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ST. MODWEN PROPERTIES PLC

("St. Modwen" or "the Company")

Results for the year ended 30 November 2019

St. Modwen delivers continued progress on focused growth strategy

Mark Allan, Chief Executive of St. Modwen, commented:

"2019 has been a positive year for St. Modwen. Following our major portfolio repositioning, our focus shifted to growth, building on the substantial opportunities in our existing portfolio. This resulted in another year of strong growth in housebuilding volumes and growing momentum in industrial and logistics development, where structural growth drivers remain positive. Underpinned by a solid balance sheet and continued capital recycling, we expect the delivery of our strategy to drive a meaningful improvement in return on capital and, with 22% growth in 2019, we are well on track to broadly double our adjusted EPRA EPS in the medium term."

Financial highlights

Non-statutory measures[1]	2019	2018	Statutory measures	2019	2018
EPRA NAV per share (pence)[2]	504.2	484.0	NAV per share (pence)[2]	484.2	470.2
Underlying total accounting return (%)	6.3	6.0	Total dividend per share (pence)	8.7	7.1
Adjusted EPRA earnings (£m)	38.7	31.7	Profit for the year (£m)	49.5	60.5
Adjusted EPRA EPS (pence)	17.4	14.3	Basic EPS (pence)	22.8	27.1
See-through loan-to-value (%)	19.6	16.9	Group net debt (£m)	314.1	274.3

- NAV per share up 3.0% to 484.2 pence (2018: 470.2 pence)[2] despite 7.8 pence exceptional provision.
- Underlying total accounting return of 6.3% (2018: 6.0%), before impact of 1.7ppt of exceptional provision.
- Adjusted EPRA EPS up 21.7% to 17.4 pence (2018: 14.3 pence) reflecting successful delivery of strategy.
- Total dividend for the year up 22.5% to 8.7 pence (2018: 7.1 pence) due to strong growth in earnings.
- Profit for the year of £49.5m after £18.5m exceptional cost, with basic EPS of 22.8 pence (2018: 27.1 pence).
- Conservative see-through LTV of 19.6% (2018: 16.9%) providing ample headroom for future investment.

Operational highlights

Strong progress across each of our three business units in delivering our growth-focused strategy, building on our existing deep pipeline of opportunities in three sectors with good structural growth prospects.

- Industrial & Logistics: building leasing momentum; growing development activity
  - Grown industrial and logistics exposure to 44% of total portfolio by value (2018: 33%), driven by successful developments and underlying growth.
  - Delivered 0.9m sq ft of new space of which 97% will be retained (2018: 0.9m sq ft and 69%), with 58% of associated £5.5m ERV let or under offer, up from 54% for our 2018 completions this time last year.
  - Expect to deliver 1.5-1.7m sq ft of new space during 2020, of which 1.5m sq ft is already committed, 94% of which is set to be retained with an expected ERV of £9.5m, 18% of which is pre-let.
  - Grown total future pipeline to c. 19m sq ft, 45% of which already has planning with an associated ERV of c. £56m, providing substantial medium- and longer-term growth potential.

- St. Modwen Homes: growing volume and margins; delivering high quality and customer service
  - Delivered 25% growth in volumes with 1,060 units sold during the year (2018: 848) and grown margins to 14.8% (2018: 14.4%), driving 28% growth in operating profit to £40.1m (2018: £31.3m).
  - Home Builders Federation customer satisfaction rating tracking over 90%, equivalent to 5* status, and net promotor score of 76 (2018: 63), underlining high quality and focus on customer service.
  - Pipeline in place to grow volumes by up to 20% p.a. to 2021 and opportunity to grow further, at a more normalised rate, beyond that, with clear steps identified to grow margins to c. 16-17% in medium term.
  - Current trading remains strong, with 34.0% of targeted full-year private sales forward sold (Feb 2019: 34.6%) and broadly similar improvement in margins expected for 2020 as for 2019.

- Strategic Land & Regeneration: recycling capital; progressing longer-term opportunities
  - Sold £65m of non-core assets, including more than half of residual non-core retail, reducing non-core retail to just 2% of total portfolio by value, down from 16% at start of 2018.
  - Agreed sale of £30m of residential land (2018: £53m) in-year, and 663 plots at two large sites in South Wales for £25m since the year-end, with c. 900 plots across both sites in advanced legal discussions.
  - Prepared next phases of development at Longbridge for start on site in 2020, delivered latest phase of development at Swansea Bay Campus and progressed longer-term mixed-use opportunities.

- On track to broadly double adjusted EPRA EPS from 2018 level of 14.3 pence in medium term and deliver on ambition to grow total return to low-double digit levels over time, assuming markets remain stable, capitalising on significant growth potential embedded in existing pipeline and capital base.

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

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

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

Participants (UK):	**Tel: +44 (0)330 336 9125**
Password:	**6989266**
Webcast link:	**https://webcasting.brrmedia.co.uk/broadcast/5dd7ea168e9f38744a57e501**

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

(1) Reconciliations between all the statutory and non-statutory measures and the explanations as to why the non-statutory measures give valuable further insight into the Group's performance are given in notes 2 and 3 to the Group financial statements.

(2) Following the adoption of IFRS 9 *Financial Instruments* during the year ended 30 November 2019, the comparative values of EPRA NAV per share and NAV per share at 30 November 2018 have been reduced by 0.1 pence and 0.2 pence respectively to reflect the retrospective restatement required for recognising provisions against trade and other receivables using an expected credit loss rather than an incurred loss model. The Group has also adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* during the year ended 30 November 2019, but there has been no impact on the reported measures as a result of the adoption of these standards. Further detail is given in the accounting policies note to the Group financial statements.

This announcement contains certain forward-looking statements. Forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Forward-looking statements 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; 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 announcement should be construed as a profit forecast.

CHAIR'S STATEMENT

2019 has been a positive year for St. Modwen, with a continued increase in momentum in delivering our growth-focused strategy. During the year we restructured our internal organisation to fully align this to our three strategic objectives: build a high-quality industrial and logistics business, grow our residential and housebuilding business, and leverage our regeneration reputation – all of which is built around our core purpose, 'Changing places. Creating better futures.' In delivering on this purpose, we aim to create value for all our stakeholders, be it through bringing to life unloved, disused sites to create thriving new communities; delivering affordable, high-quality houses and a first-rate experience to customers looking for a new home; developing modern logistics and industrial space for businesses to grow and jobs to be created; or investing in our own people.

The positive momentum has been visible in each of our three business units, with a 25% increase in volumes in St. Modwen Homes; 85% growth in leasing and an over 60% step-up in development planned for 2020 in Industrial & Logistics; and £133m of disposals and good development progress in Strategic Land & Regeneration. We delivered a 21.7% increase in our adjusted EPRA EPS in 2019, driving a 22.5% increase in our dividend for the year to 8.7 pence per share. Our underlying total accounting return improved to 6.3%, which is stated before the impact of 1.7ppt due to the exceptional provision for a legacy project the Group developed and sold c. 15 years ago. This reduced our NAV by 1.6% but despite this, our NAV per share increased 3.0% during the year and our balance sheet remains strong, with a low 19.6% see-through LTV, even after further investments in growth.

Board changes

At the AGM in March I took over as Chair from Bill Shannon, who stepped down following eight years in the position. In September we announced the appointment of Sarah Whitney as non-executive director, who brings a wealth of experience in the real estate and corporate finance sectors to the Board, especially with respect to public private partnerships.

In November we announced that Mark Allan would be stepping down as Chief Executive during 2020 to take up the role of CEO at Land Securities plc. Mark will stay with the business until 30 April and gradually hand over responsibilities to our CFO, Rob Hudson, who will take on the role of interim Chief Executive until a new Chief Executive joins the business. A search process is well underway, focusing on external candidates, and we will provide an update on this as and when appropriate.

On behalf of the Board, I would like to wish Mark well in his new role and thank him for his substantial contribution to St. Modwen over the last three years. Under his leadership the business has seen a major transformation in culture, people agenda and purpose, which is reflected in our new Responsible Business ambitions, and it embarked on a successful growth strategy in three key sectors which are supported by long-term structural growth characteristics. While we remain alive to any future changes in the external environment, the Board is highly supportive of this strategy and therefore does not intend for this strategy to change. Our financial leverage is low, and we have a portfolio full of opportunity and a highly skilled team in place, so our focus is on delivering on the substantial growth potential we have in each of the three parts of our business.

People and culture

In my first year as Chair of St. Modwen, I have had the pleasure of meeting many talented people across all levels of our organisation. This confirmed to me that St. Modwen truly is a unique business, with an expertise rooted in its long, successful history but also an ambition to innovate and lead the way through the delivery of our purpose. How we do business is an important part of this and to create a clear link between our strategy and our ESG efforts, we will be launching our Responsible Business ambitions in early 2020. Our people are key to the success of our business, so it is important we maintain our positive, supportive culture and values. For us as a Board, this is paramount, and I would like to thank everyone for their valued contribution to our success.

Prospects

The external environment may be less unsettled than it was but having formally left the EU at the end of last month, the UK still faces uncertainty as it looks to establish new trading relationships with our international partners. Nevertheless, the outlook for St. Modwen is positive. Through the repositioning of our business in the last few years, we have materially improved our portfolio quality, reduced our borrowings and aligned our organisational design. Our capital base is strong, our strategy is focused on growth in three sectors which are supported by positive long-term fundamentals and in each of these areas we have a substantial pipeline of opportunities in place. As such, we are confident that delivery against this strategy will continue to create value for all our stakeholders, thereby truly delivering on our purpose: 'Changing places. Creating better futures.' Building on our successful track-record and unique expertise, we therefore look to the future with confidence.

CHIEF EXECUTIVE'S REVIEW

Overview

2019 for St. Modwen has been a year of growing momentum in the strategy we set out in spring 2017. The first phase of this strategy was focused on repositioning our portfolio and strengthening our balance sheet, resulting in the sale of over £800m of assets by the end of 2018 and a reduction in LTV from 33.1% to 16.9%. Since the start of 2019 our focus has been on the next phase of our strategic plan – driving growth in each of our three focus areas: industrial and logistics; housebuilding; and strategic land and regeneration. Each of these sectors is underpinned by structural growth characteristics and in each area we have a deep pipeline of opportunities in our existing portfolio. Momentum has been positive in all three parts of our business, with 25% volume growth in St. Modwen Homes, terms agreed on 58% of the space we completed during the year in Industrial & Logistics, and the agreed sale of 663 plots of residential land in Wales, with a further c. 900 in advanced legal discussions.

Our underlying results are in line with our expectations and show our strategy is starting to deliver an improvement in returns. However, as announced in December, an exceptional provision for a legacy project reduced our total accounting return by 1.7ppt, while valuation weakness in our small amount of non-core retail reduced this by a further 2.0ppt to 4.6% (2018: 6.0%). Still, NAV per share increased 3.0% to 484.2 pence (2018: 470.2 pence)[(1)] and EPRA NAV per share grew 4.2% to 504.2 pence (2018: 484.0 pence)[(1)]. Despite lower rental income due to our large amount of non-core disposals during 2018, growth in housebuilding profits and lower interest costs meant adjusted EPRA earnings increased 22.1% to £38.7m (2018: £31.7m). Adjusted EPRA EPS rose 21.7% to 17.4 pence (2018: 14.3 pence), leaving us well on track to broadly double this in the medium term and driving a 22.5% increase in dividend to 8.7 pence per share (2018: 7.1 pence). After £18.5m of exceptional costs, profit for the year was £49.5m (2018: £60.5m), with basic EPS of 22.8 pence (2018: 27.1 pence).

Key financial performance metrics	2019	2018	Change %
NAV per share (pence)[(1)]	484.2	470.2	+3.0
EPRA NAV per share (pence)[(1)]	504.2	484.0	+4.2
Dividend per share (pence)	8.7	7.1	+22.5
Underlying total accounting return (%)	6.3	6.0	+0.3ppt
Profit for the year (£m)	49.5	60.5	-18.2
Adjusted EPRA earnings (£m)	38.7	31.7	+22.1
Basic earnings per share (pence)	22.8	27.1	-15.9
Adjusted EPRA earnings per share (pence)	17.4	14.3	+21.7
See-through net borrowings[(2)] (£m)	290.6	236.9	+22.7
See-through loan-to-value[(2)] (%)	19.6	16.9	+2.7ppt

(1) Following the adoption of IFRS 9 *Financial Instruments* during the year ended 30 November 2019, the comparative values of EPRA NAV per share and NAV per share at 30 November 2018 have been reduced by 0.1 pence and 0.2 pence respectively to reflect the retrospective restatement required for recognising provisions against trade and other receivables using an expected credit loss rather than an incurred loss model.

(2) Including the Group's share of net borrowings (being net debt at amortised cost less lease liabilities) and property held in joint ventures and associates.

People and organisation

The positive momentum in our business is a clear reflection of the hard work and dedication of our people. In order to strengthen the alignment between individual roles and our strategic objectives, we changed our organisational design during 2019 from what had historically been a regional structure to a functional structure with three dedicated business units: Industrial & Logistics, St. Modwen Homes and Strategic Land & Regeneration. Our purpose 'Changing places. Creating better futures.' sits at the heart of everything we do in each part of our business. This new organisational design has further enhanced our culture of empowerment and accountability and with these results we have also aligned our financial reporting to this, with new segmental balance sheets, income statements and returns on capital for each business unit. Our people are pivotal in delivering on the opportunities our strategy offers, so we will continue to invest in every part of our workforce.

Bringing our purpose to life

Having substantially completed the repositioning of our portfolio and internal organisation, the next phase of our strategy provides a clear opportunity to really bring to life our core purpose: 'Changing places. Creating better futures.' To remain successful as a business in the long term, financial results must be delivered in tandem with a meaningful, positive impact on society and the environment. We have been working on many social and environmental initiatives across the business for years but there is an opportunity to bring our ESG efforts together and establish a sustainable approach for the long term. In early 2020 we will therefore be launching six Responsible Business ambitions, based around net carbon reduction, with the aim to become operationally net zero carbon by 2025 and fully net zero carbon by 2040; biodiversity and sustainable environments; diversity and inclusion; education and future skills; health and wellbeing; and responsible operating practices and partnerships. All of these are aimed at truly bringing our purpose to life in every part of our business.

Industrial & Logistics

Our Industrial & Logistics business had a positive year in 2019, as we continued to reinvest the proceeds from our non-core disposals into our substantial development pipeline in this growth sector. As such, industrial and logistics assets now make up 44% of our portfolio, up from 19% when we launched our new strategy in mid-2017. We expect this to grow further in the coming years, as we accelerate the delivery of our attractive pipeline. Similar to last year, we completed 0.9m sq ft of developments during 2019, but we retained 97% of this space for our own portfolio (2018: 69%), improving the build-up of income. We have seen momentum in leasing build, so of the £5.5m ERV related to space we completed in 2019, 58% is let or under offer (early 2019: 54% of ERV completed in 2018), and we are seeing good interest in the remaining space.

We expect development completions to increase materially in 2020, to 1.5-1.7m sq ft, which allowing for some lease-up time, is expected to drive strong income growth for 2021 in particular. 1.5m sq ft of this is already committed, with a total development cost of £133m. We expect to retain 94% of this, which with an associated ERV of £9.5m is expected to deliver a yield on cost of 7.6% once fully let. Around 80% of this is focused on small to medium sized units of less than 150,000 sq ft, leaving us well positioned to benefit from the growing demand for last mile delivery space, as evidenced by our recent lettings to Ocado and DHL, and warehouse space near urban locations. Reflecting the growing leasing momentum, 18% of this is already pre-let (early 2019: 2%).

During the year we have expanded our pipeline, so our total pipeline now has the potential to deliver c. 19m sq ft of space in the long term, of which 45% has planning. We estimate the latter could deliver c. £56m of ERV, which with a c. 8% yield on cost and a c. 9% yield on incremental capex offers room for substantial development upside and income growth in future years.

St. Modwen Homes

Our housebuilding business St. Modwen Homes, which makes up 26% of our property assets, had another year of strong growth in 2019. We sold 1,060 units, marking an increase of 25% compared to the prior year (2018: 848 units); at the top end of our target to grow volumes by up to 25%. In line with our target, our operating margin increased to 14.8% (2018: 14.4%) and while the private average sales price reduced 3.2% compared to 2018 due to changes in sales mix and location, like-for-like sales prices increased 3.1%. Importantly, this growth was underpinned by an improvement in quality and customer experience, as we are on track to achieve 5* HBF housebuilder status and saw an increased net promoter score to 76, while our focus on the safety of our people resulted in a further reduction in our accident frequency rate, to less than one-tenth of the industry average.

Since the year end, demand for high-quality new homes in the regions, where most of our activity is focused, has remained strong so we have forward-sold 34.0% of our targeted private unit sales for the year (Feb 2019: 34.6%). We are currently sales-active on 21 outlets and will be opening a further six in the coming weeks (early 2019: 20). As such, we remain on track versus our medium-term growth ambitions yet having more than doubled our sales over the last three years, the annual rate of growth will naturally start to moderate as the business grows. We anticipate volumes to grow by up to 20% p.a. to 2021 and margins to improve by a broadly similar amount as last year during 2020. Beyond 2021, our existing 6,200-plot pipeline (excluding strategic land held by the Group), provides a solid base for further growth. We plan to selectively supplement this with the acquisition of a small number of oven-ready sites, to smooth the timing of larger strategic sites and grow volumes at a more normalised rate, and we remain on track to improve margins to c. 16-17% over time.

Strategic Land & Regeneration

Our Strategic Land & Regeneration business unit sits at the heart of our activities and combines the delivery of residential land for St. Modwen Homes or third-party housebuilders, often through substantial regeneration, and the delivery of major regeneration projects, which frequently have a large residential element.

Our focus for strategic residential land, which makes up 17% of our assets excluding land held by St. Modwen Homes, remains to monetise the value in our existing land bank and grow our activities through capital-light opportunities, to improve our return on capital. We agreed the sale of 896 plots to third-party housebuilders for £30m during the year (2018: £53m) but since the year end we agreed the disposal of 663 plots across our two sites in South Wales for £25m and we are in advanced legal discussions on the sale of a further c. 900 plots across both sites. Assuming these deals complete, the transfer of land would be phased but this would leave c. 40% of these two sites completed, under construction or controlled by housebuilders for near-term development.

Our focus in regeneration is to accelerate the delivery of projects in our existing portfolio, again to improve our return on capital. We have seen a clear pick-up in momentum at Longbridge, following our work on enhancing the vision for this major scheme and we anticipate starting on site with several public realm investments and mixed-use developments in 2020. At Swansea Bay Campus, we completed the latest phase of 411 student beds which we subsequently sold for £38m and at New Covent Garden Market, we continue the multi-year process of relocating the existing market facilities. Following the sale of our interests in Kirkby and Skelmersdale, we are working with both local councils on delivering the retail development-led regeneration local stakeholders look for, having released all our capital for reinvestment in our core sectors. We also continue to progress early stage discussions on other long-term, mixed-use urban opportunities in our portfolio, including Wythenshawe, Manchester.

Our Strategic Land & Regeneration business unit also covers the small amount of non-core assets we have left following our major portfolio repositioning during 2017-2018. We sold a further £65m of non-core assets in 2019, slightly ahead of our plans, including more than half of our residual non-core retail assets. A fall in retail values reduced our underlying total accounting return for the year by 2.0ppt to 6.3%, but after having already sold £177m of retail assets at a less than 1% discount to book value during 2018, non-core retail is now only 2% of our portfolio (early 2018: 16%) and other non-core commercial assets are down to 3% (early 2018: 17%). We continue to expect to sell these assets over the next two years.

Looking forward

Since we launched our new strategy in spring 2017, we have achieved an enormous amount. We have sold £950m of assets, equivalent to more than half of our initial portfolio, reduced our net borrowings by half and accelerated our development activity. Meanwhile, over the last three years we have grown our adjusted EPRA EPS by 79%, our dividend by 45% and our NAV per share by 12%. These results are testimony to the hard work of all our people and it is this quality and breadth of our team which defines the strength of St. Modwen.

Our strategy is focused on three clear objectives – build a high-quality industrial and logistics business, grow our residential and housebuilding business, and leverage our regeneration reputation – and our organisational structure, with its three dedicated business units, is fully aligned to this. Importantly, each of these three areas is supported by long-term structural growth drivers: demographic growth, on top of an existing shortage of housing, means there is a need for more high-quality, affordable houses; the digitalisation of shopping and changes in the way people work continues to fuel demand for modern, well-located industrial and logistics space; and ongoing urbanisation will require the regeneration of inefficiently used land in urban locations.

Positively, the General Election in December reduced political uncertainty in the UK for the time being and the new Government appears supportive to stimulating growth across the regions. Nevertheless, uncertainties around the general economic outlook remain and even though the UK formally left the EU at the end of January, the shape of our future trading relationships with the rest of the world is unclear. As such, we remain mindful of the uncertainty this could cause in the near term and the potential effects in the long term. While we will therefore maintain a conservative level of borrowings and we have the flexibility to adjust our activity quickly in case of any unexpected changes in demand due to the short-cycle nature of our developments, the positive structural growth characteristics in our key sectors provide us with confidence to continue to invest.

With a low see-through LTV of 19.6% and a significant pipeline of opportunities in our existing portfolio, we remain well-placed to deliver a meaningful improvement in return on capital and earnings over time. 2020 is therefore set to be another year of growth and delivery against our three strategic objectives. The return on capital employed in our Industrial & Logistics business for 2019 was at 12.4% ahead of St. Modwen Homes at 11.4% and in particular Strategic Land & Regeneration at 2.9%, but as we continue to accelerate our development activity and reduce our exposure to land and non-core assets, improving the return on capital employed in the latter two segments underpins our ambition to deliver a sustainable, low double-digit total return over time. Moreover, we remain on track to broadly double our adjusted EPRA EPS from the 2018 level of 14.3 pence in the medium term and expect to make further progress on this level in 2020. As I will leave the Company on 30 April, I am therefore confident to be handing over the business in such a strong position.

PORTFOLIO AND OPERATIONAL REVIEW

Portfolio overview

Investments & disposals

At the start of 2019 we signalled that, having sold over £800m of assets over the preceding 18 months, disposals would slow, and our focus was shifting to growth. Accordingly, during 2019 we invested £134m in developments (excluding housebuilding) and £36m in land for near-term development starts, mostly via existing development agreements, the largest of which being at Gatwick. Further optimising our portfolio, we sold over half of our non-core retail for £36m and 17 other non-core assets for £29m. We also sold the latest phase of student housing at Swansea for £38m and £30m of residential land. On average our disposals were 5.9% below book value, which was solely driven by non-core retail, as our other disposals were on average slightly ahead of book value.

Looking forward, we aim to sell the remaining £74m non-core assets over the next two years and while we will consider other selective disposals where we believe forward returns are below our requirements, overall, we expect disposals to be relatively modest. We remain open to new opportunities in each of our three sectors but given the opportunities in our existing pipeline we will remain selective when it comes to acquisitions. We continue to aim to grow the share of income producing assets in our portfolio to c. 60-65% over time (2019: 42%) by reducing our exposure to land and retaining our industrial and logistics developments.

	Amount[1] £m	EPRA net Initial yield[2] %
Acquisitions during 2019		
Industrial and logistics land	20	N/A
Residential land	16	N/A
Total	**36**	**N/A**
Disposals during 2019[3]		
Industrial and logistics	6	7.1
Non-core retail	36	6.8
Non-core other	29	5.8
Residential land	30	N/A
Swansea Student Accommodation	38	4.6
Total	**139**	**5.9**
Disposals post year end[3]		
Residential land	25	N/A
Total	**164**	**N/A**

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

(2) Based on income producing assets excluding land.

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

Portfolio valuation

Our portfolio value rose to £1.48bn during 2019, representing an increase of 4.1% adjusted for investments and disposals. Our industrial and logistics assets make up 44% of this (2018: 33%), including the industrial assets which are part of our Longbridge regeneration site, and we expect this share to continue to grow over the coming years. The rest of our regeneration assets and strategic land make up 25%, while St. Modwen Homes work in progress and land comprises a further 26%. Non-core retail assets now make up only 2% of our portfolio, down from 16% two years ago, and other non-core commercial assets are 3%, down from 17%.

Our Industrial & Logistics assets saw an 8.3% increase in value during 2019, with developments up 21.3% and existing assets up 1.3%. ERVs increased 2.6% on a like-for-like basis and yields were on average broadly stable, as expected. The small amount of £30m non-core retail assets that we have left saw a 31% fall in value, vindicating the sale of £177m of non-core retail assets during 2018 at a less than 1% discount to the 2017 book value. Our other Strategic Land & Regeneration assets were up 2.6%, driven by upside from planning improvements at some of our residential sites.

Looking forward, we remain of the view that capital value growth in industrial and logistics will be chiefly reliant on rental value growth and developments. We expect upside in residential land values to remain limited, with upside from house price inflation largely offset by build cost inflation. We expect retail property values to continue to soften, but representing 2% of our assets, non-core retail is only a minor part of our current portfolio.

	Portfolio value £m	Valuation movement %	EPRA net initial yield[1] %	Equivalent yield[1] %	LFL equivalent yield shift[1] bps	LFL ERV growth[1] %
Industrial & Logistics	**588**	**8.3**	**4.5**	**6.6**	**-**	**2.6**
St. Modwen Homes	**384**	**-**				
Residential land	259	5.5				
Retail-led regeneration	84	(1.9)	8.2	9.1	100	(5.7)
Other regeneration	96	(2.0)	5.9	7.1	(10)	4.8
Non-core retail	30	(31.1)	10.5	12.6	260	(17.3)
Non-core other	44	6.0	6.1	6.9	(40)	4.0
Strategic Land & Regeneration	**513**	**(0.2)**	**7.9**	**8.9**	**70**	**(6.4)**
Total portfolio	**1,485**	**4.1**	**5.5**	**7.2**	**20**	**(1.2)**

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

Operational performance

At the end of 2019 the annualised passing rent on our portfolio amounted to £38.4m, excluding £3.0m of contracted rent which is currently subject to rent-frees. This marked a slight reduction vs the £39.4m at the end of 2018, principally as new development lettings were offset by the loss of rental income associated with disposals. Like-for-like rental income was down 2.0%, as 1.2% growth in Industrial & Logistics was offset by a reduction in income on some future development assets in Strategic Land & Regeneration. Industrial and logistics now makes up 57% of our overall passing rent, up from 46% a year ago.

Our overall vacancy increased to 20.8% during the year, up from 18.9% at the end of 2018. However, excluding the impact of disposals and developments, our like-for-like occupancy improved 1.1ppt during the year. Around half of the vacancy at the end of November comprised newly developed industrial and logistics space, of which around one-third is currently under offer, and we expect the remaining space to be largely let during the current year. Around one-fifth of our vacant space is deliberately held back for future development.

We signed 1.9m sq ft of new leases and lease renewals during the year, generating £11.1m of annualised rental income. On average, re-lettings and renewals were agreed 4% above previous passing rent and in line with ERV. The average lease term to first break of our portfolio increased from 4.1 years to 4.7 years.

	Passing rent[1] £m	**ERV** £m	**Vacancy** %
Industrial & Logistics	**22.0**	**34.0**	**25.1**
St. Modwen Homes	**–**	**–**	**–**
Residential land	1.3	1.2	26.0
Retail-led regeneration	6.7	7.4	9.2
Other regeneration	3.3	3.7	3.4
Non-core retail	3.9	4.2	20.8
Non-core other	1.2	1.4	19.4
Strategic Land & Regeneration	**16.4**	**17.9**	**12.7**
Total portfolio	**38.4**	**51.9**	**20.8**

(1) Excluding £1.0m of annualised turnover rent at Trentham Gardens.

Industrial & Logistics

Development completions

We invested £86m in industrial and logistics capex during 2019. We completed 0.9m sq ft of space, of which we will retain 97%. With an associated ERV of £5.5m and total development cost of £70m, these projects are set to deliver a yield on cost of 7.9% once fully let. Momentum in leasing has continued to build, so we have already let 47% of this ERV, with a further 11% under offer – up from this time last year, when 38% of our 2018 completions were let and 17% was under offer. Key completions during the year included a 151,000 sq ft unit in Avonmouth which we let to Ocado on a 17-year fixed contract; 173,000 sq ft across three units at Gloucester, the first of which we let to a UK engineering firm; 103,000 sq ft at the third phase of our successful scheme in Burton; and 95,000 sq ft across two units in Lincoln which we let to DHL and an international food manufacturer.

In total, we signed £5.3m of development lettings during the year, up from £2.8m last year. Our 2018 completions are 73% let or under offer, as two smaller developments we started prior to our strategic review in mid-2017 still have space available, although the amount of rent associated with this is modest. We are seeing good customer interest in our recent and current projects and are in active discussions on virtually all of the remaining space from our 2019 pipeline, so we expect this to be substantially let over the next six months.

Current developments

We expect development completions to increase from 0.9m sq ft in 2019 to 1.5-1.7m sq ft in 2020. Our committed pipeline stands at 1.5m sq ft, with a total development cost of £133m. We intend to retain 94% of this with an associated ERV of £9.5m, representing an expected yield on cost of 7.6% once fully let. This is slightly below the yield on cost on last year's development completions, partly reflecting the first phase of development at Gatwick, as valuation yields around London are lower than in the rest of the UK. During 2019, we pre-let the first 100,000 sq ft phase at this site to Gatwick Airport on a 15-year fixed term. In total, 18% of our committed pipeline is pre-let, up from 2% at the start of 2019, reflecting the growing leasing momentum in the business.

Around 80% of the space in our committed pipeline comprises units below 150,000 sq ft, with an average unit size of 40,000 sq ft. This leaves us well-positioned to meet the growing demand for last mile delivery space, as evidenced by our recent lettings to DHL and Ocado, and modern warehouses near urban locations and good availability of labour. While availability in the overall logistics market has increased over the last two years, this has been driven by the delivery of speculative mega-box units over 400,000 sq ft, as availability at the smaller 100,000-200,000 sq ft end of the market has remained stable. We continue to avoid speculative development of mega-box space, as we continue to see better long-term prospects at the small to medium end of the market.

Project	Size 000 sq ft	Units	Expected completion	Let/pre-sold[1] %	Total dev cost £m	Current book value £m	Future capex £m	ERV £m	Yield on cost %
Avonmouth	65	2	H2 2020	–					
Burton Gateway	217	4	H2 2020	–					
Bury	79	8	H1 2020	–					
Chippenham	106	1	H2 2020	–					
Doncaster	74	2	H1 2020	–					
Tamworth	321	1	H1 2020	–					
Stoke Central	43	1	H1 2020	–					
Lincoln	80	2	H2 2020	33					
Gatwick	100	1	H2 2020	100					
Stoke South	102	2	H2 2020	–					
Stoke South	81	3	H2 2020	–					
Worcester	96	3	H1 2020	–					
Industrial & Logistics – to be retained	**1,364**	**30**		**18**	**126**	**61**	**80**	**9.5**	**7.6**
Bury	43	4	H1 2020	100					
Stoke Central	43	1	H1 2020	100					
Industrial & Logistics – to be sold	**86**	**5**		**100**	**7**	**3**	**5**		
Longbridge – 3 Devon Way	21	1	H1 2020	100					
Other – to be retained	**21**	**1**		**100**	**5**	**5**	**1**		
Total	**1,471**	**36**		**21**	**138**	**69**	**86**		

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

Future pipeline

During 2019 we secured two new development opportunities, which, subject to planning, could cater for c. 2.2m sq ft of space in the long term. Our total pipeline therefore now stands at c. 19m sq ft, of which c. 45% has planning. In addition to our 1.5m sq ft committed pipeline, we have a further 7.3m sq ft of consented space in our future pipeline, which could deliver c. £47m of ERV. With future capex of £500-550m and total development cost including land we already own of £570-620m, this could deliver a c. 9% yield on incremental capex and c. 8% yield on cost. However, having backed ourselves to establish our Industrial & Logistics business unit's market presence through speculative development over the last two years, we aim to further grow our pre-let activity in the coming years, which means we will be pragmatic about the trade-off between risk and return. We aim to grow our development activity to up to c. 2m sq ft p.a. in the near future, which, given the substantial premium of development yields over marginal financing costs and valuation yields, is expected to drive meaningful growth in earnings and development upside.

St. Modwen Homes

Development completions

We have continued to see good demand for our high-quality new homes, in particular in the regions, where the bulk of our activity is focused, and we sold 1,060 homes during the year. This represents a 25% increase versus last year (2018: 848 units); at the high end of our target to grow volumes by up to 25%. The safety of our people and the quality and overall experience we deliver to our customers remain paramount in growing our business, so we are pleased our HBF home builder status is on track for a 5* rating, our net promotor score increased from 63 to 76 and our accident frequency rate reduced further, to less than one-tenth of the industry average.

Our private average sales price reduced 3.2% to £273,000 (2018: £282,000), as a 3.1% increase in like-for-like sales prices was offset by changes in the mix of units and sites. Our operating margin increased to 14.8% (2018: 14.4%), in line with our target to grow margins by c. 0.5ppt. We are currently sales active on 21 outlets with a further six opening in the coming weeks (early 2019: 20) and our private sales rate was stable at 0.8 (2018: 0.8).

Operational performance metrics	2019	2018	Change %
Total units sold	1,060	848	25.0
Private units sold	920	709	29.8
Affordable units sold	140	139	0.7
Private sales rate	0.8	0.8	–
Private ASP (£k)	273	282	(3.2)
Affordable ASP (£k)	135	118	14.4
Operating margin (%)	14.8	14.4	0.4ppt

Current developments

Since the end of the year, trading activity has remained strong hence we forward-sold 34.0% of our targeted private unit sales for the year (Feb 2019: 34.6%). Having more than doubled our sales volumes over the last three years, the annual rate of volume growth is naturally bound to moderate over the coming years as the business grows, although we remain on track versus our medium-term growth ambitions. We plan to add 11 sales outlets this year and aim to grow volumes by up to 20%, whilst we expect margins to improve by a broadly similar amount as in 2019. We continue to evolve our product and have recently opened our first dual-selling site where we will offer an alternative range of new homes, alongside our existing product. We have also started our first inner-city apartment scheme, around half a mile from Birmingham New Street station, which will provide 170 apartments by 2020-21. We also recently partnered with a shared-ownership and registered provider, which alongside part-exchange will further expand our offering to customers and diversify our sales from Help to Buy.

Future pipeline

Excluding strategic land held by the Group, St. Modwen Homes' existing land bank comprises c. 6,200 plots. This provides us with visibility to grow volumes by up to 20% p.a. by 2021, in line with the medium-term target we set in 2017. Beyond that, our current pipeline allows us to maintain a volume of c. 1,300-1,400 units p.a. so we plan to selectively supplement the strategic land coming through from the Group with the acquisition of a small number of 'oven-ready' sites over the coming years, to smooth the timing of larger strategic sites and continue to grow volumes at a more normalised rate, depending on the opportunities we see.

As our land bank has been transferred from the Group to St. Modwen Homes at market value, upside from house price inflation and planning gains has historically been captured through 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. Nonetheless, we maintain our target to improve margins to c. 16-17% in the coming years due to an optimisation of site coverage, scale efficiencies and a range of other, smaller initiatives.

Strategic Land & Regeneration

Development completions

At Swansea Bay Campus we completed the latest phase of 411 student beds in early 2019 and subsequently sold these for £38m in November, crystallising a healthy development return. In Uxbridge, we completed and handed over the 207-unit PRS scheme we had forward sold for £75m in early 2018.

We agreed the sale of 896 plots of residential land to third-party housebuilders during the year for £30m. While this was less than in the prior year (2018: £53m), since the year end we agreed to sell more than 663 plots at our two largest sites in South Wales, Coed Darcy and Llanwern, for £25m and we are in advanced legal discussions on the sale of a further c. 900 plots across both sites. We agreed significant planning improvements on both sites during the year, which paved the way for these disposals and thereby an acceleration in buildout of both sites. Assuming both deals complete, the transfer of land would be phased over the coming years, but combined with the next phase for St. Modwen Homes, this would leave c. 40% of the plots at our two large South Wales sites completed, under construction or controlled by various housebuilders for near term development.

Current developments

At Longbridge, we are on site with the final 21,100 sq ft phase of our Devon Way office cluster, which is pre-let on a 15-year fixed term, and St. Modwen Homes and a third-party housebuilder are currently on site to deliver 355 new homes. At New Covent Garden Market, the relocation of the market facilities through our 50/50 JV with VINCI is ongoing, ahead of the release of 10 acres of residential development to the JV in the medium term.

Following the sale of our shopping centre in Kirkby to Knowlesley Borough Council in November, we have started the development of a 95,000 sq ft extension to the existing centre, and following the sale of our interests in Skelmersdale, we are about to start works to deliver a new 51,500 sq ft retail scheme for West Lancashire Borough Council. Acting as development manager, we will therefore deliver the regeneration local stakeholders are looking for, having released our capital for reinvestment in our core sectors.

Future pipeline

Our focus remains on monetising the value in our existing land bank, both through accelerating development and disposals, to improve our return on capital. Following a period of relatively subdued activity, we have seen a marked pick-up in momentum at Longbridge in 2019, where we have been working on enhancing the vision to fit our placemaking ambitions for this flagship scheme. In 2020, we plan to start on site with various public realm improvements, a pop-up style street-food dining facility, a 44-unit apartment scheme and a 48,000 sq ft office designed around flexible working, where we are already seeing strong interest. This should further support momentum as we bring forward the future opportunities at this scheme, which is currently c. 45% developed.

At Wythenshawe, Manchester, we have continued to progress our positive early-stage discussions with the council about a large-scale mixed-use redevelopment of our existing 1960's retail centre and we continue to explore other long-term, mixed-use urban opportunities in our existing portfolio. Following a large amount of development at Bay Campus in recent years, we continue our discussions with the university about the next medium-term steps at this successful scheme.

The Group's owned residential land bank at the end of November comprised c. 17,500 plots (2018: 18,400), of which 6,200 plots were held by St. Modwen Homes and 11,300 by our Strategic Land & Regeneration business. Of the latter, c. 3,100 plots comprise strategic land which is still subject to planning, while the remaining c. 8,200 plots are sites that we will continue to invest in to prepare for disposal to third-party housebuilders. These include the 663 plots in South Wales we agreed to sell since the year end and the further c. 900 plots we are in advanced legal discussions on. In addition, we control land via development agreements which could cater for a further c. 11,300 homes in the long term (2018: 11,800), around 40% of which is still subject to planning.

FINANCIAL REVIEW

Overview

Our underlying financial performance for the year shows our strategy is starting to deliver the improvement in earnings and returns we expect it to bring over time. Despite a £13.6m reduction in net rental income due to our non-core asset disposals over the last two years, adjusted EPRA earnings increased 22.1% to £38.7m (2018: £31.7m), driven by new lettings, growth in housebuilding profits and a reduction in interest costs. As a result, adjusted EPRA EPS grew 21.7% to 17.4 pence (2018: 14.3 pence), leaving us well on track to deliver on our target to broadly double adjusted EPRA EPS in the medium term from the 2018 level. As indicated at the start of the year, net borrowings increased due to the reinvestment of part of last year's disposal proceeds into our pipeline, but our see-through loan-to-value remains low at 19.6% (2018: 16.9%).

Underlying net profit for the year increased by 12.4% to £68.0m (2018: £60.5m). However, as per our announcement in early December, an exceptional provision for a potential claim related to a historical development project reduced statutory net profit to £49.5m, which reduced underlying basic EPS of 30.6 pence per share (2018: 27.1 pence) to 22.8 pence and NAV by 1.6%. While we sold the majority of our retail assets at less than 1% below book value in 2018, valuation weakness in our residual non-core retail, over half of which we have now sold as well, resulted in a further 1.9% reduction of NAV. Notwithstanding this combined 3.5ppt drag, NAV per share increased 3.0% to 484.2 pence per share (2018: 470.2 pence)[(1)] and EPRA NAV per share increased 4.2% to 504.2 pence (2018: 484.0 pence)[(1)]. Combined with dividends paid during the year, our underlying total accounting return for 2019 was 6.3% (2018: 6.0%), or 4.6% including the exceptional provision.

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 5.1 pence per share, to be paid on 3 April 2020 to shareholders on the register as at 6 March 2020. This brings the total dividend for the year to 8.7 pence, marking an increase of 22.5% versus last year (2018: 7.1 pence).

(1) Following the adoption of IFRS 9 *Financial Instruments* during the year ended 30 November 2019, the comparative values of NAV per share and EPRA NAV per share at 30 November 2018 have been reduced by 0.2 pence and 0.1 pence respectively to reflect the retrospective restatement required for recognising provisions against trade and other receivables using an expected credit loss rather than an incurred loss model.

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, comprising 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, and one is in partnership with Salhia, Key Property Investments (KPI), which owns a portfolio of principally income-producing industrial assets.

During the year, the Group adopted three new accounting standards, being IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. The 2018 results have been restated for IFRS 9 and IFRS 15, but they have not been restated for IFRS 16 as it has been applied from 1 December 2018 using the modified retrospective approach outlined in the standard. These restatements have had limited impact on the Group financial statements and there is no change to the summarised income statement presented below. Further detail is provided in the accounting policies note to the Group financial statements.

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.

With these results, we have updated our segmental reporting to reflect the changes in our organisational structure during the year. As such, our financial reporting is now aligned to our three operational business units, Industrial & Logistics, St. Modwen Homes, and Strategic Land & Regeneration, with items which are not directly allocated to specific business activities, such as borrowings and interest costs, held centrally and presented separately. To allow operating costs to be allocated appropriately, we have split administrative expenses into business unit direct operating expenses and central administrative expenses. These changes have no impact on our net profit or adjusted EPRA earnings but provide better clarity on the returns in each part of our business.

	2019					2018
	Industrial & Logistics £m	St. Modwen Homes £m	Strategic Land & Regeneration £m	Unallocated £m	Total £m[1]	Total £m[1]
Gross rental income	22.2	–	26.4	–	**48.6**	59.7
Property outgoings	(4.6)	–	(7.0)	–	**(11.6)**	(12.9)
Other net income	1.1	–	2.0	–	**3.1**	2.2
Net rental & other income	**18.7**	**–**	**21.4**	**–**	**40.1**	**49.0**
Housebuilding profit	–	51.4	4.1	–	**55.5**	44.7
Development fee income	1.1	–	3.3	–	**4.4**	3.4
Business unit direct operating expenses	(3.3)	(11.3)	(7.1)	–	**(21.7)**	(20.6)
Central administrative expenses	–	–	–	(22.4)	**(22.4)**	(22.7)
Net interest costs	–	–	–	(9.3)	**(9.3)**	(14.6)
Taxation on adjusted EPRA earnings	–	–	–	(7.8)	**(7.8)**	(7.2)
Non-controlling interests on adjusted EPRA earnings	–	–	–	(0.1)	**(0.1)**	(0.3)
Adjusted EPRA earnings	**16.5**	**40.1**	**21.7**	**(39.6)**	**38.7**	**31.7**
Property revaluation and development gains	46.3	–	0.6	(22.5)[2]	**24.4**	48.4
Property disposal gains/(losses)	0.2	–	(5.2)	–	**(5.0)**	(7.1)
Change in discounted market liability	–	–	–	–	**–**	4.7
Net other finance costs	–	–	(2.5)	(4.5)	**(7.0)**	(12.7)
Tax on other earnings	–	–	–	(1.7)	**(1.7)**	(4.8)
Less non-controlling interests on other earnings	–	–	–	1.3	**1.3**	–
Profit attributable to the owners of the Company	**63.0**	**40.1**	**14.6**	**(67.0)**	**50.7**	**60.2**
Basic earnings per share (pence)					**22.8**	**27.1**

(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.

(2) Exceptional provision for a potential claim related to a legacy development project.

Net rental and other income

As expected, the Group's share of net rental and other income decreased to £40.1m (2018: £49.0m) due to the large amount of non-core disposals over the past two years. Industrial & Logistics net rental and other income increased to £18.7m (2018: £14.4m), due to £5.3m income from retained developments and £0.2m like-for-like income growth. Net rental and other income in Strategic Land & Regeneration reduced to £21.4m (2018: £34.6m), chiefly reflecting an £11.7m loss of rental income on non-core assets we sold. With asset disposals in 2019 weighted towards the end of the year and further non-core disposals to come, we expect Strategic Land & Regeneration net rental income to continue to reduce in 2020, but this to be offset by further growth in net rental income in Industrial & Logistics. As the effect of non-core sales subsides, we expect overall net rental income to grow more meaningfully in 2021 onwards.

Housebuilding profit

Gross profit from housebuilding activities increased 24.2% to £55.5m (2018: £44.7m). The majority of this comprises St. Modwen Homes where gross profit increased 22.1% to £51.4m (2018: £42.1m), while net operating profit increased 28.1% to £40.1m (2018: £31.3m). The Persimmon JV, which forms part of our Strategic Land & Regeneration business, delivered £4.1m of profit (2018: £2.6m) This JV is still anticipated to largely draw to a close by the end of 2020, but we expect the reduction in profit from this to be more than offset by continued growth in St. Modwen Homes profits.

Business unit direct operating expenses and central administrative expenses

Business unit operating expenses are costs which are directly linked to the operating activities of our three business units. During the year, these increased to £21.7m (2018: £20.6m), partly as a result of the growth in sales and build activity in St. Modwen Homes. We expect direct operating expenses to continue to grow, chiefly driven by the continued growth in St. Modwen Homes. Central administrative expenses for the year decreased slightly to £22.4m (2018: £22.7m) and are expected to grow broadly in line with inflation in 2020.

Interest and other finance costs

Net interest costs for the year fell to £9.3m (2018: £14.6m) on a see-through basis, principally due to a reduction in debt due to our disposals during 2018 and a reduction in average borrowing costs. We capitalised £3.3m of interest costs on commercial developments during the year (2018: £2.3m). We expect to be a net investor in 2020 due to the investments in our pipeline, although the impact of this on net interest cost is anticipated to be largely offset by a reduction in our average cost of borrowing during 2019.

Net other finance costs were down significantly to £7.0m (2018: £12.7m), largely reflecting £7.3m one-off expenses in the prior year related to our refinancing activity. Net other finance costs for 2019 includes a £2.5m 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. Combined, these costs have averaged c. £7m p.a. in recent years and are expected to recur at broadly similar levels. The final element of our other finance costs relates to the mark-to-market valuation of our derivatives, which is driven by the movement in swap rates and resulted in a £2.7m expense in the year.

Investment property revaluation, development and disposal gains/losses

All our investment properties are independently valued every six months by our external valuers, Cushman & Wakefield, 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 2019 our portfolio saw an underlying net revaluation and development gain of £46.9m, largely in line with the £48.4m gain in 2018. At £46.3m, virtually all of this was driven by Industrial & Logistics, as write-downs on non-core retail assets broadly offset other gains in Strategic Land & Regeneration. We recorded a £5.0m loss on disposals, compared to a £7.1m loss last year, which solely reflected a loss on the sale of non-core retail assets.

Exceptional item

We recognised an exceptional item of £22.5m to provide for a potential claim against the Company for a legacy project the Group developed and sold approximately 15 years ago, which adjusted for tax and non-controlling interests reduced our statutory net profit attributable to owners of the Company for the year by £17.3m, or 7.8 pence per share. To date, no detailed claim has been made by any of the parties involved and as such there is no certainty around the potential amount and timing of any future cash outflow. We anticipate we will be able to recover a meaningful part of any potential claim but as IFRS places a lower threshold on the recognition of potential future obligations than the recognition of potential future reimbursements, we cannot recognise any anticipated recoveries at this stage and therefore only recognised the provision element in our results. Following a thorough review of our historical projects we are confident that any alleged problem would be a one-off issue which is therefore not expected to have any impact on our strategy or medium-term return expectations.

Taxation and profit

Our underlying net profit before exceptional items for the year was £68.0m. Taking into account the above exceptional provision, our statutory net profit after tax of £49.5m (2018: £60.5m), while our total tax charge (including joint venture tax) for the year was £9.5m (2018: £12.0m).

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 effective tax rate for the year of 16.1% was broadly stable (2018: 16.6%). As signalled previously, the effective tax rate is expected to remain at broadly similar levels, slightly below the standard rate of tax.

Return on capital

Including dividends of 7.6 pence per share paid during the year, our underlying total accounting return amounted to 6.3%, or 4.6% including the exceptional provision (2018: 6.0%). Our new segmental reporting below for the first time provides insight into how our three business units contribute to our overall Group returns. The return on capital employed for Industrial & Logistics is highest at 12.4%, driven by its large amount of development activity, ahead of St. Modwen Homes at 11.4% and Strategic Land & Regeneration at 2.9%.

We expect the difference in ROCE per business unit to narrow in the years ahead, as St. Modwen Homes reduces its land bank from c. 6 years to a level more in line with industry standards by growing its volumes, and Strategic Land & Regeneration monetises its surplus residential land, where the lack of income means returns are modest, and accelerates the delivery of its existing regeneration projects. We therefore remain on track towards our ambition to generate a low double-digit total accounting return over time, assuming markets remain stable.

	2019					2018
	Industrial & Logistics £m	**St. Modwen Homes £m**	**Strategic Land & Regeneration £m**	**Unallocated £m**	**Total[1] £m**	**Total[1][2] £m**
Property portfolio	588.1	384.2	512.3	–	**1,484.6**	1,403.3
Other assets	6.3	23.8	75.5	101.0	**206.6**	198.3
Gross assets	**594.4**	**408.0**	**587.8**	**101.0**	**1,691.2**	**1,601.6**
Net borrowings	–	–	–	(290.6)	**(290.6)**	(236.9)
Lease liabilities	–	–	–	(9.2)	**(9.2)**	(3.9)
Other liabilities	(21.7)	(53.6)	(112.2)	(123.5)	**(311.0)**	(310.8)
Gross liabilities	**(21.7)**	**(53.6)**	**(112.2)**	**(423.3)**	**(610.8)**	**(551.6)**
Net assets	**572.7**	**354.4**	**475.6**	**(322.3)**	**1,080.4**	**1,050.0**
Non-controlling interests	**–**	–	**–**	**(4.7)**	**(4.7)**	(5.9)
Equity attributable to owners of the Company	**572.7**	**354.4**	**475.6**	**(327.0)**	**1,075.7**	**1,044.1**
Business unit ROCE[3]	**12.4%**	**11.4%**	**2.9%**			
NAV per share (pence)[1]					**484.2**	470.2
EPRA NAV per share (pence)[1]					**504.2**	484.0

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

(2) Following the adoption of IFRS 9 *Financial Instruments* during year ended 30 November 2019, the comparative values of NAV per share and EPRA NAV per share at 30 November 2018 have been reduced by 0.2 pence and 0.1 pence respectively to reflect the retrospective restatement required for recognising provisions against trade and other receivables using an expected credit loss rather than an incurred loss model. This restatement reduced other assets, gross assets, net assets and equity attributable to owners of the Company at 30 November 2018 by £0.3m.

(3) Business unit returns on capital employed are calculated as the business unit profit before interest and tax for the year divided by the average business unit net assets, after adding back any business unit specific net borrowings, for the year.

Net asset value

The aforementioned exceptional provision reduced the net asset value attributable to shareholders of the Group for 2019 by £17.3m to £1,075.7m (2018: £1,044.1m)[1] . Notwithstanding the 7.8 pence per share, or 1.6%, reduction in net asset value related to this provision, net asset value per share increased 3.0% over the year to 484.2 pence (2018: 470.2 pence)[1]. EPRA NAV per share increased by 4.2% to 504.2. pence (2018: 484.0 pence)[1].

Net borrowings and loan-to-value

Following a £151.3m reduction during 2018 net borrowings increased by £53.7m to £290.6m (2018: £236.9m) during 2019 as we, as planned, reinvested part of last year's disposal proceeds. This excludes £37.5m (representing our 50% share) held in a development account for the NCGM project delivery which continues to be held in a one-year deposit account and therefore does not qualify as cash in our net borrowings calculation.

As a result, our see-through LTV increased to 19.6% (2018: 16.9%), or 17.1% including the £37.5m held on one-year deposit. As such, our overall LTV remains comfortably below our target to keep our overall LTV in the mid to high-20's percent. Whilst we remain conservative in our approach to financial leverage, we expect see-through net borrowings to grow during 2020 as we continue to reinvest part of the proceeds from our non-core disposals into our pipeline.

	2019[1]	**2018[1]**
Gross borrowings[2] (£m)	357.8	321.5
Net borrowings[2] (£m)	290.6	236.9
Loan-to-value[3] (%)	19.6	16.9

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

(2) Borrowings are stated at amortised cost and exclude lease liabilities.

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

Financing

During 2019, we drew down the £75m facility from the Homes England Home Building Fund we signed shortly before the end of 2018 and repaid our £100m convertible bond upon its maturity in March. We extended the maturity of £400m of our £475m unsecured revolving credit facility by one year to December 2024 and extended the maturity of our small £30m KPI JV facility (£15m our share) to January 2021. Aside from this, we have no debt maturing until December 2023 and our average debt maturity increased to 4.9 years (2018: 4.5 years).

	2019	2018
Available facilities (£m)	565.0	680.0
Average duration of facilities (years)	4.9	4.5
Weighted average interest rate[1] (%)	3.5	3.8
Percentage of gross borrowings fixed or hedged (%)	65.7	66.9

(1) 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 2019, thereby assuming constant net borrowing levels for 2019.

Hedging and cost of debt

Our weighted average interest rate reduced slightly to 3.5% (2018: 3.8%) due to the drawdown of relatively cheaper borrowings. 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 65.7% (2018: 66.9%) 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

3 February 2020

GROUP INCOME STATEMENT

for the year ended 30 November 2019

	Notes	2019 Underlying £m	2019 Exceptional[1] £m	2019 Total £m	2018 Total (restated)[2] £m
Revenue	1	**429.9**	**–**	**429.9**	436.2
Costs	1	**(331.1)**	**(22.5)**	**(353.6)**	(320.4)
Investment property disposal (losses)/gains		**(5.2)**	**–**	**(5.2)**	7.1
Investment property revaluation gains		**47.5**	**–**	**47.5**	19.2
Net loss of joint ventures and associates (post-tax)	11	**(2.6)**	**–**	**(2.6)**	(3.1)
Administrative expenses	1	**(43.8)**	**–**	**(43.8)**	(43.2)
Profit before interest and tax		**94.7**	**(22.5)**	**72.2**	95.8
Finance costs	6	**(15.8)**	**–**	**(15.8)**	(25.8)
Finance income	6	**2.5**	**–**	**2.5**	2.4
Profit before tax		**81.4**	**(22.5)**	**58.9**	72.4
Taxation		**(13.4)**	**4.0**	**(9.4)**	(11.9)
Profit for the year		**68.0**	**(18.5)**	**49.5**	60.5
Attributable to:					
Owners of the Company		**68.0**	**(17.3)**	**50.7**	60.2
Non-controlling interests		**–**	**(1.2)**	**(1.2)**	0.3
Profit for the year		**68.0**	**(18.5)**	**49.5**	60.5

(1) Refer to note 5 for details of the exceptional item.

(2) Revenue and costs have been restated following the adoption of IFRS 15 *Revenue from Contracts with Customers* during the year ended 30 November 2019, as set out in the Group accounting policies note. The restatements have had no impact on profit for the year.

	Notes	2019 Pence	2018 Pence
Basic earnings per share	8	**22.8**	27.1
Diluted earnings per share	8	**22.6**	25.5

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2019

	2019 £m	2018 £m
Profit for the year	**49.5**	60.5
Items that will not be reclassified to profit and loss:		
Pension fund actuarial gains	**0.1**	–
Total comprehensive income for the year	**49.6**	60.5
Attributable to:		
Owners of the Company	**50.8**	60.2
Non-controlling interests	**(1.2)**	0.3
Total comprehensive income for the year	**49.6**	60.5

GROUP BALANCE SHEET

as at 30 November 2019

	Notes	**2019 £m**	2018 (restated)[1] £m
Non-current assets			
Investment properties	10	**958.1**	939.3
Property, plant and equipment and intangibles		**26.7**	17.4
Investments in joint ventures and associates	11	**86.0**	89.1
Trade and other receivables	12	**11.3**	6.7
Derivative financial instruments		**0.2**	0.9
		1,082.3	1,053.4
Current assets			
Inventories	13	**416.5**	366.4
Assets held for sale		**15.8**	–
Trade and other receivables	12	**88.5**	89.9
Cash and cash equivalents		**48.2**	38.9
		569.0	495.2
Current liabilities			
Trade and other payables	14	**(140.4)**	(158.2)
Current tax liabilities	7	**–**	(0.9)
Borrowings and lease liabilities	15	**(1.4)**	(100.2)
Provisions	16	**(24.5)**	–
		(166.3)	(259.3)
Non-current liabilities			
Trade and other payables	14	**(14.8)**	(5.7)
Derivative financial instruments		**(3.3)**	(0.9)
Borrowings and lease liabilities	15	**(360.9)**	(213.0)
Deferred tax	7	**(25.6)**	(19.7)
		(404.6)	(239.3)
Net assets		**1,080.4**	1,050.0
Capital and reserves			
Share capital	17	**22.2**	22.2
Share premium account		**102.8**	102.8
Retained earnings		**901.4**	869.5
Share incentive reserve		**3.9**	4.7
Own shares		**(0.8)**	(1.3)
Other reserves		**46.2**	46.2
Equity attributable to owners of the Company		**1,075.7**	1,044.1
Non-controlling interests		**4.7**	5.9
Total equity		**1,080.4**	1,050.0

(1) Current trade and other receivables, retained earnings and the presentation of derivative financial instruments have been restated following the adoption of IFRS 9 *Financial Instruments* during the year ended 30 November 2019, as set out in the Group accounting policies note.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2019

	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 2017 (as previously reported)	22.2	102.8	825.7	5.1	(1.7)	46.2	1,000.3	5.7	1,006.0
Effect of adoption of IFRS 9 *Financial Instruments*	–	–	(0.3)	–	–	–	(0.3)	–	(0.3)
Equity at 30 November 2017 (restated)[1]	22.2	102.8	825.4	5.1	(1.7)	46.2	1,000.0	5.7	1,005.7
Profit and total comprehensive income for the year	–	–	60.2	–	–	–	60.2	0.3	60.5
Share-based payments expense	–	–	–	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 9)	–	–	(16.4)	–	–	–	(16.4)	(0.1)	(16.5)
Equity at 30 November 2018 (restated)[1]	**22.2**	**102.8**	**869.5**	**4.7**	**(1.3)**	**46.2**	**1,044.1**	**5.9**	**1,050.0**
Profit for the year	**–**	**–**	**50.7**	**–**	**–**	**–**	**50.7**	**(1.2)**	**49.5**
Pension fund actuarial gains	**–**	**–**	**0.1**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Total comprehensive income for the year	**–**	**–**	**50.8**	**–**	**–**	**–**	**50.8**	**(1.2)**	**49.6**
Share-based payments expense	**–**	**–**	**–**	**1.4**	**–**	**–**	**1.4**	**–**	**1.4**
Settlement of share-based payments	**–**	**–**	**(2.0)**	**(2.2)**	**0.5**	**–**	**(3.7)**	**–**	**(3.7)**
Dividends paid (note 9)	**–**	**–**	**(16.9)**	**–**	**–**	**–**	**(16.9)**	**–**	**(16.9)**
Equity at 30 November 2019	**22.2**	**102.8**	**901.4**	**3.9**	**(0.8)**	**46.2**	**1,075.7**	**4.7**	**1,080.4**

(1) Equity has been restated following the adoption of IFRS 9 *Financial Instruments* during the year ended 30 November 2019, as set out in the Group accounting policies note.

Own shares represent the cost of 210,434 (2018: 345,744) shares held by The St. Modwen Properties PLC Employee Share Trust. The open market value of the shares held at 30 November 2019 was £1.0m (2018: £1.3m).

The other reserves comprise a capital redemption reserve of £0.3m (2018: £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 (2018: £45.9m).

GROUP CASH FLOW STATEMENT

for the year ended 30 November 2019

	Notes	**2019 £m**	2018 £m
Operating activities			
Profit before interest and tax		**72.2**	95.8
Net loss of joint ventures and associates (post-tax)	11	**2.6**	3.1
Investment property disposal losses/(gains)		**5.2**	(7.1)
Investment property revaluation gains	10	**(47.5)**	(19.2)
Depreciation and amortisation		**3.7**	1.0
Increase/(decrease) in net realisable value provisions	13	**3.9**	(0.4)
Decrease/(increase) in inventories		**2.9**	(21.9)
Decrease/(increase) in trade and other receivables		**12.5**	(29.1)
Increase/(decrease) in trade and other payables		**0.6**	(27.0)
Increase in provisions		**24.5**	–
Pensions		**0.2**	–
Settlement less expense of share-based payments		**(2.3)**	0.4
Tax paid	7	**(4.4)**	(14.2)
Net cash inflow/(outflow) from operating activities		**74.1**	(18.6)
Investing activities			
Proceeds from investment property disposals		**67.3**	322.7
Investment property additions		**(139.3)**	(112.5)
Interest received		**1.4**	1.2
Capital injection into joint ventures and associates		**(0.3)**	(0.4)
Property, plant and equipment and intangibles additions		**(7.0)**	(6.3)
Dividends received from joint ventures and associates	11	**0.8**	27.8
Net cash (outflow)/inflow from investing activities		**(77.1)**	232.5
Financing activities			
Dividends paid	9	**(16.9)**	(16.4)
Dividends paid to non-controlling interests		**–**	(0.1)
Interest paid		**(12.4)**	(17.6)
Repayments of obligations under lease arrangements		**(1.1)**	(0.5)
Refinancing outflows		**(1.3)**	(16.6)
Borrowings drawn		**386.0**	612.0
Repayment of borrowings		**(342.0)**	(736.3)
Net cash inflow/(outflow) from financing activities		**12.3**	(175.5)
Increase in cash and cash equivalents		**9.3**	38.4
Cash and cash equivalents at start of year		**38.9**	0.5
Cash and cash equivalents at end of year		**48.2**	38.9

GROUP ACCOUNTING POLICIES

for the year ended 30 November 2019

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 2019, 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 Group's pension scheme.

The financial information contained within this announcement has been prepared on the basis of the accounting policies applied in the Group's financial statements for the year ended 30 November 2019, which are not reproduced in this announcement, except as set out below. The financial information contained within this announcement does not constitute the Group's statutory accounts for the years ended 30 November 2018 or 30 November 2019, but is derived from those accounts.

Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered and made available on the Company's website www.stmodwen.co.uk following the Company's annual general meeting. The auditor has reported on these accounts; its report was unqualified, did not include any matters to which the auditor drew attention by way of emphasis without qualifying its report and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

In the current year the Group has adopted:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Clarifications to IFRS 15 *Revenue from Contracts with Customers*

The impacts of adopting IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* is set out below, with consequential amendments to the accounting policies made as required. The adoption of the other interpretations and amendments has had no material impact to the Group financial statements.

In addition, as detailed in note 4 to the Group financial statements, the Group has amended the presentation of its operating segments to reflect a restructure of the Group's activities to align to its three strategic objectives during the year ended 30 November 2019. As required by IFRS 8 *Operating Segments*, the comparative information has been restated to reflect the Group's current operating segments.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 *Financial Instruments* in the year ended 30 November 2019 to all financial instruments that had not been derecognised at 1 December 2018, replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

On adoption, the classification of all financial assets of the Group, excluding derivative financial assets, has changed from loans and receivables to amortised cost, but this has not had a quantitative impact on the financial statements as loans and receivables have previously, subsequent to initial recognition, been measured at amortised cost. This classification has been determined appropriate as all such financial assets are held to collect contractual cash flows, which consist only of payments of principal and, where relevant, interest on the principal outstanding. The classification of all other financial instruments has remained unchanged.

IFRS 9 introduces an expected credit loss model for measuring the impairment of financial assets, rather than an incurred loss model previously applied. The introduction of an expected credit loss model has resulted in the Group evaluating its provision against trade and other receivables using a probability-weighted approach of a range of possible outcomes on each class of financial asset, which differs from the previous approach of providing against estimated irrecoverable trade and other receivables past due. Credit losses are measured as the present value of the difference between the contractual cash flows due and the cash flows that the Group expects to receive. This has resulted in an additional £0.3m being provided, reducing both trade and other receivables and retained earnings by this amount, at each of 30 November 2017 and 30 November 2018. The comparative results presented in these Group financial statements have been retrospectively restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This restatement has no impact on basic or diluted earnings per share in any of the comparative periods presented in these Group financial statements.

The new hedging requirements of IFRS 9 are not applicable to the Group as the Group does not currently hedge account and does not currently intend to designate any hedging instruments in a hedging relationship with hedged items.

As part of the implementation review of IFRS 9, the classification of derivative financial instruments has been reviewed and these are now presented as current if the instruments mature within 12 months of the reporting date and non-current if the maturity date is greater than 12 months after the balance sheet date. This presentation has also been amended for the comparative balance sheet at 30 November 2018.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* in the year ended 30 November 2019 with effect from 1 December 2018. This standard replaces a number of existing revenue standards and interpretations (principally IAS 18 *Revenue* and IAS 11 *Construction Contracts*) and introduces a five-step, principles-based, model for the recognition of revenue. The Group has chosen to apply IFRS 15 retrospectively to each prior reporting period presented, taking the practical expedient for not restating contracts that begin and end within the same reporting period. The Group does not believe that this practical expedient has any significant effect.

The new standard does not apply to the rental income revenue stream, which is accounted for under IFRS 16 *Leases*, but does apply to the remainder of the Group's revenue streams. The Group has reviewed all its revenue streams and the disaggregation of the Group's revenue is disclosed in note 1 to the Group financial statements. The revenue accounting policies (as set out below) have also been updated to reflect the adoption of IFRS 15, which include a description of the typical performance obligations of each of the significant revenue streams.

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 was previously 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 are now recognised as revenue. This has no impact on the overall profit, cash flow or taxation of St. Modwen Homes, but alters the presentation of its results. Accordingly, the Group income statement for the year ended 30 November 2018 has been restated to reflect an additional £3.2m of revenue and an equivalent £3.2m of costs 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 varies 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 has been required.

IFRS 16 Leases

IFRS 16 *Leases* is not mandatorily effective for the Group until the year ending 30 November 2020, but the Group has elected 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 ended 30 November 2019 with effect from 1 December 2018. The new standard removes the existing distinction between leases and operating leases and requires all lessee contracts, with exemptions taken for short-term and low-value leases, 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 has applied the modified retrospective approach under IFRS 16, whereby the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings at 1 December 2018. In doing so, the Group has elected to measure the right-of-use asset at an amount equal to the lease liability recognised on transition. Therefore, there is no impact on retained earnings on adoption and comparative information has not been restated. No practical expedients have been applied on transition.

The Group has recognised right-of-use assets and corresponding lease liabilities at 1 December 2018 of £6.0m in respect of its leases of certain office premises, motor vehicles and office equipment that were previously accounted for as operating leases. This lease liability reflects a weighted average incremental borrowing rate of 6.4%. The lease liability recognised on transition is higher than the operating lease commitments disclosed at 30 November 2018 discounted at the incremental borrowing rate due to the treatment of break clauses within the leases of buildings. The previous operating lease commitment disclosure only included non-cancellable obligations, whereas under IFRS 16, the Group has assessed whether for each lease it is reasonably certain that these break clauses will not be exercised and therefore certain buildings have a longer lease term under IFRS 16 than was assumed for the previously disclosed operating lease commitment disclosure. At 30 November 2019, the carrying value of right-of-use assets was £5.3m, with the corresponding lease liabilities held at £5.4m.

Going concern

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 30 November 2019

1. Detailed income statement

This note sets out the detail of the income statement by category of revenue under IFRS 15 *Revenue from Contracts with Customers* and to assist in reconciling the non-statutory disclosures in notes 2 and 3.

	Year ended 30 November 2019				
	Revenue £m	Costs £m	Statutory profit/(loss) £m	Reallocation of joint ventures and associates £m	Total £m
Rental income	43.2	(10.3)	32.9	4.1	37.0
Other activities	5.6	(2.5)	3.1	–	3.1
Net rental and other income	48.8	(12.8)	36.0	4.1	40.1
Housebuilding developments	277.7	(223.4)	54.3	–	54.3
Housebuilding construction contracts	7.8	(6.9)	0.9	–	0.9
Other housebuilding activities	6.7	(6.4)	0.3	–	0.3
Housebuilding development profits	292.2	(236.7)	55.5	–	55.5
Non-housebuilding inventory developments[1]	38.2	(55.2)	(17.0)	1.5	(15.5)
Pre-sold property construction contracts	25.0	(24.5)	0.5	–	0.5
Property development (losses)/gains	63.2	(79.7)	(16.5)	1.5	(15.0)
Inventory disposal gains	8.4	(7.6)	0.8	–	0.8
Investment property disposal losses	–	–	(5.2)	(0.6)	(5.8)
Property disposal losses	8.4	(7.6)	(4.4)	(0.6)	(5.0)
Net realisable value provisions	–	(3.9)	(3.9)	–	(3.9)
Investment property revaluation gains/(losses)	–	–	47.5	(4.2)	43.3
Property valuation gains/(losses)	–	(3.9)	43.6	(4.2)	39.4
Development fee income	17.3	(12.9)	4.4	–	4.4
Total	429.9	(353.6)			
Housebuilding administrative expenses			(11.3)	–	(11.3)
Non-housebuilding administrative expenses			(32.5)	(0.3)	(32.8)
Administrative expenses			(43.8)	(0.3)	(44.1)
Net loss of joint ventures and associates (post-tax)			(2.6)	2.6	–
Profit before interest and tax			72.2	3.1	75.3
Interest costs			(11.0)	(1.9)	(12.9)
Other finance costs			(4.8)	(2.6)	(7.4)
Finance costs			(15.8)	(4.5)	(20.3)
Interest income			2.3	1.3	3.6
Other finance income			0.2	0.2	0.4
Finance income			2.5	1.5	4.0
Profit before tax			58.9	0.1	59.0
Taxation			(9.4)	(0.1)	(9.5)
Profit for the year			49.5	(0.0)	49.5

(1) Includes the exceptional provision of £22.5m as detailed in note 5.

	Year ended 30 November 2018				
	Revenue (restated) £m	Costs (restated) £m	Statutory profit/(loss) £m	Reallocation of joint ventures and associates £m	Total £m
Rental income	53.5	(12.1)	41.4	5.4	46.8
Other activities	4.6	(2.4)	2.2	–	2.2
Net rental and other income	58.1	(14.5)	43.6	5.4	49.0
Housebuilding developments	227.8	(183.1)	44.7	–	44.7
Other housebuilding activities	3.2	(3.2)	–	–	–
Housebuilding development profits	231.0	(186.3)	44.7	–	44.7
Non-housebuilding inventory developments	40.4	(10.2)	30.2	1.3	31.5
Pre-sold property construction contracts	68.0	(62.5)	5.5	–	5.5
Property development gains	108.4	(72.7)	35.7	1.3	37.0
Inventory disposal losses	23.2	(35.2)	(12.0)	–	(12.0)
Investment property disposal gains/(losses)	–	–	7.1	(2.2)	4.9
Property disposal gains/(losses)	23.2	(35.2)	(4.9)	(2.2)	(7.1)
Net realisable value provisions	–	0.4	0.4	–	0.4
Investment property revaluation gains/(losses)	–	–	19.2	(8.2)	11.0
Property valuation gains/(losses)	–	0.4	19.6	(8.2)	11.4
Development fee income	15.5	(12.1)	3.4	–	3.4
Total	436.2	(320.4)			
Housebuilding administrative expenses			(10.8)	–	(10.8)
Non-housebuilding administrative expenses			(32.4)	(0.1)	(32.5)
Administrative expenses			(43.2)	(0.1)	(43.3)
Credit from increased discount of market liability			–	4.7	4.7
Net loss of joint ventures and associates (post-tax)			(3.1)	3.1	–
Profit before interest and tax			95.8	4.0	99.8
Interest costs			(15.6)	(2.8)	(18.4)
Other finance costs			(10.2)	(3.5)	(13.7)
Finance costs			(25.8)	(6.3)	(32.1)
Interest income			2.0	1.8	3.8
Other finance income			0.4	0.6	1.0
Finance income			2.4	2.4	4.8
Profit before tax			72.4	0.1	72.5
Taxation			(11.9)	(0.1)	(12.0)
Profit for the year			60.5	0.0	60.5

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

Housebuilding operating profit is derived from the detailed income statement as follows:

	2019 £m	2018 £m
Housebuilding development profits	**55.5**	44.7
Housebuilding administrative expenses	**(11.3)**	(10.8)
Housebuilding operating profit	**44.2**	33.9

The table below provides further detail of each of the revenue categories disclosed above, including a description of the revenue stream and the relevant accounting policy under which revenue is recognised for the category:

Revenue type	Disclosed revenue category	Accounting policy	Description
Rental	Rental income	Leases - the Group as lessor	Income from tenants at owned properties governed by lease agreements and recognised over the lease term
	Other rental activities	N/A	Income generated from investment properties outside of a fixed tenancy agreement and recognised when earned
Housebuilding	Housebuilding developments	Sale of property held in inventory	Sales of dwellings built by St. Modwen Homes to private and affordable customers and recognised on completion of the sale
	Housebuilding construction contracts	Construction contracts	Revenue recognised over time by St. Modwen Homes on 'golden brick' contracts with registered providers
	Other housebuilding activities	Sale of property held in inventory	Other revenue earned by St. Modwen Homes, including sales of part exchange properties or land
Development	Development fee income	Development fee income	Revenue recognised over time on master developer agreements where the land is not owned by the Group
	Non-housebuilding inventory developments	Sale of property held in inventory	Sales of non-housebuilding developments constructed as work in progress
	Pre-sold property construction contracts	Construction contracts	Revenue recognised over time on development work undertaken on a property previously owned by the Group
Disposals	Inventory disposals	Sale of property held in inventory	Sales of non-housebuilding work in progress on which no recent development activity has been undertaken

All revenue streams, except rental income, totalling £386.7m (2018: £382.7m) are recognised in accordance with IFRS 15 Revenue from Contracts with Customers.

Included within revenue recognised during the year ended 30 November 2019 was £0.1m (2018: £nil) of revenue that was included as a contract liability at 30 November 2018.

There was no revenue recognised during the years ended 30 November 2019 or 30 November 2018 that related to performance obligations satisfied in previous years.

Included within revenue for the year ended 30 November 2019 is variable consideration within development fee income of £1.0m (2018: £1.2m). This arises due to profit sharing arrangements with third-party land owners on the residual land value of developments not controlled by the Group. None of this revenue has been constrained on the basis that the Group considers it highly probable that there will not be a significant reversal in subsequent periods of the amounts recognised.

A total of £0.1m (2018: £nil) of costs incurred to obtain or fulfil a contract were capitalised at 30 November 2019.

Cost of sales in respect of rental income comprises direct operating expenses (including repairs and maintenance) related to the investment property portfolio and totals £10.3m (2018: £12.1m), of which £0.3m (2018: £0.3m) is in respect of properties that did not generate any rental income.

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.

a. Income statement

The non-statutory measure of adjusted EPRA earnings, which includes the Group's share of joint ventures and associates, is calculated as set out below, with the reconciliation of the individual line items to the statutory Group income statement detailed in note 1:

	2019				
	Group £m	Joint ventures and associates £m	Total £m	Exceptionals £m	Total £m
Gross rental income	43.2	5.4	48.6	–	48.6
Property outgoings	(10.3)	(1.3)	(11.6)	–	(11.6)
Other net income	3.1	–	3.1	–	3.1
Net rental and other income	36.0	4.1	40.1	–	40.1
Housebuilding development profit	55.5	–	55.5	–	55.5
Development fee income	4.4	–	4.4	–	4.4
Business unit direct operating expenses	(21.7)	–	(21.7)	–	(21.7)
Central administrative expenses	(22.1)	(0.3)	(22.4)	–	(22.4)
Interest costs	(11.0)	(1.9)	(12.9)	–	(12.9)
Interest income	2.3	1.3	3.6	–	3.6
Taxation on adjusted EPRA earnings	(7.4)	(0.4)	(7.8)	–	(7.8)
Less non-controlling interests on adjusted EPRA earnings	(0.1)	–	(0.1)	–	(0.1)
Adjusted EPRA earnings	35.9	2.8	38.7	–	38.7
Property revaluation gains/(losses)	43.6	(4.2)	39.4	–	39.4
Property development gains/(losses)	6.0	1.5	7.5	(22.5)	(15.0)
Property disposal losses	(4.4)	(0.6)	(5.0)	–	(5.0)
Other finance costs	(4.8)	(2.6)	(7.4)	–	(7.4)
Other finance income	0.2	0.2	0.4	–	0.4
Taxation on other earnings	(6.0)	0.3	(5.7)	4.0	(1.7)
Less non-controlling interests on other earnings	0.1	–	0.1	1.2	1.3
Profit for the year attributable to owners of the Company	70.6	(2.6)	68.0	(17.3)	50.7

	2018		
	Group £m	Joint ventures and associates £m	Total £m
Gross rental income	53.5	6.2	59.7
Property outgoings	(12.1)	(0.8)	(12.9)
Other net income	2.2	–	2.2
Net rental and other income	43.6	5.4	49.0
Housebuilding development profit[1]	44.7	–	44.7
Development fee income	3.4	–	3.4
Business unit direct operating expenses[1]	(20.6)	–	(20.6)
Central administrative expenses[1]	(22.6)	(0.1)	(22.7)
Interest costs	(15.6)	(2.8)	(18.4)
Interest income	2.0	1.8	3.8
Taxation on adjusted EPRA earnings	(6.2)	(1.0)	(7.2)
Less non-controlling interests on adjusted EPRA earnings	(0.3)	–	(0.3)
Adjusted EPRA earnings	28.4	3.3	31.7
Property revaluation gains/(losses)	19.6	(8.2)	11.4
Property development gains	35.7	1.3	37.0
Property disposal losses	(4.9)	(2.2)	(7.1)
Credit from increased discount of market liability	–	4.7	4.7
Other finance costs	(10.2)	(3.5)	(13.7)
Other finance income	0.4	0.6	1.0
Taxation on other earnings	(5.7)	0.9	(4.8)
Profit for the year attributable to owners of the Company	63.3	(3.1)	60.2

(1) As disclosed in note 4, following the restatement of the segmental analysis comparatives for the year ended 30 November 2018, administrative expenses have been split between business unit direct operating expenses and central administrative expenses and housebuilding administrative expenses of £10.8m that were previously presented within housebuilding operating profit are now presented within business unit direct operating expenses.

b. 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:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group (restated) £m	Joint ventures and associates £m	Total (restated) £m
Property portfolio	**1,390.4**	**94.2**	**1,484.6**	1,302.6	100.7	1,403.3
Other assets	**126.7**	**79.9**	**206.6**	118.0	80.3	198.3
Gross assets	**1,517.1**	**174.1**	**1,691.2**	1,420.6	181.0	1,601.6
Net borrowings	**(305.8)**	**15.2**	**(290.6)**	(271.1)	34.2	(236.9)
Leases	**(8.3)**	**(0.9)**	**(9.2)**	(3.0)	(0.9)	(3.9)
Other liabilities	**(208.6)**	**(102.4)**	**(311.0)**	(185.6)	(125.2)	(310.8)
Gross liabilities	**(522.7)**	**(88.1)**	**(610.8)**	(459.7)	(91.9)	(551.6)
Net assets	**994.4**	**86.0**	**1,080.4**	960.9	89.1	1,050.0
Non-controlling interests	**(4.7)**	**–**	**(4.7)**	(5.9)	–	(5.9)
Equity attributable to owners of the Company	**989.7**	**86.0**	**1,075.7**	955.0	89.1	1,044.1

c. 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:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Investment properties	**958.1**	**82.9**	**1,041.0**	939.3	92.0	1,031.3
Assets held for sale	**15.8**	**–**	**15.8**	–	–	–
Less assets held under leases[1]	**–**	**–**	**–**	(3.1)	(0.9)	(4.0)
Inventories	**416.5**	**11.3**	**427.8**	366.4	9.6	376.0
Property portfolio	**1,390.4**	**94.2**	**1,484.6**	1,302.6	100.7	1,403.3

(1) Assets held under leases are no longer excluded from the presentation of the Group's property portfolio.

The following table provides an analysis of the categorisation of the Group's investment properties:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Industrial & Logistics	**553.5**	**34.6**	**588.1**	437.6	23.1	460.7
St. Modwen Homes	**384.2**	**–**	**384.2**	371.4	19.0	390.4
Residential land	**218.4**	**40.3**	**258.7**	182.3	23.4	205.7
Retail-led regeneration	**83.6**	**–**	**83.6**	85.3	–	85.3
Other regeneration	**86.7**	**8.9**	**95.6**	72.7	7.9	80.6
Non-core retail	**21.8**	**8.3**	**30.1**	73.9	13.9	87.8
Non-core other	**42.2**	**2.1**	**44.3**	79.4	13.4	92.8
Strategic Land & Regeneration	**452.7**	**59.6**	**512.3**	493.6	58.6	552.2
Property portfolio	**1,390.4**	**94.2**	**1,484.6**	1,302.6	100.7	1,403.3

Investment and commercial property assets as defined in our banking facility agreement at 30 November 2019 was £642.5m (2018: £619.7m).

d. Total accounting return

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. Total accounting return is calculated as set out below:

	2019			2018
	Underlying Pence per share	**Exceptional Pence per share**	**Total Pence per share**	Total Pence per share (restated)
Net asset value per share at end of year (note 3)	**492.0**	**(7.8)**	**484.2**	470.2
Less net asset value per share at start of year (note 3)	**(470.2)**	**–**	**(470.2)**	(450.7)
Increase in net asset value per share	**21.8**	**(7.8)**	**14.0**	19.5
Dividend paid per share (note 9)	**7.6**	**–**	**7.6**	7.4
Total accounting return per share	**29.4**	**(7.8)**	**21.6**	26.9
Total accounting return	**6.3%**	**-1.7%**	**4.6%**	6.0%

Total accounting return has been presented on an underlying and total basis, with the impact on net asset value per share of the exceptional item of 7.8 pence per share disclosed in note 8.

e. Movements in net borrowings and net debt

The movements in net borrowings and net debt are set out below:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Movement in cash and cash equivalents	**9.3**	**(26.7)**	**(17.4)**	38.4	(28.9)	9.5
Borrowings drawn	**(386.0)**	**(10.2)**	**(396.2)**	(612.0)	(15.0)	(627.0)
Repayment of borrowings	**342.0**	**17.9**	**359.9**	736.3	32.5	768.8
(Increase)/decrease in net borrowings	**(34.7)**	**(19.0)**	**(53.7)**	162.7	(11.4)	151.3
Fair value movement on convertible bond	**0.2**	–	**0.2**	0.4	–	0.4
(Increase)/decrease in lease liabilities	**(5.3)**	–	**(5.3)**	54.0	–	54.0
(Increase)/decrease) in net debt	**(39.8)**	**(19.0)**	**(58.8)**	217.1	(11.4)	205.7

f. Net borrowings and net debt

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

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Cash and cash equivalents	**48.2**	**19.0**	**67.2**	38.9	45.7	84.6
Borrowings due within one year	**–**	**–**	**–**	(100.2)	–	(100.2)
Borrowings due after more than one year	**(354.0)**	**(3.8)**	**(357.8)**	(210.0)	(11.5)	(221.5)
Adjustment to restate convertible bond at book value	**–**	–	**–**	0.2	–	0.2
Net borrowings	**(305.8)**	**15.2**	**(290.6)**	(271.1)	34.2	(236.9)
Reversal of adjustment to restate convertible bond at book value	**–**	–	**–**	(0.2)	–	(0.2)
Lease liabilities due within one year	**(1.4)**	**–**	**(1.4)**	–	–	–
Lease liabilities due after more than one year	**(6.9)**	**(0.9)**	**(7.8)**	(3.0)	(0.9)	(3.9)
Net debt	**(314.1)**	**14.3**	**(299.8)**	(274.3)	33.3	(241.0)

g. Gearing and loan-to-value

The Group's capacity to borrow is primarily linked to the value of the property portfolio. 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. These terms are defined as follows:

Net borrowings: Total borrowings (at amortised cost and excluding 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 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 leases, calculated on a proportionally consolidated basis (including the Group's share of its joint ventures and associates).

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Property portfolio (note 2b)	**1,390.4**	**94.2**	**1,484.6**	1,302.6	100.7	1,403.3
Total equity	**1,080.4**	**N/A**	**1,080.4**	1,050.3	N/A	1,050.3
Net debt (note 2f)	**314.1**	**(14.3)**	**299.8**	274.3	(33.3)	241.0
Net borrowings (note 2f)	**305.8**	**(15.2)**	**290.6**	271.1	(34.2)	236.9
Gearing	**29.1%**		**27.7%**	26.1%		22.9%
Adjusted gearing	**28.3%**		**26.9%**	25.8%		22.6%
Loan-to-value	**22.0%**		**19.6%**	20.8%		16.9%

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 with industry peers and are explained in detail below:

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

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

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

a. Adjusted EPRA earnings

Adjusted EPRA earnings is calculated as set out below:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Profit for the year	**52.1**	**(2.6)**	**49.5**	63.6	(3.1)	60.5
Less non-controlling interests	**1.2**	**–**	**1.2**	(0.3)	–	(0.3)
Profit for the year	**53.3**	**(2.6)**	**50.7**	63.3	(3.1)	60.2
Investment property revaluation (gains)/losses	**(47.5)**	**4.2**	**(43.3)**	(19.2)	8.2	(11.0)
Investment property disposal losses/(gains)	**5.2**	**0.6**	**5.8**	(7.1)	2.2	(4.9)
Credit from increased discount of market liability[1]	**–**	**–**	**–**	–	(4.7)	(4.7)
Housebuilding operating profit[2]	**(44.2)**	**–**	**(44.2)**	(33.9)	–	(33.9)
Non-housebuilding inventory development losses/(gains)	**17.0**	**(1.5)**	**15.5**	(30.2)	(1.3)	(31.5)
Net realisable value provisions	**3.9**	**–**	**3.9**	(0.4)	–	(0.4)
Pre-sold property development gains[3]	**(0.5)**	**–**	**(0.5)**	(5.5)	–	(5.5)
Inventory disposal (gains)/losses	**(0.8)**	**–**	**(0.8)**	12.0	–	12.0
Amortisation of discount on deferred payment arrangements[4]	**–**	**2.4**	**2.4**	0.1	3.4	3.5
Taxation in respect of profits or losses on disposal	**6.1**	**0.1**	**6.2**	11.2	1.5	12.7
Movement in fair value of financial instruments	**2.9**	**(0.2)**	**2.7**	0.7	(0.6)	0.1
Early redemption of retail bond[5]	**–**	**–**	**–**	3.7	–	3.7
Deferred tax in respect of EPRA adjustments	**3.0**	**(0.4)**	**2.6**	1.9	(2.3)	(0.4)
Non-controlling interests in respect of the above	**(1.3)**	**–**	**(1.3)**	–	–	–
EPRA earnings	**(2.9)**	**2.6**	**(0.3)**	(3.4)	3.3	(0.1)
Housebuilding operating profit	**44.2**	**–**	**44.2**	33.9	–	33.9
Amortisation of loan arrangement fees	**1.7**	**0.2**	**1.9**	5.3	0.1	5.4
Taxation in respect of company specific adjustments	**(7.1)**	**–**	**(7.1)**	(7.4)	(0.1)	(7.5)
Adjusted EPRA earnings	**35.9**	**2.8**	**38.7**	28.4	3.3	31.7

(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) Housebuilding operating profit includes overheads directly attributable to the 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.

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:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group £m	Joint ventures and associates £m	Total £m
Net rental and other income	**36.0**	**4.1**	**40.1**	43.6	5.4	49.0
Development fee income	**4.4**	**–**	**4.4**	3.4	–	3.4
Non-housebuilding administrative expenses	**(32.5)**	**(0.3)**	**(32.8)**	(32.4)	(0.1)	(32.5)
Interest costs	**(12.7)**	**(2.1)**	**(14.8)**	(20.9)	(2.9)	(23.8)
Interest income	**2.3**	**1.3**	**3.6**	2.0	1.8	3.8
Taxation in respect of EPRA earnings measures	**(0.3)**	**(0.4)**	**(0.7)**	1.2	(0.9)	0.3
Non-controlling interests in respect of the above	**(0.1)**	**–**	**(0.1)**	(0.3)	–	(0.3)
EPRA earnings	**(2.9)**	**2.6**	**(0.3)**	(3.4)	3.3	(0.1)
Housebuilding operating profit	**44.2**	**–**	**44.2**	33.9	–	33.9
Amortisation of loan arrangement fees	**1.7**	**0.2**	**1.9**	5.3	0.1	5.4
Taxation in respect of company specific adjustments	**(7.1)**	**–**	**(7.1)**	(7.4)	(0.1)	(7.5)
Adjusted EPRA earnings	**35.9**	**2.8**	**38.7**	28.4	3.3	31.7

	2019			2018		
	£m	**Pence per share[1]**	**Percentage movement**	£m	Pence per share[1]	Percentage movement
Earnings	**50.7**	**22.8**	**(15.9)%**	60.2	27.1	0.7%
EPRA earnings	**(0.3)**	**(0.1)**	**N/A**	(0.1)	–	(100.0)%
Adjusted EPRA earnings	**38.7**	**17.4**	**21.7%**	31.7	14.3	7.5%

(1) The number of shares in issue used to calculate the earnings per share is 222,084,656 (2018: 221,964,567), as disclosed in note 8, excluding those shares held by The St. Modwen Properties PLC Employee Share Trust.

b. EPRA net asset value

EPRA net asset value is calculated as set out below:

	2019			2018		
	Group £m	**Joint ventures and associates £m**	**Total £m**	Group (restated) £m	Joint ventures and associates £m	Total (restated) £m
Total equity	**994.4**	**86.0**	**1,080.4**	960.9	89.1	1,050.0
Less non-controlling interests	**(4.7)**	**–**	**(4.7)**	(5.9)	–	(5.9)
Net asset value	**989.7**	**86.0**	**1,075.7**	955.0	89.1	1,044.1
Adjustments of inventories to fair value	**11.8**	**–**	**11.8**	6.7	0.7	7.4
EPRA triple net asset value	**1,001.5**	**86.0**	**1,087.5**	961.7	89.8	1,051.5
Deferred tax on capital allowances and revaluations	**27.8**	**2.3**	**30.1**	20.5	2.2	22.7
Mark-to-market of derivative financial instruments	**2.6**	**–**	**2.6**	0.2	0.2	0.4
EPRA net asset value	**1,031.9**	**88.3**	**1,120.2**	982.4	92.2	1,074.6

	2019			2018 (restated)		
	£m	**Pence per share[1]**	**Percentage movement**	(restated) £m	Pence per share[1]	Percentage movement
Net asset value	**1,075.7**	**484.2**	**3.0%**	1,044.1	470.2	4.3%
EPRA triple net asset value	**1,087.5**	**489.5**	**3.4%**	1,051.5	473.6	3.4%
EPRA net asset value	**1,120.2**	**504.2**	**4.2%**	1,074.6	484.0	2.7%

(1) The number of shares in issue used to calculate the net asset values per share is 222,166,554 (2018: 222,031,244), as disclosed in note 17, excluding those shares held by The St. Modwen Properties PLC Employee Share Trust.

4. 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.

As discussed in the strategic report and as indicated in the financial statements for the year ended 30 November 2018, following the restructure of the Group's operations to align to its three strategic objectives, the Group has amended its operating segments for the year ended 30 November 2019. The Group now divides its business into the following segments:

- Industrial & Logistics;
- St. Modwen Homes; and
- Strategic Land & Regeneration.

As the chief operating decision maker receives proportionally consolidated reports, the information disclosed below reflects presentation of results as set out in note 2, except for revenue, which is presented for the Group as disclosed in note 1. Due to the way the Group manages its support functions and treasury and tax affairs, certain balances and transactions are not allocated to segments, including central administrative expenses, net borrowings, interest and tax. However, the direct operating expenses of each business unit are included within the respective segmental result.

The Group has previously reported two 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 managed internally, and reported, as a single business segment.

As required by IFRS 8 *Operating Segments*, the comparative information has been restated to reflect the Group's current operating segments. As the business units that are reflected in these segments did not exist during the year ended 30 November 2018, the restated comparative information is based on assumptions and allocations for certain balances and transactions where the underlying records are not available.

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

b. Segment revenues and results

	2019 £m	2018 £m
Industrial & Logistics	**23.6**	24.4
St. Modwen Homes	**277.3**	220.4
Strategic Land & Regeneration	**129.0**	191.4
Revenue	**429.9**	436.2

	Industrial & Logistics £m	St. Modwen Homes £m	2019 Strategic Land & Re-generation £m	Unallocated £m	Total £m
Gross rental income	**22.2**	**–**	**26.4**	**–**	**48.6**
Property outgoings	**(4.6)**	**–**	**(7.0)**	**–**	**(11.6)**
Other net income	**1.1**	**–**	**2.0**	**–**	**3.1**
Net rental and other income	**18.7**	**–**	**21.4**	**–**	**40.1**
Housebuilding development profit	**–**	**51.4**	**4.1**	**–**	**55.5**
Development fee income	**1.1**	**–**	**3.3**	**–**	**4.4**
Business unit direct operating expenses	**(3.3)**	**(11.3)**	**(7.1)**	**–**	**(21.7)**
Business unit operating profit	**16.5**	**40.1**	**21.7**	**–**	**78.3**
Central administrative expenses	**–**	**–**	**–**	**(22.4)**	**(22.4)**
Interest costs	**–**	**–**	**–**	**(12.9)**	**(12.9)**
Interest income	**–**	**–**	**–**	**3.6**	**3.6**
Taxation on adjusted EPRA earnings	**–**	**–**	**–**	**(7.8)**	**(7.8)**
Less non-controlling interests on adjusted EPRA earnings	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Adjusted EPRA earnings	**16.5**	**40.1**	**21.7**	**(39.6)**	**38.7**
Property valuation gains/(losses)	**45.8**	**–**	**(6.4)**	**–**	**39.4**
Property development gains/(losses)	**0.5**	**–**	**7.0**	**(22.5)**	**(15.0)**
Property disposal gains/(losses)	**0.2**	**–**	**(5.2)**	**–**	**(5.0)**
Other finance costs	**–**	**–**	**(2.5)**	**(4.9)**	**(7.4)**
Other finance income	**–**	**–**	**–**	**0.4**	**0.4**
Taxation on other earnings	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Less non-controlling interests on other earnings	**–**	**–**	**–**	**1.3**	**1.3**
Profit for the year attributable to owners of the Company	**63.0**	**40.1**	**14.6**	**(67.0)**	**50.7**

	Industrial & Logistics £m	St. Modwen Homes £m	2018 Strategic Land & Re-generation £m	Unallocated £m	Total £m
Gross rental income	17.2	–	42.5	–	59.7
Property outgoings	(3.1)	–	(9.8)	–	(12.9)
Other net income	0.3	–	1.9	–	2.2
Net rental and other income	14.4	–	34.6	–	49.0
Housebuilding development profit	–	42.1	2.6	–	44.7
Development fee income	–	–	3.4	–	3.4
Business unit direct operating expenses	(3.0)	(10.8)	(6.8)	–	(20.6)
Business unit operating profit	11.4	31.3	33.8	–	76.5
Central administrative expenses	–	–	–	(22.7)	(22.7)
Interest costs	–	–	–	(18.4)	(18.4)
Interest income	–	–	–	3.8	3.8
Taxation on adjusted EPRA earnings	–	–	–	(7.2)	(7.2)
Less non-controlling interests on adjusted EPRA earnings	–	–	–	(0.3)	(0.3)
Adjusted EPRA earnings	11.4	31.3	33.8	(44.8)	31.7
Property valuation gains/(losses)	23.1	–	(11.7)	–	11.4
Property development gains	22.9	–	14.1	–	37.0
Property disposal gains/(losses)	0.8	–	(7.9)	–	(7.1)
Credit from increased discount of market liability	–	–	4.7	–	4.7
Other finance costs	–	–	(3.4)	(10.3)	(13.7)
Other finance income	–	–	–	1.0	1.0
Taxation on other earnings	–	–	–	(4.8)	(4.8)
Profit for the year attributable to owners of the Company	58.2	31.3	29.6	(58.9)	60.2

The following table sets out the calculation of operating margin for the St. Modwen Homes business unit:

	2019		2018	
	Volume Units	**Revenue £m**	Volume Units	Revenue £m
St. Modwen Homes developments	**1,011**	**262.8**	848	217.2
St. Modwen Homes construction contracts	**49**	**7.8**	–	–
Total St. Modwen Homes housebuilding[1]	**1,060**	**270.6**	848	217.2
St. Modwen Homes operating profit		**40.1**		31.3
St. Modwen Homes operating margin		**14.8%**		14.4%

(1) Excludes other activities in St. Modwen Homes that do not relate to housebuilding.

c. Segment assets and liabilities

	2019				
	Industrial & Logistics £m	**St. Modwen Homes £m**	**Strategic Land & Re-generation £m**	**Unallocated £m**	**Total £m**
Investment properties	572.6	–	468.4	–	1,041.0
Inventories	15.5	384.2	28.1	–	427.8
Assets held for sale	–	–	15.8	–	15.8
Property portfolio	**588.1**	**384.2**	**512.3**	**–**	**1,484.6**
Property, plant and equipment and intangibles	–	–	3.3	23.4	26.7
Trade and other receivables	6.3	23.8	72.2	77.4	179.7
Derivative financial instrument assets	–	–	–	0.2	0.2
Other assets	**6.3**	**23.8**	**75.5**	**101.0**	**206.6**
Cash and cash equivalents	–	–	–	67.2	67.2
Borrowings	–	–	–	(357.8)	(357.8)
Net borrowings	**–**	**–**	**–**	**(290.6)**	**(290.6)**
Trade and other payables	(21.7)	(53.6)	(49.7)	(68.2)	(193.2)
Provisions and market liability	–	–	(62.5)	(22.7)	(85.2)
Lease liabilities	–	–	–	(9.2)	(9.2)
Derivative financial instrument liabilities	–	–	–	(3.3)	(3.3)
Current tax liabilities	–	–	–	(0.5)	(0.5)
Deferred tax	–	–	–	(28.8)	(28.8)
Other liabilities	**(21.7)**	**(53.6)**	**(112.2)**	**(132.7)**	**(320.2)**
Net assets	**572.7**	**354.4**	**475.6**	**(322.3)**	**1,080.4**
Less non-controlling interests	–	–	–	(4.7)	(4.7)
Net assets attributable to owners of the Company	**572.7**	**354.4**	**475.6**	**(327.0)**	**1,075.7**

	Industrial & Logistics £m	St. Modwen Homes £m	2018 Strategic Land & Re-generation £m	Unallocated £m	Total £m
Investment properties	446.6	104.5	476.2	–	1,027.3
Inventories	14.1	285.9	76.0	–	376.0
Property portfolio	460.7	390.4	552.2	–	1,403.3
Property, plant and equipment and intangibles	–	–	3.4	14.0	17.4
Trade and other receivables	5.3	15.2	102.4	57.1	180.0
Derivative financial instrument assets	–	–	–	0.9	0.9
Other assets	5.3	15.2	105.8	72.0	198.3
Cash and cash equivalents	–	–	–	84.6	84.6
Borrowings	–	–	–	(321.5)	(321.5)
Net borrowings	–	–	–	(236.9)	(236.9)
Trade and other payables	(21.3)	(54.5)	(66.7)	(69.3)	(211.8)
Market liability	–	–	(71.9)	–	(71.9)
Lease liabilities	–	–	–	(3.9)	(3.9)
Derivative financial instrument liabilities	–	–	–	(1.3)	(1.3)
Current tax liabilities	–	–	–	(2.1)	(2.1)
Deferred tax	–	–	–	(23.7)	(23.7)
Other liabilities	(21.3)	(54.5)	(138.6)	(100.3)	(314.7)
Net assets	444.7	351.1	519.4	(265.2)	1,050.0
Less non-controlling interests	–	–	–	(5.9)	(5.9)
Net assets attributable to owners of the Company	444.7	351.1	519.4	(271.1)	1,044.1

d. Segment returns

Segment returns on capital employed are calculated as the segmental profit before interest and tax for the year divided by the average segmental net assets, after adding back any segmental-specific net borrowings, for the year, as set out in the table below:

	2019			2018		
	Industrial & Logistics £m	**St. Modwen Homes £m**	**Strategic Land & Re-generation £m**	Industrial & Logistics £m	St. Modwen Homes £m	Strategic Land & Re-generation £m
Capital employed at start of year	**444.7**	**351.1**	**519.4**	366.8	315.3	873.6
Capital employed at end of year	**572.7**	**354.4**	**475.6**	444.7	351.1	519.4
Average capital employed	**508.7**	**352.8**	**497.5**	405.8	333.2	696.5
Profit before interest and tax for the year	**63.0**	**40.1**	**14.6**	58.2	31.3	29.6
Return on capital employed	**12.4%**	**11.4%**	**2.9%**	14.3%	9.4%	4.2%

5. Other income statement disclosures

a. Exceptional item

The Group income statement includes the expense of making a provision in relation to a potential claim against the Group for a building that the Group developed and subsequently sold a number of years ago and in which various problems are said to have arisen. This has been reported as an exceptional item as, in the opinion of the directors, it meets the requirements of the Group's accounting policy for exceptional items. The net impact of the exceptional item is set out below:

	2019 £m	2018 £m
Non-housebuilding inventory developments	**22.5**	–
Taxation	**(4.0)**	–
Less non-controlling interests	**(1.2)**	–
Net impact of exceptional item attributable to owners of the Company	**17.3**	–

6. Finance costs and finance income

	2019 £m	2018 £m
Interest costs		
Interest payable on borrowings	**9.7**	14.3
Interest payable on lease liabilities	**0.5**	0.5
Interest on pension scheme liabilities	**0.8**	0.8
Interest costs	**11.0**	15.6
Other finance costs		
Amortisation of loan arrangement fees	**1.7**	5.3
Amortisation of discount on deferred payment arrangements	**–**	0.1
Movement in fair value of derivative financial instruments	**3.1**	1.1
Early redemption of retail bond	**–**	3.7
Other finance costs	**4.8**	10.2
Total finance costs	**15.8**	25.8

Interest of £3.3m (2018: £2.2m) was capitalised into investment properties and inventories during the year ended 30 November 2019.

	2019 £m	2018 £m
Interest income		
Interest receivable	**1.4**	1.2
Interest income on pension scheme assets	**0.9**	0.8
Interest income	**2.3**	2.0
Other finance income		
Movement in fair value of convertible bond	**0.2**	0.4
Other finance income	**0.2**	0.4
Total finance income	**2.5**	2.4

7. Taxation

a. Tax on profit on ordinary activities

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

	2019 £m	2018 £m
Current tax		
Current year tax	**4.6**	9.6
Adjustments in respect of previous years	**(1.1)**	(0.7)
Total current tax	**3.5**	8.9
Deferred tax		
Impact of current year revaluations, indexation and disposals	**7.8**	2.3
Net use of tax losses	**0.1**	–
Other temporary differences	**(2.4)**	(1.4)
Change in rate for provision of deferred tax	**(0.1)**	–
Adjustments in respect of previous years	**0.5**	2.1
Total deferred tax	**5.9**	3.0
Total tax charge in the Group income statement	**9.4**	11.9

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.

b. Reconciliation of effective tax rate

	2019 £m	2018 £m
Profit before tax	**58.9**	72.4
Net loss of joint ventures and associates (post-tax)	**2.6**	3.1
Profit before tax attributable to the Group	**61.5**	75.5
Corporation tax at 19.00% (2018: 19.00%)	**11.7**	14.3
Effect of non-deductible expenses and non-chargeable income	**(1.4)**	(3.7)
Impact of indexation on investment property	**(0.2)**	(0.1)
Change in rate used for provision of deferred tax	**(0.1)**	–
Current year charge	**10.0**	10.5
Adjustments in respect of previous years	**(0.6)**	1.4
Tax charge for the year	**9.4**	11.9
Effective rate of tax	**15.3%**	15.8%

The post-tax results of joint ventures and associates are stated after a tax charge of £0.1m (2018: £0.1m). The effective tax rate for the Group including its share of joint ventures and associates is 16.1% (2018: 16.6%).

Legislation substantively enacted at 30 November 2019 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 17%.

c. Balance sheet

	2019		2018	
	Current tax £m	**Deferred tax £m**	Current tax £m	Deferred tax £m
At start of the year	**0.9**	**19.7**	6.2	16.6
Charged to the Group income statement	**3.5**	**5.9**	8.9	3.0
Recognised within the Group statement of changes in equity	**–**	**–**	–	0.1
Net payment	**(4.4)**	**–**	(14.2)	–
At end of the year	**–**	**25.6**	0.9	19.7

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

	2019			2018		
	Asset £m	**Liability £m**	**Net £m**	Asset £m	Liability £m	Net £m
Property revaluations	**–**	**25.3**	**25.3**	–	17.2	17.2
Capital allowances	**–**	**2.5**	**2.5**	–	3.3	3.3
Appropriations to trading stock	**–**	**2.2**	**2.2**	–	0.8	0.8
Unutilised tax losses	**(0.8)**	**–**	**(0.8)**	–	–	–
Other temporary differences	**(3.6)**	**–**	**(3.6)**	(1.6)	–	(1.6)
Total deferred tax	**(4.4)**	**30.0**	**25.6**	(1.6)	21.3	19.7

At the balance sheet date, the Group has unused tax losses in relation to 2019 and prior years of £4.6m (2018: £0.1m). Deferred tax of £0.8m (2018: £nil) has been recognised in respect of these losses.

8. Earnings per share

	2019 Number of shares	2018 Number of shares
Weighted number of shares in issue[1]	**222,084,656**	221,964,567
Weighted number of diluted shares relating to the convertible bond	**–**	19,177,294
Weighted number of diluted shares relating to share options	**2,515,371**	2,166,608
Weighted number of shares for the purposes of diluted earnings per share	**224,600,027**	243,308,469

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

	2019 Underlying £m	2019 Exceptional £m	2019 Total £m	2018 Total £m
Earnings for the purposes of basic earnings per share, being profit for the year attributable to owners of the Company	**68.0**	**(17.3)**	**50.7**	60.2
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	**68.0**	**(17.3)**	**50.7**	62.1

	2019 Underlying Pence	2019 Exceptional Pence	2019 Total Pence	2018 Total Pence
Basic earnings per share	**30.6**	**(7.8)**	**22.8**	27.1
Diluted earnings per share	**30.3**	**(7.7)**	**22.6**	25.5

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

9. Dividends

Dividends paid during the year were in respect of the final dividend for 2018 and interim dividend for 2019. The proposed final dividend of 5.1 pence per share is subject to approval at the Annual General Meeting and has not been included as a liability in these financial statements.

	2019 Pence per share	2019 £m	2018 Pence per share	2018 £m
Paid				
Final dividend in respect of previous year	**4.00**	**8.9**	4.26	9.5
Interim dividend in respect of current year	**3.60**	**8.0**	3.10	6.9
Total paid	**7.60**	**16.9**	7.36	16.4
Proposed				
Current year final dividend	**5.10**	**11.3**	4.00	8.9

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

10. Investment properties

	2019 £m	2018 £m
At start of year	**939.3**	1,168.5
Property acquisitions	**24.3**	9.1
Additions	**117.9**	95.5
Net transfers (to)/from inventories (note 13)	**(87.4)**	13.7
Net transfers to owner-occupied properties	**–**	(7.0)
Net transfers to assets held for sale	**(15.8)**	–
Disposals	**(69.3)**	(360.4)
Movement in lease incentives	**1.6**	0.7
Gain on revaluation	**47.5**	19.2
At end of year	**958.1**	**939.3**

Investment properties were valued at 30 November 2019 and 30 November 2018 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 2019, £15.4m (2018: £15.0m) of investment property was pledged as security for the Group's loan facilities.

11. Joint ventures and associates

a. Details of material joint ventures

The Group has the following four material joint venture companies:

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 development
VSM (NCGM) Limited	Joint venture	50%	Property investment and development

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

	2019					
	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	Total £m
Net rental income	**3.7**	**–**	**–**	**0.3**	**0.1**	**4.1**
Property development gains	**–**	**–**	**1.4**	**–**	**0.1**	**1.5**
Investment property disposals losses	**(0.5)**	**–**	**(0.1)**	**–**	**–**	**(0.6)**
Investment property revaluation (losses)/gains	**(3.3)**	**(1.5)**	**–**	**1.0**	**(0.4)**	**(4.2)**
Administrative expenses	**(0.2)**	**–**	**–**	**(0.1)**	**–**	**(0.3)**
(Loss)/profit before interest and tax	**(0.3)**	**(1.5)**	**1.3**	**1.2**	**(0.2)**	**0.5**
Finance costs	**(0.7)**	**(1.1)**	**–**	**(2.4)**	**(0.3)**	**(4.5)**
Finance income	**0.2**	**–**	**0.1**	**1.2**	**–**	**1.5**
(Loss)/profit before tax	**(0.8)**	**(2.6)**	**1.4**	**–**	**(0.5)**	**(2.5)**
Taxation	**(0.5)**	**0.4**	**(0.3)**	**0.3**	**–**	**(0.1)**
(Loss)/profit for the year	**(1.3)**	**(2.2)**	**1.1**	**0.3**	**(0.5)**	**(2.6)**

	2018					
	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	Total £m
Net rental income	5.3	–	–	–	0.1	5.4
Development profits	1.3	–	–	–	–	1.3
Investment property disposal 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)
Profit/(loss) 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
Profit/(loss) 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)
Profit/(loss) for the year	(4.2)	(0.4)	0.4	1.2	(0.1)	(3.1)

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

	2019					
	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**	**Total £m**
Property portfolio	**55.9**	**18.6**	**–**	**8.9**	**10.8**	**94.2**
Other assets	**2.5**	**3.2**	**2.7**	**65.8**	**5.7**	**79.9**
Gross assets	**58.4**	**21.8**	**2.7**	**74.7**	**16.5**	**174.1**
Net borrowings	**(3.2)**	**0.2**	**9.8**	**7.0**	**1.4**	**15.2**
Leases	**(0.9)**	**–**	**–**	**–**	**–**	**(0.9)**
Other liabilities	**(5.3)**	**(17.2)**	**(4.0)**	**(66.2)**	**(9.7)**	**(102.4)**
Gross liabilities	**(9.4)**	**(17.0)**	**5.8**	**(59.2)**	**(8.3)**	**(88.1)**
Net assets	**49.0**	**4.8**	**8.5**	**15.5**	**8.2**	**86.0**
Equity at 30 November 2018	**50.3**	**7.0**	**8.2**	**15.2**	**8.4**	**89.1**
(Loss)/profit for the year	**(1.3)**	**(2.2)**	**1.1**	**0.3**	**(0.5)**	**(2.6)**
Injection of capital	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Dividends paid	**–**	**–**	**(0.8)**	**–**	**–**	**(0.8)**
Equity at 30 November 2019	**49.0**	**4.8**	**8.5**	**15.5**	**8.2**	**86.0**

	2018					
	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	Total £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
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

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.

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. There have been no significant changes to the timing or quantum of these estimates during the year ended 30 November 2019. In the year ended 30 November 2018, there were changes to the phasing of the project during the year that resulted in the recognition of a finance credit in VSM (NCGM) Limited, with the Group's share of this credit being £4.7m.

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 5.0%, considered by the Board of VSM (NCGM) Limited to appropriately reflect the risks and rewards of the procurement.

12. Trade and other receivables

	2019 £m	2018 (restated) £m
Non-current		
Deferred consideration on property disposals	**4.0**	4.9
Amounts due from joint ventures and associates	**5.6**	–
Other receivables	**1.7**	1.8
Non-current receivables	**11.3**	6.7
Current		
Trade receivables	**15.7**	14.1
Prepayments and accrued income	**9.6**	11.4
Deferred consideration on property disposals	**11.0**	10.4
Contract assets	**19.6**	23.4
Amounts due from joint ventures and associates	**18.2**	18.5
Other receivables	**14.4**	12.1
Current receivables	**88.5**	89.9

Included within trade receivables are £5.3m (2018: £2.8m) due on the disposal of inventories and £1.7m (2018: £4.1m) billed under construction and development contracts with customers.

Contract assets represent the total revenue recognised on the cumulative spend incurred on the development of land not under the control of the Group less the cumulative receipts 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 revenue receipts 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 contract assets being recognised that reduce over time. The reduction in contract assets during the year ended 30 November 2019 is due to receipts on one such development agreement exceeding the revenue recognised during the year.

13. Inventories

The movement in inventories during the two years ended 30 November 2019 is as follows:

	2019 £m	2018 £m
At start of year	**366.4**	352.7
Acquisitions	**11.8**	51.7
Additions	**214.3**	207.0
Net transfers from/(to) investment property (note 10)	**87.4**	(13.7)
Disposals	**(259.5)**	(231.7)
(Increase)/decrease in net realisable value provisions	**(3.9)**	0.4
At end of year	**416.5**	366.4

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 2019 and included in development profits was £263.4m (2018: £231.3m).

14. Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	**50.0**	44.7
Accruals and deferred income	**54.2**	71.1
Deferred consideration on property acquisitions	**6.3**	19.7
Contract liabilities	**4.6**	0.9
Amounts due to joint ventures and associates	**20.2**	18.3
Other payables	**5.1**	3.5
Current payables	**140.4**	158.2
Non-current		
Accruals and deferred income	**4.2**	1.6
Deferred consideration on property acquisitions	**4.1**	4.1
Amounts due to joint ventures and associates	**6.5**	–
Non-current payables	**14.8**	5.7

Contract liabilities represent the cumulative revenue receipts in respect of the development of land not under the control of the Group less the total revenue recognised on such development expenditure. This development is generally for the construction of assets on property pre-sold by the Group and ordinarily the construction expenditure and revenue receipts profile are not materially different on these contracts. Liabilities can arise where performance obligations have been satisfied, but invoices have not been received for works completed or amounts due. The increase in contract liabilities during the year is due to this circumstance arising on two completed contracts.

15. Borrowings and lease liabilities

	2019 £m	2018 £m
Current		
Convertible bond	**–**	100.2
Lease liabilities	**1.4**	–
Current borrowings and lease liabilities	**1.4**	100.2
Non-current		
Bank loans	**354.0**	210.0
Lease liabilities	**6.9**	3.0
Non-current borrowings and lease liabilities	**360.9**	213.0

16. Provisions and contingent liabilities

	Legal claims £m
Reclassified from trade and other payables	**1.4**
Created	**24.5**
Utilised	**(1.4)**
Carried forward	**24.5**

During the year ended 30 November 2019, a provision of £22.5m has been made in relation to a potential claim against the Group for a building that the Group developed and subsequently sold a number of years ago and in which various problems are said to have arisen. No detailed articulation of the claim has yet been made and there is limited information available at this early stage. Therefore there is significant estimation uncertainty over the amount and timing of any outflow of economic benefits and therefore in the carrying value of the provision. Further disclosure regarding this uncertainty is provided in the Group accounting policies note.

Based on the limited evidence available at the date of signing these financial statements, the range of reasonably possible outcomes of the carrying amount of the provision for this matter is between £15.7m and £27.7m. The Group contracted the design and development of the building to third parties and there is the potential of some or a significant proportion of any settlement being reimbursed by these third parties. In accordance with IAS 37, no reimbursement asset has been recognised at 30 November 2019 as reimbursement is not virtually certain.

At 30 November 2019, the directors, having taken legal advice where necessary, consider that the possibility of an outflow in settlement of any unprovided legal claims is remote.

17. Share capital

	2019		2018	
	Ordinary 10p shares Number	**Equity share capital £m**	Ordinary 10p shares Number	Equity share capital £m
At start and 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 years ended 30 November 2019 or 30 November 2018.

Excluding 210,434 (2018: 345,744) of own shares held by The St. Modwen Properties PLC Employee Share Trust, shares in issue at 30 November 2019 are 222,166,554 (2018: 222,031,244).

PRINCIPAL RISKS AND UNCERTAINTIES

for the year ended 30 November 2019

We have a well-defined system of internal controls, supported by a robust risk management framework, which enables the Group to identify and understand the risks encountered in the course of our business. Our transparent governance structure ensures we can effectively review existing and emerging risks, as well as the factors that mitigate them. We monitor these, alongside our key risk indicators, with the aim of remaining within our risk appetite.

The Board has considered and reviewed the principal risks and emerging risks that could impact the achievement of the Group's strategic objectives. While not exhaustive, the principal risks and uncertainties facing the Group in 2020 are set out below, along with their potential impact and plans to mitigate them.

1. Changes in economic and market conditions

Residual risk level: High	**Risk trend:** Increasing	**Risk probability:** Likely

Risk impact

- Portfolio valuation
- Customer and investor demand for our product

Risk monitoring undertaken

- Sales/cancellation rates
- House price trends
- Property valuation trends
- Speculative development exposure
- Occupier take-up

Principal risk

Economic factors including Government influence, supply and demand for products, employment, international trade and inflation rates may impact values and business operations; in particular our ability to construct, import material, and access skilled resources, ultimately impacting our ability to achieve the business model.

Mitigating controls

- Focus on sectors with structural growth drivers
- Annual review of strategy and business plan
- Scenario planning to stress-test plans and forecasts
- Monitoring of Brexit and macro level indicators
- Monitoring of property markets indicators
- Regular performance reviews

2. Social and technological change

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

- Portfolio valuation
- Customer demand
- Development costs
- Development pipeline
- Future growth potential

Risk monitoring undertaken

- In-house expertise alongside leading external analysis assess current and emerging risks, ensuring St. Modwen can adapt to trends

Principal risk

The continued pace of both social and technological change affects demand for, and location of, both homes and industrial and logistics space and impacts delivery of the business plan.

Mitigating controls

- Focus on sectors with structural growth drivers
- Investment in new customer-focused roles
- Monitoring of market trends and customer demand
- Active engagement with occupiers
- Increased investment in digital technology

3. Product and service delivery

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

- Financial loss
- Reputational damage
- Increased WIP exposure
- Development delay
- Delayed housing sales

Risk monitoring undertaken

- Monitoring of execution on existing projects
- Monitoring housebuilding customer satisfaction

Principal risk

Failing to successfully invest in, develop and deliver, innovative, market-leading products and services, impacting future growth.

Mitigating controls

- Use of pool of specialists and high-quality partners
- In-house development and asset management capability
- Investment in new customer focused roles
- Development appraisals, detailed budgets, monitoring of actuals and actioning of variances
- Regular performance reviews
- Brexit contingency planning, including accelerated procurement of key risk items

4. Customer and supply chain management

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

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

Risk monitoring undertaken

- Key performance indicators at business unit level to monitor customer and supply chain management risk
- Robust due diligence processes ensure we take a cautious approach to working with contractors

Principal risk

Inadequate assessment and planning with our partners leading to poor relationships and products and an inability to meet customer demands.

Mitigating controls

- Partnering and working collaboratively with supply chain
- Robust tendering programme
- Use of pool of specialists and high-quality partners
- Monitoring contractor/subcontractor performance
- Customer management
- Brexit contingency planning, including accelerated procurement of key risk items

5. Management of health and safety

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

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

Risk monitoring undertaken

- Accident Frequency Rate
- RIDDOR reportable incidents

Principal risk

Insufficient processes and controls in place increasing employee exposure to hazards potentially resulting in harm and damage to our brand and a reduction in customer interest in our products.

Mitigating controls

- Regularly reviewed health and safety policy and procedures in place
- Defined business processes in place to proactively manage issues arising
- Group Health and Safety Committee
- Regular reporting of performance against indicators to the Executive Committee and the Board
- Dedicated in-house health and safety resource
- Staff training
- Annual cycle of audits

6. Environmental management

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

- Development delay
- Reputational damage
- Financial loss
- Unforeseen environmental issue

Risk monitoring undertaken

- Annual environmental audit of the portfolio

Principal risk

Increase in pollution and exposure to harmful substances through mismanagement of environmental risks during our construction and development activities has a detrimental impact on our brand and reputation.

Mitigating controls

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

7. Financial

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

- Liquidity
- Availability of funding
- Indebtedness
- Covenant compliance

Risk monitoring undertaken

- Loan-to-value
- Financial headroom
- Covenant metrics

Principal risk

Inability to access funding or control financial leverage leading to a shortage of capital to deliver on our objectives.

Mitigating controls

- Capital recycling to control borrowings
- Regular engagement with financial institutions
- Focus on growing recurring income
- Regular and detailed cash flow forecasts
- Scenario planning to stress-test plans and forecasts

8. Management of the portfolio and future pipeline

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

- Portfolio valuation
- Rental income
- Development delivery

Risk monitoring undertaken

- Speculative development exposure
- Leasing and sales

Principal risk

Inadequate or inappropriately located land bank and portfolio leading to failure to attract customers for our product.

Mitigating controls

- Focus on sectors with structural growth drivers
- Disposal of non-core assets
- Ongoing review and assessment of market conditions and geographic locations
- Monitoring of leasing and sales indicators

9. People

Residual risk level: Medium	**Risk trend:** No change	**Risk probability:** Possible

Risk impact

- Lack of skills
- Cost and business disruption
- Growth potential

Risk monitoring undertaken

- Overall employee satisfaction
- Voluntary employee turnover

Principal risk

Inability to attract and retain talent to deliver on our strategy.

Mitigating controls

- Investment in our workforce to become an employer of choice through training and development, promotion of talent and competitive compensation
- Make our purpose and values core in everything we do
- Invest in graduate trainee and work experience

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 30 November 2019

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including FRS 101 *Reduced Disclosure Framework*. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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.

Approved by the Board and signed on its behalf by

Andrew Eames
General Counsel & Company Secretary
3 February 2020