

Annual report and
financial statements
2016

PARENT COMPANY ACCOUNTS
FOR
ST. MODWEN DEVELOPMENTS
(LONGBRIDGE) LIMITED
02885028

[IMAGE REMOVED]

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COMPANIES HOUSE

Financial highlights

EPRA NAV per share*

460.5p +3.2%

NAV per share

431.0p +4.2%

Total accounting return*

4.5% -27.4ppt

Total dividend per share

6.00p +4.3%

Profit before all tax*

£60.8m -76.5%

Profit before tax

£66.9m -71.6%

Trading profit*

£56.1m -11.4%

Earnings per share

24.1p -75.4%

See-through loan-to-value

30.5% +0.6ppt



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[IMAGE REMOVED]

* Reconciliations between all the statutory and non-statutory measures and the explanations as to why the non-statutory measures give valuable further insight into the Group's performance are given in note 2 to the Group financial statements. In particular, profit before all tax is used because it reflects the way the Group is run on a proportionally consolidated basis, and because it also removes the taxation effects on equity accounted entities from the statutory profit before tax figure.

What we do

We respect

We take a principled, responsible and long-term approach to transforming brownfield land into cleaner, greener and brighter environments where businesses and communities can thrive.

We revive

We breathe new life into areas of the UK that need it the most, working closely with communities, businesses and government organisations to create sustainable places for people to live and work.

We resource

We bring together everything needed to deliver a successful project; our skilled people, trusted suppliers and financial stability make us an attractive partner to work with.

We realise

We continually reinvest in the business through actively enhancing the value of our property assets at all stages of the development lifecycle. Partners can rely on us to deliver on our promises.

[IMAGE REMOVED]

Above from left

The regeneration of Good Darcy, a 1,060 acre scheme and the former site of the Llandarcy oil refinery.

The Trentham Estate, Stoke-on-Trent continues to attract a growing number of visitors year on year

Branston Leas, Burton upon Trent Creating new communities

1,500
new jobs created

A disused barren area of land, lacking any environmental or economic benefits, the site was previously extracted for gravel and filled with pulverised fuel ash, making it a less appealing option for many developers.

Progress to date

In 2013, St. Modwen secured planning permission for the new Branston Leas community, which includes a total of 660 new homes. The first phase of 64 homes sold within 14 months of being launched, and there was a waiting list of over 200 people for the second phase of 205 homes. Demonstrating that the development is answering the shortfall in new homes in this area, 100% of occupiers are local of which 53% have used Help to Buy.

The entire development is set to create 1,500 jobs. The retail centre is already 80% let and an 87,000 sq ft distribution unit has recently been leased to Cimpress, a leading mass customisation company. We will start on site with a further phase of speculative development in the first quarter of 2017, having secured planning permission during 2016 for two industrial and distribution units comprising 328,000 sq ft.

Branston Leas Wood is also being delivered, and comprises 175 acres of public realm, which includes play areas, parkland and an 82 acre woodland. The latter is being created in partnership with The Woodland Trust, the National Forest Company and Staffordshire Wildlife Trust.

The wood has enabled us to further engage with the local community with the creation of a Peace Wood and we have involved approximately 100 volunteers with the planting of some 17,000 (of 21,000) trees and scattering of 8,000 bluebell seeds.

Next steps

We will continue to develop the next phase of housing starting on site in 2017. Over the next 12 months, we anticipate the retail centre being fully let and we will consider developing out further speculative phases of industrial space to answer demand. Planting of the wood will also continue with the new environment being overseen by the Staffordshire Wildlife Trust.

[IMAGE REMOVED]

Creating new communities that enhance the environment as well as the local and broader economy is a fundamental part of regeneration. Extending over 280 acres, Branston Leas demonstrates our skill at transforming brownfield land into sustainable mixed-use developments.

Above from left

St. Modwen Homes is now progressing with the second phase of 205 homes.

The first phase of St. Modwen Homes sold out in just 14 months

We continue to engage with the local community with tree planting events.

82 acres
of new woodland

[IMAGE REMOVED]

660
new homes

St. Andrew's Park, Uxbridge

Tackling complex sites

[IMAGE REMOVED]

Our innovative approach enables us to tackle complex and challenging sites whilst managing risk throughout the development lifecycle, to create inspirational and thriving new business and residential communities.

Above from left

St. Modwen Homes started on site with 85 homes in 2016.

Over 275 homes built by Persimmon plc are already sold.

The John Locke Academy primary school opened in 2014.

Home to the Battle of Britain, the formal closure of RAF Uxbridge on 31st March 2010 ended 95 years of continuous military service, but the closing of one chapter was the catalyst of a new, more public and community focused feature.

VSM, a JV partnership between St. Modwen and VINCI plc, was appointed by the MoD in 2006 as the principal contractor for 'Project MoDEL', a task involving the relocation of six London-based MoD units to an integrated site at RAF Northolt.

We were charged with delivering the new facilities at RAF Northolt as well as securing planning consent for the six redundant sites, which were available for development for residential, commercial and community uses. Of the six sites, we retained two, including RAF Uxbridge (St. Andrew's Park) which we are now transforming into a new residential-led mixed-use community.

Progress to date

Extending over 110 acres, we secured planning consent for the new St. Andrew's Park community in 2010, to include new homes, commercial space and community facilities. Construction started in 2011 on 470 homes, delivered through our JV with Persimmon plc of which over 275 are sold. In 2016, St. Modwen Homes started on site with a phase of 85 family homes, forming part of the town centre extension.

Planning permission was secured in the period for 120,000 sq ft of office space which will create around 1,000 jobs and could be delivered as early as 2018.

Next steps

In 2017, we anticipate starting work on the first phase of the consented 249 apartments. As the town centre begins to take shape, the offices will be developed to reflect occupier demand.

The 40 acre public park, the largest new park in Greater London, will come to fruition in 2017 with 167 new trees planted, over 4,800 cubic metres of top soil moved and almost 20 acres seeded. Works to the landscaping will also progress well into 2017 as St. Modwen Homes continues to develop the new phase of housing.

1,340

new homes to be created

New
primary school

[IMAGE REMOVED]

40 acre
new park

Longbridge, Birmingham

A long-term commitment to the areas in which we build

The birthplace of classic British motoring, the 468 acre Longbridge site was acquired by St. Modwen in 2004, in partnership with the Homes and Communities Agency. Since then, the site has been subject to a long treatment process, painstakingly removing hydrocarbons from the soil and ground water.

Progress to date

We have already added £134m of value to the regional economy and created 3,700 jobs, following a comprehensive redevelopment programme that has seen:

- delivery of 400 new homes and six acres of new parkland;
- completion of a £70m town centre;
- creation of the Longbridge Technology Park and the Cofton Centre, collectively creating almost 1,000 jobs;
- provision of a £30m infrastructure programme; and
- delivery of the £66m Bournville College for over 3,500 students.

This year, we welcomed a range of new tenants to the commercial areas of the scheme, including the town centre. Here, a number of national brands opened their doors for trading including Smyths Toys, Holland and Barrett, Specsavers and Carphone Warehouse, joining Marks & Spencer, Sainsbury's and Boots, along with other local retailers. We have also recently started on site with the next phase of housing for 215 homes on land south of the new town centre. This new phase will be delivered by St. Modwen Homes.

Next steps

During the first half of 2017 the works to the £35m ExtraCare retirement village will complete, along with the 180 bedroom accommodation for the Royal Centre for Defence Medicine. In line with occupier demand, we will also seek to progress 500,000 sq ft of manufacturing facilities at Longbridge West and phase three of the town centre.

We have a proven strategy of adding value to the land we own and generating returns through commercial and residential development at every stage of the property lifecycle. The regeneration of Longbridge, Birmingham reflects this skillset well.

[IMAGE REMOVED]

Above from left

The 180 bedroom facility for the Royal Centre for Defence Medicine will complete in 2017.

We have uncovered 255m of the River Rea which has been in culvert for over 100 years.

The Longbridge Light Festival 2016 saw 6,000 people visit the town centre

£30m

infrastructure programme

£70_m
town centre completed

[IMAGE REMOVED]

3,700
new jobs created

Centurion Park, Tamworth

Excellent track record in value creation

153,000 sq ft
under construction

We have a strong track record in identifying sites with excellent potential for value creation that we realise through our skills in planning, development and asset management. We deliver sites ready for development and will make a commitment to their regeneration in the short, medium and long-term.

[IMAGE REMOVED]

Above from left

Our development activity at Tamworth is a long standing commitment.

The 153,000 sq ft speculative industrial unit is progressing well.

53,000 sq ft space has also been let and sold during 2016.

Prime

industrial and logistics hub

St. Modwen has had a long-standing commitment to Tamworth and continues to invest in this strategic area. In recognition of its strategic position, since commencing development of Centurion Park in 1994 our presence has grown with a number of other developments capitalising on the location. It is now recognised as a logistics and distribution hub for the Midlands.

Following this early success, in 2014 we acquired a site, located adjacent to Centurion Park, situated on junction 10 of the M42, and for which we subsequently secured planning consent for 200,000 sq ft of industrial and distribution space.

Progress to date

In response to the lack of supply of new warehouse space across the Midlands, we speculatively commenced works to a 53,000 sq ft distribution unit in 2015. In advance of its completion, we leased this unit to national furniture brand DFS for its customer distribution centre, at a rent of £314,000 per annum. The unit was subsequently sold to Limes Developments Ltd for £5.1m.

We have since speculatively commenced works on a 153,000 sq ft distribution unit in this popular logistics location.

More recently, in 2016, we secured planning permission for 700,000 sq ft of industrial and logistics space at Tamworth East, which is located opposite Centurion Park.

Next steps

In 2017, we will progress works on the 153,000 sq ft unit at Centurion Park and anticipate its completion in the first half of 2017. It is also expected that works to the first phase of Tamworth East will commence in the year.

Already in progress across the Midlands we have around 400,000 sq ft of industrial space under development, and we plan to add to this pipeline with additional projects over the course of the next 12 months.

[IMAGE REMOVED]

700,000 sq ft
of planning secured

Regeneration and remediation

The UK's leading regeneration specialist

The recycling and returning of previously developed (brownfield) land to beneficial use safeguards the countryside and helps to preserve natural habitats. It helps tackle the blight of dereliction in communities by bringing poor quality sites back into use and enables the reuse of existing infrastructure and utilities.

As experts in this field we have reclaimed thousands of acres over the last 30 years and brownfield land now makes up over 80% of our land bank with specified use.

Once on site, we reclaim and recycle as many of the waste materials as possible to avoid unnecessary transportation from site that in turn could cause road congestion and unnecessary CO₂ emissions. This year we reclaimed and recycled hundreds of thousands of tonnes of materials from site, including 128,000 tonnes of concrete waste which, in accordance with the Specification for Highways Works, is retained in order to avoid the use of natural quarried materials.

Equally, we ensure that protected species and habitats are safeguarded or new habitats provided in our developments, with site design allowing for the movement of protected wildlife. We also seek to enhance the wildlife value of sites by the retention or introduction of native species appropriate to the site and prevailing conditions, the creation of new wildlife habitats and corridors and by limiting the area of hard surfaces.

Glan Llyn is a 25 year brownfield regeneration project, located in Newport, South Wales. It occupies the site of the former Llanwern Steelworks and comprises 800 acres of former derelict land.

[IMAGE REMOVED]

83%

of our land bank with
specified use is brownfield

4,000
new homes

c.1.5m sq ft
Celtic Business Park

Glan Llyn

The Llanwern Steelworks was the first oxygen blown integrated steelworks in the UK and, at its peak, produced a combined four million tonnes of steel per year.

The site benefits from planning permission for:

- 4,000 new homes for around 10,000 people
- Two primary schools
- Community facilities and retail areas
- Approximately 1.5m sq ft Celtic Business Park, providing 6,000 jobs

In 2004, following the purchase of the site an active reclamation and remediation programme started in earnest. The clean-up of this site is complex. In line with the remediation of coal tars, metals and potentially expansive slags, one of the principal constraints to redevelopment is the ground is peat and soft clay.

During construction of the steelworks in the 1960s a fill was used across the site to raise levels and provide a working platform. Major structures were piled with approximately 90,000 piles being installed. Such a feat of engineering was not appropriate for Glan Llyn's residential end use and therefore a more appropriate treatment had to be implemented which produced a platform for residential development.

A number of best practice techniques were therefore employed. The highly technical process, designed and monitored by experienced brownfield professionals, has resulted in an exemplary residential scheme for the new community.

To date, we have delivered over 400 homes and plan to start on site with a further phase in 2017, alongside additional third party housebuilders. In addition, we anticipate starting on site with a new primary school this year and have recently leased 50,000 sq ft to Amazon at the Celtic Business Park with further employment phases to come.

[IMAGE REMOVED]

Group at a glance

Business unit	Activity	Relative size	2016 key facts
Regeneration and remediation [IMAGE REMOVED]	<p>We have over 30 years' experience of cleaning up, recycling and reusing previously developed land which has enabled us to reclaim thousands of acres. Our expertise in this area rests with our team of highly skilled in-house construction and remediation experts.</p>	83% of land with specified use is brownfield	128,000 tonnes of concrete reclaimed and recycled 14,000+ trees planted
Income producing properties [IMAGE REMOVED]	<p>Assets are managed and held with a long-term view to generate significant value. In the short-term, a large proportion generate income before development and in doing so, cover the running costs of the business.</p> <p>This diverse portfolio is split into two distinct categories: high yielding and investment portfolio.</p>	45% Proportion of Group activity by value, representing £786.7m [CHART REMOVED]	£50.1m see-through net rental and other income 1,700+ tenants
Commercial land and development [IMAGE REMOVED]	<p>Maximising the value of commercial land through remediation, planning gain, development and asset management.</p> <p>Commercial development activities cover industrial and logistics, retail, student accommodation and office projects.</p>	13% Proportion of Group activity by value, representing £223.6m [CHART REMOVED]	1.6m sq ft commercial development pipeline £30.4m commercial development profits
Residential land and development [IMAGE REMOVED]	<p>Acquiring sites with potential for residential development and adding value to the land throughout the development process. We realise that residential value through two principal routes to market: residential land sales and housebuilding.</p>	42% Proportion of Group activity by value, representing £742.0m [CHART REMOVED]	25,000+ plots with planning recognition £27.1m residential development profits

Explore our portfolio online

Across our 6,000 acre land bank we are progressing over 100 regeneration projects. This extensive portfolio diversifies risk and creates opportunities whilst our network of seven regional offices and highly skilled team of property professionals provides us with the local knowledge and expertise that keeps us abreast of the needs of the local communities.

Find out more online via our interactive map which enables you to browse by region or sector.

**[www.stmodwen.co.uk/
property-portfolio](http://www.stmodwen.co.uk/property-portfolio)**

[IMAGE REMOVED]

Chairman's statement



Regeneration remains at the heart of our business and our expertise in this area allows us to continue to generate value from our substantial land bank.

[IMAGE REMOVED]

Bill Shannon
Chairman

The year to November 2016 saw St. Modwen deliver a solid performance in an uncertain market environment. NAV per share increased 4.2% to 431.0 pence (2015: 413.5 pence) and EPRA NAV per share increased 3.2% to 460.5 pence (2015: 446.4 pence) delivering, together with dividends paid in the year, a total accounting return per share of 4.5% (2015: 31.9%).

The Group reported a profit before all tax of £60.8m (2015: £258.4m) and earnings per share of 24.1 pence (2015: 97.9 pence) for the year. The results are therefore below those reported for last year and this is due largely to a combination of external market factors and significant valuation gains booked in 2015.

Importantly, the business continued to generate healthy cash flows and net debt and gearing levels remain carefully controlled. Cash generated (before new investment, tax and dividends) was £306.4m (2015: £298.1m) and new investment was managed prudently such that net borrowings, including our share of JVs, increased only marginally to £517.0m from £489.3m at the start of the year.

Regeneration remains at the heart of our business and our expertise in this area allows us to continue to generate value from our substantial land bank of over 6,000 developable acres. Projects are well balanced between residential and commercial opportunities, with residential activities accounting for 47% of development profits for the year and commercial activities 53%, and the Company is well diversified both geographically and from a sector perspective. This leaves us well placed to continue creating value for the longer-term.

Continued progress at three of our major projects also showcases the impact we can have in supporting and regenerating communities over the long-term:

- **New Covent Garden Market, London** – We are well progressed in the planned redevelopment of the existing flower and fruit and vegetable markets, having recently completed the interim flower market facility which will release 20 acres of land for the development of

approximately 3,000 new homes in the centre of London in the medium-term. We started working with the Covent Garden Market Authority in 2010 and will continue our partnership with them well into the next decade.

- **Bay Campus, Swansea University** – We are advancing with the development phase of the Bay Campus which will bring the number of student rooms to over 2,000 by the start of the 2017/18 academic year. The Bay Campus now provides teaching and learning facilities for around 5,000 students across 35 acres, with further opportunities in the future to expand across the remainder of the 65 acre site. Our Swansea regeneration activities started in 2011 and are likely to continue into the early 2020s.
- **Longbridge, Birmingham** – We commenced delivery of this 468 acre flagship scheme in 2004 and expect regeneration activity to continue for at least another 10 years as we progress through the remaining 185 acres of developable land. We have now completed and let the latest phase of the town centre, overseen the delivery of a total of 400 out of 2,000 planned new homes and are nearing completion of the construction of a new accommodation facility comprising 180 bedrooms for medical staff based at the Royal Centre for Defence Medicine. In addition, 2017 will see the opening of 260 ExtraCare retirement apartments.

Dividend

In line with our stated policy of increasing dividends in line with NAV growth, the Board is pleased to recommend an increase in total dividend for the year of 4.3% to 6.00 pence per share (2015: 5.75 pence per share). Taking into account the interim dividend already declared and paid this results in a proposed final dividend of 4.06 pence per share (2015: 3.85 pence per share).

The final dividend will be paid on 4th April 2017 to shareholders on the register as at 10th March 2017.

Board changes

On 30th November 2016 Bill Oliver retired as Chief Executive, a role he had held since 2006. In his 10 years as Chief Executive, and six years prior to that as Managing Director and Finance Director, Bill played a pivotal role in building St. Modwen into the business it is today. On behalf of the Board and everyone at St. Modwen, I would like to thank him for his service and wish him well in his future endeavours.

Bill's successor as Chief Executive is Mark Allan, who joined us on 1st November 2016 from The Unite Group plc, the FTSE 250 student accommodation business, where he was Chief Executive for 10 years. We are pleased to have been able to appoint such an experienced successor to Bill and I look forward to working with him as he continues to settle into the business.

Prospects

St. Modwen is a long-term business but we operate in cyclical markets and must plan and manage our business accordingly. The past 12 months have been unsettled in this respect and the outlook for 2017 and 2018 looks to be similarly uncertain, as a range of macro-economic factors play out both globally and more locally to the UK.

With this outlook, it will be important that we continue to manage our balance sheet prudently while also seeking out appropriate new value creation opportunities and converting existing ones. This will require an innovative and agile approach but our track record suggests we remain well placed to succeed.

Bill Shannon

Chairman
6th February 2017

Chief Executive's review

EPRA NAV per share

460.5p
+3.2%

Trading profit

£56.1m

St. Modwen is a business that is centred on value creation. Since its formation 30 years ago, its business model has been focused on acquiring assets with limited initial intrinsic worth and applying its considerable development and asset management expertise to create and capture sustainable value over the long-term. This has resulted in a business today with a diverse £1.75bn property portfolio of approximately £800m of income generating assets and a 6,000 acre developable land bank, itself comprising approximately 15m sq ft of consented commercial development and over 25,000 consented residential units.

This diverse portfolio and focus on value creation formed the basis of St. Modwen's solid performance during 2016, despite the broader uncertain market environment. The key performance metrics of the business for the year are set out below:

	2016	2015
EPRA NAV per share*	460.5p	446.4p
NAV per share	431.0p	413.5p
Total accounting return*	4.5%	31.9%
Total dividend per share	6.00p	5.75p
Trading profit*	£56.1m	£63.3m
Profit before all tax*	£60.8m	£258.4m
Profit before tax	£66.9m	£235.2m
Earnings per share	24.1p	97.9p
See-through net borrowing*	£517.0m	£489.3m
See-through LTV ratio*	30.5%	29.9%

* Reconciliations between all the statutory and non-statutory measures and the explanations as to why the non-statutory measures give valuable further insight into the Group's performance are given in note 2 to the Group financial statements. In particular, profit before all tax is used because it reflects the way the Group is run on a proportionally consolidated basis, and because it also removes the taxation effects on equity accounted entities from the statutory profit before tax figure.

While levels of performance are below that reported for 2015, this is largely due to:

- the absence of the significant valuation gains booked for New Covent Garden Market (NCGM) in 2015 (£127.4m), coupled with a subsequent £24.3m reduction in the value of our NCGM investment in 2016;
- a noticeably weaker investment market delivered £12.6m of market valuation gains versus £35.7m in 2015; and
- the impact on valuations of changes to Stamp Duty Land Tax rates on commercial property in the year (£12.5m).

The underlying business performed well, as evidenced by trading profits, and importantly gearing levels were carefully controlled.

Value creation

The key areas of value creation during the year were as follows:

- commercial development profits of £30.4m (2015: £38.3m);
- profits from housebuilding activities of £27.1m (2015: £26.7m);
- internally generated increases in the value of our portfolio of £28.3m (2015: £38.6m); and
- market movements in the value of our portfolio of £12.6m (2015: £35.7m).

Profits from residential and housebuilding activities continue to grow and we expect this trend to continue in 2017 such that development profits are likely to be evenly split between residential and commercial activities.

Taking account of our planned programme of activities and the outlook for the sectors in which we are invested, we anticipate overall returns for 2017 to be in line or slightly ahead of those achieved for 2016.



Our diverse portfolio and focus on value creation formed the basis of our solid performance during 2016.

[IMAGE REMOVED]

Mark Allan
Chief Executive

Income generating portfolio

Our income generating portfolio is valued at £786.7m, including our share of investment property held in JVs, and represents 45% of see-through gross asset value. This is split between £309.7m of high yielding assets which exhibit further value creation opportunities (the high yielding portfolio) and £477.0m of assets where further internal value creation potential is more limited (the investment portfolio).

The high yielding portfolio is split between industrial and logistics assets (£201.5m, or 65%), retail (£100.9m or 33%, predominantly town centres) and offices/other (£7.3m or 2%) and has an average equivalent yield of 8.9% (2015: 8.9%). The outlook for high yielding industrial/logistics assets remains substantially positive, based on robust demand for good value, secure, flexible space and longer-term re-planning potential. The outlook for town centre retail is more asset specific and needs to be considered in light of the broader environment of low or negative real wage inflation impacting on consumer spending and reduced investment demand following the outcome of the EU Referendum. We expect both of these factors to contribute to a modest level of yield expansion in our retail portfolio during 2017 while rental values are likely to remain broadly flat.

The investment portfolio principally comprises £241.3m of retail assets (51%), £115.8m of Private Rented Sector/student accommodation assets (24%), £82.0m of industrial/logistics (17%) and £37.9m of office/other (8%). The average equivalent yield of the investment portfolio is 6.3% (2015: 6.4%).

We are currently assessing our options with respect to our student accommodation assets at the Bay Campus in Swansea, comprising over 2,000 rooms, and this will form an important part of our strategy and portfolio review.

We consider the outlook for the remainder of the investment portfolio to be broadly neutral and we will be reviewing our strategy in respect of all income generating assets over the next few months to ensure that its longer term size and shape is appropriate.

Commercial development activity

We invested £99.5m into commercial development activity in the year to 30th November 2016, booking profits of £30.4m (2015: £38.3m) and delivering approximately 800,000 sq ft of new space.

As at 30th November, the anticipated value on completion of our committed development pipeline was £237.1m and weighted towards sectors with healthy long-term structural growth prospects (41% industrial/logistics, 18% student accommodation, 23% retail and 18% office/other). Our anticipated yield on cost for the full committed development pipeline is 8.0% with an expected valuation yield on completion of 6.7% and a profit on cost of approximately 20%.

We continue to undertake a proportion of development activity speculatively, particularly for industrial and logistics assets where we believe immediacy of availability is an important factor for prospective occupiers. In response to this anticipated demand, of our 1m sq ft of committed industrial/logistics pipeline 80% is being developed speculatively, representing 50% of the entire development pipeline.

There is significant further value creation potential in our medium/longer-term commercial development pipeline. This medium-term pipeline includes major opportunities at Chippenham Gateway (over 900,000 sq ft of potential industrial/logistics space) and Stanton Cross (1.5m sq ft of industrial accommodation), as well as town centre regeneration projects at Kirkby and Great Homer Street, Liverpool. Bringing these opportunities forward in a timely manner will be an important focus for 2017.

Income generating portfolio

£786.7m

New space delivered (sq ft)

800,000

Over the coming months, as with our income generating portfolio, we will be reviewing our strategy in respect of our development pipeline, both committed and longer term. The principal objective of this review will be to determine the appropriate level of activity as well as the balance between onward sales to realise development profits and assets that could be retained for the longer-term.

Residential activity

Our residential business continues to have two principal streams of activity: sales of 'oven ready' development sites to housebuilders and our own housebuilding activity, pursued both through St. Modwen Homes and our JV with Persimmon plc (Persimmon). Additionally, we see some potential to develop assets for the emerging Private Rented Sector (PRS) and we will assess the scale of this opportunity during 2017.

Housebuilding contributed £27.1m (2015: £26.7m) to profit before all tax (before indirect overheads of £5.2m), comprising £15.3m from St. Modwen Homes (2015: £10.3m) based on 485 (2015: 315) units sold and £11.8m (2015: £16.4m) from our Persimmon JV based on a 50% share of 402 (2015: 652) units sold. Over the course of the year, the average selling price of a St. Modwen Homes unit has increased by 4.6% to £206,000 (2015: £197,000), demonstrating the strength of demand for quality housing in the regions.

As previously indicated, activity in the Persimmon JV will decline in line with plan over the next two years as it reaches its conclusion, with expected unit volumes reducing by 35% in 2017. Conversely, we expect St. Modwen Homes to increase unit volumes meaningfully and this should at least offset reduced returns from the JV. The broader market remains supportive of regional housebuilding and we see significant potential for growth in our St. Modwen Homes business in the years ahead.

Residential land sales completed or agreed during the year, including our share of JVs, totalled £47.6m for the year and although there was some mid-year Brexit-related disruption, demand generally remained steady. The outlook for land sales remains firm for the year ahead and we expect activity to remain at a similar level provided there are no major shocks to the housing market.

As at 30th November 2016 our residential land and work in progress, including our share of JVs, was held at a total value of £742.0m (2015: £757.7m), of which approximately 45% was represented by holdings at NCGM and in South Wales. In total, our land bank comprises over 25,000 consented residential units (approximately 14,500 units excluding NCGM and South Wales) and represents a significant source of potential future value.

New Covent Garden Market (NCGM)

Our largest residential land holding by value is our 50% share of consented land at NCGM in London. Our share of the land, less our obligation to procure the new market and the associated tax, is now £97.7m, representing approximately 10% of our NAV.

As previously disclosed, we commenced marketing of a substantial proportion of this site (10 acres at Nine Elms Square) in conjunction with our JV partner, VINCI plc (VINCI), in late summer 2016. While there can be no guarantee of any transaction completing, we are now in exclusive negotiations with a prospective purchaser at a level which is firmly supportive of book value. We will update the market on further progress as appropriate.

Financing

Group net borrowings, including our share of JVs, increased marginally to £517.0m at 30th November 2016 (2015: £489.3m). Taking into account growth in the valuation of the Group's portfolio, loan-to-value remained broadly consistent with the prior year at 30.5% (2015: 29.9%) and we are likely to seek to reduce this further over time.

People

St. Modwen's pedigree as a creator of value is built on the experience, expertise, commitment and teamwork of its employees. In my first few months I have been extremely impressed with the calibre of people in the business and I am very much looking forward to working with them in the years ahead. On behalf of the Board I would like to thank all of my new colleagues for their efforts and congratulate them on their achievements.

Outlook

The broader economic environment is likely to remain unsettled throughout 2017 as a range of macro factors, such as Brexit, continue to play out. We cannot seek to predict the outcomes of these various external events but with such an uncertain backdrop we can and will manage the business in a prudent and agile manner. However, uncertainty can also lead to opportunity and we remain confident in our ability to seek out and create value from such opportunities that may arise.

Of course, any change in leadership provides an opportunity for the Board to step back and review strategy and following my arrival as the Company's new Chief Executive, we intend to do this during 2017. Given that the business is fundamentally strong, this review is likely to focus on how we can build on our existing strengths and focus our activities in the optimum manner. I am excited about the prospects ahead.

Mark Allan
Chief Executive
6th February 2017

Regeneration across the generations 30 years of St. Modwen

In 2016 we celebrated our 30th anniversary as a listed company.

Since 1986 we've established our proud reputation as the UK's leading regeneration specialist: we've built new communities, created new jobs and investment, and cleaned up thousands of acres of brownfield land. We owe much of this success to our strong presence in key areas across the UK.

Today we own and manage a £1.75bn portfolio of over 100 development projects and 6,000 acres of land for ongoing development.

To mark this milestone we launched a series of initiatives, including a national schools photography competition supported by a number of organisations and experts in urban design, architecture, education and photography, such as The Prince's Foundation for Building Community. A celebratory film and book were also produced to capture what 30 years of regeneration really looks like.

Read and watch the whole story online

[www.stmodwen.co.uk/corporate-social-responsibility/
30th-anniversary](http://www.stmodwen.co.uk/corporate-social-responsibility/30th-anniversary)

[IMAGE REMOVED]

[IMAGE REMOVED]

1986

St. Modwen founded

St. Modwen established by reverse takeover in April 1986 by Redman Heenan International plc and becomes a publicly listed company.

1986-1990 Rapid growth and strategic shift

Rapid growth due to substantial development programme based on enterprise zones and industrial schemes.

Programme moved to include retail schemes and office parks.

1991 Regeneration strategy established

Attention switched to increasing rental income.

Major expansion of range of partnerships with landowners, local authorities and major companies.

1997 Major joint venture established

Established joint venture with Salhia Real Estate Company K.S.C. (KPI).

[IMAGE REMOVED]

2000-2003 Significant acquisitions completed

Major acquisitions included portfolios from Alstom and Marconi (through KPI JV).

St. Modwen entered FTSE 250 (November 2003).

2005-2010 Portfolio growth

[IMAGE REMOVED]

Selected as preferred developer on many town centre regeneration schemes.

Acquisition of large industrial sites including Longbridge, Llanwern, Project MoDEL and BP Portfolio.

£107m equity issue in 2009.

Established JV with Persimmon.

Established St. Modwen Homes.

2012 £80m retail bond issued

2013
Development Agreement signed with Swansea University for the first phase of the £450m Bay Campus development.

£49m equity placing

2014 £100m convertible bond launched

Planning permission secured for the regeneration of the New Covent Garden Market sites, Nine Elms, London.

[IMAGE REMOVED]

2015 Bay Campus, Swansea University opened to 1,462 new student residents.

[IMAGE REMOVED]

Phase 2 Longbridge town centre plus 150,000 sq ft M&S store completed and trading.

[IMAGE REMOVED]

2016

Celebrates 30th anniversary as a publicly listed company

Mark Allan joins the business as Chief Executive.

[IMAGE REMOVED]

Our markets

Responding to key opportunities

Whilst the outcome of the EU Referendum has reverberated across the property industry, there is little evidence to suggest that it has had any fundamental negative impact on the sector. Until the scope and impact of our separation from the EU becomes clearer and other macro-economic factors continue to play out, it is inevitable that uncertainty over the UK economy will remain. Our diverse portfolio, the flexibility of our land bank and our strong financial base support our resilience in uncertain times, whilst our vision and innovative approach enable us to adapt with agility to changing trends and an ever-evolving marketplace.

Trends

Industrial/logistics

The industrial and logistics sector has proved resilient in the last 12 months, with robust demand for good value, secure and flexible space with longer-term re-planning potential. Strong occupier demand, coupled with a lack of ready to occupy space, is driving an increase in speculative development. The Midlands' 'golden triangle' of the M1, M6 and M42 continues to dominate the logistics sector, offering access to over 90% of the UK population within a four-hour drive, but there is also increasing demand for space in the South West. Prospects for continued growth in the sector are good as online retailing continues to increase.

Residential

Stamp duty and other tax changes, combined with Brexit, have created some hesitation in the prime London residential market. However, regional demand for housing remains strong despite some uncertainties as to how the UK economy will evolve in the near term. The shortage of property for sale, low levels of housebuilding and exceptionally low interest rates are expected to support UK house prices. Demand for new homes remains robust against the backdrop of a housing shortage in the UK. Government policy will continue to stimulate growth in terms of facilitating demand but also, increasingly, through addressing supply.

Retail

Online retail has undoubtedly caused significant structural change in the sector, which is continuing to evolve to meet changing consumer demand. The retail market is also facing other pressures arising from inflation and its impact on disposable income, increased costs following the fall in value of sterling and reduced investment demand following the outcome of the EU Referendum. Modest levels of yield expansion are anticipated during 2017 whilst rental values are likely to remain broadly flat. There is a focus on repositioning to create 'destination' retail centres, which offer a range of shopping, dining and leisure facilities.

Investment market

Whilst the investment market had seen strong demand in 2015, this noticeably weakened in 2016 caused in the main by uncertainty in the UK economic outlook following the EU Referendum. Interest from overseas purchasers, who are able to benefit from the fall in the value of sterling, remains strong, particularly for property in supply-constrained markets with long income and good covenants. The investment market is influenced by trends experienced across the wider property sector, as well as macro-economic factors, and is anticipated to remain subdued in line with reduced transaction activity.

Three mega trends impacting our market

Changing lifestyles

We are living and working longer and are developing multi-phased, less structured lives, such that across all demographic groups, people are reassessing their career and lifestyle choices, as well as their needs from property and their wider environments.

Urbanisation

The United Nations has recently projected that nearly all global population growth from 2016 to 2030 will be absorbed by cities. This equates to over 1bn new city-dwellers over the next 14 years. Urbanisation is already impacting town and urban planning as people demand more convenience from their environment and more sustainable communities.

Technology

Innovations in energy, technology, science and food will have a significant macro impact over the next 15 years. In the nearer term, technology as a catalyst for cultural and social change will also affect the property industry in areas such as retail and housing.

Opportunities for St. Modwen

Growth of St. Modwen Homes

With a 49% increase in profitability this year, the growth of St. Modwen Homes demonstrates real demand for housing. Now build active on 18 sites and with an additional eight planned in 2017, the business is perfectly positioned to take advantage of the continued regional demand for new homes. With a substantial land bank, we can also satisfy the continued appetite from housebuilders for 'oven ready' land for development and exploit initiatives to drive housing supply.

[IMAGE REMOVED]

Delivering mixed-use communities

We are a true mixed-use developer with a diverse development portfolio. We are increasingly using technology in order to understand customer spending habits and what drives footfall. This is helping us to better understand the spaces we are creating as well as finding and retaining the right retailer match.

Often situated outside of established town centres, our mixed-use communities reflect the growth of urbanisation. They combine shopping, leisure, workspace and new homes and thus offer a hub that is well-suited to the growing market for convenience living.

[IMAGE REMOVED]

Well positioned in the regions to capture the growing industrial marketplace

Our industrial portfolio is perfectly placed to capitalise on the growing regional demand for space, particularly in the historically strong Midlands and South West regions. We continue to develop speculatively in areas that demonstrate demand and currently have 1m sq ft of speculative schemes in the pipeline. Our ability to secure planning permissions and offer 'oven ready' land for development from our land bank enables us to react quickly to occupier demand, whilst continuing to add value through our own actions.

[IMAGE REMOVED]

Well positioned sites attract investors

Our regional portfolio is well-spread across the UK and we have realised £76m of value through asset sales in 2016. We anticipate continued interest in 2017 but with the focus predominantly on the industrial and logistics marketplace for which we have a good pipeline of speculative development that should capture demand for much needed space.

[IMAGE REMOVED]

Our business model

The value we create

Our business model generates recurring revenue and drives portfolio value.

It is successful because it enables us to reinvest continually into the business, ensuring a steady stream of development opportunities and income.

What makes us different?

Our land bank of over 6,000 acres provides us with the flexibility to move with market demands and pursue those projects that generate the greatest opportunity at any one time. We are a resilient business, operating from a strong financial position, with our income generating portfolio underpinning our cost base.

CSR sits at our heart

Cleaning up or remediating brownfield land is fundamental to almost everything we do, enabling us to breathe new life into run down or disused areas of the UK and create new communities that have a positive impact on the environment, the economy and socially.

Our values underpin the business model

They define our employee behaviour, our culture as a business and our approach to development and regeneration. Ultimately, they drive value creation.

[IMAGE REMOVED]

We think long-term

[IMAGE REMOVED]

We are innovative

[IMAGE REMOVED]

We do what we say

Inputs

Resources and relationships

- Employees
- Financial capital
- Land bank
- Buildings
- Local communities and tenants
- Partners and joint ventures
- Supply chain

Our resources and relationships
See pages 26 to 29

Investment

[IMAGE REMOVED]

Investment

We acquire new assets that present opportunities for value creation throughout the development lifecycle.

We continually reinvest in the business through acquiring new opportunities that we hold for income in the short-term and then actively enhance their value at all stages of the development lifecycle through our planning, development and asset management expertise.

Income generating portfolio
See pages 34 to 37

[IMAGE REMOVED]

Land bank cleaning

We have over 30 years of experience in remediating and reclaiming brownfield land in advance of its redevelopment.

We continue to make a long-term commitment to the areas in which we build. Both new and existing partners trust our proven capability to remove risk from any site and leave a positive and inspiring legacy for business and communities to enjoy for years to come.

Regeneration and remediation
See pages 10 and 11

Returns

Outputs and outcomes

[IMAGE REMOVED]

Asset development

Once a site is cleaned we start to realise our vision through our regional teams of planning experts who have local knowledge and are in touch with local communities.

We are a true mixed-use developer with a diverse development portfolio. We have a strong track record in securing planning consents making us a reliable and attractive commercial and residential partner that delivers sites ready for development and will make a commitment to their regeneration in the short, medium and long-term.

Commercial land and development
See pages 37 and 38

[IMAGE REMOVED]

Sales/rental income

We also secure income through disposals of mature assets and retained rental income.

At the right time, we dispose of those assets to which we can add no further value and reinvest the capital back into the business, acquiring new opportunities and ensuring that we have a constant and reliable income stream. We also sell remediated brownfield land with planning permission to housebuilders at a significantly higher value than initially acquired.

Whether awaiting redevelopment or newly completed, our robust asset management skills enable us to extract maximum value from our properties and deliver a strong income stream for the business.

Our innovative approach to development enables us to use our existing land bank to generate other sources of revenue.

Income generating portfolio
See pages 34 to 37

[IMAGE REMOVED]

Shareholder returns

Our proven value added approach promotes NAV growth and deliver shareholder returns.

Chairman's statement
See pages 14 and 15

[IMAGE REMOVED]

Cash flow

The revenue raised through any of our value creating activities helps to underpin the running costs of the business and is reinvested into new property.

Income generating portfolio
See pages 34 to 37

The business model enables us to invigorate once neglected spaces, former industrial estates and disused brownfield land and create thriving new business parks and new town centres that help to satisfy housing demand, create new jobs and provide a boost to the immediate regional and national economy.

It also helps to ensure that we put into place the right mix of uses and supporting infrastructure and create new places that can be enjoyed for generations to come.

What we do
See pages 2 to 9

Our resources and relationships

Building long lasting partnerships

We invest much needed time, financial capital and expertise into our sites. Across the entire lifecycle of our projects we continue to ensure that environmental, social and community considerations are integrated within our day-to-day practices. In order to do this successfully we look to our employees, our partners and our supply chain to enable us to achieve our short and long-term goals. Our relationship with each is therefore pivotal to the success of not only our Corporate Social Responsibility (CSR) activities but our business as a whole and consequently we continue to nurture and respect each.

Our 10 CSR objectives

We continue to use the 10 CSR objectives, set at the beginning of the financial year, to help focus our CSR capabilities and to further the positive work being carried out across our portfolio. We are pleased to report that this year these objectives have either been achieved or exceeded, with good progress made against the longer-term objectives.

In addition, we continue to support individual project-led initiatives which have a positive impact on the local community, environment and economy in which we build.

Working with charities

We continue to work with a variety of charities from across the UK which have a synergy with our developments. These charities are either located within the vicinity of our sites or have similar objectives to us in terms of ensuring sustainable business; creating better environments; or supporting the communities in which we build.

CSR Steering Group

The CSR Steering Group, which is chaired by Steve Burke, Group Construction Director, meets once a quarter to review progress against our CSR objectives and to ensure the Company maintains a best practice approach to CSR activities across its operations. The Steering Group represents each of the St. Modwen business disciplines and continues to evolve as the business grows.

Employees

The experience, expertise, commitment and teamwork of our employees is critical to the continued success and growth of the business. In 2016 our recruitment activities were focused on increasing resource to support St. Modwen Homes as well as seeking staff to strengthen existing teams and provide for individual development and succession planning. We ended the year with 393 employees (2015: 345), a testament to our ability to continue to attract, develop and retain individuals who uphold our values and strive for excellence.

Training and development

We are committed to the training and continued professional development of all our employees. During the year, we have supported employees from all areas of the business on a total of 227 training days, including employment law; driving awareness; and numerous health and safety training courses.

In the period we have supported directly (or on site via our contractors) 58 graduates/trainees across the business and for the second consecutive year have increased our graduates/trainees CSR objective.

All new permanent employees attend a formal induction at the beginning of their employment. This covers all immediate and commercially important business matters and provides an opportunity for new staff to meet and spend time with key employees from across the business.

Employee diversity

We have a duty of care to look after the wellbeing of our staff. We are committed to providing an inclusive working environment where everyone feels valued and respected. The diverse range of talent, skills and experience across the business is reflected in the new communities that we build and ensures our continued success.

The Company adheres to a clear equality policy which sets out individuals' rights and obligations as defined by the Equality Act 2010. This policy covers the responsibilities and approach we have to our employees and our duty to avoid discrimination in all aspects of recruitment and employment.

CSR objectives achieved, exceeded or on target

10/10

Days of training provided to staff

227

Tree planting surpassing expectations across the UK

The charts below set out the number of men and women employed (full- and part-time) as at 30th November 2016, across our business and split between the Board, our senior management and our employees.

[CHART REMOVED]

[IMAGE REMOVED]

[CHART REMOVED]

As part of our commitment to enhance the communities in which we operate, our CSR objectives have focused on the planting of trees across our UK-wide development portfolio. Our target has increased year on year, and in 2016 was set at a minimum of 12,000 trees. We exceeded this again by planting in excess of 14,000 trees in the year.

Tree planting in South Wales

In 2009/10, we collected over 1,400 acorns from the woodlands across our sites in South Wales and since then have carefully cultivated the acorns into saplings for planting on our development sites across the region.

In 2016, we planted all the surviving oak saplings, totalling over 1,200, at Coed Darcy, South Wales. Another 468 whips of native species have also been planted and once established, the reintroduced woodland will open to the public for the first time since it was removed in the 1920s.

Throughout 2016 we collected additional acorns from the established oak trees across our sites, enabling us to continue this initiative on a rolling programme.

Coed Darcy was previously the site of Britain's first crude oil refinery, and having acquired it in 2008, we spent four years successfully remediating the land which was heavily polluted with the oil bi-products of more than 70 years of industrial production.

A 25 year project, the site is already a thriving new community which will eventually boast 4,000 homes, 40,000 sq ft of retail and leisure space, three primary schools, 500,000 sq ft of new employment accommodation and now an expanse of public green open space.

Creating public green open space in 2017

Based on the success of our tree planting objective, the CSR Steering Group has extended the commitment to create public green spaces, including parks and wildlife areas, across a minimum of 100 acres.

[CHART REMOVED]

Human rights

We support the United Nation's Universal Declaration of Human Rights and have policies in place to ensure that we act in accordance with our principles in relation to areas such as anti-corruption, diversity and whistleblowing.

Health and safety

In addition to our Safety, Health and Environment (SHE) Steering Group; our Group SHE Committee; independent consultants and SHE management system: in 2016, we appointed a SHE Manager whose role it is to help St. Modwen Homes set the highest standard across the construction industry in terms of health and safety. As part of this ongoing objective, we have been working on a number of projects during 2016 which represent our commitment to health and safety.

We take ownership and responsibility for the health, safety and welfare of our employees, contractors, subcontractors, customers and visitors to our sites. This contributes to us becoming the preferred development partner for both private and public sector organisations. In addition, our meticulous approach to health, safety and welfare directly influences the quality of our developments.

Our partners

Our ability to form long-lasting public and private sector partnerships is key to the success of many of our regeneration projects. We believe that the basis of a successful partnership includes working with transparency and integrity as well as understanding our partners' needs, their objectives, core values and culture. We have formed many strong relationships with the public and private sector, with whom we work closely to bring about major economic change to areas across the UK. In turn, this has stimulated investment, growth and created better environments for businesses and communities alike.

Local communities and tenants

We continue to engage and maintain an ongoing relationship with local communities and our tenants; two-way communication is essential to both the regeneration and the long-term management of a site. We work with a variety of local schools, community and interest groups and stakeholders to reach residents and engage them in activities and conversation to ensure we remain sensitive to the impact of our schemes.

Supply chain

To further our relationship with the local communities in which we work. We encourage the use of local resources, materials, sub-contractors and apprentices through our supply chain.

As an extension of the St. Modwen brand it is vital that our supply chain partners share our core principles with regards to community engagement, health and safety and delivering projects to the highest quality, on time and within budget. Many of our contractors are active across a number of our development sites and this further enhances our working relationship and mutual trust with each.

Our contractors adhere to site specific and Group recycling and reclamation objectives which reduce both cost and the impact on the environment.

83%
of land bank with specified
use is brownfield

1,700+
tenants across portfolio

Community engagement with the return of Longbridge Light Festival

Buildings

Where it is sustainably and economically viable, we seek to re-purpose existing buildings during the development process of a site. Where this is not feasible our CSR objectives ensure that the demolition process is led foremost by environmental concerns; we aim to reclaim and recycle as much existing material as is possible.

The decisions we then make when designing new buildings, and indeed designing our sites as a whole, are important in delivering a sustainable development. A high quality building designed to reduce energy and water use can deliver benefits to both our tenants and the environment; in turn creating high quality, sustainable and safer communities.

Land bank

Over 80% of our land bank with specified use is brownfield. With this, we bring previously used buildings and land back into productive use; we provide accessible developments and whilst doing so, ensure that we utilise existing resources, protect the environment and contribute to the social and economic regeneration of communities.

Our 6,000 acre land bank comprises an assortment of sites all at differing stages in the development cycle. This gives us the flexibility to remediate, plan, design, develop and manage a number of sites at any one time. We have the wherewithal to then dispose of these sites and acquire new schemes at the appropriate time; our portfolio is ever evolving.

Financial capital

By utilising our asset management activities across our land bank, our recurring income stream broadly covers our overheads.

Through the sale of assets and the disposal of schemes, we have a diversified source of cash flow which we continue to reinvest into new property and generate returns for our shareholders.

[IMAGE REMOVED]

Our approach to regeneration is to embrace change whilst appreciating the heritage of the site. The Longbridge Light Festival is a great example of our ability to do just that.

This year, the theme the 'Shadow Factory' was adopted, a historical reference to the Shadow Scheme of WWII, when the MG Rover factory was painted by local artists to resemble houses and streetscapes from the air.

Over 6,000 people descended on the town centre for this year's Light Festival, where 35 international and locally based artists presented a dramatic series of spectacular light and art installations, alongside family workshops, live music, pop-up art and theatre performances.

For more information on our CSR and charitable activities, please see our CSR Report

www.stmodwen.co.uk/corporate-social-responsibility

[IMAGE REMOVED]

Our strategy and key performance indicators

Measuring our success

As the UK's leading regeneration specialist, our expertise in remediation, planning, asset development and construction supports our strategy of securing excellent returns through a focus on long-term significant added value while protecting our assets.

[GRAPHIC REMOVED]

Secure excellent returns...

Our broad regeneration expertise and land bank of 6,000 acres provides us with the flexibility to move with market demands and pursue those opportunities that generate the greatest value at any one time.

[GRAPHIC REMOVED]

...through a focus on long-term significant added value...

We have the financial strength and vision to acquire sites opportunistically that have clear potential to benefit from our specialist value-adding skills and which can generate profits from commercial and residential development at every stage of the property lifecycle.

[GRAPHIC REMOVED]

...while protecting our assets

As the UK's leading regeneration specialist we strive to adopt only the most sustainable approaches to regeneration and development. We operate from a firm financial footing, carefully monitoring cash flow and debt, whilst our development activities are underpinned by a reliable and recurring income stream that enables us to fund our cost base and progress our longer-term regeneration projects at low risk and in a profitable manner.

[GRAPHIC REMOVED]

Secure excellent returns...

Objectives

- Invest at a point in the property lifecycle from which we can achieve maximum development returns.
- Maximise individual asset values through our locally-based expertise.
- Recycle assets where significant opportunities to add value are exhausted in order to generate capital for reinvestment.

Progress

- We have performed solidly in the year, with NAV per share growing 4.2%, in spite of an uncertain economic environment. Trading profit benefited from growth in net rental income from a larger income generating portfolio; strong residential profits as our St. Modwen Homes business continues to grow and a continued strong level of commercial development profits.
- Added-value valuation gains of £28.3m were secured through our own asset management initiatives, handled in each region and including remediation, planning gains and rental growth.
- Against the backdrop of some economic uncertainty, our prevalence in the regions, our strong financial position and the diverse nature of our UK-wide property portfolio enables us to avoid overexposure to a single scheme, tenant or sector and safeguards our strong financial position.

Next steps

- Continue to grow commercial and residential profits and generate valuation gains through planning gain, strategic acquisitions and identifying new opportunities from our existing 6,000 acre land bank.
- Continue to promote and enhance the Group's inherent value and long-term prospects.
- Develop and grow our net asset base to maximise future dividend growth. Continue to secure profitable development to generate consistent future returns.

Principal risks

- Changes to the planning framework at a national and regional level could impact our ability to obtain planning permissions, resulting in a failure to maximise returns from developments and a loss of competitive advantage.
- Unforeseen exposures, costs and liabilities on projects could impact our ability to deliver development schemes resulting in financial loss on major projects.
- The absence of high quality contractors, consultants and third parties could adversely impact the quality of work on our projects resulting in an inability to meet demand and support the growth of the business and a financial impact on the returns achieved on individual developments.
- Downturn in market and economic conditions could result in reduced demand for sites and properties and declining yields and a fall in the valuation of our assets.
- Financial collapse of, or dispute with, a key joint venture partner could result in financial loss and affect our ability to deliver development schemes on schedule.

Principal risks and uncertainties
See pages 49 to 52

Key performance indicator

[CHART REMOVED]

[CHART REMOVED]

[CHART REMOVED]

Link to remuneration

Profit before all tax and growth in NAV per share were amongst the measures against which financial performance was assessed for the purposes of the executive directors' annual bonus arrangements in the year ended 30th November 2016. Trading profit performance is one of the metrics that will be used to determine annual bonus awards for the 2016/17 financial year.

Directors' remuneration report
See pages 74 to 98

[GRAPHIC
REMOVED]

...through a focus on long- term significant added value...

Objectives

- Utilise our land bank to deliver future opportunities and secure planning gains, with a focus on brownfield renewal and sustainable development.
- Adapt our asset strategies over the long-term to meet changing market demands.
- Employ highly skilled and motivated people to deliver our asset strategies and future growth.

Progress

- We continue to acquire brownfield sites at low cost and prepare for development through remediation and securing planning permissions which in turn realises value.
- We have completed a number of strategic acquisitions during the year, including land at Wellingborough and Chippenham Gateway and business parks in South Wales and Long Marston. In this way, we have added value to the portfolio in terms of securing immediate rental income and presenting good future development potential.
- The business has continued to grow throughout the year, particularly in St. Modwen Homes, through a number of senior appointments. The Group's management team has grown by 1.5% to 64 (2015: 63).

Next steps

- Selective and capital efficient acquisitions.
- Continue to adopt the latest, most sustainable, development and remediation techniques.
- Continued recycling of assets with limited opportunity for further significant added value.

Principal risks

- Failure to manage long-term environmental issues relating to brownfield and contaminated sites could result in a major environmental issue and consequent financial and reputational damage.
- Failure to recruit and retain staff with the necessary skills and expertise could result in significant disruption to the business and a loss of intellectual property, which may adversely affect our ability to grow the business.

Principal risks and uncertainties
See pages 49 to 52

Key performance indicator

[CHART REMOVED]

[CHART REMOVED]

[CHART REMOVED]

Link to remuneration

Total accounting return is to replace absolute TSR as a measure which, together with relative TSR, will form the performance criteria for the executive directors' long-term share-based incentive arrangements. People succession and development objectives are set annually for each executive director, with performance contributing to the personal objective element of annual bonus awards.

Directors' remuneration report
See pages 74 to 98

[GRAPHIC REMOVED]

...while protecting our assets

Objectives

- Maintain an appropriate capital structure to meet our future development and funding needs.
- Generate cash-backed income streams to substantially cover the running costs of our business.
- Promote positive Group-wide culture towards safety, health and environmental matters.

Progress

- Recurring income levels have been enhanced by increases in the income generating portfolio, strategic acquisitions and robust asset management.
- No facility refinancing is now required before 2019, with the weighted average facility life increased to 3.7 years (2015: 3.6 years) and all facilities expiring either in 2019 or 2021. See-through headroom of £207m and maintenance of LTV at c.30% enables us to be agile in exploiting new opportunities while retaining a good level of prudence to support future development and funding requirements. At 30th November 2016 we had £517m see-through net borrowings against £724m see-through facilities.
- Accident frequency rates for our development sites and for St. Modwen Homes significantly outperformed the industry benchmark in the year.

Next steps

- Continue to enhance the income generating portfolio through asset management whilst achieving an appropriate balance between retention of income producing assets and generation of cash to fund development opportunities.
- Continue to keep our debt facilities under review to ensure they remain appropriate in the light of ongoing strategic planning.
- Continue to attain or exceed 2017 health and safety related CSR objectives.

Principal risks

- Failure to effectively manage major projects could result in financial loss and an adverse reputational impact.
- A major health and safety incident or non-compliance with legislation could result in serious injury or death to an employee, client, contractor or member of the public in addition to financial penalties and reputational damage.
- Reduced availability of funding and unforeseen changes to cash flow requirements from macroeconomic changes could lead to a lack of liquidity, which could adversely impact the saleability of assets, limit the business to meet its ongoing commitments and restrict the ability of the business to grow.

Principal risks and uncertainties

See pages 49 to 52

Directors' remuneration report

See pages 74 to 98

Key performance indicator

[CHART REMOVED]

[CHART REMOVED]

[CHART REMOVED]

[CHART REMOVED]

Link to remuneration

Debt metrics are amongst the measures against which financial performance is assessed for the purposes of the executive directors' annual bonus arrangements.

Operating and portfolio review

St. Modwen benefits from a portfolio which is diverse in terms of geography, sector and occupiers. It comprises over £1.75bn of assets, in three areas:

- income generating properties;
- commercial land and development; and
- residential land and development.

We have experienced an active 12 months, during which we were able to protect, enhance and create value across this broad portfolio:

	Income generating £m	Residential land/ development £m	Commercial land/ development £m	Total £m
Nov 2015 valuation	727.1	757.7	206.8	1,691.6
Additions/other movements	50.9	166.8	93.9	311.6
Disposals	(11.0)	(160.2)	(83.8)	(255.0)
Added value gains	17.7	4.8	5.8	28.3
Market valuation gains	2.0	(27.1)	0.9	(24.2)
Nov 2016 valuation	786.7	742.0	223.6	1,752.3

Stated on a proportionally consolidated basis, including our share of joint ventures and associates. See note 2c to the Group financial statements.

Additions/other movements include purchases, capital expenditure and inward reclassifications

As at 30th November 2016 our income generating portfolio was made up as follows:

Income generating portfolio – valuation and equivalent yields

	High yielding portfolio			Investment portfolio			Total		
	Valuation £m	Equivalent yield	Initial yield	Valuation £m	Equivalent yield	Initial yield	Valuation £m	Equivalent yield	Initial yield
Industrial/ Logistics	201.5	8.7%	7.4%	82.0	6.9%	6.9%	283.5	8.4%	7.3%
Retail	100.9	9.0%	7.7%	241.3	6.6%	6.1%	342.2	7.5%	6.7%
Student/PRS/ Other	7.3	9.8%	7.7%	153.7	5.4%	5.4%	161.0	6.0%	5.8%
Total	309.7	8.9%	7.5%	477.0	6.3%	6.0%	786.7	7.5%	6.7%

Income generating portfolio – portfolio movements

	High yielding portfolio £m	Investment portfolio £m	Total £m
Nov 2015	277.1	450.0	727.1
Additions/other movements	24.6	26.3	50.9
Disposals	(0.6)	(10.4)	(11.0)
Added value gains	8.5	9.2	17.7
Market valuation gains	0.1	1.9	2.0
Nov 2016	309.7	477.0	786.7

Income generating portfolio

Representing £786.7m of value (45% of the portfolio), our income generating properties provide a robust and diverse see-through net rental income stream of £45.9m (2015: £38.7m) from over 1,700 tenants. Managed by our skilled teams of asset managers, the portfolio covers a broad range of sectors, such as industrial/logistics, retail and student accommodation and can be separated into two distinct categories of assets:

- **High yielding** – Comprising £309.7m of high yielding assets that provide opportunity for further development and value creation in the longer-term; and
- **Investment portfolio** – Comprising £477.0m of assets where our development and asset management activities are substantially complete.

Industrial and logistics

Our industrial and logistics income generating portfolio represents a total £283.5m of value and is concentrated predominantly in the Midlands and the South West. Over the last 12 months, occupier demand has been robust and we have been well positioned to meet this demand.

Throughout the year, equivalent yields have remained broadly in line with the prior year at 8.4% (2015: 8.5%) and net rental income has grown as a result of acquisitions, new lettings and rent reviews.

Across the industrial and logistics portfolio, during the year we achieved £1.6m of new lettings. Highlights include:

- **Meon Vale Business Park, Long Marston** – The commercial part of this new community comprises 800,000 sq ft of retained industrial space. This is now 100% let after Ford Retail expanded its presence by taking 75,000 sq ft space on a 10 year lease. The total rental income of the fully occupied business park now stands at £2.1m per annum and a yield of 8.5%.
- **Celtic Business Park, South Wales** – A 48,000 sq ft warehousing unit leased to Amazon for 10 years for an annual rent of £0.3m at this 100 acre business park development in Newport.

Acquisitions, disposals and asset management

Acquisitions

Throughout the year, we have more than offset any income lost through the disposal of mature assets by acquiring new opportunities with good added value potential. Transactional highlights include:

- **Barming, Kent** – Acquisition of this 10.5 acre logistics depot for £6.2m, reflecting a net initial yield of 7.5%. The depot is leased to DHL Supply Chain Ltd at a rent of £0.5m per annum.
- **Warth, Bury** – Acquisition of this 257,000 sq ft industrial estate situated on a 14.3 acre site for £9.3m, reflecting a net initial yield of 9.6%. The asset is leased to a range of tenants and provides an annualised net rental income of £0.9m.

Disposals

Realising value from the portfolio is an important element of our business model and during the year we completed or agreed a number of notable sales:

- **Centurion Park, Derby** – Disposal of a 53,000 sq ft warehouse for £5.1m, reflecting a net initial yield of 5.75%. The unit is let to national brand DFS at a rent of £0.3m per annum.
- **Heartlands Park, Birmingham** – Disposal of this long-standing asset, held in joint venture with KPI, to the Secretary of State for Transport for the HS2 project for £24.5m. Acquired as part of the Alstom portfolio in 2002, this 50 acre business and industrial park comprises 880,000 sq ft of industrial accommodation which will be transformed into the proposed HS2 Rolling Stock Maintenance Depot.

Asset management

During the year, we have continued to add value to the portfolio through our own actions with highlights including:

- **Eastleigh Works, Hampshire** – Following a £2.5m investment into its industrial premises, the long leasehold interest has been re-gearred to provide an improved new lease to 2035 for tenant Arlington Fleet.
- **Parkside, Doncaster** – Re-gearred a lease to National Grid at this 80,000 sq ft industrial estate resulting in a 60% rental increase to £224,500.
- **Trident Business Park, Warrington** – As a result of active asset management across this 223,000 sq ft office and industrial park, the rent has increased by 13% to £690,000.

Outlook

Our ability to add value through our own actions, combined with concentration of our portfolio in the historically strong Midlands and South West regions, positions us well to capitalise on the strength of this resilient sector.

Retail

Our retail assets represent £342.2m of value, of which the majority, reflecting £241.3m of value, are held in our investment portfolio. The remaining assets, reflecting £100.9m of value, are categorised as high yielding properties.

Our retail properties are mainly town centres where, over the last 12 months, performance has been more asset specific and where intensive asset management is often required. During the second half of the year, equivalent yields have moved out by approximately 10 bps to 7.5% (May 2016: 7.4%, Nov 2015: 7.5%), although we were able to offset this impact through our own management actions.

[IMAGE REMOVED]

Above Barming, Kent is one of the new additions to our income generating portfolio.

High yielding assets

£310_m

Investment portfolio

£477_m

Investment portfolio – highlights:

- **Longbridge Town Centre, Birmingham** – Phase 2 of the town centre is now complete and over 95% let, having leased space this year to national brands including Smyths Toys, Specsavers, Holland & Barrett and a number of local retailers. Longbridge now provides £4m of annual net rental income and with the third phase likely to commence development in 2017, there is further opportunity to grow the income.
- **Edmonton Green, Enfield** – Since acquisition in 1999, over £100m has been invested in the regeneration of the centre. Totalling 450,000 sq ft and benefitting from an average annual footfall of 12 million, the centre is now almost 100% occupied. The annual net rental income is £4.3m and the long leasehold interest has been re-gearred with the London Borough of Enfield to provide an improved new 150 year lease.
- **The Trentham Estate, Stoke-on-Trent** – Visitor numbers to the Gardens at this 725 acre tourist and leisure destination grew by 17% in the period and annual net rental income from the Shopping Village increased on a like-for-like basis over the same period to £2.8m, whilst, total visitor income increased by 17.6% to £2.4m. Works are now well progressed to extend the Shopping Village by 21,000 sq ft which will lead to further growth in the rent roll in 2017 and into 2018.

High yielding properties – highlights:

- **Kirkby, Liverpool** – This town centre scheme comprising 400,000 sq ft of retail and leisure space, across 80 tenants, was acquired in 2015. In the period, we have completed a range of lease renewals and new lettings, securing a number of local and national retailers. The town centre currently generates an annual net rental income of over £2.5m and provides future potential for income and value creation through our ongoing asset management and planned redevelopment activities which will be a focus for 2017.

- **Queensmead Shopping Centre, Farnborough** – We disposed of this Shopping Centre, part of our town centre regeneration scheme in Farnborough and held in our KPI joint venture, for £16.8m, reflecting a net initial yield of 7.8%.

Outlook

We continue to see some value-add opportunities across our retail portfolio, both through intensive asset management activity and development opportunities. However, we expect these upsides to be offset by modest yield expansion during 2017 as inflation puts pressure on consumer spending. Our retail portfolio will require careful management to ensure we are appropriately selective when pursuing value-add opportunities.

Student accommodation and PRS

The remaining income generating assets include the Bay Campus student accommodation facilities that we are developing and managing in partnership with Swansea University and our Private Rented Sector assets. Highlights during the year include:

Bay Campus, Swansea University

Now entering the second academic year at the Bay Campus, we have achieved £5.5m net rental income (before associated finance lease charges of £2.0m) from the first two phases of the student accommodation, totalling 1,462 student rooms. We are progressing works to the third phase of accommodation which is due to open in September 2017 and will bring total student rooms to over 2,000.

We are already achieving 100% occupancy at the Bay Campus and the demand is set to remain strong as the University vacates its older accommodation at Hendrefoilan Campus, which is already being redeveloped in phases by St. Modwen Homes into a scheme of 300 high quality new homes. We expect this to support further growth and development opportunities across the remaining 30 acres of the 65 acre Bay Campus site in the coming years.

[IMAGE REMOVED]

Above Kirkby town centre has benefited this year from an extensive asset management programme and community engagement initiatives.

Commercial land and development portfolio

£224m

Commercial development pipeline

1.6m sq ft

We are currently assessing our options for our student accommodation assets at the Bay Campus, which will form an important element of our wider strategy and portfolio review.

Private Rented Sector (PRS)

We have started to realise some PRS opportunities from our existing portfolio on a small scale at Wembley Central, London and Edison Place, Rugby. Amounting to a total of 64 apartments, both schemes are now fully occupied and generating a total annualised income of £0.7m. During 2017 we will continue to work on our strategy in this area and assess the land bank for PRS opportunities in terms of location and scale.

In the right situation, PRS projects offer potential to accelerate residential development and gain exposure to a market with good structural growth prospects.

Commercial land and development

It has been an active year for our commercial land and development portfolio which now represents £223.6m of value. Overall, our committed programme of commercial development now stands at 1.6m sq ft,

having added a steady stream of new opportunities to replace the approximate 800,000 sq ft of space completed over the last 12 months. The following table summarises our committed development pipeline as at 30th November 2016.

Our investment of £99.5m into commercial development activity during the year was reflected in a strong performance in commercial development profits, particularly during the first half of the year. Following the outcome of the EU Referendum in June 2016, we slowed down new development commitments to allow time to assess any changes in market conditions. Although we subsequently resumed development activity at similar levels, this pause resulted in reduced commercial development profits in the second half of the year. Profits from commercial development for the full year to 30th November 2016 were £30.4m (2015: £38.3m).

Our immediate commercial pipeline is largely focused on sectors with good long-term prospects for growth, namely industrial and logistics and student accommodation. Currently, it comprises approximately 700,000 sq ft of committed/pre-let accommodation with the remaining approximate 900,000 sq ft made up of a programme of speculative development

which is predominantly responding to healthy demand in the industrial and logistics sector, particularly in the Midlands and the South West.

In the period, we have continued to be successful in securing commercial planning applications for delivery in the near term, with highlights including:

- **Tamworth East, Tamworth, Staffordshire** – Planning consent secured for 700,000 sq ft of industrial and logistics space. We anticipate commencing works on the first phase of units during 2017.
- **Burton Gateway, Burton-upon-Trent** – Planning approval granted for two industrial and logistics units totalling 328,000 sq ft in the next phase of this 64 acre business park which has outline consent for up to 1m sq ft of industrial space. Works on the next phase are anticipated to commence in 2017.
- **Thurleigh Airfield Business Park** – Planning consent has been secured for the development of a new 40,000 sq ft workshop and office facility for SMH Fleet Solutions, an existing tenant at the business park. Works started on the new facilities in January 2017 and will complete later in the year.

Commercial development pipeline

Movement during the year	No. of schemes	sq ft '000	Pre-let/pre-sold %*	Cost to complete £m	Expected value on completion £m	Yield on cost %	Profit on cost approx. %
Position at Nov 2015	33	1,590	51	114	213		
Sold/moved to investment properties/other movements	(19)	(760)					
Schemes added to the pipeline	15	790					
Position at Nov 2016	29	1,620	41	136	237		
Analysis of position at Nov 2016							
Industrial/logistics	18	1,025	21	54	96	8.5	20
Retail	8	255	51	24	55	8.6	15
Student/PRS	1	180	100	28	43	6.2	25
Other	2	160	89	30	43	7.7	20
Total	29	1,620	41	136	237	8.0	20

* As at 31 January 2017.

These new opportunities are replacing the approximate 800,000 sq ft of completed commercial space, from which we have realised £75.5m of value through asset sales, with highlights including:

- **Travis Perkins, Whitley Business Park, Coventry** – Delivery of a 215,000 sq ft design and build unit for Travis Perkins for £23.4m. This transaction signified the completion of this 93 acre business park which, in addition to over 50,000 sq ft of office space, houses the main UK Head Office and engineering works of Jaguar Land Rover.
- **Kent Foods, Access 18, Avonmouth** – Delivery of a 37,000 sq ft speculative unit that was sold to owner occupier Kent Foods Ltd for £3.7m.

Over the course of 2017 we will continue to review our regional land bank and target development in those areas where we can capitalise on positive demand prospects for commercial accommodation. We expect both development capital expenditure and returns for 2017 to be broadly in line with the prior year.

In the medium to longer-term, our development pipeline comprises over 13m sq ft of commercial space that already benefits from planning permission. At present, this is made up of 84% industrial and logistics space, 3% retail and the remainder comprising mainly offices and student accommodation. In addition, we have approximately a further 7m sq ft of space for which planning permissions are currently being pursued.

Adding to our medium to longer-term commercial development pipeline, during the period we have invested £38.5m in acquisitions, being a combination of Development Agreements and acquiring land with significant potential for commercial development. Highlights include:

- **Stanton Cross, Wellingborough** – Signed an agreement with Bovis Homes to be the housebuilder's commercial development partner for the delivery of 1.5m sq ft of industrial accommodation as part of this £900m major regeneration project.
- **Chippenham Gateway, Wiltshire** – Development of this 79 acre site for over 900,000 sq ft of industrial accommodation.

Outlook

The efficient creation and realisation of value from our land bank through development will continue to form an important part of our future strategy. Over the coming months we will be undertaking a full review of the land bank to determine the most appropriate and effective prioritisation of activities for the years ahead. This will inform decisions regarding the allocation of resources and capital.

Residential land and development

Representing £742.0m of value and 42% of our portfolio, our residential business has completed another active year as a result of our strong presence in the regions, coupled with the ongoing success of St. Modwen Homes which is now active on 18 sites across the UK. We have also experienced continued appetite from third party housebuilders for 'oven ready' land for development.

We realise residential value through two principal routes to market:

- **Residential land sales** – The sale of land benefiting from residential planning permission to third party housebuilders.
- **Housebuilding** – The sale and development of new homes through both St. Modwen Homes and the Persimmon joint venture.



Over the course of 2017 we will continue to review our regional land bank and target those areas where we can capitalise on positive demand prospects for commercial accommodation.

We are also assessing the potential for PRS to become a third route to market, helping to accelerate development on larger sites and improving returns. However, the scale of opportunity will depend on the suitability of our land bank, which is not yet clear.

Residential land sales

During the period we have pursued a series of planning applications across our land bank which we have either taken forward ourselves through St. Modwen Homes or sold on to third party housebuilders at or above book value. This year, including our share of joint ventures, we sold or agreed for sale 42.7 acres of land for proceeds of £47.6m (2015: 70.1 acres, £58.1m) with highlights including:

- **Millbrook Park, Mill Hill** – The sale of 5.75 acres in two transactions to Wilmott Dixon and Laidlaw Estates for a total of £47m, of which the St. Modwen share is £20.3m.
- **Glan Llyn, Newport, South Wales** – The sale of 13 acres to Bellway for £6.4m.
- **Longbridge, Birmingham** – The sale of six acres to Taylor Wimpey for £7.6m.

The level of disposals achieved during the period reflects the ongoing appetite for regional land amongst third party housebuilders and we expect a similar level of sales to be achieved during 2017. Whilst we experienced a brief slow-down in demand following the result of the EU Referendum, this proved short-lived and demand soon returned to prior levels. It is this demand that supports our view for 2017.

Housebuilding

In response to continued strong regional demand for quality new homes, we have experienced another year of growth in our housebuilding activities, translating into an overall residential profit of £27.1m (2015: £26.7m). Of this, St. Modwen Homes has contributed £15.3m (2015: £10.3m), an increase of 49% year on year, and the Persimmon joint venture £11.8m (2015: £16.4m). We expect the joint venture to remain live for a further two years as Persimmon trades out of its remaining sites, with volumes declining by approximately 35% in 2017.

House completions over the past 12 months have totalled 887 units (2015: 967), at a sales rate of 0.8 private units per outlet per week and comprise:

- 485 for St. Modwen Homes (2015: 315) at an average selling price of £206,000, an increase of 4.6% from £197,000 in 2015; and
- 402 for Persimmon (2015: 652) at an average selling price of £242,000 (including St. Andrew's Park, Uxbridge).

For the coming year, we have already secured a healthy level of forward sales, achieving 42% of the target set for St. Modwen Homes and 58% of the Persimmon JV target, with the latter reflecting the relative maturity of the JV sites.

St. Modwen Homes

St. Modwen Homes was launched in 2010 and in six years has grown to 129 employees (2015: 84 employees), operating currently from 15 sales outlets. Over the course of 2017, we expect to operate from an average of 16 sales outlets (2016: average of 11 outlets), growing to 18 by the year end and we expect to achieve unit volume growth of approximately 40%, at least offsetting the reducing profits from the Persimmon joint venture as it continues to wind down.

Highlights include:

- **St. Andrew's Park, Uxbridge** – Progressing with St. Modwen Homes' first phase of 85 family homes as part of this 110 acre former RAF site, held in joint venture with VINCI plc. Once complete, this new community will comprise 1,340 new homes, 200,000 sq ft of commercial space, a theatre and other key community facilities, including a new 40 acre park for Greater London.
- **Meon Vale, Warwickshire** – Progressing with St. Modwen Homes' first phase of 258 homes as part of this 479 acre leisure-led, mixed-use community of 1,050 homes, 800,000 sq ft of commercial accommodation, primary school, a community centre, gym and leisure hub.

[IMAGE REMOVED]

[IMAGE REMOVED]

Above St. Modwen Homes is progressing well with the first phase at Meon Vale.

Below The second phase of homes at Branstons Leas forms part of the wider mixed use community which St. Modwen is delivering

- **Branston Leas, Burton upon Trent** – Progressing with St. Modwen Homes' second phase of 205 homes as part of this new community which, when complete, will comprise 660 homes, 1m sq ft of employment space, an 8,000 sq ft retail centre and 82 acres of new woodland.

Subject to planning, the eight new sites where we anticipate commencing works in 2017 include:

- **Littlecombe, Dursley, Gloucestershire** – The third phase of approximately 200 homes at this long-term regeneration project which is the site of the former Lister Petter factory. When complete it will comprise 200,000 sq ft of commercial space and 600 homes.
- **Egston Park, Derbyshire** – The first phase of approximately 160 homes at this new community in Derbyshire which, when complete, will provide approximately 820 new homes and 80,000 sq ft of commercial space, with a local centre and public house.
- **Glan Llyn, Newport, South Wales** – The fourth phase of approximately 160 homes at this major regeneration scheme in South Wales which is transforming the former Llanwern Steelworks site. When complete it will provide 4,000 homes, two primary schools, a retail centre and a 500,000 sq ft business park.

Residential land

Our medium to long-term residential pipeline represents a significant source of potential value creation and we expect to sustain the current levels of annual planning gain across our portfolio for at least the next few years.

Over the last 12 months, we have secured planning permissions for 1,670 new plots and we are targeting a further 1,235 in 2017. Now 25,230 plots or 84% of our portfolio (or approximately 14,500 plots excluding NCGM and South Wales) benefit from some form of planning recognition. Our total potential residential portfolio comprises 30,215 plots (2015: 32,516).

Highlights – planning consents achieved:

- **Bramshall Meadows, Uttoxeter** – Outline planning permission secured for 700 homes and 25 acres of employment space. Detailed permission obtained for an initial 58 homes for which St. Modwen Homes has already commenced works.
- **Leegate, London** – For a £125m residential-led, mixed-use scheme in Lewisham, London comprising 229 apartments and over 100,000 sq ft of retail, leisure and education facilities.
- **Wolverton Works, Wolverton** – For the £100m regeneration of Wolverton Works, providing 375 homes, 300,000 sq ft of commercial space and a Lidl foodstore.

Highlights – applications submitted:

- **Land West of Locking Parklands, Weston-super-Mare** – For 300 new homes at the adjacent Locking Parklands site which forms part of a £400m mixed-use project which will sit alongside 1,450 homes and be delivered over 20 years.
- **The Fairway, Stafford** – For 280 homes, alongside a local retail centre and public open space.
- **Kenn, Clevedon** – For 120 homes and three acres of employment space.

Outlook

Looking forward, we expect the housing shortage in the UK to persist and for Government policy to continue to stimulate growth, both in terms of facilitating demand but also increasingly through addressing supply. St. Modwen is well placed in this regard being a housebuilder that is able to cater for strong regional demand for housing and possessing a wider land bank that can benefit from supply side initiatives. Our residential portfolio and business will be a key part of our growth plans for the long-term.



Our residential portfolio and business will be a key part of our growth plans for the long-term.

Above The Wolverton Works designs will enhance the unique identity of the town and reflect the much-loved railway heritage

Below St. Modwen Homes is progressing well at Bramshall Meadows following detailed permission being achieved in the year.

[IMAGE REMOVED]

[IMAGE REMOVED]

Financial review

Solid performance in an uncertain market environment

Overview

During the year, we have delivered a solid performance against the backdrop of an uncertain market environment. NAV per share increased 4.2% to 431.0 pence (2015: 413.5 pence) and EPRA NAV per share increased 3.2% to 460.5 pence (2015: 446.4 pence) delivering, together with dividends, a total accounting return per share of 4.5% (2015: 31.9%). The Group reported a profit before all tax of £60.8m (2015: £258.4m) and earnings per share of 24.1 pence (2015: 97.9 pence).

As previously highlighted in the Chief Executive's review, there are a series of key factors that explain why these results are below those reported for the prior year.

The underlying business performed well, as evidenced by trading profits of £56.1m (2015: £63.3m), with added value gains driven by our actions remaining strong at £28.3m (2015: £38.6m) following a particularly active year to 30th November 2015 and despite a noticeably weaker investment market.

Group net borrowing, including our share of JVs, increased marginally to £517.0m at 30th November 2016 (2015: £489.3m). Taking into account growth in the valuation of the Group's portfolio, see-through loan-to-value remained broadly in line with the prior period at 30.5% (2015: 29.9%). Excluding residential land value, the Group's loan-to-value ratio was 54.3% (2015: 55.6%) and we are likely to seek to reduce this over time.



These results demonstrate the underlying resilience of the business.

Presentation of financial information

As we use a number of joint venture arrangements, the statutory financial statement disclosures do not always provide a straightforward way of understanding our business. Reconciliations between all the statutory and non-statutory measures and the explanations as to why the non-statutory measures give valuable further insight into the Group's performance are given in note 2 to the Group financial statements. In particular, profit before all tax is used because it reflects the way the Group is run on a proportionally consolidated basis, and because it also removes the taxation effects on equity accounted entities from the statutory profit before tax figure.

The Group has four material joint ventures, three of which are in partnership with VINCI and one in partnership with Sahlia. The VINCI joint ventures comprise the NCGM operation and joint ventures at Uxbridge and Mill Hill (the latter through the Inglis Consortium), both of which are engaged in the remediation and subsequent sale of land. The Sahlia joint venture, Key Property Investments (KPI), owns a broad portfolio of principally income producing industrial assets acquired between 1998 and 2002.

[IMAGE REMOVED]

Rob Hudson
Group Finance Director

Trading profits

£56.1m

Added value gains

£28.3m

Income statement

	30 Nov 2016 £m	30 Nov 2015 £m
Net rental and other income	50.1	42.9
Property profits		
– commercial	30.4	38.3
– residential ⁽¹⁾	27.1	26.7
Overheads	(29.3)	(24.1)
Operating profit	78.3	83.8
Interest	(22.2)	(20.5)
Trading profit	56.1	63.3
Valuation – added value	28.3	38.6
Valuation – market ⁽²⁾	0.1	35.7
Valuation – NCGM	(24.3)	127.4
Other finance credits/(charges)	0.6	(6.6)
Profit before all tax	60.8	258.4
Earnings per share	24.1	97.9
Cost coverage ⁽³⁾	98%	96%

(1) Residential property profits include direct residential overheads of £4.5m (2015: £2.4m).

(2) Valuation – market includes a £12.5m impact from the changes to SDLT for the year ended 30 November 2016.

(3) Cost coverage – the ratio of recurring rental and other income to operating costs comprising interest and overheads, excluding the direct overheads relating to the residential business.

Net rental and other income

We aim to cover our recurring overheads and interest costs with revenue from our income generating portfolio. The Group's share of net rental and other income has increased in the year to £50.1m (2015: £42.9m). This is largely driven by acquisitions and asset management activity, along with strong income streams from major assets completed towards the end of 2015 including Longbridge Town Centre and the Bay Campus, Swansea University. As a result of these actions, we continue to largely cover the running costs of the business from recurring rental and other income.

As a result of proactive asset management, our occupancy levels have increased to 90% (2015: 89%) and excluding the Bay Campus student accommodation at Swansea University, the average lease length has been maintained at five years. A degree of void in our portfolio will be structural as we secure vacant possession of units to prepare our high yielding income generating properties for redevelopment.

Overheads

Administrative expenses for the year increased to £29.3m (2015: £24.1m). This increase included £3m of one-off costs relating to corporate restructuring of legal entities which is now complete. For 2017 we expect £1.5m of costs associated with executive share buy-out arrangements and the underlying cost base to increase broadly in line with inflation.

Finance costs and income

Finance costs have increased during the year in line with the marginal increases in the average levels of see-through net debt as a result of increased investment activity. See-through net interest charges have increased to £22.2m (2015: £20.5m) while our weighted average cost of borrowing reduced further in the year to 3.8% (2015: 3.9%) as a result of increased borrowing at the low marginal rates on our banking facilities. Assuming LIBOR remains relatively stable, we would expect an increase to our finance costs of approximately £0.7m for the next financial year, as the convertible bond reverts to a fixed rate in March 2017, although we will seek to offset this through our intention to reduce borrowings over time.

Property valuation

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

In accordance with accounting standards, valuation movements are reflected as gains or losses in the income statement. Where appropriate, we will also independently assess our work in progress for any impairment issues. Valuations in all our asset classes have been validated wherever possible by open market transactions during the course of the year.

The total valuation gain in the year was £4.1m, compared to £201.7m in 2015, for the reasons previously outlined.

Profit before all tax

Profit before all tax for the year was £60.8m (2015: £258.4m), and is stated before tax on joint venture income and after movements in the market value of our interest rate swaps and our convertible bond. The derivative valuations are based on the financial market's forward predictions for interest rates. In contrast to the previous year, the convertible bond was trading below par at the end of the financial reporting period and together with other non-cash financial items, this resulted in a credit of £0.6m (2015: £6.6m charge).

Taxation and profits after tax

As a result of the reduction in profit before all tax noted above, our total tax charge (including joint venture tax and deferred tax included in negative goodwill) for the year reduced to £7.2m (2015: £41.1m) resulting in profit after tax on a proportionally consolidated basis of £53.6m (2015:

£217.3m). Basic earnings per share were 24.1 pence (2015: 97.9 pence).

As a property group, tax and its treatment is often an integral part of transactions. The outcome of tax treatments, including tax planning, is recognised by the Group to the extent that the outcome is reasonably certain. The effective rate of tax for the year fell to 11.8% (2015: 15.9%), as a result of a higher proportion of our 2016 profits being taxed at the Group rate of tax of 14.0% (2015: 13.9%) as opposed to the JV rate of tax 17.8% (2015: 17.8%) in comparison to 2015.

The Group rate benefits from land remediation relief, certain investment gains not being taxable as a result of indexation, and the property ownership structure within the Group. As a result of proposed changes in the Group structure, from 2017 the effective tax rate is expected to move towards, but remain below, the standard rate of tax of 19%.

Balance sheet

At the year-end the shareholders' equity value of net assets was £955.2m (2015: £914.7m) or 431.0 pence per share which represents a 4.2% increase over the year (2015: 413.5 pence per share). This growth is after the increased dividend payments (2016 interim and 2015 final) of £12.8m (5.79 pence per share) in 2016 (2015: £11.1m or 5.04 pence per share). Our total dividend payable for 2016 is 6.00 pence (2015: 5.75 pence), an increase of 4.3%, in line with NAV growth. Our EPRA net asset value rose 3.2% to 460.5 pence per share from 446.4 pence per share.

Balance sheet

	2016			2015
	Group £m	JV £m	Total £m	Total £m
Property portfolio	1,370.5	381.8	1,752.3	1,691.6
Other assets	126.2	44.4	170.6	156.5
Gross assets	1,496.7	426.2	1,922.9	1,848.1
Net borrowings	(470.0)	(47.0)	(517.0)	(489.3)
Finance leases	(56.8)	(0.9)	(57.7)	(56.3)
Other liabilities	(192.6)	(193.5)	(386.1)	(381.0)
Gross liabilities	(719.4)	(241.4)	(960.8)	(926.6)
Net assets	777.3	184.8	962.1	921.5
Non-controlling interests	(6.9)	–	(6.9)	(6.8)
Equity attributable to owners of the Company	770.4	184.8	955.2	914.7
NAV per share			431.0p	413.5p
EPRA NAV per share			460.5p	446.4p
See-through LTV			30.5%	29.9%
Total accounting return			4.5%	31.9%

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.

Weighted average interest rate

3.8%

See-through loan-to-value

30.5%

	2016	2015	2014	2013	2012
Group adjusted gearing	48.9%	48.1%	46.6%	54.3%	71.2%
See-through loan-to-value	30.5%	29.9%	30.6%	32.7%	40.8%
See-through loan-to-value excluding residential land value	54.3%	55.6%	55.4%	56.6%	64.0%

Group adjusted gearing, see-through loan-to-value and see-through loan-to-value excluding residential land value are reconciled in note 21 to the Group financial statements.

Financing

Following a year of net investment to grow our income generating asset base in 2015, we have continued to generate strong cash inflows and have carefully managed our net borrowing position. Cash generated (before new investment, tax and dividends) was £306.4m (2015: £298.1m) and new investment was managed tightly such that net borrowings, including our share of JVs, increased only marginally to £517.0m, from £489.3m at the start of the year.

Taking into account growth in the valuation of the Group's portfolio, see-through loan-to-value of 30.5% and adjusted gearing of 48.9% (at amortised cost and excluding finance leases) remained broadly in line with the prior year. Excluding residential land value, the Group's see-through loan-to-value ratio fell to 54.3% (2015: 55.6%) and, whilst the Company's capital structure remains strong, we are likely to seek to reduce this over time.

Corporate facilities

Our refinancing programme has continued with the increase of facilities with Barclays and HSBC to £163m and £150m, respectively, with both facilities now extending to 2021. These actions increased our weighted average facility life to 3.7 years (2015: 3.6 years) and going forward, we have no facility maturities until 2019. We have further reduced our weighted average cost of debt to 3.8% (2015: 3.9%) and, with £724m of see-through committed facilities against see-through net borrowings of £517m, we have ample funding to transact.

Hedging and cost of debt

We aim to have predictable costs attached to our borrowing and therefore hedge a significant portion of our interest rate risk. At the year end, 50% of our borrowings were fixed or hedged (2015: 47%). This will increase further as the convertible bond reverts to fixed rate in March 2017, adding approximately 20% to the proportion of our debt that is fixed. As any new financing is put in place we will ensure that our hedging positions are appropriate for our future development expectations.

Our actions and mix of debt have continued to benefit our weighted average interest rate, which reduced in the year to 3.8% from 3.9%. At current LIBOR levels, we expect our weighted average interest rate to increase partly through a 20 bps increase upon expiry of the convertible swap, and a further potential increase of 30 to 80 bps over time as we execute our likely strategy to de-gear, which will require us to pay down cheaper rate debt, impacting on mix.

Corporate funding covenants

Covenant compliance continues at all levels and across all metrics and we continue to operate with considerable headroom against all measures.

Risk management

Risk management and internal control

As the UK's leading regeneration specialist, exposure to risk is inherent in the delivery of our strategy. The Board recognises that effective risk management and robust internal control is critical in managing risk effectively and enabling the business to mitigate the potential downside whilst leveraging the potential opportunities and upside that may arise in a considered and informed way.

The Board is ultimately responsible for maintaining a sound system of risk management and internal control and for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives. The Board has established a structure for the delivery of its responsibilities in assessing, monitoring and assuring the effectiveness of the management of risk within the Group.

The Board, through the Audit Committee, has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Its evaluation of these solvency risks is described further in the going concern and viability statements on pages 102 and 52, respectively. Details of how St. Modwen's principal risks are managed and mitigated are set out on pages 49 to 52.

Our risk management framework incorporates both a top-down and bottom-up approach to the evaluation of risk, to ensure there is a common understanding of those risks that the Group is exposed to and their potential impact on the performance of the business and achievement of strategy.

Top-down risk management process

A top-down process is driven by the Board, who have responsibility for maintaining robust systems of risk management and internal control.

The Board regularly considers and challenges the organisation's risk profile and the effectiveness of mitigation strategies in order to ensure the risk exposure remains within the Board's risk appetite.

The Board formally reviews St. Modwen's principal risks twice yearly and will consider the movements and trends of the existing risks, as well as the addition of new or emerging risks. In evaluating the risk exposure the Board considers the interdependency between risks across all financial and non-financial categories. The Board's consideration of risk is further supported by the Audit Committee who will assess and challenge the robustness of St. Modwen's risk management process twice per year.

The executive directors, consisting of the Chief Executive, Group Finance Director and Group Construction Director, maintain day-to-day responsibility for the management and monitoring of St. Modwen's strategic risks in line with the delivery of the Group's strategy. The executive directors also provide oversight and challenge to the Property Board who are responsible for the management of operational and functional risks.

The Board and risk management



Bottom-up risk management process

Risks are identified and escalated via the bottom up process by individual regions, divisions and functional departments who maintain their own operational risk registers.

The respective Regional/Divisional Director or Head of Department is responsible for ensuring their risks are subject to regular review, mitigating controls remain effective and additional actions are completed within the agreed timescales.

External risk management specialists meet with the owners of the respective risk registers twice per year to facilitate the discussion of risk and to provide challenge to the status of risk.

A revised summary of the consolidated operational risk profile is presented to the Property Board twice per year. Where the risk exposure of one or a number of operational risks may have a potentially significant impact on the Group, the Property Board will escalate these to the executive directors who will consider their inclusion within the Group risk register.

Risk profiles exist at a project level for significant projects and/or schemes with joint venture partners. These risks are managed and monitored by the respective project teams. The risks associated with these projects and schemes are also subject to regular review by the executive directors and Property Board.

Key features of St. Modwen's risk management and internal controls framework

- Clear organisational structure with delegations of authority and responsibilities for the management of risk across the Group.
- Robust system of monthly reporting including financial budgeting, reporting and re-forecasting, and the monitoring of performance against financial and operational KPIs.
- Monthly operational reviews between executive management, regional directors and functional heads.
- Board and Audit Committee monitoring and review of business performance, risk and internal control.
- Periodic assessment, reporting and monitoring of risk at a group, regional and departmental level.
- Risk profiles and risk registers maintained and regularly reviewed for major projects and joint ventures.
- Group-wide policy framework in place which includes key policies in areas such as anti-bribery, whistleblowing and IT security.
- Independent reports from Internal Audit on the effective design and operation of controls within selected areas of risk.
- Annual environmental audits undertaken at all sites with actions monitored through to completion.
- Proactive management of health and safety across all sites supported by independent audits and regular management reporting.

Assurances over the effectiveness of internal controls to mitigate strategic and operational risk are also provided to the executive directors, Audit Committee and the Board by the Internal Audit function. A programme of internal audit activity is delivered throughout the year taking a risk based approach with the outcomes from the work of Internal Audit used to inform the residual risk exposure levels.

The Board has reviewed the effectiveness of the Group's systems of internal control and risk management during the period covered by this Annual Report. It confirms that the processes described above, which accord with guidance on internal control, have been in place throughout that period and up to the date of approval of this report. The Board also confirms that it has not identified, nor been advised of, a failing or weakness which it has determined to be significant.

St. Modwen's risk management and internal control systems are designed to identify, manage and, where practicable, reduce and mitigate the effect of the risk of failure to achieve business objectives. They are not designed to eliminate such risk and can only provide reasonable, not absolute, assurance against material misstatement or loss.

Developments in our risk management process

During 2016 the Board instigated a Group-wide initiative to review and refresh the risk management process, to ensure it remains effective in identifying and managing current and future challenges and uncertainties that may arise.

External risk management specialists were engaged to work alongside management and support the Group in the delivery of these risk management activities, incorporating a 'best in class' approach both from within the industry and more broadly. These activities have been underpinned by strong leadership, and reinforcement of the importance of risk management from the Board and executive directors, which has been cascaded down to individual regions, divisions, and functional departments. The review of the risk management process covered a number of areas set out opposite.

Review of the Board framework for risk appetite

During 2016 the Board commenced a review of the risk appetite framework to ensure that the Group continues to operate within a level of risk exposure acceptable to the Board. The revised risk appetite framework, and associated tolerance levels, will be completed in 2017 but will be regularly reassessed and will continue to evolve. A suite of key risk indicators will also be established and integrated into the overall framework for the monitoring of risk during 2017. This will assist the Board and executive directors in evaluating whether the business is operating within defined risk appetite tolerances.

Updated risk management process and risk registers

A comprehensive business-wide refresh of our risk management process was completed during the year, which incorporated both the top-down and bottom-up risk assessment processes.

This included:

- Review and challenge of the Group risk register by the executive directors and the Board, including consideration of the bottom-up risk assessment, resulting in revisions to the description and assessment of specific risks detailed within the Group risk register. This reflected changes in the internal and external environment within which we operate, including consideration of the potential impact of the results of the EU Referendum in June 2016.
- Risk workshops with individual regions, divisions and functional departments to identify and assess their operational risks. Revised risk registers now exist for each region, division and functional department which contains clear ownership of risk and allocation of responsibility for the completion of further mitigating action where appropriate. Furthermore, the refresh of the bottom-up process has enabled common risks, themes and trends to be identified which has improved the visibility of risk at all levels of the organisation. The risk registers have been reviewed as part of the regional and functional management meetings and have been subject to challenge by those independent of the region or function.

- The implementation of an automated risk management system which provides a single platform for recording, assessing and monitoring risk across the Group on an ongoing basis. This will improve the accountability and visibility of risk across St. Modwen and enable more effective risk reporting to the Property Board, Audit Committee and Board.

Our risk profile

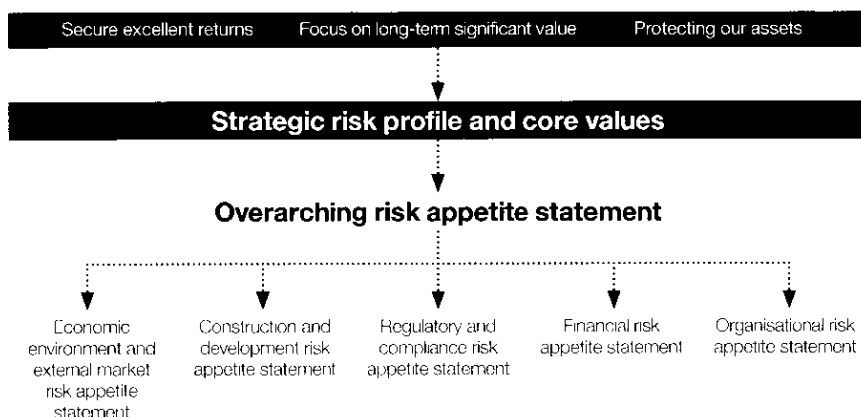
During the year there have been a number of events, predominately at a macro-level, which have resulted in changes to our risk profile.

The uncertainty within the investment market and concerns over the softening of the wider UK economy, to which the result of the EU Referendum in June 2016 was a contributory factor, has changed the profile of risks faced by the business with regards the potential level of investor and occupier demand, the potential impact on the UK housing market, and the valuation of our assets across all sectors.

Whilst the longer-term impact of these macro-economic uncertainties are not yet known, we are proactively monitoring and managing these risks at both a strategic and operational level, underpinned by maintaining a strong financial position during this period of uncertainty.

Further details on the principal risks which could prevent the achievement of our strategic objectives and may have a material impact on our business are set out on pages 49 to 52.

Risk appetite



Principal risks heat map*

[CHART REMOVED]

Ref	Risk category	Strategic objective	Risk description	Risk level	Trend
1	Construction and development	Secure excellent returns	Changes to the planning framework at a national and regional level	L	→
2		Protecting our assets	Failure to effectively manage major projects	H	→
3		Secure excellent returns	Unforeseen exposures, costs and liabilities on projects	H	→
4		Secure excellent returns	Absence of high quality contractors, consultants and third parties	M	↑
5	Economic environmental and market	Secure excellent returns	Downturn in market and economic conditions	H	↑
6		Secure excellent returns	Financial collapse of, or dispute with, a key joint venture partner	L	→
7	Regulatory and compliance	Protecting our assets	A major health and safety incident occurs or non-compliance with legislation	M	→
8		Focus on long-term significant added value	Failure to manage long-term environmental issues relating to brownfield and contaminated sites	L	→
9	Organisational	Focus on long-term significant added value	Failure to recruit and retain staff with the necessary skills and expertise	M	→
10		Protecting our assets	Reduced availability of funding and unforeseen changes to cash flow requirements	H	↑
	Financial				

Risk level

L Low
M Medium
H High

Principal risks and uncertainties

Construction and development

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

Risk assessment	L
Trend	→

Impact

- Inability to obtain planning permission
- Failure to maximise returns from developments
- Loss of competitive advantage

Commentary

Our daily exposure to all aspects of the planning process, and internal procedures for sharing best practice, ensure we remain abreast of most developments. Furthermore, we continue our efforts to influence public policy debate.

Although the current fluctuations in proposed planning legislation mean that future rules are uncertain, at a national level there appears to be a continued focus on the regeneration of brownfield sites which, combined with our planning expertise, we believe will enable us to prosper relative to our competitors.

Mitigation

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

2. Failure to effectively manage major projects

Risk assessment	H
Trend	→

Impact

- Financial loss
- Negative reputational impact

Commentary

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

Major projects are subject to regular review by the executive directors and also by the Board to ensure that we continue to manage these risks effectively.

Mitigation

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

3. Unforeseen exposures, costs and liabilities on projects

Risk assessment	H
Trend	→

Impact

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

Commentary

All developments are subject to financial appraisal and approved in accordance with defined authority limits. Contractor selection and management processes are rigorous whilst subcontractor packages and direct material purchases are subject to robust procurement processes and competitively tendered to secure best value. However, fluctuations in the value of sterling and inflationary pressures may lead to an increase in the cost of goods and materials.

Progress on all developments is monitored at a regional level and through the Property Board, with regular oversight from the executive directors and the Board.

Mitigation

- Robust procurement and purchasing processes in place
- Detailed budgets are established for each project which are regularly monitored with significant variances investigated
- Prime assets have alternate uses.
- Projects, acquisitions and disposals are reviewed and financially appraised in detail, with clearly defined authority limits
- Contractual liability clearly defined

Construction and development continued

4. Absence of high quality contractors, consultants and third parties

Risk assessment M

Trend 

Impact

- Adversely impacts on the quality of work
- Inability to meet demand and support the growth of the business
- Financial impact on the returns achieved on individual developments

Commentary

The expansion of the business and increased volume of work, particularly in residential housing, has resulted in the need for additional contractors and consultants in order to meet this demand.

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

Mitigation

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

Risk level

L Low
M Medium
H High

Economic environment and market

5. Downturn in market and economic conditions

Risk assessment H

Trend 

Impact

- Reduced demand for sites and properties
- Declining yields
- A fall in the valuation of our assets

Commentary

During 2016 there has been increased uncertainty in the UK property market and broader UK economy, partly as a consequence of the EU Referendum in June 2016.

We mitigate the risk through the diversity of geographical regions and sectors within which we hold assets, including residential, industrial/logistics and retail which creates diversification meaning we are not exposed to any one sector or region. Additionally, the land bank of approximately 6,000 acres provides flexibility to move with market demands and pursue those opportunities that generate the greatest value at any one time.

We continue to focus on maximising net rent and other income in order that the revenue generated broadly covers the running costs of the business.

Mitigation

- Regional spread and portfolio diversity mitigates sector or location specific risks
- Active portfolio management achieves better than market utilisation of assets
- PRS developments less susceptible to short-term market fluctuations
- Extensive land bank with a continuing stream of planning applications
- Regular monitoring of macro level indicators

6. Financial collapse of, or dispute with, a key joint venture partner

Risk assessment L

Trend 

Impact

- Financial loss
- Delays and/or inability to deliver development schemes

Commentary

Our key partners are Persimmon, VINCI plc and Salhia Real Estate Company K.S.C of Kuwait. These are financially strong partners with good prospects and strong balance sheets. Where we had financially weaker partners, we have exited from those arrangements.

Mitigation

- Monthly review of performance to identify if senior management intervention is required
- Flexible but legally secure contracts with partners
- Funding structure has reduced the exposure
- Fewer but financially strong JV partners

Regulatory and compliance

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

Risk assessment

M

Trend

→

Impact

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

Commentary

The nature of our operations means that ensuring effective health and safety arrangements remains a priority as the Group has no appetite for health and safety risk exposure.

The SHE Committee has continued to meet during 2016 and has undertaken a review to further enhance our health and safety framework. This has resulted in the development of a revised health and safety training programme which will be rolled out to staff in 2017.

Mitigation

- Use of high quality HS&E advisors
- Annual cycle of SHE audits
- SHE Steering Group chaired by the Group Construction Director
- Regular reporting of performance against indicators to executive directors and the Board
- Defined business processes in place to proactively manage issues arising

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

Risk assessment

L

Trend

→

Impact

- Major environmental issue
- Financial and reputational damage

Commentary

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

During 2016, as in previous years, we have undertaken regular environmental audits of our land bank to ensure we have visibility of, and can adequately manage, environmental risks effectively. Actions arising from these audits are monitored through to implementation.

Mitigation

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

Organisational

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

Risk assessment

M

Trend

→

Impact

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

Commentary

In 2015 all members of our management team completed a multi-faceted development programme operated by external providers. During 2016 we have also enhanced existing reward programmes as part of the annual salary review process to ensure that packages remain competitive.

Staff turnover remains low and the proportion of management with more than three years' service is 69%. There have been a number of new hires at senior management and Board level during 2015 and 2016, including a new Chief Executive and Group Finance Director. The ongoing effort to attract the best people with relevant skills will support the Company's long-term business objectives.

Mitigation

- Succession planning monitored at Board level and below
- Leadership and management development plans in place
- Targeted recruitment with competitive, performance-driven remuneration packages to secure highly-skilled and motivated employees.
- Key information is documented to safeguard knowledge

Financial

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

Risk assessment

H

Trend



Impact

- Lack of liquidity
- Adversely impacts the saleability of assets
- Limits the business to meet its ongoing commitments
- Restricts the ability of the business to grow.

Commentary

The increased uncertainty in the UK property market and broader UK economy may impact on the Group's cash flow requirements and also the availability of funding.

Our prudent approach to forward commitments, speculative development and asset disposals has enabled us to optimise operational cash flows and offset the impact of fluctuating market conditions. We also continue to monitor cash flow carefully and regularly undertake downside risk analysis.

Our banking relationships are strong, our gearing is broadly constant and the interest rate risk is hedged. We continue to operate within our headroom and during 2016 have increased our facilities further to provide greater flexibility.

Mitigation

- Recurring net rental and other income broadly covers the overhead and interest cost base
- Financial headroom is maintained to provide flexibility
- Regular and detailed cash flow forecasts enable monitoring of performance and management of future cash flows
- All corporate debt refinanced until at least 2019

The following risks were included in our 2015 Annual Report but have since been either aggregated with other risks or are no longer significant enough to warrant disclosure:

- inadequate due diligence on major new schemes, programme management, construction and delivery;
- failure to identify a pipeline of future residential sites; and
- inadequate security or business continuity or disaster recovery.

Viability statement

The directors have assessed the viability of the Company over the period to 30th November 2020, which is coterminous with our most recent strategy process. The Group currently has an average lease length of five years (excluding the Bay Campus at Swansea) but the four year timeframe gives more certainty over the availability of finance and the forecasting assumptions used. The strategy process is conducted at Group level and reviewed each year by the Board with key influencers within the business having ownership of the outcomes from the process. Once approved by the Board, the plan provides the basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance.

The strategy process considers the Group's cash flows including the normal level of capital recycling expected to occur, funding requirements, the sustainability of dividend payments and other key financial ratios over the period, as well as the headroom in the financial covenants contained in its various loan agreements. In making their assessment the directors assessed the potential impacts, in severe but plausible scenarios, of the principal risks and uncertainties set out on pages 49 to 52 together with the likely degree of effectiveness of mitigating actions reasonably expected to be available to the Company. The most relevant potential impact of these risks on viability was considered to be:

- the impact of the forthcoming triggering of Article 50, with the potential for a downturn in market and economic conditions, causing reduced demand for

sites and properties, declining yields and a fall in the valuation of our assets;

- reduced availability of funding and unforeseen changes to cash flow requirements, with the resultant lack of liquidity adversely impacting the saleability of assets, causing the business to limit its focus on meeting its ongoing commitments and restricting growth; and
- failure to manage major projects effectively, causing financial loss and a negative reputational impact.

On the basis of this and other matters considered and reviewed by the Board during the year, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the viability assessment period. In doing so, it is recognised that future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The directors also considered it appropriate to prepare the financial statements on the going concern basis, as discussed further in the Directors' report on page 102.

Approval of Strategic report

The Strategic report for the year ended 30th November 2016 has been approved by the Board and was signed on its behalf by

Mark Allan

Chief Executive
6th February 2017

Risk level

- L Low
- M Medium
- H High

Chairman's introduction to governance

[IMAGE REMOVED]



Our governance framework is kept under close review to sustain success over the longer-term.

Bill Shannon
Non-executive Chairman

The Board remains committed to:

- Driving the Group's long-term objectives.
- Oversight of operations to ensure competent and prudent management.
- Sound planning and internal control.
- Developing leadership and succession plans.
- Maintaining strong relationships with key stakeholders.

Areas of focus for 2016/17:

- Following the appointment of Mark Allan as Chief Executive, undertake a review of portfolio and business strategy, with outcomes to be communicated in early summer 2017.
- Continue to ensure the business is managed in a prudent and agile manner against the continuing uncertain market environment.
- Finalise a risk appetite framework, with associated tolerance levels and key risk indicators, to ensure that the business continues to operate within an acceptable level of risk exposure.

As a Board, we are responsible for the stewardship of the business and are committed to maintaining high standards of corporate governance across the Group. We believe good governance enhances business performance as well as our reputation within our market place and across relationships with our stakeholders.

Our approach to governance is outlined in the following report, which describes how we integrate into our business the main principles of the 2016 UK Corporate Governance Code (the Code). The Code's principles on remuneration are addressed in the Directors' remuneration report which is set out on pages 74 to 98. St. Modwen's risk management and internal control framework together with details of the principal risks and uncertainties that the Group faces are described on pages 45 to 52.

We remain mindful of the need for businesses to operate in an open and transparent manner, supported by a strong, accountable culture and a clear approach to governance. In line with the development of our business, our governance framework is kept under close review in order to ensure that shareholders' interests are safeguarded and to sustain the success of the Company over the longer-term.

In 2016, and with the support of the Board's Committees, we appointed Mark Allan as Chief Executive; following competitive tenders we selected KPMG as our external auditors and PwC to provide internal audit services; we reviewed our remuneration policy and consulted with major shareholders on proposed amendments to it; and we continued to strengthen the risk and control environment.

At this year's AGM, resolutions will be proposed to approve the revised remuneration policy for directors and to renew the Company's long-term incentive arrangements for both directors and the wider management population. The notice of meeting, which includes the special business to be transacted and an explanation of all the resolutions to be considered at the AGM, is set out on pages 166 to 177.

I hope that you find the corporate governance section of this report informative and I look forward to seeing you at our AGM in March.

Bill Shannon
Chairman
6th February 2017

Code principles – how they are applied

Leadership

Continued focus on strategy and its execution.

▶ **Leadership**
See pages 58 to 60

Effectiveness

A strong, open and effective Board.

▶ **Effectiveness**
See pages 61 and 62

Accountability

Close scrutiny of risks and controls.

▶ **Accountability**
See pages 45 to 52

Remuneration

Prudent oversight of executive remuneration.

▶ **Remuneration**
See pages 74 to 98

Relations with shareholders

Open engagement with shareholders.

▶ **Relations with shareholders**
See page 63

The Board

[IMAGE REMOVED]

[IMAGE REMOVED]

[IMAGE REMOVED]

Bill Shannon Non-executive Chairman

Appointed: November 2010 as non-executive director and Chairman Designate, March 2011 as non-executive Chairman.

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

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

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

N | R

Mark Allan Chief Executive

Appointed: 1 November 2016 as Chief Executive Designate, 1 December 2016 as Chief Executive.

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

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

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

Steve Burke Group Construction Director

Appointed: November 2006.

Key strengths: strong operational leadership and project management experience in the construction sector, including brownfield reclamation.

Experience: joined St. Modwen in 1995 as a Contracts Surveyor after a number of years' construction experience in senior roles with national contracting companies including Balfour Beatty and Clarke Construction. Appointed Construction Director in 1998 and joined the Board as a director in 2006.

External appointments: none.

[IMAGE REMOVED]

[IMAGE REMOVED]

[IMAGE REMOVED]

Rob Hudson Group Finance Director

Appointed: September 2015.

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

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

External appointments: none.

Richard Mully Senior Independent Director

Appointed: September 2013 as non-executive director, December 2013 as Senior Independent Director.

Key strengths: extensive experience in investment banking, fund management, capital markets and real estate private equity investing with considerable board experience.

Experience: Partner and Managing Director at Bankers Trust Company from 1992 to 1998 and Managing Director and Head of European Merchant Banking from 1998 to 2000. Co-Founder and Managing Partner of Soros Real Estate Partners LLC and its successor firm, Grove International Partners LLP, a major real estate private equity firm from 2000 to 2011. Former Senior Independent Director of Hansteen Holdings plc and ISG plc.

External appointments: non-executive director of Aberdeen Asset Management plc and Great Portland Estates plc. Vice Chairman of Alstria Office REIT AG.

A | N | R

Ian Bull Independent non-executive director

Appointed: September 2014.

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

Experience: Chief Financial Officer of Parkdean Resorts UK Ltd since March 2016. Previously Chief Financial Officer and main board director at Ladbrokes plc (2011 to 2016) and Group Finance Director of Greene King plc (2006 to 2011). Over 25 years' financial experience with companies such as Whitbread plc, Buena Vista Home Entertainment (Walt Disney Company) and BT Group. Former non-executive director of Paypoint Ltd. A Fellow of the Chartered Institute of Management Accountants.

External appointments: none.

A | N | R

[IMAGE REMOVED]

[IMAGE REMOVED]

[CHART REMOVED]

Kay Chaldecott Independent non-executive director

Appointed: October 2012.

Key strengths: significant knowledge of the retail property sector, including the retail development process, retail mix and leasing and shopping centre operations.

Experience: joined Capital Shopping Centres Group plc (now Intu Properties plc) on graduating and held a number of senior management positions, including Managing Director, during a career spanning 27 years. Also served as a main board director from 2005 until leaving the group in 2011. Former non-executive director of Boyer Planning Ltd. A member of the Royal Institution of Chartered Surveyors.

External appointments: non executive director of NewRiver REIT plc and Advisory Board member of Next Leadership.

A¹ N¹ R¹

[IMAGE REMOVED]

Lesley James, CBE Independent non-executive director

Appointed: October 2009.

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

Experience: HR Director for Tesco plc from 1985 to 1999 and a main board director from 1994. Former non-executive director for various companies including Alpha Airports Group plc, Anchor Trust, Care UK plc, Inspiro plc, Liberty International plc and the West Bromwich Building Society. Former trustee of the charity ICAN. Awarded a CBE in 2003 for services to the D11 Partnership at Work Assessment Panel. A Companion of the Chartered Institute of Personnel and Development.

External appointments: none.

N¹ R¹

Simon Clarke, DL Non-executive director

Appointed: October 2004.

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

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

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

[IMAGE REMOVED]

[CHART REMOVED]

[CHART REMOVED]

Composition of the Board

- Non-executive Chairman
- Non-independent directors
- Independent directors

Committee membership

- A Member of the Audit Committee
- N Member of the Nomination Committee
- R Member of the Remuneration Committee
- Denotes Committee Chairman

Changes to the Board

- **Bill Oliver** retired from the Board as Chief Executive on 30th November 2016.
- **Mark Allan** joined the Board as Chief Executive Designate on 1st November 2016 and became Chief Executive on 1st December 2016.

Tanya Stote Company Secretary

Appointed: March 2012.

Experience: over 15 years of governance and compliance experience in FTSE listed companies, including Misys plc, Taylor Woodrow plc (now Taylor Wimpey plc) and Travis Perkins plc. Joined St. Modwen from GKN plc where she was Deputy Company Secretary and Head of Secretarial Department. A Fellow of the Institute of Chartered Secretaries.

Key responsibilities: include Board and Board Committee support, corporate governance, statutory and regulatory compliance, insurance, HR and pensions.

The Property Board

[IMAGE REMOVED]

[IMAGE REMOVED]

[IMAGE REMOVED]

Richard Bannister Regional Director – Yorkshire and North East

Length of service: 18 years.

Experience: began his career at St. Modwen as Development Manager for the Yorkshire and North East region in 2008 and was promoted to Regional Manager in 2014 and Regional Director in 2015. Previously Strategic Director of Pearson Developments Ltd and worked at Turner & Partners Chartered Surveyors. A member of the Royal Institution of Chartered Surveyors.

Key activity in the year: secured planning consent for and delivery of over 100,000 sq ft of pre-let and speculative build across the retail and industrial sectors in Doncaster. Continues to oversee the ongoing development of Waterdale Shopping Centre, Doncaster and Billingham Town Centre, including 22,000 sq ft of new development at Waterdale and lettings to Costa and Co-op at Billingham.

Guy Gusterson Group Residential Director

Length of service: 10 years.

Experience: joined St. Modwen as Land Director for Project ModFI in 2006 and became Residential Director in 2009 and Group Residential Director in 2015. Previously Development Director at Crest Nicholson plc overseeing residential-led mixed-use developments in London and the South East. Led the establishment and early development of St. Modwen Homes.

Key activity in the year: responsible for maximising the value of the Group's residential land bank through St. Modwen's residential projects, delivery of infrastructure, working with joint venture partners and co-ordinating development with St. Modwen Homes and the Company's PRS activities.

Mike Herbert Regional Director – The Trentham Estate

Length of service: 26 years.

Experience: began his career as a chartered surveyor at Louis Taylor Ltd advising on commercial property projects before joining St. Modwen as Development Surveyor and promoted to Regional Director in 1997. Delivered numerous major projects across the North Staffordshire region including Trentham Lakes, Etruria Valley and Festival Park.

Key activity in the year: continues to oversee the regeneration and management of the Trentham Estate, a 725 acre tourist, leisure and shopping destination centred on the restored Trentham Gardens and attracting over 3 million visitors per year. Construction of 26 new retail units in the Trentham Shopping Village commenced in the year; scheduled for completion in 2017 these units will increase the existing footprint of the Village which comprises 60 shops, cafés and restaurants.

[IMAGE REMOVED]

[IMAGE REMOVED]

[IMAGE REMOVED]

Rupert Joseland Regional Director – South West and South Wales

Length of service: 15 years

Experience: joined Chestertons on graduating before moving to Boots Properties Ltd and then to Miller Developments Ltd to gain further experience in commercial development and estate management. Promoted from Midlands Development Surveyor in 2004 and moved to Bristol to establish the South West and South Wales regional office. A member of the Royal Institution of Chartered Surveyors.

Key activity in the year: continued development at Swansea University Bay Campus, now offering accommodation for over 1,640 students with facilities management provision through St. Modwen Student Living. Completed a number of speculative and occupier led deals during the year and signed a conditional contract to develop a distribution park at Chippenham Gateway, a strategic 79 acre site immediately adjacent to junction 17 of the M4 motorway.

Steven Knowles Regional Director – North West

Length of service: 13 years.

Experience: has over 20 years' experience in the property sector, including in the investment and development division at Evans Property Group Ltd. Joined as Northern Development Surveyor in 2003 and promoted to North West Regional Director in 2014. A member of the Royal Institution of Chartered Surveyors.

Key activity in the year: strategic acquisitions of Warth Business Park, Bury (£9.5m) and Crosby Town Centre (£2.6/5m) and selection as development partner for Chamberhall Business Park, Bury. Commenced construction work on the £150m regeneration scheme at Great Homer Street, including a Sainsbury's food store and 80,000 sq ft of additional retail space with pre-lets at 90%. Further speculative development at Stonebridge Business Park, Liverpool, underway following completion of a 69,000 sq ft facility for DPD (UK).

Richard Powell Build Director

Length of service: 10 years.

Experience: a construction career spanning almost 30 years, including commercial management and quantity surveying roles with companies such as Bovis Lend Lease Ltd, Balfour Beatty Building Ltd and Skanska Construction UK Ltd. Joined St. Modwen in 2006 as Construction Manager and promoted to Build Director in 2015.

Key activity in the year: responsible for delivery of the regional construction programme, including the ongoing management of the third phase of student accommodation at Swansea University Bay Campus which will provide a further 538 student rooms at the site by autumn 2017.

[IMAGE REMOVED]

[IMAGE REMOVED]

Mark Allan, Steve Burke, Rob Hudson and Tanya Stote are also members of the Property Board. See pages 54 and 55 for their biographies.

Stephen Prosser Regional Director – Midlands

Length of service: 19 years

Experience: background in surveying, property valuation and asset management for both local councils and Allied London Properties plc. Established the Yorkshire and North East office in 2005 and became Regional Director for the North in 2012. Promoted to Midlands Regional Director in 2014. A member of the Royal Institution of Chartered Surveyors.

Key activity in the year: oversees the ongoing £1bn regeneration of Longbridge, including the continued development of the Town Centre and the new 180 bedroom residential facility for the Defence Infrastructure Organisation. Other regional activity included progress at the mixed-use schemes at Bramshall Meadows, Utttoxeter and Lgston Park, Clay Cross.

Tim Seddon Regional Director – London and South East

Length of service: 10 years.

Experience: began his career at Edward Erdman as Development Surveyor before moving to Land Securities plc in 1994. Here he gained experience in both the retail and commercial offices sectors and became Development Director, with responsibility for a number of town and city centre regeneration led projects throughout the UK.

Key activity in the year: concluded conditional land agreement for the £200m redevelopment of Spray Street Quarter, Woolwich (in joint venture with Notting Hill Housing) and secured the sale of the third residential scheme at South Ockendon. Completed refurbishment works of Larnborough Shopping Centre and secured various lettings at Honley Business Park. Oversight of the delivery of the new wholesale facility for the Covent Garden Market Authority at New Covent Garden Market.

[IMAGE REMOVED]

[IMAGE REMOVED]

Dave Smith Managing Director – St. Modwen Homes

Length of service: One year.

Experience: joined St. Modwen in 2015 from Morgan Sindall where he was Construction and Infrastructure Managing Director and a member of the executive team. Previously worked for St. Modwen from 2003 until 2009 as a Construction Manager. A member of the Royal Institution of Chartered Surveyors and a fellow of the Chartered Institute of Building.

Key activity in the year: responsible for St. Modwen Homes, the Group's housebuilding business, which has 18 schemes under development across the country and eight due to start on site in 2017. The business delivered 485 completions in the year and £15.3m property profit

Rupert Wood Regional Director – Northern Home Counties

Length of service: 10 years.

Experience: over 20 years' real estate experience across investment, development, asset and property management. Joined St. Modwen in 2006 from Lend Lease where he was Senior Development Manager. Established the Northern Home Counties regional office in 2008 as Regional Manager and promoted to Regional Director in 2009. A member of the Royal Institution of Chartered Surveyors.

Key activity in the year: secured the appointment of St. Modwen as Bovis Homes' commercial development partner on 108 acres at Stanton Cross, Wellingborough. Sale of 90,000 sq ft speculatively developed industrial estate at Letchworth at a yield of 5.2%. Continues to lead St. Modwen Energy, established to promote large scale power generation projects such as Wrexham Energy Centre, North Wales and Meaford Energy Centre, Staffordshire, a Development Consent Order for the latter was secured in July.

Governance – Leadership

The Board

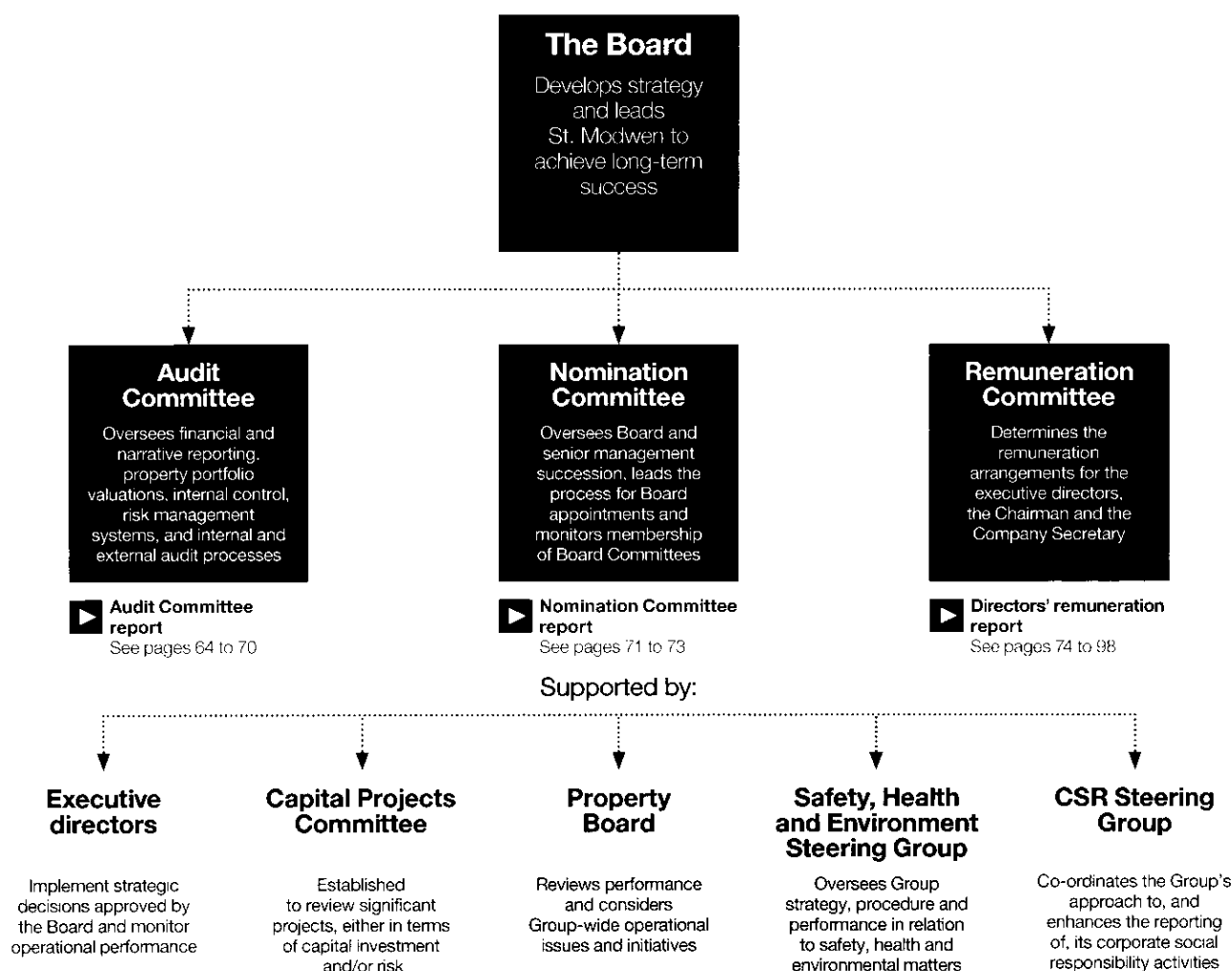
The Board provides leadership of the Company and direction for management. It is collectively responsible and accountable to shareholders for St. Modwen's long-term success. It sets the strategy, oversees implementation and reviews performance, ensuring that only acceptable risks are taken and the appropriate people and resources are in place to deliver long-term value to shareholders and benefits to the wider community.

To assist the Board in carrying out its functions and to ensure independent oversight of matters such as remuneration, internal control and risk management, the Board delegates certain responsibilities to its three principal Committees. Membership of these Committees comprises primarily the independent non-executive directors and, in some cases, the Chairman. The Chairmen of each Board Committee report to the Board on matters discussed at Committee meetings.

Matters reserved to the Board

To help retain control of key decisions, the Board has put in place a formal schedule of reserved matters that require its approval. The principal reserved matters include:

- strategy;
- new business or geographical areas;
- authorisation of transactions in excess of £10m and those which are otherwise significant;
- risk management and internal control;
- dividend policy;
- documents to shareholders and the annual and half year report and financial statements;
- matters relating to share capital, such as share issues or buybacks; and
- the appointment/removal of directors and the Company Secretary.



How the responsibilities of the Board are divided

The Board comprises the Chairman, three executive directors and five non-executive directors. Their responsibilities are summarised in the table below and their biographical details can be found on pages 54 and 55. There is a clear division of responsibility between the Chairman, who is accountable for the leadership of the Board, and the Chief Executive, who manages and leads the business.

Chairman	<p>Bill Shannon's role is to lead the Board and ensure that it operates effectively. His responsibilities include:</p> <ul style="list-style-type: none"> ▪ setting appropriate agendas for Board meetings and ensuring that all matters are given due consideration; ▪ maintaining a culture of openness, debate and constructive challenge in the boardroom; ▪ ensuring effective dialogue takes place between St. Modwen and its shareholders; ▪ providing a tailored induction programme for newly appointed directors and agreeing any training and development needs with other members of the Board; and ▪ ensuring the Board's effectiveness.
Chief Executive	<p>Mark Allan is responsible for the leadership of the business and managing it within the authorities delegated by the Board. His responsibilities include:</p> <ul style="list-style-type: none"> ▪ day-to-day management of the business; ▪ recommending proposals for St. Modwen's strategic development and implementing the strategy agreed by the Board; ▪ leading the executive management team; and ▪ ensuring the efficient use of resources.
Group Finance Director	<p>Rob Hudson is responsible for devising and implementing the Group's financial strategy and policies, as well as financial reporting and internal controls. He also oversees investor relations, internal audit and IT.</p>
Group Construction Director	<p>Steve Burke is responsible for procurement and programme delivery and oversees the Group's major projects. He also chairs the Company's Steering Groups for CSR and safety, health and the environment.</p>
Senior Independent Director	<p>Richard Mully's role involves:</p> <ul style="list-style-type: none"> ▪ acting as a sounding board for the Chairman; ▪ serving as an intermediary for the other directors when necessary; and ▪ providing an additional communication channel for shareholders.
Non-executive directors	<p>The non-executive directors work with and challenge the executive directors in the development of St. Modwen's strategy. They offer an independent, external perspective on the business and bring wide and varied commercial experience to both the Board and its Committees. With the exception of Simon Clarke, all non-executive directors are considered to be independent.</p>
Company Secretary	<p>Tanya Stote:</p> <ul style="list-style-type: none"> ▪ supports the Chairman and Chief Executive in fulfilling their duties; ▪ is available to all directors for advice and support; ▪ keeps the Board regularly updated on governance matters; and ▪ attends, and maintains a record of the matters discussed and approved at, Board and Committee meetings. <p>She also oversees the Group's HR and Insurance functions and supports the trustee of the Group's pension scheme.</p>

Board meetings

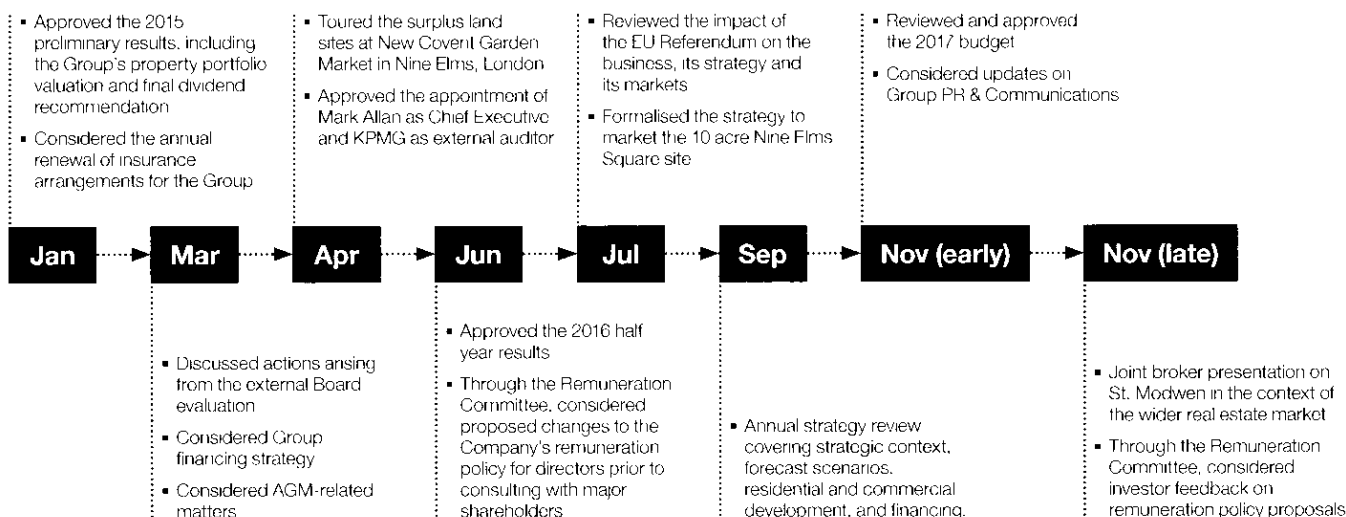
The Board discharges its responsibilities through an annual programme of Board and Committee meetings which are supplemented by visits to sites within the Company's property portfolio. In the year ended 30th November 2016 the Board met formally on eight occasions; individual director attendance is set out in the table below.

In addition, the Capital Projects Committee met on a number of occasions during the year to consider a range of projects deemed significant either in terms of capital investment and/or risk. Whilst not a formal committee of the Board, the activities of the Capital Projects Committee (whose membership is drawn from the Board) supported the Board in fulfilling its oversight responsibilities, particularly in light of Chief Executive succession activity during the year.

Matters considered at each Board meeting

- Strategic matters
- Acquisition and development opportunities
- Operational updates
- Trading results and forecasts
- Management accounts, key performance indicators and financial commentary
- Health and safety
- Board Committee activities
- Investor relations and shareholder feedback
- Legal, company secretarial and regulatory matters
- Minutes of previous meetings
- Implementation of actions from previous meetings
- Rolling programme of agenda items

Key Board activity in 2016



Attendance at Board meetings

Director	Role	Director since	Meetings attended in year out of maximum possible	% attended in year
Mark Allan ¹	Chief Executive	Nov 2016	2/2	100%
Ian Bull	Non-executive director	Sep 2014	8/8	100%
Steve Burke	Group Construction Director	Nov 2006	8/8	100%
Kay Chaldecott	Non-executive director	Oct 2012	8/8	100%
Simon Clarke	Non-executive director	Oct 2004	8/8	100%
Rob Hudson	Group Finance Director	Sep 2015	8/8	100%
Lesley James ²	Non-executive director	Oct 2009	7/8	87.5%
Richard Mully	Senior Independent Director	Sep 2013	8/8	100%
Bill Oliver ³	Chief Executive	Jan 2000	8/8	100%
Bill Shannon	Chairman	Nov 2010	8/8	100%

(1) Appointed to the Board as Chief Executive Designate on 1st November 2016 and became Chief Executive on 1st December 2016.

(2) Unable to attend the Board Meeting in late November 2016 due to illness.

(3) Retired from the Board on 30th November 2016.

Induction of a new director

The Chairman, assisted by the Company Secretary, is responsible for the induction of all new directors.

On joining the Board, a director receives a comprehensive induction pack which includes background information on the Company, material on matters relating to the activities of the Board and its Committees and governance-related information (including the duties and responsibilities of directors).

Meetings are arranged with the executive directors for briefings on strategy and performance, as well as with the external auditor and valuers. Visits to key sites within the Company's property portfolio are scheduled and external training, particularly on matters relating to membership of Board Committees, is arranged as appropriate. Major shareholders are also offered the opportunity to meet newly appointed directors should they express a desire to do so.

Director development

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

Training and development needs are discussed with each director by the Chairman as part of the annual individual performance evaluation process and kept under review. Development activities include visits to sites within the Company's property portfolio, both as a Board and individually, regular presentations to the Board by regional directors and senior management on key issues and projects, and meetings with the external valuers to review their property valuation reports.

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

Director independence and re-election to the Board


The Board considers Bill Shannon to have been independent on his appointment as Chairman in 2011 and that he remains so.

Simon Clarke, a non-executive director, represents the interests of the Clarke and Leavesley families on the Board. Together the families hold 14.5% of the Company's issued share capital and are St. Modwen's largest shareholder. Consequently, the Board has determined that Simon Clarke is not independent for the purposes of the Code.

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

At the 2017 AGM, and in accordance with the Company's Articles of Association, Mark Allan will retire and offer himself for election. All other directors will retire and offer themselves for re-election in accordance with the provisions of the Code.

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

 **Notice of annual general meeting**
See pages 166 to 177

External appointments

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

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

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage any conflicts of interest affecting directors. This enables the Board to consider and, if thought appropriate, to authorise a director's actual or potential conflict of interest, taking into consideration what is in the best interests of the Company and whether the director's ability to act in accordance with his or her wider duties is affected.

Performance evaluation

The annual Board performance evaluation review provides an opportunity for the directors to reflect on their collective and individual effectiveness and consider any changes that could improve the operation of the Board and its Committees.

The most recent evaluation review commenced in late 2015 following the appointment of Rob Hudson as Group Finance Director in order that his initial views on the operation of the Board could be considered. In accordance with the Code, the assessment was facilitated by Dr. Tracy Long of Boardroom Review Ltd (BRR), who received a comprehensive brief from the Chairman. Neither Tracy nor BRR has any other connection with the Company and is considered by the Board to be independent.

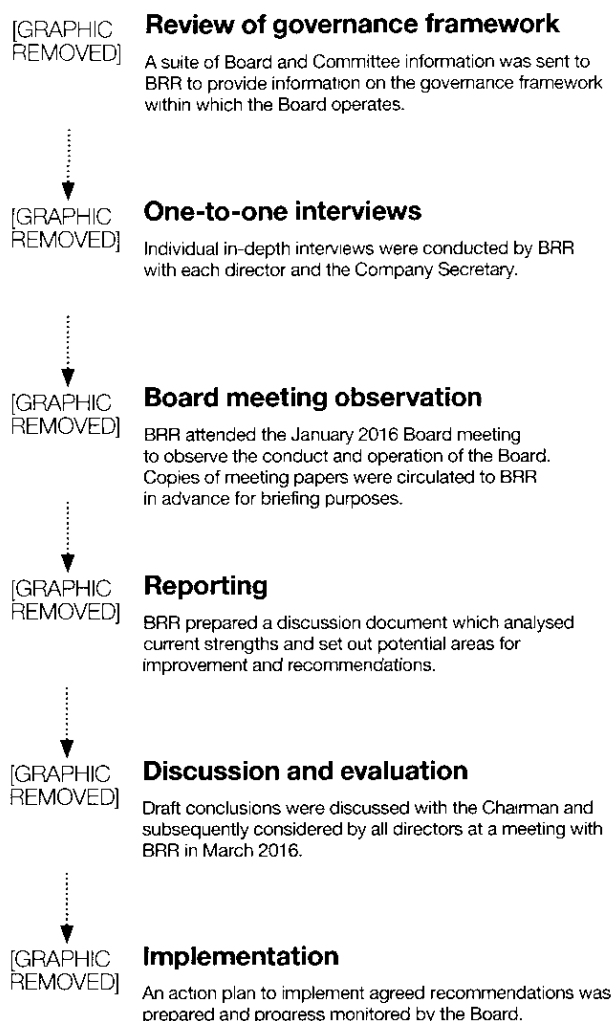
The evaluation covered areas such as the operation of the Board, its culture and composition, its focus, and risk and control. Progress against some of the key findings identified by the review can be found in the table below.

Board Committee performance was also evaluated in late 2015 by means of a questionnaire completed by relevant Committee members and meeting attendees. The outcome of these evaluations was considered as part of the Board performance review meeting in March 2016. In general, all were considered well-run, challenging, structured, trusted and effective. Specific findings of these evaluations can be found in the relevant Committee reports.

In light of the recent appointment of Mark Allan, the next evaluation of the performance of the Board and its Committees will be undertaken in the second half of 2017.

The individual performance of the directors was evaluated through one-to-one discussions with the Chairman. Richard Mully, as Senior Independent Director, led the review by the non-executive directors of the Chairman's performance, which took into account the views of the executive directors. No actions were considered necessary as a result of these evaluations and the Board is of the view that the performance of all directors continues to be effective, that they continue to demonstrate commitment to their respective roles, and that their respective skills complement one another to enhance the overall operation of the Board.

2015-16 evaluation process



2015/16 Board evaluation

Key findings	The Board to play a key role in supporting the CEO transition process to facilitate on-boarding and stakeholder engagement whilst maintaining business performance and strategic delivery.	The Board, through the Nomination Committee, to monitor its future composition to ensure that it continues to have an appropriate balance of knowledge and skills, combined with the right culture and diversity of views.	The Board, with the assistance of the Audit Committee, to define and articulate its risk appetite and ensure the development and execution of strategy within defined risk appetite tolerances.
Progress made in the year	A comprehensive, tailored induction programme was developed involving sessions with all Board and Property Board members, meetings with joint venture partners and institutional shareholders, and visits to key sites.	A skills matrix has been developed and Board composition assessed against it to ensure that succession planning remains closely aligned to the strategic direction of the Group.	A review of the risk appetite framework has been commenced and a suite of key risk indicators considered; both will be integrated into the risk management framework in 2017.

Governance – Relations with shareholders

Dialogue with investors

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

As part of the programme, presentations on the half year and annual results are given by the Chief Executive and Group Finance Director in face to face meetings and on conference calls with institutional investors, analysts and the media. Copies of these presentations, together with trading updates, are published on the Company's website at www.stmodwen.co.uk. Meetings with principal shareholders were also held and the Company had regular dialogue with its key relationship banks. The Chairman is available to meet with institutional shareholders and investor representatives to discuss matters relating to strategy and governance. Private shareholders are encouraged to give feedback and communicate with the Board through the Company Secretary.

Annual general meeting

The AGM provides an opportunity for all shareholders to vote on the resolutions proposed and to question the Board and the Chairmen of the Board Committees on matters put to the meeting. Resolutions for consideration at the 2017 AGM will be voted on by way of a poll rather than by a show of hands as the Board believes that this is a more transparent method of voting as it allows the votes of all shareholders to be counted, including those cast by proxy. The results of the poll vote will be published on the Company's website, www.stmodwen.co.uk, after the meeting.



Notice of annual general meeting

See pages 166 to 177

Compliance statement

This corporate governance report, together with the Audit Committee report, the Nomination Committee report, the Directors' remuneration report and the sections of this Annual Report entitled 'Risk management' and 'Principal risks and uncertainties', provide a description of how the main principles of the Code have been applied by St. Modwen in 2015/16. The Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

It is the Board's view that, throughout the financial year ended 30th November 2016, the Company complied with the relevant provisions set out in the Code with the exception of provision B.1.2, which requires that at least half the Board, excluding the Chairman, should comprise independent non-executive directors. For the month of November 2016 only (following Mark Allan joining the Board on 1st November 2016 and prior to the retirement of Bill Oliver on 30th November 2016), the Board comprised four executive directors and six non-executive directors. Excluding the Chairman, the number of independent and non-independent directors in the month was four and five respectively. The Board was of the view that non-compliance with this provision of the Code during the month was sufficiently justified by the need to ensure a suitable period for a handover of responsibilities between Bill Oliver and Mark Allan.

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

The directors are responsible for preparing this Annual report. The statement of directors' responsibilities on page 103 is made at the conclusion of a robust and effective process undertaken by the Company for the preparation and review of the Annual Report. The directors believe that these well-established arrangements, details of which are set out on pages 67 and 68, enable them to ensure that the information presented in this Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

[IMAGE REMOVED]



The Committee's activities continue to enhance how we understand and monitor the business.

Ian Bull
Chairman of the Audit Committee

Principal role

Monitors the integrity of the Group's financial reporting and audit processes and the development and maintenance of sound systems of risk management and internal control.

Key activities in 2015/16

- Competitive tender held for the external auditor appointment.
- Oversight of outsourcing of internal audit function.
- Focus on the Group's approach to the management of risk, mitigating actions and provisions.

Areas of focus for 2016/17

- Continuous improvement of risk management and internal controls.
- Continuing enhancements to the Group's risk assurance framework, including cyber security.
- Embedding internal audit (now outsourced to PwC) into an integrated approach to management of risk and controls.

 **Terms of reference**
www.stmodwen.co.uk/about-us/corporate-governance

At a glance

Committee member	Member since	Meetings attended in year out of maximum possible	% attended in year
Ian Bull	Sep 2014	5/5	100%
Kay Chaldecott ⁽¹⁾	Dec 2012	4/5	80%
Lesley James ⁽²⁾	Oct 2009	4/5	80%
Richard Mully	Sep 2013	5/5	100%

(1) Unable to attend the meeting in May 2016 due to a prior business commitment.

(2) Unable to attend the meeting in June 2016 due to a prior personal commitment.

Committee meeting attendees (by invitation)

- Bill Shannon (Chairman)
- Rob Hudson (Group Finance Director)
- Simon Clarke (non-executive director)
- Andy Taylor (to 29th February 2016) and Simon Redfern (from 9th May 2016) (Group Financial Controller)
- David Edwards (to 30th November 2016) and Rebecca Cooke of PwC (from 1st December 2016) (Head of Internal Audit)
- Tanya Stote (Company Secretary and secretary to the Committee)
- Representatives from Deloitte (external auditor)⁽¹⁾
- Representatives from Cushman & Wakefield and Jones Lang LaSalle (external valuers)
- Representatives from PwC (tax compliance), RSM (risk management) and BDO (internal audit and controls) (external advisers)

(1) Following the announcement made by the Company on 28th April 2016 regarding its intention to recommend to shareholders the appointment of KPMG as its external auditor for the year ending 30th November 2017, representatives from KPMG were also invited to attend to support a smooth transition from Deloitte from this point onwards.

As Chairman of the Audit Committee I am pleased to present the Committee's report for the financial year ended 30th November 2016. The report is intended to provide meaningful insight into the Committee's activities in the year and sets out how we have performed our responsibilities in relation to those areas within the Committee's terms of reference, including financial reporting, internal control, risk management and external audit matters.

The year was one of good progress in a number of areas which continue to enhance how we understand and monitor the business. A Group-wide initiative was instigated to review and refresh the risk management process to ensure it remained effective in supporting the identification and management of the uncertainties faced by St. Modwen. These activities were underpinned by strong leadership from the Board and executive directors, which was cascaded down to individual regions, divisions and functional departments, thereby enhancing the risk management culture across the business.

Additional scope for internal audit activities was agreed and implemented, initially through a co-sourcing model supported by BDO and culminating in the decision to fully outsource the function to PwC with effect from 1st December 2016 following a competitive tender process.

As noted in last year's report, the Committee determined that the external audit would be put out to competitive tender during 2016 in line with regulatory requirements. That process was concluded in April with a recommendation by the Committee to the Board to

appoint KPMG as the Company's external auditor for the 2016/17 financial year. Deloitte, the Company's current auditor, will remain in post to complete the 2015/16 year end audit; I would like to take this opportunity to offer my thanks to them for their service over the years and commitment to ensuring a smooth handover to KPMG.

In conjunction with the external audit tender, the Committee also considered and reaffirmed the arrangements it has developed to define and manage the use of the external auditor for non-audit services. These are key to ensuring the continued independence and objectivity of the external auditor and we will continue to report on the non-audit services undertaken in line with these arrangements in future reports.

I am encouraged by the progress which continues to be made and would like to thank my fellow Committee members for their continued support and commitment to ensuring effective governance through the Committee's activities. My thanks also go to the executive team for their positive engagement on matters within the Committee's remit.

Finally, after just over seven years' service, Lesley James will be stepping down as a member of the Committee following the announcement of the Company's 2016 results. I am grateful to Lesley for her unwavering advice and support and I look forward to continuing to work with her on the Board's wider agenda.

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

Ian Bull

Chairman of the Audit Committee
6th February 2017

Committee membership

All members of the Committee are independent non-executive directors, with each bringing broad financial and commercial experience at senior levels across a range of industries. The Committee's composition is kept under review by the Nomination Committee, which is responsible for making recommendations to the Board as to its membership.

Ian Bull was appointed Committee Chairman in March 2015. Ian was Chief Financial Officer of Ladbrokes plc until February 2016 and is currently Chief Financial Officer of Parkdean Resorts UK Ltd. The Board considers him to have significant, recent and relevant financial experience as required by the Code and is of the view that the Committee as a whole has competence relevant to the sector in which the Company operates.

All members of the Committee receive an appropriate induction to ensure that they have an understanding of the principles of, and recent developments in, financial reporting, key aspects of the Company's accounting policies and judgements, and internal control and risk management arrangements, as well as the role of the internal and external auditors. Ongoing training is undertaken as required.

How the Committee operates

The Committee met five times during the year; the schedule included a separate meeting with specific focus on risk management and internal controls plus a stand-alone meeting with the external valuers to review and discuss their valuation reports. Meetings of the Committee generally take place just prior to a Board meeting to maximise the efficiency of interaction with the Board and the Committee Chairman reports to the Board, as a separate agenda item, on the activity of the Committee and matters of relevance to the Board in the conduct of its work.

Representatives from the external auditor are invited to each meeting together with other Board members, the Group Financial Controller, the Head of Internal Audit and the Company Secretary. Representatives from both Cushman & Wakefield and Jones Lang LaSalle (JLL), the external valuers, are invited to attend meetings at which the half year and annual valuations of the Group's investment properties are considered by the Committee. Representatives from the Group's external advisors, such as PwC (tax compliance) and RSM (risk management), are invited to attend meetings as appropriate. Following the announcement made by the Company on 28th April 2016 regarding its intention to recommend to shareholders the appointment of KPMG as its external auditor for the year ending 30th November 2017, representatives from KPMG were also invited to attend meetings to support a smooth transition from Deloitte.

At least once a year, immediately following a Committee meeting, the Committee meets separately with the external audit engagement partner and with the Head of Internal Audit to give them the opportunity to discuss matters without executive management being present. The Committee Chairman also holds separate one to one meetings with the Group Finance Director, the Head of Internal Audit and with Deloitte, typically ahead of Committee meetings, to better understand the issues and areas of concerns and to make sure adequate time is devoted to these matters at the subsequent meeting. These arrangements will continue following the appointments of KPMG and PwC.

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

The performance of the Committee was evaluated during the year by way of a questionnaire which was completed by all members of the Committee as well as those who attended Committee meetings. Feedback received was supportive of the manner in which the Committee operated, but recommended that a further meeting be added to the annual schedule to better accommodate the Committee's oversight of risk management and internal control; this was introduced during the year. The scope and resourcing of the internal audit function was also highlighted; steps taken to strengthen this during the year can be found in the section headed 'Internal audit' on page 69.

Activities of the Committee during the year

Reporting

The Committee's primary responsibility in relation to the Group's financial reporting is to review with both management and the external auditor the integrity of the half year and annual financial statements with particular focus on:

- the consistency of, and any changes to, accounting policies and practices;
- material areas in which significant judgements have been applied or where significant financial issues have been discussed with the external auditor;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, such as statements on viability and going concern; and
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Accounting policies and practices

The Committee received reports from management in relation to the continuing appropriateness of accounting policies applied by the Group and any changes required as a consequence of the implementation of new accounting standards.

During the year, the Group adopted the amendments to IAS19 *Defined benefit plans: Employee contributions* and the amendments to IAS27 *Equity method in separate financial statements* along with amendments relating to IASB's annual improvements exercise. The adoption of these amendments had no material impact on the Group financial statements.

Following consideration and discussions with Deloitte, the Committee was satisfied that the accounting policies and related disclosure in this Annual Report was appropriate.

Accounting policies

See pages 114 to 120

Significant judgements and financial issues

The Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results, or the level of complexity, judgement or estimation involved in their application to the Group financial statements. The significant financial issues considered by the Committee in relation to the 2016 financial statements, and how these were addressed, are outlined below. The Committee discussed these with the external auditor and, where appropriate, how these were addressed by Deloitte's audit scope.

Independent auditor's report

See pages 104 to 109

Significant issue

Valuation of investment properties

The valuation of St. Modwen's investment properties is a key determinant of the Group's balance sheet and performance as well as executive variable remuneration.

Although the portfolio valuation is conducted externally by independent valuers, the nature of valuation estimates is inherently subjective and requires significant judgements and assumptions to be made by the valuers. These include market comparable yields, estimates in relation to future rental income, void periods, purchaser costs, together with remediation and other costs to complete, some of which require management input. These judgements and assumptions are subject to market forces and will change accordingly.

Net realisable value of inventories

The Group's inventories, comprising property held for sale, property under development commenced with a view to sale and land under option, is of significant value.

All inventory is carried at the lower of cost and net realisable value and appropriate allowances are made for remediation and other costs to complete. For the majority of inventories held, management rely on their own internal procedures for assessing the carrying value of inventory. These require a number of judgements to be made, such as forecast revenue and costs, that derive a profit margin over the development and provide an indication of the recoverability of the inventory.

Work undertaken by and conclusion of the Committee

The Committee adopts a formal approach by which the valuation process, methodology, assumptions and outcomes are reviewed and robustly challenged. This includes separate review and scrutiny by both management and the Committee, with members of the Committee discussing the valuations both prior to and at Committee meetings in January and June. It also includes the external auditor which is assisted by its own specialist team of chartered surveyors who are familiar with the valuation approach and UK property market.

The external auditor has direct access to the Group's valuers and their remit extends to investigating and confirming that no undue influence has been exerted by management in relation to the valuations. The external auditor reviewed the valuations and process and reported its findings to the Committee.

Both Cushman & Wakefield and JLL submit their valuation reports to the Committee as part of the half year and full year results process. Both valuers were asked to present their valuation reports at Committee meetings and highlight any significant judgements made or disagreements between themselves and management; there were none.

Against the backdrop of the uncertainty created by the UK's vote to leave the EU, the Committee also considered the extent to which this could impact the property investment and lettings market in terms of both activity and liquidity.

Based on the degree of oversight and challenge applied to the valuation process, the Committee concluded that the valuation as a whole had each been conducted appropriately, independently and in accordance with the valuers' professional standards.

The Committee reviewed management's assessment as to whether any provision was required against the carrying value of inventory, either at Group level or within any joint venture arrangements. The assessment process undertaken to determine net realisable value was considered by the Committee, which included ongoing monitoring by management as well as detailed reviews at both the half and full year. Cushman & Wakefield also provided valuations for certain sites, typically new build units not yet sold.

The Committee concluded that the judgements and estimates made by management were in line with Group policy, reasonable and appropriate.

Significant issue	Work undertaken by and conclusion of the Committee
<p>New Covent Garden Market</p> <p>Certain property transactions entered into by the Group involve an element of complexity and the need to exercise judgement to determine the most appropriate accounting treatment. Such transactions include the regeneration of the New Covent Garden Market site in Nine Elms, London, which became unconditional in April 2015.</p> <p>Balance sheet recognition of the Group's interest comprised accounting for the right to secure the interest in the surplus land together with the associated obligation to procure the new market for the Covent Garden Market Authority.</p> <p>As with the rest of the portfolio, significant judgements and assumptions are made by JLL, our independent valuers of this project, in arriving at the valuation, some of which required management input.</p>	<p>Following the initial recognition in 2015, the Committee has continued to assess the appropriateness of the accounting treatment adopted and associated disclosure, particularly given the scale and complexity of the proposed development.</p> <p>In particular, the Committee:</p> <ul style="list-style-type: none"> assessed with both JLL and management the valuation assumptions for the surplus land, enabling costs and overage, and the costs of procuring the new market facilities; reviewed the measurement of the liability to procure the new market facilities; and reviewed the classification of the Group's interest in the surplus land as investment property. <p>The Committee concluded (and Deloitte concurred) that the accounting treatment adopted and valuation assumptions made were appropriate.</p> <p>Further information on the accounting judgements made is set out in the accounting policies note on page 119.</p>
<p>Tax provisions</p> <p>As a property group, tax and its treatment is often an integral part of transactions undertaken by St. Modwen. The outcomes of tax treatments are recognised by the Group to the extent the outcome is reasonably certain.</p> <p>Where tax treatments have been challenged by HMRC, or management believe that there is a risk of such challenge, or new tax regulation is introduced, provision is made for the best estimate of potential exposure based on the information available at the reporting date.</p>	<p>Based on reports from management and PwC (the Group's tax compliance advisor), the Committee has continued to assess the risk of challenge and individual judgements made by management in respect of tax provisions and was satisfied that the mitigating actions and resultant level of tax provisioning at both the full year and half year remained appropriate.</p> <p>Further disclosure on taxation is set out in note 5 to the Group financial statements and the accounting policies note on page 120.</p>

Viability and going concern

The Committee provides advice to the Board on the form and basis underlying both the going concern statement and the longer-term viability statement.

As both statements rely on forecasts, the Committee considered the assumptions and judgements applied by management in relation to the timing of receipt and payment cash flows, the ongoing availability of funding and covenant compliance. The Committee also reviewed the sensitivity analysis prepared by management, including the assumptions made.

The Committee concluded that it remains appropriate for the financial statements to be prepared on a going concern basis and recommended the viability statement to the Board.

▶ **Going concern statement**
See page 102

▶ **Viability statement**
See page 52

Fair, balanced and understandable

When reporting to shareholders the Board aims to present a fair, balanced and understandable assessment of the Company's position and performance and is assisted in this by the Committee. This responsibility covers the annual and half year reports and financial statements, as well as trading updates and other financial reporting.

The Committee is satisfied and has confirmed to the Board that the 2016 Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

In reaching this view the Committee considered the robust and well-established processes in place to prepare the Annual Report and financial statements which includes:

- clear guidance and instruction is given to all contributors;
- revisions to regulatory requirements and governance principles, including the Code, are continually monitored;
- meetings are held with the auditors in advance of the year end reporting process;
- input is provided by senior management to identify relevant and material information and ensure accurate, consistent and balanced reporting;
- detailed debates and discussions regarding principal risks and uncertainties;

- focused review and approval of specific sections by the relevant Board Committees, supported by regular reporting by Board Committees to the Board on their activities;
- a review by the Committee of reports prepared by management on accounting estimates and judgements, auditor reports on internal controls, accounting and reporting matters and a management representation letter concerning accounting and reporting matters;
- consideration of the draft Annual Report and financial statements by the Committee in advance of final sign-off; and
- review and approval by the external auditor.

The Board takes into account the view of the Committee when undertaking its own review of the document prior to giving final approval.

External auditor

Deloitte, as the external auditor, is engaged to express an opinion on the Company's and the Group's financial statements. Their audit includes a review and test of the systems of internal control and data contained in the financial statements to the extent necessary to express an audit opinion on them.

Audit plan

In respect of the audit for the financial year ended 30th November 2016, Deloitte presented their audit plan (prepared in consultation with management and the Head of Internal Audit) to the Committee. The audit plan took into account key changes in the business and the impact of these on materiality, scope and risk assessment. The audit fee, which was approved by the Committee, was felt to be appropriate given the scope of work whilst not adversely affecting Deloitte's independence or objectivity.

Independence

The Committee is responsible for monitoring and reviewing the objectivity and independence of the external auditor. In undertaking its assessment, the Committee has reviewed:

- the confirmation from Deloitte that they maintain appropriate internal safeguards in line with applicable professional standards;
- the Financial Reporting Council's May 2016 Audit Quality Inspection Report in respect of Deloitte's audit engagements and the firm's policies and procedures supporting audit quality;
- the mitigating actions taken by the Committee in seeking to safeguard Deloitte's independent status, including the operation of policies designed to regulate the appointment of former employees of the external audit firm and the extent of non-audit services provided by the external auditor;
- the tenure of the audit engagement partner (not being greater than five years); and
- the performance evaluation of Deloitte.

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

Non-audit fees

To help safeguard Deloitte's objectivity and independence, the Committee has approved a non-audit services policy which sets out the circumstances and financial limits within which the external auditor may be permitted to provide certain non-audit services (such as tax and other services).

This policy sets a presumption that Deloitte should only be engaged for non-audit services where there is an obvious and compelling reason to do so (for example their expertise or ability to provide the services) and provided such work does not impair their independence or objectivity and has no impact on the audited financial statements. It prohibits Deloitte from providing certain services including legal, valuation, actuarial and internal audit. Where Deloitte can be engaged and their fees are anticipated to exceed £25,000, advance approval of the Audit Committee on the recommendation of the Group Finance Director is required; no such approvals were sought in the year.

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

Non-audit fees paid to Deloitte in the year totalled £22,000 (2015: £107,000), representing 5% (2015: 31%) of the fees paid for audit and audit-related assurance services, and principally related to a minor piece of real estate advice.

Further information on the remuneration of the external auditor can be found in note 3b to the Group financial statements.

Effectiveness

The Committee has undertaken a review of Deloitte's performance and the effectiveness of the external audit process. The review was primarily undertaken by way of an extensive questionnaire on external audit effectiveness which was completed by management and assessed by the Committee. The Committee also considered a self-assessment carried out by Deloitte on audit objectives, leadership, qualification, quality and independence, together with Deloitte's experience and expertise, the extent to which the audit plan had been met, its robustness and perceptiveness with regard to key accounting and audit judgements, and the content of its audit reports.

The Committee remains satisfied with Deloitte's performance and is of the view that there is nothing of concern that would impact the effectiveness of the external audit process.

Tender

Deloitte has been the Company's external auditor since 2007. The current audit engagement partner, Jonathan Dodworth, was appointed for the 2011/12 financial year audit and, in line with ethical standards published by the Auditing Practices Board, can remain in post until the conclusion of the audit for the financial year ended 30th November 2016.

During the year, in line with UK regulatory requirements and the provisions of the UK Corporate Governance Code, the Committee undertook a competitive tender for the external audit. A management panel was formed, led by the Committee Chairman and involving the Chief Executive and Group Finance Director, to conduct the initial stages of the process which comprised:

- meetings and follow up calls with the proposed audit teams to understand their audit approach and discuss key accounting judgements, governance and internal controls;
- sessions with relevant employees, including the wider finance team, to better understand the Group's operations;
- tours of Longbridge Town Centre, Bay Campus at Swansea University and Nine Elms in London in respect of the surplus land at New Covent Garden Market;
- discussions with Deloitte as to their experience of the audit process since appointment;
- interviews with suggested audit engagement partners; and
- a presentation to the Audit Committee.

Detailed evaluation criteria and a scoring matrix were used to assist the Committee in making its decision. Having taken appropriate references, the tender process concluded with a recommendation from the Committee to the Board that, subject to shareholder approval at the 2017 AGM, KPMG be appointed as external auditor for the financial year ending 30th November 2017. The transition process is underway, with representatives from KPMG attending Committee meetings by invitation.

There are no contractual obligations that restrict the Company's choice of an external auditor and the Company confirms that it has complied with the relevant parts of the Competition and Markets Authority Final Order on the statutory audit market for the year ended 30th November 2016.

Internal audit

The Group has an internal audit function which reports to the Committee and works under the supervision of the Group Finance Director. Its key objectives are to provide independent and objective assurance that each business area implements and maintains appropriate and effective controls. An Internal Audit Charter, which is reviewed annually, governs its remit and sets out the standards against which activities are undertaken.

Internal audit is a standing agenda item at each Committee meeting. Reports from the Head of Internal Audit usually include updates on audit activities, progress of the Group audit plan, the results of internal audits and the status of implementation of recommendations to address any unsatisfactory areas. During the year, internal audits were carried out across a number of areas including third party contract management, cyber and IT security and the facilities management arrangements (St. Modwen Student Living) at Bay Campus, Swansea University.

The Committee reviews and approves annually the audit plan for a rolling three year period which is closely aligned to the key risks the business faces. It also has input into ensuring that adequate resources are made available and that the necessary support is provided by the business to accomplish the agreed work programme. The Committee Chairman meets with the Head of Internal Audit regularly to discuss activities and the nature of any significant issues which may have arisen.

During 2016 the Committee agreed to the extension of scope and resourcing of the internal audit function to ensure that the agreed audit plan could be delivered. BDO were initially engaged on a co-sourcing basis to work alongside the internal audit function and a number of improvements to enhance reporting were made. However, as the complexity and reach of the business continues to grow, the Committee recognised the benefits that a fully outsourced internal audit function could offer. Consequently, a competitive tender process was undertaken and the Committee approved the appointment of PwC to provide internal audit services with effect from 1st December 2016.

As PwC is engaged by the Group to provide tax compliance advice, extensive enquiries were made prior to their appointment to ensure that this advisory role did not compromise their independence. It is also intended that no new areas of tax work be allocated to PwC. Whilst both management and the Committee were comfortable that no potential conflicts arose from the foreseeable internal audit activities, safeguards have been put in place to ensure that alternative arrangements will be made, with Committee approval as necessary, should a conflict arise.

The effectiveness of the internal audit function is reviewed annually by the Committee, primarily by assessing performance against the Internal Audit Charter. The Committee remained satisfied that the function continued to operate effectively throughout the year. It was the Committee's intention to seek an independent external review of the function in 2016, however, in light of the decision to outsource, this has been postponed to allow PwC sufficient time to transition into the role. During 2017 the Committee will review PwC's activities and performance to ensure that the internal audit services meet the scope and quality required.

Risk management and internal control

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


In doing so the Committee considered:

- the Group's risk register, including significant and emerging risks, mitigating controls in place and how exposures have changed over the reporting period;
- internal audit reports on key audit areas and any significant deficiencies in the control environment;
- management reports on the systems of internal controls and risk management, including tax compliance;
- external audit reports from Deloitte which included details of their risk assessment process for the purposes of audit;
- actual and potential legal claims and litigation involving the Group;
- internal audit reports on potential fraudulent activities perpetrated against the Group;
- the effectiveness of the internal audit function; and
- the Group's approach to IT, cyber security and whistleblowing.

A significant project to review the Group's risk appetite, risk register and the monitoring and mitigation of risks has taken place during the year, in consultation with RSM. A risk appetite framework to ensure that St. Modwen continues to operate within a level of risk exposure acceptable to the Board is being developed. In 2017, the revised risk appetite framework, and associated tolerance levels, will be completed and will be regularly reassessed. A suite of key risk indicators will also be established and integrated into the overall framework for risk monitoring.

The Committee has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Group's risk management framework incorporates both a top-down and bottom-up approach to the evaluation of risk, to ensure that there is a common understanding of those risks to which the Group is exposed and their potential impact on the performance of the business and achievement of strategy.

To inform the Committee's assessment of the effectiveness of the internal control environment, BDO were engaged during the year to review management's self-assessment of the internal control environment and to feedback to the Committee. Positive assurance was derived from BDO being able to attest that the majority of the financial and non-financial control statements remained both relevant and in place. Control improvement recommendations made as a result of their review are in the process of being addressed.

 **Risk management**
See pages 45 to 47

Whistleblowing and fraud

The Group's 'whistleblowing' policy encourages employees to report, in confidence and anonymously if preferred, concerns about suspected impropriety or wrongdoing in any matters affecting the business. Reports can be made by confidential telephone reporting lines and a secure website reporting facility which are operated by an independent third party. Any matters reported are investigated by management and, where appropriate, reported to the Committee together with details of any corrective action taken. During the year one whistleblowing incident was reported to the Committee and, following review, it was satisfied that matters had been dealt with appropriately.

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

Nomination Committee report

[IMAGE REMOVED]



The Committee will continue to review succession plans in the context of the Group's strategy.

Bill Shannon

Chairman of the Nomination Committee

Principal role

Reviews the succession planning and leadership needs of the Group and leads the process for Board appointments, ensuring that directors have an appropriate range of skills and experience to deliver St. Modwen's strategy.

Key activities in 2015/16

- Selected and recommended the appointment of Mark Allan as Chief Executive.
- Reviewed and recommended the re-appointment of Simon Clarke, Lesley James, Richard Mully and Bill Shannon.
- Development of a skills matrix against which Board competencies were assessed.

Areas of focus for 2016/17

- Continue to monitor Board and senior management succession in the context of the Company's medium and longer-term strategy.
- Support management and the Board in promoting diversity across the workforce.



Terms of reference

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

At a glance

Committee member	Member since	Meetings attended in year out of maximum possible	% attended in year
Ian Bull	Sep 2014	6/6	100%
Kay Chaldecott	Mar 2013	6/6	100%
Lesley James	Oct 2009	6/6	100%
Richard Mully	Sep 2013	6/6	100%
Bill Shannon	Nov 2010	6/6	100%

Committee meeting attendees (by invitation)

- Bill Oliver (to 30th November 2016), Mark Allan (from 1st December 2016) (Chief Executive)
- Simon Clarke (non-executive director)
- Tanya Stote (Company Secretary and secretary to the Committee)

The Committee plays a vital role in ensuring that St. Modwen is headed by a Board which is collectively responsible for the long-term success of the Company and is best placed to operate effectively in the context of our strategic objectives.

Its core responsibility is to manage the appointment of new directors to the Board and, in 2016, its primary focus was to identify a successor for Bill Oliver, who retired as Chief Executive on 30th November 2016. The Committee considered a number of strong candidates for the role and, following a comprehensive interview process, we were delighted to announce, in April 2016, the appointment of Mark Allan. Mark, previously Chief Executive of The Unite Group plc, has extensive knowledge and experience of the property sector combined with strong operational leadership and financial and strategic management capability. He joined the Board on 1st November 2016 as Chief Executive Designate and became Chief Executive on 1st December 2016.

To be effective, Board succession planning must look beyond matters such as tenure of appointment and consider the extent to which the collective skills, experience and capabilities of the directors support the Group's strategic direction. The Committee has developed a skills matrix to support its assessment of such matters and to guide potential recruitment needs over the medium-term. The Committee also considers the matrix, together with matters such as independence and individual performance, when making its recommendations to the Board on the re-appointment of non-executive directors. In the year, Simon Clarke, Lesley James, Richard Mully and Bill Shannon were re-appointed to the Board.

Looking forward to 2017, the Committee will continue to review succession plans in the context of the Group's strategy to ensure that arrangements are in place for the orderly and progressive refreshing of the Board and to identify key talent within the business with potential for appointment to senior management and Board positions.

Recognising the benefits that diversity can bring, and noting publications such as Sir John Parker's report on ethnic diversity and the Hampton-Alexander Review of gender diversity in FTSE companies, the Committee will also continue to support management and the Board in promoting parity of representation across the workforce.

Meaningful reporting on the activities of the Committee is challenging due to the sensitive nature of the matters which fall within its remit. However, the remainder of this report attempts to provide insight into the way in which the Committee operates and its activities during the year; I hope you find it informative.

Bill Shannon

Chairman of the Nomination Committee
6th February 2017

Committee membership

All members of the Committee are independent non-executive directors, with each bringing broad financial and commercial experience at senior levels across a range of industries. The Committee is responsible for keeping its composition under review and for making recommendations to the Board as to its membership.

The Chairman of the Board chairs all meetings of the Committee unless they relate to the appointment of his successor; for these meetings, the Senior Independent Director (SID) is invited to take the Chair unless the SID is in contention for the role.

How the Committee operates

The Committee meets on an ad hoc basis, usually immediately prior to or following a Board meeting, but on other occasions as may be needed. It met formally on six occasions during the year, primarily to progress the appointment of a new Chief Executive. A number of informal meetings, conference calls and discussions also took place between Committee members, search consultants and potential candidates throughout the recruitment process. The Committee Chairman reports to the Board, as a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.

Only members of the Committee have the right to attend meetings. However, an invitation to attend meetings is extended to Simon Clarke, a non-executive director, and the Chief Executive attends for all or part of meetings by invitation in order that the Committee can understand his views, particularly on key talent within the business. Tanya Stote, Company Secretary, is secretary to the Committee.

The performance of the Committee was evaluated during the year by way of a questionnaire which was completed by all members of the Committee as well as those who attended Committee meetings. Feedback received was supportive of the manner in which the Committee operated, but highlighted that there was scope to improve further the structure and framework around its succession planning activities. Details of the steps taken to address this can be found below in the section headed 'Succession planning' on page 73.

Activities of the Committee during the year

Appointment and re-appointment of directors

The Committee leads the process for appointments to the Board and makes recommendations to the Board when suitable candidates have been identified in line with Board-approved procedures. When a vacancy arises, the Committee evaluates the balance of skills, experience, independence and knowledge on the Board before preparing a description of the role and capabilities required for that appointment. Where appropriate external recruitment consultants are engaged to assist with the search process. Appointments are made based on merit whilst having regard to the need to maintain Board diversity in all its forms.

Appointment of Chief Executive

In conjunction with the announcement made in February 2016 regarding Bill Oliver's intention to retire on 30th November 2016, the Committee engaged the Zygos Partnership, a leading executive search firm, to assist with the search for an individual to replace him as Chief Executive. Zygos has no other connection with the Company other than in its capacity as a search consultant.

The search, led by the Chairman, commenced with an assessment by the Committee of the skills and experience required for the role of Chief Executive in the context of the Group's strategy. The outcome of this assessment was used to form the basis of a broad candidate specification which was agreed by the Committee and used by Zygos to identify potential candidates. Zygos was also given the opportunity to meet with the executive directors (including Bill Oliver) in order that they could gain further insights into the role within the context of the organisation.

A list of potential candidates, including both men and women that occupied Chief Executive or senior operational roles in listed and private companies across both property and other business sectors, was considered and a shortlist of candidates who were felt to offer the best 'fit' against the specification was drawn up. Interviews were conducted, initially by the Chairman and the SID and subsequently with all other non-executive directors. Once a preferred candidate had been identified, Steve Burke (Group Construction Director) and Rob Hudson (Group Finance Director) were invited to meet with the individual.

The Committee worked closely with the Remuneration Committee and its advisers to consider the detailed remuneration arrangements in respect of the appointment in the context of the Company's shareholder-approved remuneration policy.

After careful consideration, the Committee unanimously concluded that the appointment of Mark Allan, then Chief Executive at The Unite Group plc, be recommended to the Board. The Board unanimously approved the recommendation and his appointment was confirmed in April 2016. Mark joined the Company on 1st November 2016 as Chief Executive Designate to allow time for a handover of responsibilities from Bill Oliver. He became Chief Executive with effect from 1st December 2016.

Re-appointment of non-executive directors

Independent non-executive directors, including the Chairman, are appointed by the Board for an initial three-year term and typically serve a second three-year term. Beyond this, a third term of up to three years may be served subject to a particularly rigorous review and taking into account the need for progressive refreshment of the Board. Appointments are subject to satisfactory performance reviews, re-election by shareholders and statutory provisions relating to the removal of directors.

The terms of service of the Chairman and the other non-executive directors are contained in letters of appointment. These set out the time commitment expected from each non-executive director to ensure they perform their duties satisfactorily. Each non-executive director confirms that they are able to allocate the time commitment required at the time of their appointment and thereafter as part of their individual annual effectiveness review undertaken by the Chairman (or the SID in the case of the Chairman's review).

During the year, the Committee considered the re-appointment of Simon Clarke (non-executive director), Lesley James (Remuneration Committee Chairman), Richard Mully (SID) and Bill Shannon (Chairman). In making its recommendations, which were approved by the Board and are set out on page 73, the Committee considered the relevant director's skills, experience, independence and performance, succession planning in the context of the Company's strategy and the extent to which it was satisfied that the director would be able to continue to dedicate sufficient time to fulfil their role on the Board.

- **Simon Clarke:** completed 10 years' service and re-appointed for a further one-year term. Whilst not considered to be independent for the purposes of the UK Corporate Governance Code, as the longest serving director Simon brings continuity and extensive knowledge of the business to the Board as well as strong commercial and management experience.
- **Lesley James:** completed seven years' service. Appointment renewed for a further year and annually thereafter as appropriate to 2018.
- **Richard Mully:** completed three years' service and re-appointed for a second, three-year term.
- **Bill Shannon:** completed six years' service. Appointment renewed for a further year and annually thereafter as appropriate to 2019.

Succession planning

Effective succession planning is critical to the long-term success of the Company. To support its activities in respect of succession planning at Board level, the Committee has developed a skills matrix which sets out the balance of skills and diversity of the Board in its current composition and assesses the extent to which these support the Group's strategic direction.

The matrix is intended to act as a guide as to potential recruitment needs over the medium-term through the identification of any competencies or skills that will be required to support strategic delivery. Desired attributes, in terms of experience, general and sector-specific skills, and diversity, were established by the Committee and used as a benchmark against which to assess the current composition of the Board.

Whilst no immediate skills gaps were identified, the Committee intends to undertake a skills matrix assessment annually to ensure that succession planning remains closely aligned to the strategic direction of the Group and delivers the correct balance of knowledge, skills and attributes to enable the Board and its Committees to operate effectively.

The Board recognises the importance of developing employees of St. Modwen, particularly in relation to succession planning for senior positions within the Company. People development is reviewed by both the Nomination Committee and the Board to ensure that plans are in place to recognise and grow internal talent.

Independence and re-election to the Board

Following his appointment in November 2016, Mark Allan will retire and offer himself for election at the 2017 AGM. In accordance with the UK Corporate Governance Code all other directors will retire and offer themselves for re-election to the Board.

Those directors who have been in post throughout the year have been subject to a formal performance evaluation process and both the Committee and the Board are satisfied that all directors continue to be effective in, and demonstrate commitment to, their respective roles on the Board and that each makes a valuable contribution to the leadership of the Company. The Board therefore recommends that shareholders approve the resolutions to be proposed at the 2017 AGM relating to the election and re-election of the directors. Further supporting information in respect of the non-executive directors can be found on page 169.

With the exception of Simon Clarke, who is not deemed to be independent by virtue of his representation of the interests of the Clarke and Leavesley families, the Committee has also reviewed and confirmed the independence of each non-executive director seeking re-election at the 2017 AGM.

Board diversity

All aspects of diversity, including but not limited to gender, are considered during the recruitment process at every level within the business, including appointments to the Board.

Recognising the benefits that diversity can bring, the Board seeks to recruit directors from different backgrounds with a range of experience, perspectives, personalities, skills and knowledge. Both the Committee and the Board have a fundamental obligation to ensure that the best candidates, selected on merit against objective criteria, are appointed. Subject to this, the availability of suitable candidates and compliance with the requirements of the Equality Act, the Board is committed to strengthening female representation at Board and senior management level. It has not however set prescriptive targets as it does not believe these are in the best interests of either the Company or its shareholders.

The Board currently comprises two female non-executive directors, Lesley James and Kay Chaldecott, who together represent 22% female Board membership. Gender diversity below Board level is set out on page 27.

In support of its diversity policy, the Committee will only engage executive search firms who have signed up to the Enhanced Voluntary Code of Conduct which supports more female appointments to FTSE 350 boards.

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Directors' remuneration report

[IMAGE REMOVED]



Variable remuneration for the year reflects the financial performance of the Group.

Lesley James, CBE

Chairman of the Remuneration Committee

Principal role

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

Key activities in 2015/16

- Reviewed the remuneration policy and consulted with major institutional investors and shareholder representative bodies on proposed amendments.
- Determined the application of the remuneration policy in respect of the recruitment of Mark Allan, Chief Executive.
- Monitored market trends in and the governance environment of remuneration arrangements.

Areas of focus for 2016/17

- Triennial review of the Committee's external advisers.
- Ensuring close alignment of performance metrics and targets with the strategic goals.
- Improving the clarity and transparency of performance target disclosure.



Terms of reference

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

At a glance

Committee member	Member since	Meetings attended in year out of maximum possible	% attended in year
Ian Bull	Sep 2014	4/4	100%
Kay Chaldecott	Dec 2012	4/4	100%
Lesley James	Oct 2009	4/4	100%
Richard Mully	Sep 2013	4/4	100%
Bill Shannon	Nov 2010	4/4	100%

Committee meeting attendees (by invitation)

- Bill Oliver (to 30th November 2016), Mark Allan (from 1st December 2016) (Chief Executive)
- Simon Clarke (non-executive director)
- Tanya Stote (Company Secretary and secretary to the Committee)
- Representatives from New Bridge Street (Committee advisor)

Annual Statement

On behalf of the Board I am pleased to present the report on directors' remuneration for the financial year ended 30th November 2016.

Our approach to remuneration is governed by our directors' remuneration policy, which was last approved by shareholders in 2014. Whilst the policy has served the Company well over its three-year life, a number of amendments are proposed to bring it up to date with good practice and to help drive performance over the next three years. Details of the proposed amendments, including the rationale, are set out opposite. Shareholders will be asked to approve the revised directors' remuneration policy at the 2017 AGM by way of a binding vote. This annual statement, together with the annual report on remuneration (pages 84 to 98), will be put to an advisory shareholder vote at the 2017 AGM.

Remuneration outcomes in 2015/2016

In the year to November 2016, the Company delivered a solid performance against the backdrop of an uncertain market environment. The underlying business performed well, as evidenced by trading profits, and gearing levels were carefully controlled.

Reflecting both the financial results for the year and the individual performance of the executive directors in post throughout the year, Bill Oliver, Rob Hudson and Steve Burke were awarded bonuses of between 53.25% and 55.25% of their respective base salaries for the year ended 30th November 2016. These are substantially lower than the 125% of base salary awarded for the year ended 30th November 2015. Further details of the Committee's assessment of performance against bonus objectives for the year can be found on pages 85 and 86.

The 2014 Performance Share Plan awards were due to vest in March 2017 based on performance over the three financial years to 30th November 2016. Vesting of half of this award was subject to TSR performance relative to the FTSE All-Share Real Estate Investment & Services Index, with the remaining 50% subject to an absolute TSR condition. Neither element met the performance required for vesting set by the Committee, so this LTIP cycle has delivered a zero payment for the executive directors. Actual performance is detailed on page 87.

The level of variable remuneration received by the executive directors in respect of the year ended 30th November 2016 has therefore reduced by 74% from the prior year. The Committee feels that this reflects the financial performance of the Group in the period, delivered in more challenging markets and against an uncertain economic backdrop.

Base salaries for the Group Finance Director and Group Construction Director were increased by 2.5% effective 1st December 2016, in line with the general cost of living salary increase awarded to other employees across the business. The base salary for the new Chief Executive, Mark Allan, is not being reviewed during the year ending November 2017.

Proposed changes to the remuneration policy

Although the current directors' remuneration policy was first approved by shareholders in 2014, our executive remuneration arrangements have in fact remained unchanged for many more years in both structure and opportunity. We have consistently maintained our policies for annual bonus and the Performance Share Plan for almost a decade and believe that it is incumbent on us to ensure that these arrangements remain both appropriate and competitive.

The Committee has reviewed the current remuneration structure and has concluded that the existing framework of base salary (plus pension and other benefits), annual bonus (part cash and part invested in shares) and a single long-term incentive plan (LTIP)

remains best suited to the business. We are not therefore proposing fundamental changes to the policy, but are recommending a number of amendments to ensure, primarily, that:

- the alignment between the interests of executive directors and shareholders is further strengthened;
- remuneration arrangements are competitive but not excessive, and performance expectations are stretching;
- bonus and LTIP metrics are fully aligned with our KPIs and promote the long-term success of the Company; and
- the policy is sufficiently flexible to remain applicable over the intended three-year policy period.

We are also proposing best practice changes, including the introduction of LTIP post-vesting holding periods and improved disclosure of performance targets.

We have consulted with major investors and shareholder advisory groups on the proposed amendments to our policy. Taking account of the feedback from the consultation, we made changes to the proposals, including reducing the LTIP vesting level at threshold performance, and placing a cap on how much of any bonus paid out can be related to personal performance.

Shareholders will also be asked to vote on separate resolutions to approve arrangements to replace the current Performance Share Plan and also the Employee Share Option Scheme (which is used below Board level). These votes are required as these plans will both reach the end of their ten-year life in 2017.

Remuneration element	Summary of changes proposed	Rationale
Annual bonus	<ul style="list-style-type: none"> ▪ Maximum opportunity to be set at 150% of salary, compared to 125% under the previous policy. However, any increase in bonus paid to apply for above-target performance only, as target bonus will decrease as a percentage of maximum. The higher maximum opportunity is to apply for new stretch performance requirements, to be fully disclosed in each year's Remuneration Report. ▪ On-target bonus level to reduce from 60% to 50% of maximum opportunity, thereby remaining constant at 75% of salary. ▪ The portion of bonus invested in shares and retained for a minimum period of three years to increase from one-third to 40%. ▪ 25% of the bonus to relate to personal measures, but the amount paid for personal performance will be capped at one-third of the total actual bonus awarded. For example, if a target bonus of 75% of base salary is awarded, no more than one-third of this can relate to personal performance (i.e. 25% of base salary). ▪ Greater clarity and transparency in disclosure to evidence stretching targets. 	The changes to annual bonus are intended to help drive performance, enhance transparency, and increase alignment with shareholders through greater investment of the bonus in shares.
LTIP	<ul style="list-style-type: none"> ▪ Performance metrics will be relative TSR against a peer group and growth in financial performance, in contrast to the current policy which measures TSR only. ▪ A two-year post-vesting share retention period is being introduced to align executives with shareholders over the full five-year period from the grant of an LTIP award. ▪ Normal annual award limits to be set at 150% of base salary, compared to 125% under the previous policy (200% in exceptional circumstances, previously 180%). However, the amount paid at threshold performance will reduce to 20% of the maximum, meaning that a lower percentage of salary is paid at threshold than under the previous policy. 	The new approach provides more rounded metrics and longer-term shareholder alignment. The higher maximum level, balanced by lower threshold payouts, is important in enabling us to recruit and retain a high-calibre executive team, and to help drive performance.

Changes to the Board

We were delighted to welcome Mark Allan to the Board on 1st November 2016. Mark succeeded Bill Oliver as Chief Executive on Bill's retirement from the Board on 30th November 2016.

The remuneration arrangements for Mark, details of which can be found on page 90, are fully consistent with our remuneration policy. In order to secure his appointment, the Committee replaced unvested, share-based incentives awarded to him by his previous employer and forfeited as a consequence of him leaving to join St. Modwen. The Committee took particular care in ensuring that these arrangements were appropriate in light of our policy and replicate, as closely as possible, the expected value, form, and time horizons of, and performance conditions applicable to, the forfeited awards. Mark's base salary is 13% higher than his predecessor, Bill Oliver, but this takes account of the larger total remuneration package he had in his previous role as Chief Executive of The Unite Group plc.

Bill Oliver's base salary and contractual benefits ceased at his retirement date, and he received no payment for loss of office. He is eligible for an annual bonus award in respect of the financial year ended 30th November 2016, subject to the normal performance conditions. He retains the Performance Share Plan awards he held at retirement date, but pro rated for the period served, and subject to the normal performance conditions and vesting dates.

Conclusion

I thank shareholders for their helpful and constructive feedback during the consultation on our directors' remuneration policy. We would welcome your support for the remuneration resolutions which will be put to shareholders for approval at the 2017 AGM.

Lesley James

Chairman of the Remuneration Committee
6th February 2017

This report complies with the requirements of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 (the Regulations), the principles of the 2016 UK Corporate Governance Code and the Listing Rules of the Financial Conduct Authority.

Directors' Remuneration Policy

This directors' remuneration policy will be put to shareholders for approval by way of a binding vote at the 2017 AGM to be held on 29th March 2017. If approved by shareholders, the policy will take formal effect from the conclusion of the 2017 AGM and will be subject to a shareholder vote at least every three years.

How the Committee sets the remuneration policy

The primary objective of the Company's remuneration policy is to promote the long-term success of the Company through the operation of competitive pay arrangements which are structured so as to be in the best interests of shareholders. Remuneration includes a significant proportion of performance-related elements with demanding targets to align the interests of directors with shareholders and to reward success. The policy is structured so as to be aligned with key strategic priorities and to be consistent with a Board-approved level of business risk. The Committee also considers developments in institutional investors' best practice expectations and the views expressed by shareholders.

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

The Committee is aware of the support expressed by some shareholders for the downward harmonisation of executive pension allowances to bring them into line with percentages for the wider workforce. Current allowances for the Company's executive directors are 15% of base salary, which reflects mid-market practice and previous commitments made on appointment; however, the Committee is closely monitoring how market practice and investor views about this topic develop.

The Committee does not directly consult with employees regarding the remuneration of directors. However, when considering remuneration levels to apply to executive directors, the Committee takes into account the overall approach to reward for employees across the business. Salary increases are normally (in percentage of salary terms) no higher than those awarded to the wider workforce.

How the Committee takes account of the views of shareholders

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

Changes to the remuneration policy approved by shareholders at the 2014 AGM

The Committee has undertaken a thorough review of the existing remuneration policy, including extensive consultation with our major shareholders, considering the Company's objectives and in light of developments in the executive pay environment. As part of the revised policy the Committee proposes to renew the current Performance Share Plan which expires in 2017. Subject to the approval of shareholders at the 2017 AGM, the key changes to the policy are as follows:

Annual bonus

- Maximum annual bonus opportunity is set at 150% of base salary, compared to 125% of base salary currently.
- However, the proportion paid out at the on-target level has been reduced from 60% to 50% of maximum (resulting in the on-target bonus level remaining constant at 75% of salary).
- The higher maximum bonus will be payable for new stretch performance requirements, to be disclosed in the Remuneration Report.
- The proportion of bonus compulsorily invested in shares and retained for a minimum period of three years has been increased from one-third to 40%.
- At least 75% of annual bonus to be based on corporate measures, with no more than 25% of the overall bonus based on personal performance objectives. However, the proportion of bonus that can be paid for personal performance will be capped at one-third of the total actual bonus awarded.

Long-term incentives

- Performance metrics will be relative TSR against a peer group and growth in financial performance, in contrast to the current policy which measures TSR only.
- A two-year post-vesting share retention period is being introduced for awards made in 2017 and beyond, to align executives with shareholders over the full five-year period from the grant of an LTIP award. This holding period will remain in place if the executive leaves employment during the two-year holding period.
- Normal annual award limits to be set at 150% of base salary, compared to 125% under the previous policy. However, the amount paid at threshold performance will reduce to 20% of the maximum, meaning that a lower percentage of salary is paid at threshold than under the previous policy.

Shareholding requirement

- Executive directors will be additionally required to retain all of the post-tax shares acquired as a result of the compulsory investment of bonus into shares and half of the post-tax shares vesting under the LTIP until the shareholding requirement is met.
- The target achievement date for the shareholding requirement is five years from appointment to the Board, but the Committee has the discretion to extend this timeframe if necessary.

Revised directors' remuneration policy

The remuneration policy that will apply, subject to shareholder approval, from the conclusion of the 2017 AGM is set out on pages 77 to 83. Remuneration arrangements for the financial year ending 30th November 2017 will be in line with this policy; further information can be found on pages 93 and 96.

Base salary

Purpose	To attract, retain and motivate individuals of the necessary calibre to execute the Company's strategy. To provide competitive base remuneration relative to the external market. To recognise and reward performance, skills and experience.
Operation	Normally reviewed annually with changes typically effective from 1 st December. Review reflects: <ul style="list-style-type: none"> individual and corporate performance; the individual's level of skill and experience; increases throughout the Company (including 'cost of living' awards); internal relativities; and prevailing market conditions through periodic benchmarking for comparable roles in companies of a similar size and scope. The Committee is mindful of institutional investors' concerns on the upward ratchet of base salaries and does not consider benchmark data in isolation.
Opportunity	Salaries may be adjusted and salary increases will normally be (in percentage of salary terms) no higher than those awarded to the wider workforce. Larger increases may be awarded at the Committee's discretion to take account of exceptional circumstances such as: <ul style="list-style-type: none"> changes in scope and responsibility of a role; and where a new director is appointed at a salary which is at a lower level to reflect their experience at that point, the Committee may award a series of increases over time to achieve the desired salary position subject to satisfactory performance and market conditions. Actual salary levels are disclosed in the annual report on remuneration for the relevant financial year (see page 93 for those effective 1 st December 2016).
Performance measures	None, although overall performance of the individual is considered by the Committee as part of the annual review.

Benefits

Purpose	<p>To provide a competitive and cost-effective benefits package.</p> <p>To assist with recruitment and retention.</p>
Operation	<p>The Company provides a range of non-pensionable benefits to executive directors which may, for example, include a combination of a company car or car allowance, private fuel, driver, private medical insurance, permanent health insurance, life assurance, holiday and sick pay, and professional advice in connection with their directorship. Other benefits such as relocation allowances may be offered if considered appropriate and reasonable by the Committee.</p> <p>Executive directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms.</p> <p>Any reasonable business-related expenses can be reimbursed, including the tax thereon if determined to be a taxable benefit.</p> <p>Executive directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees.</p>
Opportunity	<p>There is no maximum limit set. Benefits are set at a level which the Committee considers to be appropriately positioned against comparable roles in companies of a similar size and scope and provides a sufficient level of benefit based on the role and individual circumstances.</p>
Performance measures	None.

Pension

Purpose	<p>To provide competitive post-retirement benefits in a cost-effective manner.</p> <p>To assist with recruitment and retention.</p>
Operation	<p>The Company offers an allowance (expressed as a percentage of base salary) which can be taken as:</p> <ul style="list-style-type: none"> ▪ an employer contribution to the defined contribution section of the Company's pension scheme; ▪ a cash allowance (which is not bonusable); or ▪ a blend of the two. <p>As a result of historic contractual commitments retirement benefits for Steve Burke are also delivered by membership of the defined benefit section of the Company's pension scheme which is closed to future accrual.</p> <p>The Committee may amend the form of any executive director's pension arrangements in response to changes in pensions legislation or similar developments, so long as any amendment does not increase the cost to the Company of a director's pension provision.</p>
Opportunity	Up to 15% of base salary for all executive directors.
Performance measures	None.

Annual bonus

Purpose	<p>To incentivise and reward the delivery of stretching, near-term strategic, financial and operational measures at Company and personal levels.</p> <p>Corporate measures selected are consistent with and complement the budget and strategic plan.</p> <p>An element of compulsory investment in shares to align to shareholders' interests in the creation of sustainable, long-term value.</p>
Operation	<p>All measures, weightings and targets are reviewed and set annually by the Committee at the beginning of the financial year and specific performance criteria will be aligned to the Company's strategic objectives at that time. Levels of award determined by the Committee after the year end will be based on performance against the targets set.</p> <p>The Committee retains an overriding discretion to ensure that overall bonus payments reflect its view of corporate performance during the year.</p> <p>Bonuses are paid in cash and are non-pensionable. Directors are required to invest an amount equal to 40% of the net bonus received in the Company's shares and to retain these shares for a minimum period of three years.</p> <p>Withholding (malus) and recovery (clawback) provisions apply to all bonuses paid such that, in exceptional circumstances such as misstatement of performance or misconduct, the Committee has discretion to reduce some or all of the value of an award within a period of four years following the end of the relevant bonus year.</p>
Opportunity	<p>Maximum bonus potential of up to 150% of salary for all executive directors. On-target performance would result in a bonus payment of half of the maximum potential.</p>
Performance measures	<p>Performance is assessed using the following metrics:</p> <ul style="list-style-type: none"> ▪ a majority of the award will be based on corporate measures; and ▪ a minority (no more than 25% of the overall bonus opportunity) will be based on personal measures.⁽¹⁾ <p>There is also a cap on the amount of bonus awarded for performance in respect of personal measures, set at one-third of the total actual bonus awarded.</p> <p>The specific measures that will apply for the year ending 30th November 2017 are described in the annual report on remuneration on page 94. Measures for subsequent years will be summarised in the annual report on remuneration for the relevant year.</p>

(1) The annual bonus metrics are designed to ensure that annual performance is focused on key corporate measures which support the Company's strategic targets. These are supported by individual performance measures to ensure that executive directors are incentivised to deliver across a range of objectives. Targets are set in line with the Company's budget and strategic plan for the year with a stretch element to reward substantial outperformance.

Long-term incentives

Purpose	<ul style="list-style-type: none"> ▪ To incentivise and reward the delivery of strong returns to shareholders and sustained, long-term performance. ▪ Aligns the long-term interests of directors and shareholders. ▪ Promotes retention.
Operation	<p>Awards are normally made annually with vesting dependent on the achievement of stretching performance conditions set by the Committee.</p> <p>A holding period will apply to awards granted in the financial year ending 30th November 2017 and beyond. The holding period will require executive directors to retain at least the after-tax value of shares acquired for a minimum period of 24 months from the vesting date and will remain in place if the executive leaves employment during the two-year holding period.</p> <p>A dividend equivalent provision exists which allows the Committee to pay an amount (in cash or shares) equivalent to the dividends paid or payable on vested shares between the date of grant and the vesting of an award (or, if later, and only whilst an option remains unexercised in respect of vested shares, the expiry of the holding period). An amount payable may assume the reinvestment of dividends.</p> <p>Withholding (malus) and recovery (clawback) provisions apply to all awards granted such that, in exceptional circumstances such as misstatement of performance or misconduct, the Committee has discretion to reduce some or all of the value of an award within a period of four years following the end of the relevant performance period.</p>
Opportunity	<p>The maximum annual grant level is 150% of salary (or 200% in exceptional circumstances, such as recruitment). The normal annual award limit is 150% of salary for all executive directors.</p> <p>Awards vest on the following basis:</p> <ul style="list-style-type: none"> ▪ threshold performance delivers 20% of the shares awarded; and ▪ maximum performance delivers 100% of the shares awarded, <p>with straight line vesting between.</p>
Performance measures	<p>Performance is normally measured over three years.</p> <p>Awards to vest based on performance against stretching financial targets and relative TSR performance, set and assessed by the Committee in its discretion.⁽¹⁾ Within these parameters, the Committee may introduce or reweight specific performance measures so that they are directly aligned with the Company's strategic objectives for each performance period.</p> <p>The Committee has discretion to decide whether and to what extent performance conditions have been achieved and must also be satisfied that certain underpinning conditions are met before permitting awards to vest (for example, that the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the performance period). The underpin conditions will be set so that they are directly aligned with the Company's strategic objectives for each performance period.</p> <p>The specific measures that will apply for the year ending 30th November 2017 are described in the annual report on remuneration on pages 95 and 96. Measures for subsequent years will be summarised in the annual report on remuneration for the relevant year.</p>

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

Shareholding requirement

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

Fees payable to Chairman and non-executive directors

Purpose	<ul style="list-style-type: none"> To attract and retain the calibre of Chairman and non-executive directors necessary to promote the long-term success of the Company by offering market competitive fee levels.
Operation	<p>Normally reviewed annually with changes effective typically from 1st December.</p> <p>Any increase will be guided by changes in market rates, time commitment and responsibility levels, as well as by increases made throughout the Company.</p> <p>Fees are structured as follows:</p> <ul style="list-style-type: none"> the Chairman is paid an all-inclusive fee for all Board responsibilities. This fee is determined by the Board on the recommendation of the Committee; and non-executive directors are paid a basic fee, plus additional fees for chairing Board Committees or for undertaking the Senior Independent Director role, which are determined by the Board on the recommendation of the executive directors. <p>Fees are normally paid in cash.</p> <p>Neither the Chairman nor the other non-executive directors participate in the annual bonus or long-term incentive arrangements or in the pension scheme, nor do they receive benefits in kind.</p> <p>Any reasonable business-related expenses can be reimbursed, including the tax thereon if determined to be a taxable benefit.</p>
Opportunity	<p>Fees are set at a level which reflects the commitment and contribution that is expected and is appropriately positioned against comparable roles in companies of a similar size and scope.</p> <p>Overall fees paid to directors will remain within the limit set out in the Company's articles of association.</p> <p>Actual fee levels are disclosed in the annual report on remuneration for the relevant financial year (see page 96 for those effective 1st December 2016).</p>
Performance measures	None, although overall performance of the individual is considered as part of the annual review.

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

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

- the participants;
- the timing of the grant of an award or payment;
- the size of an award;
- the determination of the extent to which performance measures have been met and the corresponding vesting or payment levels;
- discretion required when dealing with a change of control or restructuring of the Group;

- determination of the treatment of leavers based on the rules of the respective arrangement and the appropriate treatment chosen, including the pro rating of awards;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- the annual review of performance measures, weighting and targets from year to year; and
- the manner in which share awards can be satisfied (i.e. through the use of new issue, market purchased or treasury shares or by way of a cash payment).

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

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

Illustration of remuneration policy

The following charts illustrate the remuneration opportunity provided to each executive director in line with the remuneration policy at different levels of performance for the 2016/17 financial year.

Three scenarios have been illustrated for each executive director:

- 1. Minimum performance:** comprising the minimum remuneration receivable (i.e. fixed pay only, being base salary effective 1st December 2016, pension allowances for the 2016/17 financial year and benefits calculated using the 2015/16 figure as set out in the table on page 84 for Steve Burke and Rob Hudson (excluding the amount paid to him during the year in respect of relocation). Benefits have been estimated for Mark Allan).
- 2. On-target performance:** comprising fixed pay, an annual bonus payment of 50% of the maximum opportunity (75% of salary) and long-term incentive awards vesting at 20% of maximum opportunity (30% of salary).
- 3. Maximum performance:** comprising fixed pay, 100% of annual bonus (150% of salary) and 100% vesting of long-term incentive awards (150% of salary).

The illustrations do not take into account share price appreciation or dividends.

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Recruitment arrangements

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

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

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

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

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

For internal and external appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Fees payable to a newly-appointed Chairman or non-executive director will be in line with the fee policy in place at the time of appointment.

External appointments

The Board recognises the benefit which the Company can obtain if executive directors serve as non-executive directors of other companies. Subject to review in each case, the Board's general policy is that an executive director can accept one non-executive directorship of another company (but not the chairmanship) and can retain the fees in respect of such appointment.

Executive director service agreements and payments for loss of office

The Company's policy is for executive directors to have service agreements which may be terminated by the Company for breach by the executive or with no more than 12 months' notice from the Company to the executive and six months' notice from the executive to the Company.

If notice is served by either party, the executive director can continue to receive base salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Company may elect to make a payment in lieu of notice equivalent in value to a maximum of 12 months' base salary and benefits, including pension contribution but excluding bonus, payable in monthly instalments, which would be subject to mitigation if alternative employment is taken up during this time. Alternatively, the Committee retains discretion to provide this payment as a lump sum. In the event of termination for cause (e.g. gross misconduct) neither notice nor payment in lieu of notice will be given and the executive director will cease to perform their services immediately.

In redundancy situations the Committee will comply with prevailing relevant legislation. In addition, and consistent with market practice, the Company may pay a contribution towards the executive director's legal fees for entering into a statutory agreement, may pay a contribution towards fees for outplacement services as part of a negotiated settlement, or may make a payment to compromise claims the executive director may have. There is no provision for additional compensation on termination following a change of control. Payment may also be made in respect of accrued benefits, including untaken holiday entitlement.

The principles set out in the table below will apply to annual bonus and long-term incentive arrangements in the event of loss of office.

In respect of all-employee share schemes and the Company's Employee Share Option Schemes, the same leaver conditions will be applied to executive directors as those applied to other employees.

Non-executive director terms of appointment

The terms of service of the Chairman and the other non-executive directors are contained in letters of appointment. Appointments are for a fixed term of three years, during which period the appointment may be terminated by three months' notice by either party.

Non-executive directors are typically expected to serve two three-year terms subject to mutual agreement and satisfactory performance reviews. There are no provisions for payment in the event of termination, early or otherwise.

Remuneration element	'Good' leavers	Other leavers
Annual bonus	<p>An executive director will be treated as a good leaver in certain circumstances, for example if he or she dies or ceases employment due to injury, disability, retirement with the Company's agreement, or sale of the business in which he or she is employed, or for any other reason at the discretion of the Committee.</p> <p>In these circumstances, the executive director remains eligible to be paid a bonus, subject to the applicable performance measures. Any payment awarded may be pro rated to reflect the period of time served from the start of the financial year to the date of termination, but not for any period in lieu of notice.</p>	<p>Unless the Committee exercises its discretion to treat the executive director as a good leaver, no bonus will be payable.</p>
Long-term incentive awards (As apply to the Company's current Performance Share Plan. The terms of the replacement Performance Share Plan, which shareholders will be asked to approve at the 2017 AGM, have been designed to materially continue with the main features of the current Plan, but with appropriate changes to take account of prevailing best practice and the revised policy.)	<p>An executive director will be treated as a good leaver in certain circumstances, for example death, injury, disability or for any other reason at the discretion of the Committee.</p> <p>Awards will normally vest at the normal vesting date, subject to the satisfaction of the relevant performance conditions at that time and reduced pro rata to reflect the proportion of the vesting period actually served. However, under the plan rules, the Committee has discretion to determine that awards vest at cessation of employment and/or to disapply the time pro rating if it considers it appropriate to do so.</p> <p>A good leaver may exercise their vested awards for a period of six months (12 months in the event of death) following the individual's cessation of employment and unvested awards may be exercised for a period of six months (12 months in the event of death) from vesting.</p>	<p>All awards will lapse in full where termination is by reason of summary dismissal.</p> <p>In other circumstances, unvested awards will lapse in full unless the Committee applies discretion to treat the executive director as a good leaver.</p>

Annual report on remuneration

This part of the report has been prepared in accordance with Part 3, Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 and with the requirements of the Financial Conduct Authority's Listing Rules.

Remuneration payable (audited information)

	Base salary/fees £'000		Benefits £'000		Annual bonus £'000		Share plans vesting £'000		Pension contribution allowance £'000		Other items £'000		Total £'000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive directors														
Mark Allan ⁽¹⁾	47	–	2	–	–	–	–	–	7	–	–	–	56	–
Bill Oliver ⁽²⁾	499	485	27	31	266	606	–	736	75	73	–	–	867	1,931
Steve Burke	329	320	16	11	182	400	–	486	49	48	15 ⁽³⁾	–	591	1,265
Rob Hudson	275	49	40	39	146	61	–	–	41	7	415 ⁽³⁾	–	917	156
Non-executive directors														
Bill Shannon	159	155	–	–	–	–	–	–	–	–	–	–	159	155
Ian Bull	53	49	–	–	–	–	–	–	–	–	–	–	53	49
Kay Chaldecott	44	42	–	–	–	–	–	–	–	–	–	–	44	42
Simon Clarke	44	42	–	–	–	–	–	–	–	–	–	–	44	42
Lesley James	53	51	–	–	–	–	–	–	–	–	–	–	53	51
Richard Mully	53	51	–	–	–	–	–	–	–	–	–	–	53	51
	1,556	1,244	85	81	594	1,067	–	1,222	172	128	430	–	2,837	3,742

(1) All benefits for the executive directors (comprising mainly the provision of company car/car allowance, private fuel and medical insurance) arise from employment with the Company and do not form part of final pensionable pay. Rob Hudson was also entitled to a relocation allowance of up to 25% of base salary in respect of reasonable and appropriate costs to enable him to relocate to the Midlands following his appointment on 28th September 2015; in the year ended 30th November 2016 payments totalling £26,342 (2015: £37,471) were made to Rob Hudson in connection with his relocation. No further payments are due.

(2) Bonus payable in respect of the relevant financial year. Further information as to how the level of bonus awarded in 2016 was determined is provided on pages 85 and 86.

(3) The performance period for the 2014 PSP awards ended on 30th November 2016. The performance conditions to which these awards were subject were not achieved, hence the awards will lapse in full on 5th March 2017. Further information on the awards and the performance conditions to which they were subject can be found on page 87.

(4) Relates to the 2013 PSP awards which vested and became exercisable on 6th March 2016. The share price used to value the awards was 305.6 pence, being the share price on the last dealing day immediately prior to the vesting date (which fell on a Sunday), plus 12.92 pence per share which was the value of the dividend equivalent deliverable in shares on vesting. The dividend equivalent is based on dividends paid to shareholders with record dates occurring between the date of grant and the date of vesting.

(5) Further details regarding pension entitlements can be found on page 89.

(6) Appointed to the Board on 1st November 2016. Further information on the recruitment arrangements for Mark Allan can be found on page 90.

(7) Retired from the Board on 30th November 2016. Further information on the remuneration arrangements in connection with Bill Oliver's retirement can be found on page 91.

(8) Reflects (a) the grant of a Sharesave option on 15th August 2016 (the value is based on the market value on the date of grant (274.5 pence), less the option price (246.0 pence), multiplied by the number of options granted); and (b) the exercise of a Sharesave option on 3rd October 2016 (the value is based on the market value on the date of exercise (298.4 pence), less the option price (156.0 pence), multiplied by the number of options exercised). Further details can be found on page 88.

(9) As set out in the 2015 Remuneration Report, the Committee agreed to compensate Rob Hudson for certain long-term incentives from his previous employer that he was required to forfeit on him leaving to join St. Modwen in September 2015. This included a one-off cash payment of £414,000 (subject to the deduction of tax and national insurance contributions) in recognition of an outstanding long-term incentive award which had reached the end of the performance measurement period in March 2015 (such that the full value could be determined) but which was not due to vest until December 2015. As the vesting date fell soon after his appointment, a cash payment (rather than an award of shares) was considered fair and reasonable. The amount shown in the table above also reflects the grant of a Sharesave option on 15th August 2016, with the value based on the market value on the date of grant (274.5 pence), less the option price (246.0 pence), multiplied by the number of options granted. Further details can be found on page 88.

Annual bonus outturn (audited information)

In the financial year ended 30th November 2016 all executive directors (excluding Mark Allan) had the opportunity to be awarded an annual bonus of up to 125% of base salary as at 1st December 2015. Of this, 105% of salary was dependent on achieving corporate measures and 20% on meeting personal objectives.

The Committee determined that it was appropriate to allocate 10% of the corporate measures to New Covent Garden Market (NCGM), given that it represents approximately 10% of NAV. Weightings and targets for the corporate measures set at the beginning of the year reflected this allocation, with the resulting maximum opportunity for NCGM determined at 7%. Performance against targets and resulting bonus awards are set out in the tables below.

Corporate measures	Weighting	Threshold performance (25% of salary)	On-target performance (65% of salary)	Maximum performance (105% of salary)	Actual performance	Award as a % of salary
Post dividend growth in shareholders' equity net asset value per share	27%	4% growth	5% growth	6% growth	4.2% growth (to 431.00 pence)	6.75%
Profit before all tax	27%	£60m	£90m	£120m	£60.8m	6.75%
Total dividend for the year	9%	6.00 pence per share	6.05 pence per share	6.10 pence per share	6.00 pence per share	2.25%
Gearing levels ⁽¹⁾	10%	50%	49%	48%	48.9%	6.50%
Covenant compliance	10%	N/A	Full	N/A	Full	6.50%
Achievement against a number of strategic objectives which primarily included: <ul style="list-style-type: none"> ▪ achieving targeted development milestones to support future profit delivery; and ▪ progressing acquisitions to enhance the Company's land bank. 	10%	Achievement determined by the Committee against measurable objectives set at the beginning of the year			On-target performance	6.50%
New Covent Garden Market	7%	Performance to be assessed on the extent to which the sale reflected book value			No sale achieved in the year and a £24.3m fall in value recorded	0.00%
Total	100%					35.25%

(1) Defined as adjusted gearing, being the level of the Group's net borrowings (at amortised cost and excluding finance leases) expressed as a percentage of net assets.

	Key personal measures	On-target performance (10% of salary)	Maximum performance (20% of salary)	Actual performance	Award as a % of salary
Bill Oliver:	<ul style="list-style-type: none"> Executive succession planning Development of St. Modwen Homes Progress planned asset disposals 	Achievement determined by the Committee against measurable objectives set at the beginning of the year		St. Modwen Homes delivered 49% growth in profit in the year and is now active on 18 sites	18.00%
Steve Burke:	<ul style="list-style-type: none"> Delivery of interim flower market at New Covent Garden Market Delivery of the second phase of accommodation at the Bay Campus, Swansea University Continue to evolve the Company's CSR activities 	Achievement determined by the Committee against measurable objectives set at the beginning of the year		Completion of interim flower market and successful delivery of phase two at Bay Campus. Driving enhancement of CSR through the Steering Committee	20.00%
Rob Hudson:	<ul style="list-style-type: none"> Enhance funding structure Continued development of risk management activities Finance team development and succession planning 	Achievement determined by the Committee against measurable objectives set at the beginning of the year		Refinancing programme delivered increased facilities at reduced cost. Instrumental in driving risk management activities across the business	18.00%

(1) Specific commentary has not been provided for measures which are sensitive (such as succession planning).

In light of both corporate and individual performance, the Committee determined that the following bonus awards be made:

Executive director	Award – Corporate (as a % of salary)	Award – Personal (as a % of salary)	Total award (as a % of salary)	Salary on which bonus award is calculated	Total bonus award
Bill Oliver ⁽¹⁾	35.25%	18.00%	53.25%	£499,351	£265,904
Steve Burke	35.25%	20.00%	55.25%	£329,481	£182,038
Rob Hudson	35.25%	18.00%	53.25%	£275,000	£146,437

(1) Retired from the Board on 30th November 2016.

Bonus payments to Steve Burke and Rob Hudson were conditional upon the executive director undertaking to invest at least one third of the bonus received, after payment of income tax and national insurance, in the Company's shares and to retain those shares for a minimum period of three years.

Long-term incentives (audited information)

Performance Share Plan (PSP)

The three-year performance period for the 2014 PSP awards ended on 30th November 2016. The performance conditions which applied to the awards together with actual performance are summarised in the table below.

Performance measure	Weighting	Threshold performance	Vesting of award at threshold performance	Maximum performance	Vesting of award at maximum performance	Actual performance	Proportion of award to vest
Absolute TSR growth	50% of award	20%	12.5%	50%	50%	(11.3)%	0.00%
TSR relative to FTSE All-Share Real Estate Investment & Services Index	50% of award	Equal to Index	12.5%	120% of Index	50%	Below the Index	0.00%
Total							0.00%

The Committee therefore determined that the PSP awards granted in 2014 will lapse in full on the third anniversary of grant (5th March 2017).

On 22nd February 2016, the following PSP awards were granted to executive directors as nil cost options:

Executive director	Basis of award	Face value of award £'000	Number of shares	% of award that would vest for threshold performance ⁽¹⁾
Bill Oliver ⁽²⁾	125% of salary	£624	190,052	25%
Steve Burke	125% of salary	£412	125,400	25%
Rob Hudson	125% of salary	£344	104,664	25%

(1) Calculated using the average share price of 328.43 pence which was, in accordance with the rules of the PSP, used to determine the number of shares to be awarded (being the average over the three dealing days immediately preceding the date of grant).

(2) The performance measures that apply to the awards mirror those proposed for the 2014 awards which are described above. The performance period started on 1st December 2015 and will end on 30th November 2018.

(3) Retired from the Board on 30th November 2016.

All PSP awards held by the executive directors who served during the year, together with any movements, are shown below.

Executive director	Date of grant	Awards held on 1 December 2015	Awards made during year	Awards vested during year	Awards exercised during year	Awards lapsed, forfeited during year	Awards held on 30 November 2016	End of performance period	Exercise period
Bill Oliver ²	06/03/13	231,077	–	231,077	231,077 ³	–	–	30/11/15	06/03/16 to 05/03/23
	05/03/14 ⁴	150,141	–	–	–	13,015 ²	137,126	30/11/16	05/03/17 to 04/03/24
	09/04/15	130,501	–	–	–	58,940 ²	71,561	30/11/17	09/04/18 to 08/04/25
	22/02/16	–	190,052 ³	–	–	141,152 ⁴	48,900	30/11/18	22/02/19 to 21/02/26
		511,719	190,052	231,077	231,077	213,107	257,587		
Steve Burke	06/03/13	152,468	–	152,468	152,468 ³	–	–	30/11/15	06/03/16 to 05/03/23
	05/03/14 ⁴	99,066	–	–	–	–	99,066	30/11/16	05/03/17 to 04/03/24
	09/04/15	86,107	–	–	–	–	86,107	30/11/17	09/04/18 to 08/04/25
	22/02/16	–	125,400 ³	–	–	–	125,400	30/11/18	22/02/19 to 21/02/26
		337,641	125,400	152,468	152,468	–	310,573		
Rob Hudson	02/10/15	119,018	–	–	–	–	119,018	30/11/17	02/10/18 to 01/10/25
	22/02/16	–	104,664 ⁴	–	–	–	104,664	30/11/18	22/02/19 to 21/02/26
		119,018	104,664	–	–	–	223,682		

(1) The performance conditions for all awards held on 30 November 2016 mirror those for the 2014 awards as described on page 87. In addition, awards are subject to two underpin conditions, namely that (a) the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the performance period; and (b) if no dividend has been paid on the last normal dividend date prior to the vesting date or if the Committee believes that no dividend will be paid in respect of the year in which the award vests, the award will not vest at that time and vesting will be delayed (subject to continued employment) until dividend payments are resumed.

(2) Retired from the Board on 30 November 2016. PSP awards granted in 2014, 2015 and 2016 have been pro rated to reflect the time elapsed from the date of grant to 30 November 2016. Further information can be found on page 91.

(3) Awards exercised on 14 July 2016. The share price on exercise was 268.0 pence. In addition to the awards exercised, the executive directors received shares representing the value of dividends paid from the date of award to the date of exercise as follows: Bill Oliver – 14,680 shares; Steve Burke – 9,686 shares.

(4) Awards to lapse in full on 5 March 2017 as described on page 87.

(5) The share price used to calculate the number of shares awarded, under the rules of the PSP, was 328.43 pence. The closing mid-market share price on the date of the award was 326.6 pence.

Saving Related Share Option Scheme (SAYE)

SAYE awards held by the executive directors who served during the year, together with any movements, are shown below.

Executive director	Date of grant	Options held on 1 December 2015	Options granted during year	Options exercised during year	Options lapsed during year	Options held on 30 November 2016	Exercise price	Exercise period
Steve Burke	16/08/11	9,887	–	9,887 ⁽¹⁾	–	–	156 pence	01/10/16 to 31/03/17
	15/08/16	–	3,658	–	–	3,658	246 pence	01/10/19 to 31/03/20
		9,887	3,658	9,887	–	3,658		
Rob Hudson	15/08/16	–	3,658	–	–	3,658	246 pence	01/10/19 to 31/03/20

(1) Exercised on 3 October 2016. The share price on the date of exercise was 298.4 pence.

The closing mid-market share price on 30 November 2016 was 280.0 pence and the price range during the year was 222.2 pence to 428.8 pence.

Pension entitlements (audited information)

All executive directors receive a pension contribution of 15% of base salary which is paid either into the defined contribution section of the Company's pension scheme or as a cash allowance in lieu of pension contribution (or a combination of both). No compensation is offered for any additional tax suffered by an executive director in the event that the value of their pension exceeds the statutory Lifetime Allowance.

Executive director	Pension contribution £		Cash allowance in lieu of pension contribution £		Total £	
	2016	2015	2016	2015	2016	2015
Mark Allan	–	–	7,063	–	7,063	–
Bill Oliver ⁽¹⁾	–	–	74,903	72,721	74,903	72,721
Steve Burke	23,331	39,996	26,090	7,987	49,421	47,983
Rob Hudson	–	–	41,250	7,344	41,250	7,344
	23,331	39,996	149,306	88,052	172,637	128,048

(1) Appointed to the Board on 1 November 2016.

(2) Retired from the Board on 30 November 2016.

Steve Burke is also a deferred member of the defined benefit section of the Company's pension scheme, which was closed to new members in 1999 and to future accrual in 2009. Benefits are based on years of credited service and final pensionable pay; the maximum benefit generally payable under the scheme is two-thirds of final pensionable pay.

Information required by the Regulations in respect of defined benefit pension arrangements is set out below.

Executive director	Age at 30 November 2016	Accrued pension at 30 November 2015 £pa	Accrued pension at 30 November 2016 £pa	Increase in accrued pension during the year £pa	Increase in accrued pension during the year (excluding inflation) £pa
Steve Burke	57	28,342 ⁽¹⁾	28,342⁽²⁾	0	0

(1) The accrued annual pension includes entitlements earned as an employee prior to becoming an executive director as well as for qualifying services after becoming an executive director and is that which would be paid annually on retirement at age 65 based on service to the end of the year.

(2) These figures have been calculated by applying deferred revaluation to Steve Burke's deferred pension as at 1 September 2009, being the date that accrual ceased under the defined benefits section of the scheme.

(3) The following is additional information relating to the defined benefit pension arrangements applicable to Steve Burke:

- Normal retirement age is 65 years. Retirement may take place at any age after age 55 subject to Company consent. Pensions may be reduced to allow for their earlier payment.
- There are no death in service benefits payable and no additional benefits due on early retirement.
- Deferred pensions are assumed to increase in line with CPI capped at 5% per annum in the period before retirement.

Further information on the Company's pension scheme is shown in note 18 to the Group financial statements.

Recruitment arrangements for Mark Allan

Mark Allan's service agreement and remuneration arrangements are consistent with the Company's remuneration policy approved by shareholders at the 2014 AGM. Details are set out below:

- Base salary of £565,000 per annum. Mark's base salary is 13% higher than his predecessor, Bill Oliver, but this takes account of the larger total remuneration package he had in his previous role as Chief Executive of The Unite Group plc (including maximum variable pay at Unite being 94 percentage points higher than St. Modwen's current policy). Mark's remuneration also takes account of his impressive track record and the high regard in which he is held in the listed property sector. Mark's salary was set at the point of recruitment in April 2016 and will not be subject to review before 1st December 2017, with any increase subject to satisfactory performance.
- Pension allowance of 15% of base salary and other benefits in accordance with the remuneration policy.
- Eligible to participate in the Company's annual bonus arrangements.
- Eligible to participate in the Company's long-term share-based incentive arrangements, with the initial award to be granted in 2017 at a value of 180% of base salary in line with the approved policy on remuneration in recruitment situations.
- Minimum shareholding requirement of 200% of base salary. The normal expectation is that this will be achieved no later than five years from appointment.

The Company agreed to compensate Mark for unvested share-based incentives awarded to him by his previous employer and forfeited as a consequence of him leaving to join St. Modwen. The compensation comprised the grant, on 2nd November 2016, of an award over 694,325 shares in the Company under and subject to the terms of a share award agreement entered into upon reliance of FCA Listing Rule 9.4.2(2).

The award was on a like-for-like basis at a level consistent with fair value at the time of recruitment, and comprises distinct nil-cost option tranches exercisable in accordance with the original vesting timeframe which applied to the forfeited awards subject to the achievement of the relevant performance condition (where applicable) as noted in the table below.

Tranche	Number of shares comprised within tranche	Tranche's relevant vesting date	Relevant performance condition
One	138,539	10 April 2017	None
Two	211,353	10 April 2017	That which would have applied to the relevant former employer LTIP award granted in April 2014 with a normal performance period ended 31 st December 2016
Three	105,708	10 April 2018	That which would have applied to the relevant former employer LTIP award granted in April 2014 with a normal performance period ended 31 st December 2016
Four	159,134	2 April 2018	That which would have applied to the relevant former employer LTIP award granted in April 2015 with a normal performance period ending 31 st December 2017
Five	79,591	2 April 2019	That which would have applied to the relevant former employer LTIP award granted in April 2015 with a normal performance period ending 31 st December 2017

The tranches will normally vest on their vesting date subject to Mark's continued service and the extent to which the relevant performance condition (if any) is satisfied. The tranches will normally remain exercisable to their vested extent for a period of six months from time of vesting (or such longer period as the Board approves during such period).

On exercise the tranches will be satisfied using existing shares only.

The award includes an entitlement to a cash payment following a tranche's vesting date in respect of dividend equivalent value that would have accrued under the forfeited awards to the extent they had vested.

Payments to past directors and for loss of office (audited information)

Michael Dunn

Further to the disclosure in prior year's reports, Michael Dunn stepped down from the Board on 31st May 2015. He remained on garden leave for the remainder of his notice period to 18th December 2015 when he ceased to be an employee of the Company.

For the period from 1st December 2015 to 18th December 2015 Michael received £14,772 in base salary, £571 in benefits and £1,826 in pension contribution.

On 9th June 2016 Michael exercised the SAYE award that had been granted to him in 2011 to the extent of his accumulated savings (plus any applicable interest). At the point of exercise this comprised an option over 9,160 shares at an option price of 156 pence per share.

On 6th July 2016 Michael exercised the PSP award that had been granted to him in 2013. The award, in the form of a nil-cost option, had been pro rated to reflect the time elapsed from the date of grant to 31st May 2015 and had vested in full. In addition to the award exercised (103,468 shares), Michael received 6,816 shares representing the value of dividends paid from the date of award to the date of exercise.

The PSP award granted to Michael in 2014, in the form of a nil-cost option, had been pro rated to reflect the time elapsed from the date of grant to 31st May 2015. As noted on page 87, neither absolute nor relative TSR measures achieved the level of performance required for vesting set by the Committee, such that the award (over 37,275 shares) will lapse in full.

Bill Oliver

Bill Oliver retired from the Board as Chief Executive and an executive director on 30th November 2016. His employment with the Company also ended on this date.

Details of Bill's remuneration for the financial year ended 30th November 2016 can be found in the table on page 84. He remained eligible to be awarded a bonus, subject to the achievement of performance measures, in respect of the financial year ended 30th November 2016; further details can be found on pages 85 and 86.

The Committee has exercised discretion under the rules of the PSP to allow unvested awards to continue subject to time pro rating and performance assessment. Awards have been pro rated to reflect the time elapsed from the date of grant to 30th November 2016; details can be found on page 88. Satisfaction of the performance conditions will be assessed at the end of the relevant performance periods in line with the PSP rules and vesting will remain subject to the Committee's determination as to whether the two financial underpins (details of which are set out in note 1 to the first table on page 88) have been met. To the extent that they vest, awards will be exercisable for a period of six months from the third anniversary of the date of grant. Bill will also receive shares representing the value of dividends paid on vested shares from the date of award to the date of exercise. All awards will continue to be subject to recovery and withholding provisions.

Statement of directors' shareholding and share interests (audited information)

The interests of the directors and their connected persons in the issued ordinary share capital of the Company are shown in the table below.

	As at 30 th November 2016			
	Ordinary shares	Long-term incentive awards vested but unexercised	Long-term incentive awards not yet vested	SAYE awards
Executive directors				
Mark Allan	–	–	694,325	–
Bill Oliver ⁽¹⁾	1,009,876	–	257,587	–
Steve Burke	526,615	–	310,573	3,658
Rob Hudson	8,298	–	223,682	3,658
Non-executive directors				
Bill Shannon	95,000	–	–	–
Ian Bull	25,000	–	–	–
Kay Chaldecott	21,025	–	–	–
Simon Clarke	3,225,157	–	–	–
Lesley James	30,000	–	–	–
Richard Mully	70,000	–	–	–

(1) Retired from the Board on 30th November 2016.

There were no changes in these shareholdings or interests between 30th November 2016 and the date of this report.

In order to reinforce the alignment of their interests with those of shareholders, executive directors are required to build up a holding of ordinary shares in the Company worth at least 200% of their base salary. Until this has been achieved, an executive director is required to retain all the shares acquired through the bonus investment process as well as 50% of any exercised long-term incentive award.

Both Bill Oliver and Steve Burke had met and exceeded the shareholding requirement as at 30th November 2016; Mark Allan and Rob Hudson have (unless the Committee deem it appropriate to extend the timeframe) until 1st November 2021 and 28th September 2020, respectively, to meet the shareholding requirement.

Executive director	Ordinary shares held as at 30 th November 2016	Shareholding requirement as % of base salary	Value of shareholding at 30 th November 2016 as % of base salary
Mark Allan ⁽¹⁾	–	200%	–
Bill Oliver ⁽²⁾	1,009,876	200%	556%
Steve Burke	526,615	200%	448%
Rob Hudson	8,298	200%	8%

(1) Based on the closing mid-market share price on 30th November 2016 of 280.0 pence and salary as at 30th November 2016.

(2) Appointed to the Board on 1st November 2016.

(3) Retired from the Board on 30th November 2016.

External appointments

The Company is supportive of executive directors who wish to take on non-executive directorships in order to broaden their experience and they are entitled to retain any fees they may receive. Mark Allan is a trustee director on the non-executive board on Anchor Trust. For the period from 1st November 2016 to 30th November 2016 he received and retained fees from Anchor Trust of £2,083.

Historic Company performance and Chief Executive remuneration

The following information allows comparison of the Company's TSR (based on share price growth and dividends reinvested) with the remuneration of Bill Oliver, Chief Executive, over the last eight financial years.

[CHART REMOVED]

The chart is prepared in accordance with the Regulations. It shows the Company's TSR and that of the FTSE 250 and the FTSE All-Share Real Estate Investment & Services Indices based on an initial investment of £100 on 30th November 2008 and values at intervening financial year ends over an eight-year period to 30th November 2016. Since the Company was a constituent of both the FTSE 250 and the FTSE All-Share Real Estate Investment & Services Indices during the year, these are considered to be appropriate benchmarks for the graph.

Chief Executive remuneration for year ended 30 th November	2009	2010	2011	2012	2013	2014	2015	2016
Total remuneration (£'000) ⁽¹⁾	876	902	1,049	1,672	2,419	3,083	1,931	867
Annual bonus awarded (as a % of maximum opportunity)	50.00 ⁽²⁾	80.00	95.00	90.00	95.00	100.00	100.00	53.25
PSP vesting (as a % of maximum opportunity)	0.00	0.00	0.00	45.77 ⁽³⁾	100.00	100.00	100.00	0.00

(1) Total remuneration includes those elements shown in the single total figure of remuneration table on page 84.

(2) In addition to the annual bonus, the Chief Executive was also awarded a one-off, exceptional payment of £100,000 in relation to the successful equity raising and financial restructuring undertaken in the year.

(3) Comprises 45.64% of the 2009 PSP awards and 45.89% of the 2010 PSP awards.

Change in remuneration of Chief Executive compared to employees

The table below shows the percentage change in salary, benefits and annual bonus between the years ended 30th November 2015 and 30th November 2016 for both Bill Oliver, the then Chief Executive, and for all permanent employees of the Company.

	Change in base salary %	Change in benefits %	Change in annual bonus %
Chief Executive	3.0	0.0 ⁽²⁾	(56.1)
All permanent employees	3.0 ⁽¹⁾	0.0 ⁽³⁾	(21.3) ⁽⁴⁾

(1) General cost of living increase for permanent employees. Including adjustments for promotions and recognition of exceptional performance, the weighted average increase in salary was 4.9%.

(2) The year on year decrease in benefits shown in the single total figure of remuneration table on page 84 reflects a reduction in taxable benefit arising following a change of company car.

(3) There was no change to the overall structure of benefits available to permanent employees.

(4) Weighted average decrease.

Relative spend on pay

The table below shows the total expenditure on remuneration for all employees of the Company (including pension, variable pay and social security costs) compared to other key financial indicators as reported in the audited Group financial statements for the last two financial years. Information in respect of profit and net asset value performance has been provided for context.

Measure	Relevant note to the Group financial statements	Year ended 30 th November 2015	Year ended 30 th November 2016	% Increase
Total spend on pay	3c	£21.8m	£23.7m	8.7%
Profit before all tax	2a	£258.4m	£60.8m	(76.5)%
Dividends paid	7	£11.1m	£12.8m	15.3%
Equity attributable to owners of the Company	2f	£914.7m	£955.2m	4.4%

Implementation of remuneration policy for 2016/17

Base salary

In line with the general cost of living salary increase awarded to the Company's permanent employees, Rob Hudson and Steve Burke received an annual salary increase of 2.5% with effect from 1st December 2016. In accordance with his service agreement, the first such review for Mark Allan will take place in respect of an effective date of 1st December 2017.

Executive director	Base salary as at 30 th November 2016	Base salary with effect from 1 st December 2016	% Increase
Mark Allan ⁽¹⁾	£565,000	£565,000	—
Steve Burke	£329,481	£337,718	2.5%
Rob Hudson	£275,000	£281,875	2.5%

(1) Appointed to the Board on 1st November 2016

Benefits and pension arrangements

Benefits and pension arrangements for the financial year ending 30th November 2017 will be consistent with the respective policies detailed on page 78.

Annual bonus

Subject to shareholder approval of the proposed remuneration policy, executive directors will have the opportunity to be awarded a bonus of up to 150% of salary in the financial year ending 30th November 2017. Arrangements will be consistent with the annual bonus policy detailed on page 79.

Bonus awards will be based on achievement of the following measures:

Measure	Link to strategy	Weighting as % of award	Threshold performance	On target performance	Stretch performance	Super stretch performance
Corporate:						
Trading profit	Reflects profitability of the business after operating costs	25%	Budget -10%	Budget	Budget +10%	Budget +20%
Total accounting return	Recognises the delivery of significant added value	25%	Budget -15%	Budget	Budget +15%	Budget +30%
See-through loan-to-value	Ensures continued balance sheet strength	25%	Budget +5%	Budget	Budget -5%	Budget -10%
Personal:						
Individual targets for executive directors	Ensures that each director focuses on his individual contribution in the broadest sense through business performance, leadership role, people and team, and personal development objectives	25%	Substantially met	Met	Exceeded	Significantly exceeded
Award (% of salary)			37.5%	75.0%	112.5%	150.0%
Award (% of maximum opportunity)			25.0%	50.0%	75.0%	100.0%

The Committee has set specific targets for all corporate measures, which reflect the Committee's judgement of the ability of management to influence performance within the year. On-target performance will deliver 50% of the maximum opportunity. Stretch targets are demanding and will require a very substantial outperformance of budget to achieve maximum payout.

Achievement of personal objectives will be determined through a formal performance review process. The proportion of the bonus that can be paid out in respect of the achievement of personal objectives will be limited to not more than one-third of the total actual bonus awarded.

The threshold, target, stretch and super stretch performance requirements for financial objectives, together with outcomes, will be disclosed in the Remuneration Report for the year ending 30th November 2017. This report will also include detailed commentary on the key deliverables, and assessment of outcomes, for personal objectives.

Any bonus awarded will be subject to the requirement to invest 40% of the net amount paid in purchasing shares in the Company and to retain these shares for at least three years, irrespective of whether the executive director has met the shareholding requirement.

Long-term incentives

Subject to shareholder approval of the proposed remuneration policy and 2017 Performance Share Plan (PSP) at the 2017 AGM, PSP awards to be granted to executive directors in the financial year ending 30th November 2017 will be over shares worth 150% of salary (180% of salary for Mark Allan as detailed on page 90) and will be consistent with the long-term incentives policy detailed on page 80.

Noting the concerns of some investors with regard to the use of absolute TSR as a performance measure, it is proposed that, for the 2016/17 awards, this be replaced with total accounting return (TAR). TAR measures growth in net asset value (NAV), a key measure for the business, plus dividends and can be used effectively as an indicator of longer-term performance. The Committee believes that relative TSR remains an appropriate measure of performance for the Company and so intends to retain this for the 2016/17 awards, with equal weighting between relative TSR and TAR measures.

Relative TSR performance will be assessed on a median to upper quartile ranking approach, which the Committee believes is more appropriate than the current index outperformance basis. The TSR peer group, previously comprising all the constituents of the FTSE All-Share Real Estate & Investment Services Index, will be replaced with a bespoke comparator group of real estate companies but excluding specialist sub-sectors such as estate agencies, self-storage and healthcare. The constituents of the comparator group will be considered in advance of each award; the constituents of this bespoke group for the 2016/17 awards are set out below.

A&J Mucklow Group	Grainger	Land Securities Group	Shaftesbury
British Land Company	Great Portland Estates	LondonMetric Property	St. Modwen Properties
Capital & Counties Properties	Hammerson	Picton Property Income	Town Centre Securities
Capital & Regional	Hansteen Holdings	Regional REIT	U and I Group
Derwent London	Helical	SEGRO	Workspace Group

The Committee is satisfied that the targets proposed for the 2016/17 awards, set out in the table below, are suitably stretching. Performance against each target will be measured independently over the three financial years ending on 30th November 2019. The vesting percentage for threshold performance has been reduced from 25% to 20% of the maximum opportunity; this will deliver less value as a percentage of salary at, and requiring stretching performance for vesting beyond, threshold performance.

Performance measure	Link to strategy	Threshold performance	Vesting of award at threshold performance	Maximum performance	Vesting of award at maximum performance
Relative TSR performance (50% of award)	<ul style="list-style-type: none"> Rewards outperformance of the returns generated by a comparator group comprising listed company peers Directly correlates reward with the return delivered to shareholders through share price growth and dividend payments Provides an objective measure of the Company's long-term success 	Company's TSR is ranked at median of the comparator group's TSR	20%	Company's TSR is ranked at or above the upper quartile of the comparator group's TSR	100%
Total accounting return (50% of award)	<ul style="list-style-type: none"> Rewards delivery of continued long-term significant added value Key internal measure of the Company's long-term performance Reflects value added by the Company's asset management activities 	5% average per annum	20%	11% average per annum	100%

Vesting of awards between threshold and maximum performance will be on a straight-line basis. Performance below threshold would result in nil vesting for that measure.

In calculating TSR, a three-month average is used at both the start and the end of the performance period to ensure that the calculation is not impacted by potential volatility arising from day-to-day share price fluctuations. The TSR data and relative positioning of St. Modwen is provided by New Bridge Street to ensure that performance is independently verified. Total accounting return performance will be subject to audit by the Company's auditor.

The 2016/17 awards will be subject to an underpin condition which the Committee must be satisfied has been met before permitting awards to vest, namely that the extent of vesting under the performance conditions is appropriate given the general financial performance of the Company over the three-year performance period.

The 2016/17 awards will also be subject to a compulsory two-year post-vesting holding period, which will require executive directors to hold any shares vesting (after tax) for a period of two years, meaning there can be no disposal of shares for a period of at least five years from grant. The holding period will remain in place if the executive leaves employment during the two-year holding period.

Chairman and non-executive director fees

Following a review by the Board, the annual fees payable to the Chairman and non-executive directors have been increased in line with the cost of living salary increase awarded to the Company's employees with effect from 1st December 2016.

	Fee as at 30 November 2016	Fee with effect from 1 st December 2016	% Increase
Base fee			
Chairman	£159,135	£163,113	2.5%
Non-executive directors	£43,709	£44,801	2.5%
Additional fees			
Senior Independent Director	£9,000	£9,000	—
Audit Committee Chairman	£9,000	£9,000	—
Remuneration Committee Chairman	£9,000	£9,000	—

Dates of appointment of directors

Director	Date of appointment	Date of contract/original letter of appointment	Expiry of current term
Executive directors			
Mark Allan ⁽¹⁾	1 st November 2016	6 th April 2016	N/A
Steve Burke	30 th November 2006	18 th January 2016	N/A
Rob Hudson	28 th September 2015	20 th April 2015	N/A
Non-executive directors			
Bill Shannon ⁽²⁾	1 st November 2010	18 th October 2010	31 st October 2017
Ian Bull	1 st September 2014	21 st August 2014	31 st August 2017
Kay Chaldecott	22 nd October 2012	22 nd October 2012	21 st October 2018
Simon Clarke	11 th October 2004	4 th October 2004	10 th October 2017
Lesley James	19 th October 2009	19 th October 2009	18 th October 2017
Richard Mully	1 st September 2013	16 th July 2013	31 st August 2019

(1) Appointed Chief Executive on 1st December 2016

(2) Appointed Chairman on 22nd March 2011.

Dilution limits

In line with the rules of the PSP and Employee Share Option Plan, for which shareholder approval will be sought at the 2017 AGM, and the rules of the current SAYE, the Company observes the recommendation of the Investment Association that the number of new shares that may be issued to satisfy awards is restricted to 10% (5% for discretionary schemes) of the issued ordinary share capital of the Company in any rolling 10-year period.

The total number of shares which could be allotted under the Company's share schemes compared to the dilution limits as at 30th November 2016 was as follows:

Type of scheme	Limit	Actual
All schemes	10%	3.82%
Executive schemes only	5%	3.64%

As at 30th November 2016, the Company's Employee Share Trust (the Trust) held 269,334 shares (2015: 690,274 shares) in the Company to enable it to satisfy the vesting and exercise of awards. In accordance with the Trust deed, the Trust has waived the right to receive dividends paid on these shares with the exception of a hundredth of a penny per share.

Committee membership

The Committee's composition is kept under review by the Nomination Committee, which is responsible for making recommendations to the Board as to its membership.

All members of the Committee receive an appropriate induction to ensure that they have a sound and objective understanding of the principles of, and recent developments in, executive remuneration matters. Ongoing training is undertaken as required.

Remuneration Committee members	Committee meetings and attendance during the year ended 30 November 2016 ⁽¹⁾
Lesley James	Chairman 4/4
Ian Bull	Member 4/4
Kay Chaldecott	Member 4/4
Richard Mully	Member 4/4
Bill Shannon	Member 4/4

(1) Actual attendance/maximum number of meetings a director could attend.

Remuneration Committee attendees (by invitation)	
Bill Oliver	Chief Executive (to 30 th November 2016)
Mark Allan	Chief Executive (from 1 st December 2016)
Simon Clarke	Non-executive director
Tanya Stote	Company Secretary and secretary to the Committee
Representatives from New Bridge Street	Remuneration Committee advisor

Advice provided to the Committee

New Bridge Street (NBS), a trading name of Aon Hewitt Ltd (the parent company of NBS), was re-appointed by the Committee in 2014 following a tender process to provide independent advice on remuneration matters. Representatives from NBS attend Committee meetings and provide advice to the Committee Chairman outside of meetings as necessary. In 2015/16 NBS provided specific advice to the Committee in respect of its review of the Company's remuneration policy for directors and subsequent shareholder consultation on proposed amendments, remuneration arrangements relating to the retirement of Bill Oliver and the appointment of Mark Allan, and TSR monitoring services. NBS also provides advice in relation to non-executive director remuneration. Fees are charged on a cost incurred basis with advice to the Committee totalling £136,000 in the year ended 30th November 2016.

NBS is a member of the Remuneration Consultants Group and operates voluntarily under the Group's code which sets out the scope and conduct of the role of executive remuneration consultants when advising UK listed companies. NBS does not undertake any other work for the Company, and the Committee is satisfied that the advice provided by NBS remains objective and independent.

The Committee also receives input from the Chief Executive on the remuneration arrangements of the other executive directors and of the Company Secretary, and advice from the Company Secretary on governance matters. Neither the Chief Executive nor the Company Secretary were present when their own remuneration was discussed.

Activities of the Committee

The Committee met on four occasions in the financial year ended 30th November 2016 to consider the following matters:

- to consider investor feedback on the Company's remuneration policy and the report on directors' remuneration for the 2015 Annual Report;
- to review market trends and the governance environment in respect of remuneration arrangements;
- to determine proposed amendments to the Company's remuneration policy for directors and consult with major institutional investors and shareholder representative bodies on the intended changes ahead of the 2017 AGM at which shareholder approval will be sought;
- to agree the rules of replacement long-term incentive arrangements for which shareholder approval will also be sought at the 2017 AGM;
- to determine the application of the remuneration policy for the recruitment of Mark Allan and the retirement of Bill Oliver;
- to review the executive directors' base salaries and the fee payable to the Chairman;
- to set corporate and personal objectives for the 2016/17 annual bonus arrangements for executive directors and undertake an assessment of performance against targets for 2015/16;
- to approve the outturn of PSP awards granted in 2013;
- to approve share awards granted in 2016 together with associated performance criteria; and
- to prepare this report on directors' remuneration.

Statement of shareholder voting at the AGM

The table below details the results of the shareholder vote to approve the Directors' remuneration report at the 2016 AGM and the shareholder vote to approve the current remuneration policy at the 2014 AGM.

Resolution	AGM	Votes for	% of vote for	Votes against	% of vote against	Total votes cast	Votes withheld ¹
Approval of Directors' remuneration report	2016	148,367,066	89.65%	17,125,133	10.35%	165,492,199	1,681,491
Approval of remuneration policy	2014	156,644,976	98.79%	1,916,724	1.21%	158,561,700	3,962,858

(1) A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast for or against a resolution.

This report on remuneration has been approved by the Board and signed on its behalf by

Lesley James

Chairman of the Remuneration Committee
6th February 2017

Directors' report

The directors present their report for the year ended 30th November 2016.

As permitted by legislation, some of the matters historically included in this report have instead been included in the Strategic report on pages 1 to 52 as the Board considers them to be of strategic importance. Specifically these relate to the Company's business model and strategy, future business developments and risk management. The corporate governance statement as required by the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) is set out on pages 53 to 98 and is incorporated into this report by reference.

Annual general meeting

The AGM will be held on Wednesday, 29th March 2017 in the Evolution Suite, Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham B31 2TS, commencing at 12.00 noon. The notice of meeting, which includes the special business to be transacted and an explanation of all the resolutions to be considered at the meeting, is set out on pages 166 to 177.

Dividend

An interim dividend of 1.94 pence per ordinary share (2015: 1.9 pence) was paid on 5th September 2016.

The directors recommend a final dividend of 4.06 pence per ordinary share in respect of the year ended 30th November 2016 (2015: 3.85 pence), making a total dividend for the year of 6.00 pence per share (2015: 5.75 pence), payable on 4th April 2017 to shareholders on the register on 10th March 2017.

Other than as referred to under the heading 'Share capital' below, during the year there were no arrangements under which a shareholder had waived or agreed to waive any dividends nor any agreement by a shareholder to waive future dividends.

Share capital

Capital structure

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

At 30th November 2016, there were 221,876,988 ordinary shares in issue and fully paid. Further details relating to share capital, including movements during the year, are set out in note 17 to the Group financial statements.

Share allotments

At the 2016 AGM, shareholders renewed the directors' authority to allot shares in the Company. No shares were allotted during the year. A resolution to renew this standard authority will be proposed at the 2017 AGM.

Purchase by the Company of its own shares

At the 2016 AGM, shareholders renewed the Company's authority to make market purchases of up to 22,187,698 ordinary shares, representing 10% of the issued share capital at that time. No shares were repurchased during the year and the Company does not hold any shares in treasury. This standard authority will expire at the 2017 AGM and a resolution to renew it will be proposed.

Employee Share Trust (Trust)

As at 30th November 2016, the Trust held 269,334 shares (2015: 690,274 shares), representing 0.12% (2015: 0.31%) of the Company's issued share capital. The Trust deed contains a dividend waiver provision in respect of shares held by the Trust,

such that dividends are waived with the exception of a hundredth of a penny per share. Any voting or other similar decisions relating to shares held by the Trust would be taken by the Trustee, who may take account of any recommendations of the Company. There were no purchases of shares by the Trust during the financial year.

Further details regarding the Trust and of shares issued pursuant to the Company's share-based incentive arrangements are set out in note 17 to the Group financial statements.

Rights and obligations attaching to shares

The holders of ordinary shares in the Company are entitled to receive dividends when declared, to receive the Company's annual report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the 2017 AGM are set out in the notice of meeting on pages 166 to 177.

Restrictions on the transfer of shares

As at 30th November 2016 and the date of this report, except as referred to below:

- there were no restrictions on the transfer of ordinary shares in the Company;
- there were no limitations on the holding of ordinary shares;
- there were no requirements to obtain the approval of the Company, or of other holders of ordinary shares in the Company, for a transfer of shares; and
- no person held shares in the Company carrying any special rights with regard to control of the Company.

The directors may refuse to register the transfer of a share in certificated form which is not fully paid or on which the Company has a lien, where the instrument of transfer does not comply with the requirements of the Company's articles of association (Articles), or if the transfer is in respect of more than one class of share or is in favour of more than four joint holders. The directors may also refuse to register a transfer of a certificated share, which represents an interest of at least 0.25% in a class of shares, following the failure by the member or any other person appearing to be interested in the shares to provide the Company with information requested under section 793 of the Companies Act 2006 (Act).

Transfers of uncertificated shares must be carried out using CREST and the directors can refuse to register the transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Interests in voting rights

Information provided to the Company pursuant to the FCA's Disclosure and Transparency Rules (DTR 5) is published on a Regulatory Information Service and on the Company's website. As at 30th November 2016, the information overleaf had been received in accordance with DTR 5 from holders of notifiable interests in the Company's issued share capital.

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

Shareholder	Date of notification	Nature of holding	Total voting rights	% of total voting rights
Simon Clarke and connected parties	3 rd April 2014	Direct interest	18,575,196	8.43%
J.D. Leavesley and connected parties	23 rd April 2015	Direct interest	13,447,099	6.07%
Aviva plc	19 th September 2014	Direct interest	8,889,142	4.02%
		Indirect interest	5,582,987	2.52%
		Total	14,472,129	6.54%
Royal London Asset Management Ltd	7 th October 2015	Direct interest	11,186,531	5.04%
TR Property Investment Trust plc	12 th July 2012	Direct interest	6,802,638	3.40%
Norges Bank	14 th September 2016	Direct interest	6,680,599	3.01%

Changes to the interests in the voting rights which have been notified to the Company in accordance with DTR 5 between 30th November 2016 and 6th February 2017 are set out below:

Shareholder	Date of notification	Nature of holding	Total voting rights	% of total voting rights
Henderson Group plc	3 rd February 2017	Indirect interest	11,157,532	5.02%
		Contracts for difference	55,000	0.02%
		Total	11,212,532	5.05%

Directors

The Board

The following served as directors during the year ended 30th November 2016:

- Mark Allan (appointed on 1st November 2016)
- Ian Bull
- Steve Burke
- Kay Chaldecott
- Simon Clarke
- Rob Hudson
- Lesley James
- Richard Mully
- Bill Oliver (retired on 30th November 2016)
- Bill Shannon

The biographical details of all the directors serving at 30th November 2016, including details of their relevant experience and other significant commitments, are shown on pages 54 and 55.

The Directors' remuneration report, which includes details of directors' service agreements and their interests in the Company's shares, is set out on pages 74 to 98. Copies of the service agreements of the executive directors and the letters of appointment for the non-executive directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Appointment and replacement of directors

The appointment and replacement of directors is governed by the Articles, the UK Corporate Governance Code (Code), the Act and related legislation. Under the Articles:

- the number of directors is not subject to any maximum but must not be less than three, unless otherwise determined by the Company in general meeting;
- directors may be appointed by an ordinary resolution of the Company or by resolution of the directors, either to fill a casual vacancy or as an additional director; and
- all directors must retire at each AGM and shall, subject to his or her terms of appointment, be eligible for election or re-election.

At the 2017 AGM Mark Allan, who was appointed by the directors in November 2016, will retire and offer himself for election; all other directors will offer themselves for re-election.

A director may be removed by a special resolution of the Company. In addition, a director must automatically cease to be a director if he or she:

- resigns from his or her office by notice in writing to the Company or, in the case of an executive director, the appointment is terminated or expires and the directors resolve that his or her office be vacated;
- becomes bankrupt or makes any arrangement or composition with his or her creditors generally;
- a registered medical practitioner who is treating the director gives a written opinion to the Company stating that he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months;
- is absent from meetings of the directors for more than six consecutive months without permission of the directors and the directors resolve that his or her office be vacated; or
- becomes prohibited by law from acting as a director.

Powers of the directors

The Board may exercise all the powers of the Company, subject to the Articles, UK legislation including the Act and any directions given by the Company in general meeting.

The directors have been authorised by the Articles to allot ordinary shares and to make market purchases of the Company's own shares. These powers are referred to shareholders for renewal at each AGM. Further information is set out under the heading 'Share capital' on page 99.

Conflicts of interest

With the exception of service agreements or those contracts detailed in note 21 to the Group financial statements, no director had a material interest in any significant contract with the Company or any of its operating companies at any time during the year.

Under the Act, directors have a statutory duty to avoid conflicts of interest with the Company. As permitted by the Act, the Articles enable non-conflicted directors to authorise actual or potential conflicts of interest, either with or without limits or conditions. Formal procedures for the notification and authorisation of such conflicts are in place. Any potential conflicts of interest in relation to newly appointed directors are considered by the Board prior to appointment. All directors have a continuing duty to update any changes to conflicts.

Indemnities and insurance

The Company has granted indemnities to each of its directors and the Company Secretary to the extent permitted by law in respect of costs of defending claims against them and third party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Act, were in force during the year ended 30th November 2016 and remain in force as at the date of this report.

A copy of the indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Company also maintains directors' and officers' liability insurance which gives appropriate cover for any legal action taken against its directors.

Articles of Association

The Articles can only be amended, or new Articles adopted, by a special resolution passed at a general meeting of the Company. The Company's current Articles are available on its website www.stmodwen.co.uk.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. These include committed bank facilities, which would be terminable at the bank's discretion, and the Company's retail and convertible bonds, holders of which would have an option to require the Company to redeem the bonds.

The Company's share-based incentive arrangements contain provisions that take effect in the event of a change of control but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs specifically as a result of a takeover bid.

Financial instruments

The Group's exposure to and management of capital risk, market risk, credit risk and liquidity risk is set out in note 16 to the Group financial statements.

Employee involvement

St. Modwen is committed to regular communication and consultation with its employees and encourages employee understanding of and involvement in its performance. News concerning St. Modwen, its activities and performance is published on the Company's intranet. Regular management meetings are held to inform senior staff about matters affecting them as employees, at which their feedback is sought on decisions likely to affect their interest, and where a common awareness of the financial and economic factors affecting the Company's performance is developed; this information is then cascaded to all employees. A performance-related annual bonus scheme and share option arrangements are designed to encourage and support employee share ownership.

Employment of disabled persons

It is the policy of the Company to give full and fair consideration to applications for employment received from disabled persons, having regard to their aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment with the Company and the provision of appropriate training. St. Modwen provides the same opportunities for training, career development and promotion for disabled as for other employees.

Greenhouse gas emissions

The disclosures required by law relating to the Group's greenhouse gas emissions (GHG) are set out in the table overleaf. GHG from those sources for which the Company is deemed to be directly responsible are monitored for reporting purposes, namely gas and electricity purchased for consumption at properties under the Company's operational control (such as Head Office, certain regional offices, St. Modwen Homes' sales offices and vacant space), and petrol and diesel used in Company cars.

For information on our energy initiatives, please see our CSR Report and www.stmodwen.co.uk/corporate-social-responsibility

GHG	2016 intensity ratio			2015 intensity ratio		
	CO ₂ emissions (tonnes)	tCO ₂ emissions / full-time employees ⁽¹⁾	tCO ₂ emissions / £m property portfolio ⁽²⁾	CO ₂ emissions (tonnes)	tCO ₂ emissions / full-time employees	tCO ₂ emissions / £m property portfolio
Scope 1:						
Total purchased gas	129			433		
Petrol and diesel	955			586		
Total Scope 1	1,084	3.1	0.5	1,019	3.3	0.5
Scope 2:						
Total purchased electricity	788			1,529		
Total Scope 2	788	2.3	0.4	1,529	4.9	0.7
Total Scope 1 & 2	1,872	5.4	0.9	2,548	8.2	1.2

(1) Equivalent CO₂ emissions per full-time employee.

(2) Equivalent CO₂ per £m of property portfolio held by the Company.

Methodology

Emissions from gas and electricity consumption have been calculated using the main requirements of the GHG Protocol Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014. The measurement of emissions from Company cars is based on the 'Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance' (June 2013) issued by the Department for Environment, Food and Rural Affairs (Defra). Defra's 2013 conversion factors have also been used within the reporting methodology.

Organisation boundary and responsibility

The Company does not have responsibility for GHG that are beyond the boundary of the Company's operational control. As such, gas and electricity purchased and consumed by tenants is not included within the Scope 1 and 2 data above. Data also excludes the purchase for and consumption by those sites which fall within the Persimmon joint venture as Persimmon controls the procurement of utilities to these sites. GHG for all other joint ventures has been included as the Company is deemed to be wholly responsible for such GHG.

Political donations

In accordance with the Company's policy, no political donations were made and no political expenditure was incurred during the year.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The directors have considered these factors and reviewed the financial position of the Group, including its joint ventures and associates.

The review included an assessment of future funding requirements based on cash flow forecasts extending for 18 months from the date of signing the financial statements, valuation projections and the ability of the Group to meet covenants on existing borrowing facilities. The directors were satisfied that the forecasts and projections were based on realistic assumptions and that the sensitivities applied in reviewing downside scenarios were appropriate.

As described in the financial review on pages 41 to 44, there are no corporate or joint venture facilities requiring renewal before 2019. As a result, the directors are satisfied that the Group will have sufficient ongoing facilities available to meet its financing requirements.

Based on their assessment, the directors are of the opinion that the Group has adequate available resources to fund its operations for the foreseeable future and so determine that it remains appropriate for the financial statements to be prepared on a going concern basis.

Disclosure required by Listing Rule 9.8.4R

The information required to be disclosed by LR 9.8.4R of the FCA's Listing Rules can be found on the following pages of this Annual Report:

Section	Topic	Page reference
(1)	Interest capitalised	N/A
(2)	Publication of unaudited information	N/A
(4)	Details of long-term incentive schemes established specifically to recruit or retain a director	90
(5) & (6)	Waiver of emoluments by a director	N/A
(7) & (8)	Non-pre-emptive issues of equity for cash	144
(9)	Parent company participation in placing by a listed subsidiary	N/A
(10)	Contracts of significance	N/A
(11)	Provision of services by a controlling shareholder	N/A
(12) & (13)	Shareholder waiver of dividends	99
(14)	Agreements with controlling shareholders	N/A

Important events since 30th November 2016

There have been no important events affecting the Company or any subsidiary since 30th November 2016.

Auditor

Resolutions to appoint KPMG LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2017 AGM.

Management report

The Strategic report and the Directors' report together comprise the 'management report' for the purposes of the FCA's Disclosure and Transparency Rules (DTR 4.1.8R).

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare 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 accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of their profit or loss for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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, whose names and functions are set out on pages 54 and 55, confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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;
- the management report (which comprises the Strategic report and the Directors' 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; and
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the directors in office as at the date of this report also confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

The Directors' report, prepared in accordance with the requirements of the Act and the FCA's Listing and Disclosure and Transparency Rules and comprising pages 99 to 103, was approved by the Board and signed on its behalf by

Tanya Stote
Company Secretary
6th February 2017

Independent auditor's report to the members of St. Modwen Properties PLC

Opinion on financial statements of St. Modwen Properties PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30th November 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Group income statement;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group cash flow statement; and
- the related Group and Company accounting policies, Group notes 1 to 21 and Company notes A to J.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Summary of our audit approach

Key risks	<p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none">▪ Valuation of investment properties;▪ Accounting for the NCGM site;▪ Completeness of tax provisions;▪ Valuation of inventory; and▪ Property disposals and valuation of revenue recognition under IAS 11. <p>These key risks are consistent with those identified in the prior year. Last year our auditor's report included 'One-off property transactions' as a key risk. In the current year we have refined this risk to 'Accounting for the NCGM site'.</p>
Materiality	<p>The materiality that we used in the current year was £10.0m which was determined on the basis of net assets.</p>
Scoping	<p>Our Group audit scope is consistent with our scope in the previous year and all audit procedures were performed directly by the Group audit team. Less than 1% of assets, revenue and profit before tax were not in our audit scope.</p>
Significant changes in our approach	<p>In the absence of substantive changes to the Group's business model or activities our audit approach is consistent with the previous period, there were no new key risks identified or changes in basis for determining materiality.</p>

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Group accounting policies, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Group accounting policies and the directors' statement on the longer-term viability of the Group contained within the Strategic report on page 52.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 45 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 49 to 52 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the Group accounting policies on page 118 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the directors' explanation on page 52 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Valuation of investment properties

Risk description

The Group owns a UK-wide property portfolio comprising income producing properties together with residential and commercial land. The Group's investment property balance, as detailed in note 8 is £1,133m (2015: £1,081m) which is held at fair value. The Group's accounting policy is disclosed on page 115 and further details of investment properties are disclosed in note 8. Valuation of investment property is a significant judgement area and includes a number of estimates. The directors employ an external valuer to assist in determining the fair value, who makes a number of key estimates and assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases, void periods, occupancy rates, lease incentives, break clauses, lease lengths and purchaser costs.

The Audit Committee report on page 66 discloses it as a significant financial matter.

How the scope of our audit responded to the risk

Together with our real estate experts, who are Chartered Surveyors, we met with the third party valuer appointed by those charged with governance with the aim of understanding the valuation methodology adopted. We assessed the competence, capabilities and objectivity of the external valuer. We selected a sample of investment properties for further investigation (based on value, absolute and percentage movement, and some random properties). For this sample, we assessed and challenged the reasonableness of the significant judgements and assumptions applied in the valuation model for each property in our sample. We assessed the completeness and accuracy of the data provided by St. Modwen to the valuers for the purposes of their valuation exercise.

With the assistance of expert members of our audit team who are Chartered Surveyors, we reviewed the significant assumptions in the valuation process, tested a sample of properties by benchmarking against external appropriate property indices and understood the valuation methodology and the wider market analysis. We reviewed the information provided by the valuers both in the meeting and contained in the detailed valuation reports; and we undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values.

Accounting for the NCGM site

Risk description

As disclosed in the Group accounting policies on page 119, the contractual agreement between VSM (NCGM) Ltd and the Covent Garden Market Authority (CGMA) involves VSM (NCGM) Ltd committing to procure a new market for the CGMA and in return receiving an option to acquire the surplus land on the site. Subsequent to the initial recognition of an asset and a matching liability for the delivery of the development in the Financial statements of VSM (NCGM) Ltd, the investment property asset is revalued externally at each reporting date. The consolidated financial statements of the Group recognise the investment in the joint venture company VSM (NCGM) Ltd using the equity method of accounting. Since 30th November 2015, the joint venture company continues to deliver the 57 acre regeneration. VSM (NCGM) Ltd recognised a valuation loss during the year of £48.6m, with the Group's share of this loss being £24.3m.

The total liability of VSM (NCGM) Ltd for procurement of the new market is valued at £197m as at 30th November 2016 (2015: £187m). The increase in the value results from a discount unwind of £10m which is recognised in finance costs in the joint venture company. VSM (NCGM) Ltd has commissioned £49m (2015: £11m) of work against this total liability.

NCGM is valued by external valuer Jones Lang LaSalle LLP (JLL). There are a number of judgements and assumptions applied by different parties involved in the valuation of the surplus land element, including gross value of residential property, forecast construction costs, an estimate of the inflationary impact of costs over the course of construction, profit margin and third party liability costs.

Further, the liability, which was recorded on initial recognition for the obligation to procure the new market, has been recorded based on estimates as disclosed in note 10 to the financial statements.

Given the complexities of the model, the significant judgements and estimates involved, which depend on both internal and external inputs, many of which are interrelated, accounting for the NCGM site was considered to be a key risk.

The Audit Committee report on page 67 discloses it as a significant financial matter.

How the scope of our audit responded to the risk

We involved our real estate experts to review and challenge the assumptions used by the external valuer in their valuation. In our testing we:

Assessed the competence, capabilities and objectivity of the external valuer; and

Held a meeting attended by senior members of our core engagement team, our real estate experts, who are also Chartered Surveyors, and the external valuer. During this meeting, the valuation basis and assumptions were challenged by our experts and the audit team by obtaining market evidence and testing supporting documentation. Our experts also performed sensitivity analysis around the key assumptions used by JLL to illustrate how the property responds to changes in those assumptions. Our experts reviewed the cost plan and compared the estimates contained therein with the valuers appraisals.

Completeness of tax provisions

Risk description

As set out in the Group's key sources of estimation uncertainty on page 120, tax and its treatment is often an integral part of transactions as the Group is a property group. Further details of the provision are disclosed in note 5. The outcome of tax treatments are recognised by the Group to the extent the outcome is reasonably certain. Given significant judgements and estimates involved in calculation of the tax provision, we consider it to be a key risk.

The Audit Committee report on page 67 discloses it as a significant financial matter.

How the scope of our audit responded to the risk

We tested the Group tax workings and considered the current and deferred tax implications of property acquisitions, disposals and valuation movements which occurred during the year. We utilised our tax specialists to appraise the likely outcome of uncertain tax positions, including reviewing any correspondence with HMRC and considered the adequacy of disclosures made in the annual report.

Valuation of inventory

Risk description

The Group's accounting policy on inventory is disclosed on page 115 and further details of inventory in note 12. The Group's inventory balance of £229.7m (2015: £183.7m) includes properties under construction (90%), land under option (8%) and assets held for resale, which are being actively marketed (2%). The Group have continued to use their own internal appraisal monitoring process during the year to assess the net realisable value (NRV) of those properties held within inventories through the preparation of appraisals for each site. The risk within the valuation of inventory is that management site appraisals include a number of judgements that could be manipulated. Appraisals include forecast revenue and costs that derive a profit margin over the development and provide an indication of the recoverability of the inventory. We also considered sites that have been written down in prior periods. Events that have occurred since the original write-down might otherwise prove the site to be recoverable at the pre-written down value.

Given the quantum of the inventories balance recorded by the Group in its financial statements, a misstatement in this balance could have a material impact on the financial statements as a whole.

The Audit Committee report on page 66 discloses it as a significant financial matter.

How the scope of our audit responded to the risk

We identified the various components of the Group's inventories and have audited and challenged management's appraisal documentation for a representative sample of properties covering £191.0m of the total Group balance of £229.7m, mainly representing housebuilding sites under the St. Modwen Homes brand. For each site within the sample of properties we obtained the internal documentation to support the rationale for any transfers from investment properties to inventory; obtained evidence supporting classification as inventory; and challenged whether the expected revenues in site appraisals have been updated to reflect the revenue seen on similar assets in the inventory portfolio and tested the key cost assumptions within the appraisals to supporting evidence. Where a site has been appraised by management over a period of time, we also sought to understand the changes to assumptions over time. We also visited a sample of sites and held meetings with local management to support the appropriateness of classification as at 30th November 2016.

In addition we have reviewed marketed sites and post year-end sales prices to assess whether stock held is marketed below its valuation.

Property disposals and valuation of revenue recognition under IAS 11

Risk description

ISA 240 (UK and Ireland) *The auditor's responsibility to consider fraud in an audit of financial statements* requires auditors to consider which types of revenue transactions may give rise to risk of fraud. The standard requires us to presume that there are risks of fraud in relation to revenue recognition and to conduct our audit testing accordingly to address this risk.

Development revenue represents 79% of total revenue of the Group, including £150m of revenue from residential projects. Consistent with our prior year assessment of the risk within revenue recognition in the Group, we have identified a revenue risk to the valuation of revenue recognised for properties under development in accordance with IAS11 *Construction Contracts* and IFRIC Interpretation 15 *Agreements for the Construction of Real Estate*. This is due primarily to the fact that judgement is required as to whether revenue can be recognised on a contract basis. Judgement is also exercised in determining the costs to complete for each site and the stage of completion at the balance sheet date. A key risk in relation to revenue recognition also arises from property disposal transactions occurring near the year-end being recognised in the wrong year. The Group's accounting policy on revenue is disclosed on page 117 and further revenue details in note 1.

How the scope of our audit responded to the risk

We tested a sample of revenue recognised under IAS 11 during the year to ensure the Group policy is in line with the accounting standards. We assessed whether the stage of completion at the balance sheet date was reasonable by testing the sample of sites for the assessment of stage of completion to independent certification where possible or to the Group's best estimate and contractual terms, recalculating any profit recognised and through our audit of inventories assessing the costs to complete for reasonableness.

With respect to St. Modwen Homes, for a sample of homes sold during the year, we have obtained a copy of the Council of Mortgage Lenders' certificates in order to confirm that the properties were physically complete prior to legal completion.

We have also considered all significant property transactions entered into near the year-end date to determine whether the Group policy with regard to revenue and profit recognition has been adhered to.

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

Our application of materiality

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

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

Group materiality	£10.0m (2015: £9.0m)
Basis for determining materiality	We applied 1% (2015: 1%) to the Group's forecasted equity for determining materiality. We did not subsequently revisit our materiality, as the percentage is within the normal range used for public entities in St. Modwen's industry of between 1% and 2%. This percentage takes into account our knowledge of the Group, our assessment of audit risks and the reporting requirements for the financial statements.
Rationale for the benchmark applied	We have used the equity value as at 30 th November 2016 as the benchmark for determining materiality, as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those financial statements for property companies.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5m (2015: £0.18m) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. In the current year we increased the percentage applied to calculate the threshold based on market practice. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scope is consistent with our scope in the previous year. We carried out a full scope audit of the Group, to enable us to sign off an audit opinion under International Standards on Auditing (UK and Ireland).

Our audit scope is summarised as follows:

- For those entities subject to a statutory audit by Deloitte UK, we performed our audit procedures on these entities to a local statutory materiality. The range for standalone materialities was from less than £1,000 to £9.0m (2015: less than £1,000 to £8.1m) for entities in scope. There were no significant change in standalone materialities this year;
- For those entities where Deloitte UK are not the statutory auditors we performed our audit procedures to a component materiality of 50% of Group materiality level for the purpose of our Group opinion.

Less than 1% of assets, revenue and profit before tax were not in our audit scope.

Opinion on other matters prescribed by the Companies Act 2006

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

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jonathan Dodworth (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
6th February 2017

Group income statement for the year ended 30th November 2016

	Notes	2016 £m	2015 £m
Revenue	1	287.7	287.5
Net rental income	1	40.5	32.8
Development profits	1	51.7	51.7
Gains on disposals of investments/investment properties	1	9.5	11.7
Investment property revaluation gains	8	30.3	73.9
Other net income	1	4.2	4.2
(Losses)/profits of joint ventures and associates (post-tax)	10	(28.2)	106.8
Administrative expenses	3	(33.0)	(26.1)
Profit before interest and tax		75.0	255.0
Finance costs	4	(23.0)	(25.2)
Finance income	4	14.9	5.4
Profit before tax		66.9	235.2
Taxation	5	(13.3)	(17.9)
Profit for the year		53.6	217.3
Attributable to:			
Owners of the Company		53.4	216.4
Non-controlling interests		0.2	0.9
Profit for the year		53.6	217.3
	Notes	2016 Pence	2015 Pence
Basic earnings per share	6	24.1	97.9
Diluted earnings per share	6	19.8	90.4

Group statement of comprehensive income for the year ended 30th November 2016

	Notes	2016 £m	2015 £m
Profit for the year		53.6	217.3
Items that will not be reclassified to profit and loss:			
Pension fund actuarial losses	18	(0.1)	(0.1)
Deferred tax thereon	18	-	-
Total comprehensive income for the year		53.5	217.2
Attributable to:			
Owners of the Company		53.3	216.3
Non-controlling interests		0.2	0.9
Total comprehensive income for the year		53.5	217.2

Group balance sheet as at 30th November 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investment properties	8	1,133.0	1,081.0
Operating property, plant and equipment	9	4.2	4.2
Investments in joint ventures and associates	10	184.8	227.3
Trade and other receivables	11	8.2	6.1
		1,330.2	1,318.6
Current assets			
Inventories	12	229.7	183.7
Trade and other receivables	11	115.8	104.7
Derivative financial instruments	16	1.6	0.8
Cash and cash equivalents		4.2	4.8
		351.3	294.0
Current liabilities			
Trade and other payables	13	(150.5)	(146.6)
Derivative financial instruments	16	(8.8)	(8.0)
Borrowings and finance lease obligations	14	(0.4)	(0.4)
Current tax liabilities	5	(7.1)	(11.1)
		(166.8)	(166.1)
Non-current liabilities			
Trade and other payables	13	(3.6)	(3.1)
Borrowings and finance lease obligations	14	(527.0)	(506.5)
Deferred tax	5	(22.0)	(15.4)
		(552.6)	(525.0)
Net assets		962.1	921.5
Capital and reserves			
Share capital	17	22.2	22.2
Share premium account		102.8	102.8
Retained earnings		779.7	739.3
Share incentive reserve		4.9	5.2
Own shares		(0.6)	(1.0)
Other reserves		46.2	46.2
Equity attributable to owners of the Company		955.2	914.7
Non-controlling interest		6.9	6.8
Total equity		962.1	921.5

These financial statements were approved by the Board and authorised for issue on 6th February 2017.

Mark Allan
Chief Executive

Rob Hudson
Group Finance Director

Company Number: 00349201

Group statement of changes in equity for the year ended 30th November 2016

	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 th November 2014	22.1	102.8	544.0	4.8	(1.8)	46.2	718.1	5.9	724.0
Profit for the year attributable to shareholders	–	–	216.4	–	–	–	216.4	0.9	217.3
Pension fund actuarial losses (note 18)	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	–	216.3	–	–	–	216.3	0.9	217.2
Equity issue (note 17)	0.1	–	–	–	(0.1)	–	–	–	–
Share-based payments	–	–	(8.6)	0.4	–	–	(8.2)	–	(8.2)
Share transfers	–	–	(0.9)	–	0.9	–	–	–	–
Adjustment arising from change in non-controlling interest	–	–	(0.4)	–	–	–	(0.4)	–	(0.4)
Dividends paid (note 7)	–	–	(11.1)	–	–	–	(11.1)	–	(11.1)
Equity at 30th November 2015	22.2	102.8	739.3	5.2	(1.0)	46.2	914.7	6.8	921.5
Profit for the year attributable to shareholders	–	–	53.4	–	–	–	53.4	0.2	53.6
Pension fund actuarial losses (note 18)	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	–	53.3	–	–	–	53.3	0.2	53.5
Share-based payments	–	–	–	1.6	–	–	1.6	–	1.6
Deferred tax on share-based payments	–	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Settlement of share-based payments	–	–	(0.1)	(1.1)	0.4	–	(0.8)	–	(0.8)
Dividends paid (note 7)	–	–	(12.8)	–	–	–	(12.8)	(0.1)	(12.9)
Equity at 30th November 2016	22.2	102.8	779.7	4.9	(0.6)	46.2	955.2	6.9	962.1

Own shares represent the cost of 269,334 (2015: 690,274) shares held by The St. Modwen Properties PLC Employee Share Trust. The open market value of the shares held at 30th November 2016 was £754,135 (2015: £2,985,435).

The other reserves comprise a capital redemption reserve of £0.3m (2015: £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 (2015: £45.9m).

Group cash flow statement for the year ended 30th November 2016

	Notes	2016 £m	2015 £m
Operating activities			
Profit before interest and tax		75.0	255.0
Gains on disposal of investments/investment properties		(9.5)	(11.7)
Share of losses/(profits) of joint ventures and associates (post-tax)	10	28.2	(106.8)
Investment property revaluation gains	8	(30.3)	(73.9)
Depreciation	9	0.7	0.8
Impairment losses on inventories	12	0.3	1.4
Increase in inventories		(31.2)	(49.0)
Increase in trade and other receivables		(14.3)	(32.9)
Increase/(decrease) in trade and other payables		4.3	(8.3)
Share options and share awards		–	(7.8)
Tax paid	5	(10.7)	(9.4)
Net cash inflow/(outflow) from operating activities		12.5	(42.6)
Investing activities			
Proceeds from investment property disposals		64.3	84.4
Investment property additions		(90.0)	(160.5)
Interest received	4	5.4	3.9
Acquisition of subsidiary undertaking		–	(0.2)
Property, plant and equipment additions	9	(0.6)	(0.6)
Dividends received from joint ventures and associates		14.3	6.7
Net cash outflow from investing activities		(6.6)	(66.3)
Financing activities			
Dividends paid	7	(12.8)	(11.1)
Dividends paid to non-controlling interests		(0.1)	–
Interest paid		(20.7)	(18.0)
Amounts advanced under finance lease arrangements		0.6	32.5
Net borrowings drawn		160.5	190.9
Repayment of borrowings		(134.0)	(83.8)
Net cash (outflow)/inflow from financing activities		(6.5)	110.5
(Decrease)/increase in cash and cash equivalents		(0.6)	1.6
Cash and cash equivalents at start of year		4.8	3.2
Cash and cash equivalents at end of year		4.2	4.8
Cash		4.2	4.8
Bank overdrafts		–	–
Cash and cash equivalents at end of year		4.2	4.8

Group accounting policies for the year ended 30th November 2016

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 as they apply to the Group for the year ended 30th November 2016, 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, convertible bonds and the defined benefit section of the Group's pension scheme.

In the current year the Group has adopted:

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
- Amendments to IAS 27 *Equity Method in Separate financial statements*
- Amendments to IFRSs *Annual Improvements to IFRSs 2010 – 2012 Cycle*
- Amendments to IFRSs *Annual Improvements to IFRSs 2011 – 2013 Cycle*

The adoption of the above amendments has had no material impact on the Group's financial statements.

The Company's functional currency (together with that of all of its subsidiaries) and the presentation currency for the Group is pounds sterling and its principal IFRS accounting policies are set out below.

Basis of consolidation

The Group's financial statements consolidate the financial statements of St. Modwen Properties PLC and the entities it controls. Control comprises exposure, or rights, to variable returns, the power to direct the relevant activities of the investee and the ability to use its power over the investee to affect the returns. This is achieved through direct or indirect ownership of voting rights or by contractual agreement. A list of the entities controlled is given in note D to the Company financial statements.

All entities are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-Group transactions, balances, income and expense are eliminated on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately within equity in the Group balance sheet.

Interests in joint arrangements

Arrangements under which the Group has contractually agreed to share control with another party or parties are assessed to determine whether they represent joint ventures or joint operations. Joint arrangements are classified as joint ventures where the parties have rights to the net assets of the arrangement. Should the parties have rights to assets and obligations for liabilities relating to the arrangement they would instead be classified as joint operations. Currently, all arrangements where the Group has contractually agreed to share control have been determined to be joint ventures.

The Group recognises its interests in joint ventures using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in the value of individual investments. The Group income statement reflects the Group's share of the joint venture's results after interest and tax.

Financial statements of joint ventures are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group.

The Group statement of comprehensive income reflects the Group's share of any income and expense recognised by the joint venture entities outside the Group income statement.

Interests in associates

The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint arrangements, are accounted for using the equity method of accounting, as described above.

Business combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and is adjusted to reflect the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred (adjusted to reflect the fair value of any pre-existing equity interest in the subsidiary) and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the acquired subsidiary and the measurement of all amounts has been reviewed, the difference is recognised directly in the Group income statement as a release of negative goodwill to income.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, which is the rate that a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the Group income statement.

Properties

Investment properties

Investment properties, being freehold and leasehold properties held to earn rental income, for capital appreciation and/or for undetermined future use, together with land options where the land is for an undetermined future use, are carried at fair value following initial recognition at the present value of the consideration payable. To establish fair value, investment properties are independently valued on the basis of market value. Any surplus or deficit arising is recognised in the Group income statement for the year.

Once classified as an investment property, a property remains in this category until development with a view to sale commences, at which point the asset is transferred to inventories at current valuation.

Where an investment property is being redeveloped for continued use as an investment property, the property remains within investment property and any movement in valuation is recognised in the Group income statement.

Investment property disposals are recognised on completion. Profits and losses arising are recognised through the Group income statement and the profit or loss on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset.

Investment properties are not depreciated.

Inventories

Inventories principally comprise properties previously developed and held for sale, properties under construction with a view to sale and land under option with a view to future sale. All inventories are carried at the lower of cost and net realisable value.

Cost comprises land, direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition. When inventory includes a transfer from investment properties, cost is recorded as the book value at the date of transfer. Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal. Inventory is transferred to investment properties only when the asset meets the definition of an investment property and there has been a change in use evidenced by commencement of an operating lease.

Due to the scale of the Group's developments, the Group has to allocate site-wide development costs between properties on the site. Such site-wide costs are allocated to properties based on the forecast value of each individual unit as a proportion of the aggregate forecast value of the individual units on the site. In making these assessments, there is a degree of inherent uncertainty.

The Group has developed internal controls to assess and review carrying values and the appropriateness of estimates made.

Operating property, plant and equipment

Operating property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all operating property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life as follows:

- leasehold operating properties – over the shorter of the lease term and 25 years; and
- plant, machinery and equipment – over two to five years.

Leases

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Non-property assets held under finance leases are capitalised at the inception of the lease with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Group income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Non-property assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Interests in leasehold investment properties are accounted for as finance leases with the value of guaranteed minimum rents inherent within the carrying value of the property and the liability reflected within long-term liabilities. On payment of a guaranteed rent, initially the majority of such costs is charged to the Group income statement as interest payable, with the balance reducing the liability.

Rentals payable under operating leases are charged in the Group income statement on a straight-line basis over the lease term.

The Group as lessor

Rental income from operating leases, adjusted for the impact of any cash incentives given to the lessee and to reflect any rent-free incentive periods, is recognised in the Group income statement on a straight-line basis over the lease term.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

The tax currently payable is based on the taxable result for the year. The taxable result differs from the result as reported in the Group income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that will not be taxable or deductible.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, using the rates of tax expected to apply based on legislation enacted or substantively enacted at the balance sheet date, with the following exceptions:

- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is charged or credited directly to equity or other comprehensive income if it relates to items that are credited or charged to equity or other comprehensive income. Otherwise, income tax is recognised in the Group income statement.

As a property group, tax and its treatment is often an integral part of transactions. The outcome of tax treatments, including tax planning, are recognised by the Group to the extent that the outcome is reasonably certain. Where tax treatments have been challenged by HMRC, or management believe that there is a risk of such challenge, provision is made for the best estimate of potential exposure based on the information available at the balance sheet date where such exposure is considered more likely than not to occur.

Pensions

The Group operates a pension scheme with both defined benefit and defined contribution sections. The defined benefit section is closed to new members and, from 1st September 2009, to future accrual.

The cost of providing benefits under the defined benefit section is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on the earlier of:

- the date on which the plan amendment or curtailment occurs; or
- when the Company recognises related restructuring costs or termination benefits.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised in the Group income statement as finance costs.

Actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised in full in the Group statement of comprehensive income in the year in which they occur. The defined benefit pension asset or liability in the Group balance sheet comprises the present value of the defined benefit obligation, less the fair value of plan assets out of which the obligations are to be settled directly.

When a pension asset (net surplus) arises from the above calculation, it is limited to the present value of any economic benefits that will be available to the Company in accordance with the requirements of IFRIC 14.

Contributions to defined contribution schemes are recognised in the Group income statement in the year in which they become payable.

Own shares

Shares in St. Modwen Properties PLC held by the Group are classified as a deduction from equity attributable to owners of the Company and are recognised at cost.

Dividends

Dividends declared and approved after the balance sheet date are not recognised as liabilities at the balance sheet date.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received (including the fair value of any residential properties received in part-exchange), excluding discounts, rebates, VAT and other sales taxes or duty. Where required, revenue is allocated between components in a multi-element transaction (e.g. where there is simultaneously a sale of land and a construction contract with the purchaser of the land) based on their respective fair values of the components.

The following criteria must also be met before revenue is recognised:

Sale of property

Revenue arising from the sale of property is recognised on legal completion of the sale.

Construction contracts

Revenue arising from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below). An appropriate proportion of revenue from construction contracts is recognised by reference to the stage of completion of contract activity.

Rental income

Rental income arising from investment properties is accounted for on a straight-line basis over the lease term.

Management and performance fees

Where the Group is solely providing development management services (without being responsible for the performance of the underlying construction), management fees receivable are recognised over time as the service is performed in the period to which they relate. Performance fees are recognised when the Group has substantially fulfilled its obligations in respect of the transaction and hence the amount of revenue can be measured reliably and it is probable that economic benefits will flow to the Group.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income from joint ventures is recognised when the shareholders' rights to receive payment have been established.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The extent to which the contract is complete is determined by the total costs incurred to date as a percentage of the total anticipated costs of the entire contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Government grants

Government grants relating to property are treated as deferred income and released to profit or loss over the expected useful life of the assets concerned.

Share-based payments

Share-based payments to employees are equity-settled and are measured at the fair value of the equity instruments at the grant date, using an appropriate option pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

Fair value hierarchy

Assets and liabilities that are measured subsequent to initial recognition at fair value, are required to be grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

Financial instruments

Financial assets and financial liabilities are recognised on the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for any amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or expire.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value or recoverable amount. Provision is made when there is evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short-term deposits with banks with initial maturity less than three months.

Trade and other payables

Trade and other payables are recorded at amortised cost. Where payment is on deferred terms the liability is initially recorded by discounting the nominal amount payable to net present value. The discount to nominal value is amortised over the period of the deferred arrangement and charged to finance costs.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, loans and borrowings are measured at amortised cost.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in finance income or finance expense, as appropriate.

The effective interest rate method is used to charge interest to the Group income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently re-measured at fair value. The Group has determined that the derivative financial instruments in use do not qualify for hedge accounting and, consequently, any gains or losses arising from changes in the fair value of derivatives are taken to the Group income statement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments issued by the Group are recorded at the proceeds received less direct issue costs.

Convertible bonds

Convertible bonds are assessed on issue as to whether they should be classified as a financial liability, as equity or as a compound financial instrument with both debt and equity components. This assessment is based on the terms of the bond and in accordance with IAS 32 *Financial Instruments: Presentation*. The Group's convertible bonds have been designated as at fair value through profit and loss.

Critical judgements in applying the Group's accounting policies

In the application of the Group's accounting policies outlined above, the directors are required to make judgements relating to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Going concern

The financial statements have been prepared on a going concern basis. This is discussed in the Strategic report and as confirmed in the Directors' report it is considered appropriate to prepare the financial statements for the year ended 30th November 2016 on a going concern basis. Further detail is contained in the viability statement included in the Strategic report on page 52.

Valuation of investment properties

The Group adopts the valuation performed by its independent valuers as the fair value of its investment properties, following review by management. The valuation is performed according to RICS rules, using appropriate levels of professional judgement for the prevailing market conditions. Professional judgement is applied in determining such things as an appropriate yield for a given property, estimated rental values and the appropriateness of remediation expenditure and costs to complete.

Complex transactions

Certain property transactions entered into by the Group involve an element of complexity and the need to exercise judgement to determine the most appropriate accounting policy. Such transactions include the accounting for the right to secure the interest in the surplus land at New Covent Garden Market together with the associated obligation to procure the new market for the Covent Garden Market Authority (further details of which are set out below).

New Covent Garden Market

The contractual arrangement between VSM (NCGM) Ltd (the group's 50:50 joint venture with VINCI in respect of New Covent Garden Market) and the Covent Garden Market Authority (CGMA) involves VSM (NCGM) Ltd committing to procure a new market for the CGMA and in return receiving an option to acquire the surplus land on the site. In substance the arrangement represents a barter of development and construction services for the interest in the land.

In determining the most appropriate accounting policy for the arrangement, consideration was given as to whether to account for the transaction as the acquisition of an interest in the surplus land for non-cash consideration or to account for the development as a construction contract under IAS 11 *Construction Contracts*, with the consideration taking the form of the non-cash interest in the surplus land. It was concluded that the former more faithfully and fairly represented the substance of the arrangement, reflecting that the key strategic rationale for entering into the transaction was to secure the interest in the surplus land and then to unlock its significant value, rather than to secure construction activity in building a new market.

Judgement was also applied in determining the appropriate classification for the interest in the surplus land, which legally takes the form of an option. Given the intention to take physical delivery of the land and that, at the point of initial recognition, it had not been determined whether to hold the surplus land for capital appreciation or to sell it on to a third party, the surplus land interest was judged to meet the definition of an investment property under IAS 40 *Investment Properties*, and hence has been accounted for in this way (rather than as a financial asset or as inventory).

Subsequent to initial recognition of the interest in the land as investment property and the recognition of the liability to procure the new market facilities, judgement was also applied in determining whether there should be any on-going interaction between the two balances – for example, whether any subsequent adjustment to the estimate of the liability should be accounted for as an adjustment to the original investment property purchase price (which ultimately would give rise to an investment property revaluation gain or loss) or as a separate provision remeasurement gain or loss in the income statement. As, going forward, the two balances operate entirely independently of each other, it was determined that they should also be accounted for separately in accordance with the requirements of their respective applicable accounting standards.

Consequently, remeasurements of both the investment property valuation and provision liability are recognised, separately, in VSM (NCGM)'s income statement in accordance with the requirements of IAS 40 *Investment Property* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* respectively. Remeasurements of both the investment property valuation and provision liability are reflected together as component parts of the 'profits/losses of joint ventures and associates (post-tax)' line within the group income statement.

Key sources of estimation uncertainty

In the application of the Group's accounting policies outlined above, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and so actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Net realisable value of inventories

The Group has ongoing procedures for assessing the carrying value of inventories and identifying where this is in excess of net realisable value. The estimates and judgements for both revenue and costs were based on information available at, and pertaining to, 30th November 2016. Any subsequent adverse changes in market conditions may result in additional provisions being required, although it would require a fall in average house prices in excess of 10% before any additional net realisable value provisions would be required on residential development land.

Taxation

As a property group, tax and its treatment is often an integral part of transactions. The outcome of tax treatments are recognised by the Group to the extent the outcome is reasonably certain. Where tax treatments have been challenged by HMRC, or management believe that there is a risk of such challenge, provision is made for the best estimate of potential exposure based on the information available at the balance sheet date. Management's assessment of the level of provision required is, where applicable, supported by the Group's tax advisors. If HMRC were to be successful in challenging tax treatments to a greater extent than has been provided at the balance sheet date then additional provisions may be required.

The tax currently payable is based on the taxable result for the year. The taxable result differs from the result as reported in the Group income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that will not be taxable or deductible. In particular, as a property group, the effective tax rate for the year reflects the benefit of certain investment gains not being taxable because of indexation, capital allowances, land remediation and other reliefs on certain property expenditure, the utilisation of capital tax losses brought forward and the property ownership structure of the Group. The effect of these adjustments have to be estimated at the balance sheet date, based on historical corporation tax computations and the expected outcome from the preparation of the tax computations for the current year, in consultation with the Group's tax advisors.

Standards and interpretations not yet effective

At the date of approval of these financial statements, the following standards, amendments and interpretations which have not been adopted in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 *Financial Instruments*
- IFRS 14 *Regulatory Deferral Accounts*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to IAS 1 and IAS 7 *Disclosure Initiative*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*
- Amendments to IFRSs *Annual Improvements to IFRSs 2012 – 2014 Cycle*

The directors are still assessing the impact that the adoption of these standards, amendments and interpretations will have on the financial statements of the Group in future periods. Adoption of the majority of these standards, amendments and interpretations are expected to have little or no impact on the reported results of the Group, although amended disclosures may be required.

IFRS 9 will impact both the measurement and disclosures of financial instruments and is effective for the Group's year ending 30th November 2019. The Group has not yet completed its evaluation of the effect of the adoption.

IFRS 15 may have an impact on revenue recognition and related disclosures and is effective for the Group's year ending 30th November 2019. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group has not yet completed its evaluation of the effect of the adoption and this standard is not effective until the Group's year ending 30th November 2020.

Notes to the Group financial statements for the year ended 30th November 2016

1. Segmental information

a. Reportable segments

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

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

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

b. Segment revenues and results

	2016			2015		
	Portfolio £m	Residential development £m	Total £m	Portfolio £m	Residential development £m	Total £m
Rental income	53.1	–	53.1	41.2	–	41.2
Development	77.8	150.0	227.8	98.4	140.5	238.9
Other income	6.8	–	6.8	7.4	–	7.4
Revenue	137.7	150.0	287.7	147.0	140.5	287.5

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

The Group's total revenue for 2016 was £302.5m (2015: £300.8m) and in addition to the amounts above included service charge income of £9.4m (2015: £9.4m), for which there was an equivalent expense and interest income of £5.4m (2015: £3.9m).

	2016			2015		
	Portfolio £m	Residential development £m	Total £m	Portfolio £m	Residential development £m	Total £m
Net rental income	40.5	–	40.5	32.8	–	32.8
Development profits	20.1	31.6	51.7	22.6	29.1	51.7
Gains on disposal of investments/ investment properties	9.5	–	9.5	11.7	–	11.7
Investment property revaluation gains	30.3	–	30.3	73.9	–	73.9
Other net income	4.2	–	4.2	4.2	–	4.2
(Losses)/profits of joint ventures and associates ⁽²⁾	(18.4)	–	(18.4)	125.6	–	125.6
Administrative expenses	(28.5)	(4.5)	(33.0)	(23.7)	(2.4)	(26.1)
Allocation of administrative expenses	5.2	(5.2)	–	2.8	(2.8)	–
Finance costs ⁽³⁾	(19.2)	–	(19.2)	(15.1)	(2.0)	(17.1)
Finance income ⁽⁴⁾	5.4	–	5.4	3.9	–	3.9
Attributable profit	49.1	21.9	71.0	238.7	21.9	260.6
Other losses of joint ventures and associates ⁽²⁾			(9.8)			(18.8)
Other finance costs ⁽³⁾			(3.8)			(8.1)
Other finance income ⁽⁴⁾			9.5			1.5
Profit before tax			66.9			235.2

(1) In the Strategic report, housebuilding profit of £27.1m (2015: £26.7m) is stated before the allocation of administrative expenses and finance costs of £5.2m (2015: £4.8m).

(2) Stated before mark-to-market of derivatives, amortisation of loan arrangement fees, other non-cash items and tax of £9.8m (2015: £18.8m). These amounts are reclassified to other losses of joint ventures and associates.

(3) Stated before mark-to-market of derivatives, amortisation of loan arrangement fees and other non-cash items of £3.8m (2015: £8.1m). These amounts are reclassified to other finance costs.

(4) Stated before mark-to-market of derivatives and other non-cash items of £9.5m (2015: £1.5m). These amounts are reclassified to other finance income.

1. Segmental information continued

Other net income of £4.2m (2015: £4.2m) comprises revenue of £6.8m (2015: £7.4m) less associated costs of £2.6m (2015: £3.2m).

Cost of sales in respect of rental income comprise direct operating expenses (including repairs and maintenance) related to the investment property portfolio and total £12.6m (2015: £8.4m), of which £0.3m (2015: £0.6m) is in respect of properties that did not generate any rental income.

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

	2016 £m	2015 £m
Revenue	27.5	87.7
Cost of sales	(21.5)	(75.2)
Gross profit	6.0	12.5

Amounts recoverable on contracts as disclosed in note 11 comprise £12.1m (2015: £23.5m) of contract revenue recognised and £3.2m (2015: £7.8m) of retentions.

Contracts in progress at 30th November 2016 include the aggregate amount of costs incurred £17.2m (2015: £134.3m), recognised profits less recognised losses to date £8.6m (2015: £35.5m) and advances received £25.6m (2015: £27.4m).

There were amounts due to customers of £nil (2015: £nil) included in trade and other payables in respect of contracts in progress at the balance sheet date.

c. Segment assets and liabilities

	2016			2015		
	Portfolio £m	Residential development £m	Total £m	Portfolio £m	Residential development £m	Total £m
Investment property	1,133.0	–	1,133.0	1,081.0	–	1,081.0
Inventories	103.5	126.2	229.7	84.2	99.5	183.7
Investments in joint ventures and associates	184.8	–	184.8	227.3	–	227.3
Attributable assets	1,421.3	126.2	1,547.5	1,392.5	99.5	1,492.0
Operating property, plant and equipment			4.2			4.2
Trade and other receivables			124.0			110.8
Cash and cash equivalents			4.2			4.8
Trade and other payables			(154.1)			(149.7)
Derivative financial instruments			(7.2)			(7.2)
Borrowings and finance lease obligations			(527.4)			(506.9)
Tax payable			(7.1)			(11.1)
Deferred tax			(22.0)			(15.4)
Net assets			962.1			921.5

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 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, meaning that proportionally consolidated (see-through) measures are particularly relevant whilst also having the benefit of removing the taxation effects on equity accounted entities from the statutory profit before tax figure. A number of these measures are explained below:

Profit before all tax (note 2a): This proportionally consolidated measure adjusts profit before tax to remove taxation on joint venture and associate profits from the profit before tax figure and as such, Group profit before tax of £66.9m (2015: £235.2m) can be reconciled to profit before all tax of £60.8m (2015: £258.4m) by adjusting profit before tax for the tax credit relating to joint ventures and associates of £6.1m (2015: charge of £23.2m).

Trading profit (note 2a): Trading profit is derived similarly to profit before all tax, but is stated before the principal non-cash income statement items included in this measure, being revaluation gains and non-cash financing charges. For a property company with a low depreciation charge and no amortisation, this therefore represents a more useful measure than the EBITDA alternative performance measure used by many other companies.

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

EPRA NAV per share (note 2g): Whilst it is a non-GAAP measure, EPRA NAV is a standard real estate measure. Its objective 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.

Total accounting return (note 2g): Our shareholders measure their returns in terms of both the Group's growth and the dividend return. Total accounting return combines these two items by adding EPRA NAV per share (defined above) to the annual dividend paid per share and measuring this against opening EPRA NAV per share. Whilst this is often measured by Total Shareholder Return which combines share price growth and dividend return, in the real estate sector, it is also insightful to consider net asset growth, which therefore directly reflects the most recent valuation of assets.

a. Trading profit and profit before all tax

	2016			2015		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Net rental income	40.5	5.4	45.9	32.8	5.9	38.7
Development profit ⁽¹⁾	52.0	–	52.0	53.1	–	53.1
Gains on disposal of investments/ investment properties	9.5	0.5	10.0	11.7	2.6	14.3
Other income	4.2	–	4.2	4.2	–	4.2
Administrative expenses	(33.0)	(0.8)	(33.8)	(26.1)	(0.4)	(26.5)
Finance costs ⁽²⁾	(19.2)	(9.2)	(28.4)	(17.1)	(8.3)	(25.4)
Finance income ⁽³⁾	5.4	0.8	6.2	3.9	1.0	4.9
Trading profit	59.4	(3.3)	56.1	62.5	0.8	63.3
Investment property revaluation gains/(losses) ⁽¹⁾	30.0	(25.9)	4.1	72.5	129.2	201.7
Other net finance costs ⁽²⁾	(3.8)	(5.8)	(9.6)	(8.1)	(0.6)	(8.7)
Other finance income ⁽³⁾	9.5	0.7	10.2	1.5	0.6	2.1
Profit/(loss) before all tax	95.1	(34.3)	60.8	128.4	130.0	258.4
Taxation	(13.3)	6.1	(7.2)	(17.9)	(23.2)	(41.1)
Profit/(loss) for the year	81.8	(28.2)	53.6	110.5	106.8	217.3
Effective tax rate	14.0%	17.8%	11.8%	13.9%	17.8%	15.9%

(1) Stated before the deduction of net realisable valuation provisions within the Group of £0.3m (2015: £1.4m) and for joint ventures and associates of £nil (2015: £nil). These items are reclassified to investment property revaluation gains.

(2) Stated before mark-to-market of derivatives, amortisation of loan arrangement fees and other non-cash items within the Group of £3.8m (2015: £8.1m) and for joint ventures and associates of £5.8m (2015: £0.6m). These items are reclassified to other finance costs.

(3) Stated before mark-to-market of derivatives and other non-cash items within the Group of £9.5m (2015: £1.5m) and for joint ventures and associates of £0.7m (2015: £0.6m). These items are reclassified to other finance income.

b. Property valuations

The split of property valuations gains and losses between added value and market movements, including the Group's share of joint ventures and associates, is based on analysis of the total property valuation movements provided by the Group's external valuers as set out below:

	2016			2015		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Property revaluation gains/(losses)	30.3	(25.9)	4.4	73.9	129.2	203.1
Net realisable value provisions	(0.3)	–	(0.3)	(1.4)	–	(1.4)
Property valuation gains/(losses)	30.0	(25.9)	4.1	72.5	129.2	201.7
Added value	27.5	0.8	28.3	37.7	128.3	166.0
Market movements	2.5	(26.7)	(24.2)	34.8	0.9	35.7
Property valuation gains/(losses)	30.0	(25.9)	4.1	72.5	129.2	201.7

2. Non-statutory information continued

c. Balance sheet

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

	2016			2015		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Property portfolio	1,370.5	381.8	1,752.3	1,272.7	418.9	1,691.6
Other assets	126.2	44.4	170.6	112.6	43.9	156.5
Gross assets	1,496.7	426.2	1,922.9	1,385.3	462.8	1,848.1
Net borrowings	(470.0)	(47.0)	(517.0)	(442.9)	(46.4)	(489.3)
Finance leases	(56.8)	(0.9)	(57.7)	(55.1)	(1.2)	(56.3)
Other liabilities	(192.6)	(193.5)	(386.1)	(193.1)	(187.9)	(381.0)
Gross liabilities	(719.4)	(241.4)	(960.8)	(691.1)	(235.5)	(926.6)
Net assets	777.3	184.8	962.1	694.2	227.3	921.5
Non-controlling interest	(6.9)	–	(6.9)	(6.8)	–	(6.8)
Equity attributable to owners of the Company	770.4	184.8	955.2	687.4	227.3	914.7

d. Property portfolio

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

	2016			2015		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Investment properties	1,133.0	375.6	1,508.6	1,081.0	416.8	1,497.8
Less assets held under finance leases not subject to revaluation	(3.9)	(0.9)	(4.8)	(3.9)	(1.2)	(5.1)
Add back lease incentives (recorded in receivables)	11.7	0.7	12.4	11.9	1.4	13.3
Inventories (held at lower of cost and net realisable value)	229.7	6.4	236.1	183.7	1.9	185.6
Property portfolio	1,370.5	381.8	1,752.3	1,272.7	418.9	1,691.6

As at 30th November 2016 the Group had assets of £328.3m (2015: £633.2m) included within the Group property portfolio (excluding joint ventures and associates) which were wholly owned, unencumbered and able to be pledged as security for the Group's debt facilities.

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

	2016 £m	2015 £m
Industrial and logistics	283.5	247.2
Retail	342.2	333.7
Residential and other	161.0	146.2
Income producing property	786.7	727.1
Residential land	742.0	757.7
Commercial land	223.6	206.8
Property portfolio	1,752.3	1,691.6

e. Movement in net debt

The movement in net debt is set out below:

	2016 £m	2015 £m
Movement in cash and cash equivalents	(0.6)	1.6
Borrowings drawn	(160.5)	(190.9)
Repayment of borrowings	134.0	83.8
Increase in net borrowings	(27.1)	(105.5)
Fair value movements on convertible bonds	7.7	(4.1)
Finance leases	(1.7)	(32.5)
Increase in net debt	(21.1)	(142.1)

f. Trading cash flow

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

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

	2015					
	Operating activities £m	Investing activities £m	Financing activities £m	Total £m	Joint ventures and associates £m	Total £m
Net rent and other income	37.0	–	–	37.0	5.9	42.9
Property disposals	180.5	84.4	–	264.9	1.2	266.1
Property acquisitions	–	(57.2)	–	(57.2)	–	(57.2)
Capital expenditure	(208.2)	(104.1)	–	(312.3)	(14.2)	(326.5)
Working capital and other movements	(9.4)	–	–	(9.4)	20.9	11.5
Overheads and interest	(33.1)	3.9	(18.0)	(47.2)	(7.7)	(54.9)
Taxation	(9.4)	–	–	(9.4)	(0.3)	(9.7)
Trading cash flow	(42.6)	(73.0)	(18.0)	(133.6)	5.8	(127.8)
Finance leases	–	–	32.5	32.5	–	32.5
Net borrowings	–	–	107.1	107.1	3.6	110.7
Net dividends	–	6.7	(11.1)	(4.4)	(6.7)	(11.1)
Movement in cash and cash equivalents	(42.6)	(66.3)	110.5	1.6	2.7	4.3

2. Non-statutory information continued

g. Net assets per share and total accounting return

Net assets per share and total accounting return are calculated as set out below:

	2016				2015			
	£m	Pence per share	Movement		£m	Pence per share	Movement	
			Pence per share	%			Pence per share	%
Total equity	962.1				921.5			
Less non-controlling interests	(6.9)				(6.8)			
Equity NAV attributable to owners of the Company	955.2	431.0	17.5	4.2	914.7	413.5	88.4	27.2
Adjustments of inventories to fair value	13.6				11.9			
EPRA NNAV	968.8	437.2	18.3	4.4	926.6	418.9	88.6	26.8
Deferred tax on capital allowances and revaluations	47.9				50.0			
Mark-to-market of derivative financial instruments	3.8				10.9			
EPRA NAV	1,020.5	460.5	14.1	3.2	987.5	446.4	104.1	30.4
Dividend paid per share (note 7)			5.8				5.0	
Total accounting return			19.9	4.5			109.1	31.9

(1) The number of shares in issue used to calculate the net asset values per share is 221,607,654 (2015: 221,186,714), excluding those shares held by The St. Modwen Properties PLC Employee Share Trust, as disclosed in note 17.

h. Net borrowing and net debt

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

	2016 £m	2015 £m
Cash and cash equivalents	4.2	4.8
Borrowings due within one year	–	–
Borrowings due after more than one year	(470.6)	(451.8)
Less fair value movements on convertible bonds	(3.6)	4.1
Net borrowings	(470.0)	(442.9)
Fair value movements on convertible bonds	3.6	(4.1)
Finance lease liabilities due within one year	(0.4)	(0.4)
Finance lease liabilities due after more than one year	(56.4)	(54.7)
Net debt	(523.2)	(502.1)

i. Gearing and loan-to-value

The Group's capacity to borrow is primarily linked to the quantum of the property portfolio excluding assets held under finance leases. Accordingly both adjusted gearing and loan-to-value are calculated using the comparable measure of net borrowings.

The table overleaf shows the calculation of:

- gearing, being the ratio of net debt to total equity;
- adjusted gearing, being the ratio of net borrowings to total equity;
- loan-to-value, being the ratio of net borrowings to the property portfolio excluding valued assets held as finance leases (representing amounts that could be used as security for that debt); and
- loan-to-value excluding residential land, being the ratio of net borrowings to the property portfolio excluding valued assets held as finance leases and residential land (reflecting that residential land is a less attractive asset for security purposes).

	2016			2015		
	Group £m	Joint ventures and associates £m	Total £m	Group £m	Joint ventures and associates £m	Total £m
Property portfolio (note 2d)	1,370.5	381.8	1,752.3	1,272.7	418.9	1,691.6
Less valued assets under finance leases	(57.8)	–	(57.8)	(53.1)	–	(53.1)
Net property portfolio	1,312.7	381.8	1,694.5	1,219.6	418.9	1,638.5
Less residential land (note 2d)	(460.2)	(281.8)	(742.0)	(442.1)	(315.6)	(757.7)
Net property portfolio excluding residential land	852.5	100.0	952.5	777.5	103.3	880.8
Total equity	962.1	N/A	962.1	921.5	N/A	921.5
Net debt (note 2h)	523.2	47.9	571.1	502.1	47.6	549.7
Net borrowings (note 2h)	470.0	47.0	517.0	442.9	46.4	489.3
Gearing	54.4%		59.4%	54.5%		59.7%
Adjusted gearing	48.9%		53.7%	48.1%		53.1%
Loan-to-value	35.8%		30.5%	36.3%		29.9%
Loan-to-value excluding residential land	N/A		54.3%	N/A		55.6%

Bank covenant compliance is based on the ratio of gearing being net debt to equity of 54.4% (2015: 54.5%) against a covenant of 175.0% (2015: 175.0%).

3. Other income statement disclosures

a. Administrative expenses

Administrative expenses have been arrived at after charging:

	2016 £m	2015 £m
Depreciation	0.7	0.8
Operating lease costs	1.5	1.5

b. Auditor's remuneration

The table below sets out the fees payable to the Company's auditor and their associates for the following services:

	2016			2015		
	Audit and audit-related services £'000	Other services £'000	Total £'000	Audit and audit-related services £'000	Other services £'000	Total £'000
The audit of the Company's Annual Report and financial statements	130	–	130	125	–	125
The audit of the Company's subsidiaries and joint ventures	250	–	250	162	–	162
Total audit fees	380	–	380	287	–	287
Audit-related assurance services	67	–	67	60	–	60
Other assurance services	25	–	25	3	–	3
Tax compliance services	–	–	–	–	16	16
Tax advisory services	–	–	–	–	20	20
Property consulting	–	20	20	–	69	69
Other	–	2	2	–	2	2
Total non-audit fees	92	22	114	63	107	170
Total fees	472	22	494	350	107	457

The Group continues to monitor the provision of audit and other services by the auditor. Fees charged for other services in 2016 were 5% (2015: 31%) of audit and audit-related fees. The Group's policy permits the auditor to provide non-audit services where alternative providers do not exist or where it is cost effective or in the Group's interest for the external auditor to provide such services, as long as such services are permissible under the Audit Regulations. Further information is included in the Audit Committee report.

3. Other income statement disclosures continued

c. Employees

The monthly average number of full-time employees (including executive directors) employed by the Group during the year was as follows:

	2016 Number	2015 Number
Property and administration	301	257
Leisure and other activities	44	52
Total employees	345	309

The total payroll costs of these employees were:

	2016 £m	2015 £m
Wages and salaries	20.1	18.6
Social security costs	2.8	2.4
Pension costs	0.8	0.8
Total payroll costs	23.7	21.8

d. Share-based payments

The Group has a Save As You Earn share option scheme open to all employees. Employees must ordinarily remain in service for a period of three or five years from the date of grant before exercising their options. The option period ends six months following the end of the vesting period.

The Group also operates a discretionary Executive Share Option Scheme (ESOS). Options are granted at a fixed price equal to the market price at the date of grant. With the exception of awards made to executive directors in conjunction with PSP awards granted in 2012, there are no performance conditions attached to ESOS awards. Employees must ordinarily remain in service for a period of three years from the date of grant before exercising their ESOS awards. The option ends on the 10th anniversary of the date of grant.

Details of the Group's Performance Share Plan (PSP) are given in the Directors' remuneration report.

The following table illustrates the movements in share options during the year. As the PSP includes the grant of options at £nil exercise price, the weighted average prices below are calculated including and excluding the options under this plan.

	Number of options	2016 Weighted average price		Number of options	2015 Weighted average price	
		All options £	Excluding PSP £		All options £	Excluding PSP £
Outstanding at start of year	6,090,088	2.33	2.89	9,117,437	1.87	2.31
Granted	3,045,446	1.70	2.68	1,288,365	3.46	4.67
Forfeited	(637,445)	2.42	3.64	(398,241)	3.23	3.23
Exercised	(811,487)	0.67	1.68	(3,917,473)	1.57	2.03
Outstanding at end of year	7,686,602	2.27	2.83	6,090,088	2.33	2.89
Exercisable at year end	2,537,505	2.18	2.18	1,887,986	1.75	1.75

Share options are priced using a Black-Scholes valuation model. The aggregate of the fair values calculated and the assumptions used for share options granted during the year are as follows:

	Aggregate of fair values £m	Risk-free interest rate %	Expected volatility %	Dividend yield %	Share price ⁽¹⁾ £
30th November 2016	3.2	0.1-0.3	22.3-32.9	1.1	2.69-3.23
30 th November 2015	2.1	1.1-2.0	31.0-50.3	1.1	4.17-4.75

(1) Based on the closing share price on the date of grant.

The charge to the Group income statement in respect of share-based payments during the year was £1.6m (2015: £2.0m).

The fair value of the share incentive reserve in respect of share options outstanding at the year end was £4.9m (2015: £5.2m) and included £2.2m (2015: £1.8m) in respect of options that had vested at the year end.

In arriving at fair value it has been assumed that, when vested, share options are exercised in accordance with historical trends. Expected volatility was determined by reference to the historical volatility of the Group's share price over a period consistent with the expected life of the options.

The weighted average share price at the date of exercise was £2.76 (2015: £4.63). The executive share options outstanding at the year end had a range of exercise prices between £1.78 and £4.75 (2015: £1.75 and £4.74) with PSP options exercisable at between £nil and £4.71 (2015: £nil and £4.71). Outstanding options had a weighted average maximum remaining contractual life of 4.7 years (2015: 5.8 years).

4. Finance costs and finance income

	2016 £m	2015 £m
Interest payable on borrowings	18.1	16.5
Amortisation of loan arrangement fees	1.2	1.1
Amortisation of discount on deferred payment arrangements	0.4	1.1
Head rents treated as finance leases	1.1	0.6
Movement in fair value of convertible bond	–	4.1
Movement in fair value of derivative financial instruments	1.3	0.8
Interest on pension scheme liabilities	0.9	1.0
Total finance costs	23.0	25.2
	2016 £m	2015 £m
Interest receivable	5.4	3.9
Movement in fair value of convertible bond	7.7	–
Movement in fair value of derivative financial instruments	0.8	0.4
Interest income on pension scheme assets	1.0	1.1
Total finance income	14.9	5.4

5. Taxation

a. Tax on profit on ordinary activities

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

	2016 £m	2015 £m
Current tax		
Current year tax	11.9	13.9
Adjustments in respect of previous years	(5.2)	(0.8)
Total current tax	6.7	13.1
Deferred tax		
Impact of current year revaluations and indexation	2.9	4.3
Net use of tax losses	0.5	–
Other temporary differences	1.1	0.4
Change in rate for provision of deferred tax	–	(0.1)
Adjustments in respect of previous years	2.1	0.2
Total deferred tax	6.6	4.8
Total tax charge in the Group income statement	13.3	17.9

The tax charge relating to actuarial losses on pension schemes in the Group statement of comprehensive income is £nil (2015: £nil).

5. Taxation continued

b. Reconciliation of effective tax rate

	2016 £m	2015 £m
Profit before tax	66.9	235.2
Less loss/(profit) of joint ventures and associates (post-tax)	28.2	(106.8)
Pre-tax profit attributable to the Group	95.1	128.4
Corporation tax at 20.0% (2015: 20.3%)	19.0	26.1
Effect of non-deductible expenses and non-chargeable income	0.5	0.3
Impact of current year revaluations and indexation	(3.1)	(6.3)
Difference between chargeable gains and accounting profit	–	0.2
Change in rate used for provision of deferred tax	–	(0.1)
Recognition of previously unrecognised deferred tax assets in respect of losses	–	(1.7)
Current year charge	16.4	18.5
Adjustments in respect of previous years	(3.1)	(0.6)
Tax charge for the year	13.3	17.9
Effective rate of tax	14.0%	13.9%

The post tax results of joint ventures and associates are stated after a tax credit of £6.1m (2015: a charge of £23.2m). The effective tax rate for the Group including joint ventures and associates is a charge of 11.8% (2015: 15.9%).

Legislation substantively enacted at 30th November 2016 included provisions which reduced the main rate of corporation tax from 20% to 19% from 1st April 2017 and 17% from 1st April 2020. Current tax has therefore been provided at 20% and deferred tax at rates from 17% to 20%.

c. Balance sheet

	2016		2015	
	Current tax £m	Deferred tax £m	Current tax £m	Deferred tax £m
Balance at start of the year	11.1	15.4	7.3	11.7
Charged to the Group income statement	6.7	6.6	13.1	4.8
Net payment	(10.7)	–	(9.4)	–
Other	–	–	0.1	(1.1)
Balance at end of the year	7.1	22.0	11.1	15.4

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

	2016			2015		
	Asset £m	Liability £m	Net £m	Asset £m	Liability £m	Net £m
Property revaluations	–	19.4	19.4	–	16.4	16.4
Capital allowances	–	5.1	5.1	–	3.9	3.9
Appropriations to trading stock	–	0.3	0.3	–	0.5	0.5
Unutilised tax losses	–	–	–	(1.7)	–	(1.7)
Other temporary differences	(2.8)	–	(2.8)	(3.7)	–	(3.7)
Total deferred tax	(2.8)	24.8	22.0	(5.4)	20.8	15.4

At the balance sheet date, the Group has unused tax losses in relation to 2016 and prior years of £0.8m (2015: £2.9m), of which £nil (2015: £1.7m) has been recognised as a deferred tax asset. A deferred tax asset of £0.8m (2015: £1.2m) has not been recognised in respect of current and prior year tax losses as it is not considered sufficiently certain that there will be taxable profits available in the short-term against which these can be offset. These unrecognised losses arise predominantly from pre-acquisition activity or within connected parties, which are not able to be group relieved.

6. Earnings per share

	2016 Number of shares	2015 Number of shares
Weighted number of shares in issue	221,368,096	221,076,984
Weighted number of diluted shares relating to the convertible bond	18,867,925	18,867,925
Weighted number of diluted shares relating to share options	1,923,809	6,383,088
Weighted number of shares for the purposes of diluted earnings per share	242,159,830	246,327,997
	2016 £m	2015 £m
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	53.4	216.4
Effect of dilutive potential ordinary shares:		
Interest on convertible bond (net of tax)	2.3	2.3
Movement in fair value of the convertible bond	(7.7)	4.1
Earnings for the purposes of diluted earnings per share	48.0	222.8
	2016 Pence	2015 Pence
Basic earnings per share	24.1	97.9
Diluted earnings per share	19.8	90.4

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

As the Group is principally a development business EPRA earnings per share on a basic and diluted basis are not provided. These calculations exclude all revaluation gains, including value added by management actions, and development profits. These are the key activities of the Group and excluding such gains and profits would not provide a meaningful measure of the performance of the business.

7. Dividends

Dividends paid during the year were in respect of the final dividend for 2015 and interim dividend for 2016. The proposed final dividend is subject to approval at the annual general meeting and has not been included as a liability in these financial statements.

	2016		2015	
	Pence per share	£m	Pence per share	£m
Paid				
Final dividend in respect of previous year	3.85	8.5	3.14	6.9
Interim dividend in respect of current year	1.94	4.3	1.90	4.2
Total paid	5.79	12.8	5.04	11.1
Proposed				
Current year final dividend	4.06	9.0	3.85	8.5

The St. Modwen Properties PLC Employee Share Trust waives its entitlement to dividends with the exception of 1/100p per share.

8. Investment property

a. Fair value reconciliation

	Freehold investment properties £m	Leasehold investment properties £m	Total £m
At 30 th November 2014	723.9	132.9	856.8
Additions – new properties	57.2	–	57.2
Other additions	102.7	2.6	105.3
Net transfers from inventories (note 12)	51.6	13.3	64.9
Disposals	(55.4)	(21.7)	(77.1)
Gain on revaluation	67.8	6.1	73.9
At 30th November 2015	947.8	133.2	1,081.0
Additions – new properties	38.5	–	38.5
Other additions	50.7	0.8	51.5
Net transfers to inventories (note 12)	(13.3)	–	(13.3)
Disposals	(51.3)	(3.7)	(55.0)
Gain on revaluation	24.0	6.3	30.3
At 30th November 2016	996.4	136.6	1,133.0

Investment properties were valued at 30th November 2016 and 30th November 2015 by Cushman & Wakefield, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of market value. Cushman & Wakefield are professionally qualified independent external valuers and had appropriate recent experience in the relevant location and category of the properties being valued.

The historical cost of investment properties at 30th November 2016 was £893.3m (2015: £840.5m).

As at 30th November 2016, £800.5m (2015: £498.2m) of investment property was pledged as security for the Group's loan facilities.

Included within investment properties are £61.7m (2015: £57.0m) of assets held under finance leases.

b. Fair value measurement disclosures

IFRS 13 *Fair Value Measurement* disclosures in respect of investment property are detailed below.

The following table provides an analysis of the categorisation of the Group's investment properties measured subsequent to initial recognition at fair value:

		2016 £m	2015 £m
Income producing properties	Level 3	701.4	656.6
Residential land	Level 3	319.1	339.8
Commercial land	Level 3	120.3	92.6
Assets held under finance leases ⁽¹⁾	N/A	3.9	3.9
Lease incentives (recorded in receivables)	N/A	(11.7)	(11.9)
Investment property		1,133.0	1,081.0

(1) £3.9m (2015: £3.9m) of the Group's assets held under finance leases are not subject to valuation. These assets represent head leases on certain investment property and are carried at the value recognised at inception less repayments of principal. This does not include lease arrangements at Swansea University, which are subject to revaluation.

Income producing properties

Income producing properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include equivalent yields, current rent and estimated rental value (ERV). The resulting valuations are cross checked against the resulting initial yields and, for certain assets, the land value underpin if the assets were to be redeveloped.

Equivalent yields and ERV are considered to be unobservable inputs and details of the aggregate ERV and weighted average equivalent yields used for each category of income producing properties is provided in the following table:

	Fair value at 30 November 2016 £m	Aggregate ERV		Average equivalent yield	
		High yielding properties £m	Investment portfolio £m	High yielding properties %	Investment portfolio %
Industrial and logistics	223.7	18.6	6.0	8.7	6.9
Retail	327.9	9.6	17.0	9.0	6.6
Residential and other	149.8	0.8	8.8	9.8	5.4
Total income producing properties	701.4				

	Fair value at 30 November 2015 £m	Aggregate ERV		Average equivalent yield	
		High yielding properties £m	Investment portfolio £m	High yielding properties %	Investment portfolio %
Industrial and logistics	202.5	16.2	5.8	8.7	7.8
Retail	310.0	9.2	16.6	9.0	6.6
Residential and other	144.1	0.4	8.3	10.0	5.5
Total income producing properties	656.6				

As the Group holds property both directly and through joint ventures and associates the Strategic report discusses yields applied to investment property on a weighted average see-through basis. This provides a composite position with respect to the Group's exposure to asset types by sector. The equivalent yield ranges provided above are consistent with those for assets held by the Group together with joint ventures and associates.

The Group's portfolio has a wide spread of yields as it includes assets that are at various stages of the property lifecycle. Income producing assets are generally acquired at high yields where the Group has the opportunity to add significant value. As assets are enhanced and development activity is undertaken, improved and new assets are created and valued at lower yields.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of an asset and an increase in the current or estimated future rental stream would have the effect of increasing the capital value, and vice versa. However, there are interrelationships between the unobservable inputs which are partially determined by market conditions, which would impact on these changes.

Residential land

Residential land is valued using the residual development method. To derive the value of land the valuers will estimate the gross development value of completed residential units on a site from which deductions will be made for build costs (including costs to remediate and service land), finance costs and an appropriate profit margin.

Sales prices, build costs and profit margins are considered to be unobservable inputs and details of the ranges used is provided in the following table:

	Fair value £m	Sales price per square foot £	Build costs per square foot £	Profit margin %
At 30th November 2016	319.1	144-310	83-110	20.0
At 30 th November 2015	339.8	144-270	82-110	20.0

All other factors being equal, a higher sales price would lead to an increase in the valuation of an asset, a higher profit margin would lead to a decrease in the valuation of an asset, and a decrease in the build costs would have the effect of increasing the capital value, and vice versa. However, there are interrelationships between the unobservable inputs which are partially determined by market conditions, which would impact on these changes.

8. Investment property continued

Commercial land

Commercial land is valued on a land value per acre less costs to remediate and service the land. Land value per acre is considered to be an unobservable input and details of the ranges used are detailed in the following table:

	Fair value £m	Land value per acre £'000
At 30th November 2016	120.3	75-500
At 30 th November 2015	92.6	125-595

All other things being equal, a higher value per acre would lead to an increase in the valuation of an asset and vice versa.

9. Operating property, plant and equipment

	Operating properties £m	Operating plant and equipment £m	Total £m
Cost			
At 30 th November 2014	7.0	5.9	12.9
Additions	–	0.6	0.6
Disposals	(2.5)	(0.5)	(3.0)
At 30th November 2015	4.5	6.0	10.5
Additions	–	0.6	0.6
Disposals	–	(0.1)	(0.1)
At 30th November 2016	4.5	6.5	11.0
Depreciation			
At 30 th November 2014	1.0	4.9	5.9
Charge for the year	0.1	0.7	0.8
Disposals	–	(0.4)	(0.4)
At 30th November 2015	1.1	5.2	6.3
Charge for the year	–	0.7	0.7
Disposals	–	(0.2)	(0.2)
At 30th November 2016	1.1	5.7	6.8
Net book value			
At 30 th November 2014	6.0	1.0	7.0
At 30 th November 2015	3.4	0.8	4.2
At 30th November 2016	3.4	0.8	4.2

All operating properties are freehold operating properties.

10. Joint ventures and associates

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

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

The remainder of the Group's joint ventures and associates are listed in note D to the Company financial statements.

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

	2016					
	Key Property Investments Ltd £m	VSM Estates Uxbridge (Group) Ltd £m	VSM Estates (Holdings) Ltd £m	VSM (NCGM) Ltd £m	Other joint ventures and associates £m	Total £m
Revenue	7.5	–	–	–	0.2	7.7
Net rental income	5.5	(0.1)	–	–	–	5.4
Gains/(losses) on disposal of investments/investment properties	0.8	–	(0.2)	–	(0.1)	0.5
Investment property revaluation gains/(losses)	1.2	(1.8)	(1.1)	(24.3)	0.1	(25.9)
Administrative expenses	(0.3)	–	(0.1)	(0.1)	(0.3)	(0.8)
Profit/(loss) before interest and tax	7.2	(1.9)	(1.4)	(24.4)	(0.3)	(20.8)
Finance cost	(2.2)	(3.4)	(1.9)	(7.3)	(0.2)	(15.0)
Finance income	0.4	0.4	0.7	–	–	1.5
Profit/(loss) before tax	5.4	(4.9)	(2.6)	(31.7)	(0.5)	(34.3)
Taxation	(0.6)	0.9	(0.5)	6.3	–	6.1
Profit/(loss) for the year	4.8	(4.0)	(3.1)	(25.4)	(0.5)	(28.2)

	2015					
	Key Property Investments Ltd £m	VSM Estates Uxbridge (Group) Ltd £m	VSM Estates (Holdings) Ltd £m	VSM (NCGM) Ltd £m	Other joint ventures and associates £m	Total £m
Revenue	16.8	–	–	0.4	4.6	21.8
Net rental income	5.9	(0.2)	–	–	0.2	5.9
Gains/(losses) on disposal of investments/investment properties	2.8	–	(0.9)	0.4	0.3	2.6
Investment property revaluation gains/(losses)	6.7	(3.9)	(1.3)	127.4	0.3	129.2
Administrative expenses	(0.1)	–	(0.1)	(0.1)	(0.1)	(0.4)
Profit/(loss) before interest and tax	15.3	(4.1)	(2.3)	127.7	0.7	137.3
Finance cost	(2.3)	(3.3)	(1.6)	(1.5)	(0.2)	(8.9)
Finance income	0.5	0.4	0.7	–	–	1.6
Profit/(loss) before tax	13.5	(7.0)	(3.2)	126.2	0.5	130.0
Taxation	(2.3)	1.8	2.8	(25.5)	–	(23.2)
Profit/(loss) for the year	11.2	(5.2)	(0.4)	100.7	0.5	106.8

Included in other joint ventures and associates above are results from associated companies of £0.1m (2015: £0.3m).

10. Joint ventures and associates continued

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

	2016					Total £m
	Key Property Investments Ltd £m	VSM Estates Uxbridge (Group) Ltd £m	VSM Estates (Holdings) Ltd £m	VSM (NCGM) Ltd £m	Other joint ventures and associates £m	
Non-current assets	97.4	47.6	32.7	197.5	7.5	382.7
Current assets	5.8	5.0	26.3	1.1	5.3	43.5
Current liabilities	(10.5)	(20.1)	(22.4)	(29.8)	(3.2)	(86.0)
Non-current liabilities	(36.6)	(21.1)	(1.9)	(93.6)	(2.2)	(155.4)
Net assets	56.1	11.4	34.7	75.2	7.4	184.8
Equity at 30th November 2015	65.8	15.4	37.9	100.7	7.5	227.3
Profit/(loss) for the year	4.8	(4.0)	(3.1)	(25.4)	(0.5)	(28.2)
Dividends paid	(14.3)	–	–	–	–	(14.3)
Equity at 30th November 2016	56.3	11.4	34.8	75.3	7.0	184.8

	2015					Total £m
	Key Property Investments Ltd £m	VSM Estates Uxbridge (Group) Ltd £m	VSM Estates (Holdings) Ltd £m	VSM (NCGM) Ltd £m	Other joint ventures and associates £m	
Non-current assets	104.8	52.0	41.6	220.0	3.0	421.4
Current assets	1.9	4.7	28.5	–	6.3	41.4
Current liabilities	(6.7)	(17.2)	(25.4)	(5.5)	(3.4)	(58.2)
Non-current liabilities	(34.2)	(24.1)	(6.8)	(113.8)	1.6	(177.3)
Net assets	65.8	15.4	37.9	100.7	7.5	227.3
Equity at 30 th November 2014	61.3	20.6	38.3	–	7.0	127.2
Profit/(loss) for the year	11.2	(5.2)	(0.4)	100.7	0.5	106.8
Dividends paid	(6.7)	–	–	–	–	(6.7)
Equity at 30 th November 2015	65.8	15.4	37.9	100.7	7.5	227.3

Included in other joint ventures and associates above are net assets in relation to associated companies of £3.3m (2015: £3.3m). These net assets comprise total assets of £3.9m (2015: £3.9m) and total liabilities of £0.6m (2015: £0.6m).

In the Strategic report a series of commercial contracts with Persimmon are 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.

New Covent Garden Market

New Covent Garden Market (NCGM) received unconditional status in the prior year and the valuation of the site continues to have a significant impact on the results and net assets of the Group's joint ventures. The figures below represent the Group's share of this site.

NCGM was valued at 30th November 2016 and 30th November 2015 by Jones Lang LaSalle LLP, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of market value. Jones Lang LaSalle LLP are professionally qualified independent external valuers and had appropriate recent experience in the relevant location and category of the property being valued.

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

- the Board of VSM (NCGM) Ltd, including representatives of VINCI and St. Modwen, assessing the costs of procuring the market facility at current rates;
- applying a current estimate of inflation for the period of the build of 4%; and
- discounting the forecast cash flows to today's value using a discount rate of 5%, considered by the Board of VSM (NCGM) Ltd to appropriately reflect the risks and rewards of the procurement.

The following information on unobservable inputs on the NCGM valuation is detailed below for understanding and completeness:

	Fair value £m	Range of sales prices per square foot £	Average sales price per square foot £	Average build costs per square foot £	Profit margin %
At 30th November 2016	197.5	875-1,419	1,244	433	20.0
At 30 th November 2015	220.0	900-1,566	1,326	434	20.0

11. Trade and other receivables

	2016 £m	2015 £m
Non-current		
Other debtors	2.2	0.1
Amounts due from joint ventures	6.0	6.0
Non-current receivables	8.2	6.1
Current		
Trade receivables	8.2	5.6
Prepayments and accrued income	8.1	8.6
Other debtors	22.0	22.2
Amounts recoverable on contracts	15.3	31.3
Amounts due from joint ventures	62.2	37.0
Current receivables	115.8	104.7

12. Inventories

	2016 £m	2015 £m
Properties held for sale	5.1	5.3
Properties under construction	206.6	161.6
Land under option	18.0	16.8
Inventories	229.7	183.7

The movement in inventories during the two years ended 30th November 2016 is as follows:

	£m
At 30 th November 2014	201.0
Additions	234.8
Net transfers to investment property (note 8)	(64.9)
Disposals (transferred to development cost of sales)	(187.2)
At 30th November 2015	183.7
Additions	208.8
Net transfers from investment property (note 8)	13.3
Disposals (transferred to development cost of sales)	(176.1)
At 30th November 2016	229.7

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

Included within disposals of inventories are net realisable value provisions made during the year of £0.3m (2015: £1.4m).

As at 30th November 2016 £19.7m (2015: £43.4m) of inventory was pledged as security for the Group's loan facilities.

13. Trade and other payables

	2016 £m	2015 £m
Current		
Trade payables	41.1	38.5
Amounts due to joint ventures	17.8	15.4
Other payables and accrued expenses	82.9	75.6
Other payables on deferred terms	8.7	17.1
Current payables	150.5	146.6
Non-current		
Other payables on deferred terms	3.6	3.1
Non-current payables	3.6	3.1

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

14. Borrowings and finance lease obligations

	2016 £m	2015 £m
Current		
Finance lease liabilities due in less than one year	0.4	0.4
Current borrowings and finance lease obligations	0.4	0.4
Non-current		
Amounts repayable between two and five years	470.6	344.3
Amounts repayable after more than five years	–	107.5
Non-current borrowings	470.6	451.8
Finance leases liabilities due after more than one year	56.4	54.7
Non-current borrowings and finance lease obligations	527.0	506.5

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

a. Borrowings

Maturity profile of committed borrowing facilities

The Group's debt is provided by floating rate bilateral revolving credit facilities (providing the flexibility to draw and repay loans as required) together with an £80m retail bond and £100m convertible bonds. The maturity profile of the Group's committed borrowing facilities is set out below:

	2016			2015		
	Drawn £m	Undrawn £m	Total £m	Drawn £m	Undrawn £m	Total £m
Secured floating rate borrowings						
Two to three years	23.2	101.7	124.9	89.0	10.0	99.0
Three to four years	–	–	–	71.2	53.8	125.0
Four to five years	271.0	92.0	363.0	70.0	30.0	100.0
More than five years	–	–	–	37.5	12.5	50.0
	294.2	193.7	487.9	267.7	106.3	374.0
Unsecured fixed rate borrowings						
Two to three years	176.4	–	176.4	–	–	–
Three to four years	–	–	–	184.1	–	184.1
Total committed borrowing facilities	470.6	193.7	664.3	451.8	106.3	558.1

(1) In addition to the principal amounts included above, £1.6m (2015: £1.8m) of interest payable was committed at the year end. These amounts all fall due within three months of the year end.

Interest rate profile

The interest rate profile of the Group's borrowings after taking into account the effects of hedging is:

	2016		2015	
	£m	Applicable interest rate	£m	Applicable interest rate
Floating rate bank debt	139.2	Margin + 3 month LIBOR	137.7	Margin + 3 month LIBOR
Fixed rate bank debt	155.0	Margin + 2.10% weighted average swap rate	130.0	Margin + 2.76% weighted average swap rate
Retail bond (matures in 2019)	80.0	6.25% fixed rate	80.0	6.25% fixed rate
Convertible bonds (mature in 2019)	96.4	2.875% fixed rate – swapped to 1.43% + 6 month LIBOR until 6 th March 2017	104.1	2.875% fixed rate – swapped to 1.43% + 6 month LIBOR until 6 th March 2017
Total borrowings	470.6		451.8	

14. Borrowings and finance lease obligations continued

Convertible bonds

On 6th March 2014 St. Modwen Properties Securities (Jersey) Ltd (the 'issuer') issued £100.0m 2.875% Guaranteed Convertible Bonds due 2019 at par. The Company has unconditionally and irrevocably guaranteed the due and punctual performance by the issuer of all its obligations (including payments) in respect of the convertible bonds and the obligations of the Company, as Guarantor, constitute direct, unsubordinated and unsecured obligations of the Company.

Subject to certain conditions, the convertible bonds are convertible into preference shares of the issuer which are automatically transferred to the Company in exchange for ordinary shares in the Company or (at the Company's election) any combination of ordinary shares and cash. The convertible bonds can be converted at any time from 16th April 2014 up to the seventh dealing day before the maturity date.

The initial exchange price was £5.29 per ordinary share, a conversion rate of approximately 18,889 ordinary shares for every £100,000 nominal of the convertible bonds. Under the terms of the convertible bonds, the exchange price is adjusted on the occurrence of certain events including the payment of dividends by the Company in excess of a yield of 1.00% of the average share price in the 90 days preceding the dividend ex date. No changes to the exchange price have been made up to 30th November 2016.

The convertible bonds may be redeemed at par at the Company's option subject to the Company's ordinary share price having traded at 30% above the conversion price for a specified period, or at any time once 85% of the convertible bonds have been traded or cancelled. If not previously converted, redeemed or purchased and cancelled, the convertible bonds will be redeemed at par on 6th March 2019.

A total of £100.0m nominal value of the convertible bonds were issued and remain outstanding at 30th November 2016. The convertible bonds are designated as at fair value through profit or loss and so are presented on the balance sheet at fair value with all gains and losses taken to the income statement through the movement in fair value of derivative financial instruments line. At 30th November 2016 the fair value of the convertible bonds was £96.4m (2015: £104.1m) with the change in fair value charged to the income statement. The convertible bonds are listed on the Official List of the Channel Islands Security Exchange.

b. Derivative financial instruments

The Group's derivative financial instruments, which are classified as fair value through profit or loss, consist of sterling denominated interest swaps. The change in fair value of all derivative financial instruments charged or credited to the Group income statement is disclosed in note 4. Further detail of the instruments held by the Group are detailed below:

Sterling denominated interest rate swaps from fixed rate to floating rate

Following the issue of the convertible bonds disclosed above, the Group was in an over-hedged position with an excess of debt at fixed rate. In order to reduce the level of fixed rate borrowings an interest rate derivative financial instrument was entered into to swap the interest rate in the convertible bonds from a fixed rate of 2.875% to a floating rate of 6 month LIBOR plus 1.43% through to its third anniversary in March 2017.

Sterling denominated interest rate swaps from floating rate to fixed rate

These swaps hedge the Group's floating rate bank debt as at 30th November 2016. The fixed rates for these swaps range from 0.49% to 5.16% (2015: 2.01% to 5.16%) and details of their maturity profile are given below. Certain of the interest rate swaps are extendable at the bank's option; the tables below therefore show the dates of normal termination and extended termination. The weighted average maturity of the interest rate swaps below to the earliest termination date is 3.6 years (2015: 2.0 years).

	2016				2015			
	Earliest termination		Latest termination		Earliest termination		Latest termination	
	£m	% ⁽¹⁾	£m	%	£m	% ⁽¹⁾	£m	% ⁽¹⁾
Less than one year	11.0	4.87	1.0	2.01	50.0	3.06	40.0	2.54
One to two years	–	–	10.0	5.16	20.0	2.01	20.0	2.01
Two to three years	50.0	3.00	50.0	3.00	–	–	10.0	5.16
Three to four years	10.0	1.60	10.0	1.60	50.0	3.00	50.0	3.00
Four to five years	84.0	1.26	84.0	1.26	10.0	1.60	10.0	1.60
	155.0	2.10	155.0	2.10	130.0	2.76	130.0	2.76

(1) Weighted average interest rate.

Forward starting sterling denominated interest rate swaps from floating rate to fixed rate

These swaps provide continuity of hedging beyond the term of the interest rate swaps applicable as at 30 November 2016 and increase interest rate certainty through to bank facility renewal dates. The fixed rates for these swaps range from 2.90% to 2.97% (2015: 2.72% to 2.97%) and details of their maturity profile are given below.

	2016		2015	
	£m	%	£m	%
Commencing in less than one year, terminating in two to three years	25.0	2.96	–	–
Commencing in one to two years, terminating in two to three years	–	–	15.0	2.72
Commencing in one to two years, terminating in three to four years	–	–	25.0	2.96
Commencing in less than one year, terminating in more than five years	–	–	20.0	2.90
	25.0	2.96	60.0	2.88

(1) Weighted average interest rate.

c. Obligations under finance leases

Finance lease liabilities payable in respect of certain leasehold investment properties are as follows:

	2016			2015		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	2.7	2.3	0.4	2.7	2.3	0.4
Between one and five years	13.6	11.2	2.4	13.6	11.4	2.2
More than five years	163.7	109.7	54.0	164.2	111.7	52.5
Total	180.0	123.2	56.8	180.5	125.4	55.1

Finance leases are for periods of up to 999 years from inception and a discount rate of 6.0% (2015: 6.0%) has been used to derive the fair value of the principal amount outstanding. All lease obligations are denominated in sterling.

15. Operating leases

Operating lease commitments where the Group is the lessee

The Group leases certain of its premises, motor vehicles and office equipment under operating leases. Future aggregate minimum lease rentals payable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
In one year or less	1.5	0.9
Between one and five years	2.1	2.4
In five years or more	0.1	0.2
Total minimum lease rentals payable	3.7	3.5

Operating leases where the Group is the lessor

The Group leases out its investment properties under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
In one year or less	43.6	55.7
Between one and five years	126.4	156.1
In five years or more	743.4	431.4
Total minimum lease rentals payable	913.4	643.2

Contingent rents, calculated as a percentage of turnover for a limited number of tenants, of £0.7m (2015: £0.7m) were recognised during the year.

16. Financial instruments

a. Categories and classes of financial assets and liabilities

Financial assets	2016 £m	2015 £m
Loans and receivables: ⁽¹⁾		
Cash and cash equivalents	4.2	4.8
Trade and other receivables	86.7	55.1
Fair value through profit or loss: ⁽²⁾		
Derivative financial instruments	1.6	0.8
Total financial assets	92.5	60.7
Financial liabilities	2016 £m	2015 £m
Amortised cost: ⁽¹⁾		
Bank loans and overdrafts	294.2	267.7
Retail bond	80.0	80.0
Trade and other payables	96.0	86.5
Other payables on deferred terms	12.3	20.2
Finance lease liabilities (head rents)	56.8	55.1
Fair value through profit or loss: ⁽²⁾		
Convertible bonds	96.4	104.1
Derivative financial instruments	8.8	8.0
Total financial liabilities	644.5	621.6

(1) The directors consider that the carrying amount recorded in the financial statements approximates their fair value.

(2) Fair values are calculated using quoted market prices relevant for the term and instrument.

Trade and other receivables above comprise other debtors, trade receivables and amounts due from joint ventures as disclosed in note 11, for current and non-current amounts, after deduction of £13.9m (2015: £15.8m) of non-financial assets.

Trade and other payables above comprise trade payables, amounts due from joint ventures and other payables and accrued expenses as disclosed in note 13, for current and non-current amounts, after deduction of £45.8m (2015: £43.0m) of non-financial liabilities.

Derivative financial instruments and the convertible bonds are externally valued based on the present value of future cash flows estimated and discounted based on the applicable yield curves derived from market expectations for future interest rates at the balance sheet date. Where applicable, the value of early termination or conversion options in favour of the issuing party are included in the external valuations. The following table sets out the net assets and liabilities in respect of financial instruments held at fair value through profit or loss:

		2016 £m	2015 £m
Derivative financial instrument assets	Level 2	1.6	0.8
Derivative financial instrument liabilities	Level 2	(8.8)	(8.0)
Convertible bonds liability	Level 2	(96.4)	(104.1)
		(103.6)	(111.3)

b. Risk management objectives

Capital risk

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt (as disclosed in note 14), cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings as disclosed in the Group statement of changes in equity.

Market risk

Market risk is the potential adverse change in the Group's income or the Group's net worth arising from movements in interest rates or other market prices. Interest rate risk is the Group's principal market risk and the Group is exposed to interest rate risk as some of its borrowings are at variable interest rates. The Group uses a combination of variable rate borrowings and interest rate swaps to manage the risk.

The following table details the Group's sensitivity, after tax, to a 1% change in interest rates based on year end levels of debt:

	2016 £m	2015 £m
1% increase in interest rates		
Interest on borrowings	(2.3)	(2.1)
Effect of interest rate swaps	0.4	0.2
Net impact on profit	(1.9)	(1.9)
1% decrease in interest rates		
Interest on borrowings	2.3	2.1
Effect of interest rate swaps	(0.4)	(0.2)
Net impact on profit	1.9	1.9

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due.

The credit risk on the Group's liquid funds and derivative financial instruments is limited because the counterparties are banks with strong (generally A and above) credit ratings. Bank deposits are only placed with banks in accordance with Group policy that specifies minimum credit rating and maximum exposure. Credit risk on derivatives is closely monitored.

Trade and other receivables consist of amounts due from a large number of parties spread across geographical areas. The Group does not have any significant concentrations of credit risk as the tenant base is large and diverse with the largest individual tenant accounting for £7.2m (2015: £4.0m) of gross rental income.

The carrying amount of financial assets, as detailed above, represents the Group's maximum exposure to credit risk at the reporting date.

Included within trade and other receivables is £0.6 (2015: £0.4m) which is provided against as it represents estimated irrecoverable amounts. This allowance has been determined by a review of all significant balances that are past due considering the reason for non-payment and the creditworthiness of the counterparty. A reconciliation of the changes in this account during the year is provided below:

	2016 £m	2015 £m
Movement in the allowance for doubtful debts		
At start of year	0.4	0.6
Impairment losses recognised	0.4	0.4
Amounts written off as uncollectable	(0.1)	(0.4)
Impairment losses reversed	(0.1)	(0.2)
At end of year	0.6	0.4

Trade and other receivables include £1.5m (2015: £0.8m) which are past due as at 30th November 2016 for which no provision has been made because the amounts are considered recoverable. The following table provides an ageing analysis of these balances:

	2016 £m	2015 £m
Number of days past due but not impaired		
1-30 days	0.5	0.3
31-60 days	0.2	0.1
60 days +	0.8	0.4
	1.5	0.8

16. Financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources available to meet its obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities and through the use of fixed rate bilateral facilities, overdrafts and cash with a range of maturity dates to ensure continuity of funding.

The maturity profile for the cash flows of the Group's non-derivative financial liabilities, on an undiscounted basis is as follows:

	2016					Total £m
	Less than one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m	
Bank loans and overdrafts and bonds	0.6	3.5	12.0	533.3	–	549.4
Trade and other payables	60.3	3.6	32.1	–	–	96.0
Finance leases – minimum lease payments (note 14)	0.7	–	2.0	13.6	163.7	180.0
Other payables on deferred terms	–	–	8.7	3.6	–	12.3
	61.6	7.1	54.8	550.5	163.7	837.7

	2015					Total £m
	Less than one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m	
Bank loans and overdrafts and bonds	1.2	2.7	11.6	452.5	37.5	505.5
Trade and other payables	57.3	5.8	23.3	–	–	86.4
Finance leases – minimum lease payments (note 14)	0.7	–	2.0	13.6	164.2	180.5
Other payables on deferred terms	–	–	17.1	3.1	–	20.2
	59.2	8.5	54.0	469.2	201.7	792.6

The Group's approach to cash flow, financing and bank covenants is discussed further in the financial review section of the Strategic report.

17. Share capital

	2016		2015	
	Ordinary 10p shares Number	Equity share capital £m	Ordinary 10p shares Number	Equity share capital £m
At start of year	221,876,988	22.2	221,376,988	22.1
Issue of shares	–	–	500,000	0.1
At end of year	221,876,988	22.2	221,876,988	22.2

During the year ended 30th November 2015, the Group issued 500,000 Ordinary shares of 10p each at par. The shares were allotted and issued to The St. Modwen Properties PLC Employee Share Trust to satisfy the exercise of awards made under the Company's share-based incentive arrangements. No shares were issued during the year ended 30th November 2016. See note 3d for details of outstanding options to acquire ordinary shares.

Excluding 269,334 (2015: 690,274) of own shares held by The St. Modwen Properties PLC Employee Share Trust, shares in issue at 30th November 2016 are 221,607,654 (2015: 221,186,714).

18. Pensions

The Group operates a UK based pension scheme, the St. Modwen Pension Scheme, with both defined benefit and defined contribution sections. The defined benefit section is closed to new members and, from 1st September 2009, future accrual. The Group income statement includes the following charges:

	2016 £m	2015 £m
Defined benefit section	0.3	0.2
Defined contribution section	0.8	0.7

The St. Modwen Pension Scheme is governed by the trustee company, St. Modwen Pensions Ltd. It is regulated by the UK regulatory regime, overseen by the Pensions Regulator.

The last formal actuarial valuation of the scheme was at 5th April 2014, when the market value of the net assets of the scheme was £38m and the funding level was 97% based on the Trustees' proposed assumptions for technical provisions. The main actuarial assumptions were:

	% per annum
Investment rate of return (pre-retirement)	5.6
Investment rate of return (post-retirement)	3.8
Increase in pensions	2.7

Funding policy

As the scheme is almost fully funded, the current schedule of contributions requires the Group to fund the Scheme to such an extent as to cover administrative expenses only. The contribution for year ended 30th November 2017 is expected to be £nil, consistent with the current year contributions of £nil. From 1st January 2015 the administrative expenses were met by St. Modwen Properties PLC.

The actuarial valuation of the defined benefit section, a final salary scheme, was updated to 30th November 2016 on an IAS basis by a qualified independent actuary. The valuation was performed using the Projected Unit Credit Method under IAS 19 *Employee Benefits*. The major assumptions used by the actuary were:

	2016 %	2015 %
Rate of increase in deferred pensions	2.40	2.10
Rate of increase in pensions in payment (pre 6 April 1997 benefits)	2.55	3.00
Rate of increase in pensions in payment (post 5 April 1997 benefits)	3.30	3.10
Discount rate	2.80	3.50
Inflation assumption	2.40	2.10

Following the closure of the defined benefit section to future accrual, the assumption regarding the rate of increase in salaries is no longer applicable as retirement benefits will be based on salaries at 31st August 2009. Benefits earned up to the point of the scheme closure will be protected and will be increased in line with inflation, subject to a maximum of 5% per annum. From 2010 the basis of the inflation assumption has been amended, in line with market practice, from the Retail Price Index to the Consumer Price Index.

The mortality rates adopted are from the VITA Tables with CMI_2013 'core' projections and a long-term improvement of 1% pa with peaked short-term improvements and improvements remaining level at the oldest ages. The resultant assumptions are, for example:

- Average future life expectancy (in years) for a pensioner aged 65 at 30th November 2016: 23.2 (male) and 24.0 (female).
- Average future life expectancy (in years) at age 65 for a non-pensioner aged 40 at 30th November 2016: 24.1 (male) and 26.3 (female).

18. Pensions continued

Analysis of the fair value of assets

	2016 £m	2015 £m
Equities:		
UK equity	3.5	4.2
Overseas equity	2.5	2.4
Debt securities:		
UK corporate bonds	6.9	7.0
Overseas corporate bonds	1.9	1.2
UK Government bonds	0.3	0.4
UK index-linked gilts	10.0	8.3
Property	4.7	5.3
Infrastructure	0.3	0.4
Cash	1.3	0.6
Fair value of assets	31.4	29.8
Actuarial value of liabilities	(29.4)	(27.5)
Unrecognised surplus	(2.0)	(2.3)
Recognised surplus in the scheme	–	–
Related deferred tax liability	–	–
Fair value of pension asset net of deferred tax	–	–

The cumulative amount of actuarial gains and losses (before the unrecognised surplus of £2.0m) recorded in the Group statement of comprehensive income is a loss of £3.4m (2015: £0.1m).

Analysis of the amounts recognised in the Group income statement

	2016 £m	2015 £m
Recognised within administrative expenses		
Current service cost and total operating charge	(0.4)	(0.3)
Recognised within finance costs and finance income		
Interest income on scheme assets	1.0	1.1
Interest on pension scheme liabilities	(0.9)	(1.0)
Total net interest	0.1	0.1
Total	(0.3)	(0.2)

The actual return on pension scheme assets was a gain of £3.5m (2015: £1.3m).

Analysis of the amount recognised in the Group statement of comprehensive income

	2016 £m	2015 £m
The returns on scheme assets (excluding amounts included in net interest)	2.5	0.2
Experience gains and losses arising on fair value of scheme liabilities	0.4	0.5
Actuarial gains and losses arising from changes in financial assumptions	(3.3)	(0.2)
Change in unrecognised surplus	0.3	(0.6)
Remeasurement of the net defined benefit asset	(0.1)	(0.1)

Analysis of the movement in the present value of the scheme liabilities

	2016 £m	2015 £m
At start of year	27.5	28.6
Interest cost	0.9	1.0
Experience gains and losses arising on fair value of scheme liabilities	(0.4)	(0.5)
Actuarial gains and losses arising from changes in financial assumptions	3.3	0.2
Benefits paid	(1.9)	(1.8)
At end of year	29.4	27.5

Analysis of the movement in the fair value of the scheme assets

	2016 £m	2015 £m
At start of year	29.8	30.3
Interest income	1.0	1.1
Return on assets excluding amounts included in net interest	2.5	0.2
Benefits paid	(1.9)	(1.8)
At end of year	31.4	29.8

Information about the defined benefit obligation

	2016		2015	
	Liability split %	Duration Years	Liability split %	Duration Years
Active members	—	—	—	—
Deferred members	36	19	34	20
Pensioners	64	11	66	12
Total	100	14	100	15

Risk factors

The Group is exposed to a number of risks related to its defined benefit scheme, the most significant of which are detailed below.

Asset volatility

Pension scheme liabilities are calculated using discount rates set with reference to bond yields. If the assets within the scheme deliver a return which is lower than the discount rate this will create or increase a deficit within the scheme. This risk is reduced by holding a significant proportion of the scheme assets in matching assets (bonds or similar). As the scheme matures, it is anticipated that this proportion will increase to better match the assets and liabilities of the scheme.

Changes in bond yields

A decrease in bond yields will typically increase liabilities, although this will be partially offset by an appreciation in the value of scheme assets held in bonds.

Inflation risk

As the pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities. The asset portfolio includes a significant proportion of inflation linked bonds to reduce this risk.

Member longevity

The pension obligations provide benefits for the life of the members, therefore increases in life expectancy will result in an increase in liabilities (and vice-versa).

18. Pensions continued

Sensitivity analysis

Change in assumptions compared with 30th November 2016 actuarial assumptions:

- A 0.5% decrease in the discount rate would increase the actuarial value of liabilities by £2.1m to £31.5m.
- A one-year increase in life expectancy would increase the actuarial value of liabilities by £0.9m to £30.3m.
- A 0.5% increase in the inflation rate would increase the actuarial value of liabilities by £1.4m to £30.8m.
- A 0.5% increase in the rate of increase in deferred pensions would increase the actuarial value of liabilities by £0.2m to £29.6m.
- A 0.5% increase in the rate of increase in pensions in payments would increase the actuarial value of liabilities by £1.2m to £30.6m.

19. Capital commitments

At 30th November 2016 the Group had contracted capital expenditure of £21.6m (2015: £12.2m). In addition the Group's share of the contracted capital expenditure of its joint venture undertakings was £8.9m (2015: £1.4m). All capital commitments relate to investment properties.

20. Contingent liabilities

The Group has a joint and several unlimited liability with VINCI plc and the Ministry of Defence under guarantees in respect of the financial performance of VSM Estates (Holdings) Ltd (VSM). This is a guarantee in the ordinary course of business and would require the guarantors to step into VSM's place in the event of a default on Project MoDEL. Completion of the project is not considered onerous as the forecast revenues exceed the anticipated costs and it is not expected that there would be any net outflow in this regard.

The Group, together with VINCI plc has provided a joint and several parent company guarantees in respect of the £26.3m bank facility provided to VSM Estates (Uxbridge) Ltd, a subsidiary of VSM Estates Uxbridge (Group) Ltd.

The Group, together with VINCI plc, has provided a joint and several guarantees in respect of the obligations of VSM (NCGM) Ltd relating to the redevelopment of New Covent Garden Market, London. This is a guarantee in the ordinary course of business and would require the guarantors to comply with the terms of the development agreement and to indemnify Covent Garden Market Authority against any breach of those terms.

The Group, together with Salhia Real Estate K.S.C. has provided a parent company guarantee in respect of the £80.0m bank facility provided to Key Property Investments Ltd. The guarantee provided by the Group is capped at 50% of the total commitment under the agreement from time to time, limiting the Group guarantee to £40.0m as at 30th November 2016.

St. Modwen Properties PLC has guaranteed the liabilities of the following subsidiaries in order that they qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 30th November 2016:

Name of subsidiary	Company registration number
Blackpole Trading Estate (1978) Ltd	00581658
Boughton Holdings	04112012
Broomford Vange Ltd	05697168
Festival Waters Ltd	04354481
Holaw (462) Ltd	03666441
Shaw Park Developments Ltd	04625000
St. Modwen Developments (Meon Vale) Ltd	05294589
St. Modwen Securities Ltd	00460301
St. Modwen Developments (Connah's Quay) Ltd	05726352
St. Modwen Developments (Eccles) Ltd	05867740
St. Modwen Developments (Hillington) Ltd	04150262
St. Modwen Developments (Holderness) Ltd	05726995
St. Modwen Developments (Hull) Ltd	05593517
St. Modwen Developments (Kirkby 2) Ltd	09746395
St. Modwen Developments (Longbridge) Ltd	02885028
St. Modwen Developments (Telford) Ltd	05411357
St. Modwen Developments (Weston) Ltd	05411348
St. Modwen Investments Ltd	00528657

21. Related party transactions

All related party transactions involving directors, and those involving a change in the level of the Group's interest in non-wholly owned subsidiaries, joint ventures and associates are specifically reviewed and approved by the Board. Monitoring and management of transactions between the Group and its non-wholly owned subsidiaries, joint ventures and associates is delegated to the executive directors. All related party transactions are clearly justified and beneficial to the Group, are undertaken on an arm's length basis on fully commercial terms and in the normal course of business. Related party transactions are detailed as follows:

Joint ventures and associates

The following table sets out the income and expenditure with joint ventures and associates during the year, together with the balances outstanding at the year-end:

	2016				2015			
	Management fee income/ (expense) £m	Interest income/ (expense) £m	Funding repaid/ (provided) £m	Balance receivable/ (payable) £m	Management fee income/ (expense) £m	Interest income/ (expense) £m	Funding repaid/ (provided) £m	Balance receivable/ (payable) £m
Barton Business Park Ltd	–	–	–	(3.8)	–	–	–	(3.8)
Key Property Investments Ltd	0.7	–	1.0	1.0	0.4	–	–	1.3
Meaford Energy Ltd	–	–	(0.2)	0.5	–	–	(0.3)	0.3
Meaford Land Ltd	–	–	(0.1)	0.1	–	–	–	–
Skypark Development Partnership LLP ⁽¹⁾	–	0.1	0.5	1.5	–	0.1	(0.6)	1.9
VSM (NCGM) Ltd	–	2.2	(17.6)	24.4	–	–	(1.7)	4.6
VSM Estates (Ashchurch) Ltd	–	–	–	0.2	–	–	–	0.2
VSM Estates (Holdings) Ltd	–	0.4	–	–	–	1.1	–	(0.4)
VSM Estates Uxbridge (Group) Ltd ⁽²⁾	–	2.5	(0.2)	24.9	–	2.6	–	22.2
Wrexham Land Ltd	–	–	–	0.1	–	–	–	0.1
Wrexham Power Ltd	–	–	(0.3)	1.5	–	–	(0.2)	1.2
	0.7	5.2	(16.9)	50.4	0.4	3.8	(2.8)	27.6

(1) Included within the balance due to the Group at the year-end was £1.5m (2015: £1.4m) of loan notes.

(2) Included within the balance due to the Group at the year-end was £6.0m (2015: £6.0m) of loan notes.

Pension

The Group occupies offices owned by the St. Modwen Pension Scheme with an annual rental payable of £0.1m (2015: £0.1m). The balance due from the Group at year end was £0.1m (2015: £nil).

Non-wholly owned subsidiaries

The Company provides administrative and management services and provides a central purchase ledger system to subsidiary companies. In addition, the Company also operates a central treasury function which lends to and borrows from subsidiary undertakings as appropriate. The following table sets out the income and expenditure during the year, together with the balances outstanding at the year-end, with subsidiaries in which the Company has a less than 90% interest:

	2016		2015	
	Interest income/ (expense) £m	Balance receivable/ (payable) £m	Interest income/ (expense) £m	Balance receivable/ (payable) £m
Norton & Proffitt Developments Ltd	–	5.7	–	0.3
Stoke-on-Trent Regeneration (Investments) Ltd	–	(0.6)	–	(0.6)
Stoke-on-Trent Regeneration Ltd	0.4	(21.0)	0.2	(21.7)
Uttoxeter Estates Ltd	–	1.9	–	–
Widnes Regeneration Ltd	–	(1.5)	–	2.0
	0.4	(15.5)	0.2	(20.0)

All amounts due to the Group are unsecured, will be settled in cash and are stated before provisions for doubtful debts of £nil (2015: £nil). No guarantees have been given or received from related parties.

21. Related party transactions continued

Transactions in which directors have an interest

Branston Properties Ltd

During the year ending 30th November 2015, £0.1m was paid by the Group as consideration for the acquisition of the remaining 12.5% of the issued share capital at market value of Branston Properties Ltd, a company of which Simon Clarke was a shareholder. No amounts were paid during the year ending 30th November 2016.

Key management personnel

The directors are considered to be the Group's key management personnel and their remuneration is disclosed in the Directors' remuneration report.

Company balance sheet as at 30th November 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investment properties	B	0.3	0.3
Operating plant and equipment	C	0.5	0.6
Investments in subsidiaries and joint ventures	D	735.7	1,037.2
Trade and other receivables	E	6.0	6.0
Deferred tax	F	2.8	2.7
		745.3	1,046.8
Current assets			
Trade and other receivables	E	967.2	608.6
Derivative financial instruments		0.8	0.8
Tax receivables		4.5	18.9
Cash and cash equivalents		4.0	3.7
		976.5	632.0
Current liabilities			
Trade and other payables	G	(350.0)	(339.9)
Derivative financial instruments		(8.8)	(17.0)
		(358.8)	(356.9)
Non-current liabilities			
Borrowings	H	(407.8)	(354.3)
		(407.8)	(354.3)
Net assets			
		955.2	967.6
Capital and reserves			
Called up share capital		22.2	22.2
Share premium account		102.8	102.8
Retained earnings		350.1	24.9
Fair value reserve		429.6	767.3
Share incentive reserve		4.9	5.2
Own shares		(0.6)	(1.0)
Other reserves		46.2	46.2
Total equity		955.2	967.6

These financial statements were approved by the Board and authorised for issue on 6th February 2017.

Mark Allan
Chief Executive

Rob Hudson
Group Finance Director

Company Number: 00349201

Company statement of changes in equity for the year ended 30th November 2016

	Share capital £m	Share premium account £m	Retained earnings £m	Fair value reserve £m	Share incentive reserve £m	Own shares £m	Other reserves £m	Total equity £m
Equity at 30 th November 2014	22.1	102.8	48.2	526.9	4.8	(1.8)	46.2	749.2
Profit for the year attributable to shareholders	–	–	237.8	–	–	–	–	237.8
Pension fund actuarial losses (note 18)	–	–	(0.1)	–	–	–	–	(0.1)
Total comprehensive income for the year	–	–	237.7	–	–	–	–	237.7
Equity issue (note 17)	0.1	–	–	–	–	(0.1)	–	–
Share-based payments	–	–	(8.6)	–	0.4	–	–	(8.2)
Share transfers	–	–	(0.9)	–	–	0.9	–	–
Transfer of unrealised gains to fair value reserve	–	–	(240.4)	240.4	–	–	–	–
Dividends paid (note 7)	–	–	(11.1)	–	–	–	–	(11.1)
Equity at 30th November 2015	22.2	102.8	24.9	767.3	5.2	(1.0)	46.2	967.6
Profit for the year attributable to shareholders	–	–	0.5	–	–	–	–	0.5
Pension fund actuarial losses (note 18)	–	–	(0.1)	–	–	–	–	(0.1)
Total comprehensive income for the year	–	–	0.4	–	–	–	–	0.4
Share-based payments	–	–	–	–	1.6	–	–	1.6
Deferred tax on share-based payments	–	–	–	–	(0.8)	–	–	(0.8)
Settlement of share-based payments	–	–	(0.1)	–	(1.1)	0.4	–	(0.8)
Transfer of unrealised losses to fair value reserve	–	–	337.7	(337.7)	–	–	–	–
Dividends paid (note 7)	–	–	(12.8)	–	–	–	–	(12.8)
Equity at 30th November 2016	22.2	102.8	350.1	429.6	4.9	(0.6)	46.2	955.2

Own shares represent the cost of 269,334 (2015: 690,274) shares held by The St. Modwen Properties PLC Employee Share Trust. The open market value of the shares held at 30th November 2016 was £754,135 (2015: £2,985,435). In addition the Trust has £0.1m (2015: £0.1m) of cash and an intercompany receivable of £14.9m (2015: £13.8m), that can only be used for the benefit of employees.

The other reserves comprise a capital redemption reserve of £0.3m (2015: £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 (2015: £45.9m).

Unrealised gains and losses arising from the revaluations of investments in subsidiaries and joint ventures and investment properties are recognised with profit for the year and subsequently transferred to the fair value reserve.

Company accounting policies for the year ended 30th November 2016

Basis of preparation

The Company's financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework* as issued by the Financial Reporting Council as it applies to the Company for the year ended 30th November 2016, applied in accordance with the provisions of the Companies Act 2006.

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

The Company meets the definition of a qualifying entity under FRS 100 *Application of Financial Reporting Requirements*. Accordingly, in the year ended 30th November 2016, the Company has changed its accounting framework from UK GAAP to FRS 101. In doing so, the Company has applied the requirements of IFRS 1.6 - 33 and related appendices, but has taken advantage of the exemption in FRS 101 (September 2015) not to present a third statement of financial position. For more information see note J.

The Company has taken advantage of the disclosure exemptions included within paragraph 8 of FRS 101. The main impact of these disclosure exemptions is that these separate financial statements do not include a cash flow statement, financial instruments and related party disclosures and comparative information for plant and equipment and investment properties.

Certain disclosures required for the Company are included within the Group financial statements and are therefore not repeated within these separate financial statements. Specifically, the following information relevant to the Company is found in the respective notes to the Group financial statements:

- Share-based payments (note 3d)
- Dividends (note 7)
- Share capital (note 17)
- Pensions (note 18)
- Contingent liabilities (note 20)
- Related party transactions (note 21)

As explained above, the Company has adopted FRS 101 for the first time in the current year. As part of this adoption, all IFRS Standards and Interpretations applicable for the year ended 30th November 2016 have been applied to these financial statements.

The Company's functional and presentational currency is pounds sterling and its principal accounting policies are as set out for the Group on pages 114 to 120, except for the additional policy below:

Investments in subsidiaries and joint ventures

The Company recognises its investments in subsidiaries and joint ventures using the equity method of accounting. Under the equity method, the interest in the subsidiary or joint venture is carried in the Company balance sheet at cost plus post-acquisition changes in the Company's share of its net assets, less distributions received and less any impairment in value of individual investments. The income statement reflects the Company's share of the subsidiary's or joint venture's results after interest and tax.

Notes to the Company financial statements for the year ended 30th November 2016

A. Income statement disclosures

a. Result for the financial year

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement or statement of comprehensive income in these financial statements. The Company's profit for the year ended 30th November 2016 was £0.5m (2015: £237.8m).

b. Auditor's remuneration

The table below sets out the fees payable to the Company's auditor and their associates for the following services:

	2016			2015		
	Audit and audit-related services £'000	Other services £'000	Total £'000	Audit and audit-related services £'000	Other services £'000	Total £'000
The audit of the Company's Annual Report and financial statements	130	–	130	125	–	125
Total audit fees	130	–	130	125	–	125
Audit-related assurance services	50	–	50	50	–	50
Other assurance services	25	–	25	3	–	3
Tax compliance services	–	–	–	–	16	16
Tax advisory services	–	–	–	–	20	20
Other	–	2	2	–	2	2
Total non-audit fees	75	2	77	53	38	91
Total fees	205	2	207	178	38	216

B. Investment property

The fair value of long leasehold investment property at 30th November 2016 was £0.3m (2015: £0.3m).

Investment properties were valued at 30th November 2016 and 30th November 2015 by Cushman & Wakefield, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of market value. Cushman & Wakefield are professionally qualified independent external valuers and had appropriate recent experience in the relevant location and category of the properties being valued.

The historical cost of investment properties at 30th November 2016 was £0.7m (2015: £0.7m).

C. Operating plant and equipment

	£m
Cost	
At 30 th November 2015	3.8
Additions	0.4
At 30th November 2016	4.2
Depreciation	
At 30 th November 2015	3.2
Charge for the year	0.5
At 30th November 2016	3.7
Net book value	
At 30 th November 2015	0.6
At 30th November 2016	0.5

D. Investments in subsidiaries and joint ventures

	Cost			Valuation		
	Investment in subsidiaries £m	Investment in joint ventures £m	Total £m	Investment in subsidiaries £m	Investment in joint ventures £m	Total £m
At 30th November 2015	278.4	26.5	304.9	777.0	260.2	1,037.2
Changes to cost	37.4	(1.2)	36.2	37.4	(1.2)	36.2
Revaluation of investments	-	-	-	(263.5)	(74.2)	(337.7)
At 30th November 2016	315.8	25.3	341.1	550.9	184.8	735.7

The following is a list of all subsidiary undertakings, joint ventures and associates owned by the Company or Group at 30th November 2016. Unless otherwise stated, all are incorporated in England and Wales with registered office at Park Point, 17 High Street, Longbridge, Birmingham B31 2UQ. The share capital of each of the companies, where applicable, comprises of ordinary shares.

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
Wholly owned subsidiaries					
Blackpole Trading Estate (1978) Ltd	00581658	100.0%	0.0%	100.0%	Property investment
Blue Ice (Widnes) Ltd	06160293	0.0%	100.0%	100.0%	Dormant
Boltro Properties Ltd	02616865	0.0%	100.0%	100.0%	Ceased trading
Boughton Enterprises Ltd	05068420	0.0%	100.0%	100.0%	Dormant
Boughton Holdings	04112012	0.0%	100.0%	100.0%	Dormant
Branston Properties Ltd	02893827	0.0%	100.0%	100.0%	Property development
Broomford Vange Ltd	05697168	0.0%	100.0%	100.0%	Property investment
Chaucer Estates Ltd	00456386	100.0%	0.0%	100.0%	Property investment/development
Chertsey Road Property Ltd	06899060	0.0%	100.0%	100.0%	Dormant
Coed Darcy Estates Management Ltd	07848407	0.0%	100.0%	100.0%	Property management
Coed Darcy Management Ltd	06477385	100.0%	0.0%	100.0%	Dormant
Festival Waters Ltd	04354481	100.0%	0.0%	100.0%	Property investment
Glan Llyn Management Ltd	07848409	100.0%	0.0%	100.0%	Property management
Great Yarmouth Regeneration Ltd	05594264	100.0%	0.0%	100.0%	Dormant
Heenan Group Pensions Ltd	00548316	100.0%	0.0%	100.0%	Dormant
Holaw (462) Ltd	03666441	0.0%	100.0%	100.0%	Ceased trading
Killingholme Energy Ltd	08320277	0.0%	100.0%	100.0%	Property development
Killingholme Land Ltd	08320297	0.0%	100.0%	100.0%	Property development
Lawnmark Ltd	04089229	0.0%	100.0%	100.0%	Dormant
Leisure Living Ltd	02106984	100.0%	0.0%	100.0%	Property development
Longbridge Innovation Centre Ltd	06163526	100.0%	0.0%	100.0%	Dormant
Newcastle Regeneration Partnership Ltd	02741086	0.0%	100.0%	100.0%	Dormant
Petre Court Management (Number 1) Ltd	06160268	100.0%	0.0%	100.0%	Dormant
Radclyffe Estates Ltd	05816682	100.0%	0.0%	100.0%	Dormant
Redman Heenan Properties Ltd	00073265	100.0%	0.0%	100.0%	Property investment/development
Sandpiper Quay (Management Company No.2) Ltd	02485456	0.0%	100.0%	100.0%	Dormant
Shaw Park Developments Ltd	04625000	0.0%	100.0%	100.0%	Ceased trading
SMP 14H S.à.r.l. ⁽¹⁾	B187462	0.0%	100.0%	100.0%	Investment
Sowcrest Ltd	02948648	0.0%	100.0%	100.0%	Property investment
St Modwen Developments (Meon Vale) Ltd	05294589	0.0%	100.0%	100.0%	Ceased trading
St Modwen Securities Ltd	00460301	100.0%	0.0%	100.0%	Property development
St. Modwen (SAC1) Ltd	08296927	100.0%	0.0%	100.0%	Dormant

D. Investments in subsidiaries and joint ventures continued

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
St. Modwen (SAC2) Ltd	08296934	100.0%	0.0%	100.0%	Property investment
St. Modwen (Shelf 1) Ltd	02741186	0.0%	100.0%	100.0%	Dormant
St. Modwen Corporate Services Ltd	06163437	100.0%	0.0%	100.0%	Property management
St. Modwen Development (Coed Darcy) Ltd	06163563	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Bedford) Ltd	05411282	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Belle Vale) Ltd	04145782	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Blackburn) Ltd	05732825	100.0%	0.0%	100.0%	Property investment
St. Modwen Developments (Bognor Regis) Ltd	06160250	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Brighton West Pier) Ltd	04069008	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Chorley) Ltd	05727011	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Colne) Ltd	05726325	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Connah's Quay) Ltd	05726352	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Cranfield) Ltd	06163509	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Daresbury) Ltd	06163550	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Eccles) Ltd	05867740	100.0%	0.0%	100.0%	Property investment
St. Modwen Developments (Edmonton) Ltd	02405853	0.0%	100.0%	100.0%	Property investment/development
St. Modwen Developments (Facility Services) Ltd	08996358	0.0%	100.0%	100.0%	Dormant
St. Modwen Developments (Hatfield) Ltd	04354480	100.0%	0.0%	100.0%	Property investment/development
St. Modwen Developments (Hillington) Ltd	04150262	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Holderness) Ltd	05726995	100.0%	0.0%	100.0%	Property development
St. Modwen Developments (Hull) Ltd	05593517	100.0%	0.0%	100.0%	Property development
St. Modwen Developments (Kirkby 2) Ltd	09746395	0.0%	100.0%	100.0%	Property development
St. Modwen Developments (Longbridge) Ltd	02885028	0.0%	100.0%	100.0%	Property investment/development
St. Modwen Developments (Queens Market) Ltd	05289380	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Quinton) Ltd	01479159	0.0%	100.0%	100.0%	Dormant
St. Modwen Developments (Silverstone) Ltd	05594232	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Skelmersdale) Ltd	06163591	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (St Helens) Ltd	05726666	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Telford) Ltd	05411357	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Developments (Weston) Ltd	05411348	100.0%	0.0%	100.0%	Property development
St. Modwen Developments (Wythenshawe 2) Ltd	05851760	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments (Wythenshawe) Ltd	05594279	100.0%	0.0%	100.0%	Dormant
St. Modwen Developments Ltd	00892832	100.0%	0.0%	100.0%	Property investment/development
St. Modwen Holdings Ltd	01991339	100.0%	0.0%	100.0%	Dormant
St. Modwen Homes Ltd	09095920	100.0%	0.0%	100.0%	Property development
St. Modwen Hungerford Ltd	06160323	0.0%	100.0%	100.0%	Dormant
St. Modwen Investments Ltd	00528657	100.0%	0.0%	100.0%	Ceased trading
St. Modwen Neath Canal Ltd	06160309	0.0%	100.0%	100.0%	Dormant
St. Modwen Pensions Ltd	00878604	100.0%	0.0%	100.0%	Dormant
St. Modwen Properties 11 S.à.r.l. ⁽¹⁾	B199875	0.0%	100.0%	100.0%	Investment
St. Modwen Properties I S.à.r.l. ⁽¹⁾	B154036	0.0%	100.0%	100.0%	Property investment
St. Modwen Properties II S.à.r.l. ⁽¹⁾	B154040	0.0%	100.0%	100.0%	Property investment

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
St. Modwen Properties III S.à.r.l. ¹	B154089	0.0%	100.0%	100.0%	Property investment
St. Modwen Properties IV S.à.r.l. ¹	B154061	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Properties IX S.à.r.l. ¹	B154099	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Properties S.à.r.l. ^{1a}	B153339	100.0%	0.0%	100.0%	Holding company
St. Modwen Properties Securities (Jersey) Ltd ⁴	114977	100.0%	0.0%	100.0%	Financing company
St. Modwen Properties V S.à.r.l. ¹	B154141	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Properties VI S.à.r.l. ¹	B154133	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Properties VII S.à.r.l. ¹	B154093	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Properties VIII S.à.r.l. ^{1b}	B154097	0.0%	100.0%	100.0%	Property investment
St. Modwen Properties X S.à.r.l. ^{1b}	B154153	0.0%	100.0%	100.0%	Ceased trading
St. Modwen Residential Living Ltd	09266033	100.0%	0.0%	100.0%	Property management
St. Modwen Services Ltd	02885024	100.0%	0.0%	100.0%	Dormant
St. Modwen Ventures Ltd	01486151	100.0%	0.0%	100.0%	Property investment/ development
Statedale Ltd	03656832	0.0%	100.0%	100.0%	Dormant
Trentham Gardens Ltd	00533242	0.0%	100.0%	100.0%	Dormant
Trentham Leisure Ltd	03246990	100.0%	0.0%	100.0%	Property investment
Tukdev 11 Ltd	02885000	0.0%	100.0%	100.0%	Dormant
Walton Securities Ltd	02314059	100.0%	0.0%	100.0%	Dormant
Woking Developments Ltd	05411325	100.0%	0.0%	100.0%	Dormant
Woodingdean Estate Management Company Ltd	09293061	0.0%	100.0%	100.0%	Dormant
Non-wholly owned subsidiaries, with non-controlling interest					
Castle Hill Dudley Ltd	05411315	81.0%	0.0%	81.0%	Property development
Stoke on Trent Regeneration (Investments) Ltd	04289476	0.0%	100.0%	81.0%	Property investment
Stoke-on-Trent Regeneration Ltd	02265579	81.0%	0.0%	81.0%	Property investment/ development
Uttoxeter Estates Ltd	02725709	81.0%	0.0%	81.0%	Property investment
Widnes Regeneration Ltd	03643210	81.0%	0.0%	81.0%	Property development
Norton & Proffitt Developments Ltd	03717397	0.0%	75.0%	75.0%	Property investment/ development
The Company of Proprietors of the Neath Canal Navigation	ZC000173	0.0%	64.4%	64.4%	Property investment
Littlecombe Community Interest Company	05896419	0.0%	51.0%	51.0%	Property management
Joint ventures					
Barton Business Park Ltd	03807742	0.0%	50.0%	50.0%	Property investment
Bay Campus Developments LLP ^{2a}	OC389022	0.0%	50.0%	50.0%	Property development
Key Property Investments Ltd	03372175	50.0%	0.0%	50.0%	Holding company
Meaford Energy Ltd	08575649	0.0%	50.0%	50.0%	Property development
Meaford Land Ltd	08575760	0.0%	50.0%	50.0%	Property development
Skypark Development Partnership LLP	OC343583	0.0%	50.0%	50.0%	Property development
Spray Street Quarter LLP ^{2a}	OC404205	0.0%	50.0%	50.0%	Property development
VSM (NCGM) Ltd	08333203	50.0%	0.0%	50.0%	Property development
VSM Estates (Ashchurch) Ltd	09494284	50.0%	0.0%	50.0%	Property development
VSM Estates (Holdings) Ltd	05867718	50.0%	0.0%	50.0%	Property development
VSM Estates Uxbridge (Group) Ltd	08083799	50.0%	0.0%	50.0%	Property development
Wrexham Land Ltd	06748467	0.0%	50.0%	50.0%	Property development
Wrexham Power Ltd	06762265	0.0%	50.0%	50.0%	Property development

D. Investments in subsidiaries and joint ventures continued

Name	Company registration number	Proportion of entity owned directly by the Company	Proportion of entity owned by a subsidiary of the Company	Ultimate percentage holding	Activity
Associates					
Coed Darcy Ltd ⁽¹⁾	00577934	0.0%	49.0%	49.0%	Property development
Saxon Business Centre (Management) Ltd	02470756	0.0%	40.0%	40.0%	Dormant
Snipe Centre (Management) Ltd	02485535	0.0%	33.3%	33.3%	Dormant
Baglan Bay Company Ltd ⁽²⁾	06383208	0.0%	25.0%	25.0%	Property development
Swan Business Park (Management) Ltd	02424524	25.0%	0.0%	25.0%	Dormant

(1) The registered office of these companies is 121, avenue de la Faïencerie, L-1511, Luxembourg.

(2) The registered office of this company is 47 Esplanade, St Helier, Jersey JL1 0BD, United Kingdom.

(3) The registered office of this limited liability partnership is Finance Department, Swansea University, Singleton Park, Swansea, Wales SA2 8PP, United Kingdom.

(4) The registered office of this limited liability partnership is Bruce Kenrick House, 2 Killick Street, London, England N1 9FL, United Kingdom.

(5) The registered office of these companies is Dumfries House, Dumfries Place, Cardiff, South Glamorgan, Wales CF10 3ZF, United Kingdom.

Many of the shareholder agreements for joint ventures and associates contain change of control provisions, as is common for such arrangements.

E. Trade and other receivables

	2016 £m	2015 £m
Non-current		
Amounts due from joint ventures	6.0	6.0
Non-current receivables	6.0	6.0
Current		
Trade receivables	0.6	0.3
Prepayments and accrued income	5.6	4.1
Other debtors	0.4	0.7
Amounts due from subsidiaries	900.8	569.2
Amounts due from joint ventures	59.8	34.3
Current receivables	967.2	608.6

F. Deferred taxation

	2016 £m	2015 £m
Balance at start of the year	2.7	2.2
Charged to the Company income statement	0.1	0.5
Balance at end of the year	2.8	2.7

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

	2016			2015		
	Asset £m	Liability £m	Net £m	Asset £m	Liability £m	Net £m
Other temporary differences	(2.8)	–	(2.8)	(2.7)	–	(2.7)
Total deferred tax	(2.8)	–	(2.8)	(2.7)	–	(2.7)

G. Trade and other payables

	2016 £m	2015 £m
Current		
Trade payables	1.4	–
Amounts due to subsidiaries	320.3	311.8
Amounts due to joint ventures	17.7	15.5
Taxation and social security	0.9	1.6
Other payables and accrued expenses	9.7	11.0
Current payables	350.0	339.9

H. Borrowings

	2016 £m	2015 £m
Non-current		
Amounts repayable between two and five years	407.8	316.8
Amounts repayable after more than five years	–	37.5
Non-current borrowings	407.8	354.3

Where borrowings are secured, the individual bank facility has a fixed charge over a discrete portfolio of certain of the Company and its subsidiaries' property assets. All borrowings are secured, other than the retail bond and convertible bond disclosed in note 14.

I. Operating leases

Operating lease commitments where the Company is the lessee

The Company leases certain of its premises, motor vehicles and office equipment under operating leases. Future aggregate minimum lease rentals payable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
In one year or less	1.5	0.9
Between one and five years	2.1	2.4
In five years or more	0.1	0.2
Total minimum lease rentals payable	3.7	3.5

J. Transition to FRS 101

This is the first year that the Company has presented its financial statements in accordance with FRS 101 *Reduced Disclosure Framework* issued by the Financial Reporting Council. Previously, the Company reported under UK GAAP. Reconciliations and descriptions of the effect of the transition to FRS 101 are set out below:

Company balance sheet as at 1st December 2014:

	As previously reported £m	Transition effect £m	Reclassification adjustments £m	As restated under FRS 101 £m
Non-current assets				
Investment properties	0.3	–	–	0.3
Operating plant and equipment	0.7	–	–	0.7
Investments in subsidiaries and joint ventures	796.8	–	–	796.8
Trade and other receivables	212.6	–	(206.6)	6.0
Deferred tax	–	–	2.2	2.2
	1,010.4	–	(204.4)	806.0
Current assets				
Trade and other receivables	335.0	–	206.6	541.6
Derivative financial instruments	1.0	–	–	1.0
Tax receivables	12.5	–	–	12.5
Deferred tax	2.2	–	(2.2)	–
Cash and cash equivalents	3.2	–	–	3.2
	353.9	–	204.4	558.3
Current liabilities				
Trade and other payables	(311.8)	–	–	(311.8)
Borrowings	(3.7)	–	–	(3.7)
Derivative financial instruments	(13.0)	–	–	(13.0)
	(328.5)	–	–	(328.5)
Non-current liabilities				
Borrowings	(286.6)	–	–	(286.6)
	(286.6)	–	–	(286.6)
Net assets	749.2	–	–	749.2
Capital and reserves				
Called up share capital	22.1	–	–	22.1
Share premium account	102.8	–	–	102.8
Revaluation reserve	526.9	(526.9)	–	–
Retained earnings	48.2	526.9	(526.9)	48.2
Fair value reserve	–	–	526.9	526.9
Share incentive reserve	4.8	–	–	4.8
Own shares	(1.8)	–	–	(1.8)
Other reserves	46.2	–	–	46.2
Total equity	749.2	–	–	749.2

Company balance sheet as at 30th November 2015:

	As previously reported £m	Transition effect ¹ £m	Reclassification adjustments £m	As restated under FRS 101 £m
Non-current assets				
Investment properties	0.3	–	–	0.3
Operating plant and equipment	0.6	–	–	0.6
Investments in subsidiaries and joint ventures	1,037.2	–	–	1,037.2
Trade and other receivables	212.6	–	(206.6)	6.0
Deferred tax	–	–	2.7	2.7
	1,250.7	–	(203.9)	1,046.8
Current assets				
Trade and other receivables	402.0	–	206.6	608.6
Derivative financial instruments	0.8	–	–	0.8
Tax receivables	18.9	–	–	18.9
Deferred tax	2.7	–	(2.7)	–
Cash and cash equivalents	3.7	–	–	3.7
	428.1	–	203.9	632.0
Current liabilities				
Trade and other payables	(339.9)	–	–	(339.9)
Borrowings	–	–	–	–
Derivative financial instruments	(17.0)	–	–	(17.0)
	(356.9)	–	–	(356.9)
Non-current liabilities				
Borrowings	(354.3)	–	–	(354.3)
	(354.3)	–	–	(354.3)
Net assets	967.6	–	–	967.6
Capital and reserves				
Called up share capital	22.2	–	–	22.2
Share premium account	102.8	–	–	102.8
Revaluation reserve	767.3	(767.3)	–	–
Retained earnings	24.9	767.3	(767.3)	24.9
Fair value reserve	–	–	767.3	767.3
Share incentive reserve	5.2	–	–	5.2
Own shares	(1.0)	–	–	(1.0)
Other reserves	46.2	–	–	46.2
Total equity	967.6	–	–	967.6

J. Transition to FRS 101 continued

Company result for the year ended 30th November 2015:

	As previously reported £m	Transition effect ¹ £m	Reclassification adjustments £m	As restated under FRS 101 £m
Result for the year	(2.7)	240.5	—	237.8

(1) Under UK GAAP, the revaluation of investments in subsidiaries and joint ventures and investment properties was taken to the revaluation reserve. Under FRS 101, such revaluations are debited or credited to the income statement and included within retained earnings, therefore the impact of these current year and cumulative revaluations is transferred from the revaluation reserve to the income statement and retained earnings respectively.

(2) Under FRS 101, certain intercompany balances and deferred tax assets have been reclassified on the balance sheet to reflect the expected settlement as due within less than one year or more than one year. In addition, any cumulative retained earnings that have been derived from revaluations of investments in subsidiaries and joint ventures and investment properties are considered to represent non-distributable reserves. As a result, these have been transferred from retained earnings to a separate fair value reserve to better distinguish those reserves that are distributable.

Five year record

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Rental income	36.2	36.3	37.1	38.7	45.9
Property profits ⁽¹⁾	29.0	37.7	51.3	67.4	62.0
Revaluation surplus ⁽²⁾	28.0	39.1	93.5	201.7	4.1
Profit before all tax ⁽⁴⁾	52.8	77.2	135.4	258.4	60.8
Earnings per share (pence)	21.3	30.9	53.8	97.9	24.1
Dividends paid per share (pence)	3.41	3.75	4.13	5.04	5.79
Dividend cover (times)	6.2	8.2	13.0	19.4	4.2
Shareholders' equity net assets per share (pence)	250.8	278.8	325.1	413.5	431.0
Increase on prior year	8.2%	11.2%	16.6%	27.2%	4.2%
Net assets employed					
Investment properties	770.4	744.6	856.8	1,081.0	1,133.0
Investments	75.2	120.1	127.2	227.3	184.8
Inventories	175.2	199.7	201.0	183.7	229.7
Other net liabilities	(141.1)	(112.9)	(101.0)	(68.4)	(62.2)
Net debt	(366.0)	(334.9)	(360.0)	(502.1)	(523.2)
Minority interests	(11.1)	(4.5)	(5.9)	(6.8)	(6.9)
Equity attributable to owners of the Company	502.6	612.1	718.1	914.7	955.2
Financed by					
Share capital	20.0	22.0	22.1	22.2	22.2
Reserves	483.1	590.4	697.8	893.5	933.6
Own shares	(0.5)	(0.3)	(1.8)	(1.0)	(0.6)
	502.6	612.1	718.1	914.7	955.2

(1) Including share of joint ventures and associates.

(2) Stated before net realisable value provisions.

(3) Including net realisable value provisions and, where applicable, negative goodwill arising on acquisitions as a result of fair value adjustments to property assets.

(4) Stated before taxation of joint ventures and associates.

The figures above are all presented under IFRSs as restated, where applicable.

Glossary of terms

Active management/added value – the component of property revaluations delivered as a direct result of management actions and initiatives, for example obtaining planning consent, achieving remediation milestones and improving lease terms.

Adjusted gearing – the level of the Group's net borrowings (at amortised cost and excluding finance leases) expressed as a percentage of net assets.

Average lease length – the weighted average lease term to the first tenant break.

Cost cover ratio – the ratio of recurring rental and other income to operating costs excluding direct overheads incurred by St. Modwen Homes.

EPRA – the European Public Real Estate Association, a body that has put forward recommendations for best practice in financial reporting by real estate companies.

EPRA net asset value (EPRA NAV) – the Group balance sheet net assets, adjusted to include the fair value of inventories and exclude deferred tax on capital allowances and revaluations, and mark-to-market of derivative financial instruments.

EPRA net asset value per share – EPRA net asset value divided by the number of ordinary shares in issue at the period end (excluding shares held by The St. Modwen Properties PLC Employee Share Trust).

EPRA triple net asset value (EPRA NNNAV) – the Group balance sheet net assets, adjusted to include the fair value of inventories.

Equivalent yield – a weighted average of the initial yield and reversionary yield and represents the return a property will produce based on the timing of the income received.

Estimated rental value (ERV) – the Group's external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of the property.

Gearing – the level of the Group's net debt expressed as a percentage of net assets.

Gross development value (GDV) – the sale value of property after construction.

High yielding portfolio – income generating assets with high yields that provide the Group with opportunity for further development and value creation in the longer term.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standards.

Initial yield – the annualised net rent of a property expressed as a percentage of the property's valuation.

Interest – net finance costs (excluding the mark-to-market of derivative financial instruments, amortisation of loan arrangement fees and other non-cash items) for the Group (including its share of joint ventures and associates).

Interest cover – the ratio of operating income less overheads to interest for the Group (including its share of joint ventures and associates).

Investment portfolio – income generating assets where the Group's development and asset management activities are substantially complete.

Land bank – 100% of the land and property owned and controlled by the Group together with joint ventures and associates (including land under option and development agreements).

LIBOR – the London interbank offered rate is the interest rate which banks charge when lending to other banks.

Loan-to-value (LTV) – the level of the Group's net borrowings expressed as a percentage of the Group's property portfolio excluding valued assets held under finance leases (representing amounts that could be used as security of that debt).

Market value – an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation, as determined by the Group's external valuers. In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees.

Net asset value (NAV) per share – equity attributable to owners of the Company divided by the number of ordinary shares in issue at the period end (excluding shares held by The St. Modwen Properties PLC Employee Share Trust).

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

Net debt – total borrowings and finance leases including fair value movements in the Group's convertible bonds less cash and cash equivalents.

Net equivalent yield (NEY) – the weighted average income return (after adding notional purchaser's costs) a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent is received annually in arrears.

Net initial yield (NIY) – the yield that would be received by a purchaser, based on the current annualised rental income, net of costs, expressed as a percentage of the acquisition cost, being the market value plus assumed actual purchasers' costs at the reporting date. The calculation is in line with EPRA guidance.

Net rental income – the rental income receivable in the period less non-recoverable property costs for the Group (including its share of joint ventures and associates).

Occupancy rates/levels – the ERV attributable to vacant units as a proportion of total ERV (including the Group's share of joint ventures and associates).

Operating costs/business running costs – administrative expenses plus net finance costs (excluding the mark-to-market of derivative financial instruments, amortisation of loan arrangement fees and other non-cash items) for the Group (including its share of joint ventures and associates).

Operating income – the total of net rental income, other income and property profits for the Group (including its share of joint venture and associates).

Other income – other rental type income generated from the operating assets of the Group (including its share of joint ventures and associates).

Persimmon joint venture – a series of commercial contracts with Persimmon to develop residential units on agreed sites within St. Modwen's land bank.

Pre-sold properties under construction – those properties we are constructing that have been specified by and designed for, or adapted by, a specific client under a specific construction contract. On such projects, profit is recognised using the stage completion method.

Profit before all tax – profit before tax stated before the deduction of tax payable by joint ventures and associates.

Project MoDEL – Project MoDEL originally saw six former London-based RAF sites freed up for disposal and development as the MoD relocated to an integrated site at RAF Northolt. VINCI St. Modwen (VSM) was appointed by the MoD in 2006 to secure planning consent to redevelop the six sites of which VSM disposed of four, retaining RAF Mill Hill and RAF Uxbridge. The latter was removed from the MoD arrangement and transferred to a separate joint venture with VINCI in 2012.

Property portfolio – investment properties and inventories of the Group (including its share of joint ventures and associates) comprising income producing properties together with residential and commercial land, but excluding assets held under finance leases not subject to revaluation and including accrued income relating to lease incentives.

Property profits – development profit (before the deduction of net realisable value provisions made during the period) plus gains on disposals of investments/investment properties for the Group (including its share of joint ventures and associates).

Rent roll – the gross rent plus rent reviews that have been agreed as at the reporting date.

Reversionary yield – the anticipated yield to which the initial yield will rise or fall once the rent reaches the ERV.

RICS – Royal Institution of Chartered Surveyors.

Section 106 agreement – planning obligations attached to a development, often improvements to local infrastructure and facilities, to ensure that wherever possible a development makes a positive contribution to the local area and community.

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

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

Serviced land value – the value of the land held at New Covent Garden Market (NCGM) assuming that all the necessary pre-development work has been performed and any third party obligations had been settled, such that the site was ready for the scheme to be implemented (or to be sold to a third party developer to implement).

SIC – Standards and Interpretations Committee.

Total accounting return (TAR) – the increase in EPRA NAV per share for the period, plus dividends paid per share during the period, expressed as a percentage of EPRA NAV per share at the start of the period.

Total shareholder return (TSR) – the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of stock.

Trading profit – operating income less operating costs.

Weighted average term of borrowings – each tranche of the Group's borrowings is multiplied by the remaining period to its maturity and the result is divided by total Group borrowings at the period end.

Weighted average interest rate – the Group's annualised loan interest and derivative financial instrument costs at the period end, divided by total Group borrowings at the period end.

Notice of annual general meeting

Notice is hereby given that the seventy sixth annual general meeting (AGM) of St. Modwen Properties PLC (the Company) will be held in the Evolution Suite, Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham B31 2TS on Wednesday, 29th March 2017 at 12.00 noon to consider and, if thought fit, to pass the following resolutions. Resolutions 1 to 18 inclusive will be proposed as ordinary resolutions and resolutions 19 to 22 will be proposed as special resolutions.

Ordinary business

Annual Report and financial statements

1. To receive the Company's Annual Report and financial statements for the financial year ended 30th November 2016.

Directors' remuneration report and directors' remuneration policy

2. To approve the Directors' remuneration report (excluding the part containing the directors' remuneration policy) as set out on pages 74 to 98 of the Annual Report and financial statements for the financial year ended 30th November 2016.
3. To approve the directors' remuneration policy as set out on pages 76 to 83 of the Annual Report and financial statements for the financial year ended 30th November 2016, to take effect immediately at the conclusion of the 2017 AGM.

Dividend

4. To declare a final dividend for the financial year ended 30th November 2016 of 4.06 pence per ordinary share, payable on 4th April 2017 to those shareholders on the register of members at the close of business on 10th March 2017.

Election and re-election of directors

5. To elect Mark Allan as a director.
6. To re-elect Ian Bull as a director.
7. To re-elect Steve Burke as a director.
8. To re-elect Kay Chaldecott as a director.
9. To re-elect Simon Clarke as a director.
10. To re-elect Rob Hudson as a director.
11. To re-elect Lesley James as a director.
12. To re-elect Richard Mully as a director.
13. To re-elect Bill Shannon as a director.

Appointment and remuneration of auditor

14. To appoint KPMG LLP as the Company's auditor until the conclusion of the next general meeting of the Company at which accounts are laid.
15. To authorise the Audit Committee to determine the remuneration of the Company's auditor on behalf of the Board.

Special business

Share-based incentive plans

16. To approve the rules of the St. Modwen Properties PLC 2017 Performance Share Plan (the 2017 PSP), the principal terms of which are summarised in Appendix 1 to this notice and the draft rules of which are produced to the meeting and signed by the Chairman of the meeting for the purposes of identification, and to authorise the directors to make such modifications to the 2017 PSP as they may consider appropriate to take account of any applicable statutory or regulatory requirements or prevailing best practice and to adopt the 2017 PSP as so modified and to do all such other acts and things as they may consider necessary or appropriate to implement the 2017 PSP.
17. To approve the rules of the St. Modwen Properties PLC 2017 Employee Share Option Plan (2017 ESOP), the principal terms of which are summarised in Appendix 2 to this notice and the draft rules of which are produced to the meeting and signed by the Chairman of the meeting for the purposes of identification, and to authorise the directors to make such modifications to the 2017 ESOP as they may consider appropriate to take account of any applicable statutory or regulatory requirements or prevailing best practice and to adopt the 2017 ESOP as so modified and to do all such other acts and things as they may consider necessary or appropriate to implement the 2017 ESOP.

Authority to allot shares

18. To generally and unconditionally authorise the directors in accordance with section 551 of the Companies Act 2006 (the Act) to exercise all the powers of the Company to:
 - (a) allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £7,395,899; and
 - (b) allot equity securities (within the meaning of section 560(1) of the Act) up to a further aggregate nominal amount of £7,395,899 in connection with an offer by way of a rights issue to:
 - (i) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,subject to such exclusions or other arrangements as the directors consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, or legal, regulatory or practical problems in, or under the laws of, any country or territory or any other matter.

Unless previously renewed, revoked or varied, the authorities conferred by this resolution 18 shall apply in substitution for all existing authorities under section 551 of the Act until the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28th June 2018, but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would or might require shares to be allotted or rights to be granted after the authority expires and the directors may allot shares or grant such rights under such an offer or agreement as if the authority had not expired.

Disapplication of pre-emption rights

Special resolution

19. That, subject to the passing of resolution 18, the directors be generally empowered pursuant to section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 18 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:

- (a) any such allotment and/or sale in connection with an offer or issue by way of rights or other pre-emptive offer or issue, open for acceptance for a period fixed by the directors, to:
 - (i) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

subject to such exclusions or other arrangements as the directors consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, or legal, regulatory or practical problems in, or under the laws of, any country or territory or any other matter; and

- (b) any such allotment and/or sale, other than pursuant to paragraph (a) of this resolution 19, having, in the case of ordinary shares, an aggregate nominal amount or, in the case of other equity securities, giving the right to subscribe or convert into ordinary shares having an aggregate nominal amount, not exceeding £1,109,384.

Unless previously renewed, revoked or varied, the powers conferred by this resolution 19 shall apply in substitution for all existing powers under sections 570 and 573 of the Act until the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28th June 2018, but, in each case, so that the Company may make offers and enter into agreements before the power expires which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold for cash after the power expires and the directors may allot equity securities and/or sell equity securities held as treasury shares for cash under such an offer or agreement as if the power had not expired.

Special resolution

20. That, subject and in addition to the passing of resolution 19, the directors be generally empowered pursuant to section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 18 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

- (a) limited to any such allotment and/or sale of equity securities having, in the case of ordinary shares, an aggregate nominal amount or, in the case of other equity securities, giving the right to subscribe or convert into ordinary shares having an aggregate nominal amount, not exceeding £1,109,384; and

- (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

Unless previously renewed, revoked or varied, the powers conferred by this resolution 20 shall apply in substitution for all existing powers under sections 570 and 573 of the Act until the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28th June 2018, but, in each case, so that the Company may make offers and enter into agreements before the power expires which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold for cash after the power expires and the directors may allot equity securities and/or sell equity securities held as treasury shares for cash under such an offer or agreement as if the power had not expired.

Purchase of own ordinary shares by the Company

Special resolution

21. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the Act) to make market purchases (as defined in section 693 of the Act) of ordinary shares of 10 pence each in its capital (Ordinary Shares) on such terms and in such manner as the directors may from time to time determine provided that:

- (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 22,187,698;
- (b) the minimum price which may be paid for an Ordinary Share is 10 pence (exclusive of expenses);
- (c) the maximum price which may be paid for an Ordinary Share is the highest of (in each case exclusive of expenses):
 - (i) an amount equal to 105% of the average market value of an Ordinary Share for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and
 - (ii) the higher of the price of the last independent trade and the highest current independent bid for any number of Ordinary Shares on the London Stock Exchange; and
- (d) this authority shall, unless previously renewed, expire at the conclusion of the next AGM of the Company after the date on which this resolution is passed or, if earlier, 28th June 2018, except in relation to the purchase of any Ordinary Shares the contract for which was concluded before the date of expiry of the authority and which would or might be completed wholly or partly after that date.

Notice of meetings other than AGMs

Special resolution

22. To authorise the Company to call a general meeting other than an AGM on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next AGM of the Company after the date on which this resolution is passed.

Recommendation

The Board confirms that, in its opinion, all of the resolutions are in the best interests of the Company and its shareholders as a whole. The directors unanimously recommend that shareholders vote in favour of each of the above resolutions, as they intend to do in respect of their own beneficial shareholdings.

By order of the Board

Tanya Stote
Company Secretary
16th February 2017

St. Modwen Properties PLC

Registered number: 349201

Registered office: Park Point, 17 High Street, Longbridge,
Birmingham B31 2UQ

Explanatory notes to proposed resolutions

Ordinary resolutions

For a resolution proposed as an ordinary resolution to be passed, more than half of the votes cast must be in favour of the resolution.

Resolution 1 – Annual Report and financial statements

Resolution 1 is an ordinary resolution to receive the Annual Report and financial statements for the financial year ended 30th November 2016. Copies will be available at the AGM.

Resolutions 2 and 3 – Directors' remuneration

Resolution 2 is an ordinary resolution to approve the Directors' remuneration report, other than the part containing the directors' remuneration policy. In accordance with the Companies Act 2006 this vote is advisory only and the directors' entitlement to receive remuneration is not conditional on it. The resolution and vote provide a means for shareholders to give feedback to the Board on directors' remuneration.

Resolution 3 is an ordinary resolution to approve the directors' remuneration policy. Following a review of the policy approved by shareholders at the 2014 AGM, a new remuneration policy is being proposed to be applied from the current financial year and is being put to a binding shareholder vote. The policy, described on pages 76 to 83, has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders and shareholder advisory groups. If approved by shareholders, the directors' remuneration policy will take effect from the conclusion of the 2017 AGM.

Resolution 4 – Declaration of final dividend

Resolution 4 is an ordinary resolution by which shareholders are asked to declare a final dividend. The directors recommend a final dividend for the financial year ended 30th November 2016 of 4.06 pence per ordinary share. If approved, this will be paid on 4th April 2017 to shareholders on the register of members at the close of business on 10th March 2017.

Resolutions 5 to 13 – Election and re-election of directors

Resolutions 5 to 13 are ordinary resolutions which deal with the election and re-election of the directors. In accordance with the Company's articles of association and the UK Corporate Governance Code, all directors must retire at each AGM and shall, subject to his or her terms of appointment, be eligible for election or re-election.

Following his appointment to the Board on 1st November 2016, Mark Allan will retire and offer himself for election; all other directors will retire and offer themselves for re-election.

Biographical details of all directors are set out on pages 54 and 55. The performance of and contribution made by individual directors has been reviewed by the Chairman during the course of the year and the Chairman has confirmed that the performance of each director continues to be effective, that they continue to demonstrate commitment to their respective roles, and that their respective skills complement one another to enhance the overall operation of the Board. The Board therefore recommends the reappointment of all directors standing for re-election. Further supporting information regarding the non-executive directors can be found opposite.

Ian Bull (resolution 6)

Ian was appointed to the Board in September 2014 and is Chairman of the Audit Committee. He is currently Chief Financial Officer of Parkdean Resorts UK Ltd. His career in finance spans over 25 years, including board level finance roles at Ladbrokes plc and Greene King plc. Ian brings to the Board a wealth of corporate and financial knowledge, together with a sound understanding of accounting and regulatory matters.

During the past year, Ian led the Audit Committee through the selection process for the Company's external auditor and was a member of the interview panel for the tender of the internal auditor appointment. As Committee Chair he also ensured that the Audit Committee considered a number of significant matters in relation to financial reporting, including the valuation of the Group's property portfolio.

Kay Chaldecott (resolution 8)

Kay was appointed to the Board in October 2012. She is currently a non-executive director of NewRiver REIT plc. Her executive career in property spans over 25 years with Capital Shopping Centres Group plc (now Intu Properties plc) where she also served as a main board director.

With her extensive knowledge of the retail property sector, including the retail development process, retail mix and leasing and shopping centre operations, Kay makes a meaningful contribution to discussions and brings effective challenge at Board and Committee meetings.

Simon Clarke (resolution 9)

Simon was appointed to the Board in October 2004 following the death of his father, Sir Stanley Clarke, the founder and former Chairman of St. Modwen. He is currently Chairman of Dunstall Holdings Ltd, Trustee of Racing Welfare and Chairman of Racing Homes.

Whilst not considered to be independent for the purposes of the UK Corporate Governance Code, as the longest serving director Simon brings continuity and extensive knowledge of the business to the Board as well as strong commercial and management experience.

Lesley James, CBE (resolution 11)

Lesley was appointed to the Board in October 2009 and is Chairman of the Remuneration Committee. She has considerable board experience across public, private, voluntary and education sectors and, as HR Director at Tesco plc for 14 years, has extensive knowledge of executive remuneration.

During the past year, Lesley led the Remuneration Committee's discussions in respect of the remuneration arrangements for Mark Allan, who was appointed Chief Executive on 1st December 2016. She also guided the Remuneration Committee's strategic review of the Company's remuneration policy, engaging with the Group's major investors and shareholder advisory bodies. A revised remuneration policy will be presented to shareholders for approval at the 2017 AGM (resolution 3).

Richard Mully (resolution 12)

Richard was appointed to the Board in September 2013 and became Senior Independent Director in December 2013. He is currently a non-executive director of Aberdeen Asset Management plc and Great Portland Estates plc, and Vice Chairman of Atria Office REIT-AG.

Richard brings to the Board broad financial knowledge and experience gained over a long career in investment banking, fund management, capital markets and real estate private equity investing. He has been an active Senior Independent Director, acting as a sounding board for the Chairman and meeting with the non-executive directors without the Chairman being present.

Bill Shannon (resolution 13)

Bill was appointed to the Board in November 2010 and became non-executive Chairman in March 2011. He chairs the Nomination Committee and is currently Deputy Chairman and Senior Independent Director of LSL Property Services plc and a non-executive director of Johnson Service Group plc.

Bill has proven ability in leading large public and private companies as Chairman and has significant management and board level experience across retail, leisure, financial services and property sectors. He continues to oversee succession planning for Board appointments, heading the recruitment for the role of Chief Executive and guiding the induction programme for Mark Allan. Bill also supported the remuneration policy review to ensure that the views of major shareholders were communicated to and understood by the Board.

Resolutions 14 and 15 – Auditor appointment and remuneration

As detailed in the Audit Committee report on page 69 a competitive tender process for the Company's external audit was undertaken during the year, resulting in a recommendation by the Audit Committee to the Board to appoint KPMG LLP. Resolution 14 is an ordinary resolution to appoint KPMG LLP as the Company's auditor with effect from the conclusion of the AGM and resolution 15, also an ordinary resolution, authorises the Audit Committee to determine the auditor's remuneration on behalf of the Board.

Resolution 16 – Approval of the St. Modwen Properties PLC 2017 Performance Share Plan

The Company's existing long-term incentive arrangement for its executive directors is the St. Modwen Properties PLC 2007 Performance Share Plan (the 2007 Plan). Since its approval by shareholders, the 2007 Plan has provided for annual share-based awards ordinarily vesting three years from grant, subject to the participant's continued service and to the extent to which objective performance criteria are met over a three-year measurement period. The 2007 Plan reaches the end of its 10 year life on 26th April 2017.

The Remuneration Committee has undertaken a review of the 2007 Plan and concluded that, through resolution 16, shareholder authority be sought for a replacement arrangement, the St. Modwen Properties PLC 2017 Performance Share Plan (the 2017 Plan).

The terms of the 2017 Plan have been designed to materially continue with the main features of the 2007 Plan, but with appropriate changes to take account of prevailing best practice expectations and the new directors' remuneration policy proposed for approval under resolution 3. One such update in line with best practice is the inclusion of a two-year post-vesting holding period for the Company's executive directors (and other participants at the discretion of the Remuneration Committee).

Resolution 16 seeks the approval of shareholders to the 2017 Plan and authorises the Board to do all such acts and things necessary to give effect to the amendments.

A summary of the principal terms of the 2017 Plan is set out in Appendix 1 to this notice. A copy of the draft rules of the 2017 Plan will be available for inspection at the registered office of the Company, and at the offices of New Bridge Street (an Aon Hewitt Ltd company) at 10 Devonshire Square, London EC2M 4YP, during normal business hours from the date of this notice of AGM until the close of the AGM, and at the place of the AGM for at least 15 minutes prior to and during the AGM.

The 2017 Plan is proposed to be adopted as an employees' share scheme within the meaning of section 1166 of the Companies Act 2006.

Resolution 17 – Approval of the St. Modwen Properties PLC 2017 Employee Share Option Plan

The Company's existing long-term incentive arrangement for employees below Board level is the St. Modwen Properties PLC 2007 Executive Share Option Scheme (the 2007 ESOS). The 2007 ESOS reaches the end of its 10 year life on 26th April 2017.

The Remuneration Committee has undertaken a review of the 2007 ESOS and concluded that, through resolution 17, shareholder authority be sought for a replacement arrangement, the St. Modwen Properties PLC 2017 Employee Share Option Plan (the 2017 ESOP).

The terms of the 2017 ESOP have been designed to materially continue with the main features of the 2007 ESOS but with appropriate changes to take account of prevailing best practice expectations and changes in relevant legislation governing HMRC tax advantaged share options.

Resolution 17 seeks the approval of shareholders to the 2017 ESOP and authorises the Board to do all such acts and things necessary to give effect to the amendments.

A summary of the principal terms of the 2017 ESOP is set out in Appendix 2 to this notice. A copy of the draft rules of the 2017 ESOP will be available for inspection at the registered office of the Company, and at the offices of New Bridge Street (an Aon Hewitt Ltd company) at 10 Devonshire Square, London EC2M 4YP, during normal business hours from the date of this notice of AGM until the close of the AGM, and at the place of the AGM for at least 15 minutes prior to and during the AGM.

The 2017 ESOP is proposed to be adopted as an employees' share scheme within the meaning of section 1166 of the Companies Act 2006.

Resolution 18 – Authority to allot shares

The authority conferred on the directors at last year's AGM to allot shares in the Company expires at the conclusion of the 2017 AGM. Resolution 18 is an ordinary resolution to renew this authority.

The Investment Association (IA) guidelines on directors' authority to allot shares state that IA members will permit, and treat as routine, resolutions seeking authority to allot new shares representing up to one-third of a company's issued share capital. In addition, they will treat as routine a request for authority to allot shares representing an additional one-third of a company's issued share capital provided that it is only used to allot shares pursuant to a fully pre-emptive rights issue.

Paragraph (a) of resolution 18 will, if resolution 18 is passed, authorise the directors to allot shares up to a maximum aggregate nominal amount of £7,395,899, which represents one-third of the Company's issued ordinary share capital as at 8th February 2017 (being the latest practicable date prior to the publication of the notice of AGM). Paragraph (b) of resolution 18 proposes that, in accordance with IA guidance, an additional authority be conferred on the directors to allot shares in connection with a rights issue up to a further maximum aggregate nominal amount of £7,395,899.

The authorities sought in paragraphs (a) and (b) of resolution 18 are in substitution for all existing authorities granted in the Company's articles of association or otherwise, and are without prejudice to previous allotments or agreements or offers to allot made under such existing authorities. The authorities will each expire at the earlier of the conclusion of the next AGM of the Company or 28th June 2018.

The directors have no present intention of exercising these authorities other than to fulfil the Company's obligations under its share incentive plans approved previously by shareholders, but believe that it is in the best interests of the Company to have the authorities available to respond to market developments and to enable allotments to take place without the need for a general meeting should they determine that it is appropriate to do so.

Special resolutions

For a resolution proposed as a special resolution to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolutions 19 and 20 – Authority to disapply pre-emption rights

If the directors wish to allot new shares and other equity securities, company law requires that these shares are offered first to shareholders in proportion to their existing holdings. At last year's AGM a special resolution was passed, under section 570 of the Companies Act 2006, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. It is proposed that this authority be renewed in line with institutional shareholder guidelines.

Under resolution 19, it is proposed that the directors be authorised to issue shares for cash and/or sell shares from treasury (if any are so held) without offering them first to existing shareholders in proportion to their current holdings:

- (a) in respect of a rights issue, open offer or other offer that generally provides existing shareholders with the opportunity to subscribe for new shares pro rata to their existing holdings. This part of the authority is designed to give the directors flexibility to exclude certain shareholders from such an offer where the directors consider it necessary or desirable to do so in order to avoid legal, regulatory or practical problems that would otherwise arise; or
- (b) up to an aggregate nominal amount of £1,109,384 (up to 11,093,840 new ordinary shares of 10 pence each). This amount represents approximately 5% of the Company's issued ordinary share capital as at 8th February 2017 (being the latest practicable date prior to the publication of the notice of AGM). This part of the authority is designed to provide the Board with flexibility to raise further equity funding and to pursue acquisition opportunities as and when they may arise.

The authority proposed under resolution 20 is in addition to the authority granted by resolution 19. Under resolution 20, it is proposed that the directors be authorised to disapply statutory pre-emption rights in respect of an additional 5% of the Company's issued ordinary share capital as at 8th February 2017 (being the latest practicable date prior to the publication of the notice of AGM). This further authority may only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or that has taken place in the preceding six-month period and is disclosed in the announcement of the issue as contemplated by the Pre-Emption Group's March 2015 Statement of Principles.

Excluding any shares issued in connection with an acquisition or specified capital investment as described above, the directors do not intend to issue more than 7.5% of the Company's issued ordinary share capital on a non-pre-emptive basis in any rolling three-year period without prior consultation with shareholders.

The authorities sought in resolutions 19 and 20 are in substitution for all existing authorities granted in the Company's articles of association or otherwise, and are without prejudice to previous allotments or agreements or offers to allot made under such existing authorities. The authorities will each expire at the earlier of the conclusion of the next AGM of the Company or 28th June 2018.

The directors have no present intention of exercising these authorities other than to fulfil the Company's obligations under its share incentive plans approved previously by shareholders, but consider it prudent to obtain the flexibility that these authorities provide.

Resolution 21 – Authority to purchase shares

Resolution 21 is a special resolution to renew the authority granted to the directors at last year's AGM to make purchases of its own ordinary shares through the market as permitted by the Companies Act 2006 and in line with institutional shareholder guidelines. No shares were purchased during the year and the Company does not hold any shares in treasury.

If passed, the resolution gives authority for the Company to purchase up to 22,187,698 of its ordinary shares, which represents 10% of the Company's issued ordinary share capital as at 8th February 2017 (being the latest practicable date prior to the publication of the notice of AGM). The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire at the earlier of the conclusion of the next AGM of the Company and 28th June 2018.

The directors have no present intention for the Company to exercise the authority granted by this resolution to purchase its own shares. They would do so only after taking account of the overall financial position of the Company and in circumstances where to do so would be regarded by the Board as being in the best interests of shareholders generally and result in an increase in earnings per ordinary share. The Company may either cancel any shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

As at 8th February 2017 (being the latest practicable date prior to the publication of the notice of AGM), the Company had options outstanding over 6,960,649 ordinary shares, representing 3.14% of the issued share capital on that date. If the Company was to purchase the maximum number of shares permitted pursuant to this resolution, the options outstanding at 8th February 2017 would represent 3.92% of the issued share capital.

Resolution 22 – Notice period of general meetings

The Company must give at least 21 clear days' notice of any general meeting, but is permitted to call meetings other than the AGM on at least 14 clear days' notice if annual shareholder approval is obtained beforehand. The Company must also offer, for any meeting held on less than 21 clear days' notice, a facility to vote by electronic means that is accessible to all shareholders.

Resolution 22 is a special resolution to renew the authority granted at last year's AGM to allow the Company to hold general meetings (other than AGMs) on not less than 14 clear days' notice. This authority will be effective until the Company's next AGM.

The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Shareholder notes

1. Entitlement to attend and vote

To be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), shareholders must be entered on the Company's register of members at 6.30pm on Monday, 27th March 2017 (or, in the event of any adjournment, at 6.30pm on the date which is two days before the date of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting in respect of the number of shares registered in their name at that time. It is proposed that all votes on the resolutions at the AGM will be taken by way of a poll.

2. Appointment of proxies – general

A shareholder entitled to attend and vote at the meeting convened by the notice of AGM is entitled to appoint a proxy to exercise all or any of his or her rights to attend and to speak and vote on his or her behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company but must attend the meeting in person.

For the appointment to be effective, a proxy form (or electronic appointment of proxy, see note 4 below) must be received by the Company's registrar not less than 48 hours before the time of the meeting, i.e. not later than 12.00 noon on Monday, 27th March 2017. The appointment of a proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if he or she is entitled to do so and so wishes.

3. Appointment of proxies – proxy form

A form which may be used to appoint a proxy and give proxy instructions has been sent to shareholders. If you do not have a proxy form and believe that you should have one, or if you require additional forms to appoint more than one proxy, please contact the Company's registrars, Equiniti, on 0371 384 2198 (overseas callers should dial +44 (0)121 415 7047). Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. Alternatively, photocopy the proxy form which has been sent to you. All forms must be signed and should be returned together in the same envelope.

The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote. Please note that the vote withheld option on the proxy form is provided to enable you to abstain on any particular resolution; it is not a vote in law and will not be counted in the calculation of votes for or against the resolution. If you sign the proxy form and return it without any specific directions your proxy will vote or abstain from voting at his or her discretion. If you wish to appoint a proxy other than the Chairman of the meeting, please insert the name of your chosen proxy holder in the space provided on the proxy form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if the proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

In the case of joint holders, the vote of the senior joint holder who tenders a vote, whether in person or by proxy, in respect of the holding will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names appear in the Company's register of members in respect of the joint holding. In the case of a corporate shareholder, the proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer or attorney. In the case of an individual, the proxy form must be signed by the appointing shareholder. Any alterations made to the proxy form should be initialled.

4. Appointment of proxies electronically

Shareholders who would prefer to register the appointment of their proxy electronically via the internet can do so through Equiniti's website at www.sharevote.co.uk using their personal Voting ID, Task ID and Shareholder Reference Number (which are printed on the proxy form). Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk. Full details and instructions on these electronic proxy facilities are given on the respective websites. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 12.00 noon on Monday, 27th March 2017.

5. Appointment of proxies through CREST

CREST members who wish to appoint a proxy or proxies for the AGM, and any adjournment(s) thereof, through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Ltd's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual (available at www.euroclear.com). The message, regardless of whether it relates to the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

6. Changing and revoking proxy instructions

To change your proxy instruction simply submit a new proxy appointment using the methods set out above. Where two or more valid separate appointments of proxy are received in respect of the same share and for the same meeting, those received last by Equiniti will take precedence.

In order to revoke a proxy instruction, a shareholder will need to inform the Company by sending a signed hard copy notice clearly stating his/her intention to revoke a proxy appointment to Equiniti Ltd, Aspect House, Spencer Road, Lancing BN99 6DA. In the case of a corporate shareholder, the revocation notice must be executed under its common seal or signed on its behalf by a duly authorised officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of attorney) must be included with the revocation notice. Termination of proxy appointments made through CREST must be made in accordance with the procedures described in the CREST Manual.

7. Corporate representatives

A corporate shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares. Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the AGM. Please contact Equiniti for further guidance.

8. Nominated persons

Any person to whom this notice is sent who is not a shareholder but is a person nominated by a shareholder under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement with the shareholder who nominated him/her, have a right to be appointed, or have someone else appointed, as a proxy for the AGM. If a Nominated Person has no such right or does not wish to exercise it, he/she may, under any such agreement, have a right to give voting instructions to the shareholder.

The statement of the rights of shareholders in relation to the appointment of proxies set out in notes 2 to 7 above does not apply to Nominated Persons. The rights described in those notes can only be exercised by shareholders of the Company. If you are a Nominated Person it is important to remember that your main contact in terms of your investment remains the registered shareholder or the custodian or broker who administers the investment on your behalf.

9. Shareholder participation

Any shareholder attending the AGM has the right to ask questions relating to the business of the meeting and the Company has an obligation to answer such questions unless (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

10. Availability of information on a website

A copy of this notice of AGM, and other information required by section 311A of the Companies Act 2006, can be found on the Company's website at www.stmodwen.co.uk.

11. Website publication of audit concerns

Shareholders satisfying the threshold requirements in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter that such shareholder proposes to raise at the meeting relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last AGM. The Company cannot require the shareholders requesting the publication to pay its expenses in complying with the request. Any statement placed on the website must also be sent to the Company's auditor no later than the time the statement is made available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website under section 527 of the Companies Act 2006.

12. Total voting rights

As at 8th February 2017 (being the latest practicable date prior to the publication of the notice of AGM), the Company's issued share capital consisted of 221,876,988 shares carrying one vote each. Therefore the total voting rights in the Company as at 8th February 2017 was 221,876,988.

13. Documents available for inspection

The following documents are available for inspection at the registered office of the Company during normal business hours and will be at the place of the AGM for at least 15 minutes prior to and during the AGM:

- (a) copies of the directors' service agreements with the Company;
- (b) copies of the non-executive directors' letters of appointment;
- (c) a copy of the Company's articles of association;
- (d) a copy of the Company's indemnity for directors;
- (e) a copy of the draft rules of the 2017 Performance Share Plan; and
- (f) a copy of the draft rules of the 2017 Employee Share Option Plan.

14. Communication with the Company

You may not use any electronic address provided in this notice of AGM or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

Notice of annual general meeting

– Appendix 1

Summary of the principal terms of the St. Modwen Properties PLC 2017 Performance Share Plan (the Plan)

Operation

The Remuneration Committee of the Board (the Committee) will supervise the operation of the Plan.

Eligibility

Any employee (including an executive director) of the Company or its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee. It is currently anticipated that participation in the Plan will be limited to the Company's executive directors and selected senior management.

Grant of awards

The Committee may grant awards to acquire ordinary shares in the Company (Shares) within six weeks following the Company's announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the Plan or at any other time when the Committee considers there are sufficiently exceptional circumstances which justify the granting of awards.

The Committee may grant awards as conditional share awards, nil (or nominal) cost options or forfeitable shares. The Committee may also grant cash-based awards of an equivalent value to share-based awards, and satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than 10 years after shareholder approval of the Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

It is proposed that the first awards under the Plan would be made within six weeks following shareholder approval of the Plan or as soon as reasonably practicable thereafter.

Participation in the Plan by the Company's executive directors will be limited to participation consistent with the relevant approved remuneration policy (which initially would be that for which approval is sought pursuant to resolution 3).

Individual limit

An employee may not receive awards in any financial year over or in relation to Shares which have a market value in excess of 150% of their annual base salary in that financial year, save in exceptional circumstances in which case this limit increases to 200% of their annual base salary. Market value for the purposes of the above limits shall be based on the market value of Shares on the dealing day immediately preceding the grant of an award or by reference to a short averaging period.

Performance conditions

The extent of vesting of awards granted to the Company's executive directors will be subject to the achievement of performance conditions set by the Committee when awards are granted. Performance conditions may also be set for other participants in the Plan, as determined by the Committee.

Details of the performance conditions applied to executive directors' awards will normally be set out in the respective Directors' remuneration report for the year in which the award is granted and will be in line with the shareholder-approved remuneration policy.

The Committee may vary the performance conditions applying to any outstanding award following grant if an event or set of circumstances occurs which causes the Committee to consider that it would be appropriate to do so. In the case of any awards held by the Company's executive directors, the Committee must be satisfied that the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event or set of circumstances in question.

Vesting of awards

Awards granted to executive directors shall normally vest on the third anniversary of grant or, if later, when the Committee determines the extent to which the performance conditions have been satisfied. Awards granted to executive directors will have a normal vesting period of not less than three years. The Committee may specify different vesting or performance periods on or prior to the grant of awards to participants who are not executive directors.

Where awards are granted in the form of options, once vested, such options will then be exercisable up until the tenth anniversary of grant (or such shorter period specified by the Committee at the time of grant) unless they lapse earlier. Shorter exercise periods shall apply in the case of 'good leavers' and/or vesting of awards in connection with corporate events.

Holding period

The terms of the Plan require that executive director participants (and such others, if any, as the Committee requires) will ordinarily be required to retain any vested Shares (on an after-tax basis) acquired under the Plan (or, where relevant, the full number of the vested Shares whilst held under an unexercised but vested option) until at least the second anniversary of the vesting of the relevant award. Such holding period will continue post cessation of employment unless the Committee determines otherwise.

Exceptionally, the Committee may, in its discretion, allow such participants to sell, transfer, assign or dispose of some or all of these Shares before the end of the holding period, subject to such additional terms and conditions that the Committee may specify.

Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or Shares) of an amount equivalent to the dividends that would have been payable on an award's vested Shares between the date of grant and the vesting of an award (or if later, and only whilst an option remains unexercised in respect of vested Shares, the expiry of any holding period). This amount may assume the reinvestment of dividends and shall be paid at the same time as the delivery of the related vested Shares (or cash payment as relevant).

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or a director because of death, injury or disability or in other circumstances at the discretion of the Committee, then their award will normally vest on the date when it would have vested if they had not ceased such employment or office.

The extent to which an award will vest in these situations will depend upon two factors: (i) the extent to which the performance conditions (if any) have been satisfied; and (ii) pro rating of the award to reflect the proportion of the original vesting period which has elapsed at the time of cessation, although the Committee can decide not to pro rate an award (or pro rate to a lesser extent) if it regards it as appropriate to do so in the particular circumstances and where it is permitted by the Company's approved remuneration policy.

Alternatively, if a participant ceases to be an employee or a director in the Company's group for one of the 'good leaver' reasons specified above (including in the case of a discretionary good leaver) the Committee can decide that their award will vest when they leave, subject to: (i) the performance conditions (if any) measured at that time; and (ii) pro rating by reference to the time of cessation as described above (including, as above, discretion retained for the Committee in respect of pro rating).

The Committee may make 'good leaver' status contingent on the satisfaction of such (ordinarily, post-cessation of service) terms as the Committee considers appropriate and in such circumstances shall retain discretion to revoke 'good leaver' status to such extent it considers appropriate upon the discovery of a breach of the relevant terms.

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early subject to: (i) the extent that the performance conditions (if any) have, in the opinion of the Committee, been satisfied at that time; and (ii) the pro rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro rate an award (or pro rate to a lesser extent) if it regards it as appropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, awards will be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on such basis as it decides.

Participants' rights

Awards settled in Shares will not confer any shareholder rights until the awards have vested or the options have been exercised as relevant and the participants have received their Shares.

Rights attaching to Shares

Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Plan limits

The Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market. In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than:

- (a) 10% of the issued ordinary share capital of the Company under the Plan and any other employee share plan adopted by the Company; and
- (b) 5% of the issued ordinary share capital of the Company under the Plan and any other discretionary share plan adopted by the Company.

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investor guidelines provide that they need not count.

Recovery (clawback) and withholding (malus)

The Committee may apply the Plan's recovery and withholding provisions if, not later than four years following the vesting of an award, it is discovered that there has been any of the following: a material misstatement of the Company's financial results or performance; an error of calculation (including on account of inaccurate or misleading information); serious misconduct by the relevant participant; or in other exceptional circumstances (for example, failure of adequate risk control).

The recovery and withholding may be satisfied by way of a reduction in the amount of any future bonus, subsisting award or future share awards and/or a requirement to make a cash payment.

The discovery period may be extended by the Committee for an additional period of up to two years in the event of ongoing investigation as at the expiry of the normal four year discovery period.

Alterations to the Plan

The Committee may, at any time, amend the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of such awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

Shareholder approval will also not be required for any amendments to any performance condition applying to an award under the Plan to the extent that it is amended in accordance with the constraints relating to adjusting performance conditions described above.

Notice of annual general meeting

– Appendix 2

Summary of the principal terms of the St. Modwen Properties PLC 2017 Employee Share Option Plan (the Plan)

Operation

The Remuneration Committee of the Board (the Committee) will supervise the operation of the Plan.

Eligibility

Any employee (excluding an executive director) of the Company or its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee. It is currently anticipated that participation in the Plan will be limited to those employees who do not participate in the 2017 Performance Share Plan.

Grant of options

The Committee may grant options to acquire ordinary shares in the Company (Shares) within six weeks following the Company's announcement of its results for any period. The Committee may also grant options within six weeks of shareholder approval of the Plan or at any other time when the Committee considers there are sufficiently exceptional circumstances which justify the granting of options.

An option may not be granted more than 10 years after shareholder approval of the Plan.

No payment is required for the grant of an option. Options are not transferable, except on death. Options are not pensionable.

It is proposed that the first options under the Plan would be made in line with the Company's normal grant cycle following the publication of the half-year results in July 2017.

The Plan has two parts. Part A provides for the grant of HMRC tax advantaged options, and Part B provides for the grant of non-tax advantaged options. Save for minor differences to take account of relevant tax legislation governing HMRC tax advantaged options, the terms of such parts are materially identical. Part B will also allow the Committee to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

Individual limit

An employee may not receive options in any financial year over or in relation to Shares which have a market value in excess of 150% of their annual base salary in that financial year, save in exceptional circumstances in which case this limit increases to 300% of their annual base salary. Market value for the purposes of the above limits shall be based on the market value of Shares on the dealing day immediately preceding the grant of an option or by reference to a short averaging period.

The individual limit on tax advantaged options available under Part A of the Plan is a maximum holding of no more than £30,000 worth of such options at any one time by reference to grant value, or such other limit that may apply from time to time under the relevant tax legislation.

Option price

The price per Share payable upon exercise of an option will not be less than:

- (a) the middle market price of a Share on the London Stock Exchange on the dealing day immediately before the date of grant (or by reference to a short averaging period not exceeding five days looking back from the date of grant); and
- (b) if the option relates only to new issue Shares, the nominal value of a Share.

Performance conditions

The Committee may, at the time of grant of options, impose a performance condition on the exercise of options.

The Committee may vary the performance conditions applying to any outstanding options following grant if an event or set of circumstances occurs which causes the Committee to consider that it would be appropriate to do so, provided the Committee is satisfied that the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event or set of circumstances in question.

Exercise of options

Options will normally become capable of exercise three years after grant to the extent that any performance condition has been satisfied and provided the participant remains employed in the Company's group. Unexercised options will lapse on the day before the tenth anniversary of the date of grant or after such shorter period as determined by the Committee at the time of grant.

The Committee may specify different normal vesting periods on or prior to the grant of options under Part B of the Plan.

Shares will be allotted or transferred to participants within 30 days of exercise. The Committee can decide to satisfy options which are not tax advantaged by the payment of a cash amount or Shares equal in value to the gain made on the exercise of the option.

Leaving employment

As a general rule, an option will lapse upon a participant ceasing to hold employment within the Company's group. However, if a participant ceases to be an employee because of injury, disability, retirement, redundancy, their employing company or the business for which they work being sold out of the Company's group or in other circumstances at the discretion of the Committee, their option will usually vest on the normal vesting date, unless the Committee decides otherwise. Options will be exercisable for a period of 12 months from the date of vesting.

The extent to which an option will vest in these situations will depend upon two factors: (i) the extent to which the performance conditions (if any) have been satisfied; and (ii) pro rating of the option to reflect the proportion of the original vesting period which has elapsed at the time of cessation, although the Committee can decide not to pro rate an option (or to pro rate to a lesser extent) if it regards it as appropriate to do so in the particular circumstances.

Alternatively, if a participant ceases to be an employee in the Company's group for one of the 'good leaver' reasons specified above (including in the case of a discretionary good leaver), the Committee can decide that their option will vest when they leave, subject to: (i) the performance conditions (if any) measured at that time; and (ii) pro rating to the time of cessation as described above (including, as above, discretion retained for the Committee in respect of pro rating). Options will then be exercisable for a period of six months from the date of vesting, unless the Committee determines otherwise.

In the case of death, any unvested options will vest immediately, subject to any performance conditions and time pro rating as above. Options will be exercisable for a period of 12 months from the date of death.

For options granted under Part B of the Plan, the Committee may make 'good leaver' status contingent on the satisfaction of such (ordinarily, post-cessation of service) terms as the Committee considers appropriate and in such circumstances shall retain discretion to revoke 'good leaver' status to such extent it considers appropriate upon the discovery of a breach of the relevant terms.

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all options will become exercisable early for a limited time subject to: (i) the extent that the performance conditions (if any) have, in the opinion of the Committee, been satisfied at that time; and (ii) the pro rating of options to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro rate an option (or pro rate to a lesser extent) if it regards it as appropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, options will be replaced by equivalent new options over shares in a new holding company unless the Committee decides that options should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that options will vest on such basis as it decides.

Rights attaching to Shares

Any Shares allotted when an option is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares under option and/or the price payable on the exercise of an option.

Overall Plan limits

The Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market. In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than:

- (a) 10% of the issued ordinary share capital of the Company under the Plan and any other employee share plan adopted by the Company; and
- (b) 5% of the issued ordinary share capital of the Company under the Plan and any other discretionary share plan adopted by the Company.

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investor guidelines provide that they need not count.

Recovery (clawback) and withholding (malus)

The Committee may apply the Plan's recovery and withholding provisions if, not later than four years following the vesting of an option, it is discovered that there has been any of the following: a material misstatement of the Company's financial results or performance; an error of calculation (including on account of inaccurate or misleading information); serious misconduct by the relevant participant; or in other exceptional circumstances (for example, failure of adequate risk control).

The recovery and withholding may be satisfied by way of a reduction in the amount of any future bonus, subsisting award/option or future share awards/options and/or a requirement to make a cash payment.

The discovery period may be extended by the Committee for an additional period of up to two years in the event of ongoing investigation as at the expiry of the normal four year discovery period.

Alterations to the Plan

The Committee may, at any time, amend the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of such awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

Shareholder approval will also not be required for any amendments to any performance condition applying to an option under the Plan to the extent that it is amended in accordance with the constraints relating to adjusting performance conditions described above.

Information for shareholders

Financial calendar

Ordinary shares quoted ex-dividend	9 th March 2017
2015/16 final dividend record date	10 th March 2017
AGM	29 th March 2017
2015/16 final dividend payment date	4 th April 2017
Announcement of 2017 half year results	July 2017
Announcement of 2017 final results	February 2018

Annual general meeting

The AGM will be held on Wednesday, 29th March 2017 in the Evolution Suite, Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham B31 2TS, commencing at 12.00 noon. The notice of meeting, together with an explanation of the resolutions to be considered at the meeting, is set out on pages 166 to 177.

Website

Information about St. Modwen, including this and prior years' Annual Reports, results announcements and presentations, together with the latest share price information, is available on our website at www.stmodwen.co.uk/investor-relations.

Shareholding enquiries and information

All general enquiries concerning holdings of shares in St. Modwen should be addressed to our registrar:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2198* (+44 (0)121 415 7047 if calling from outside the UK)

A range of shareholder information is available online at Equiniti's website www.shareview.co.uk. Here you can also view information about your shareholding and obtain forms that you may need to manage your shareholding, such as a change of address form or a stock transfer form.

Dividend mandate

If you are a shareholder who has a UK bank or building society account, you can arrange to have dividends paid direct via a bank or building society mandate. There is no fee for this service and notification confirming details of the dividend payment will be sent to your registered address. Please contact Equiniti on 0371 384 2198* or go to www.shareview.co.uk for further information.

Overseas dividend payment service

If you are resident outside the UK, Equiniti (by arrangement with Citibank Europe PLC) can provide dividend payments that are automatically converted into your local currency and paid direct to your bank account. For more information on this overseas payment service please contact Equiniti on +44 (0)121 415 7047 or download an application form at www.shareview.co.uk.

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales.

Share dealing service

If you are UK resident, you can buy and sell shares in St. Modwen through Shareview Dealing, a telephone and internet based service provided by Equiniti Financial Services Ltd. For further details please visit www.shareview.co.uk/dealing or call Equiniti on 03456 037037. Equiniti Financial Services Ltd is authorised and regulated by the Financial Conduct Authority. Other brokers and banks or building societies also offer share dealing facilities.

Electronic communications

As an alternative to receiving documents in hard copy, shareholders can elect to be notified by email as soon as documents such as our Annual Report are published. This notification includes details of where you can view or download the documents on our website. Shareholders who wish to register for email notification can do so via Equiniti's website at www.shareview.co.uk.

Shareholder security

Shareholders are advised to be very wary of unsolicited mail or telephone calls offering free investment advice, offers to buy shares at a discount or sell shares at a premium, or offers of free company reports. Such contact is typically from overseas based 'brokers' who target UK shareholders through operations commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive and often have websites to support their activities.

To avoid share fraud:

- Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you unexpectedly with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/consumers/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember: if it sounds too good to be true, it probably is!

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Shareholder analysis

Holdings of ordinary shares as at 30th November 2016:

	Shareholders		Shares	
	Number	%	Number	%
By shareholder				
Individuals	2,991	75.29	11,132,563	5.02
Directors and connected persons	45	1.13	28,551,241	12.87
Insurance companies, nominees and pension funds	867	21.82	181,495,963	81.80
Other limited companies and corporate bodies	70	1.76	697,221	0.31
	3,973	100.00	221,876,988	100.00
By shareholding				
Up to 500	1,033	26.00	255,923	0.11
501 to 1,000	650	16.36	503,991	0.23
1,001 to 5,000	1,393	35.06	3,330,326	1.50
5,001 to 10,000	351	8.84	2,565,503	1.16
10,001 to 50,000	279	7.02	5,853,305	2.64
50,001 to 100,000	74	1.86	5,402,144	2.43
100,001 to 500,000	105	2.64	26,060,473	11.75
500,001 to 1,000,000	37	0.93	27,042,137	12.19
1,000,001 and above	51	1.29	150,863,186	67.99
	3,973	100.00	221,876,988	100.00

Contacts

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Company No. 349201

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Disclaimer

This Annual Report and financial statements has been prepared for the members of St. Modwen Properties PLC and should not be relied upon by any other party or for any other purpose. The Company, its directors and employees, agents and advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report and financial statements contains certain forward looking statements which, by their nature, involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward looking statements. Any forward looking statements made by or on behalf of the Company are made in good faith based on the information available at the time the statement is made; no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. The Company does not undertake to update forward looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. Nothing in this Annual Report and financial statements should be construed as a profit forecast.

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Imagery used throughout the report has been taken by: Commercial Property Photography; Josh Kearns Photography; Matthew Nichol Photography; Metro Photographic; Nine Films Vauxhall Partnership. Page Seven Photography; Philip Gatward; Roger Smith Aerial Photography, and Sam Orchard.

[GRAPHIC REMOVED]

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Cover from left

The regeneration of Coed Darcy, a 1,060 acre scheme and the former site of the Llandarcy oil refinery.

320,000 sq ft extension to Screwfix, Stoke on Trent.

The Trentham Estate, Stoke on Trent features a range of innovative installations for visitors to enjoy

[IMAGE REMOVED]