St. Modwen Properties PLC
Annual Report 2006

Regeneration in action

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St. Modwen is a regeneration specialist operating through a network of regional offices in all sectors of the property industry with four particular specialisations: town centre regeneration, partnering industry in its restructuring, brownfield land renewal and heritage restoration.

We are closely aligned with the communities in which we operate, continually mindful of the impact of our developments on the local area.

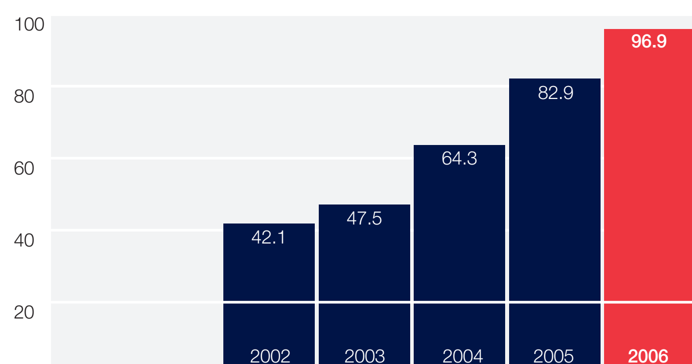
The company's strategy is based on a hopper of developable land, and on marshalling the land through the planning and development process into a reliable stream of profits.

Our financial objectives are to:

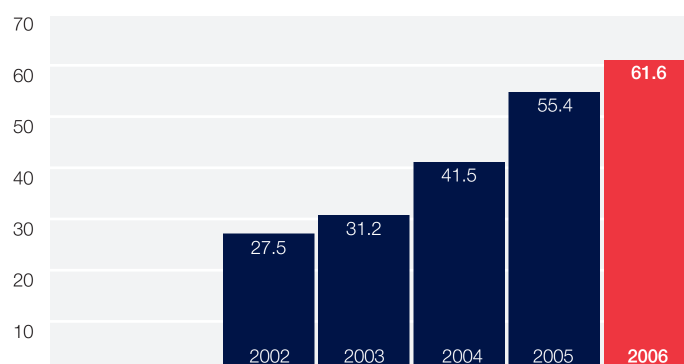
- Double net asset value per share every five years
- Pay a progressive dividend in line with targeted NAV growth

Financial highlights

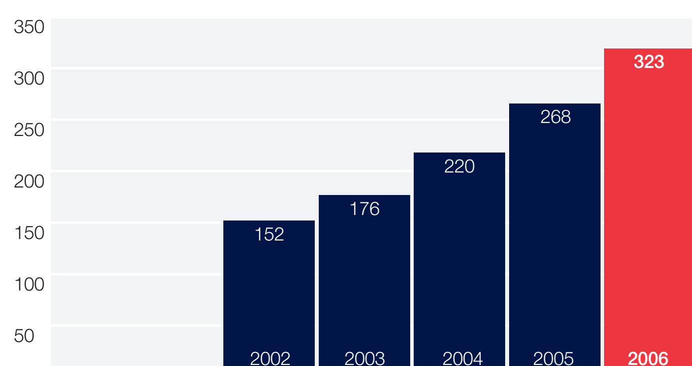
Profit before tax (£ million) **+17%**



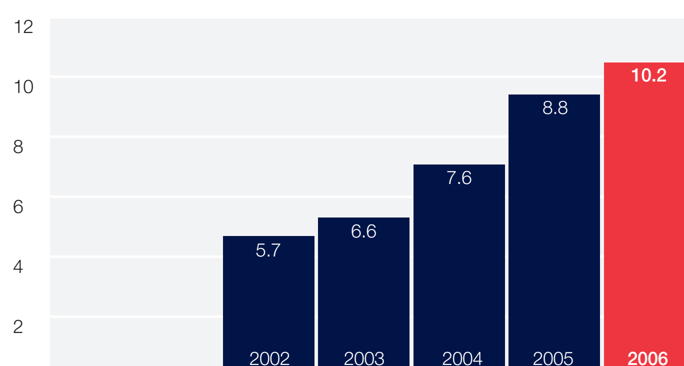
Earnings per share (p) **+11%**



Net assets per share (p) **+20%**



Dividend per share (p) **+16%**



Details of the basis of preparation are set out in the five year record on page 110.

- Profit before tax increased by 17% to £96.9m (2005: £82.9m)
- Earnings per share up 11% to 61.6p (2005: 55.4p)
- Net assets per share increased by 20% to 323p (2005: 268p)
- Proposed final dividend of 6.8p per share (2005: 5.9p), increasing total dividends for the year by 16% to 10.2p (2005: 8.8p)
- Significant progress in marshalling future major projects

Chairman's statement

I am pleased to report on a fourteenth successive year of record results

Results

I am pleased to report on a fourteenth successive year of record results; a year in which we have not only produced a strong trading and revaluation performance but have also made significant additions to the hopper and good progress in marshalling future projects.

Profits before tax increased by 17% to £96.9m (2005: £82.9m), earnings per share grew by 11% to 61.6p (2005: 55.4p) and net assets per share increased by 20% to 323p (2005: 268p).

Our key performance measurement of total pre-tax return on average shareholders' equity was 27.5% (2005: 28.5%).

Dividend

Your board is recommending a final dividend of 6.8p (2005: 5.9p) per ordinary share, making a total distribution for the year of 10.2p (2005: 8.8p), an increase of 16%. This final dividend will be paid on 4th May 2007 to shareholders on the register on 13th April 2007.

International Financial Reporting Standards ("IFRS")

As advised in the Interim Report, our results are now presented in a very different format from that to which you have been accustomed. This arises from the introduction of IFRS, the principal effects of which, apart from purely presentational ones, are that revaluations are shown on the face of the income statement and that the deferred tax provision on revaluations is included in both the income statement and the balance sheet.

The substance of the business is not affected by the introduction of IFRS. However, bringing revaluations on to the income statement may make future reported results more variable. The revaluations reflect pure market movements in addition to those which have arisen from our own efforts and to that extent are less within our control. In the recent past, we have benefited in our revaluations from a strong market but a flat or weak market would not give us such a benefit. Historically, this would have been seen only in our balance sheet but it is now recognised in the income statement.

Strategy

Your company's strategy remains unaltered. We are regeneration specialists, operating through a network of six regional offices, with four particular specialisations: town centre regeneration, partnering industry in its restructuring, brownfield land renewal, and heritage restoration. Much of the programme is carried out with partners from both the public and private sectors.

We are not a sectoral specialist. We have the skills to serve the full range of market sectors: distribution, industrial, leisure, office, residential and retail. Our real skill is in the process of taking challenging regeneration opportunities and seeing them through to the completion of a successful built development, whatever the mix of uses the opportunity deserves.

The key to the strategy is the continued acquisition of well-located opportunities to top up the hopper. In this year, we have acquired a good number of opportunities, two of which are particularly noteworthy, namely our participation with Vinci PLC in Project MoDEL, a rationalization of part of the Ministry of Defence estate in London, and our selection by West Lancashire District Council and English Partnerships to be their preferred partner for the redevelopment of Skelmersdale Town Centre.

These two schemes demonstrate just how far your company has come in the twenty years of its existence as a property operation. We are now able to put ourselves forward in competition for the most challenging regeneration projects and be selected.

We remain differentiated from many of our peers by our determination to grow through realised profits rather than just revaluations and to obtain both the realised profits and the revaluations by actually adding value ourselves rather than by relying on market movement. The latter is obviously a very pleasant addition when it is available but we do not see it as a reliable feature on which to build the business.

Governance

We have always sought to manage our affairs to the highest standards of integrity and business competence and your board takes proper cognisance of corporate governance initiatives. Any departures, however minor, will be for good reasons in the spirit of the regulations and will be fully and openly explained.

We recognise that our projects have a considerable impact on the areas in which they are located. We genuinely believe that our projects improve those areas but, as is the nature of most projects, the outcome is a balance between economic viability and community aspirations. In the community, environmental and social responsibility section we provide a number of examples of how we are working to achieve that balance.

Directors and employees

The continued run of record results and the good prospects for the future could not have been achieved without a committed and highly competent team at all levels in the organisation. My thanks go to everyone for the efforts they have put in to achieving yet another successful year.

The company continues to benefit from a strong board. The executive team is supported by committed non-executives who are not afraid to question and challenge.

I am delighted that Steve Burke, our construction director, has been appointed to the board. Steve joined us in November 1995 and, recruiting an excellent team of construction managers, lifted our delivery process to a higher level. His contribution has been a major factor in our winning a number of the major schemes where he has been able to give confidence to our customers and partners.

Prospects

On the back of our marshalling programme, we move into the present year with a strong, if demanding, target. The present year has started well, but the results will be more second half orientated than in the past. Overall, I would expect it to be a year of continued progress and we remain on track to meet our corporate financial target of doubling net asset value per share every five years.

Anthony Glossop
Chairman
12th February 2007

St. Modwen at a glance

The company focuses on four areas:

www.stmodwen.co.uk

Town centre regeneration

Many centres that were developed during the 1960s and 1970s now require substantial refurbishment and updating to meet the demands of the contemporary shopper, to accommodate new trends in town centre living, and to bring back into these centres community and business uses. St. Modwen has substantial experience in revitalising town centres, and is currently engaged on a number of such schemes, including major projects at Edmonton Green, Farnborough, Skelmerdale and Wembley.

Partnering industry

Restructuring of traditional industries has left numerous former employment complexes potentially available for redevelopment. St. Modwen has established joint ventures with companies such as Alstom, Corus, Goodyear and Ford to undertake the redevelopment of such sites, often through innovative sale and leaseback arrangements which provide the required flexibility for the landowner.

Brownfield renewal

St. Modwen is one of the UK's leading experts in the large-scale renewal of brownfield land. The company has huge experience in the remediation, remodelling, infrastructuring and redevelopment of such sites, having reclaimed hundreds of acres of brownfield land for both residential and commercial use. There is currently well over 1,000 acres of land in the hopper in the process of such development, including the massive Llanwern (former steelworks) and Avonmouth (former zinc smelter) sites.

Restoring Heritage

The company has applied similar skills to a number of heritage, leisure-related projects. In these projects, an enabling commercial development finances an otherwise non-viable heritage restoration scheme. Two such schemes currently being undertaken are: the £100 million transformation of Trentham Gardens at Stoke-on-Trent into a major leisure and commercial visitor attraction; and a similar project at Dudley in the West Midlands, which will incorporate the existing zoo and medieval castle into a new visitor attraction.

North West

01 Glasgow
Hillington
Springburn
07 Preston
Channel Way
08 Blackburn
Medipark
09 Accrington
Junction 7 Business Park
10 Skelmersdale
Town Centre
11 Wigan
Enterprise Park
12 Manchester
Wythenshawe
Trafford Park
13 Liverpool
East Lancs Road
Great Homer Street
14 Widnes
Economic Development Zone
Town Centre

Midlands

17 Derby
Hilton Depot
18 Stafford
Lichfield Road
St. Leonard's
19 Burton-upon-Trent
Barton Business Park
20 Wolverhampton
Goodyear
21 Telford
Brockton Business Park
22 Walsall
St. Matthew's Quarter
23 Dudley
Castle Hill
24 Birmingham
Washwood Heath
Quinton Business Park
25 Longbridge
26 Rugby
Mill Road
Newbold Road
27 Worcester
Shrub Hill Industrial Estate
28 Stratford-upon-Avon
Long Marston

South West

29 Gloucester
Quedgeley Industrial Estates
30 Newport, Gwent
Llanwern
31 Dursley, Glos
Littlecombe Village
32 Avonmouth, Bristol
Access 18
33 Taunton
Trading Estate

Yorkshire

02 Darlington
Whessoe Road

03 Guisley
Netherfield Road

04 Hull
Melton Park

05 Doncaster
Worcester Avenue

06 Lincoln
Rushton Works

North Staffordshire

15 Stoke-on-Trent
Festival Park
Trentham Gardens
Trentham Lakes

16 Stone
Meaford Power Station

London and South East

34 Cranfield
Technology Park

35 Bedford
Thurleigh Airfield
Town Centre

36 Milton Keynes
Stratford Road

37 Hatfield
Town Centre

38 Mill Hill
Inglis Barracks

39 Stanmore
RAF Bentley Priory

40 Eastcote
RAF Eastcote

41 West Ruislip
RAF West Ruslip

42 Uxbridge
RAF Uxbridge

43 Thurrock
South Ockendon

44 London
Catford
Edmonton Green
Elephant & Castle
Hounslow
Leegate Centre
Newham
Wembley Central

45 Woking
The Planets

46 Basingstoke
The Malls

47 Farnborough
Town Centre

48 Surrey
Henley Industrial Estate

49 Yalding
Syngenta

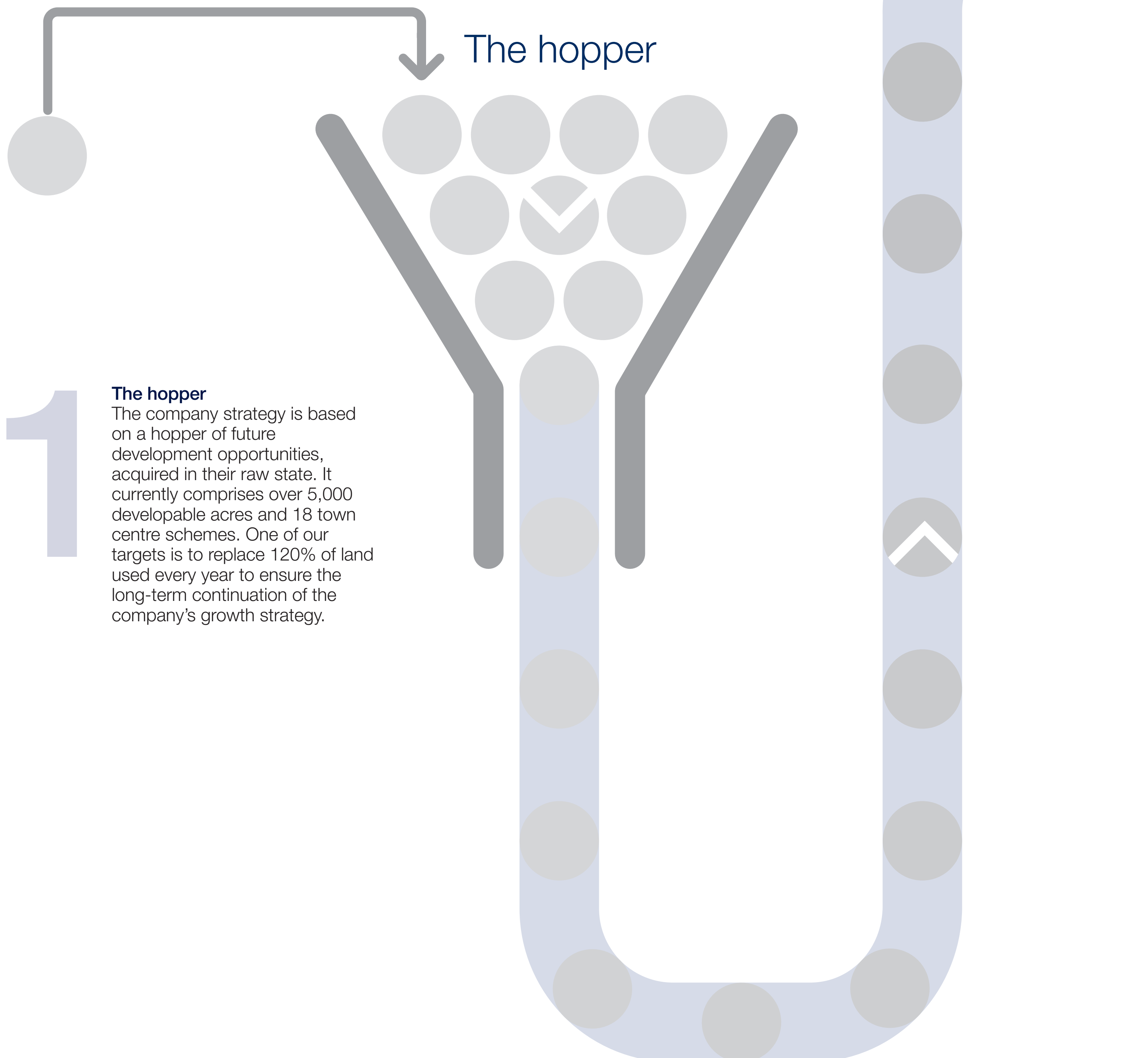
50 Bognor Regis
Town Centre

51 Eastleigh
Campbell Road

52 Poole
Discovery Court

The hopper strategy

The company's objective is to double its net asset value per share every five years, through a mixture of realised profits and revaluation surpluses. By marshalling an extensive hopper of development opportunities, by delivering built-out schemes across all sectors of the property market, and by regularly recycling capital into the acquisition of new opportunities, the company has consistently exceeded this target over the last 14 years.



1

The hopper
The company strategy is based on a hopper of future development opportunities, acquired in their raw state. It currently comprises over 5,000 developable acres and 18 town centre schemes. One of our targets is to replace 120% of land used every year to ensure the long-term continuation of the company's growth strategy.

2

Marshalling
The company's own team, supplemented with skilled external professionals has a proven track record in marshalling the wide range of projects through the complex and lengthy planning and development processes. It has particular expertise in site assembly, assessing and managing remediation risks, undertaking public consultation and creating attractive scheme design.

3

Delivery
Schemes once marshalled are built-out in response to market conditions, with a mixture of pre-let and speculative buildings forming the company's substantial annual construction programme. Assets are disposed of once no further significant value can be added, and the capital is then recycled into new schemes, enabling the entire process to begin again.

Delivery

Business review

The underlying purpose of all St Modwen's activity is to add value to the properties it controls.

Bill Oliver
Chief Executive

Tim Haywood
Finance Director

Steve Burke
Construction Director

Our market

The company's core operation is within the UK property development and investment market.

The investment property market remains very strong but it will be interesting to see how much further, if at all, yields can fall, particularly as interest rates are trending upwards. The occupational market remains variable but still offers opportunities for an active developer. In some retail areas we are seeing weaker demand or at least harder negotiations and the business office park market in the Midlands remains flat. However, overall, we are continuing to find profitable opportunities across the entire range of our activities.

Competitive and regulatory environment

The UK property market is extremely competitive. Natural barriers to entry are low. Finance is usually readily available and advantages of scale, although they do exist, are limited. It is rare, therefore, for the company not to be in serious competition whether it is seeking to make an acquisition, to achieve selection as preferred developer, or to secure an occupier.

By contrast, the regulatory environment is restrictive and becoming increasingly more so. Attempts to simplify and speed up the planning process have not worked and the cost and timescale involved in obtaining planning permission are continuing to escalate. The process of recycling brownfield land is becoming steadily more challenging with risk-based environmental assessments requiring a very high level of understanding of the remediation process.

To a considerable extent, the regulatory challenges create an opportunity in which a developer with appropriate skills and determination can build a long-term viable business.

Business model and strategy

The underlying purpose of all St. Modwen's activity is to add value to the properties it controls. Even those activities referred to as operating ventures are integral to that core purpose. The aim is that no property should be acquired or retained unless it is believed that significant value can be added to that property by the company's own efforts — asset management, refurbishment or redevelopment — in a flat market over a five to fifteen year horizon.

A classic challenge for a company such as yours is how to achieve a constant or rising stream of profits from an activity which some see as inevitably cyclical and the Chairman's statement notes how bringing revaluations on to the income statement may in future make that statement more variable. St. Modwen has sought to meet this challenge by a constant and long-term strategy. Through a network of six regional offices we create a broadly-based programme of activity, much of which is carried out with partners from both the public and private sectors.

Our public sector partnerships include: long-term joint companies, development agreements or leases with local authorities and regional development agencies. We also participate in a number of partnerships with other property companies.

The key to our strategy is the continued acquisition of well-located opportunities to top up the hopper.

The hopper is a bank of development opportunities. It is:

- Long term — We seldom source properties for development within three years. The normal development horizon is five years or more;

- Broadly based — St. Modwen is not a sectoral specialist. We can successfully deliver a wide range of outputs. St. Modwen can, therefore, adjust the mix of its development programme to match market opportunities;

- Geographically spread — Operating through its regional offices, St. Modwen combines the strength of a local developer with the power of a national company;

- Focused upon regeneration — St. Modwen goes where it is needed, rather than where it is fashionable, undertaking town centre regeneration, partnering industry in its restructuring, brownfield land renewal, and heritage restoration; and

- Acquired in its rawest state — Most added value and more flexibility can be achieved if a developer tackles property and risk from the outset of the regeneration process.

The hopper now comprises more than 5,000 acres of developable land.

This business model requires hands-on management, a skilled committed team and a flexible medium-term programme of marshalling projects from the hopper through to the shorter-term development programme. The consistency of future performance depends on the successful interaction of these elements.

All development and property management activity is undertaken by the regional offices, supported and supplemented by a strong central team, providing construction, planning, financial, and commercial expertise.

Employees

One of the major challenges for the company is to recruit and retain a team capable of handling the fast-growing and ever more complex range of projects which we undertake. Many of our key staff have been with us for many years, but that core needs regular replenishment with recruits of as good, if not better, quality. We now employ 267 staff, including 12 surveyors, property and construction managers who joined us during the year.

Financial objectives and key performance indicators

The company has a straightforward economic model with a target to double net asset value per share every five years. This has been achieved for over a decade, and still remains the company's key target.

We also measure return on shareholders' equity as a key performance indicator. This has remained within a band of 25% to 29% over the past five years.

Year	Net Asset per share Growth[1]	Return on Shareholders' Equity[2]
2006	20.3%	27.5%
2005	22.0%	28.5%
2004	25.2%	27.8%
2003	15.4%	25.2%
2002	17.2%	26.6%
Cumulative	149%	Average 27.3%
Target	100%	25%

[1] Net asset figures prior to 30th November 2004 are restated on an IFRS basis, but do not reflect the reclassification of certain work in progress assets.
[2] Return on shareholders' equity = profit before tax as a percentage of average shareholders' equity.

The company's other key performance indicator is to replace opportunities used in the year by new acquisitions at a rate of 120%. The growth in the hopper in recent years has evidenced the achievement of this target.

Development and performance of the business

The hopper — assembly and acquisition

Despite a highly competitive market, 2006 was a record year for acquisitions.

Our total expenditure on acquisitions (including 100% of joint ventures) during the year was £267m, the vast majority of which is on deferred payment terms, including £231m in respect of Project MoDEL. As a result, the hopper (including 100% of joint ventures) was boosted by 807 acres to 7,578 acres, of which 5,058 is developable.

Since 1999 the size of the hopper has increased as follows:

	1999	2005	2006
Total Acres	3,239	6,771	7,578
Developable			
– Retail and Leisure	105	312	335
– Employment	702	2,165	2,298
– Residential	652	922	1,192
– Unspecified	—	999	1,233
	1,459	**4,398**	**5,058**

Possibly the most significant transaction in the year was Project MoDEL.

The UK Ministry of Defence (MOD) and VSM Estates (VSM) — a partnership between Vinci PLC and St. Modwen — reached financial close on Project MoDEL in early August. The project enables the MOD real estate in north-west London to be consolidated on a single site at RAF Northolt.

The £150m redevelopment by VSM of RAF Northolt will create the MOD's first integrated core site in London providing service personnel with new living, working and messing accommodation plus sports, social, health and welfare facilities.

The surplus sites released through the project comprise some 250 acres on six sites:

– RAF Uxbridge
– RAF Bentley Priory
– RAF Eastcote
– RAF West Ruislip
– Inglis Barracks, Mill Hill
– Victoria House, Woolwich

VSM will marshal these opportunities through the planning process over the next five years with a view to realising their considerable potential for predominantly residential redevelopment.

The project is being funded via an innovative new procurement methodology called Prime Plus Contracting which combines traditional property finance with project finance and PFI models.

As reported in last year's Annual Report, in January 2006 we acquired Melton Park, Hull, a 234 acre development opportunity, and Pegasus Business Park, a 31 acre former Rolls-Royce factory site in Glasgow. In addition to these, we also completed 17 other acquisitions in the year including: seven former Kwik Save stores from Somerfield PLC, and a 23 acre employment site in Worcester.

01 RAF Eastcote
A 19 acre site acquired with planning consent for residential development through Project MoDEL and sold in the first half of 2007.

02 RAF Bentley Priory
Another of the Project MoDEL sites, for which a development masterplan is being created.

03 Bognor Regis
An architect's impression of the two town centre mixed use regeneration projects for which the company has been chosen by Arun District Council as its preferred developer.

01

Many of the assets in our hopper are, however, not acquired outright, with control being obtained in a variety of ways that optimise our financial gearing. This trend continued during 2006 with our selection as preferred developer for a number of important projects, including:

- Skelmersdale — selected by West Lancashire District Council and English Partnerships as preferred developer for the mixed use redevelopment of Skelmersdale Town Centre. This £350m project covers some 250 acres and will contain significant retail, leisure, office and community elements, first-rate public realm and new residential provision to connect the existing town centre with outlying residential estates;
- Blackburn Medipark — selected by Blackburn with Darwen Council as preferred developer for the creation of a 15-acre business park specialising in providing facilities for medical, technology and knowledge-based firms;
- Prescot — development agreement signed with Knowsley Borough Council to create a 215,000 sq ft managed workspace and business village. The first phase is now under construction;
- Yalding, Kent — agreement signed with Syngenta Ltd for the remediation and redevelopment of its 100 acre former agro-chemical plant site; and
- Bognor Regis — selected by Arun District Council as its preferred developer for two town centre mixed-use regeneration projects, with an end value in excess of £100m.

02

03

Marshalling

Progress made on marshalling projects in 2006 will contribute to performance in 2007 and beyond.

Our Edmonton development remains on programme and on budget. In 2006 we have completed the construction of the bus station, the leisure centre, the primary care facility and the concourse retail, and are currently fitting out the leisure centre and residential apartments. At Wembley we have demolished the central section of the Wembley Central Square Shopping Centre and have commenced work on the scheme's social housing element as the first stage in the redevelopment of the centre.

More than 50 planning consents were obtained in the year for a wide variety of projects, including:

- Outline planning consent for 550 homes and 170,000 sq ft of industrial development at Taunton Trading Estate, a 63-acre former Ministry of Defence site;
- Outline planning consent for up to 800,000 sq ft of industrial/distribution uses on 55 acres of the 212 acre Access 18 scheme in Avonmouth, Bristol. This could provide recycling/ecopark facilities that could play a major role in Bristol's waste management strategy;
- Outline planning consen t for 200 homes and 25,000 sq ft of employment facilities at Guiseley, West Yorkshire; and
- Detailed planning consent for 550 homes, a downsized Goodyear facility and retained offices, 20,000 sq ft of neighbourhood retail, a 3 acre sports and social club, and a neighbourhood park, at the former Goodyear site in Wolverhampton.

Planning permissions obtained in the year

	No.	Sq ft	Units
Residential	10		2,512
Retail	7	376,000	
Commercial	25	2,318,000	
Office	12	368,000	

In addition, at both Llanwern and Longbridge, real progress has been made in bringing these sites through the planning process. At Llanwern, we submitted an application in March 2006 for some 4,000 new homes, phased over a 20-year period, together with 100 acres of new employment space, with approximately 1.5m sq ft of office, factory and warehouses. We are anticipating a decision on this application during the course of 2007.

At Longbridge, we are working with Birmingham City Council and Bromsgrove District Council on Area Action Plans which should crystallise the shape of the site's future development. In the year, we have been involved in a major new-style consultation exercise which we hope will lead to the identification of a preferred option early this spring and its adoption by late 2007.

01 Goodyear, Wolverhampton
Goodyear's own facility is to be condensed into the buildings in the foreground, leaving the rear of the site available for a major mixed use development.

02 Wembley
A post-demolition picture showing the site being prepared for its redevelopment with safe public access maintained.

03 Llanwern
A view of the cleared site on which substantial remediation trials have already commenced.

02

Steady progress is also being made on our existing development agreements, including those at:

- Hatfield — resolution to grant planning consent has been obtained for this £100m mixed-use regeneration scheme of 200,000 sq ft of commercial space, including 45 shops, cafes and restaurants, a 532 space multi-storey car park, a new library, indoor market hall, leisure and community facilities, a bus interchange and 296 residential units. CPO applications were submitted and Section 106 agreements advanced during the year;

- Bedford Town Centre West — an application for outline planning consent has been submitted for a mixed use scheme with 385,000 sq ft retail, 96,000 sq ft leisure, a hotel, 330 residential units, a car park and a bus station; and

- Great Homer Street, Liverpool — good progress has been made on moving forward the outline planning application for a mixed-use scheme comprising a 120,000 sq ft superstore, 70,000 sq ft retail, 480 homes, 30,000 sq ft leisure, and 80,000 sq ft of light industrial. A resolution to grant planning permission has been received post-year end from Liverpool City Council.

03

Finally, we are one of two on The London Borough of Southwark's shortlist to be selected as preferred developer for the major £2.5bn Elephant & Castle scheme, which is centred on the site of our existing shopping centre. We remain confident that we will play a significant role in this project.

01 Edmonton Green
A view of the new facility for the local Primary Care Trust and one of the residential buildings as they near completion.

02 Quedgeley, Gloucester
The 95,000 sq ft facility constructed for Prestoplan; the first development on this 46 acre estate.

03 Trentham Lakes, Stoke-on-Trent
A view of the Pets at Home distribution complex, the extension to which was completed in the year as part of this major Stoke-on-Trent Regeneration public private partnership.

Delivery

It has been a consistent policy of the company to recycle its capital resources by selling completed developments and any assets where it is no longer possible for us to add further significant value. During 2006 we completed 41 property disposals, including:

- Lyndon House, Birmingham, a 75,000 sq ft office block, the location of our former head office, was sold on completion of an extensive refurbishment and asset management programme;
- The Mead, a 24,000 sq ft retail development in Farnborough town centre through Key Property Investments (KPI), was sold to Standard Life Investment Funds Ltd in a transaction which also enabled us to acquire from the Fund the property opposite, which has development potential; and

- A 157,000 sq ft warehouse at The Cofton Centre, Longbridge, formerly used for MG Rover's parts distribution, was sold to PRG Europe, the UK's leading supplier of lighting and projections solutions to the entertainment and events industries. This represents the first deal to bring a major occupier to this site since the company began its massive regeneration programme, and a first step towards creating the targeted 10,000 jobs from the redevelopment.

In the industrial/distribution sector we completed over a million sq ft, including at our 400 acre Trentham Lakes site in Stoke-on-Trent:

- A 437,000 sq ft distribution facility for Glen Dimplex;
- A 120,000 sq ft warehousing and office extension to the existing distribution centre for Pets At Home;
- A 100,000 sq ft manufacturing facility for Rieter Automotive; and
- A 64,000 sq ft warehouse building for Portmeirion Potteries.

The business park office market has been quite difficult, and our activity in that sector has been relatively subdued. We have nevertheless made good progress in completing and selling a number of projects, notably the 45,000 sq ft Etruria Office Village development in Stoke-on-Trent.

Residential land sales from our brownfield land renewal programme have again figured prominently in the year with completions at:

- Norton Park, Stoke-on-Trent (14 acres sold to Taylor Woodrow with planning for 270 homes);
- The former Bestwood colliery site in Nottingham (12 acres sold to George Wimpey with planning for 175 homes); and
- Hilton, Derby (13 acres sold to George Wimpey for 272 homes, bringing to 700 the total of homes ultimately built on this former MOD site).

2006 has been a very active year for our construction team who, at the end of the year, were on site with a large number of schemes, including:

- Edmonton Green (continuing progress with the retail, leisure and residential elements of this £100m mixed-use scheme);
- Wembley (commencement of the £75m mixed-use regeneration of the shopping centre);
- St Matthews Quarter, Walsall (a 118,000 sq ft Asda foodstore, 1,000 space multi-storey car park and 41 apartments for Accord Housing Association); and
- Longbridge Technology Park (a £15m first phase, comprising a 45,000 sq ft Innovation Centre which will provide serviced accommodation from 250 sq ft for start-up technology based businesses and a 35,000 sq ft building to provide grow-on space for companies wanting to expand and requiring accommodation of 4,000 sq ft or more).

We continue to devote considerable resources to improving both the value and income of the property we own through a variety of asset management activities. We have a large and diverse tenant and property base, which suits our active approach to management. During the year ended 30th November 2006, our in-house team undertook:

- 265 rent reviews and lease renewals, achieving an uplift in rents of £3.9m; and
- 239 new lettings, producing additional rent roll of £7.3m, which more than offset the 245 vacations (rent roll £5.0m).

At Trentham, the gardens attracted 133,000 visitors (2005: 93,000) and, with a total of 2.1m visitors to the site (2005: 1.5m), a trading profit before interest of £0.3m (2005: £0.5m loss) was achieved. Extensive works continued on this heritage restoration scheme, with the completion of the second 24,000 sq ft phase of heritage craft and leisure retail, together with the start on site of the 120-bedroom hotel that has been pre-let to Golden Tulip.

Our other operating ventures also made good progress in the year. The Avonmouth landfill made a contribution of £1.6m (2005: £0.9m), and the Solihull Ice Rink £0.5m (2005: £0.3m).

For further details of projects referred to in this business review, and other projects, see our website, www.stmodwen.co.uk

01 The Mead, Farnborough
The 24,000 sq ft retail development completed by KPI in 2003 and sold in the year as part of a transaction progressing the site assembly for the main development.

Financial review

IFRS

This is the first year that our results are reported under IFRS. The comparative figures for 2005 have been restated on the same basis. (In common with most listed companies, we continue to present parent company information under UK GAAP.)

The principal impacts of adopting IFRS were described in our Interim Report and are reproduced in this report in note 23 to the accounts. An important point to understand is that IFRS affects accounting only. There is no operational impact on the underlying business or its cash flows.

The main impacts on the financial statements are:

- Movements in the valuation of investment properties are included in the income statement;
- Deferred tax is provided on net property revaluation surpluses;
- Certain properties, previously held in work in progress, have been reclassified as investment properties and are now carried at independent valuation, not at cost; and
- Dividends are only recognised once they are approved.

As a result of these (and other, smaller, adjustments described in note 23), the previously reported numbers for the year ended 30th November 2005 have been restated as follows:

	Previously reported UK GAAP	**As restated IFRS**
Net assets	£330.7m	**£324.0m**
Profit before tax	£46.3m	**£82.9m**
Earnings per share	28.7p	**55.4p**
Net assets per share	274p	**268p**
Growth in net assets per share	24%	**22%**

Income statement

Profit before tax

Under IFRS, profit before tax represents the total pre-tax return (but after tax on joint ventures) to shareholders for the year, including both realised profits and unrealised gains on the revaluation of investment properties (which had previously been taken directly to reserves). The principal factors behind the 17% increase in profit before tax in the year are shown in the table below.

Profit before tax	**£m**
Year ended 30th November 2005	82.9
Net rental income	(7.0)
Property profits	5.3
Valuation gains	10.7
Administrative expenses	1.2
Finance charges	(1.6)
Joint venture tax	4.0
Other items	1.4
Year ended 30th November 2006	96.9

Net rental income

Net rental income for the year, including our share of rent from joint ventures, fell as expected by 17% to £33.2m (2005: £40.2m). The continuing strong investment market, while yielding good prices for sales of our completed developments, makes the acquisition of income-producing properties with scope for adding value increasingly challenging. As a result, the impact of disposals and acquisitions on net rental income in the year was a reduction in net rent of £1.2m. The resolution of the uncertainty surrounding our Longbridge site, with Nanjing Automotive Group UK Limited taking an assignment of the 33 year remainder of MG Rover's lease over 105 acres, has resulted in the release of some 159 acres for development, but a reduction in net rental income of £1.6m. In addition, there were a number of special situations, such as the temporary vacation of Hannibal House at Elephant & Castle, which led to a short-term reduction in our rent receivable.

At 30th November 2006, the gross rent roll, including our share of rent from joint ventures, was £35.3m (2005: £40.8m). A number of our sites such as Farnborough Town Centre are currently being managed in such a way as to enable development in the near future, and a number of recently acquired sites (including South Ockendon, Essex, Pegasus Business Park, Glasgow and Brockton Business Park, Telford) were acquired vacant and have taken longer to let than we had hoped. Consequently, during the year under review, our overall voids remained static at 18.5%, which is consistent with our development strategy for the portfolio.

Property profits

Property profits, including our share of joint ventures, increased by 13% to £44.6m (2005: £39.3m). Forty-one property disposals were completed in the period, of which 11 contributed profits over £1m.

Investment property revaluation gains

All of our investment properties are valued externally by King Sturge & Co. on an open market basis, every six months.

The adoption of IFRS led to the reclassification as investment properties of certain properties that had previously been held at cost in work in progress. Details of this are set out in note 23 to the accounts.

The valuation of our investment properties reflects both market movements and the value added by the company's activities. The latter includes the achievement of marshalling milestones in the planning process (including allocations in local plans, obtaining planning permissions, and resolution of Section 106 agreements). The calculation of this added value incorporates the present value of future cash flows, based on existing land prices and the current best estimate of costs (incorporating appropriate contingencies) to be incurred, but allowing for a developer's profit at the point of development.

Total valuation gains of £55.6m (2005: £44.9m) (including our share of joint ventures) were obtained through achieving such marshalling milestones, further yield compression and the value added by our redevelopment and asset management activities.

During the year we also realised £10m of previous revaluation surpluses.

01 Skelmersdale
A view of Skelmersdale town centre; ASDA in the foreground, the shopping centre above, showing the disjointed nature of the current configuration.

Administrative expenses

Administrative expenses (including our share of joint ventures) have fallen during the year by £1.2m to £15.7m, despite a continuing programme of recruitment and the regional expansion needed to match our increased activity. The main drivers of the cost reduction are a fall in the cost of employee share options (compared with 2005, a year of exceptional share price rise), and the release of deferred bonus provisions in respect of former employees.

During the year we recruited extensively to strengthen our development, property management and construction teams. We now have a total of 267 employees, with 102 employees across our six offices, 66 undertaking site management and 99 in our operating ventures.

We continue to adopt the policy of satisfying employee share options, when exercised, without issuing new share capital, which would dilute returns for existing shareholders. With 3.4m outstanding options (held by 195 employees), and a 25% share price increase in the year, the impact has been a charge to the profit and loss account of £3.1m (2005: £5.4m). The company's option schemes (which comprise the SAYE scheme, which is open to all employees, and the executive share option scheme, which is available to 42 senior executives) remain an important tool in the recruitment and retention of key staff, and in aligning employee interests with those of shareholders.

Joint ventures and associates

Under IFRS, our share of the post-tax results of joint ventures and associates is shown on the income statement as one net figure. A full analysis of the underlying details is disclosed in note 9. The principal joint venture in which the group is involved is Key Property Investments Limited which made a post-tax return of £9.3m. Our 27.2% interest in the post-tax results of our associate, Northern Racing PLC, is also included under this heading.

Finance costs and income

Net finance charges (including our share of joint ventures) have increased to £21.1m (2005: £19.5m) due principally to the net effect of the two market value adjustments referred to below. Underlying bank interest costs, however, were held at 2005 levels, despite average group borrowings increasing by £24m to £235m and a 0.5% increase in base rates. This was in large part due to a combination of successful hedging and renegotiation of facilities. The overall result has been an increase in the weighted average rate of interest payable as at 30th November 2006 to 6.0% (2005: 5.6%).

IFRS requires the revaluation of our interest rate swap contracts to market value. During the year this resulted in a credit to the income statement of £2.0m (2005: £0.3m), recognising the increasing value of such contracts in a climate of rising interest rates.

Net finance charges also includes a charge of £3.8m (2005: £nil) for the amortisation of the discounted deferred consideration payable to the MOD in respect of Project MoDEL.

The group has not in the year capitalised any interest on its developments or its investments, but expensed all interest as it has arisen.

Taxation

The effective rate of tax charge for the year, including our share of joint ventures, and with full provision for deferred taxation (including deferred taxation on the revaluation of investment properties as required by IFRS) has fallen to 23.8% (2005: 24.8%).

This rate is lower than the 30% standard rate of UK Corporation Tax due to the availability of time-expired industrial building allowances, and of land remediation relief for expenditure on brownfield renewal.It is anticipated that, with the continued utilisation of indexation allowances and time-expired industrial building allowances, the effective rate of tax will remain below the standard rate of UK Corporation Tax. Benefit from tax planning activities is only recognised when the outcome is reasonably certain.

Cash flow and financing

The company continues to produce a strong cash flow, based on recurring net rental income of £33m (including our share of joint ventures) and an ongoing programme of asset disposals, which generated £180m in the year. This enabled us, after meeting administrative expenses, dividends and interest, to invest in a £103m development programme and in property acquisitions (excluding those on deferred payment terms) of £95m during the year.

Despite these substantial investments, gearing levels have remained modest. One reason for this is that increased net asset value arising from valuation gains has more than offset the growth in net debt.
At the year end, group net borrowings had increased to £253m (2005: £208m), representing a gearing ratio of 65% (2005: 64%). Bank facilities, excluding joint ventures, totalled £458m at the year end (2005: £308m). At this level, we have undrawn committed facilities of £198m, of which £79m is specifically allocated for MoDEL.

In addition, the group's share of debt within joint ventures, which is secured solely upon the assets within the relevant joint venture, was £93m (2005: £96m).

Financing strategy and financial structure

Our strategy is to maintain an appropriate gearing level to ensure that a good operational performance is converted into excellent shareholder returns. To this end, we target a preferred gearing range of 75% to 125%. Despite an extensive programme of investment during the year, our current gearing level of 65% remains below the target range. However, gearing including our share of joint venture debt is 88%. This still gives us ample headroom and flexibility to move swiftly to undertake further development and acquisitions.

Interest cover (including our share of joint ventures) has improved from 5.6 times in 2005 to 5.7 times in 2006. Excluding revaluation gains (a more realistic measure of the company's ability to service its debt), adjusted interest cover is 3.1 times (2005: 3.3 times). Both measures indicate that the company has significant additional capacity for debt. This capacity gives us confidence in our ability to continue to invest in an ambitious development programme.

We also endeavour to have in place a financial structure that is both cost-effective and flexible. The group is financed by shareholders' funds and bank debt of varying maturity profiles, which is appropriate to the needs of the group and reflects the type of assets in which it invests. The majority of the bank debt is provided through bilateral revolving credit facilities, providing us with the flexibility to draw and repay loans, and sell and acquire assets as opportunities arise. At 30th November 2006, the weighted average facility duration was 5 years (2005: 5 years).

The group's borrowings are at variable rates of interest, although we actively manage our interest rate exposure using interest rate swaps. At the year end, 62% of company borrowings were hedged in this way (2005: 58%), and 62% of joint venture borrowings (2005: 62%). Our strategy is to hedge two-thirds of all borrowings, with the maturity of both hedges and facilities being aligned with individual schemes where applicable, or over a maximum of 5 years for revolving facilities.

Balance sheet

Net assets

At the year end, net asset value per share was 323p, an increase of 55p (20%). In common with other property companies, we use the diluted EPRA NAV measure of net assets which analysts also use in comparing the relative performance of such companies. The adjustments required to arrive at our adjusted net assets measure are shown in the table below.

Adjusted net assets per share were 360p at 30th November 2006, an increase of 63p (21%) in the year.

		Years ended 30th November	
		2006	2005
		£m	£m
Net assets, beginning of year		**324.0**	265.5
Profit after tax		**75.9**	67.4
Dividends paid		**(11.5)**	(9.9)
Other		**1.4**	1.0
Net assets, end of year		**389.8**	324.0
Deferred tax on capital allowances		**7.3**	5.5
Deferred tax on revaluation surpluses		**39.2**	29.5
Mark to market of interest rate swaps		**(2.0)**	(0.3)
Diluted EPRA NAV	– total	**434.3**	358.7
	– per share	**360p**	297p

Investment properties

Following the reclassification of certain properties as part of the introduction of IFRS, the majority of the group's assets now fall in this category.

The total value of investment properties, including 100% of joint ventures, increased by £240m during the year to £1,036m.

During the year in the group we sold a total of £88m of property, generating a profit of £27m. We also had our most active year ever in terms of the value of acquisitions, with total capital expenditure of £272m.

The independent valuation at 30th November 2006 resulted in an uplift in the value of our portfolio including our share of joint ventures of 6.7% (£55.6m), compared with the previous year end. As well as benefiting from successful negotiation of planning consents and our hands-on approach to asset management, the revaluation increase reflects the continuing strong investment market for the type of secondary properties that are typical of our portfolio. During the year, we have seen yields continue to move in on all asset classes. As an example, we are now typically carrying our shopping centres at net initial yields of around 5.5% to 6%.

Work in progress

Assets held in work in progress principally comprise development projects that are on site and under construction, and other assets that are held for resale at the period end.

Assets held in work in progress are not included in the annual valuation.

Investments in associates

Our 27.2% shareholding in Northern Racing PLC, an AIM-listed company, is classified as an equity-accounted associated undertaking. The carrying value of our investment at 30th November 2006 is £11m. This represents the company's share of the fair value of the assets acquired, plus post-acquisition profits. We are not able to recognise for accounting purposes the AIM market value of our shareholding, which, at the share price of 179p on 30th November 2006, was £17m. Since the year end the shareholding has been transferred to the St. Modwen Properties PLC Employee Benefit Trust as part of a process of reinforcing the security of the group's pension scheme and other employee benefits.

Financial statistics

	30th Nov 2006	30th Nov 2005
Net borrowings	**£253m**	£208m
Gearing	**65%**	64%
Gearing, including share of JV debt	**88%**	94%
Average debt maturity	**5 years**	5 years
% debt hedged	**62%**	58%
Interest cover, excluding valuation gains	**3.1**	3.3
Undrawn committed facilities	**£198m**	£100m
Return on shareholders' equity	**27.5%**	28.5%

02

01 Longbridge
The landmark conveyor which carried car bodies across the A38 from the West works to the South works for assembly.

02 Longbridge
The conveyor in the course of demolition.

01

The future

The company's hopper (details of which are set out above on page 10) is an underlying strength which should provide a stream of future profitability.

The key issues determining the company's future performance are:

- Whether we can continue to acquire sufficient opportunities to top up the hopper;
- How we marshal projects through land assembly, planning and construction to create annual development programmes; and
- Whether the occupational market across the various sectors will be sufficiently strong to support those programmes.

We have strategies in place to address each of these issues:

- Our network of regional offices, and the long-term relationships that they build, gives us a good prospect of identifying and securing the right opportunities;
- Regular detailed reviews of all live projects mean that issues associated with marshalling schemes can be identified and addressed in a timely manner; and
- By operating across a wide range of property sectors, we spread the risk of an occupational downturn in any particular sector.

The current view is that, subject only to macro-economic conditions, future prospects are good.

The current year has started well. The programme for the rest of the year is taking shape. In the light of this, the Chairman reports in his statement that he is looking forward with confidence to another year of progress for your company.

Bill Oliver, Chief Executive
Tim Haywood, Finance Director
12th February 2007

01 Pegasus Business Park, Glasgow
A precise piece of demolition taking place as this former Rolls Royce facility was prepared for redevelopment.

02 Quinton Business Park, Birmingham
A 27,000 sq ft office building completed in the year as part of the company's speculative development programme.

Case study
Brownfield renewal
Dursley, Gloucestershire

Project progress

2002
Selected by SWRDA

2004-2007
Site remediation works

Background
Acquired in 2002, through a development agreement with South West Regional Development Agency, this mixed use 92 acre regeneration scheme will redevelop the former Lister Petter manufacturing site.

Our Vision
An exemplar urban village including 600 homes, the creation of 1,000 jobs and local facilities. The project involves the opening up of the culverted river Cam and its sustainability credentials will be enhanced by a district-wide biomass heating and hot water system, together with photovoltaic cells for a significant proportion of the homes.

2006 activities have included: obtaining a resolution to grant outline planning permission, subject to entering into a S106 agreement; the acquisition of the Drake House office building for letting as a business centre; remediation of foundry sand heaps and a former town gas works; the creation of a site for a business park zone; the opening up of the first stretch of the river Cam; and the sale of the Towers for refurbishment to include a 44-bed nursing home.

CESR
We have worked closely with the Environment Agency to agree and then implement an innovative remediation strategy, opening up the culverted river Cam that bisects the site to form a central green corridor and remediating over 200,000 tonnes of foundry sand and a former town gas works. The foundry sand, after extensive testing, was approved for use as structural fill and demolition materials are being reused on site. Only 1 lorry load of contaminated materials has left the site during the year.

Additionally, as part of our commitment to creating an exemplar urban village, the stewardship of the estate (including the biomass and other community facilities) will be vested in a Community Interest Company.

01

2007-2008
Residential
land sales

2008-2010
Commercial development

2010
Project
completion

02

03

01 An aerial view of the site as the reclamation gathers pace.

02 A ground level view of the same area showing the sheer scale of the reclamation process; the truck in the picture has a load capacity of 24 tonnes.

03 Drake House, the former Lister Petter head office which has been refurbished as a business centre.

Case study

Town centre regeneration
Edmonton Green, London N19

Project progress

1999
Site purchased

2000-2003
Planning approval

2004
Demolition

Background

The company acquired the shopping centre in 1999, through a 150 year lease and a development agreement with the London Borough of Enfield.

The mixed use development of the 26 acre project is extremely complex and required the participation of numerous public and private sector organisations, including the London Borough of Enfield, Transport for London. Enfield Primary Care Trust, London and Quadrant Housing Trust, the Metropolitan Housing Trust, Tower Homes, ASDA and the existing tenants in the shopping centre.

Our Vision

A comprehensive £100m mixed-use development to regenerate Edmonton Green, providing major community uses including a Primary Care Trust facility, a leisure centre, and a bus station, in addition to substantial new retail provision, and residential units.

Construction of the first phase including part of the new retail and 177 residential units, the primary care centre, bus station, and leisure centre and the refurbishment of a multi-storey car park will be completed by spring 2007. The demolition of the existing leisure centre and construction of the further leisure and retail, including an ASDA foodstore and a bingo hall, are due to be completed in spring 2008. Succeeding phases include the overall refurbishment of the existing shopping centre's malls and the redevelopment of North Square for retail and residential use.

CESR

For seven years we have worked closely with the council to help meet its aspirations to regenerate this tired area. We have consulted extensively with the local community, running the existing shopping centre and markets with a hands-on local management team, ensuring that the development programme addresses community needs and is delivered with minimum disruption.

We have become an active participant in the local community over the lengthy period of our involvement by various means including: sponsoring the Potters Bar under 11s football team and the Metropolitan Police "Street Vibe scheme" (an educational programme which is run in local schools); and by providing subsidised or free accommodation to the Artzone community centre, a credit union and UK Emp (an employment charity).

01

2005-2008
Construction of new retail, leisure and residential

2008-2009
Refurbishment of shopping centre

2010
Project completion

02

01 The abandoned 1960's car park in the course of demolition.

02 A view of one of the residential buildings looking across the new leisure centre.

03 The new entrance to the shopping centre with a 1960's tower framed by the redevelopment.

Case study

Partnering industry
Longbridge, Birmingham

Project progress

2001-2004
Site assembly

2005-2006
Resolution of occupancy issues

2006-2008
Planning approval and demolition

Background

The company's interest in this former MG Rover car manufacturing facility, near junction 4 M5, began in 2001 when we were selected as development partner for 57 acres of surplus land initially by MG Rover, subsequently by Advantage West Midlands (AWM). The remaining 414 acres were acquired in two tranches in 2003 and 2004.

Following the failure of MG Rover, Nanjing Automobile Corporation acquired certain assets of the business and took over the 33 year residue of the lease on 105 acres of the South works.

The remainder of the site is being masterplanned for a mixed-use development.

Our Vision

A major mixed-use, employment-led development, aimed at transforming the Longbridge area, with a target of 10,000 jobs, more than replacing the 6,500 jobs lost at the time of the collapse of MG Rover. Key elements will include a technology park, a new heart for Longbridge with retail and community facilities, residential development, and associated infrastructure.

This development is being processed through a joint Birmingham/Bromsgrove Area Action Plan with extensive public consultation. The plan is currently in its penultimate stage, with a preferred option being consulted upon. If it successfully passes this stage, the plan will be adopted for an examination in public later this year, after which planning applications can be submitted.

Utilising a planning consent obtained under the earlier development agreement, the company is already on site constructing 80,000 sq ft of office space in an innovation centre and grow-on building which will be handed over in June.

Demolition of 3m sq ft of redundant buildings began in 2006 and will be completed by September 2007.

CESR

The company has never shirked involvement in public consultation, but the Longbridge Area Action Plan has taken its participation to an even higher level.

After an initial telephone survey and review with stakeholders, the consultation has already covered three stages involving newsletters sent out to 22,000 homes, examination of resultant feedback, numerous public meetings and other meetings with special interest groups.

Whilst the consultation has been led by consultants appointed by the councils, St. Modwen has had a significant involvement throughout the process, being willing to talk or to meet with anyone who had a view to express.

This process has undoubtedly helped the creation of a masterplan that will achieve public acceptance and a true sense of community involvement.

2008-2015
Mixed use development

2015
Project
completion

01 An aerial view of Longbridge showing the areas where 3m sq ft of space has either been demolished or is in the process of demolition.

02 A tense moment, the landmark conveyor crossing the A38 is dismantled.

03 New and old: the frame of the innovation centre in the right foreground contrasts with the old West works building in the course of demolition.

Photographs by Stuart Whipps, who won the Guardian Young Photographer of the Year Award for his study of Longbridge.

Case study

Restoring heritage
Trentham Gardens, Staffordshire

Project progress

1996
Site purchased

1997-2004
Planning approval

Background

Trentham, a popular tourist venue over the past c entury, was acquired in 1996 from British Coal through Trentham Leisure (a joint venture with Mr Willi Reitz, a German wine and leisure entrepreneur). The 750-acre historic North Staffordshire estate is undergoing a £100m restoration to re-instate it as one of the UK's leading visitor destinations. With the support of Stafford Borough Council, Staffordshire County Council, and neighbouring local authorities, outline planning consent was obtained for its restoration in 2003.

Our Vision

The restoration of the historic Italian gardens, designed and created in the nineteenth century by Sir Charles Barry, is the centrepiece of the proposed development that will create 1,000 jobs. Working closely with English Heritage, leading designers have been commissioned to restore and add contemporary flair to the historic gardens. In 2005 the Laurent-Perrier Trentham garden, designed by Tom Stuart-Smith, won a prestigious gold medal at the Chelsea Flower Show, evidencing the extremely high standards attained by this project. The garden's attraction has been widened by including a children's activity centre and a barefoot walking trail.

The buildings have been replaced by a 65,000 sq ft garden centre and 68,000 sq ft shopping village — a further 67,000 sq ft remains to be developed. Additional innovative visitor attractions include a monkey forest with over 140 free-roaming Barbary macaques, and an aerial extreme tree-top activity centre.

In 2007, a 120 bedroom three star hotel is under construction and pre-let to the Tulip Inn group with a free standing high quality restaurant, both at the main entrance. Four shopping kiosks are being built in the shopping village and a new series of gardens designed by Piet Ouldof are being created. Further phases of the shopping village and other attractions such as a winery will be initiated in future years. The creation of a five star hotel from the ruins of Trentham Hall is planned as the final element of the scheme.

In 2006 there were over 2.1m visitors to the estate, which is already recognised as a tourist and leisure destination of national significance.

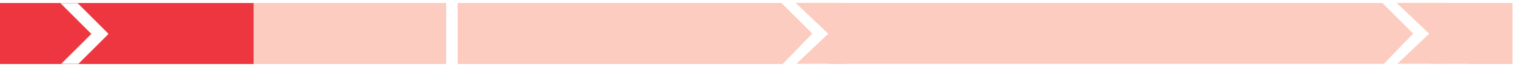
CESR

The project is a rare combination of innovative commercial enterprise, job creation and environmental enhancement.

The shopping village based on craft, heritage, and tourist retail provides an innovative and diverse shopping destination from established and new businesses, very different from the standard multiple-dominated shopping mall.

Over 500 jobs have already been created. Additionally, the garden volunteers programme has provided an opportunity for 40 local people to acquire new horticultural skills under expert guidance. For 12 of the volunteers, this programme has been part of a return-to-work and rehabilitation programme for people with special needs.

01



2004-2008
Garden restoration and retail development

2008-2010
Operational enhancement

2010
Project completion

01 An evening shot demonstrates the elegance of the new entrance bridge into the Italian gardens.

02 An early morning autumn shot shows the glory of the Italian gardens, Piet Ouldof's emerging garden in the Eastern pleasure grounds, and the commercial core.

03 A view across the Italian gardens showing Tom Stuart-Smith's modern interpretation of Barry's great garden.

Community, environmental and social responsibility ("CESR") at the heart of our business

01 Llanwern
A pre-demolition photograph showing the scale and challenge of the regeneration the company undertakes.

Our projects, are very variable, and each is viewed as an entity in itself with its own challenges and impacts to address. We are, therefore, still reporting on a project-based narrative approach but we are looking to see if we can identify measurable corporate CESR targets that we could set on a meaningful basis to enhance further our reporting in future years.

The company has for many years been at the forefront of what is now known as corporate responsibility. We undertake the various activities set out below, not because it is fashionable to do so, nor because it is mandated by regulation, but because it is the very essence of our business.

We are closely aligned with the communities in which we operate, continually mindful of the impact of our developments on the local area. We contribute to local communities by creating new workplaces and homes, supporting local enterprise, building new community facilities, and improving infrastructure. And in all this, we seek to enhance the environment, repairing the damage done by previous occupiers and by developing to the highest possible standards.

The company is a specialist in regeneration with many partnerships with local and regional authorities and engages regularly with government through the planning and environmental regulatory framework. The company is determined to maintain its high reputation for delivery and integrity and as a good partner with whom to work.

St. Modwen is committed to improving the built environment, and undertakes projects that seek to transform areas of dereliction and decay into sustainable communities. One of the company's key strengths is its ability and willingness to undertake difficult and long term projects, particularly in the remediation of contaminated brownfield land, the regeneration of tired town centres, the reuse of redundant former employment complexes, and in the restoration of heritage assets of both local and national importance.

In all of its dealings, the company will:

- Comply with all applicable environmental legislation, regulations, standards and best practice;
- Develop operational procedures designed to minimise pollution risks and to deal effectively with any incidents which occur;
- Take positive action to minimise waste and to encourage recycling;
- Improve efficiency in the use of land, energy, water and construction materials;
- Work in partnership with our professional advisors, suppliers and sub-contractors to ensure effective environmental supply chain management, alongside quality, price and other purchasing criteria;
- Manage the environmental impact of our schemes through the use of carefully thought-out layout, design and specification;
- Train employees to enhance their awareness of, and commitment to, maximising environmental performance; and
- Review the company's environmental policy annually to take account of organisational, legislative and fiscal changes.

During the year the company has demonstrated its enduring commitment and contribution to the environment and to the principles set out above, as shown by the following examples:-

Brownfield land renewal

We believe that it is vitally important to reclaim and redevelop redundant sites to bring them back into effective use. To this end, we aim to build on previously used land: during 2006 91% of our building activity was on brownfield land. In achieving this level, the company has become skilled in the techniques of remediating pre-used land such as: former collieries, factories, steel works and even a zinc smelter and a power station.

Regeneration Activities in 2006

	No. of Schemes
Brownfield sites under development	68
Remediation work in progress	47

At Llanwern we have reclaimed over 1,000 tonnes of scrap metal from the site, and are re-using the crushed concrete arising from breaking up the surface slabs. In conjunction with the Environment Agency, we are currently undertaking extensive remediation trials over 10 acres of the site to assess the effectiveness of a variety of techniques. We are also progressing plans for the reuse of local green waste to generate soil on site, and also to reuse on site slag, coke and several other waste products from the former steelwork operations.

At Longbridge the demolition of the former MG Rover factory will result in the remediation of 159 acres of brownfield land. The enormous scale of this project is evidenced by the activities undertaken in 2006.

Longbridge Remediation Activities

Steel recovered to date and sent for recycling	10,000 tonnes
Steel being recovered in the next 6 months under demolition contracts which have been let	12,000 tonnes
Brickwork and concrete crushed to date for reuse on site	75,000 tonnes
Brickwork and concrete which will be crushed in the next 6 months under demolition contracts which have been let	130,000 tonnes
Petrol recovered to date from the MG Rover spillage and sent for re-refining	365,000 litres
Conversion of existing production space for reuse	800,000 sq ft

01 Demolition
The messy side of life: part of Longbridge during the demolition process (in partnership with Advantage West Midlands).

02 Demolition
Working within the constraints of a tight site on a slab over the West coast main railway line, the works at Wembley (in our joint venture redevelopment with Rotch) required careful planning to ensure that design loads were never exceeded.

At Newton le Willows, we have commenced the first phase of an extensive site remediation strategy that will involve the treatment of 300,000 tonnes of hydrocarbon- and heavy metal-impacted material, and the demolition of over 400,000 sq ft of derelict buildings. So far we have remediated 5 acres of land, and have re-used 10,000 tonnes of crushed concrete from the demolition phase of the project.

Community involvement

We recognise that our business should be conducted in a socially as well as an environmentally responsible way, and so we strive to conduct all our business activities in a fair and balanced manner, respecting and responding to social and ethical issues arising from our commercial activities.

Our policy is to work for the advantage of the local communities around our developments and to treat all of our business partners as we would hope to be treated ourselves.

A real public/private partnership working arrangement lies at the core of any successful regeneration project. St. Modwen is experienced in working with public sector bodies throughout the UK. Through a programme of regular high level strategic meetings, coupled with frequent working group meetings, the company creates those vital working arrangements.

Current examples of this are the longstanding partnerships with Enfield Borough Council (for our major Edmonton Green scheme, initiated in 1999), Welwyn & Hatfield District Council (for the Hatfield town centre regeneration project, which commenced in 2003), and Farnborough Town Council (a major mixed use regeneration scheme, which began in 1998).

It is the company's policy to undertake extensive consultation at an early stage on any project to ensure the highest possible level of local involvement. All public consultations are led directly by St. Modwen, rather than relying on external consultants. This ensures that feedback is accurate and informed, and that a genuine dialogue takes place, often resulting in improvements to the scheme.

The consultations on the redevelopment of Longbridge and Llanwern have incorporated designated websites to give local people insight into the consultation and planning process, to provide a channel for feedback, as well as giving information on the sites.

The Llanwern consultation, monitored by consultants PPS, is typical of the company's extensive efforts.

In order to ensure that stakeholders and the local community were provided with every opportunity to contribute to the development of the scheme, PPS applied the company's seven-point programme for effective public consultation in the planning process:

1. **Notify** — the community must be made aware of the consultation programme along with a timescale of different activities
2. **Inform** — having notified people of the consultation process, information is then provided on the background of the proposed development and any constraints that may be influential.
3. **Consult** — members of the public and key stakeholder groups liaise with the project team and put forward ideas and aspirations for the development
4. **Measure and analyse results** — having allowed an acceptable timeframe for everyone with an interest to comment, the results of the consultation are then quantified
5. **Report back** — feedback is then analysed and the results publicised within the community and through stakeholder groups
6. **Respond and change** — respond to the views of the community and incorporate changes into the scheme, where possible
7. **Publish proposals** — at the end of the process the proposals are published and the community and key stakeholders are informed about how their views have influenced the process

At Longbridge Technology Park, we are working with the Construction Employment Alliance to encourage our building contractors to hire locally, enabling employees to be trained and developed in order to gain longer term employment through their qualifications.

We have agreed to donate £20,000 to West Ruislip High School to assist them in qualifying as a specialist school in Maths and Computing.

During 2006 the company established The St. Modwen Environmental Trust to support projects that seek to improve, provide or maintain community facilities, or improve the local

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environment. An authorised Environmental Body under the Government's Landfill Tax Credit Scheme, the Trust will distribute approximately £300,000 per annum to community projects in areas local to the company's operations. In future years, the Trust will be the principal vehicle for the company's charitable giving.

Sustainable development

St. Modwen is fully committed to the principles of sustainable development which have been put at the heart of the planning system.

Consequently our developments seek to encourage modes of transport other than the car and to integrate with local facilities. Where these facilities do not exist we are able to use our considerable experience of mixed-use development to provide them. For example:

- Our regeneration of Wembley Central will include a refurbished underground and main line station entrance. This scheme also incorporates an extensive new pedestrian square as a part of our commitment to enhance the public realm in this development;
- At Edmonton Green, we completed the construction of a 26 stand bus station in partnership with Transport for London; and
- Facilities for cyclists are provided at all of our new office developments, including cycle storage, lockers, showers and drying facilities.

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We are also mindful of the natural environment:

- At Trentham Gardens, we are implementing an extensive ecological landscape management plan, working closely with English Nature;
- Across all of our sites, we have planted 40,000 trees, shrubs and hedgerow plants during 2006 as part of our commitment to improving the environment in which we operate. Combining a contribution for the environment with our longstanding support for the Donna Louise Hospice, we also planted 60,000 daffodil bulbs as part of their awareness and fundraising initiative;

01 Guiseley, Yorkshire
Controlled reclamation: the picture shows the site after 400,000 sq ft of space has been demolished, levels have been prepared for development, the ground remediated, and materials have been recycled for use in the subsequent redevelopment — even the clock tower was salvaged and donated to the local community.

02 Long Marston
Re-opening the rail link to this former MoD site has enabled a valuable re-use for train storage.

03 Green hairstreak butterfly
The company is pioneering the creation by a commercial developer of suitable butterfly habitats with Butterfly Conservation.

04 RAF Bentley Priory
The original house which formed the core of Fighter Command's HQ for the Battle of Britain — a piece of Britain's heritage being protected as part of Project MoDEL.

- The impact of our development activities on the natural environment is closely monitored, and we work in partnership with English Nature, and many other similar organisations to ensure that we leave behind a positive environmental legacy; and
- On three sites throughout the Midlands we are working with Butterfly Conservation to ensure that our site management regime provides the habitats in which endangered species of butterfly can flourish.

Environmental Remediation in 2006 (out of 76 schemes currently on site)

	No. of schemes
Liaison with Environment Agency	55
Liaison with English Nature	33
Ecological surveys	50
Ecological works	32
River improvement works	10

As part of our heritage restoration activities, we play an important role in safeguarding the country's built and environmental heritage. Our signing of Project MoDEL during the year gave us control of, and stewardship over, the Grade II listed Bentley Priory. This site is famous for its pivotal role as Fighter Command Headquarters during the Battle of Britain, and our future development plans will ensure that this great historical legacy is properly preserved for the nation.

Although our development and construction activities have the greatest impact, we encourage recycling throughout our site management operations as evidenced by the initiatives at Trentham Gardens, Elephant & Castle and Edmonton Green. We have installed new compaction units and cardboard bailing machines at these sites to enable waste recycling by our retail tenants: this has resulted in an average increase in recycling of 30%. The success of these schemes will lead to a wider roll-out in 2007, including our schemes at Farnborough, Catford and Leegate. As the programme becomes more advanced we will be incorporating plastic and glass recycling. All our other centres will be reviewed throughout 2007 to assess what can be achieved in recycling and minimising the use of landfill. Cranfield University has been engaged to assist in design and monitoring of the recycling programmes running on our sites.

Design quality

We aim to deliver design quality and innovation in both built form and public realm. In practical terms, design has to be fit for purpose, with competitive full-life costs, minimising environmental impact, respecting the public realm and adjoining properties, and attractive.

We also seek to ensure that the design of our buildings is future-proofed, by maximising the flexibility of interior and external spaces, and by using traditional and robust materials.

Full consultation takes place on all schemes with appropriate bodies such as the Commission for Architecture and the Built Environment, to ensure that this is achieved.

Environmental Construction (out of 76 schemes currently on site)

	No. of schemes
BREEAM very good rating	14
Reuse of on-site materials	56
Renewable energy	6
Sustainable urban drainage systems	38

An important element of design is energy efficiency. We seek the most environmentally effective solutions for our occupiers in terms of whole-life cost. Energy use in our new buildings is minimised through a variety of devices including:

- Sub metering of multi-occupancy buildings;
- High quality insulation;
- Provision of low energy lighting and equipment;
- Optimising natural daylight and ventilation;
- Provision of zone lighting and heating; and
- Optimising use of recycled and sustainable materials.

Examples of energy efficient design include:

- As part of our plans for the redevelopment of the station area in Bedford, we are committing to a 10% reduction in energy use in a scheme that is being used as case study by DEFRA in their report on climate change; and

- Our Wembley Central project incorporates a wide range of improvements to the energy efficiency of buildings throughout their whole lifetime. Design features include: a specified U-value for new buildings that is 12% better than Building Regulations, and a 25% improvement for refurbished buildings; the use of insulation materials that do not deplete the ozone layer and have a certified global warming potential of less than 5; the use of at least 75% of timber from certified renewable or recycled sources, and none from threatened sources; the use of construction materials with an ‘A’ rating from the Green Guide for Housing Specification; low energy light fittings are provided throughout the new development, saving up to 75% of the electricity required for traditional fittings; and specification of low water-use sanitaryware to reduce consumption by 15 to 25%.

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01 Elegant simplicity
The staircase in one of the speculative office buildings at Quinton Business Park, Birmingham.

Carbon footprint

A preliminary review of the company's operational carbon footprint, excluding development, has been undertaken. The footprint is principally affected by the energy use in our offices and travel of our employees.

Our initial assessment is as follows:

Energy use in offices [1]	320 tonnes
Employee travel [2]	360 tonnes
Sundry activities	140 tonnes
Total estimated carbon footprint	820 tonnes

[1] Utilising on-benchmark figures given in BRECSU Energy Consumption Guide 19: Energy Use in Offices and using CO_2 emission factors of 0.19kg CO_2/kWh for gas, and 0.43kg CO_2/kWh for electricity.

[2] Utilising the 'medium-sized petrol car' data in the World Resources Institute *Indirect CO_2 Emissions from Business Travel* spreadsheet.

The company maintains approximately 950 acres of woodland outside of developed areas. This woodland is managed and harvested for timber with any waste materials being mulched and used on development projects. The woodland is actively managed with a programme of new planting to replace trees that have been harvested or have died.

It is estimated that this woodland locks up approximately 850 tonnes of carbon each year, and that therefore, in terms of the operational business St. Modwen is broadly carbon neutral.

St. Modwen will continue to review its carbon footprint and there are a number of areas where we are currently looking to make improvement, as follows.

- Introducing renewable energy sources into company offices;
- Minimising the number of journeys made by employees;
- Encouraging the use of more energy efficient vehicles and appliances; and
- Increasing the amount of native woodland planted.

In addition, significant emissions are associated with the company's property portfolio. These form part of the carbon footprint of the occupiers of these buildings and are consequently not included in the measurements above. Reducing these emissions is nevertheless a significant opportunity for the company, and one which its policies of site management sustainable design and procurement are intended to address.

In furtherance of these objectives we are inviting shareholders to opt to receive the Annual and Interim Reports and other communications from the company electronically, instead of in paper form. For every such option received, the company undertakes to plant a tree. To exercise this option, shareholders should notify info@stmodwen.co.uk.

Social inclusion

Many of the projects undertaken by the company have been integral to efforts to reduce social exclusion, through the inclusion of improvements to local amenities and social housing in areas of significant deprivation. An outstanding example in the last year was the completion of an important new primary care facility at Edmonton Green (a partnership between St. Modwen and Enfield Borough Council).

Once a project is underway, active participation in the social and community activities in the location of its developments is a key feature of the company's approach to tackling social exclusion. A combination of initiatives is used by St. Modwen to encourage local communities to share in the improvements brought about by its regeneration schemes, including:

- Encouraging the employment of local people;
- Incorporating opportunities for local traders in markets or small units in our retail schemes at sustainable levels of rent;
- Subsidising local initiatives such as a Credit Union, arts facilities and community wardens;
- Encouraging community participation in our developments. At Trentham Gardens we have a team of 40 volunteers, 12 from special needs groups for whom the opportunity for supervised work on our estate is an important part of their treatment/rehabilitation;
- Incorporating non-intrusive, but high levels of security facilities in our schemes to reassure and protect the vulnerable; and
- Sponsoring local sport, leisure and charitable activities, including the Trentham Brass Band and the Staffs & Stoke Children's Theatre, both of whom have performed throughout the season at Trentham Gardens. At Elephant & Castle we supported the Elefest (a community festival promoting the area) by providing space for use as a gallery for local artists and facilities for groups to perform in the centre.

At a number of our sites, we provide free, or heavily subsidised, space and facilities for the use of local charities. These include free storage and parking for Lawrence Weston Community Buses at

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Avonmouth; free use of our site for the Dursley Town Council Festival; free use of our Trentham Gardens site for the Race for Life (which raised £440,000), the Donna Louise Trust, Douglas McMillan Hospice, and Newcastle disabled adventure playground (which together raised £120,000 from Trentham events); and subsidised space at Edmonton Green for the Artzone community centre and for UK Emp (an employment charity) to assist with the fit-out of new teaching facilities.

The case studies on pages 24 to 31 also demonstrate the company's implementation of CESR.

Health and safety

The company gives high priority to safeguarding the health and safety of the public and its employees by pursuing a policy which ensures that:

- Its business is conducted in accordance with standards that are in compliance with relevant statutory provisions for health and safety of staff and any other persons on company premises;
- A safe and healthy working environment is established and maintained at all of the company's locations;
- Managers at all levels regard health and safety matters as a prime management responsibility;
- Sufficient financial resources are provided to ensure that policies can be carried out effectively;
- Good standards of training and instruction in matters of health and safety are provided and maintained at all levels of employment;
- Risk assessments are carried out where appropriate;
- Co-operation of staff in promoting safe and healthy conditions and systems of work is required; and
- An adequate advisory service in matters of health and safety is provided and maintained.

Detailed policies and procedures are documented and made available to all staff. The health and safety forum, chaired by the Company Secretary, and reporting to the Chief Executive, meets regularly to discuss and resolve implementation issues. The procedures are reviewed by the board annually, with health and safety matters included on the agenda of every board meeting.

This forum provides guidance to employees on all aspects of health and safety. To assist, a health and safety procedures manual has been produced.

As we undertake no construction work on site directly, our assessment of a subcontractor or main contractor's health and safety procedures forms a key part of our supplier selection process, and a vital element in our health and safety controls. For our operational sites (including Trentham Gardens and Solihull Ice Rink) and our shopping centres, individual risk assessments are undertaken, and updated annually, by a retained health and safety consultant.

The company's health and safety performance continues to be very good, with no enforcement notices, no prosecutions for breaches of health and safety, and no fatalities.

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Prior to redevelopment, a steelworks building spanned this section of the Trent & Mersey canal. Now high quality business space benefits from the idyllic setting in Etruria Valley, Stoke-on-Trent as part of Stoke-on-Trent Regeneration's public private partnership redevelopment.

02
A view inside the Longbridge conveyor prior to its demolition.

03
Some of the participants in Elefest, a community festival which was supported by our KPI joint venture at the Elephant & Castle.

Board members

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Anthony Glossop† MA
Chairman
Aged 65. A director since 1976 and Chief Executive from 1982 to 2004. Previously Chief Executive of Redman Heenan International plc. He is also a non-executive director of Northern Racing PLC, and of Robinson PLC.

Bill Oliver BSc, FCA
Chief Executive
Aged 50. Joined the company as Finance Director in 2000. Appointed Managing Director in 2003 and Chief Executive in 2004. Previously Finance Director of Dwyer Estates plc after a career in the housing industry.

Tim Haywood MA, FCA
Finance Director and Company Secretary
Aged 43. Joined the company in 2003. Previously Chief Financial Officer of Hagemeyer (UK) Limited, after a career with Williams Holdings PLC.

Steve Burke
Construction Director
Aged 47. Joined the company as construction director in 1995 and appointed to the main board as a director in November 2006. Previously contracts director and construction manager with a number of national contracting companies (including Balfour Beatty and Clarke Construction).

Christopher Roshier* MA, FCA
Aged 60. A non-executive director appointed in 1987. Senior independent director. He is a Chartered Accountant with over 20 years' experience in Corporate Finance. Currently chairman of Gibbs & Dandy PLC and Deutsche Land Management LLP and a director of two overseas investment companies.

John Salmon*† FCA
Aged 62. A non-executive director appointed in 2005. Chairman of the audit committee. Formerly a partner of PricewaterhouseCoopers, and a member and former Deputy Chairman of their Supervisory Board. Currently a senior advisor to IDDAS and a trustee and member of Council of the British Heart Foundation.

Mary Francis MA, CBE*†
Aged 58. A Non-Executive Director appointed in 2005. Chairman of the remuneration committee. Former Director-General of the Association of British Insurers and Deputy Private Secretary to the Queen. Previously a senior civil servant in HM Treasury and 10 Downing Street. She is a non-executive director of the Bank of England, Centrica plc and Aviva plc.

Simon Clarke*
Aged 41. A non-executive director appointed in 2004. Currently Deputy Chairman of Northern Racing PLC and a Director and the Vice-Chairman of the Racecourse Association.

Ian Menzies-Gow*† MA
Aged 64. A non-executive director appointed in 2002. Formerly Chairman of Geest PLC and prior to that held senior executive positions within the Hanson Group. Currently Chairman of Derbyshire Building Society.

Paul Rigg*† DL, CPFA
Aged 60. A non-executive director appointed in 2004. Formerly Chief Executive of West Sussex County Council. Currently a freelance consultant, his present roles include support for the Innovation Forum of excellent councils on behalf of the Department of Communities and Local Government and he is interim (part-time) Director of Finance with the Local Government Association. He is chairman of the Children Services Partnership Board for Swindon, an advisor to the University of East Anglia's project team reviewing Children's Trusts, and a Director of the Chichester Festival Theatre Ltd.

* Members of audit and remuneration committees
† Members of nomination committee

Senior management

John Dodds, BSc, FRICS
Regional Director – Midlands
Aged 50. 5 years' service.

Mike Herbert
Regional Director
– North Staffordshire
Aged 51. 16 years' service.

Tim Seddon BSc, MRICS
Regional Director
– London and South East
Aged 42. 1 year's service.

Rupert Joseland BSc, MRICS
Regional Manager
– South West
Aged 37. 5 years' service.

Michelle Taylor, BSc, MRICS
Regional Director – North West
Aged 44. 15 years' service.

Stephen Prosser BSc, MRICS
Regional Manager – Yorkshire
Aged 43. 9 years' service.

Derek West FRICS
Retail Development Director
Aged 59. 22 years' service.

Directors' report

The directors present their report together with the audited accounts for the year ended 30th November 2006.

Review of results, activities and future prospects

The pre-tax profit for the year was £96.9m (2005: £82.9m). The retained profit of £75.9m (2005: £67.4m) is to be transferred to reserves.

The company acts as the holding company of a group of property investment and development companies.

Dividend

The directors recommend the payment of a final dividend of 6.8p (2005: 5.9p) per ordinary share to be paid on 4th May 2007 to shareholders on the register on 13th April 2007. An interim dividend of 3.4p (2005: 2.9p) was paid on 1st September 2006.

Going concern

The directors are of the opinion that, having regard to the bank and loan facilities available to the group, there is a reasonable expectation that the group has sufficient working capital to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors and their interests

The names of the directors of the company are set out on page 42.

In accordance with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ("the Code"), Christopher Roshier offers himself for re-election to the board. The reasons for this are set out on page 46.

Steve Burke (appointed 30th November 2006), Anthony Glossop, Simon Clarke and Paul Rigg will retire from the board in accordance with the provisions of the company's Articles of Association and offer themselves for re-election.

None of the directors had any material interest in contracts with the group.

The interests below do not include shares held under the share option schemes described in the directors' remuneration report on pages 53 to 60.

There has been no change in these interests since 30th November 2006.

Directors' interests in ordinary shares

The interests of the directors in the issued share capital of the company are shown below:

	30th November 2006	30th November 2005
Beneficial		
S.W. Clarke	**3,859,332**	1,559,333
M.E. Francis	**1,000**	1,000
C.C.A. Glossop	**1,707,933**	1,704,673
T.P. Haywood	**66,823**	–
W.A. Oliver	**188,304**	150,000
C.E. Roshier	**10,417**	10,417
Non-beneficial		
C.C.A. Glossop	**100,000**	100,000

Substantial interests

As at 12th February 2007, in addition to those noted above, the company had been notified of the following interests in more than 3% of its issued share capital:

Shareholder	Percentage of Ordinary Share Capital
J.D. Leavesley and connected parties	14.27%
Lady Clarke and family holdings (excluding S.W. Clarke)	25.10%
Thames River Capital	3.95%
ING Investment Management	3.22%

Creditor payment policy

It is the group's policy to agree specific payment terms for its business transactions with its suppliers and to abide by those terms whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

As at 30th November 2006 trade creditors represented an average of 25 days' purchases (2005: 26 days).

Employees

The group encourages employee involvement and places emphasis on keeping its employees informed of the group's activities and performance. A performance-related annual bonus scheme and share option arrangements are designed to encourage employee involvement in the success of the group.

The group operates a non-discriminatory employment policy under which full and fair consideration is given to disabled applicants and to the continued employment of staff who become disabled.

The group operates a pension scheme which is open to all employees — see note 19.

Disclosure of information to auditors

Each director at the date of approval of this report confirms that:

1. so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and

2. they have taken all steps necessary to be aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

The information that fulfils the requirements of Section 234ZZB of the Companies Act 1985 can be found in the business review on pages 8 to 22, and in the community, environmental and social responsibility disclosures on pages 32 to 41, which are incorporated in this report by reference.

By order of the board

Tim Haywood
Secretary
12th February 2007

Corporate governance report

St. Modwen is committed to the highest standards of corporate governance. The board of directors, through the executive directors and management, exercises effective control over the group and its activities, recognising its responsibility to shareholders and other interested parties. The procedures for applying these principles within the group are set out below. This should be read in conjunction with the directors' remuneration report on pages 53 to 60.

Throughout the year ended 30th November 2006 the company has complied with the Code except for the following matters:

- The Code asks the board to identify each non-executive director it considers to be independent. Of the six non-executive directors at the end of 2006, the board considers Mary Francis, Ian Menzies-Gow, Paul Rigg, Christopher Roshier and John Salmon to be fully independent. The Code seeks an explanation for the determination of independence in certain circumstances, including if a non-executive has served for longer than nine years. Christopher Roshier has been a non-executive director for nineteen years, but the board is satisfied that he maintains an independent and rigorous approach to all of its business and accordingly considers him to be independent. In accordance with the Code, he is standing for re-election at the forthcoming Annual General Meeting. The board recognises that Simon Clarke does not meet the criteria for a fully independent director under the Code, although his position as a representative of the Clarke and Leavesley families, who together hold 51.4m shares (42.5%) in the company's equity, gives him a very strong interest in challenging and scrutinising management to secure excellent performance from the company;

- The Code recommends that at least half the board, excluding the chairman, should comprise independent non-executive directors. The board currently comprises five non-executive directors whom it determines to be independent; one non-executive (Simon Clarke) who is not deemed fully independent under the Code but who — as explained above — has a strong interest as a shareholder representative in challenging and scrutinising management; and four executive members including the chairman. The object sought by the Code — that no individual or group of individuals can dominate the board's decision-making — is thus achieved;

- The Code recommends that all members of the audit and remuneration committees are independent non-executive directors. Each of these committees comprises all of the non-executive members of the board. As explained above, Simon Clarke is not a fully independent director under the Code, but the board considers that its discussions benefit from his involvement in the preparatory detailed scrutiny which takes place in these committees. As also noted above, Simon Clarke has a strong interest in challenging and monitoring management's performance. Additionally, it is proposed that Christopher Roshier will stand down from both committees at the Annual General Meeting ("AGM"); and

- The Code recommends that a chief executive should not go on to be the chairman of the same company. As explained in previous years' annual reports, the board recommended the appointment of former Chief Executive Anthony Glossop as Chairman of the company. This was endorsed by shareholders at the Annual General Meeting in April 2004. The roles of the Chairman and Chief Executive are carefully differentiated and set out in job descriptions agreed by the board. The Chief Executive is wholly responsible for the profitability of the company and its internal operations. Anthony Glossop, in addition to his normal role as Chairman, supports the Chief Executive in key external business relationships, on major projects, and in matters affecting the company's reputation and integrity.

Board composition and committees

The composition of the board provides an appropriate blend of experience and qualifications, and the number of non-executives provides a strong base for ensuring appropriate corporate governance of the company. The board's decisions are implemented by the executive directors. The Chairman and the non-executives also met during the year without the executive directors being present.

Christopher Roshier is the senior independent director. He is available for consultation by shareholders, whenever appropriate.

The company's Articles of Association provide that all directors are subject to re-election at least every three years. In addition, all directors are subject to re-election by shareholders after their initial appointment.

The reappointment of non-executive directors is not automatic. It is intended that appointments will be for an initial term of three years, which may be extended by mutual agreement. Prior to each non-executive offering himself to the members for re-election his reappointment must be confirmed by the Chairman in consultation with the remainder of the board.

The terms and conditions of appointment of all directors are available for inspection at the company's registered office during normal business hours, and at the AGM.

The board is supplied with timely and relevant information regarding the business, through regular monthly and ad hoc reports, site visits and presentations from members of the management team and by meetings with key partners. Where appropriate, the company provides the resources to enable directors to update and upgrade their knowledge. Through the company secretary, the board is informed of corporate governance issues and all board members have access via the company secretary to independent advice if required.

The criteria used for evaluating individual executive directors' performance are included in the directors' remuneration report. Individual non-executive directors' performance is reviewed by the Chairman and Chief Executive. The performance of the board as a whole is assessed in the context of the company's achievement of its strategic objectives and total shareholder return targets. Feedback on the company is sought through external surveys from shareholders, analysts and other professionals within the investment community following the regular briefings, presentations and site visits undertaken by the company. This feedback is made available to the whole board.

In support of the principles of good corporate governance, the board has appointed the following committees, all of which have formal terms of reference which are available for inspection by shareholders and are posted on the company's website.

a) Remuneration committee

The composition and function of the remuneration committee are set out in the directors' remuneration report on pages 53 to 60.

b) Audit committee

The audit committee, which comprises all of the non-executive directors, was chaired by Christopher Roshier until April 2006. At the AGM in April 2006 John Salmon assumed the chairmanship. The Finance Director attends these meetings but the committee also meets without executive directors being present and has private sessions with the auditors. The committee has direct access to the auditors.

The audit committee's functions include:

- Ensuring that appropriate accounting systems and financial controls are in operation and that the company's financial statements comply with statutory and other requirements;
- Receiving reports from, and consulting with, the external auditors;
- Reviewing the interim and annual results and reports to shareholders, and considering any matters raised by the auditors;
- Considering the appropriateness of the accounting policies of the company used in preparing its financial statements;
- Monitoring the progress of the company in preparing for, and implementing, the introduction of International Financial Reporting Standards;
- Monitoring the scope, cost-effectiveness and objectivity of the audit;
- Monitoring the company's policy on non-audit services provided by the external auditors;
- Making an annual assessment of the external auditors and recommending, or not, their reappointment;
- Considering the need for an internal audit function;
- Reviewing "whistle-blowing" arrangements within the company; and
- Reviewing its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommending any changes it considers necessary to the board for approval.

The audit committee has reviewed the need to establish an internal audit function. Given the increasing size, complexity and geographical scope of the company's operations, the company has decided to proceed with the appointment of an internal auditor tasked with formalising and documenting internal control procedures and ensuring compliance. The newly appointed internal auditor took up her role on 2nd January 2007.

The committee's policy on the provision of non-audit services by the external auditors is that, whilst it is appropriate and cost-effective for the external auditors to provide tax compliance and tax planning services to the group, other services should only be provided where alternative providers do not exist or where it is cost-effective or in the group's interest for the external auditors to provide such services. In all cases the provision of non-audit services is carefully monitored by, and subject to the prior approval of, the committee. The external auditors would not be invited to provide any non-audit services where it was felt that this could conflict with their independence or objectivity. Such services would include the provision of internal audit and management consulting services.

As part of the regular review of its providers of professional services, the board has decided to put the audit out to a tender process involving a number of firms, including Ernst & Young, the current auditors. This process will not be completed by the time of the AGM in April. Thus Ernst & Young are being put forward at the AGM for re-election as auditors.

c) Nominations committee

The nominations committee was reconstituted in 2006 and now comprises the Chairman (as chairman of the committee), Mary Francis, Ian Menzies-Gow, Paul Rigg and John Salmon.

The resignation of Richard Froggatt left the board with a potential vacancy, and the growing size of the company meant that the Chief Executive needed greater support from an executive with board level status. The committee felt that if a suitable internal candidate was available, an external search was not appropriate, and on that basis a recommendation was made by the nominations committee to the board for the appointment of Steve Burke as Construction Director.

Board and committee attendance

The board met eleven times during the year. The audit committee met three times, the nominations committee twice, and the remuneration committee five times. All members attended all meetings except that Simon Clarke, Mary Francis and John Salmon each did not attend one board meeting on account of holiday commitments, and Richard Froggatt did not attend the meeting after he tendered his resignation. Simon Clarke also did not attend an audit committee meeting which coincided with the board meeting when he was on holiday.

Board effectiveness

The Code recommends that the board undertakes a formal and rigorous annual evaluation of its own performance. A formal evaluation, facilitated by an external assessor, Dr Tracy Long of Boardroom Review, was undertaken during 2005 and 2006. This review comprised feedback from questionnaires, individual interviews and board observation, resulting in a board discussion paper and action plan. The principal findings of the review were that "the board functions well as a team, with high levels of trust and respect amongst new and existing members, and an ability to deal capably with change. Financial documentation and controls have been upgraded, and recent improvements have been made in the area of board and committee independence and composition, board agendas, shareholder communication and corporate governance." Three areas for improvement were identified: maximising board contribution; succession planning; and risk analysis. Actions taken to address these areas were:

- Sharpened focus of board agendas and papers;
- Reviewed levels of authority and board involvement in major project acquisitions;
- Increased time given to strategy and risk analysis; and
- Identified structure for succession planning.

Risk management and internal control

The board recognises that it has overall responsibility for the identification and mitigation of risks and the development and maintenance of an appropriate system of internal control.

During the period under review the directors have reviewed the effectiveness of the system of internal control in accordance with the Turnbull guidance, through the production of a detailed report which covered: the group's control environment; the manner in which key business risks are identified; the adequacy of information systems and control procedures; and the manner in which any required corrective action is to be taken.

The group's key internal controls are centred on comprehensive monthly reporting from all activities which includes a detailed portfolio analysis, development progress reviews, management accounts and a comparison of committed expenditure against available facilities. These matters are reported to the board monthly, with reasons for any significant variances from budget. Detailed annual budgets are reviewed by the board and revised forecasts for the year are prepared on a regular basis.

There are clearly defined procedures for the authorisation of capital expenditure, purchases and sales of development and investment properties, contracts and commitments and a formal schedule of matters, including major investment and development decisions and strategic matters, that are reserved for board approval. Formal policies and procedures are in place covering all elements of employment, the construction process, health and safety and IT. The company is currently working in conjunction with FAST (Federation Against Software Theft) to achieve their Gold Accreditation for software licensing compliance. The company already holds Bronze and Silver awards and is looking to achieve the Gold Standard in 2007.

Internal control, by its nature, provides only reasonable and not absolute assurance against material misstatement or loss. The directors continue, however, to strive to ensure that internal control and risk management are further embedded into the operations of the business by dealing with areas for improvement as they are identified. In the year under review, no material loss was suffered by a failure of internal control.

Risks and uncertainties

The key business risks facing the company, their potential impact and their mitigation are reviewed regularly. This year the risks were assessed against a set of scenarios, and were found to be still appropriate.

Management of key risks

The key risks that have been identified, the management approach to each, and the assessment of the residual risk, are set out below:

1. Organisational/people factors

The risks identified included:

— Succession planning and talent management
— IT
— Disaster planning

The principal mitigating actions are:

— Targeted recruitment procedures
— Competitive remuneration packages
— Strong performance-related link to remuneration
— Regular assessment of performance and identification of training needs
— Tailored training programme
— Regular communication of strategic and tactical objectives
— Properly resourced and structured IT solutions
— Appropriate disaster recovery procedures

Assessment Employee turnover has been low, indicating good retention levels. Vacancies are few, and are generally filled promptly, indicating the attractiveness of the company and remuneration packages. To support the financial objectives, we will need to continue to improve the employee base.

2. Economic/property risks

The risks identified included:

— Demand for space from occupiers
— Rental levels
— Investment yield
— Relative sector performance
— Over exposure to single tenant/scheme
— Site assembly risk
— Occupational risks
— Investment value risk

The principal mitigating actions are:

- Regular dialogue with industry experts and commentators
- Use of high quality professional advisers
- The hopper and geographical spread gives flexibility and facilitates diversification
- Emphasis on value creation through active property management and development

Assessment We have chosen to operate only in one geographical area, the UK, which is subject to relatively low-risk, low-returns from a stable and mature, albeit cyclical economy and property market. By involvement with all sectors of that economy and that property market, we are as diversified as possible, without venturing overseas.

3. Regulatory factors

The risks identified included:

- Planning
- Tax
- Technology
- Lease structures

The principal mitigating actions are:

- Being alert to policies being promoted
- Use of high quality professional advisers
- In-house expert resources in planning/residential/construction/tax/IT

Assessment Our daily exposure to all aspects of the planning process, and internal procedures for spreading best practice ensure we remain abreast of most developments. We have not been very active in attempting to influence public policy debate, but may need to do so as we grow.

4. Financial risks

The risks identified included:

- Lack of available funds
- Interest rates
- Taxation

The principal mitigating actions are:

- Small number of high-quality banking relationships
- Hedging policy to contain interest rate risk
- Benchmarking of costs of finance
- Tax strategy identifying areas of acceptable innovation

Assessment Our conservative approach to financing reduces the opportunity for true innovation in this area. This is offset by the benefits of stability, reliability and borrowing capacity, ensuring finance is available for all foreseeable projects.

5. Failure to secure schemes

The risks identified included:

- Competition
- Overheated market
- People
- Reputation

The principal mitigating actions are:

- Regional offices in touch with their local market
- Strong performance-related link to remuneration
- Dedicated central resource to support regional teams
- Streamlined and effective decision-making process
- Availability of adequate finance
- Flexible and innovative approach to acquisitions in response to changing market conditions

Assessment The increasing focus on the regions to deliver acquisitions, and the growing reputation and financial capacity of the company, have enabled us to deliver more than the target of replacing 120% of land used over the past five years. However, current high prices, and the ever-growing target levels for acquisitions, pose a challenge for future years’ programmes.

01
At first sight, a simple business park, but in practice the outcome of a long-running public private partnership, Widnes Regeneration Limited, which requires a talented and well-managed team.

6. Social, ethical and environmental risks

The risks identified included:

- Health, safety & environment risk
- Climate change
- Business ethics
- Internal controls
- Customer satisfaction

The principal mitigating actions are:

- Systems of control procedures and delegated authorities
- Regular and detailed operational and financial reporting
- Regular dialogue with industry investors and commentators
- Close supervision of transactions and key relationships
- Proactive press/media contacts
- Regular top-level meetings with local authorities, RDAs, and other government or quasi-governmental bodies

Assessment The company has benefited from an excellent reputation. This is underpinned by a simple set of operating commitments.

7. Construction risk

The risks identified included:

- Build quality
- Remediation/contamination
- Liability issues

The principal mitigating actions are:

- A strong internal construction management team
- Projects, acquisitions and disposals are reviewed (and financially appraised) in detail within clearly defined authorisation limits
- Regular management reviews
- Use and close supervision of high-quality trusted contractors and professionals
- Contractual liability clearly defined

Assessment The company is willing to accept a degree of environmental/contamination risk, enabling higher returns to be made for the perceived higher risks undertaken. These risks are laid-off or minimised where possible, but cannot be eliminated. In our recent experience, the residual risks have been acceptably low.

01 Dursley
A shot showing the transformation of this 92 acre site.
The river Cam, buried in a culvert for over 50 years, is reopened and developable land is created from a former gas works and a mound of contaminated foundry sand.

Shareholder relations

The executive directors have a programme of meetings with institutional shareholders and analysts at which the company's strategy and most recently reported performance are explained and questions and comments made are relayed to the whole board. Visits are also arranged to sites of particular interest or significance to assist investors' understanding of the company's business. The company's AGM is also used as an opportunity to communicate with private investors. In addition to the usual period for questions which is made available for shareholders at the AGM, John Salmon, the chairman of the audit committee, and Mary Francis, the chairman of the remuneration committee, will be available to answer appropriate questions. Any matters of concern regarding the company are discussed by the senior independent director with shareholders or appropriate corporate governance bodies and comments are fed back by him to the whole board.

Copies of all press releases, investor presentations and Annual Reports are posted on the company's website (www.stmodwen.co.uk), together with additional details of major projects, key financial information and company background.

To simplify and encourage participation in voting on resolutions at our AGM, the company provides the opportunity to vote electronically through CREST (for further details, see page 115).

Business standards

The company does not condone any form of corrupt behaviour in business dealings and has disciplinary procedures in place to deal with any illegal or inappropriate activities by employees.

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Directors' remuneration report

This report has been drawn up in accordance with the Code and with Schedule 7A of the Companies Act 1985, and has been approved by both the remuneration committee and the board. Shareholders will be invited to approve this report at the AGM. The remuneration committee's terms of reference are available for inspection on the company's website.

The Companies Act requires certain parts of the remuneration report to be audited. The audited sections are highlighted.

Composition and function of the remuneration committee

The remuneration committee was chaired by Christopher Roshier until 21st April 2006, when he was succeeded in that role by Mary Francis. It comprises all of the non-executive directors of the company. It is proposed that Christopher Roshier will stand down from the committee at the AGM.

The committee considers all aspects of the executive directors' remuneration and administers the company's share option schemes. The remuneration of the non-executive directors is considered by the board following recommendations by the executive directors. No director participates in setting their own remuneration. The committee also reviews and notes annually the remuneration trends across the company and any major changes in employee benefits structures.

Remuneration policy and proposed changes

The objective of St. Modwen's remuneration policy is to attract, retain and motivate high calibre senior executives through competitive pay arrangements which are also in the best interests of shareholders. These include performance-related elements to align the interests of directors and shareholders and to motivate the highest performance.

Remuneration levels are set by reference to performance against demanding targets, and by reference to pay levels in the external market. Overall, the aim is that executive directors' base salaries should be set at around the median of the range paid by comparable companies, and that superior performance should be rewarded through total remuneration in the upper quartile of the range. These benchmarks gear rewards to high performance, and seek to ensure that the company can attract and retain executives of suitable calibre in the sector's very competitive labour market.

Deloitte & Touche LLP ("Deloitte") has been appointed by the remuneration committee to provide advice on remuneration matters. In 2005–06 Deloitte undertook a benchmarking exercise in relation to the company, its peers and relevant current market practice and assisted the committee in a review of executive directors' future remuneration arrangements including the structure of long-term incentives. Deloitte performed no other services for the company during the year.

This report sets out the remuneration arrangements in the year ended 30th November 2006. It also summarises the conclusions of the review of remuneration arrangements referred to above. Detailed proposals on a new Performance Share Plan, together with proposals for the renewal of the 1997 Executive Share Option Scheme, are contained in a separate letter to shareholders enclosed with this Annual Report, and will be put to the AGM for shareholders' approval.

Service contracts

All the executive directors have service contracts of no fixed term, with notice periods of twelve months. Non-executive directors have notice periods of three months.

No director has any rights to compensation on loss of office (apart from payment in lieu of notice, where appropriate). The non-executive directors do not have service contracts.

Unless specifically approved by the board, executive directors are not permitted to hold external non-executive directorships. Anthony Glossop receives fees which he retains in respect of his service as a non-executive director of Robinson PLC (£16,500). He receives no fees in respect of his service as a non-executive director of Northern Racing PLC.

The dates of the directors' service contracts are as follows:

C.C.A. Glossop	1st December 1988
W.A. Oliver	24th January 2000
S.J. Burke	1st January 2006
T.P. Haywood	14th April 2003

Base salaries

The remuneration committee carefully considered the base salary levels appropriate for the year to 30th November 2006, with advice from Deloitte, and concluded that a significant adjustment was needed to keep them in line with the market and with salary increases below board level. This reflected the company's rapidly growing size and increasing complexity, the ambitious nature of the company's financial objectives and exceptionally strong recent performance. A benchmarking exercise undertaken by Deloitte in relation to the company, its peers and relevant current market practice, confirmed that the 2006 base salaries paid to the executive directors (excluding the Chairman) were now within the market competitive range.

Base salaries for the executive directors other than the Chairman for the year to 30th November 2007 have been agreed as follows:

W.A. Oliver £385,000
S.J. Burke £200,000
T.P. Haywood £225,000

Since 1st December 2005, the Chairman has been paid a base salary only. He does not receive an annual bonus or options. His salary was last reviewed on 1st December 2004 and since then the rapid growth in the company's size, and its continued outstanding performance, have created the same case for a substantive increase in basic salary as described above for the executive directors. Following consultation with Deloitte, the remuneration committee agreed that the Chairman's salary should increase from £300,000 p.a. to £350,000 p.a. with effect from 1st December 2006.

References to executive directors in the paragraphs below exclude the Chairman.

Performance-related remuneration

The remuneration committee approved all performance-related remuneration in respect of the year to 30th November 2006, and the targets for achievement of such remuneration which were set at the beginning of the financial year.

Bonus scheme

In 2006 executive directors participated in a performance-linked cash bonus scheme which was payable in two equal instalments, one on the publication of the results and the second three years later. As in previous years, the executive directors were eligible to receive a total bonus of up to 140% of base salary (up to 80% allocated towards achievement of financial targets and up to 60% towards achievement of personal targets). The second instalment will be paid provided the company's net assets per share growth over the relevant three year period exceeds RPI plus 5% per annum and the director concerned continues to be employed by the company.

The levels of bonus award were determined by the remuneration committee on the basis of performance against both financial and personal targets. The financial targets set by the committee for the year to 30th November 2006 comprised growth in pre-tax profits between 10% and 15%, awards being pro-rated between these minimum and maximum points, and growth in net assets per share of 15%. Both targets were based on IFRS figures (but in the case of pre-tax profits, the target excluded revaluation surpluses and was adjusted to reflect the change in the way the company accounts for the valuation of land held for unspecified future use). The introduction of a sliding scale for the pre-tax profits target and of a second financial target based on NAV growth were new elements compared to the previous year.

Personal targets were set individually for each executive director, and focused on: a) creation of a development programme for 2007 designed to generate pre-tax profits, ignoring revaluation surplus, at least 15% higher than in 2006, and b) the acquisition for the hopper of at least 120% of property used in 2006.

The Chairman makes recommendations to the remuneration committee for the levels of bonus payable to executive directors against both the financial and personal targets, supported by audited figures in respect of the financial targets. Decisions on the levels of bonus payable are taken by the remuneration committee. Annual bonuses do not form part of pensionable pay.

For the year to 30th November 2006, the initial bonuses paid to directors as a percentage of annual salary were as follows: Bill Oliver 70%; Steve Burke 45% (bonus level and award relating to the year before he became an executive director); Tim Haywood 70%. These bonuses represented the maximum of 20% for achievement of the profit target (15% in the case of Steve Burke); and the maximum of 20% for achievement of the NAV growth target (15% in the case of Steve Burke). The balance represents the bonus paid for the achievement of the personal targets set for each executive director. Given the strong growth in profits and net assets in 2006 and the achievement of almost all the personal targets set for each executive director, the committee agreed that bonuses at this level were justified. The second instalment of these bonuses will be paid on the publication of the results for the financial year to 30th November 2009, provided the performance and employment conditions are met. Richard Froggatt, having left the company during the year, received no bonus, and his deferred entitlement in respect of previous years was cancelled.

The amounts potentially payable to directors in future years in respect of the second instalments of the bonuses earned in 2003 to 2006 are as follows:

	2007 £'000	2008 £'000	2009 £'000	2010 £'000	Total £'000
W.A. Oliver	–	175	217	252	644
S.J. Burke	43	50	60	74	227
T.P. Haywood	–	77	123	140	340

Share Options

The remuneration committee is responsible for overseeing the company's Executive Share Option and Savings Related Share Option schemes in accordance with rules previously approved by shareholders. In addition to the deferred element of the annual bonus, the main longer term incentive for executive directors (as well as other senior employees) has been the award of regular grants of options over the company's shares.

Options granted to executive directors in 2006 were equal to 100% of salary. This has been the normal maximum annual award and the committee felt that awards at this level were justified by the company's strong performance.

For options granted in 2006 under the company's Executive Share Option Scheme (as in other recent awards) the performance target set was 5% per annum real growth in net asset value per share over the three year period from the date of grant. This target was selected to incentivise executives to aim for the continued long-term growth of the company, whilst delivering the short and medium-term results which are the principal focus of the bonus scheme. Performance against these targets is objectively assessed from the audited accounts of the company.

For options granted in 2005 and earlier years, the performance condition was subject to one retesting whereby if the condition was not met in the initial period of 3 years the options could still be exercised if the real growth in the net asset value per share of the company was at least 5% per annum over the four year period from the date of grant. Options granted in 2006 and thereafter do not allow retesting if the performance condition is not met in the initial 3 year period — if this is the case the options will lapse. All performance conditions not yet met will be adjusted for the introduction of International Financial Reporting Standards to the company in 2006.

Executive directors may also participate in the company's savings-related share schemes on the same terms as all other employees.

Audited Information:
Executive Share Option Schemes

Date of Grant	C.C.A. Glossop	W.A. Oliver	S.J. Burke	T.P. Haywood	Exercise Price	Exercise Period
November 1999	500,000	–	–	–	99p	Nov 2003–Nov 2009
September 2002	–	150,000	–	–	134p	Sept 2005–Sept 2012
August 2003	–	112,000	–	–	200p	Aug 2006–Aug 2013
August 2004	–	89,500	39,250	55,500	279p	Aug 2007–Aug 2014
August 2005	–	87,250	33,750	39,500	443p	Aug 2008–Aug 2015
August 2006	–	75,300	34,500	41,800	478p	Aug 2009–Aug 2016
As at 30th November 2006	500,000	514,050	107,500	136,800		

Details of Executive Share options exercised by directors during the year are as follows:

	Date of exercise	Market price at date of exercise	Number of options exercised	Gain £'000
W.A. Oliver	July 2006	448p	22,000	69
T.P. Haywood	August 2006	477p	70,000	194
R.L. Froggatt	December 2005	482p	22,000	77
R.L. Froggatt	August 2006	477p	90,000	249

Audited Information:
Savings Related Schemes

	Balance at 30th Nov 2005	Exercised	Granted	Balance at 30th Nov 2006	Exercise Price	Exercise Period
C.C.A. Glossop	8,590	(3,260)	742	6,072	248.0p/433.5p	Oct 2009–Mar 2012
W.A. Oliver	16,304	(16,304)	3,713	3,713	433.5p	Oct 2011–Mar 2012
S.J. Burke	13,240	–	–	13,240	125.0p	Oct 2007–Mar 2008
T.P. Haywood	7,497	–	–	7,497	182.0p/248.0p	Oct 2008–Mar 2010

Details of Savings Related Share options exercised by directors during the year are as follows:

	Date of exercise	Market price at date of exercise	Number of options exercised	Gain £'000
C.C.A. Glossop	April 2006	488p	3,260	13
W.A. Oliver	April 2006	488p	16,304	63

The share price as at 30th November 2006 was 569p. The highest price during the year was 613.5p and the lowest price was 424p.

Following shareholder approval in 1997, the executive share option scheme was also made available to a number of senior employees. As the term of the shareholder approval expires in April 2007, proposals to renew this authority are set out in a letter to shareholders issued with this Annual Report, and will be the subject of a resolution at the AGM.

Review of remuneration arrangements

During the course of 2006, the committee conducted a comprehensive review of the company's remuneration arrangements for executive directors, with advice from Deloitte. The purpose of the review was to consider whether the current arrangements continued to be the most appropriate for the delivery of the company's strategy. The committee reviewed the structure of incentives, the performance conditions and their link to the company's business strategy, the balance between annual and longer term remuneration, and the market positioning of the package as a whole.

The key conclusions of the review were as follows:

- Base salaries should continue to be positioned at around the median of companies of a similar size and complexity;
- Despite the improvements made in base salaries in 2006, total remuneration for executive board members was currently below that of comparable companies at most levels of performance;
- Awards of performance shares rather than share options would now provide a better incentive to performance over the longer term, whilst continuing to align reward with the creation of long-term shareholder value and enabling the company to set stretching targets aligned with our stated strategy;
- A greater proportion of executive remuneration should be determined by reference to performance measured over the longer term. There should be a rebalancing away from the annual bonus and towards the long-term incentive arrangements;
- The arrangements should be as clear and simple as possible. Accordingly, as well as reducing the annual incentive opportunity, the deferred element should be removed. The resulting combination of a single annual cash incentive and a longer-term share-based element would best meet the company's objectives for the executive directors. It would also provide a strong foundation for extending the scheme to certain other senior executives below board level, as the company wishes to do after the board-level scheme has bedded down; and
- The delivery of long-term NAV growth performance was central to the company's strategy, and should form the focus of the incentive performance conditions, with very stretching targets. Although many companies select different financial targets for their annual and long-term incentive schemes, the committee concluded after careful reflection that St. Modwen's business model made NAV growth an appropriate (though not the only) target in both schemes.

Details of the specific changes planned as a result of the review, including proposals for a new Performance Share Plan, are set out in a letter issued with this Annual Report and will be the subject of a separate resolution at the AGM.

Non-executive directors' fees

The level of non-executive directors' fees is recommended to the board by the Chairman and executive directors, having taken advice on market practice from Deloitte. For 2006 the level of the basic fee paid was £33,000 per director with additional payments of £7,500 to the chairman of the audit committee and the chairman of the remuneration committee and of £5,000 to the senior independent director.

For the year commencing 1st December 2006, non-executive directors' fees have been set at £35,000 per director, with additional payments of £8,000 to the chairman of the audit committee and the chairman of the remuneration committee and of £5,300 to the senior independent director.

Senior management remuneration

For the year under review, the total remuneration of the members of the property board, who are the senior management of the business but not on the main board, was as follows:

No. of executives	£'000
5	100–200
1	200–300
2	300–400

Audited Information:
Directors' remuneration

The remuneration of the directors for the year ended 30th November 2006 was as follows:

	Salary/Fees £'000	Annual bonus £'000	Benefits £'000	Total emoluments excluding pensions and pension contributions **2006 £'000**	2005 £'000
Executive					
S.J. Burke (appointed 30th November 2006)	–	–	–	**–**	–
R.L. Froggatt (resigned 31st August 2006)	180	–	18	**198**	403
C.C.A. Glossop	300	–	21	**321**	533
T.P. Haywood	200	140	22	**362**	317
W.A. Oliver	360	252	32	**644**	557
Non-Executive					
S.W. Clarke	33	–	–	**33**	30
M.E. Francis	37	–	–	**37**	15
R.I. Menzies-Gow	33	–	–	**33**	30
D.P. Rigg	33	–	–	**33**	30
C.E. Roshier	42	–	–	**42**	45
J.H. Salmon	37	–	–	**37**	4
J.N. Shaw	–	–	–	**–**	14
	1,255	392	93	**1,740**	1,978

All benefits for the executive directors (comprising mainly the provision of company car, fuel and health insurance) arise from employment with the company, and do not form part of directors' final pensionable pay.

The figures above represent emoluments earned during the relevant financial year. Such emoluments are paid in the same financial year with the exception of performance related bonuses, which are paid in the year following that in which they are earned. The figures above exclude amounts payable in future years in respect of the deferred second instalment of bonuses, as these are subject to additional performance criteria.

During the year, payments of £3,000 each in respect of consultancy services provided were made to former directors J.D. Leavesley and C.H. Lewis, and £10,000 to Sir David Trippier. Benefits totalling £37,874 were provided by the company during the year to the widow of Sir Stanley Clarke (comprising mainly the provision of a car and driver).

Total non-executive directors' fees were set at the AGM in 2004 at a maximum of £250,000 (with annual adjustments for RPI).

Pensions

The company operates a pension scheme with both a defined benefits and defined contribution section, covering the majority of employees, including executive directors. In relation to the defined benefits section, benefits are based on years of credited service and final pensionable pay. The maximum pension generally payable under the scheme is two-thirds of final pensionable pay. The defined benefits section of the scheme was closed to new members in 1999.

Membership of the defined contribution section is available to all permanent employees including executive directors joining the company after 6th April 1999. Contributions are invested by an independent investment manager.

Audited Information:

Pension benefits earned by the directors who are members of the defined benefits scheme:

	Accumulated accrued benefits £'000	Increase/(decrease) in accrued benefits in excess of RPI during the year £'000	Transfer value of increase in accrued benefits less members' contributions £'000
C.C.A. Glossop	233	(2)	(37)
S.J. Burke	16	2	15

The transfer value of each director's accrued benefits at the end of the financial year was:

	30th November 2006 £'000	30th November 2005 £'000	Movement less members' contributions £'000
C.C.A. Glossop	4,008	3,989	19
S.J. Burke	174	141	25

C.C.A. Glossop, who had been a deferred pensioner since his normal retirement age of 60, elected to draw his pension from 1st April 2006. The accrued pension disclosed above represents the annual pension currently in payment (of which £155,343 has been paid in the year).

Notes relating to the defined benefits scheme:

1. Contributions of up to 7.5% are payable by members, effective 1st December 2004. Scheme members within five years of normal retirement age on 1st December 2004 pay no contributions.
2. Accrued pension is that which would be paid annually at retirement age based on service to 30th November 2006.
3. Members have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included above.
4. Normal retirement age is 65, effective 1st December 2004 (age 60 for Scheme members within five years of normal retirement age on 1st December 2004).
5. Death in service benefits amount to a lump sum equal to the greater of four times basic salary at death and four times the average of gross earnings in the last three years. In addition, a spouse's pension would be payable, equivalent to 50% of the full pension the member would have been entitled to had he worked to normal retirement age.

6. A spouse's pension of 50% of the full pension is payable after the death in retirement of a member.
7. Pension payments increase annually by the lower of the RPI increase and 5%.
8. Pensionable salary increases are capped at RPI plus 3% per annum cumulatively (effective 1st December 2004). Scheme members within five years of normal retirement age on 1st December 2004 received uncapped increases (subject to Inland Revenue limits, which will continue under the transitional provisions of the recent legislation).

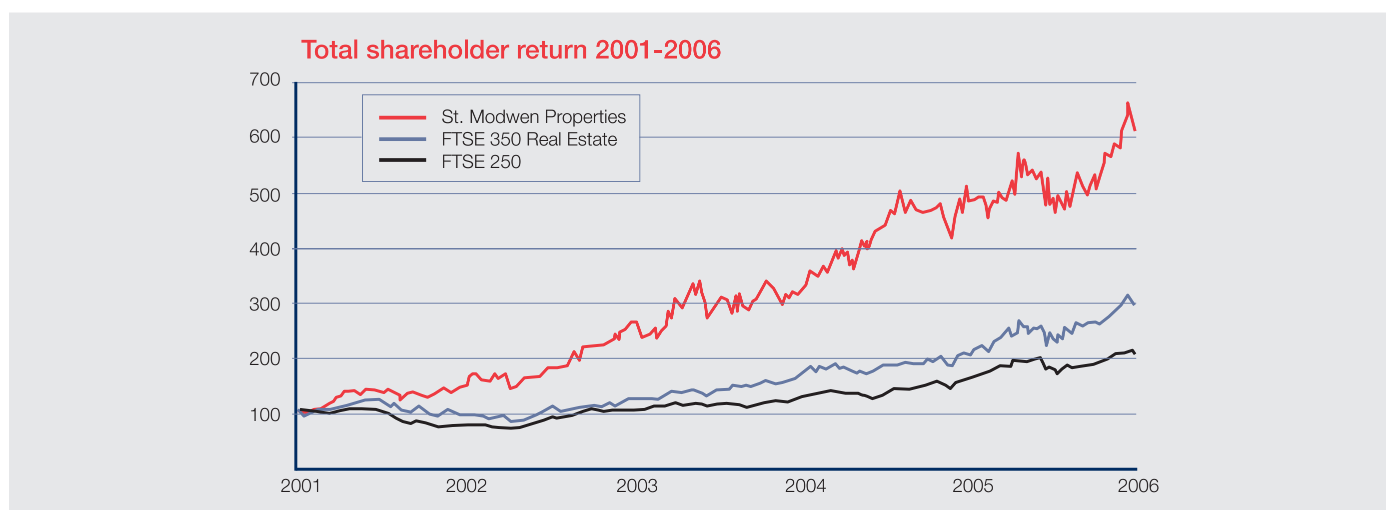
Contributions made on behalf of the remaining directors who are members of the defined contribution section of the Pension Scheme amounted to:

	2006	2005
	£'000	£'000
T.P. Haywood	**30**	26
W.A. Oliver	**54**	46

Further information on the company's pension scheme is shown in note 19.

Unaudited Information:

The company's total shareholder return is shown in the graph against a broad equity market index. Since the company is a constituent of the FTSE 250 and FTSE 350 Real Estate indices, these are considered to be appropriate benchmarks for the graph.



Approved by the board and signed on its behalf by

Mary Francis
Chairman, remuneration committee
12th February 2007

Directors' responsibilities in relation to financial statements

The directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare group financial statements for each financial year which present fairly the financial position of the group and the financial performance and cash flows of the group for that period. In preparing those group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- state that the group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of St. Modwen Properties PLC

We have audited the group financial statements of St. Modwen Properties PLC for the year ended 30th November 2006 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense, the accounting policies and the related notes 1 to 23. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of St. Modwen Properties PLC for the year ended 30th November 2006 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities in relation to financial statements.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance report reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' report, the Directors' remuneration report, the Chairman's statement, the Business review and the Corporate governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30th November 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and the Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered auditor
Birmingham
12th February 2007

Group income statement

For the year ended 30th November 2006

	Notes	2006 £m	2005 £m
Revenue	1	**128.1**	98.4
Net rental income	1	**24.3**	29.5
Development profit	1	**14.6**	14.1
Gains on investment property disposals		**27.2**	22.4
Investment property revaluation gains	7	**49.0**	26.9
Other net income	1	**2.4**	0.6
Joint ventures and associates (post-tax)	9	**11.0**	19.6
Administrative expenses	2	**(15.6)**	(16.8)
Profit before interest and tax		**112.9**	96.3
Finance cost	3	**(20.0)**	(15.6)
Finance income	3	**4.0**	2.2
Profit before tax		**96.9**	82.9
Taxation	4	**(21.0)**	(15.5)
Profit for the year		**75.9**	67.4
Attributable to:			
Equity shareholders of the company	17	**74.4**	66.7
Minority interests	18	**1.5**	0.7
		75.9	67.4

	Notes	2006 pence	2005 pence
Basic and diluted earnings per share	5	**61.6**	55.4
Proposed final dividend per share	6	**6.8**	5.9
Interim dividend paid	6	**3.4**	2.9
Total dividend		**10.2**	8.8

Group statement of recognised income and expense

For the year ended 30th November 2006

	Notes	2006 £m	2005 £m
Profit for the year		**75.9**	67.4
Pension fund:			
— actuarial gains and losses	19	**2.5**	(0.8)
— deferred tax thereon	19	**(0.7)**	0.3
Total recognised income and expense		**77.7**	66.9
Attributable to:			
Equity shareholders of the company	18	**76.2**	66.2
Minority interests	18	**1.5**	0.7
		77.7	66.9

Group balance sheet

As at 30th November 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Investment property	7	**736.4**	481.2
Operating property, plant and equipment	8	**3.8**	4.0
Investments in joint ventures, associates and other investments	9	**77.9**	68.5
Trade and other receivables	10	**4.0**	0.1
		822.1	553.8
Current assets			
Stocks and work in progress	11	**65.9**	36.1
Trade and other receivables	10	**58.4**	20.7
Cash and cash equivalents		**7.0**	0.7
		131.3	57.5
Current liabilities			
Trade and other payables	12	**(109.3)**	(36.0)
Borrowings	13	**(49.2)**	(2.9)
Tax payables	4	**(3.7)**	(1.7)
		(162.2)	(40.6)
Non-current liabilities			
Trade and other payables	12	**(143.7)**	(5.8)
Borrowings	13	**(210.7)**	(205.6)
Deferred tax	4	**(47.0)**	(35.3)
		(401.4)	(246.7)
Net assets		**389.8**	324.0
Capital and reserves			
Share capital	16	**12.1**	12.1
Share premium account	17	**9.1**	9.1
Capital redemption reserve	17	**0.3**	0.3
Retained earnings	17	**364.3**	299.3
Own shares	17	**(0.8)**	(0.4)
Shareholders' equity		**385.0**	320.4
Minority interests	18	**4.8**	3.6
Total equity		**389.8**	324.0

These financial statements were approved by the board of directors on 12th February 2007 and were signed on its behalf by

Anthony Glossop
Chairman

Tim Haywood
Finance Director

Group cash flow statement

For the year ended 30th November 2006

	Notes	**2006** **£m**	2005 £m
Operating activities			
Profit before interest and tax		**112.9**	96.3
Gains on investment property disposals		**(27.2)**	(22.4)
Share of profit of joint ventures and associates (post-tax)	9	**(11.0)**	(19.6)
Investment property revaluation gains	7	**(49.0)**	(26.9)
Depreciation	8	**0.9**	0.5
Changes in stocks and work in progress		**(24.8)**	21.6
Changes in trade and other receivables		**1.4**	(8.2)
Changes in trade and other payables		**(6.1)**	5.1
Share options and share awards		**0.3**	0.5
Pension funding		**(0.7)**	(0.1)
Tax paid	4(c)	**(7.5)**	(16.9)
Net cash (outflow)/inflow from operating activities		**(10.8)**	29.9
Investing activities			
Investment property disposals		**87.5**	73.1
Investment property additions		**(95.5)**	(60.3)
Property, plant and equipment additions		**(0.7)**	(1.4)
Interest received		**0.1**	0.4
Dividends received		**1.6**	1.6
Net cash (outflow)/inflow from investing activities		**(7.0)**	13.4
Financing activities			
Dividends paid	6	**(11.2)**	(9.7)
Dividends paid to minorities	18	**(0.3)**	(0.2)
Interest paid		**(14.6)**	(13.9)
Purchase of own shares		**(1.2)**	–
New borrowings drawn		**73.1**	10.8
Repayment of borrowings		**(19.2)**	(35.7)
Net cash inflow/(outflow) from financing activities		**26.6**	(48.7)
Increase/(decrease) in cash and cash equivalents		**8.8**	(5.4)
Cash and cash equivalents at start of year		**(1.8)**	3.6
Cash and cash equivalents at end of year		**7.0**	(1.8)
Cash		**7.0**	0.7
Bank overdrafts	13	**–**	(2.5)
Cash and cash equivalents at end of year		**7.0**	(1.8)

Accounting policies

For the year ended 30th November 2006

Basis of preparation

The group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as they apply to the group for the year ended 30th November 2006 applied in accordance with the provisions of the Companies Act 1985. The group accounts of prior periods have been restated using IFRS so that proper comparison can be made with the results for the current year.

The group's IFRS accounting policies are set out below. Reconciliations of the results for the year to 30th November 2005 from UK GAAP to IFRS are set out in note 23.

Basis of consolidation

The group financial statements consolidate the financial statements of St. Modwen Properties PLC and the entities it controls. Control comprises the power to govern the financial and operating policies of the investee and is achieved through direct or indirect ownership of voting rights or by contractual agreement. A list of the principal entities is given in note (f) to the company's financial statements on page 103.

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.

Minority interests represent the portion of profit or loss and net assets in entities that is not held by the group and is presented separately within equity in the group balance sheet.

Interests in joint ventures

The group recognises its interest in joint ventures using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the 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 value of individual investments. The income statement reflects the group's share of the jointly controlled entities' results after tax.

Financial statements of jointly controlled entities 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 recognised income and expense reflects the group's share of any income and expense recognised by the jointly controlled entities outside the 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 ventures, are accounted for using the equity method of accounting, as described above.

Other investments

Other investments comprising entities over which the group does not have a significant influence are held at fair value.

Properties

Investment properties

Investment properties, being freehold and leasehold properties held for capital appreciation and/or to earn rental income, 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 twice yearly on an open market basis. Any surplus or deficit arising is recognised in the income statement for the period.

Once classified as an investment property, a property remains in this category until development with a view to sale is authorised, at which point the asset is transferred to stock at its current valuation.

Accounting policies
continued

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 income statement.

Properties held for sale
Investment properties that are anticipated to be sold within twelve months of the balance sheet date continue to be valued as investment properties, but are classified as properties held for sale.

Stocks and work in progress
Stocks and work in progress principally comprise properties held for sale, properties under construction and land under option.

Pre-sold properties under construction are accounted for at cost plus attributable profit less payments received on account. Attributable profit is ascertained based on the estimated outcome of the development and the amount of the work undertaken to date.

All land held under option agreements is intended for use by the group in the normal course of its activities and is recorded at the lower of cost and net realisable value.

Transfers from investment property are made at value not cost and are then carried as current assets at the lower of this value and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Properties acquired from third parties exclusively with a view to sale and properties under construction which have not been pre-sold are carried at the lower of cost and net realisable value within stocks and work in progress.

Interest
Interest incurred is not capitalised, but written off to the income statement on an accruals basis.

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, based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows:

Leasehold operating properties	— over the shorter of the lease term and 25 years
Plant, machinery and equipment	— over 2 to 5 years

Freehold properties, which comprise land, are not depreciated.

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 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.

Leasehold investment properties are accounted for as finance leases with the present value of guaranteed minimum ground rents included within the carrying value of the property and within long-term liabilities. On payment of a guaranteed ground rent, virtually all of the cost is charged to the income statement, as interest payable, and the balance reduces the liability.

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

Lease incentives

Lease incentives, including rent-free periods and payments to tenants, are allocated to the income statement on a straight-line basis over the lease term.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and 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.

Trade and other payables

Trade and other payables on deferred payment terms are 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 respectively in finance income and finance expense.

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.

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, associates and joint ventures, 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 enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the 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 remeasured 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 income statement.

Accounting policies
continued

Pensions
The group operates a pension scheme, with both defined benefit and defined contribution sections. The defined benefit section is closed to new members.

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 the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement immediately if the benefits have vested.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense.

Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the year in which they occur. The defined benefit pension asset or liability in the balance sheet comprises the present value of the defined benefit obligation, less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Own shares
St. Modwen Properties PLC shares held by the group are classified in shareholders' equity and are recognised at cost.

Dividends
Dividends declared 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, excluding discounts, rebates, VAT and other sales taxes or duty. 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 only when the outcome of the contract can be ascertained with reasonable certainty. The amount of revenue recognised is based on the prudently estimated outcome and the amount of the work undertaken to date.

Rental income
Rental income arising from investment properties is accounted for on a straight-line basis over the lease term.

Gains on investment property disposals
Disposals are recognised on completion. Profits and losses arising are recognised through the income statement and the profit on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset.

Share-based payments

The group accounts for its share option schemes as cash-settled share-based payments as new shares are not issued to satisfy employee share option plans. The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model and amortised through the income statement over the vesting period. The liability is remeasured at each period end. Revisions to the fair value of the accrued liability after the end of the vesting period are recorded in the income statement of the period in which they occur.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short-term deposits with banks.

Use of estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial accounts. These estimates are based on historical experience and various other assumptions that management and the board of directors believe are reasonable under the circumstances. The results of these considerations form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

The areas requiring the use of estimates and critical judgements that may significantly impact the group's earnings and financial position are:

- revenue and cost recognition on developments;
- valuation of investment properties;
- estimation of remediation costs for both properties under construction and investment properties;
- calculation of deferred tax liabilities;
- calculation and assessment of recoverability of deferred tax assets;
- recognition of share-based payments charge; and
- calculation of pension liability.

New standards and interpretations not applied

The group has considered all new IASB and IFRIC standards and interpretations with an effective date after the date of this financial information. The new standards and interpretations expected to have an impact on the group financial statements are:

		Effective date
IFRS 7	Financial Instruments: Disclosures	1st January 2007
IAS 1	Amendment — Presentation of Financial Statements: Capital Disclosures	1st January 2007
IAS 39	Amendment — Financial guarantee contracts	1st January 2006

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically, the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

The directors do not anticipate that the adoption of the amendment to IAS 1 will have a material impact on the group's financial statements in the period of initial application.

Under IAS 39 as amended, the group will need to value the financial guarantee contracts that it has issued and recognise them on the balance sheet. If this amendment had been effective for the year ended 30th November 2006 there would be no effect on reported income or net assets.

Notes to the accounts

1. Revenue and gross profit

	2006			
	Rental	**Development**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Revenue	**29.4**	**92.9**	**5.8**	**128.1**
Cost of sales	**(5.1)**	**(78.3)**	**(3.4)**	**(86.8)**
Gross profit	**24.3**	**14.6**	**2.4**	**41.3**

	2005			
	Rental	Development	Other	Total
	£m	£m	£m	£m
Revenue	33.1	61.4	3.9	98.4
Cost of sales	(3.6)	(47.3)	(3.3)	(54.2)
Gross profit	29.5	14.1	0.6	44.2

The group operates exclusively in the UK and all of its revenues derive from its portfolio of properties which the group manages as one business. Therefore, the financial statements and related notes represent the results and financial position of the group's sole business segment.

2. Other income statement disclosures

a. Administrative expenses

	2006	2005
	£'000	£'000
Depreciation	**875**	554
Operating lease costs	**55**	38
Fees paid to Ernst & Young LLP in respect of:		
– Audit	**181**	136
– Statutory audit of subsidiary companies and joint ventures	**104**	65
– Tax services	**95**	71
– Other services	**36**	14

The above amounts include all amounts charged by the group auditors in respect of joint venture undertakings.

b. Employees

The average number of full-time employees (including directors) employed by the group during the year was as follows:

	2006	2005
	(number)	(number)
Property	**126**	120
Leisure and other activities	**71**	72
Administration	**46**	21
	243	213

2. Other income statement disclosures continued

b. Employees continued

The total payroll costs of these employees were:

	2006 £m	2005 £m
Wages and salaries	**10.3**	9.1
Social security costs	**1.3**	1.5
Pension costs	**0.8**	0.8
Share-based payments	**3.1**	5.0
	15.5	16.4

Details of the directors' remuneration is given in the directors' remuneration report on pages 53 to 60.

c. Share-based payments

The group has a save as you earn share option scheme open to all employees. Employees must remain in service for a period of 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 has an executive share option scheme, full details of which are given in the directors' remuneration report on pages 53 to 60.

The following table illustrates the number and weighted average exercise price of, and movements in, share options during the year:

	2006		2005	
	Number of options	**Weighted average price £**	Number of options	Weighted average price £
Outstanding at start of year	**3,708,371**	**2.19**	5,096,151	1.53
Granted	**615,267**	**4.72**	645,815	4.39
Lapsed	**(261,331)**	**(3.00)**	(212,474)	(2.31)
Exercised	**(672,177)**	**(1.62)**	(1,821,121)	(1.04)
Outstanding at end of year	**3,390,130**	**2.69**	3,708,371	2.19
Exercisable at year end	**1,290,972**	**1.34**	1,093,692	1.13

Share options are priced using a Black Scholes valuation model. The fair values calculated and the assumptions used are as follows:

	Fair value of balance sheet liability £m	Risk-free interest rate %	Expected volatility %	Dividend yield %	Share price £*
As at 30th November 2006	**8.2**	**5.25**	**20**	**2.2**	**5.38**
As at 30th November 2005	7.0	4.20	28	2.2	4.37

* Based on 90 day moving average

In arriving at fair value it has been assumed that all share options are exercised on the day of vesting.

The weighted average share price at the date of exercise was £4.89 (2005: £3.95). The options outstanding at the year end had a range of exercise prices between 81.5p and 478.0p (2005: 81.5p and 443.0p) and a weighted average remaining contractual life of 6.2 years (2005: 6.5 years).

The group recognised total expenses of £3.1m (2005: £5.0m) in relation to share-based payments transactions during the year.

Notes to the accounts
continued

3. Finance cost and finance income

	2006 £m	2005 £m
Interest payable on borrowings	**(14.3)**	(13.9)
Amortisation of discount on deferred payment arrangements	**(3.8)**	–
Amortisation of refinancing expenses	**(0.2)**	(0.2)
Head rents treated as finance leases	**(0.2)**	(0.2)
Interest on pension scheme liabilities (note 19)	**(1.5)**	(1.3)
Total finance cost	**(20.0)**	(15.6)
Interest receivable on cash deposits	**0.4**	0.4
Movement in market value of interest rate derivatives (note 15)	**2.0**	0.3
Expected return on pension scheme assets (note 19)	**1.6**	1.5
Total finance income	**4.0**	2.2

4. Taxation

a. Tax on profit on ordinary activities

	2006 £m	2005 £m
Tax charged in the income statement:		
Corporation tax charge		
Tax on current year profits	**11.7**	10.6
Adjustments in respect of previous years	**(1.7)**	(0.3)
	10.0	10.3
Deferred tax		
Origination and reversal of temporary differences	**0.6**	0.9
Impact of current year revaluations	**9.6**	5.2
Adjustments in respect of previous years	**0.8**	(0.9)
	11.0	5.2
Total tax charge in the income statement	**21.0**	15.5
Tax relating to items charged or credited to equity:		
Deferred tax		
Actuarial gains and losses on pension schemes (note 19)	**0.7**	(0.3)
Tax charge/(credit) in the statement of total recognised income and expense	**0.7**	(0.3)

4. Taxation continued

b. Reconciliation of effective tax rate

	2006			2005		
	Corporation tax £m	**Deferred tax £m**	**Total tax £m**	Corporation tax £m	Deferred tax £m	Total tax £m
Profit before tax	**96.9**	**–**	**96.9**	82.9	–	82.9
Less: joint ventures and associates	**(11.0)**	**–**	**(11.0)**	(19.6)	–	(19.6)
Pre-tax profit attributable to the group	**85.9**	**–**	**85.9**	63.3	–	63.3
Corporation tax at 30%	**25.8**	**–**	**25.8**	19.0	–	19.0
Disallowed expenses and non-taxable income	**0.4**	**–**	**0.4**	0.3	–	0.3
Capital allowances	**(1.7)**	**1.0**	**(0.7)**	(2.0)	1.0	(1.0)
Short-term temporary differences	**2.7**	**(3.0)**	**(0.3)**	0.2	(0.5)	(0.3)
Investment property revaluation gains	**(14.7)**	**14.7**	**–**	(8.0)	8.0	–
Indexation allowance	**(1.1)**	**(5.0)**	**(6.1)**	(0.1)	(2.7)	(2.8)
Other	**0.3**	**2.5**	**2.8**	1.2	0.3	1.5
Current year charge	**11.7**	**10.2**	**21.9**	10.6	6.1	16.7
Adjustments in respect of previous years	**(1.7)**	**0.8**	**(0.9)**	(0.3)	(0.9)	(1.2)
	10.0	**11.0**	**21.0**	10.3	5.2	15.5
Effective rate of tax			**24%**			24%

c. Balance sheet

	2006		2005	
	Corporation tax £m	**Deferred tax £m**	Corporation tax £m	Deferred tax £m
Balance at start of the year	**1.7**	**35.3**	7.4	30.4
Charge to the income statement	**10.0**	**11.0**	10.3	5.2
Charge directly to equity	**–**	**0.7**	–	(0.3)
Payments	**(7.5)**	**–**	(16.9)	–
Other	**(0.5)**	**–**	0.9	–
Balance at end of the year	**3.7**	**47.0**	1.7	35.3

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

	2006			2005		
	Asset £m	**Liability £m**	**Net £m**	Asset £m	Liability £m	Net £m
Property revaluations	**–**	**39.2**	**39.2**	–	29.5	29.5
Capital allowances	**–**	**7.3**	**7.3**	–	5.5	5.5
Appropriations to trading stock	**–**	**1.4**	**1.4**	–	1.4	1.4
Other temporary differences	**(5.4)**	**4.5**	**(0.9)**	(3.0)	1.9	(1.1)
	(5.4)	**52.4**	**47.0**	(3.0)	38.3	35.3

There is no unprovided deferred tax.

Notes to the accounts
continued

4. Taxation continued

d. Factors that may affect future tax charges

Based on current capital investment plans, the group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

The benefits of any tax planning are not recognised by the group until the outcome is agreed with HM Revenue & Customs.

5. Earnings per share

The group's share option schemes are accounted for as cash-settled share-based payments as it is the group's practice not to issue new shares in satisfaction of employee options. The potential dilutive effect on earnings per share on the assumption that such shares were to be issued is set out below:

	2006 Number of shares	2005 Number of shares
Weighted number of shares in issue*	**120,628,368**	120,397,435
Weighted number of dilutive shares†	**76,550**	–
	120,704,918	120,397,435

	2006 £m	2005 £m
Earnings (basic and diluted)	**74.4**	66.7

	2006 pence	2005 pence
Basic earnings per share	**61.6**	55.4
Diluted earnings per share	**61.6**	55.4

* Shares held by the Employee Benefit Trust are excluded from the above calculations.

† In calculating diluted earnings per share, earnings have been adjusted for changes which would have resulted from the option being classified as equity settled. The number of shares included in the calculation has also been adjusted accordingly. The calculations show that the majority of shares under option have no dilutive impact on earnings per share.

6. Dividends

Dividends paid during the year comprised the final dividend in respect of 2005, approved at the AGM, and the interim dividend in respect of 2006.

	2006		2005	
	p per share	**£m**	p per share	£m
Paid				
Final dividend in respect of previous year	**5.9**	**7.1**	5.1	6.1
Interim dividend in respect of current year	**3.4**	**4.1**	2.9	3.6
Total	**9.3**	**11.2**	8.0	9.7
Proposed				
Current year final dividend	**6.8**	**8.2**	5.9	7.1

The Employee Benefit Trust waives its entitlement to dividends.

7. Investment property

	Freehold investment properties £m	Leasehold investment properties £m	Total £m
Fair value			
At 30th November 2004	338.6	115.6	454.2
Additions — new properties	30.0	–	30.0
Other additions	34.1	5.0	39.1
Transfers to work in progress (note 11)	(3.1)	–	(3.1)
Disposals	(64.4)	(1.7)	(66.1)
Surplus on revaluation	13.7	13.2	26.9
Transfers from operating properties	0.2	–	0.2
At 30th November 2005	349.1	132.1	481.2
Additions — new properties	21.7	176.9	198.6
Other additions	51.3	21.7	73.0
Transfers to work in progress (note 11)	(5.1)	–	(5.1)
Disposals	(50.6)	(9.7)	(60.3)
Surplus on revaluation	29.1	19.9	49.0
At 30th November 2006	**395.5**	**340.9**	**736.4**

Investment properties were valued at 30th November 2005 and 2006 by King Sturge & Co, Chartered Surveyors, in accordance with the Appraisal and Valuation method of the Royal Institution of Chartered Surveyors, on the basis of open market value.

Further details of the movements in investment properties are given on pages 17 and 20 of the business review.

Notes to the accounts
continued

8. Operating property, plant and equipment

	Operating properties £m	Plant, machinery and equipment £m	Total £m
Cost			
At 30th November 2004	2.4	1.9	4.3
Additions	0.2	1.3	1.5
Transfers to investment properties	(0.2)	–	(0.2)
Disposals	–	(0.1)	(0.1)
At 30th November 2005	2.4	3.1	5.5
Additions	0.2	0.5	0.7
At 30th November 2006	**2.6**	**3.6**	**6.2**
Depreciation			
At 30th November 2004	0.2	0.8	1.0
Charge for the year	–	0.5	0.5
At 30th November 2005	0.2	1.3	1.5
Charge for the year	0.2	0.7	0.9
At 30th November 2006	**0.4**	**2.0**	**2.4**
Net book value			
At 30th November 2004	2.2	1.1	3.3
At 30th November 2005	2.2	1.8	4.0
At 30th November 2006	**2.2**	**1.6**	**3.8**

Tenure of operating properties	**2006** **£m**	2005 £m
Freehold	**0.3**	0.3
Leasehold	**1.9**	1.9
	2.2	2.2

9. Joint ventures, associates and other investments

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

	2006			2005		
	Key Property Investments Limited £m	**Other joint ventures £m**	**Total £m**	Key Property Investments Limited £m	Other joint ventures £m	Total £m
Income statements						
Revenue	**10.7**	**3.9**	**14.6**	11.8	11.2	23.0
Net rental income	**8.7**	**0.2**	**8.9**	10.4	0.3	10.7
Development profit	**(0.3)**	**1.2**	**0.9**	–	2.8	2.8
Gains on investment property disposals	**1.9**	**–**	**1.9**	–	–	–
Investment property revaluation gains	**6.1**	**0.5**	**6.6**	18.0	–	18.0
Administrative expenses	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Profit before interest and tax	**16.3**	**1.9**	**18.2**	28.3	3.1	31.4
Finance cost	**(5.5)**	**(0.3)**	**(5.8)**	(5.9)	(0.3)	(6.2)
Finance income	**0.7**	**–**	**0.7**	0.1	–	0.1
Profit before tax	**11.5**	**1.6**	**13.1**	22.5	2.8	25.3
Taxation	**(2.2)**	**(0.5)**	**(2.7)**	(6.0)	(0.7)	(6.7)
Profit for the year	**9.3**	**1.1**	**10.4**	16.5	2.1	18.6
Group's share of associate's profit (27%)			**0.6**			1.0
			11.0			19.6

The group's share of the balance sheet of its joint ventures and associates, together with the cost of other investments is:

	2006			2005		
	Key Property Investments Limited £m	**Other joint ventures £m**	**Total £m**	Key Property Investments Limited £m	Other joint ventures £m	Total £m
Balance sheets						
Non-current assets	**145.4**	**4.5**	**149.9**	153.5	4.1	157.6
Current assets	**21.0**	**7.8**	**28.8**	3.0	10.1	13.1
Current liabilities	**(5.6)**	**(0.9)**	**(6.5)**	(1.8)	(3.6)	(5.4)
Non-current liabilities	**(98.5)**	**(7.4)**	**(105.9)**	(100.3)	(7.6)	(107.9)
Net assets	**62.3**	**4.0**	**66.3**	54.4	3.0	57.4
Equity at start of year	**54.5**	**2.9**	**57.4**	39.5	0.8	40.3
Profit for the year	**9.3**	**1.1**	**10.4**	16.5	2.1	18.6
Dividends paid	**(1.5)**	**–**	**(1.5)**	(1.5)	–	(1.5)
Equity at end of year	**62.3**	**4.0**	**66.3**	54.5	2.9	57.4
Group's share of joint ventures' net assets			**66.3**			57.4
Group's share of associate's net assets			**11.0**			10.5
Investment in Stoke on Trent Community Stadium Development Company Limited			**0.6**			0.6
			77.9			68.5

Notes to the accounts
continued

9. Joint ventures, associates and other investments continued

Joint venture companies, associates and other investments comprise:

Name	Status	Interest	Activity
Key Property Investments Limited	Joint venture	50%	Property investment and development
Barton Business Park Limited	Joint venture	50%	Property development
Sowcrest Limited	Joint venture	50%	Property development
Holaw (462) Limited	Joint venture	50%	Property investment
Shaw Park Developments Limited	Joint venture	50%	Property development
Northern Racing PLC	Associate	27%	Racecourse operator
Stoke on Trent Community Stadium Development Company Limited	Other investment	15%	Stadium operator

Many of the joint ventures contain change of control provisions, as is common for such arrangements.

The accounts of Northern Racing PLC are drawn up to 31st December each year.

Further details of the movements in joint ventures, associates and other investments are given on pages 18 and 20 of the business review.

10. Trade and other receivables

	2006 **£m**	2005 £m
Non-current		
Derivative financial instruments (note 15)	**1.2**	0.1
Pension fund surplus (note 19)	**2.8**	–
	4.0	0.1
Current		
Trade receivables	**2.6**	3.9
Prepayments and accrued income	**2.6**	1.7
Contract receivable	**38.7**	–
Other debtors	**6.3**	9.6
Amounts due from joint ventures	**7.6**	5.3
Derivative financial instruments (note 15)	**0.6**	0.2
	58.4	20.7

11. Stocks and work in progress

	2006	2005
	£m	£m
Properties held for sale	**37.9**	22.7
Properties under construction	**10.8**	6.8
Land under option	**17.2**	6.6
	65.9	36.1

The movement in stocks and work in progress during the two years ended 30th November 2006 is as follows:

	£m
Balance at 30th November 2004	48.1
Additions	32.2
Transfers from investment property (note 7)	3.1
Disposals (transferred to cost of sales) (note 1)	(47.3)
Balance at 30th November 2005	36.1
Additions	103.0
Transfers from investment property (note 7)	5.1
Disposals (transferred to cost of sales) (note 1)	(78.3)
Balance at 30th November 2006	**65.9**

12. Trade and other payables

	2006	2005
	£m	£m
Current		
Trade payables	**4.9**	5.2
Amounts due to joint ventures	**0.1**	0.4
Other payables and accrued expenses	**43.8**	30.0
Other payables on deferred terms	**60.2**	–
Derivative financial instruments (note 15)	**0.3**	0.4
	109.3	36.0
Non-current		
Other payables and accrued expenses	**1.9**	2.0
Other payables on deferred terms	**138.9**	–
Pension scheme deficit (note 19)	**–**	0.5
Derivative financial instruments (note 15)	**–**	0.4
Finance lease liabilities (head rents) (note 14)	**2.9**	2.9
	143.7	5.8

The payment terms of the other payables on deferred terms, all of which relate to VSM Estates (Holdings) Limited, are subject to contractual commitments which are expected to allow for realisation of the related assets and settlement of the liability on a basis which is at least cash neutral over a minimum period of ten years.

Notes to the accounts
continued

13. Borrowings

	2006 £m	2005 £m
Current		
Bank overdrafts	**–**	2.5
Bank loans	**48.8**	–
Floating rate unsecured loan notes	**0.4**	0.4
	49.2	2.9
Non-current		
Bank loans repayable between one and two years	**–**	52.2
Bank loans repayable between two and five years	**129.4**	63.5
Bank loans repayable after more than five years	**81.3**	89.9
	210.7	205.6

All bank borrowings are secured by fixed charges over the group's property assets.

The bank loan disclosed in current liabilities is a five year revolving credit facility due for renewal in June 2007. Following discussions with the bank, it is anticipated that this facility will be renewed on similar or more favourable terms.

There are no unusual or onerous bank covenants.

Maturity profile of committed bank facilities

	2006						
	Floating rate borrowings			**Interest rate swaps**			
	Drawn	**Undrawn**	**Total**	**Earliest termination**		**Latest termination**	
	£m	**£m**	**£m**	**£m**	**%***	**£m**	**%***
Less than one year	**48.8**	**16.2**	**65.0**	**–**	**–**	**–**	**–**
One to two years	**–**	**–**	**–**	**60.0**	**4.82**	**30.0**	**5.17**
Two to three years	**–**	**–**	**–**	**80.0**	**4.71**	**–**	**–**
Three to four years	**47.0**	**80.3**	**127.3**	**–**	**–**	**30.0**	**4.47**
Four to five years	**82.4**	**22.6**	**105.0**	**20.0**	**4.47**	**80.0**	**4.71**
More than five years	**81.3**	**79.2**	**160.5**	**–**	**–**	**20.0**	**4.47**
Total	**259.5**	**198.3**	**457.8**	**160.0**	**4.72**	**160.0**	**4.72**

	2005						
	Floating rate borrowings			Interest rate swaps			
	Drawn	Undrawn	Total	Earliest termination		Latest termination	
	£m	£m	£m	£m	%*	£m	%*
Less than one year	2.5	2.5	5.0	60.0	5.01	60.0	5.01
One to two years	52.2	11.2	63.4	10.0	7.31	10.0	7.31
Two to three years	3.3	–	3.3	50.0	4.32	20.0	4.09
Three to four years	24.7	18.6	43.3	–	–	–	–
Four to five years	35.5	67.8	103.3	–	–	30.0	4.47
More than five years	89.9	–	89.9	–	–	–	–
Total	208.1	100.1	308.2	120.0	4.92	120.0	4.92

* Weighted average interest rate

13. Borrowings continued

Most of the interest rate swaps are extendable at the bank's option; therefore, the tables above show the dates of normal termination and extended termination.

£79m (2005: £nil) of the undrawn committed bank facilities are in respect of VSM Estates (Holdings) Limited.

Interest payable on the above loans is at a weighted average of 6% (2005: 5.6%) before taking into account the effects of the hedging. At 30th November 2006 the weighted average maturity of the bank debt was 5 years (2005: 5 years).

Interest rate profile

The interest rate profile of the group's borrowings after taking into account the effects of its interest rate derivative financial instruments is:

	Total £m	Floating rate debt £m	Fixed rate debt £m	Weighted average fixed interest rate (%)	Weighted maturity of derivatives (years)*
At 30th November 2006	**259.5**	**99.5**	**160.0**	**4.72**	**2.25**
At 30th November 2005	208.1	88.1	120.0	4.92	1.30

* based on earliest termination dates.

14. Leasing

Operating lease commitments where the group is the lessee

Future minimum lease rentals payable under non-cancellable operating leases are as follows:

	2006 Other £m	2005 Other £m
In one year or less	**0.1**	–
Between one and five years	**0.1**	0.1
	0.2	0.1

Operating leases where the group is the lessor

The group leases all of its investment properties under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
In one year or less	**22.9**	26.7
Between one and five years	**59.9**	71.4
In five years or more	**114.6**	121.0
	197.4	219.1

Contingent rents of £0.4m (2005: £0.3m) were recognised during the year.

Notes to the accounts
continued

14. Leasing continued

Obligations under finance leases

Finance lease liabilities are payable as follows:

	2006		
	Minimum lease payments £m	**Interest £m**	**Principal £m**
Less than one year	**0.2**	**0.2**	**–**
Between one and five years	**0.8**	**0.8**	**–**
More than five years	**68.3**	**65.4**	**2.9**
	69.3	**66.4**	**2.9**

	2005		
	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	0.2	0.2	–
Between one and five years	0.8	0.8	–
More than five years	68.3	65.4	2.9
	69.3	66.4	2.9

15. Derivatives and other financial instruments

The group manages its interest rate risk through interest rate swaps with the objective of fixing two-thirds of its floating rate debt. Typically, interest rate swaps have a maturity of 3 to 5 years at inception and the majority are in the form of knock-out options. The group's finance strategy is discussed in more detail in the business review.

The counter-parties to all derivative financial instruments are UK and European banks, most of whom also lend to the group. Credit risk exposure is therefore felt to be minimal.

	Balance at 30th November 2004 £m	Mark to market £m	Balance at 30th November 2005 £m	**Mark to market £m**	**Balance at 30th November 2006 £m**
Non-current assets	0.6	(0.5)	0.1	**1.1**	**1.2**
Current assets	–	0.2	0.2	**0.4**	**0.6**
Current liabilities	(0.2)	(0.2)	(0.4)	**0.1**	**(0.3)**
Non-current liabilities	(1.2)	0.8	(0.4)	**0.4**	**–**
Net value	(0.8)		(0.5)		**1.5**
Amount credited to the income statement		0.3		**2.0**	

All other financial assets and liabilities are non-interest bearing with a fair value equivalent to their cost with the following exceptions:

– cash, which earns interest at floating rates based on daily bank deposit rates; and
– finance leases, which have a fair value of £2.9m (2005: £2.9m).

Further details of the group's risk policies and financial instruments are provided in the business review on page 19.

16. Share capital

		2006 £m	2005 £m
Authorised:			
Equity share capital			
150,000,000	Ordinary 10p shares	**15.0**	15.0
Allotted and fully paid:			
Equity share capital			
120,773,954	Ordinary 10p shares	**12.1**	12.1

See note 2c for details of outstanding options to acquire ordinary shares.

Notes to the accounts
continued

17. Reserves

	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m
At 30th November 2004	9.1	0.3	242.8	(1.9)
Profit for the year attributable to shareholders	–	–	66.7	–
Pension fund actuarial gains and losses (note 19)	–	–	(0.5)	–
Net share disposals	–	–	–	1.5
Dividends paid (note 6)	–	–	(9.7)	–
At 30th November 2005	9.1	0.3	299.3	(0.4)
Profit for the year attributable to shareholders	–	–	74.4	–
Pension fund actuarial gains and losses (note 19)	–	–	1.8	–
Net share acquisitions	–	–	–	(0.4)
Dividends paid (note 6)	–	–	(11.2)	–
At 30th November 2006	**9.1**	**0.3**	**364.3**	**(0.8)**

'Own shares' represents the cost of 167,306 (2005: 149,114) shares held by the Employee Benefit Trust. The open market value of the shares held at 30th November 2006 was £951,971 (2005: £678,469).

18. Reconciliation of movement in equity

	2006			2005		
	Equity shareholders £m	**Minority interests £m**	**Total £m**	Equity shareholders £m	Minority interests £m	Total £m
Total recognised income and expense	**76.2**	**1.5**	**77.7**	66.2	0.7	66.9
Dividends paid	**(11.2)**	**(0.3)**	**(11.5)**	(9.7)	(0.2)	(9.9)
Net (purchase)/disposal of own shares	**(0.4)**	**–**	**(0.4)**	1.5	–	1.5
Equity at start of year	**320.4**	**3.6**	**324.0**	262.4	3.1	265.5
Equity at end of year	**385.0**	**4.8**	**389.8**	320.4	3.6	324.0

19. Pensions

The group operates a pension scheme with both defined benefit and defined contribution sections. The defined benefit section is closed to new members. The income statement charge was £0.5m (2005: £0.6m) for the defined benefit section and £0.3m (2005: £0.2m) for the defined contribution section.

The last formal actuarial valuation of the scheme was at 5th April 2005, when the market value of the net assets of the scheme was £26,025,000. The valuation was performed using the projected unit method. The main actuarial assumptions were:

Investment rate of return:	pre-retirement	6.3% p.a.
	post-retirement	4.8% p.a.
Increase in earnings*		5.9% p.a.
Increase in pensions		2.9% p.a.

* Capped to 4.9% for certain members.

The valuation showed a funding level of 95%.

The actuarial valuation of the defined benefit section was updated to 30th November 2006 on an IAS basis by a qualified independent actuary. The major assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	**5.1%**	4.8%	4.8%
Rate of increase in deferred pensions	**3.1%**	2.8%	2.8%
Rate of increase in pensions in payment			
Pre-6 April 1997 benefits	**3.0%**	2.8%	2.8%
Post-5 April 1997 benefits	**3.1%**	2.8%	2.8%
Discount rate	**5.0%**	4.9%	5.3%
Inflation assumption	**3.1%**	2.8%	2.8%

The mortality rates adopted are from the PA92 year of birth and medium cohort tables (which assume that, for example, male members who are currently retired are expected to draw their pensions for 24.9 years and non-retired members for 27.1 years, based on the normal retirement age of 65).

The group expects to make contributions of £0.8m to the defined benefit section of the pension scheme in 2007.

Notes to the accounts
continued

19. Pensions continued

The fair values of assets in the defined benefit section of the scheme and the expected rates of return were:

	2006		2005		2004	
	%	£m	%	£m	%	£m
Equities	**5.8**	**18.0**	5.7	16.7	6.1	13.4
Bonds	**4.9**	**0.3**	4.7	0.3	5.1	–
Property	**5.8**	**9.8**	5.7	8.4	6.1	7.8
Cash and other assets	**4.3**	**5.8**	4.2	3.9	4.6	2.8
		33.9		29.3		24.0
Actuarial value of liabilities		**(31.1)**		(29.8)		(24.0)
Surplus/(deficit) in the scheme (note 10 and note 12)		**2.8**		(0.5)		–
Related deferred tax asset/(liability)		**(0.8)**		0.2		–
Fair value of pension asset/(liability) net of deferred tax		**2.0**		(0.3)		–

The cumulative amount of actuarial gains and losses recorded in the group statement of recognised income and expense is £2.3m (2005: £0.2m cumulative loss).

Analysis of the amount charged to operating profit

	2006	2005	2004
	£m	£m	£m
Current service cost	**(0.5)**	(0.6)	(0.7)
Employee contributions	**0.1**	0.1	–
Total operating charge	**(0.4)**	(0.5)	(0.7)

Analysis of the amount (charged)/credited to finance costs and income

	2006	2005	2004
	£m	£m	£m
Expected return on pension scheme assets	**1.6**	1.5	1.3
Interest on pension scheme liabilities	**(1.5)**	(1.3)	(1.2)
	0.1	0.2	0.1

Analysis of the amount recognised in the group statement of recognised income and expense

	2006	2005	2004
	£m	£m	£m
Difference between expected and actual return on assets	**2.7**	3.8	1.3
Experience gains and losses arising on fair value of scheme liabilities	**(1.1)**	0.3	(0.9)
Effects of changes in the demographic and financial assumptions underlying the fair value of the scheme liabilities	**0.9**	(4.9)	(0.5)
Total actuarial gain/(loss)	**2.5**	(0.8)	(0.1)

19. Pensions continued

Analysis of the movement in the fair value of the scheme liabilities

	2006 £m	2005 £m	2004 £m
Beginning of year	**29.8**	24.0	21.6
Movement in year:			
Current service cost	**0.5**	0.6	0.7
Employee contributions	**(0.1)**	(0.1)	–
Interest cost	**1.5**	1.3	1.2
Actuarial gains and losses	**0.2**	4.6	1.4
Benefits paid	**(0.8)**	(0.6)	(0.9)
End of year	**31.1**	29.8	24.0

Analysis of the movement in the fair value of the scheme assets

	2006 £m	2005 £m	2004 £m
Beginning of year	**29.3**	24.0	20.2
Movement in year:			
Expected return on scheme assets	**1.6**	1.5	1.3
Contributions by employer	**1.1**	0.6	2.1
Actuarial gains and losses	**2.7**	3.8	1.3
Benefits paid	**(0.8)**	(0.6)	(0.9)
End of year	**33.9**	29.3	24.0
Surplus/(deficit) in scheme at the year end	**2.8**	(0.5)	–

History of experience gains and losses

	2006 £m	2005 £m	2004 £m	2003 £m
Difference between expected and actual return on scheme assets				
Amount	**2.7**	3.8	1.3	1.3
Percentage of scheme assets	**8.0%**	13.0%	5.3%	6.3%
Experience gains and losses on scheme liabilities				
Amount	**(1.1)**	0.3	(0.9)	(1.5)
Percentage of fair value of scheme liabilities	**3.5%**	(1.0%)	3.7%	6.9%
Changes in assumptions underlying the fair value of scheme liabilities				
Amount	**0.9**	(4.9)	(0.5)	(2.1)
Percentage of fair value of scheme liabilities	**2.9%**	(16.5%)	(1.9%)	(9.8%)
Total actuarial gain/(loss) recognised in the group statement of recognised income and expense				
Amount	**2.5**	(0.8)	(0.1)	(2.3)
Percentage of present value on scheme liabilities	**8.0%**	(2.8%)	(0.3%)	(10.9%)
Deferred taxation attributable to pension movements (note 4)	**(0.7)**	0.3	–	0.7
Pension scheme movement for the year net of deferred tax	**1.8**	(0.5)	(0.1)	(1.6)

Notes to the accounts
continued

20. Capital commitments
At 30th November 2006 the group had contracted capital expenditure of £11,592,000 (2005: £18,000,000).

21. 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) Limited.

The group is also party to a joint and several guarantee to Fortis Bank in respect of the performance of Sowcrest Limited which is limited to £5m.

22. Related party transactions
Transactions between the group and its non-wholly owned subsidiaries, joint ventures and associates are as follows:

Key Property Investments Limited ('KPI')
During the year the group provided management services to KPI for which it received fees totalling £0.5m (2005: £0.5m).

Holaw (462) Limited ('Holaw')
During the year the group lent Holaw a further £nil (2005: £0.3m). The balance due to the group at the year end was £0.7m (2005: £0.7m). No interest is charged on the loan.

Barton Business Park Limited ('Barton')
During the year Barton repaid £0.7m (2005: £0.1m) of its loan. The balance due to the group at the year end was £0.4m (2005: £1.1m). No interest is charged on the loan.

Sowcrest Limited ('Sowcrest')
During the year the group lent £2.3m to (2005: borrowed £0.4m from) Sowcrest. The balance due from Sowcrest at the year end was £1.9m (2005: £0.4m due to). No interest is charged on the loan.

Shaw Park Developments Limited ('SPD')
The balance due to the group from SPD at the year end was £2.2m (2005: £2.2m). In addition, the balance due from Healnorth Limited, a company controlled by our joint venture partner in SPD, was £2.2m (2005: £2.2m). Interest is chargeable on the loans at 1.5% (2005: 1.5%) above base rate. The loan to SPD is secured.

Northern Racing PLC ('Northern')
During the year Northern repaid its loan of £0.6m. No interest was charged on the loan (2005: £nil).

The majority shareholder of Northern Racing PLC (which is listed on AIM) is the estate of the late Sir Stanley Clarke.

St. Modwen Pension Scheme
During the year the group sold properties to the pension scheme for £2.75m.

22. Related party transactions continued

Non-wholly owned subsidiaries

The group 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. Management fees and interest charged/(credited) during the year and net balances due (to)/from subsidiaries in which the company has a less than 90% interest were as follows:

	Management fees		Interest		Balance	
	2006	2005	**2006**	2005	**2006**	2005
	£m	£m	**£m**	£m	**£m**	£m
Stoke-on-Trent Regeneration Limited	**–**	–	**(0.8)**	(0.7)	**(20.8)**	(13.4)
Stoke-on-Trent Regeneration (Investments) Limited	**–**	–	**–**	–	**0.3**	0.7
Uttoxeter Estates Limited	**–**	–	**–**	–	**–**	(0.1)
Widnes Regeneration Limited	**–**	–	**0.2**	0.1	**5.2**	2.1
Trentham Leisure Limited	**0.4**	0.4	**1.3**	1.1	**20.0**	20.8
Norton & Proffitt Developments Limited	**–**	–	**–**	0.1	**3.7**	5.8
VSM Estates (Holdings) Limited	**0.8**	–	**–**	–	**–**	–
	1.2	0.4	**0.7**	0.6	**8.4**	15.9

23. Transition from UK GAAP to IFRS

These are the group's first consolidated financial statements prepared in accordance with IFRS as adopted by the European Union. The Accounting policies section sets out the accounting policies that have been applied in preparing the financial statements for the year ended 30th November 2006, the comparative information presented in these financial statements for the year ended 30th November 2005 and in the preparation of an opening IFRS balance sheet at 30th November 2004 (the group's date of IFRS transition).

In preparing the opening IFRS balance sheet and the comparative information, the group has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the group's financial performance and financial position is set out below:

(a) Equity reconciliation

	Explanatory note	30th November 2004 £m	30th November 2005 £m
UK GAAP equity shareholders' funds		267.4	330.7
Revaluation of investment properties	L	16.0	18.7
Revaluation of derivatives	C, P	(0.8)	(0.5)
Pension fund actuarial gains and losses	A, R	0.6	0.2
Development profit recognition	Q	0.3	1.0
Employee share option valuation	B, S	(0.6)	(0.4)
Lease incentive recognition	N	0.2	0.3
Dividends declared but not paid	O	6.1	7.1
Taxation on revaluations	M	(24.2)	(29.5)
Other tax adjustments	T	(0.9)	(0.4)
Share of joint venture IFRS adjustments	U	(1.7)	(6.8)
IFRS equity shareholders' funds		262.4	320.4

Notes to the accounts
continued

23. Transition from UK GAAP to IFRS continued

(b) Profit reconciliation

	Explanatory note	Year to 30th November 2005 £m
UK GAAP profit attributable to equity shareholders		34.6
Revaluation of investment properties	L	24.3
Revaluation of derivatives	C, P	0.3
Pension fund net income	R	0.4
Development profit recognition	Q	0.7
Employee share option valuation	B, S	0.2
Lease incentive recognition	N	0.1
Taxation on above adjustments	M, T	(6.7)
Share of joint venture IFRS adjustments	U	12.8
IFRS profit attributable to equity shareholders		66.7

IFRS 1 — First time adoption decisions

IFRS 1 “First time adoption of International Financial Reporting Standards” provides certain choices on transition to IFRS. The significant decisions made by the group under IFRS 1 are set out below:

A. Employee benefits — The group has elected to recognise all cumulative actuarial gains and losses in relation to its defined benefit pension scheme through equity at the date of transition to IFRS. Actuarial gains and losses arising after the date of transition to IFRS will also be recognised in full in accordance with the Amendment to IAS 19 “Employee Benefits”.

B. Share-based payment transactions — The group has elected to apply IFRS 2 “Share-based payments” to all share options not exercised at the date of transition.

C. Comparative information — IAS 32 and IAS 39 — The group has decided not to take the exemption allowed by IFRS 1 in relation to IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. As a result, these two standards have been applied from the date of transition to IFRS. This decision was taken to ensure consistency between accounting policies for the years to 30th November 2005 and 30th November 2006.

The group has not adopted hedge accounting in relation to existing interest rate swaps. A significant proportion of the group’s swaps are not classified as effective under IAS 39 and therefore hedge accounting has not been applied.

Reclassification adjustments

In preparing its financial statements under IFRS a number of presentational adjustments have been made as set out below:

D. Revaluation reserves — As investment property revaluation movements are now reflected through the income statement, the balance on the revaluation reserve recorded under UK GAAP has been reclassified as retained earnings.

23. Transition from UK GAAP to IFRS continued

E. Leasehold investment property — Under IAS 40 "Investment Property" leasehold investment property held under operating leases may only be held at valuation if the head lease is classified as a finance lease. Under IAS 17 "Leases" the net present value of guaranteed minimum lease rental payments is included in the value of leasehold properties. The resultant liability is disclosed as current/non-current payables as appropriate. As a result of this change the guaranteed minimum head lease cost previously disclosed within property outgoings under UK GAAP is now reclassified as a finance cost.

F. Investment property held for resale — Under UK GAAP all investment properties were held in tangible fixed assets. IFRS 5 "Non-current assets held for resale and discontinued operations" creates a new category of asset that is neither a current asset nor a non-current asset. Investment properties that are in the process of being sold are moved to this new category and shown separately on the balance sheet. There were no such assets at 30th November 2006 or 30th November 2005.

G. Dividends — Under UK GAAP dividends were shown in the profit and loss account. IAS 1 "Presentation of Financial Statements" states that dividends payable are shown in equity. A dividend line is therefore not included on the face of the income statement.

H. Share of profit from joint ventures and associates — The group's share of profit and losses of joint ventures was formerly reflected in the group profit and loss account as part of turnover, operating profit, interest and tax. Under IAS 1 the post-tax result of the joint ventures and associates is shown as a single line entry in arriving at profit before interest and tax. The UK GAAP comparative figures have been reclassified to reflect this change.

I. Creditors — IAS 1 states that current tax payable and financial liabilities should be shown separately as line items in the balance sheet. These items have therefore been split out from creditors and shown separately.

J. Cash flow statement — The transition to IFRS has no impact on the cash generation of the business. However, the format of the cash flow statement is different under IAS 7 "Cash flow statements". IAS 7 only allows three classifications of cash flow being operating, investing and financing. As a result the cash flow items disclosed under UK GAAP have been reclassified under the most appropriate heading. The IFRS adjustments made to profit before interest and tax in the income statement are reflected within the reconciliation of profit before interest and tax to cash flows from operating activities.

K. Minority interests — Under UK GAAP minority interests were presented as part of net assets. Under IFRS minority interests are reclassified and shown as part of total equity.

Changes affecting the reported result or net assets

In restating its comparative financial statements under IFRS a number of adjustments have been made which impact either the reported profit or net assets of the group as set out below:

L. Investment properties — Investment properties continue to be held at valuation but the revaluation movement (and attendant deferred tax, see below) are now reflected in the income statement. Under UK GAAP revaluations (but with no deferred tax) were reflected through equity.

Under UK GAAP the company had carried land (and buildings) acquired for undetermined future use at cost within stocks. Under IAS 40, such assets are included within the definition of investment property. As a result assets meeting the definition have been reclassified from stock to investment property and have been valued by King Sturge & Co, Chartered Surveyors. Where such assets are sold without being developed, the resulting profit has been classified within gains on investment property disposals in the IFRS financial statements. In the UK GAAP financial statements such transactions were included within property development profits.

Notes to the accounts
continued

23. Transition from UK GAAP to IFRS continued

M. Deferred tax on investment property revaluation — Under UK GAAP no deferred tax was recognised in respect of the unrealised surplus on the revaluation of investment property unless there was a binding contract to sell the property at the balance sheet date. In addition, no provision was made for Capital Gains Tax on the disposal of properties where the gain was deferred through the application of capital gains rollover relief as no liability was expected to crystallise.

IAS 12 "Income Tax" states that deferred tax must be provided on all temporary differences between the tax base cost and the carrying value of assets. As a result a deferred tax liability has been recognised relating to the revaluation of investment properties and gains previously rolled over, through equity at the date of transition and through the income statement thereafter.

N. Lease incentives — Under UK GAAP lease incentives, including rent-free periods and payments to tenants, are allocated to the income statement over the period to the first rent review set out in the lease. Under SIC 15 the period over which the incentive is allocated is revised to be the lease term.

O. Proposed dividends — Under UK GAAP dividends were accrued and shown as a liability when they were proposed. They were therefore accounted for in the period to which they related. IAS 10 "Events after the balance sheet date" states that dividends declared after the balance sheet date should not be shown as a liability. As a result, the liability for proposed dividends has been reversed. Final dividends will now only be recognised when they are approved at the AGM and interim dividends when they are paid.

P. Interest rate derivatives — Under UK GAAP the group's interest rate derivatives were not carried on the balance sheet. Under IAS 39 the derivatives are stated at fair value and disclosed as current/non-current assets/liabilities as appropriate. Remeasurements of the derivatives are reflected in the income statement. Deferred tax is provided on the remeasurements.

Q. Construction contracts — Under UK GAAP the group had elected to carry all property being developed with a view to sale at cost with full profit recognised when the asset was sold. Under IAS 11 "Construction Contracts" the group now recognises profit in respect of construction contracts for pre-sold projects using the stage of completion method. Provided the outcome of the contract can be assessed with reasonable certainty, income and profit on such contracts is now recognised in proportion to the costs. The project is carried in the balance sheet at cost plus recognised profit less payments received on account. This revised profit recognition generates consequent adjustments to tax and minority interests.

R. Defined benefit pension scheme — Under UK GAAP the cost of the defined benefit pension scheme was charged to the profit and loss account so as to spread the variations in pension cost, which were identified as a result of actuarial valuations, over the service lives of employees so that the pension cost was a substantially level percentage of current and expected future pensionable pay. Under IAS 19 actuarial gains and losses arising are recognised in full. Actuarial variations in the scheme will be recognised through the statement of recognised income and expense with the regular pension cost and net finance cost related to the scheme reflected in the income statement. There are consequent adjustments to deferred and current tax.

23. Transition from UK GAAP to IFRS continued

S. Employee share option scheme — Under UK GAAP the group's exposure to its share option schemes was remeasured at each balance sheet date based on the difference between the average share price in the three months prior to the period end and the exercise price of the option. Under IFRS 2 the liabilities arising from the grant of share options have been evaluated using a Black Scholes option pricing model.

T. Tax — An adjustment has been made to the tax charge to reflect the tax effect of the IFRS adjustments where necessary.

U. Investments in joint ventures and associates — In assessing the impact of IFRS on the group, the impact on the group's joint ventures and associates has also been assessed. There is no impact on the amounts recorded for associated undertakings. The amounts recorded in respect of joint ventures have been adjusted accordingly in respect of the group's share of the above adjustments which apply to the joint ventures.

Company balance sheet

At 30th November 2006

	Note	2006 £m	2005 Restated £m
Fixed assets			
Tangible assets	(e)	**1.3**	1.8
Investments	(f)	**344.5**	328.4
		345.8	330.2
Current assets			
Debtors	(g)	**296.6**	197.0
Current liabilities			
Creditors: amounts falling due within one year	(h)	**(114.1)**	(107.9)
Net current assets		**182.5**	89.1
Total assets less current liabilities		**528.3**	419.3
Creditors: amounts falling due after more than one year	(h)	**(127.1)**	(82.0)
Net assets excluding pension asset/(liability)		**401.2**	337.3
Defined benefit pension asset/(liability)	(m)	**2.0**	(0.3)
Net assets		**403.2**	337.0
Capital and reserves			
Called up share capital	(k)	**12.1**	12.1
Share premium account	(l)	**9.1**	9.1
Capital redemption reserve	(l)	**0.3**	0.3
Revaluation reserve	(l)	**259.0**	242.9
Profit and loss account	(l)	**123.5**	73.0
Own shares	(l)	**(0.8)**	(0.4)
Equity shareholders' funds		**403.2**	337.0

These financial statements were approved by the Board of Directors on 12th February 2007 and were signed on its behalf by

Anthony Glossop
Chairman

Tim Haywood
Finance Director

Notes to the company accounts

(a) Accounting policies

Basis of preparation

The accounts and notes have been prepared in accordance with applicable UK GAAP.

Compliance with SSAP 19 "Accounting for Investment Properties" requires departure from the Companies Act 1985 relating to depreciation and an explanation of the departure is given below.

In preparing the financial statements for the current year, the company has adopted the following new accounting standards:

– the full provisions of FRS 17 "Retirement benefits"
– FRS 20 "Share-based payments"
– FRS 21 "Events after the balance sheet date"
– FRS 25 "Financial instruments: Disclosure and presentation"
– FRS 26 "Financial instruments: Measurement"

The adoption of these new standards constitutes a change in accounting policy and therefore previously reported figures have been restated as detailed.

FRS 17 "Retirement benefits"

The company has adopted FRS 17 "Retirement benefits" in full with effect from 30th November 2005. In prior years the company has complied with the transitional disclosure requirements of this standard. The change in accounting policy provides stakeholders with greater clarity of earnings and net assets going forward.

The full adoption of FRS 17 has resulted in a change in the accounting treatment of the defined benefits scheme to which the company contributes. In particular the net assets/(liabilities) of the pension scheme are included in the balance sheet, current service costs and net financial returns are included in the profit and loss account and actuarial gains and losses are recognised in the statement of total recognised gains and losses. Previous accounting under SSAP 24 "Accounting for Pension Costs" required the charging of regular costs and variations from regular cost in the profit and loss account with the difference between the cumulative amounts charged and the payments made to the pension scheme shown as either a prepayment or creditor on the balance sheet.

FRS 20 "Share-based payments"

In accordance with FRS 20, the estimated fair value of share awards needs to be assessed using an option pricing model. Under previous accounting, the company's exposure to its share option schemes was remeasured at each balance sheet date based on the difference between the average share price in the three months prior to the year end and the exercise price of the option. In all other respects the accounting for cash settled share based payments is unchanged.

FRS 21 "Events after the balance sheet date"

In accordance with FRS 21, dividends declared after the balance sheet date are not recognised as liabilities at the balance sheet date. In previous years dividends were accrued and shown as a liability when they were proposed. This standard has had a corresponding impact on dividends receivable.

Notes to the company accounts
continued

FRS 25 "Financial instruments: Disclosure and presentation" and FRS 26 "Financial instruments: Measurement"
With the adoption of FRS 25 and FRS 26 treatment of financial instruments is now consistent with the group for the current and preceeding year. Interest rate derivatives are now held at fair value with movements recorded through the profit and loss account, rather than at amortised cost. The group financial statements include the required disclosures of IAS 32 "Financial instruments: Disclosure and presentation" for the group and therefore the company has taken the exemption permitted by paragraph 3c of FRS 25 and has not presented a separate note detailing these disclosures.

The financial impact of adopting the above standards is as follows:

	£m
Profit for the year ended 30th November 2005 as previously stated	6.6
Impact of FRS 17	0.3
Impact of FRS 20	(0.2)
Impact of FRS 25 and FRS 26	0.2
Profit for the year ended 30th November 2005 as restated	6.9

	£m
Profit and loss account as at 30th November 2005 as previously stated	66.7
Impact of FRS 17	0.1
Impact of FRS 20	(0.6)
Impact of FRS 21	7.1
Impact of FRS 25 and FRS 26	(0.3)
Profit and loss account as at 30th November 2005 as restated	73.0

	£m
Equity shareholders' funds as at 30th November 2005 as previously stated	330.7
Impact of FRS 17	0.1
Impact of FRS 20	(0.6)
Impact of FRS 21	7.1
Impact of FRS 25 and FRS 26	(0.3)
Equity shareholders' funds as at 30th November 2005 as restated	337.0

Accounting convention
The accounts have been prepared under the historical cost convention, modified by the revaluation of investment properties.

Revenue recognition
Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts and VAT.

Rental income
Rental income arising from investment properties is accounted for on a straight-line basis over the lease term.

Interest receivable
Interest receivable is recognised on the accruals basis.

(a) Accounting policies continued

Tangible fixed assets

Tangible fixed assets, other than investment properties, are 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 plant, machinery and equipment at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows:

Plant, machinery and equipment — over 2 to 5 years

Depreciation is not provided on investment properties which are subject to annual revaluations.

Investment in subsidiary, joint venture and associated companies

The investments in subsidiary, joint venture and associated companies are included in the company's balance sheet at the company's share of net asset value. The valuation recognises the cost of acquisition and changes in the book values of the underlying net assets. The surplus or deficit arising on revaluation is reflected in the company's reserves.

Investment properties

In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or temporary deficit is transferred to the revaluation reserve. Permanent diminutions are recognised through the profit and loss account. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP 19 in order to give a true and fair view. If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets and gains on disposal of fixed assets that have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold; and

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the company accounts
continued

(a) Accounting policies continued
Interest
Income paid is charged to the profit and loss account on an accruals basis.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Share-based payment
The company accounts for its share option schemes as cash-settled share-based payments as new shares are not issued to satisfy employee share option plans. The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model and amortised through the profit and loss account over the vesting period. The liability is remeasured at each year end. Revisions to the fair value of the accrued liability after the end of the vesting period are recorded in the profit and loss account of the year in which they occur. Further details are set out in note 2 of the group financial statements.

Pensions
The company operates a pension scheme with both defined benefit and defined contribution sections. The defined benefit section is closed to new members.

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 profit and loss account immediately if the benefits have vested.

The interest element of the defined benefit cost represents the change in present value of scheme obligations. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the profit and loss account as other finance income or expense.

Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the year in which they occur. The defined benefit pension asset or liability in the balance sheet comprises the present value of the defined benefit obligation, less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

Derivative financial instruments and hedging
The company 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 remeasured at fair value. The company 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 profit and loss account.

Full details of the company’s derivative financial instruments are given in note 15 to the group financial statements.

Own shares
St. Modwen Properties PLC shares held by the company are classified in shareholders’ equity and are recognised at cost.

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 respectively in finance income and finance expense.

Cash flow statement

The company has taken advantage of the exemption permitted by FRS1 not to present a cash flow statement.

(b) Profit for the financial year

The company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The company's profit for the year was £59.9m (2005: restated £6.9m).

(c) Auditors' remuneration

	2006	2005
	£'000	£'000
Fees paid to Ernst & Young LLP in respect of:		
– Audit	**12**	11
– Tax services	**2**	2

(d) Dividends

Dividends paid during the year comprised the final dividend in respect of 2005, approved at the AGM, and the interim dividend in respect of 2006.

	2006		2005 Restated	
	p per share	**£m**	p per share	£m
Paid				
Final dividend in respect of previous year	**5.9**	**7.1**	5.1	6.1
Interim dividend in respect of current year	**3.4**	**4.1**	2.9	3.6
Total	**9.3**	**11.2**	8.0	9.7
Proposed				
Current year final dividend	**6.8**	**8.2**	5.9	7.1

The Employee Benefit Trust waives its entitlement to dividends.

Notes to the company accounts
continued

(e) Tangible fixed assets

	Long leasehold investment properties £m	Plant, machinery and equipment £m	Total £m
Cost or valuation			
At 30th November 2005	1.0	1.5	2.5
Additions	–	0.1	0.1
Disposals	(0.3)	–	(0.3)
At 30th November 2006	**0.7**	**1.6**	**2.3**
Depreciation			
At 30th November 2005	–	0.7	0.7
Charge for the year	–	0.3	0.3
At 30th November 2006	**–**	**1.0**	**1.0**
Net book value			
At 30th November 2006	**0.7**	**0.6**	**1.3**
At 30th November 2005	1.0	0.8	1.8

Investment properties were valued at 30th November 2005 and 2006 by King Sturge & Co, Chartered Surveyors, in accordance with the Appraisal and Valuation method of the Royal Institution of Chartered Surveyors, on the basis of open market value.

(f) Investments held as fixed assets

	Investment in subsidiary companies £m	Investment in joint ventures £m	Investment in associated companies £m	Total £m
At 30th November 2005	253.8	64.2	10.4	328.4
Revaluation of investments	6.8	8.7	0.6	16.1
At 30th November 2006	**260.6**	**72.9**	**11.0**	**344.5**

Subsidiary companies:

At 30th November 2006 the principal subsidiaries, all of which were held directly by the company, were as follows:

	Proportion of ordinary shares held	Nature of principal business
Boughton Holdings	100%	Investment company
Chaucer Estates Limited	100%	Property investors
Leisure Living Limited	100%	Leisure operator
Redman Heenan Properties Limited	100%	Property investors
St. Modwen Developments Limited	100%	Property developers
St. Modwen Investments Limited	100%	Property investors
St. Modwen Securities Limited	100%	Property developers
St. Modwen Ventures Limited	100%	Property investors
Stoke-on-Trent Regeneration Limited	81%	Property developers
Uttoxeter Estates Limited	81%	Property developers
Widnes Regeneration Limited	81%	Property developers
Trentham Leisure Limited	80%	Leisure operator
Norton & Proffitt Developments Limited	75%	Property developers
VSM Estates (Holdings) Limited	50%	Property developers

St. Modwen Enterprises Limited was registered and operated in the Isle of Man; all other subsidiaries were registered and operated in England and Wales.

Joint ventures:

At 30th November 2006 the joint ventures were:

	Percentage shareholding	Nature of business
Key Property Investments Limited	50%	Property investment and development
Holaw (462) Limited	50%	Property investment
Barton Business Park Limited	50%	Property development
Sowcrest Limited	50%	Property development
Shaw Park Developments Limited	50%	Property development

Many of the joint ventures contain change of control provisions, as is common for such arrangements.

Associated companies:

At 30th November 2006 the associated company, which was registered and operated in England and Wales, was as follows:

	Percentage shareholding	Nature of business
Northern Racing PLC	27%	Racecourse operator

The accounts of Northern Racing PLC are drawn up to 31st December each year.

Notes to the company accounts
continued

(g) Debtors

	2006 £m	2005 Restated £m
Trade debtors	**0.1**	–
Amounts due from subsidiaries	**252.3**	174.3
Amounts due from joint venture and associated companies	**6.8**	4.5
Other debtors	**33.2**	15.5
Prepayments and accrued income	**0.7**	0.6
Derivative financial instruments*	**1.8**	0.3
Deferred tax asset (see note (j))	**1.7**	1.8
	296.6	197.0

* Included in this amount is £1.2m (2005: restated £0.1m) which is due in more than one year.

(h) Creditors

Amounts falling due within one year

	2006 £m	2005 Restated £m
Bank overdraft	**19.5**	19.0
Trade creditors	**–**	0.4
Amounts due to subsidiaries	**80.1**	75.1
Amounts due to joint venture and associated companies	**0.2**	0.4
Other creditors	**0.1**	0.2
Accruals and deferred income	**13.9**	12.4
Derivative financial instruments	**0.3**	0.4
	114.1	107.9

Amounts falling due after more than one year

	2006 £m	2005 Restated £m
Bank loans	**127.1**	81.2
Accruals and deferred income	**–**	0.4
Derivative financial instruments	**–**	0.4
	127.1	82.0

All bank borrowings are secured by a fixed charge over the property assets of the company and its subsidiaries.

(i) Borrowings

The maturity profile of the bank borrowings is as follows:

	2006	2005
	£m	£m
Less than one year	**19.5**	19.0
One to two years	**–**	–
Two to five years	**114.4**	26.2
More than five years	**12.7**	55.0
Total	**146.6**	100.2

The bank borrowings can be further analysed as follows:

	2006	2005
	£m	£m
Wholly repayable within five years	**133.9**	45.2
Not wholly repayable in five years	**12.7**	55.0
	146.6	100.2

(j) Deferred taxation

The amounts of deferred taxation provided and unprovided in the accounts are:

	Provided		Unprovided	
	2006	2005	**2006**	2005
		Restated		
	£m	£m	**£m**	£m
Capital allowances in excess of depreciation	**1.0**	1.0	**–**	–
Other timing differences	**(2.7)**	(2.8)	**–**	–
Revaluation of properties	**–**	–	**(0.1)**	(0.2)
	(1.7)	(1.8)	**(0.1)**	(0.2)

Notes to the company accounts
continued

(j) Deferred taxation continued

Reconciliation of movement on deferred tax asset included in debtors

	£m
Balance as at 30th November 2005 (restated)	**(1.8)**
Profit and loss account	**0.1**
Balance as at 30th November 2006	**(1.7)**

Reconciliation of movement on deferred tax (asset)/liability included in pension liability/(asset)

	£m
Balance as at 30th November 2005 (restated)	**(0.2)**
Profit and loss account	**0.3**
Statement of total recognised gains and losses	**0.7**
Balance as at 30th November 2006	**0.8**

(k) Called up share capital

		2006 £m	2005 £m
Authorised:			
Equity share capital			
150,000,000	Ordinary 10p shares	**15.0**	15.0
Allotted and fully paid:			
Equity share capital			
120,773,954	Ordinary 10p shares	**12.1**	12.1

See note 2c of the group financial statements for details of outstanding options to acquire ordinary shares.

(l) Reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Own shares £m
At 30 November 2005 as previously reported	9.1	0.3	242.9	66.7	(0.4)
FRS 17 adjustment	–	–	–	0.1	–
FRS 20 adjustment	–	–	–	(0.6)	–
FRS 21 adjustment	–	–	–	7.1	–
FRS 26 adjustment	–	–	–	(0.3)	–
At 30th November 2005 as restated	9.1	0.3	242.9	73.0	(0.4)
Surplus on revaluation of investments (note f)	–	–	16.1	–	–
Realisation of prior year revaluation deficits	–	–	0.1	(0.1)	–
Retained profit for the year (note b)	–	–	–	59.9	–
Net share additions	–	–	–	–	(0.4)
Dividends paid (note d)	–	–	–	(11.2)	–
Actuarial gain on pension scheme (note m)	–	–	–	2.5	–
Movement on deferred tax relating to pension asset/(liability) (note j)	–	–	–	(0.7)	–
At 30th November 2006	**9.1**	**0.3**	**259.1**	**123.4**	**(0.8)**

'Own shares' represents the cost of 167,306 (2005: 149,114) shares held by the Employee Benefit Trust. The open market value of the shares held at 30th November 2006 was £951,971 (2005: £678,469).

(m) Pensions

The company's pension schemes are the principal pension schemes of the group and details are set out in note 19 of the consolidated financial statements. The directors are satisfied that this note, which contains the required IAS19 "Employee benefits" disclosures for the group, also covers the requirements of FRS17 "Retirement benefits" for the company.

(n) Contingent liabilities

The company has a joint and several unlimited liability with Vinci PLC and the Ministry of Defence under guarantees in respect of the financial performance of VSM Estates (Holdings) Limited.

The company is also party to a joint and several guarantee to Fortis Bank in respect of the performance of Sowcrest Limited which is limited to £5m.

Further, the company guarantees the performance of its subsidiaries in the course of their usual commercial activities.

Independent auditor's report to the members of St. Modwen Properties PLC

We have audited the parent company financial statements of St. Modwen Properties PLC for the year ended 30th November 2006 which comprise the Company balance sheet and the related notes a to n. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of St. Modwen Properties PLC for the year ended 30th November 2006.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities in relation to financial statements.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Business review and the Corporate governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30th November 2006;
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
Birmingham
12th February 2007

Five year record

	2002 £m	2003 £m	2004 £m	2005 £m	**2006 £m**
Rental income*	30.7	42.5	44.3	45.2	**40.3**
Property profits*	24.0	25.2	34.0	39.3	**44.6**
Revaluation surplus*	15.2	14.5	26.1	44.9	**55.6**
Pre-tax profit†	42.1	47.5	64.3	82.9	**96.9**
Earnings per share (pence)	27.5	31.2	41.5	55.4	**61.6**
Dividends per share (pence)	5.7	6.6	7.6	8.8	**10.2**
Dividend cover (times)	4.9	4.7	5.5	6.3	**6.0**
Net assets per share (pence)	152.1	175.5	219.8	268.3	**322.8**
Increase on prior year	17%	15%	25%	22%	**20%**
Net assets employed					
Investment properties	267.5	266.5	454.2	481.2	**736.4**
Investments	36.7	38.1	49.9	68.5	**77.9**
Work in progress	101.2	77.5	48.1	36.1	**65.9**
Other net liabilities	(47.9)	(35.1)	(59.4)	(54.0)	**(237.5)**
Net borrowings	(173.8)	(135.0)	(227.3)	(207.8)	**(252.9)**
Net assets	183.7	212.0	265.5	324.0	**389.8**
Financed by					
Share capital	12.1	12.1	12.1	12.1	**12.1**
Reserves	169.6	198.2	252.2	308.7	**373.7**
Own shares	(0.6)	(1.3)	(1.9)	(0.4)	**(0.8)**
Minority interests	2.6	3.0	3.1	3.6	**4.8**
Total equity	183.7	212.0	265.5	324.0	**389.8**

* Including share of joint ventures.

† Including post tax profit of joint ventures.

Figures prior to 30th November 2004 are restated on an IFRS basis, but do not reflect the reclassification of certain work in progress assets.

Shareholder information

Ordinary shareholdings at 30th November 2006

	Shareholders		Shares	
	No.	%	No. (m)	%
By shareholder				
Directors and connected persons	33	0.7	53.4	44.3
Individuals	4,044	90.8	13.5	11.2
Insurance companies, nominees and pension funds	92	2.0	17.0	14.1
Other limited companies and corporate bodies	287	6.5	36.8	30.4

	Shareholders		Shares	
	No.	%	No. (m)	%
By shareholding				
Up to 500	1,218	27.3	0.3	0.3
501 to 1,000	839	18.8	0.7	0.5
1,001 to 5,000	1,557	34.9	3.6	3.0
5,001 to 10,000	324	7.3	2.4	2.0
10,001 to 50,000	351	7.9	7.4	6.1
50,001 to 100,000	39	0.9	2.8	2.3
100,001 to 500,000	84	1.9	18.2	15.0
500,001 to 1,000,000	27	0.6	20.4	16.9
1,000,001 and above	17	0.4	65.0	53.9

Principal institutional shareholders at 30th November 2006

	Shares	
	No. (m)	%
Thames River Capital	4.9	4.1
ING Investment Management	4.9	4.0
Legal & General Investment Management Limited	3.3	2.7
M & G Investment Management Limited	2.9	2.4
Henderson Global Investors	2.4	2.0
Threadneedle Asset Management Limited	2.0	1.7
Barclays Global Investors Limited	1.4	1.1
SG Asset Management Limited	1.3	1.1
AXA Framlington Investment Management Limited	1.3	1.1
Societe General	1.3	1.1
Brewin Dolphin	1.2	1.0
Gerrard	1.2	1.0
The Clarke and Leavesley families and trusts together hold	51.4	42.5

Shareholder information
continued

Advisers

Auditors	Ernst & Young LLP
Registrars	Lloyds TSB Registrars
Stockbrokers	Bridgewell Limited

Registered Office

Sir Stanley Clarke House
7 Ridgeway
Quinton Business Park
Birmingham
B32 1AF

Company number 349201

Website: www.stmodwen.co.uk

Financial Calendar

Record date for 2006 final dividend	13th April 2007
Annual General Meeting	27th April 2007
Payment of 2006 final dividend	4th May 2007
Announcement of 2007 interim results	July 2007
Payment of 2007 interim ordinary dividend	September 2007
Announcement of 2007 final results	February 2008

Notice of Annual General Meeting

Notice is hereby given that the sixty-sixth Annual General Meeting of St. Modwen Properties PLC will be held at noon on Friday 27th April 2007 at the Ironmongers' Hall, Barbican, London EC2Y 8AA.

Ordinary Business

1. To receive and adopt the report of the directors and the accounts for the year ended 30th November 2006.

2. To declare a final ordinary dividend of 6.8p per share.

3. To re-elect as directors:
   i. Christopher Roshier
   ii. Steve Burke
   iii. Anthony Glossop
   iv. Simon Clarke
   v. Paul Rigg

4. To reappoint Ernst & Young LLP as auditors and to authorise the directors to determine their remuneration (note (a)).

5. To approve the directors' remuneration report contained on pages 53 to 60.

Special Business

To consider and, if thought fit, pass the following resolutions:

6. **Ordinary Resolution**
   To approve the Performance Share Plan for executive directors contained in the letter to shareholders accompanying this Annual Report.

7. **Ordinary Resolution**
   To approve the renewal of the existing 1997 Executive Share Option Scheme, as set out in the letter to shareholders accompanying this Annual Report.

8. **Ordinary Resolution**
   That the authority to allot relevant securities and equity securities conferred on the directors by Article 8.2 of the company's Articles of Association be and is hereby granted for the period ending on 27th July 2008 or at the conclusion of the Annual General Meeting of the company to be held after the date of the passing of this Resolution (whichever is the earlier) and for such period the Section 80 amount shall be £2,922,605 (note (b)).

9. **Special Resolution**
   That the power to allot relevant securities and equity securities conferred on the directors by Article 8.2 of the company's Articles of Association be and is hereby granted for the period ending on 27th July 2008 or at the conclusion of the Annual General Meeting of the company to be held after the date of the passing of this Resolution (whichever is the earlier) and for such period the Section 89 amount shall be £603,870 (note (b)).

10. **Special Resolution**
    That, in accordance with Article 10 of its Articles of Association and Section 166 of the Companies Act 1985, the company be and is hereby granted general and unconditional authority to make market purchases (as defined in Section 163 of the Companies Act 1985) of any of its own ordinary shares on such terms and in such manner as the board of directors may from time to time determine PROVIDED THAT the general authority conferred by this Resolution shall:

Notice of Annual General Meeting
continued

(i) be limited to 12,077,395 ordinary shares of 10p each;

(ii) not permit the payment per share of more than 105% of the average middle market price quotation on the London Stock Exchange for the ordinary shares on the five previous dealing days or less than 10p (in each case exclusive of advance corporation tax (if any) and expenses payable by the company); and

(iii) expire on 27th July 2008 or at the conclusion of the next Annual General Meeting of the company to be held after the date of the passing of this Resolution (whichever is the earlier), save that if the company should before such expiry enter into a contract of purchase then the purchase may be completed or executed wholly or partly after such expiry (note (b)).

By order of the board

Tim Haywood
Secretary
12th February 2007

Sir Stanley Clarke House
7 Ridgeway
Quinton Business Park
Birmingham
B32 1AF

Notes

(a) Ernst & Young LLP have expressed their willingness to remain in office and a resolution to reappoint them as auditors of the company will be proposed at the forthcoming Annual General Meeting (see note on audit tender process on page 48).

(b) The existing general authority of the directors to allot shares and the current disapplication of the statutory pre-emption rights expire at the conclusion of the forthcoming Annual General Meeting.

Article 8.2 of the company's Articles of Association contains a general authority for the directors to allot shares in the company for a period (not exceeding five years) ("the prescribed period") and up to a maximum aggregate nominal amount ("the Section 80 amount") approved by a Special or Ordinary Resolution of the company. Article 8.2 also empowers the directors during the prescribed period to allot shares for cash in connection with a rights issue and also to allot shares for cash in any other circumstances up to a maximum aggregate nominal amount approved by a Special Resolution of the company ("the Section 89 amount").

The board has no intention at present to exercise the authority to allot shares.

Resolution 8, which will be proposed as an Ordinary Resolution, provides for the Section 80 amount to be £2,922,605 (being an amount equal to the authorised but unissued share capital of the company at the date of this report and representing 24% of the company's issued share capital at that date).

Resolution 9, which will be proposed as a Special Resolution, provides for the Section 89 amount to be £603,870 (representing 5% of the company's issued share capital).

The prescribed period for which these powers and authorities are granted will expire at the conclusion of the Annual General Meeting to be held next year (or on 27th July 2008 if earlier) when the directors intend to seek renewal of the authorities.

(c) Renewal of the authority for the company to purchase certain of its own shares (Resolution 10).

This resolution renews an existing authority for a further year. The directors believe it is advantageous to have such authority but would only exercise it if it was believed to be in the best interests of shareholders. At present, the board has no intention to exercise the authority.

(d) A member entitled to attend and vote at this meeting may appoint another person (whether a member or not) as his/her proxy, to attend and, on a poll, vote for him/her. Forms of proxy, one of which is enclosed, must be signed by the appointer and must be lodged at the registrar's office at least 48 hours before the meeting. A proxy need not be a member of the company.

(e) Copies of the contracts of service between the company and Mr C.C.A. Glossop, Mr W.A. Oliver, Mr S.J. Burke and Mr T.P. Haywood are available for inspection at the registered office of the company on each business day during normal business hours and will be available on the day of the meeting, at the place of the meeting, from at least 15 minutes prior to the meeting until its conclusion. A register of directors' interests will also be available for inspection from the commencement of the meeting until its conclusion.

(f) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the company gives notice that only those shareholders entered on the relevant register of members (the Register) for certificated or uncertificated shares of the company (as the case may be) at 6 p.m. on Wednesday 25th April 2007 (the "Specified Time") will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at that meeting. Should the meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. Should the meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned meeting or, if the company gives notice of the adjourned meeting, at the time specified in the notice.

(g) Electronic proxy appointment through CREST
CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof 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 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 CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes 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 the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent 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 CRESTCo 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 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.

Glossary of terms

Annualised net rents are gross rents as at a reporting date plus, where rent reviews are outstanding, any increases to estimated rental value (as determined by the group's external valuers), less any ground rents payable under head leases.

BREEAM – Building Research Environmental Assessment Method – an industry wide system of standards to assess sustainable developments and measure the environmental impact of buildings.

Capital allowances deferred tax provision. In accordance with IAS 12, full provision has been made for the deferred tax arising on the benefit of capital allowances claimed to date. However, in the group's experience, the liabilities in respect of capital allowances provided are unlikely to crystallise in practice and are therefore excluded when arriving at EPRA NAV.

CESR Community, environmental and social responsibility.

Community interest company is a limited company conducting a business or other activity for community benefit, not purely for private advantage. The assets and profits are dedicated to community purposes.

Compulsory purchase order (CPO) is the compulsory acquisition of land by a planning authority, undertaken in the public interest and with pre-defined timescales and compensation arrangements.

EPRA is the European Public Real Estate Association – a body that has put forward recommendations for best practice for financial reporting by real estate companies.

EPRA net asset value (EPRA NAV) are the balance sheet net assets, excluding fair value adjustments for debt and related derivatives, deferred taxation on revaluation and capital allowances.

EPRA net assets per share is EPRA net assets divided by the diluted number of shares at the period end.

Estimated rental value (ERV) is 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.

Equivalent yield is 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.

Gearing is the level of the group's bank borrowing (excluding cash and finance leases) expressed as a percentage of net assets.

Hopper is the bank of property comprising all of the land under the group's control, whether wholly owned or through joint ventures or development agreements.

IFRS International financial reporting standards.

Initial yield is the annualised net rent expressed as a percentage of the valuation.

Interest cover is the number of times group net interest payable is covered by profit before interest and taxation.

IPD is the Investment Property Databank Ltd., a company that produces an independent benchmark of property returns.

Knock-out options are interest rate swap contracts in which the bank has the right to terminate at a fixed point during the contract.

Marshalling is the process of progressing projects through planning and development.

Net rental income is the rental income receivable in the period after payment of ground rents and net property outgoings.

Open market value is 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.

Pre-sold projects are those projects where we are constructing buildings 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.

Property profits includes profits made on sales of investment properties, properties held for sale and properties under construction.

Rent roll is the gross rent plus rent reviews that have been agreed as at the reporting date.

Return on shareholders' equity. A key performance indicator, measuring profit before tax as a percentage of average shareholders' equity.

Section 106 agreements are legally binding agreements reached with local planning authorities under S106 of the Town and Country Planning Act 1990. They address the impact of proposed developments on the local community and often involve a financial contribution by the developer.

Voids is the estimated rental value of vacant properties expressed as a percentage of the total estimated rental value of the portfolio, excluding development properties.

Weighted average debt maturity. Each tranche of group debt is multiplied by the remaining period to its maturity and the result is divided by total group debt in issue at the period end.

Weighted average interest rate is the group loan interest and derivative costs per annum at the period end, divided by total group debt in issue at the period end.

01 RAF Bentley Priory

In the desperate summer of 1940, possibly the darkest period in the Second World War, Bentley Priory was at the heart of Britain's fight for survival. It was Air Chief Marshal Sir Hugh Dowding's HQ in the Battle of Britain. Now one of the sites acquired by VSM, the joint venture between Vinci PLC and St. Modwen, its redevelopment will see the original house at the heart of the complex retained, a tribute to the wartime heritage created, and the latter day military buildings replaced by a high quality residential development.

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