Further information relating to the proposed Performance Share Plan award to Sarwjit Sambhi

This statement provides further background to the Performance Share Plan award shortly to be granted to our Chief Executive Officer, Sarwjit Sambhi. The terms of this award have been disclosed in the Directors' Remuneration Report contained within the 2020 Annual Report which can be downloaded here: https://www.stmodwen.co.uk/wp-content/uploads/2021/03/annual-report2020.pdf

We agreed on Sarwjit's appointment that his first award under the Performance Share Plan ("PSP"), the Company's "long term" incentive plan, would be made by reference to the share price on the date that he joined the Company (331p on November 2020), strictly subject to the rules of the PSP and the shareholder approved directors' remuneration policy. On this basis, to determine the number of shares under the award, the calculation would be £600,000 (salary) x 150% (the normal grant level) / 331p = 271,903 shares.

The Company considers that this approach is appropriate as it closely aligns Sarwjit's interests with those of institutional shareholders from the date of his appointment. Set out below is further detail as to the Remuneration Committee's considerations, beyond that set out in the 2020 Annual Report:

- A PSP grant could have been made to Sarwjit on his appointment. However, at the time of his appointment we had not determined the performance conditions to apply to the award (usually determined by the Committee in February each year). This meant that there would be a period of at least four months before Sarwjit received his first PSP award.
- The Committee recognised that, during this four-month period, there could be movements in the share price which related to Sarwjit's initial actions as CEO and the Committee wished to enable him to benefit if he made a strong start or, equally, receive a reduced award if he didn't.
- Crucially, this arrangement works both ways - if the share price was to fall below 331p, the award level would be worth less than 150% of salary when it is granted – this arrangement avoided the situation where a new CEO, having made a poor start, could benefit from a lower share price by being granted more shares.
- The maximum benefit of this arrangement is capped by the 200% of salary exceptional circumstances limit in the PSP rules and the directors' remuneration policy, which is determined by the share price at the time of grant. On this basis, the award would be capped at 200% of salary if the share price reaches 441p.
- The Committee felt that the limited nature of the upside (compared to the unlimited downside) was proportionate.
- As a means of providing further direct alignment, Sarwjit had indicated that he would be making a significant share purchase shortly after his appointment (c.£100,000) and he made a further purchase of shares to the value of £52,000 in February 2021 and this was recognised as providing further balance to this arrangement. It is also a clear indication of his commitment to the business and a desire to quickly align with shareholders.
- The Remuneration Committee is committed to setting stretching performance conditions for the award (unchanged from prior years). A relative total shareholder return performance condition (compared to Real Estate companies) applies to 50% of the award and this means that this element of the award would not automatically vest for increases in share price through a market recovery, unless the improvements were in excess of the market generally. The remaining 50% is subject to a stretching target range based on our Total Accounting Return. In addition, the Committee has the discretion to adjust the formulaic outturn on vesting, where it is not considered to be in line with general corporate performance.

- Unlike many other cases where a new Chief Executive Officer has been appointed (including the previous St. Modwen Chief Executive) there has been no cost incurred to the Company through any form of buy-out award of shares (to compensate for forfeited awards at a previous employer). Equally, the lack of a buy-out award in shares granted on appointment has meant that there was no alignment of interest with shareholders, created on appointment. Linking Sarwjit's first PSP grant to the share price on appointment provides for this alignment.

We should like to make it clear that the proposed PSP award to Sarwjit is in line with the shareholder approved directors' remuneration policy and the PSP rules, based on the following points:

- There is nothing in the rules of the PSP which prevent us from using a reference price of 331p for the purpose of making this award. The rules do state that when calculating the individual limits of 150% of salary, or 200% in exceptional circumstances, that the market value of shares at the time of grant shall be used (with Remuneration Committee discretion to instead apply a short averaging period). In this specific case, this means that the award to Sarwjit cannot be more than 200% of salary based on the share price at the date of grant.
- There is no requirement in the rules that the 'exceptional circumstances' limit (which allows awards above the normal 150% limit up to 200% of salary) must be used for buy out awards and we are advised that companies may use this for a variety of reasons which they consider to be outside of normal circumstances (such as this arrangement, based on the points above).
- The directors' remuneration policy explicitly states that the exceptional circumstances limit can be used in the case of recruitment (and it does not say that this is limited to a buyout) and we consider the policy to be aligned with the rules in this regard. Note we are not using the Listing Rule clause LR 9.4.2 for exceptional awards on recruitment, which we accept is generally only appropriate in relation to buyouts.
- It was not stated as being an exceptional award in the directors' remuneration report of the 2020 Annual Report, because if the share price was to have fallen between Sarwjit joining and the award being granted, the award value would be less than 150% of salary on the day of grant. In next year's annual report disclosure, if the award is above 150% of salary on the date of grant, we would disclose it as such with further commentary.
- Using a live example, if the award was to be made using a share price of 405p, the award would be worth c. 184% of salary. As noted above, the maximum award of 200% of salary would be made if the share price was 441p at grant.

We hope that our explanation for the commercial rationale behind the award to Sarwjit is considered sensible and balanced by shareholders and will enable all shareholders to be supportive of this approach.