated by a shareholder under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement with the shareholder who nominated him/her, have a right to be appointed, or have someone else appointed, as a proxy for the AGM. If a Nominated Person has no such right or does not wish to exercise it, he/she may, under any such agreement, have a right to give voting instructions to the shareholder.

The statement of the rights of shareholders in relation to the appointment of proxies set out in notes 2 to 7 above does not apply to Nominated Persons. The rights described in those notes can only be exercised by shareholders of the Company. If you are a Nominated Person it is important to remember that your main contact in terms of your investment remains the registered shareholder or the custodian or broker who administers the investment on your behalf.

9. Shareholder participation

Any shareholder attending the AGM has the right to ask questions relating to the business of the meeting and the Company has an obligation to answer such questions unless (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

10. Availability of information on a website

A copy of this notice of AGM, and other information required by section 311A of the Companies Act 2006, can be found on the Company's website at www.stmodwen.co.uk.

11. Website publication of audit concerns

Shareholders satisfying the threshold requirements in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter that such shareholder proposes to raise at the meeting relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last AGM. The Company cannot require the shareholders requesting the publication to pay its expenses in complying with the request. Any statement placed on the website must also be sent to the Company's auditor no later than the time the statement is made available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website under section 527 of the Companies Act 2006.

12. Total voting rights

As at 8 February 2019 (being the latest practicable date prior to the publication of the notice of AGM), the Company's issued share capital consisted of 222,376,988 shares carrying one vote each. Therefore the total voting rights in the Company as at 8 February 2019 was 222,376,988.

13. Documents available for inspection

The following documents are available for inspection at the registered office of the Company during normal business hours and will be at the place of the AGM for at least 15 minutes prior to and during the AGM:

- (a) copies of the directors' service agreements with the Company;
- (b) copies of the non-executive directors' letters of appointment;
- (c) a copy of the Company's existing Articles of Association; and
- (d) a copy of the Company's indemnity for directors.

14. Communication with the Company

You may not use any electronic address provided in this notice of AGM or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

INFORMATION FOR SHAREHOLDERS

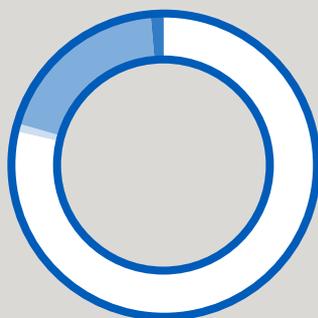
Shareholder analysis

Holdings of ordinary shares as at 30 November 2018:

	Shareholders		Shares	
	Number	%	Number	%
By shareholder				
Individuals	2,755	78.81	16,602,651	7.47
Directors and connected persons	27	0.77	15,551,331	6.99
Insurance companies, nominees and pension funds	674	19.28	185,131,377	83.25
Other limited companies and corporate bodies	40	1.14	5,091,629	2.29
	3,496	100.00	222,376,988	100.00
By shareholding				
Up to 500	985	28.18	237,824	0.11
501 to 1,000	581	16.62	446,364	0.20
1,001 to 5,000	1,147	32.81	2,688,988	1.21
5,001 to 10,000	283	8.09	2,048,514	0.92
10,001 to 50,000	241	6.89	5,150,674	2.32
50,001 to 100,000	68	1.95	5,018,592	2.26
100,001 to 500,000	109	3.12	26,939,165	12.11
500,001 to 1,000,000	26	0.74	18,747,477	8.43
1,000,001 and above	56	1.60	166,099,390	72.44
	3,496	100.00	222,376,988	100.00

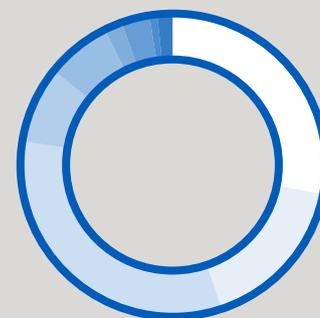
Shareholder percentage by shareholder type

- Individuals
- Directors and connected persons
- Insurance companies, nominees and pension funds
- Other limited companies and corporate bodies



Shareholder percentage by holding size

- Up to 500
- 501 to 1,000
- 1,001 to 5,000
- 5,001 to 10,000
- 10,001 to 50,000
- 50,001 to 100,000
- 100,001 to 500,000
- 500,001 to 1,000,000
- 1,000,001 and above



Financial calendar

Ordinary shares quoted ex-dividend	7 March 2019
2017/18 final dividend record date	8 March 2019
AGM	29 March 2019
2017/18 final dividend payment date	4 April 2019
Announcement of 2019 half-year results	July 2019
Announcement of 2019 final results	February 2020

Website

Information about St. Modwen, including this and prior years' Annual Reports, results announcements and presentations, together with the latest share price information, is available on our website at www.stmodwen.co.uk/investor-relations.

Shareholding enquiries and information

All general enquiries concerning holdings of shares in St. Modwen should be addressed to our registrar:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2198⁽¹⁾ (+44 (0)121 415 7047 if calling from outside the UK)

A range of shareholder information is available online at Equiniti's website www.shareview.co.uk. Here you can also view information about your shareholding and obtain forms that you may need to manage your shareholding, such as a change of address form or a stock transfer form

Dividend mandate

If you are a shareholder who has a UK bank or building society account, you can arrange to have dividends paid direct via a bank or building society mandate. There is no fee for this service and notification confirming details of the dividend payment will be sent to your registered address. Please contact Equiniti on 0371 384 2198⁽¹⁾ or go to www.shareview.co.uk for further information.

Overseas dividend payment service

If you are resident outside the UK, Equiniti (by arrangement with Citibank Europe PLC) can provide dividend payments that are automatically converted into your local currency and paid direct to your bank account. For more information on this overseas payment service please contact Equiniti on +44 (0)121 415 7047 or download an application form at www.shareview.co.uk.

Share dealing service

If you are UK resident, you can buy and sell shares in St. Modwen through Shareview Dealing, a telephone and internet-based service provided by Equiniti Financial Services Ltd. For further details please visit www.shareview.co.uk/dealing or call Equiniti on 03456 037037. Equiniti Financial Services Ltd is authorised and regulated by the Financial Conduct Authority. Other brokers and banks or building societies also offer share dealing facilities.

Electronic communications

As an alternative to receiving documents in hard copy, shareholders can elect to be notified by email as soon as documents such as our Annual Report are published. This notification includes details of where you can view or download the documents on our website. Shareholders who wish to register for email notification can do so via Equiniti's website at www.shareview.co.uk.

(1) Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales.

Shareholder security

Shareholders are advised to be very wary of unsolicited mail or telephone calls offering free investment advice, offers to buy shares at a discount or sell shares at a premium, or offers of free company reports. Such contact is typically from overseas-based 'brokers' who target UK shareholders through operations commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive and often have websites to support their activities.

To avoid share fraud:

- Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you unexpectedly with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/consumers/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember: if it sounds too good to be true, it probably is!

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Annual General Meeting

The AGM will be held on Friday, 29 March 2019 in the Evolution Suite, Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham B31 2TS, commencing at 12.00 noon. The notice of meeting, together with an explanation of the resolutions to be considered at the meeting, is set out on pages 188 to 191.

CONTACTS

St. Modwen Properties PLC

Company No. 349201

Head Office

Park Point
17 High Street
Longbridge
Birmingham
B31 2UQ
0121 222 9400

South East

180 Great Portland Street
London
W1W 5QZ
020 7788 3700

Midlands and North

Two Devon Way
Longbridge
Birmingham
B31 2TS
0121 647 1000

Midlands and North

Chepstow House
Trident Business Park
Daten Avenue
Risley
Warrington
WA3 6BX
01925 825950

West and Wales

Green Court
Kings Weston Lane
Avonmouth
Bristol
BS11 8AZ
0117 316 7780

St. Modwen Homes

Two Devon Way
Longbridge
Birmingham
B31 2TS
0121 647 1000

The Trentham Estate

Stone Road
Trentham
Stoke-on-Trent
ST4 8JG
01782 645222

Disclaimer

This Annual Report and Financial Statements has been prepared for the members of St. Modwen Properties PLC and should not be relied upon by any other party or for any other purpose. The Company, its directors and employees, agents and advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report and Financial Statements contains certain forward looking statements which, by their nature, involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward looking statements. Any forward looking statements made by or on behalf of the Company are made in good faith based on the information available at the time the statement is made; speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. The Company does not undertake to update forward looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. Nothing in this Annual Report and Financial Statements should be construed as a profit forecast.

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