



**ST.MODWEN**

THE UK'S LEADING  
REGENERATION SPECIALIST

ST. MODWEN PROPERTIES PLC  
ANNUAL REPORT 2008





# HIGHLIGHTS

## TRADING PROFIT\*

£8.2m

(\*See page 18)

## NET ASSETS PER SHARE

333p

## DEVELOPABLE ACRES

5,020

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← **INSIDE FRONT COVER - WEMBLEY CENTRAL**  
Works to the £90m redevelopment of Wembley Central are now well underway.


← **FRONT COVER - GLASSWORKS FACTORY, SUNDERLAND**  
Former glassworks factory, Sunderland; St. Modwen will transform this 17 acre site into a £10m mixed-use development.

The report of the directors comprises the business review and corporate governance sections of the annual report and has been drawn up and presented in accordance with English Company Law.



# BUSINESS REVIEW

**“OUR BUSINESS MODEL WILL CONTINUE TO CREATE VALUE EVEN IN DIFFICULT TIMES”**

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# CHAIRMAN'S STATEMENT

## RESULTS

I am pleased to report that, despite experiencing the most difficult year for property in decades, we made a trading profit (excluding revaluation writedowns and mark to market adjustments of our interest rate hedges — see page 18) of £8.2m (2007: £50.9m).

The outcome for the past year, including those items, is a loss for the year of £50.7m (2007: £93.7m profit) and, taking into account the payment of dividends, a decline in the net asset value of the company of 14% to 333p per share (2007: 387p).

## TRADING AND VALUATIONS

The broad range and regional spread of our activities enabled us to continue to find business despite the economic turbulence. We achieved property sales of £146m, completing 104 transactions, and have grown our rent roll, with rental income in the second half 8% higher than in the first half.

Our valuations at 30th November 2008 reflect a year of considerable uncertainty in the real estate investment market. The yields used for valuing our properties have continued to weaken. The results for the year include a negative yield shift on average of 1%. The value of our commercial land has also been reduced to reflect the declining values of developments that will be undertaken on the land. Additionally, the valuation of our residential land has been significantly reduced to reflect the current housing market. For the majority of our sites that have consent for residential development, carrying values are now at similar levels to that for employment land without such consent.

However our strategy of constantly seeking to add value helped to mitigate the unavoidable market value write-downs. Market related adjustments of £129.4m were therefore tempered by added value gains of £64.8m.

We continue to transact a steady flow of business, and since 30 November 2008, we have agreed forward sales or the disposal of pre-let properties with a value of some £90m, and have rent roll increases, completed or in solicitors' hands, of £4.9m (£2.6m net of vacations and tenant failures)

## FINANCING

We have adequate lines of credit in place which do not require any material refinancing before 2011. Interest cover covenants have been redefined to include the realisation of historical revaluation surpluses, which gives us greater flexibility in meeting them. The company is trading within all its banking covenants and its forward projections show a continuation of that position. Although there is

uncertainty around forecast property valuations, we believe we will mitigate any downward movements, in part, through continued marshalling activity.

We continue to assess the full range of options to provide additional financial flexibility, including generating trading profits, cash management and cost control and disposals from our investment portfolio, as well as possible equity raising.

## DIVIDEND

Your board is not recommending a final dividend for the year, (although an interim dividend of 3.9p per share has been paid). We believe that the funds are currently better used in the operations of the business, until market conditions are clearer and more positive.

## STRATEGY

In the current economic downturn, where bank and investor liquidity is limited, and the market for residential land is at an historic low, we have adapted our activities to suit the changing conditions. Therefore during the year we have scaled-back speculative schemes, whilst continuing to marshal sites for development on the back of pre-let or pre-sold opportunities. We have also continued to dispose of those mature assets to which we can add no further significant value.

Our aim has been to bring debt and gearing levels down, which I am pleased to report is being achieved – borrowings have now peaked and we expect that the next period will see a gradual reduction in our debt.

Notwithstanding our focus on cash generation, we continue to seek, and to find, long-term opportunities for the Hopper. During the year, we made 20 acquisitions adding 318 acres of developable land to our hopper. Our selection by BP for the acquisition of Coed Darcy is a good example of this: the acquisition will be self-financing; it will entail a 20-year development horizon that will enable the company to utilise fully its brownfield land remediation expertise.

Looking ahead, we remain confident that the company's strategy is valid in the long-term, despite the current weakness in the market. We will continue to build on our reputation as the UK's leading regeneration specialist. We will continue to add value across our geographically and sector-diversified Hopper through our network of regional offices. We will continue to work in partnership with communities and local authorities to bring innovative regeneration to those areas which need it most. And in doing all this, I believe that the company will return to the longstanding historical trend of providing sector-leading returns to our shareholders.

## DIRECTORS AND EMPLOYEES

Achieving the results for the year in the current climate is a tribute to the quality and strength of the team at all levels in the organisation. My thanks go to everyone for the efforts they have put in.

At the next Annual General Meeting, Christopher Roshier will step down as non-executive director, having completed 22 years' service, including a long spell as chairman of the audit committee and senior independent director. I would like to thank him for his wise counsel and for the valued contribution that he has made to the success of the company during this time.

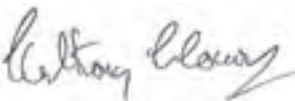
## PROSPECTS

Property market prospects for 2009 are uncertain. The economy is in recession, with little business confidence.

However, we are well prepared for such conditions: our financial position is sound; our business model will continue to create value even in difficult times; and we anticipate that there will be attractive opportunities to add further to the Hopper.

Our business has never been based on a concept of automatic rental growth or new headline rents, but on constantly providing value for money. Even in today's market this approach bears fruit.

Our confidence in the longer-term is undiminished. The market for residential land will eventually return and investment yields will stabilise as the benefits from lower interest rates are realised. When this occurs, the company's 5,000 acre hopper and experienced management team will provide an exceptional foundation for a return to growth.



**Anthony Glossop**

Chairman

26th February 2009

**“WE WILL CONTINUE TO  
BUILD ON OUR REPUTATION  
AS THE UK'S LEADING  
REGENERATION SPECIALIST”**



**Anthony Glossop**  
Chairman

# THE HOPPER STRATEGY

NEW PROJECTS

## 1 THE HOPPER

The company's strategy is to add value to all assets it holds 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.

## 2. MARSHALLING

The company's own team, supplemented with skilled external professionals, has a proven track record in marshalling a 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, master planning and undertaking public consultation.

## 2 MARSHALLING

01

### RAF BENTLEY PRIORY

The site was formally closed this year to make way for its redevelopment into a luxury housing development and museum linked to the site's heritage with the Battle of Britain.

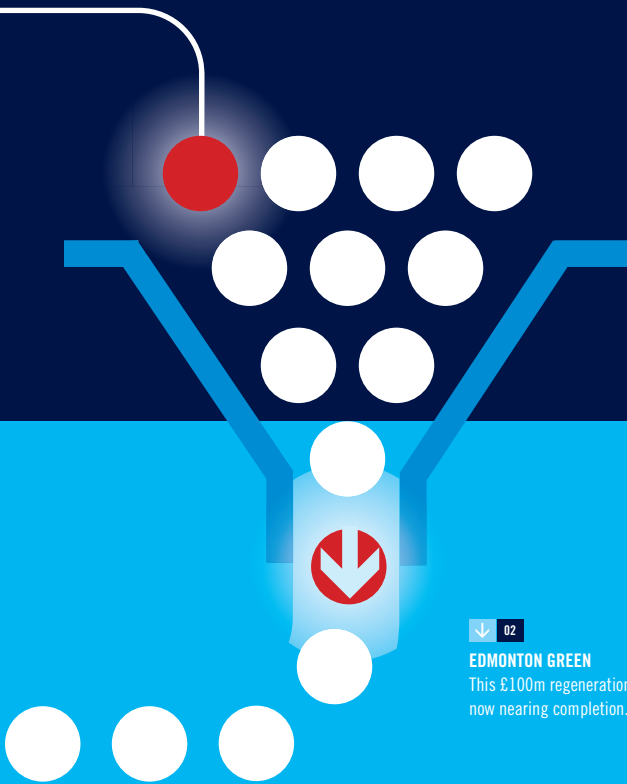
## 3 DELIVERY





## 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. The aim is to replace land used every year to ensure the long-term continuation of the company's growth strategy.



↓ 02

### EDMONTON GREEN

This £100m regeneration project is now nearing completion.

→ 03

### THE TRENTHAM ESTATE

The company is now entering its sixth year of its £100m restoration programme at the Trentham Estate.

01



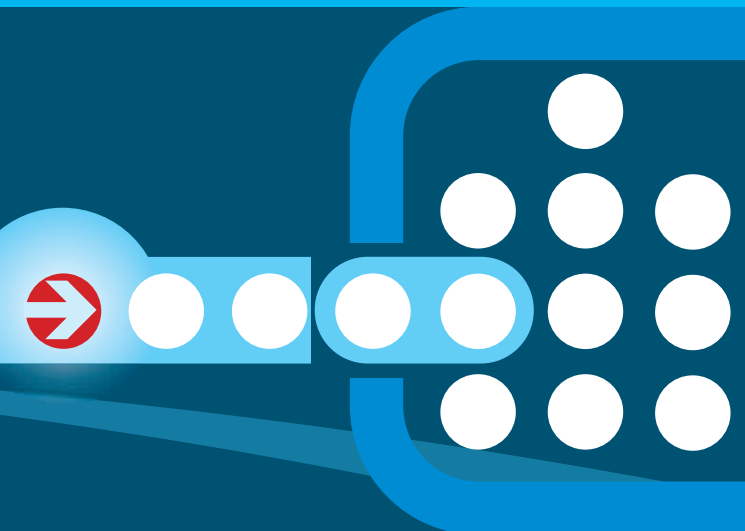
02



03

## 3. DELIVERY

Once marshalled schemes 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. Where the use requires a specialist developer such as a housebuilder, land may be sold under tight development control principles. 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.



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# ST. MODWEN AT A GLANCE

The company focuses on four areas:



## BROWNFIELD LAND RENEWAL

Page 22



## TOWN CENTRE REGENERATION

Page 26



## PARTNERSHIPS

Page 30



## INNOVATION AND EDUCATION

Page 34

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**162**

SCHEMES

**£1.1 bn**

TOTAL INVESTMENT PROPERTIES

## NORTH WEST

- |  |  |
|--|--|
| 01 <b>NEWTON-LE-WILLOWS</b><br>Vulcan Works              | 12 <b>WIGAN</b><br>Enterprise Park                           |
| 02 <b>GLASGOW</b><br>Pegasus Business Park<br>Springburn | 13 <b>MANCHESTER</b><br>Wythenshawe<br>Trafford Park         |
| 08 <b>PRESTON</b><br>Channel Way                         | 14 <b>LIVERPOOL</b><br>East Lancs Road<br>Great Homer Street |
| 09 <b>BLACKBURN</b><br>Evolution Park                    | 15 <b>WIDNES</b><br>Economic Development Zone<br>Town Centre |
| 10 <b>SKELMERSDALE</b><br>Town Centre                    |  |
| 11 <b>ECCLES</b><br>Lankro Way                           |  |

## SOUTH WEST

- |   |                                     |
|---|-------------------------------------|
| 31 <b>GLOUCESTER</b><br>Quedgeley Industrial<br>Estates | 35 <b>TAUNTON</b><br>Trading Estate |
| 32 <b>NEWPORT, GWENT</b><br>Llanwern                    | 36 <b>NEATH</b><br>Coed Darcy       |
| 33 <b>DURSLEY, GLOS</b><br>Littlecombe Village          | 24 <b>EXETER</b><br>Skypark         |
| 34 <b>AVONMOUTH, BRISTOL</b><br>Access 18               |                                     |

## YORKSHIRE

- |                                      |   |
|--------------------------------------|---|
| 03 <b>DARLINGTON</b><br>Whessoe Road | 06 <b>DONCASTER</b><br>Worcester Avenue |
| 04 <b>SUNDERLAND</b><br>Glassworks   | 07 <b>LINCOLN</b><br>Ruston Works       |
| 05 <b>HULL</b><br>Melton Park        |   |

## NORTH STAFFORDSHIRE

- |   |  |
|---|--|
| 16 <b>STOKE-ON-TRENT</b><br>Festival Park<br>Trentham Gardens<br>Trentham Lakes | 17 <b>STONE</b><br>Meaford Power Station |
|---|--|

## MIDLANDS

- |  |   |
|--|---|
| 18 <b>DERBY</b><br>Hilton Depot  | 25 <b>BIRMINGHAM</b><br>Washwood Heath<br>Quinton Business Park |
| 19 <b>STAFFORD</b><br>Lichfield Road<br>St. Leonard's                  | 26 <b>LANGBRIDGE</b><br>Town Centre                             |
| 20 <b>BURTON-UPON-TRENT</b><br>Barton Business Park                    | 27 <b>RUGBY</b><br>Mill Road<br>Newbold Road                    |
| 21 <b>WOLVERHAMPTON</b><br>Goodyear                                    | 28 <b>WORCESTER</b><br>Shrub Hill Industrial Estate             |
| 22 <b>TELFORD</b><br>Brockton Business Park<br>Queensway Business Park | 29 <b>STRATFORD-UPON-AVON</b><br>Long Marston                   |
| 23 <b>WALSALL</b><br>St. Matthew's Quarter                             | 30 <b>COVENTRY</b><br>Whitley                                   |

## NORTHERN HOME COUNTIES

- |  |  |
|--|--|
| 37 <b>CRANFIELD</b><br>Technology Park                 | 39 <b>MILTON KEYNES</b><br>Stratford Road  |
| 38 <b>BEDFORD</b><br>Thurleigh Airfield<br>Town Centre | 40 <b>HATFIELD</b><br>Town Centre          |
| 45 <b>LONDON</b><br>Edmonton Green                     | 55 <b>LETCHEWORTH</b>                      |
|  | 56 <b>HEMEL HEMPSTEAD</b><br>Maxstead Park |

## LONDON AND SOUTH EAST

- |   |  |
|---|--|
| 41 <b>MILL HILL</b><br>Inglis Barracks  | 57 <b>BRIGHTON</b><br>Woodingdean            |
| 42 <b>STANMORE</b><br>RAF Bentley Priory  | 47 <b>BASINGSTOKE</b><br>The Malls           |
| 43 <b>UXBRIDGE</b><br>RAF Uxbridge  | 48 <b>FARNBOROUGH</b><br>Town Centre         |
| 44 <b>THURROCK</b><br>South Ockendon  | 49 <b>SURREY</b><br>Henley Industrial Estate |
| 45 <b>LONDON</b><br>Catford<br>Elephant & Castle<br>Hounslow<br>Leigate Centre<br>Newham<br>Wembley Central | 50 <b>YALDING</b><br>Syngenta                |
| 46 <b>WOKING</b><br>The Planets   | 51 <b>BOGNOR REGIS</b><br>Town Centre        |
|   | 52 <b>EASTLEIGH</b><br>Campbell Road         |
|   | 53 <b>POOLE</b><br>Discovery Court           |
|   | 54 <b>WALTHAMSTOW</b><br>Town Centre         |



# OPERATIONAL REVIEW

## OUR MARKET

We are the UK's leading regeneration specialist, operating within all sectors of the property market.

The property market is experiencing the worst trading conditions for decades.

The occupational market continues to be vulnerable to further economic downturn. The retail market is undoubtedly weaker, although occupancies in our existing town centre schemes are holding up well. The business park market has also remained difficult, but we have continued to make progress in the small office unit market and our business innovation centres have achieved good early results. The industrial market remains the strongest, with a number of large bespoke requirements supplementing owner-occupier demand for smaller units.

The market for residential land, however, which has been important for us in recent years, has collapsed. There are currently no substantial private sector buyers for residential land, as house builders struggle to move existing housing stocks and to shore up their over-stretched balance sheets. However, having incurred a significant write-down in the carrying values of our residential land during 2008, we believe that our further exposure in this area is limited.

Our long-term strategy should continue to mitigate the worst effects of a difficult market on St. Modwen. As well as a prudent approach to appraising schemes, an emphasis on adding value, and our exposure to a wide range of property sectors and geographic areas, we also benefit from:

- The size and diversity of the hopper, enabling us to align our development activities to market conditions.
- An unrivalled experience in brownfield land regeneration.
- A strong and experienced management, development and construction team.

## COMPETITIVE AND REGULATORY ENVIRONMENT

The UK property market is normally extremely competitive. Natural barriers to entry are generally low. Finance is usually readily available and advantages of scale, although they do exist, are limited. In recent years it has been rare, therefore, for the

company not to be in serious competition whether it has been seeking to make an acquisition, to achieve selection as preferred developer, or to secure an occupier.

In the current credit crunch market, however, conditions are different: the lack of readily available finance has restricted the appetite and ability to compete of many developers; and the dislocation of the residential market, combined with falling investment returns, and increasing levels of caution amongst occupiers has undermined the viability of a number of proposed schemes. As a result, development and acquisition activity has fallen to low levels.

By contrast, the regulatory environment remains restrictive. Numerous attempts to simplify and speed up the planning process have not worked and the cost and timescale involved in obtaining planning permission continue to escalate with every new initiative, guidance and regulation.

Two recent regulatory innovations, purportedly introduced to speed up the planning process and to facilitate property occupation, are cases in point. The Area Action Plan process which is being trialled at Longbridge took more than three years, before the masterplan for this massively important regeneration scheme was finally approved in February 2009, despite close collaboration with the relevant local authorities. In the meantime, plans for the creation of 10,000 jobs, 1,400 homes, and a new town centre on the site of the former MG Rover car factory have remained unrealised.

A second initiative, the imposition of business rates on empty buildings, which became effective in April 2008, has had similarly unintended consequences. This tax represents a significant additional burden to which the rational response of the property owner is likely to be to demolish those second-hand buildings that cannot immediately be let, thereby removing a source of affordable space. This was exemplified at Longbridge, where we reluctantly demolished a 750,000 sq ft former factory in order to avoid a £700,000 annual tax charge.)

Furthermore, the speculative development of new facilities for small and start-up businesses, such as our innovation centres, are now unlikely to proceed without public sector funding, thereby depriving these businesses of a source of usable space ready for immediate occupation.



### WHITLEY BUSINESS PARK

The first phase of this 1.1 million sq ft speculative development was completed at the start of 2009.









## BUSINESS MODEL AND STRATEGY

The underlying purpose of all St. Modwen’s activity is to add value to the properties it controls. 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 — over a five to fifteen year horizon.

In a declining market, such as the one we are currently facing, the challenge is even greater. We seek to meet this challenge by a strategy which emphasises value creation, cost control and local market knowledge. Through a network of regional offices, supported by a strong central construction management team, we create a broadly based programme of activity, pulling out of the hopper the projects for which there is a current market opportunity. The key to our strategy remains the continuing acquisition of well located opportunities to top up the hopper, which currently comprises more than 5,000 acres of developable land.

## EMPLOYEES

We take a hands-on approach to all aspects of our business: asset management; marshalling; and development. And as such, the skill of our people is fundamental to enable us to add value to the assets in the hopper. Consequently, even in these difficult times, we have continued to invest in our own bespoke management development programme for all senior staff, which enables us to continue to grow the abilities of the talented people who will be the drivers of the company’s future expansion.

It was, therefore, with reluctance that we decided in October that the continued fall in activity levels required us to reduce our headcount. As a result, 30 staff were made redundant from our property functions, and a further 16 from our leisure operation at Trentham.

## FINANCIAL OBJECTIVES AND KEY PERFORMANCE INDICATORS

In the current UK economic and property market conditions, our previously stated financial objectives for NAV and dividend growth, or for specified returns on equity, are in the short term largely meaningless.

Our current financial objectives are more simple, namely: to manage through the downturn by running the business for cashflow; and to be in the best possible shape to profit from the opportunities that will undoubtedly arise.

Both of these objectives require the same thing: adapting our activities to changing conditions. We are doing this by reducing expenditure; seeking to drive down debt and gearing levels; selling assets to which we can no longer add value; eliminating speculative development activity, and minimising any other non-funded commitments.

For us, as for all property companies, adherence to our banking covenants is paramount. Consequently, our key performance indicators are currently those set by those covenants, namely:

	Covenant	Actual 2008	Actual 2007
Gearing <sup>1</sup>	< 125%	<b>105%</b>	86%
Net assets <sup>2</sup>	> £350m	<b>£402m</b>	£468m
Interest cover <sup>3</sup>	> 150%	<b>162%</b>	307%
Loan to value <sup>4</sup>	< 70–80%	<b>46%</b>	53%

- <sup>1</sup> Gearing = net debt as a percentage of shareholders’ funds.
- <sup>2</sup> Net assets = the definitions of net assets in our banking facilities vary, the most stretching definition excludes minority interests.
- <sup>3</sup> Interest cover = profit before interest and tax (excluding non-cash items such as investment property revaluations) plus the realisation of previous years’ revaluations, as a percentage of net interest (excluding non-cash items such as mark-to-market of swaps).
- <sup>4</sup> Loan to value = the amount of loan secured against specific portfolios of properties, as a percentage of the market value of those properties. This is tested separately for each of our bank loans. The table above shows the company-wide ratio of our drawn facilities to our total available security.

The company is trading within all its banking covenants and its realistic forward projections show a continuation of that position.



## OPERATIONAL REVIEW

### DEVELOPMENT AND PERFORMANCE OF THE BUSINESS THE HOPPER — ASSEMBLY AND ACQUISITION

Despite the financial constraints on the business, 2008 was another excellent year for acquisitions, yet without significant cash outlay. Obtaining control of opportunities through self-financing transactions has always been part of our hopper strategy, and this year our skills in deal structuring have enabled us to continue to build for the future without compromising the short-term requirements of the business.

Our total expenditure on new acquisitions (including 100% of joint ventures) during the year was only £18m. However, this enabled us to add 318 acres of developable land to the hopper. As a result, the hopper (including 100% of joint ventures) now stands at 8,702 acres, of which 5,020 is developable. The hopper is very broadly based, comprising some 162 separate schemes, across all sectors of the property market.

Significant acquisitions during the period included:

- Coed Darcy — A 1,000 acre former oil refinery site near Neath, South Wales. Working closely in partnership with BP, The Welsh Assembly Government, Neath Port Talbot County Borough Council, and The Prince's Foundation for the Built Environment, we have commenced extensive remediation works prior to creating a sustainable urban village community of some 4,000 homes on the site.
- Sunderland — A 10 acre former Pyrex factory site with 350,000 sq ft of buildings, identified as a priority regeneration site by the city's urban regeneration company, Sunderland arc. Subsequent to the year end we acquired an adjoining 7 acre former Corning glassworks facility.
- Weston-super-Mare — Selected as the preferred developer for the former RAF Locking site, now known as Locking Parklands, by South West RDA and English Partnerships. The site will become a new 200 acre mixed use community.
- Letchworth — A 5 acre former RWE power station site in Letchworth Garden City, acquired from Letchworth Heritage Foundation for development into an 80,000 sq ft office and industrial park.

Additionally, in November we were selected by BP as preferred developer for a 2,500 acre portfolio of brownfield sites in South Wales, Scotland, the Midlands and South East England. We are currently documenting the acquisition of the portfolio, before commencing an extensive programme of remediation works, funded by a dowry from BP. The sites are likely to be redeveloped for predominantly employment-led commercial uses.

This important portfolio acquisition exemplifies much of our business model, namely:

- A partnership with a major landowner.
- A series of long-term brownfield remediation projects.
- A self-financing transaction, with costs incurred only as value is unlocked.

This portfolio will take its place in our widespread and diversified hopper, being marshalled over a 10–15 year horizon to deliver a regular contribution in future years, and continuing the reinforcement of our reputation as the UK's leading regeneration specialist.

### MARSHALLING

We have continued to make good progress in marshalling projects for future delivery, as evidenced by the quantity and quality of planning permissions obtained in the year, as detailed in the table below.

#### PLANNING PERMISSIONS OBTAINED IN THE YEAR

	No.	Sq Ft	Units
Residential	5	—	4,425
Retail	5	151,000	—
Commercial	22	1,295,000	—
Office	11	399,000	—

In particular, we obtained planning consent on the following major schemes:

- Project MoDEL — Planning permission was obtained on two of the remaining four former MOD sites: at Bentley Priory, Stanmore, for a new museum commemorating the Battle of Britain and 103 new homes; and at Victoria House in Woolwich, South East London, for a 75-bedroom care home.
- Coed Darcy — Planning consent has been obtained for 4,000 dwellings and 500,000 sq ft of employment space together with retail and community facilities, and the Section 106 obligations and outline remediation strategy have been agreed.
- Darlington — An agreement has been signed with Darlington Borough Council to open up 70 acres of land within the Faverdale Employment Area to create a £50m major industrial park capable of providing 1,500 jobs. We have received a resolution to grant planning consent for up to 1.1 million sq ft of predominantly distribution space.

- Connah's Quay, Flintshire — Planning consent has been obtained for the redevelopment of the Deeside district centre, comprising a 52,000 sq ft foodstore, which has been pre-let to Morrisons and 20,000 sq ft of further retail space.
- Stoke-on-Trent — Planning consents have been obtained for the regeneration of the historic former Royal Doulton site in Nile Street, Burslem (a mixed use scheme comprising a 70,000 sq ft Enterprise Centre and 140 homes), and for a 21,000 sq ft district centre at Trentham South.
- Wembley — A pre-let over 15,700 sq ft to Peacocks has been added to a strong line-up of other retailers including TK Maxx, Somerfield, Iceland, Holland & Barrett and Totesport, bringing the total of pre-let retail space to over 60%, with several other deals with retailers at various stages in the legal process.
- Farnborough — One of a very limited number of retail development schemes coming on stream nationally in the period 2009–2010. Following demolition and infrastructure works, we have commenced on the first phase of the town centre redevelopment which will provide 190,000 sq ft of new retail space, a new Sainsbury's store, Travelodge and leisure facilities, together with 115 private apartments and 56 apartments for affordable housing in partnership with Thames Valley Housing Association and Pavilion Housing Association.

Elsewhere we continue to move forward the planning position on major sites:

- Long Marston — Our proposed Middle Quinton development on this former MOD site is one of twelve nationally shortlisted potential eco-towns. The site recently received a Grade B rating in the Department of Communities and Local Government Sustainability Assessment (which classified the site as 'Might be a suitable location subject to meeting specific planning and design objectives.'), and remains on track for selection some time in 2009. In the meantime, we continue to work up alternative proposals for a mixed use employment-led redevelopment of the site in accordance with the existing local plan.
  - Longbridge — Four separate planning applications, representing £750m of mixed use development, have been submitted to Birmingham City Council and Bromsgrove District Council for the regeneration of the 468 acre former MG Rover Works. The applications comprise 1.8 million sq ft of employment space, together with 1,980 new homes, a new town centre and extensive community facilities. In addition, there will be a new learning quarter on the site, anchored by Bournville College which announced in 2008 that it will relocate to a new purpose-built £84m educational facility at Longbridge in 2011.
  - Hednesford — We are currently working up a 124,000 sq ft retail scheme, anchored by a foodstore, with planning due for submission in autumn 2009.
  - Sunderland — A planning application is shortly to be submitted for a mixed use scheme comprising 25,000 sq ft of office accommodation and 285 family homes, following the successful assembly of this 17 acre site.
- Although scaled back in response to current market conditions, our construction programme continues to deliver new schemes:
- Stoke-on-Trent — Work has started on a pre-let £30m call centre for Vodafone. The innovatively-designed 80,000 sq ft building should secure jobs for about 1,100 people in the area. Work has also begun on a 7,850 sq ft self-contained two-storey office for Hanley Economic Building Society, part of the fourth phase of the highly successful Festival Park where over 220 acres have already been developed.
  - Whitley, Coventry — The first phase of development at the 93 acre business park has been completed, providing 42,000 sq ft of grade A offices with "very good" BREEAM sustainability rating. This flagship mixed use business environment is being created on land recently acquired from Jaguar and Coventry City Council, and will eventually provide 1.1 million sq ft of business space and generate more than 2,000 new jobs.
  - Evolution Park, Blackburn — A 44,000 sq ft Innovation Centre and a 22,500 sq ft grow-on facility have been completed, targeted at start-up and growing enterprises within the medical, knowledge, science and technology sectors. This is our third innovation centre, following the successful developments at Cranfield and, more recently, at Longbridge.
  - Woodingdean Business Park, Brighton — A further 30,000 sq ft of office accommodation has been completed at this 9.5 acre former bakery site. To date, over 75,000 sq ft of industrial and office space has been delivered on the Business Park.
  - Heron Business Park, Widnes — The second phase of this development, supported by Halton Borough Council and North West Development Agency and ERDF funding, is scheduled to complete in early 2009 and comprises 19 business units providing 73,700 sq ft of modern industrial, suitable for office, light industrial and general manufacturing uses.

Significant achievements on our major town centre projects include:

- Edmonton Green, Enfield — The latest phases of this £100m regeneration scheme, the 66,000 sq ft Asda foodstore and 37,500 sq ft new West Mall, have been completed, and a letting to Argos has been secured.





## DELIVERY

Despite the difficult market conditions, we have completed 104 transactions in the year and realised disposal proceeds of £146m, benefiting from the wide range, varied lot sizes, and realistic pricing of our products.

In the industrial/distribution sector we completed 987,000 sq ft of new buildings and 517,000 sq ft of refurbishments, including:

- Quedgeley West Business Park, Gloucester — A 102,000 sq ft distribution facility built for CM Downton, together with a further 120,000 sq ft of industrial and distribution facilities speculatively developed, of which 65% has already been let and sold to investors.
- Avonmouth — A 165,000 sq ft distribution centre built for Nisbetts, together with 78,000 sq ft of speculatively developed industrial buildings sold to owner occupiers.

In the office and business park sector, a number of developments were successfully completed, including:

- Trentham Lakes, Stoke-on-Trent — A 37,000 sq ft business quarter of small offices, of which 75% has been sold to owner-occupiers.
- Melton Park, Hull — A first phase of 75,000 sq ft industrial and 25,000 sq ft office space of this 116 acre mixed use development.
- Quinton Business Park — A 33,000 sq ft office building let to Business Link was acquired by Advantage West Midlands, and a further building was let to Linpac.

We have also continued our long-standing policy of disposing of those assets to which we can add no further value, seeking to recycle capital for use on other projects:

- Trentham Gardens, Staffordshire — The 119-bedroom Premier Inn Hotel at our popular tourist and leisure destination near Stoke on Trent was sold to Habro Properties Group for £10m.
- Edmonton Green, Enfield — The 21,500 sq ft primary care trust was sold to Forest Vale Fundo Ltd for £5.5m.
- Bridge Retail Park, Runcorn — A 29,000 sq ft retail park, including a Homebase and Dreams store, was sold to Hornbill Ltd, a private property company for £4.6m.
- Stafford — A 200,000 sq ft industrial/warehouse building and a 40,000 sq ft office building were sold to Areva T&D UK Limited for £6.9m.

- Liebig Court, Widnes — A development of 38 apartments and 6 retail units was sold to Places for People, a not-for-profit property management and development company, for £3.1m.
- Kempton Point, Sunbury on Thames — A 35,000 sq ft office building was sold to Arlo Holdings for £3.4m.

We continue to devote considerable resources to creating additional value and enhancing the income of the property we own through a variety of asset management activities. During the year, our in-house team undertook:

- 96 lease renewals, securing rent roll of £2.6m
- 235 rent reviews, achieving an uplift in rents of £1.5m (9.9%) and
- 456 new lettings, producing additional rent roll of £10.6m, which more than offset the 332 vacancies (rent roll reduction £8.9m).

At Trentham, despite another year of very poor weather, the gardens attracted 108,000 visitors (2007: 122,000) and a trading profit before interest of £0.8m (2007: £0.9m) was achieved. The highlights of last year were the new maze and Eastern pleasure ground development. This year's features are the Potter's Wheel and the iconic new garden restaurant. Further expansion of the retail village will be undertaken as pre-lets are achieved.

## POST-YEAR END SALES AND LETTINGS

Since the year end we have continued to make good progress, with over £90m of revenue secured either from sales of existing stock or from contracts for new buildings. Furthermore, our asset management activities have generated an additional £2.6m of annual rental income from new lettings and pre-lets for buildings under construction (net of vacancies and tenant failures in the period).

For further details of projects referred to in this business review, and other projects, see our website [www.stmodwen.co.uk](http://www.stmodwen.co.uk)

# FINANCIAL REVIEW

In the trading profits table and throughout the financial review, certain numbers are quoted which include the group's share of joint ventures and associates as detailed in note 9.

## TRADING PROFIT

In very difficult conditions, we are pleased to have delivered a trading profit of £8.2m for the year. Our business model is based on core rental and other income covering the running costs of the company (property outgoings, overheads and interest), so that even when development profits are reduced, the company is still able to meet its commitments.

(£m)*	2008	2007	Var
Net rental income	<b>33.2</b>	34.9	(1.7)
Property profits <sup>1</sup>	<b>9.6</b>	54.5	(44.9)
Other income	<b>7.3</b>	2.5	4.8
Administrative expenses	<b>(14.1)</b>	(16.5)	2.4
Bank interest <sup>2</sup>	<b>(27.8)</b>	(24.5)	(3.3)
Trading profit	<b>8.2</b>	50.9	(42.7)

\* Including the group's share of joint ventures and associates.

<sup>1</sup> comprises development profits and gains on disposal of investment properties.

<sup>2</sup> Excluding mark to market adjustments and other non-cash items of £20.8m (2007: £10.5m) in the group and £2.9m (2007: £0.3m) in joint ventures.

## NET RENTAL INCOME

The fall in net rental income was principally due to the £1.1m impact of disposals, and the loss of £0.3m of rent due to vacancies being created for development (particularly at Wembley). The effect of tenant failures and vacations in the year was offset by a number of notable successes from our asset management activities.

At 30th November 2008, the gross rent roll, including our share of rent from joint ventures, had increased to £43.2m (2007: £41.2m). At the year end our overall voids were 16.8% (2007: 15.2%), reflecting the completion of certain, as yet unlet, developments during the year.

## PROPERTY PROFITS

Property profits, including our share of joint ventures, fell to £9.6m (2007: £54.5m). However, this still represented a considerable level of activity with more than 100 individual property disposals being completed in the period.

## PROPERTY VALUATIONS

All of our investment properties (including land) are valued every six months by King Sturge and Co. at market value.

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.

2008 was a year of considerable uncertainty in the real estate investment market, and our valuations at 30th November reflect this. The yields used for valuing our properties have continued to weaken. The results for the year include a negative yield shift on average of 1%. The value of our commercial land has also been reduced to reflect the declining values of developments that will be undertaken on the land. Additionally, the valuation of our residential land has been significantly reduced to reflect the current housing market. For the majority of our sites that have consent for residential development, carrying values are now at similar levels to that for employment land without such consent. We believe that this does not reflect the long-term value of residential land which we consider will return to more realistic levels once a functioning housing market is re-established.

The impact of these significant adverse movements was partly mitigated by gains achieved from our marshalling, redevelopment and asset management activities which added value of £64.8m in the year.

## PROPERTY VALUATIONS (£m)

	2008	2007
Marshalling milestones	<b>11.5</b>	62.3
Asset management and development	<b>53.3</b>	32.7
Market yield movement	<b>(129.4)</b>	(32.2)
Total	<b>(64.6)</b>	62.8

## ADMINISTRATIVE EXPENSES

Towards the end of the year, we took action to reduce our cost base to reflect the lower activity levels in the business. The impact of the resulting redundancy programme is an annualised saving of £3m. The £0.6m cost of implementing these savings has been charged to profit in the current year.

Administrative expenses (including our share of joint ventures) have decreased during the year by £2.4m to £14.1m, due primarily to a substantial (£2.9m) reduction in the cost of employee share options following a period where the share price has fallen significantly (in line with the quoted real estate sector as a whole).

## JOINT VENTURES AND ASSOCIATES

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 recorded a post-tax loss, of which our share was £7.2m (2007: £11.1m profit).

## FINANCE COSTS AND INCOME

Net finance charges (including our share of joint ventures) have increased to £51.5m (2007: £35.3m).

During the year average group borrowings increased by £82m to £430m, and average LIBOR (upon which our borrowing costs are based) decreased by approximately 30 basis points. As a result, interest payable on bank borrowings increased by £4.1m.

As a result of the recent dramatic reduction in interest rates, the revaluation of our interest rate swap contracts (which have a weighted average cost before margin of 4.99%) to market value at year end resulted in a charge to the Income Statement of £18.3m (2007: £1.0m), recognising the decreasing market value of such contracts in the prevailing climate of falling interest rates. The positive aspect of this recent reduction in interest rates, however, can be seen in our average rate of interest payable, which at 30th November 2008 had fallen to 4.9% (2007: 6.5%).

Net finance charges also include a charge of £5.6m (2007: £9.9m) for the amortisation of the discounted deferred consideration payable to the MOD in respect of Project MoDEL.

During 2008 the group has continued to expense all interest as it has arisen, and has not capitalised any interest on its developments or its investments.

## TAXATION

The effective rate of tax credit for the year, including our share of joint ventures, and with full provision for deferred taxation, is 36.7% (2007: 8.9% charge).

This rate is substantially better than the standard rate of UK Corporation Tax due primarily to the benefits of approved tax planning activities and land remediation and indexation allowances.

It is anticipated that, with the continued utilisation of these allowances and the benefit in future years of approved tax planning activities, 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.

## FINANCING, COVENANTS AND GOING CONCERN FINANCING

The company entered the downturn with adequate secured facilities and excellent banking relationships, but also with a high level of gearing. During the year we have focused the business on cash generation, and have worked closely with our banks to ensure that appropriate covenants are in place. In both of these areas we have achieved considerable success.

The company's cash flow has been adversely affected by the illiquidity of a number of our markets, but we have nevertheless been able to realise £146m from our ongoing programme of asset disposals. This, together with our recurring net rental income, and close management of our working capital, enabled us to meet our administrative expenses and interest, to pay an interim dividend, and to meet the requirements of a £202m development and capital expenditure programme, with only a £20m increase in borrowings.

Although the level of our net debt has risen in the year, this was due to the completion of already committed developments. We consider that our debt and gearing levels have now peaked, and that they will reduce over the next year as the full impact of our cash management activities is delivered.

At 30th November 2008, the group's banking facilities were £619m (2007: £569m), with no material maturities before 2011, and with a weighted average maturity of 4 years (2007: 5 years). Current net debt is £422m (2007: £402m), giving us a gearing of 105% (2007: 86%) and a headroom to meet future commitments of £197m. Including joint ventures, total banking facilities are £871m (2007: £815m), net debt is £625m (2007: £580m) and gearing 118% (2007: 105%). A £46m facility in our Sowcrest joint venture is due for renewal or refinancing in September 2009.

The weighted average margin of our facilities is 86 basis points (2007: 81 b.p.) over LIBOR. Our strategy has been to hedge two thirds of all borrowings, with the maturity of both hedges and facilities being aligned with individual schemes where applicable. As a result, the interest cost of 57% of our debt is fixed by hedging contracts (2007: 68%). The weighted average fixed interest payable under these hedges is 4.99 %.

## COVENANTS

At the start of the year we initiated a review of all of our banking covenants, in anticipation of changing times. As a result of this, we have been able to obtain, at no additional cost, significant improvements and clarifications. Most importantly, the interest cover covenant (which was our principal constraint) has been refined to exclude non-cash items (particularly valuation movements) and to include the cash realisation of previous years' revaluations. This change provides us with considerably more headroom, as a number of currently planned, and recently completed disposals would unlock sizeable historic revaluation surpluses.

Our covenants have also been aligned across all of our banking relationships. The key measurements are gearing; net asset value; interest cover; and loan to value — as shown on page 20.

Current forecasts and projections, taking account of our view of reasonably possible changes in property valuations, and anticipated marshalling gains, show that the group should be able to operate within its current facilities and comply with its banking covenants.

The interest cover covenant is expected to be met from a combination of the company's strong rent roll, selective asset disposals to unlock historical revaluation surpluses, and from a reducing interest charge as rates fall.

The net asset value covenant is expected to be met by limiting the impact of further market yield movements with mitigating actions across the company's property portfolio, including development, asset management, and the achievement of marshalling milestones.

The current economic conditions create uncertainty over likely market yield movements. We have considered available market

## FINANCIAL REVIEW

information, consulted with our advisers and applied our own knowledge and experience to the group's property portfolio. If property values were to decline below that which has been assumed in the group's current forecasts, the group may not be able to meet all of its covenants when tested in the future. Should a covenant breach become likely, we believe that constructive discussions with our banks would enable the debt to be refinanced. This could result in increased costs to the business.

### GOING CONCERN

The Directors, in their consideration of going concern, have considered the factors described above, reviewed the group's future cash forecasts and valuation projections, which they believe are based on reasonable assumptions, and believe, based on those forecasts and assumptions, that it is appropriate to prepare the financial statements of the group on the going concern basis.

FINANCIAL STATISTICS	2008	2007
Net borrowings	<b>£422m</b>	£402m
Gearing	<b>105%</b>	86%
Gearing, incl. share of JV debt	<b>118%</b>	105%
Average debt maturity	<b>4 years</b>	5 years
% debt hedged	<b>57%</b>	68%
Interest cover	<b>1.62x</b>	3.07x
Undrawn committed facilities	<b>£185m</b>	£150m

### BALANCE SHEET NET ASSETS

At the year end, net asset value per share was 333p, a reduction of 54p (14%). In common with other property companies, we also 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 375p at 30th November 2008, a reduction of 55p (13%) in the year.

NET ASSETS	2008	2007
	£m	£m
<b>Net assets beginning of year</b>	<b>467.7</b>	389.8
(Loss)/profit after tax	<b>(50.7)</b>	93.7
Dividends paid	<b>(15.1)</b>	(13.5)
Other	<b>0.3</b>	(2.3)
<b>Net assets, end of year</b>	<b>402.2</b>	467.7
Deferred tax on capital allowances	<b>4.3</b>	2.8
Deferred tax on revaluations	<b>31.2</b>	48.4
Mark to market of interest rate swaps	<b>14.6</b>	0.7
<b>Diluted EPRA NAV</b>		
— total	<b>452.3</b>	519.6
— per share	<b>375p</b>	430p

In calculating the EPRA net asset value, the directors consider the fair value of inventories to be their book value.

### INVESTMENT PROPERTIES

The total value of investment properties under our control, including 100% of joint ventures, fell by £32m during the year to £1,102m.

The independent valuations during the year ended 30th November 2008 resulted in net revaluation losses, including our share of joint ventures, of 5.9% (£65m), compared with the previous year end. Our properties are currently valued at the following weighted average equivalent yields:

	2008	2007
Retail	<b>7.8%</b>	6.7%
Industrial	<b>8.8%</b>	8.0%
Office	<b>7.9%</b>	7.6%

### INVENTORIES

Inventories have increased in the year from £209m to £228m reflecting the completion of the committed development programme (including £73m relating to Project MoDEL). Assets held in inventories principally comprise development projects that are on site and under construction and have not been pre-sold, and other assets that are held for resale at the period end.

### THE FUTURE

The company's hopper remains an underlying strength, even in difficult economic conditions, and will provide a stream of future profitability once an active market is re-established.

We expect that markets will gradually return to normality, although the timescale is unpredictable. In the meantime, the company's focus will continue to be on cash and asset management, on making the selective disposals necessary to remain within our banking covenants and to maintain cash flow, and on marshalling our long-term projects through the planning process to ensure that schemes are in good shape for the eventual recovery.

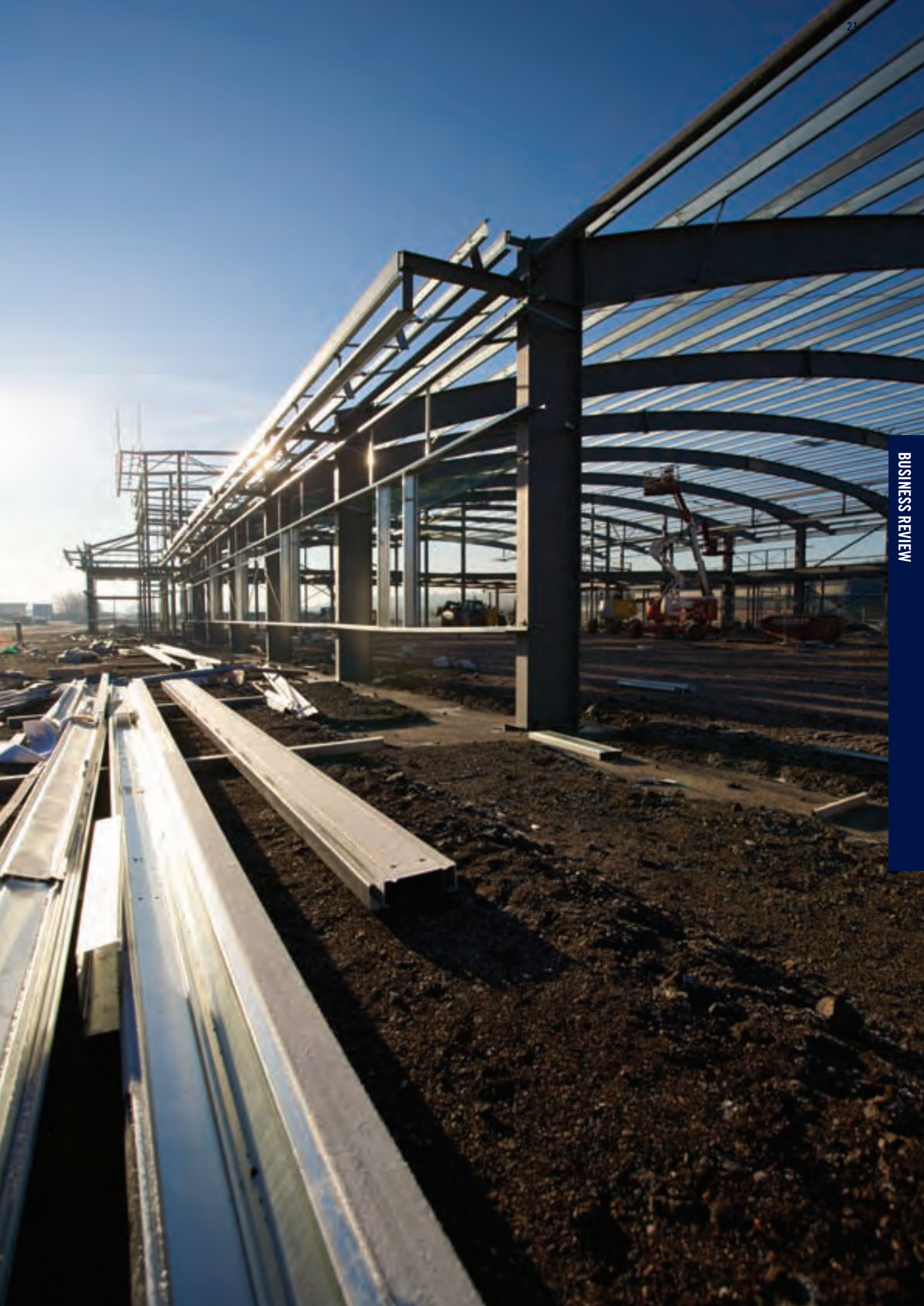
We believe that the long-term prospects for the company remain good, and that the net asset value is robust, with realistic valuations in place.

**Bill Oliver**  
Chief Executive  
26th February 2009

**Tim Haywood**  
Finance Director

→ **ETRURIA VALLEY**  
Building works are progressing on the £30m, 80,000 sq ft new Vodafone facility — the largest new commercial building in Stoke on Trent.







## BROWNFIELD LAND RENEWAL



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**BROWNFIELD RENEWAL  
SCHEMES**

St. Modwen is the UK's leading expert in bringing large-scale brownfield sites back into active use. With sustainability, the environment and zero carbon targets moving quickly up the Government agenda, the renewal of brownfield land has become central to the progress of development in the UK.

St. Modwen has vast experience in the remediation, assembly and redevelopment of such sites, having reclaimed hundreds of acres of brownfield land and transformed it into business, retail and residential developments. In doing so, the company has created opportunities for thousands of new jobs across the UK and created hundreds of new housing and shopping destinations.



**LETCHWORTH**

St. Modwen acquired this 4.5 acre former power station site in Letchworth Garden City in summer 2008 and has since submitted planning for its redevelopment into an 80,000 sq ft Business Park.





# CASE STUDY

## BP SITES

### BACKGROUND

In 2007 we were selected by BP as the preferred developer for the 1,000 acre former Llandarcy oil refinery in Neath, South Wales. The acquisition was completed in 2008, and since then we have completed the first phase of remediation works on 400 acres of the site with the second phase now well underway. Demolition works to the existing buildings commenced in autumn 2008 and oil recovery is also now in progress; at the end of January 2009 over 100,000 litres had been recycled. These works represent the early stages of our plans to transform the site into the Coed Darcy urban village over a period of 25 years.

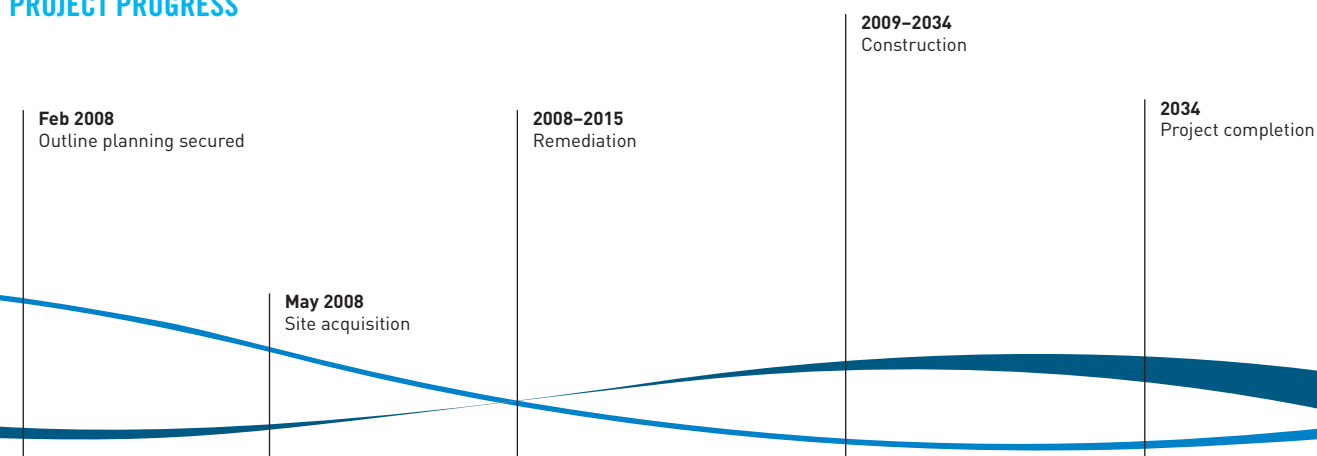


**BAGLAN BAY**  
The largest site in the new portfolio, Baglan Bay comprises 1,050 acres and was formerly the location of a BP petrochemicals plant.

The success of our approach and of our flourishing partnership with BP were recognised in October 2008, when we were selected by BP as the preferred developer on its 2,500 acre portfolio of former sites across South Wales, Scotland, the Midlands and South East England. This is BP's biggest ever land disposal and only the second time the company has awarded disused sites/land to a third party, the first time being the 1,000 acre Coed Darcy site.

**COED DARCY**  
The former BP oil refinery, Neath, which St. Modwen is currently regenerating into the £1.2bn Coed Darcy urban community.

### PROJECT PROGRESS





## TOWN CENTRE REGENERATION



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**TOWN CENTRE SCHEMES**

As lifestyle habits and attitudes to shopping and working change, town centres across the UK need to accommodate these new trends and create more choice for today's busy and demanding consumer. St. Modwen is currently channelling its expertise into 18 Town Centre regeneration projects, all at different stages of the development cycle and all designed to create sustainable and vibrant communities where people will want to live, work and shop. Major projects now in progress include Edmonton Green, Farnborough, and Wembley Central.

**EDMONTON GREEN**

The new 66,000 sq ft Asda store in Edmonton Green, part of this £100m regeneration project led to a job creation for the community and saw the Council opening a job centre specifically to recruit locally.







# CASE STUDY

## WEMBLEY CENTRAL

### BACKGROUND

Sitting directly above Wembley Central station, this site was acquired from Network Rail in 1995. Once a thriving retail centre, Wembley suffered from the opening of the Brent Cross Shopping Centre and Harrow and Ealing Broadway Shopping Centres in the 1970s/'80s and has since suffered a period of decline.

The £90m redevelopment of Wembley Central is a clear example of how we can bring tired town centres up to date. By creating new public and retail areas, we are lifting the whole area and injecting new life into the local economy.

When complete, the scheme will comprise:

- 135,000 sq ft of retail space
- 24,000 sq ft of office accommodation
- 174 private apartments of high specification
- 85 affordable homes

← **WEMBLEY CENTRAL**  
Over 60% of the first development phase has been already secured to a number of High Street brands.



↑ **WEMBLEY CENTRAL**  
The scheme includes 174 highly specified private apartments and 84 affordable homes. We have already handed the latter over to Genesis Housing Association.

### DELIVERY

Having demolished the original buildings in 2006, the first phase of building works is due for completion in summer 2009. Significant progress has been made in pre-letting the retail space, with over 60% already let to a number of High Street brands and the first phase of private apartments will be launched this year. We have handed over the affordable homes to Genesis Housing Association, have remodelled the office accommodation and will shortly begin the works to the public square fronting Wembley High Road. This will provide an eye catching open aspect for Wembley Central Train Station and create an attractive entrance ambience that will add to the excitement of the scheme.

### PROJECT PROGRESS

**OCT 2005**  
Planning approval

**NOV 2005**  
Commence demolition

**2006-2010**  
Phased construction

**2011**  
Project completion

# PARTNERSHIPS



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**PARTNERSHIP SCHEMES**

Over time, we have formed strong relationships with many partners including Local Authorities and Regional Development Agencies, with whom we have many development joint ventures.

Our relationships with commercial partners such as Alstom, Corus, Ford, Goodyear, and more recently BP, have also played an important role in our continuing success. Through these partnerships, we unlock the development potential from our partners' surplus sites to assist them in their restructuring.



**COED DARCY**

St. Modwen is working closely with Neath Port Talbot County Council, The Prince's Foundation for the Built Environment and Welsh Assembly Government in its realisation of the regeneration of this former BP oil refinery into a £1.2bn urban community.





# CASE STUDY

## GOODYEAR, WOLVERHAMPTON

### BACKGROUND

The decline in the UK manufacturing industry during the 1970s and '80s hit many companies across the country, including Goodyear. We acquired the 85 acre site from the tyre manufacturer in 2002 under a sale and leaseback arrangement, releasing funds for its ongoing operations.

Since then we have taken back 67 acres from the leased area and secured outline planning permission for the development of a £150m urban community that will include:

- 38 acres of housing, including affordable
- 16 acres of neighbourhood park for general local use
- 2.5 acres for a school
- 1.5 acres of neighbourhood retail facilities



↑ **GOODYEAR**  
Anthony Glossop, chairman, St. Modwen (right) with David Brookes, Goodyear Production Operations Manager.

### DELIVERY

We have made significant progress during 2008. The landmark Goodyear chimney has been demolished, a milestone that marked the completion of an eight month demolition programme and the start of extensive remediation works. Since then, building works have progressed on the part of the site retained by Goodyear to fit it for its ongoing use. An Aldi foodstore has been secured to anchor the neighbourhood retail scheme, for which planning consent should be obtained early in 2009, with a view to commencing construction works in late spring.

← **GOODYEAR FACTORY**  
The demolition of the landmark Goodyear chimney was a milestone that marked the completion of an eight month demolition programme and start of extensive remediation works.

### PROJECT PROGRESS

**2002**  
Site acquisition

**2006**  
Outline planning secured

**2008**  
Demolition works complete

**2010**  
Complete retail centre

**2016**  
Project completion

## INNOVATION AND EDUCATION



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**BUSINESSES IN OUR  
INNOVATION CENTRES**

We recognise that small to medium-sized businesses are the lifeblood of the UK economy and understand how important it is to create a suitable environment where these companies can grow, take advantage of their surroundings and learn from one another.

Targeted at these growing businesses, our Innovation Centres provide space where businesses can share their expertise with one another and in turn, receive support to encourage their ongoing business development. We are rolling out a series of these Centres as part of our national regeneration programme. We have already opened three at Cranfield, Longbridge, and most recently in Blackburn



### LONGBRIDGE

The Innovation Centre at Longbridge, Birmingham, part of the first phase of development works at this £750m regeneration project.





At the same time, schools and colleges play a vital role in the life of local communities and it is crucial that the best learning environments are created in order to equip future generations with the appropriate skills of the future.

Whether we are designing and building a campus for a university/college or developing schools in new communities, we work closely with all types of educational organisations on many of our sites across the UK.

In 2009, we expect to be starting on site with Bournville College at Longbridge and Warwickshire College, Rugby and we have many schools in the pipeline across our portfolio of urban community developments.

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**SCHOOLS AND COLLEGES  
PROPOSED/ UNDERWAY**



## CASE STUDY

# INNOVATION CENTRE, BLACKBURN

At the end of 2008, a new 44,000 sq ft Innovation Centre and a 22,500 sq ft “grow-on” facility were opened at Evolution Park, our 14 acre Business and Industrial Park, situated on junction 5 of the M65 motorway.

Developed in partnership with Blackburn with Darwen Borough Council, the new centre provides start-up and growing enterprises with a range of tailored offices.

It forms part of the first phase of development of our £25m, 223,000 sq ft Evolution Park, which will comprise a mixture of speculative and bespoke buildings to house up to 1,000 jobs.



↑ **BLACKBURN INNOVATION CENTRE — INTERIOR**  
Our Innovation Centres provide start-up and growing enterprises with a range of tailored offices and create a suitable environment where they can grow and learn from one another.

← **BLACKBURN INNOVATION CENTRE — EXTERIOR**  
The Innovation Centre at Blackburn was formally opened in winter 2008 and is almost fully let.

## PROJECT PROGRESS

**2007**  
Development Agreement signed

**2008**  
Detailed planning secured

**2008**  
Building launched

**2009**  
Fully let (anticipated)

**2010**  
Next phase of development commenced





# CORPORATE GOVERNANCE

**“WE ARE DEDICATED TO IMPROVING THE  
COMMUNITIES IN WHICH WE ARE ACTIVE”**

- 40 Corporate social responsibility
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- 

# CORPORATE SOCIAL RESPONSIBILITY

## INTRODUCTION

St. Modwen is the UK's leading expert in regeneration because we are dedicated to improving the communities in which we are active and to ensuring that our development activities have a positive impact on the environment.

The complexity and long-term nature of our schemes — some taking up to 25 years to complete — means that we make a long lasting commitment to the surrounding community. With every project, we look to leave a legacy by delivering the right physical and economic infrastructure and creating a setting in which businesses and communities can evolve and develop.

Sustainability, the need to protect and enhance the environment, maintain our heritage and conserve vital resources, is at the heart of our business, and we set ourselves challenging targets to ensure that we are promoting the highest standards.

The current economic difficulties have inevitably required strong emphasis on containing costs and ensuring that projects are profitable. But this has not undermined our commitment to sustainability and to respecting the long-term interests of the communities and environments in which we work.

## PRINCIPLES

We conduct our business to the highest ethical standards, treating others as we would wish to be treated ourselves. In all of our business, we adhere to the following principles:

- We seek to make a positive contribution to society as a whole, and specifically the communities in which we operate.
- We treat all partners, suppliers and employees fairly, without regard to race, colour, creed, gender, age, sexual orientation or disability.
- We require our suppliers and our partners to adhere to similar high standards as ourselves.
- Compliance with laws and regulation is required as an absolute minimum standard.
- Reputable business practices must be applied.
- Conflicts of interest must be declared and appropriate arrangements made to ensure that those with a material interest are not involved in the decision-making process.
- Unlawful payments or inducements of any kind are prohibited.

As well as adhering to a strong set of principles, each project presents its own environmental challenges for which we carefully prepare to ensure minimal ecological impact whilst also ensuring that optimum use can be made of the site.

## REMEDICATION AND RE-USE

One of our key strengths, and one of the most important aspects of regeneration, is remediating land for redevelopment. This is a complex process that requires the highest expertise. The challenges and techniques vary from project to project; from pumping out hydrocarbon spillages, to baking the soil and employing innovative biodegradation techniques, whereby micro-organisms are used to clean up the soil. By such techniques, we create remediated land suitable for the development of spaces where people can live and work.

We have been recycling and reusing previously developed land for over a generation. Not only does this make the best use of derelict and run-down areas, it creates employment opportunities in areas that are suffering economically, whilst also preserving natural habitats.

But it is not only land that we seek to recycle — we also try to re-use as many of the existing buildings and materials on our sites as possible.

### CASE STUDY — LONGBRIDGE

With 3,000,000 sq ft of buildings now demolished at Longbridge, extensive remediation works are under way to prepare the ground for future development. We are targeting (and achieving) that 95% of all on-site material shall be recycled during the development process. At Longbridge West, a £3m, six month remediation programme has been completed during the year, with more than 200,000 cubic metres of soil cleaned across the 17 acre site. Bio-remediation techniques were utilised to recycle soil contaminated by hydrocarbons.

## JOB CREATION

Our sites not only transform the look and feel of the area, bringing about positive changes to once run-down centres of the UK and creating a renewed sense of community spirit, they also enhance the local economy through employment creation. During 2008, the company's schemes have created thousands of jobs across the country.

In some cases, we have been so successful in breathing new life into derelict sites, that we have helped to create more jobs with the new development than existed under the site's previous use.



### FARNBOROUGH

Construction works started on the £85m regeneration of Farnborough Town Centre in the autumn of 2008.









## TRENTHAM LAKES:

In 2009, St. Modwen's North Staffordshire office celebrates 21 years of regeneration activity in the region. To date, the company has developed over 900 acres of land, on which it has built 3.6m sq ft of commercial space which has created opportunities for in excess of 11,000 new jobs.

Trentham Lakes is one of our long-standing employment developments in North Staffordshire. We acquired this 267 acre former colliery site over a period of three years from 1996. Since then, we have transformed over half of the site into 1.7m sq ft of employment space and in doing so has created opportunities for over 3,300 new jobs.

## ENHANCING THE ENVIRONMENT

As part of our work to preserve the land and improve our surroundings, we undertake significant ecological and conservation activities on many of our sites, conducting careful studies and working hard to preserve the natural habitat. Measures can include preservation of rare species such as newts, water voles and bats. We also actively seek to introduce new species into areas in which we build to enhance the wildlife value of sites.

## EXAMPLES:

### Stonebridge, Liverpool

At our 30 acre Stonebridge speculative industrial development we have constructed BREEAM very good units with dual fuel (rapeseed oil/gas) heating. The heating system and efficient building design has resulted in a 34% reduction in CO<sub>2</sub> emissions beyond the minimum Building Regulations Requirement. In addition, the following has also been undertaken as part of the development:

- Secured and well-lit cycle racks and showers
- Recycled aggregates used in the construction of infrastructure
- Use of A rated building materials (in accordance with Green Guide to Specification)
- Provision of a compactor/baler to reduce waste quantities.

## COMMUNITY ENGAGEMENT AND SOCIAL INCLUSION

Many of the projects undertaken by the company — often in partnership with local authorities and other public sector bodies — are in areas of significant deprivation. We are therefore often at the forefront of attempts to address issues of social exclusion, by providing local jobs and improving local amenities, infrastructure and affordable housing stock. An outstanding example in the last year was our completion of an Asda at Edmonton Green, for which a new job centre was opened, specifically to employ a local workforce for the store.

Once a project is under way, active participation in local community activities is a key feature of the company's approach. We use a number of initiatives to encourage local communities to share in the improvements brought about by our 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, local radio stations and community wardens.
- Encouraging community participation in our developments. At Trentham Gardens, for example, we have a team of 46 volunteers, 6 from special needs groups, and 7 from groups supporting the rehabilitation of the long-term unemployed (including the Prince's Trust).
- Incorporating non-intrusive, but high levels of security facilities in our schemes to reassure and protect the vulnerable.
- Sponsoring local sport, leisure and charitable activities. We gave support in the year to a number of organisations, including the Trentham Water Sports Association (providing access to water sports for universities, schools, disabled groups and local community initiatives), the Dursley Bowls Club (for whom we provided new changing rooms, kitchen and other clubhouse facilities) and the Edmonton Ladies basketball team.

At a number of our sites, we provide free, or heavily subsidised, space and facilities for the use of local charities. These include free use of our Trentham Gardens site for a number of charities, including the Race for Life, the Donna Louise Trust, and the Douglas McMillan Hospice, and a temporary letting to a local charity in Worcester known as Samaritan's purse — the charity, which puts together shoe boxes full of toys for deprived children overseas, is occupying the space free of charge.



## CORPORATE SOCIAL RESPONSIBILITY

### CHARITY CASE STUDIES TRENTHAM WATERSPORTS ASSOCIATION

The long-term future for rowing and canoeing on Trentham's mile-long lake was secured when the trustees of Trentham Watersports Association signed a 99-year lease for a new boathouse in 2008.

Alan Meegan, Amateur Rowing Association:

*"Large companies are not valued for the way that they enrich communities. We all owe it to St. Modwen to support and recognise the huge amount of time, effort and goodwill that has been directed to this scheme."*



↑ Mike Herbert, North Staffordshire regional director, St. Modwen (far right) with John Court and Ken Walters of Trentham Watersports.

### ENVIRONMENTAL TRUST

The St. Modwen Environmental Trust has been established to provide support to the communities in which the company operates by offering grants to groups seeking to improve their local environment.

The Trust is run by a board of trustees comprising representatives from the board of the company and a majority of independent trustees who have experience in environmental matters.

Funding for the Trust is supplied by the company and by the Landfill Tax Credit Scheme ('LTCS'). The use of LTCS monies is regulated and monitored by Entrust.

Examples of projects supported by the Environmental Trust include: the Mary Hare primary school in Newbury with the development of a new sensory garden for the children to enjoy throughout the year, whilst a new Celebration Garden has been built for the staff and children at Field View Primary School in Bilston, near Wolverhampton.

### 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 wherever appropriate.
- Co-operation of staff in promoting safe and healthy conditions and systems of work is required.
- 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, reporting to the board, 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.

The Health and Safety Forum provides guidance to employees on all aspects of health and safety. To assist, a Health and Safety Procedures Manual has been produced.

We undertake no construction work on site directly; therefore, our assessment of a subcontractor's or main contractor's health and safety procedures forms a key part of our supplier selection process, and is a vital element in our health and safety controls. We ensure that health and safety audits are performed on all of our projects.

For our operational sites (including Trentham Gardens, 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 prosecutions for breaches of health and safety, and no fatalities.

→ **BOURNVILLE COLLEGE**  
An artist's impression of the £84m new Bournville College, set to anchor the next phase of development at Longbridge in 2009.



## CORPORATE SOCIAL RESPONSIBILITY

### AWARDS

The following are examples of some of the awards we have received in 2008.

#### AWARD FOR LEPIDOPTERA

St. Modwen won a prestigious national ecology award for the conservation of rare species of butterfly on three of its sites in the West Midlands.

The company was named winner of the Marsh Award for the promotion of Lepidoptera, for enhancement and management which has supported the protection of endangered butterflies at: Coombs Wood in Halesowen, the proposed Middle Quinton Eco Town in Warwickshire and at Fenton Trade Park, Stoke-on-Trent.

Working closely with experts from the Butterfly Conservation organisation, we identified and preserved existing habitat and created new areas for the species to thrive on each of the sites.



#### SUSTAINABILITY AWARD — LITTLECOMBE, DURSLEY

We won the South West Business Insider's 2008 award for Sustainability for our work at the 92 acre former Lister Petter manufacturing site in Littlecombe, Gloucestershire.

This scheme involves the development of a new urban community of up to 600 homes and 1,000 job opportunities, as well as opening up the River Cam and providing local facilities.

As part of the development, the project will include a district-wide biomass heating and hot water system in order to reduce CO<sub>2</sub> emissions by *circa* 50% against prevailing building regulations.



#### BP HELIOS AWARDS, COED DARCY, NEATH

The BP Helios Awards recognise projects of particular significance globally, across the entire company.

In 2008, St. Modwen's Coed Darcy project — the regeneration of a 1,000 acre former BP oil refinery — was awarded the "Progressive" Helios Award which focuses specifically on "new and better ways of doing things".

The Coed Darcy project was selected because of the excellent working relationship between BP and St. Modwen, the remediation techniques employed, and the way in which a very polluted site is being transformed — over a period of 25 years — into a £1.2 billion urban community.





## SUSTAINABILITY TARGETS

We adopt a long-term approach to achieving and improving our sustainability targets. A review of our targets will see us focus on the following areas for 2009:

- **Reduction in energy use** — particularly energy derived from the burning of non-renewable fossil fuels. We have added to our targets for 2009 a requirement for 10% renewable energy sources in new building projects.
- **Use of buildings** — greater focus on the cost in use of buildings and the potential value this creates. During 2009 we will offer energy in use calculations to enable new occupiers to make maximise use of their building's efficiency.
- **Waste recycling** — the target of recycling construction waste has increased from 50% in 2008 to 60% in 2009.
- **Transport** — more environmentally friendly forms of transport and locally sourced labour/materials will be given greater consideration in 2009. We will now stipulate in all specifications the use of local labour and travel plans for contractors who work on our remediation, infrastructure and building projects.
- **New initiatives** — we will continue to look at cleaner ways of generating electricity, using renewable energy sources such as wind power, solar power, bio fuels and geothermal energy.
- **Ongoing review** — we are taking the opportunity of the current pause in the property market to review our targets for speculative commercial and residential buildings so we are ready for when it recovers.

### THE TARGETS

SUSTAINABILITY TARGETS 2009	2007 % (achieved)	2008 % (achieved)	2009 % (target)
<b>BROWNFIELD LAND REMEDIATION</b>			
TARGET: Percentage of remediated materials re-used or recycled.	94	99	96
<b>DEMOLITION</b>			
TARGET: Percentage of demolition products reclaimed for retention on site or recycling.	88	91	90
<b>WASTE</b>			
TARGET: Percentage of construction project waste reused or recycled.	20	55	60
<b>REDUCED ENERGY USE</b>			
TARGET: Energy consumption reduction above that involved in achieving Building Regulations on speculative projects in excess of 50,000 sq ft for industrial buildings and 25,000 sq ft for offices.	5	100	25
<b>RENEWABLE ENERGY</b>			
TARGET: percentage of building projects to have at least 10% of power from a renewable energy source.	—	—	5
<b>REDUCTION OF ENERGY DURING BUILDING OCCUPANCY</b>			
TARGET: Percentage of new building occupiers offered cost in use energy calculations and suggestions of energy reduction measures.	—	—	50
<b>WATER</b>			
TARGET: Percentage of schemes with water usage reduction technologies.	65	100	100
TARGET: Percentage of schemes with water recycling technologies.	20	26	30

# BOARD MEMBERS



\* Member of audit and remuneration committees

† Member of nomination committee

**01 ANTHONY GLOSSOP** MA†  
NON-EXECUTIVE CHAIRMAN

Aged 67. A director since 1976 and Chief Executive from 1982 to 2004. Executive Chairman from 2004 to 2008, and Non-Executive Chairman since 11th February 2008. He is Chairman of the Nomination Committee. He is also a non-executive director of Robinson PLC., and a member of the Regeneration and Development Committee of the British Property Federation.

**02 BILL OLIVER** BSc, FCA  
CHIEF EXECUTIVE

Aged 52. 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.

**03 TIM HAYWOOD** MA, FCA  
FINANCE DIRECTOR and COMPANY SECRETARY

Aged 45. Joined the company in 2003. Previously Chief Financial Officer of Hagemeyer (UK) Limited, after a career with Williams Holdings PLC.

**04 STEVE BURKE**  
CONSTRUCTION DIRECTOR

Aged 49. Joined the company as construction director in 1995 and appointed to the 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).

**05 CHRISTOPHER ROSHIER** MA, FCA

Aged 62. A non-executive director appointed in 1987. He is a Chartered Accountant with over 20 years' experience in corporate finance. Currently Chairman of Deutsche Land Management Limited and a director of two overseas investment companies.

**06 JOHN SALMON** FCA\*†

Aged 64. A non-executive director appointed in 2005. Chairman of the Audit Committee. Formerly a partner of PricewaterhouseCoopers LLP and a member and former Deputy Chairman of their Supervisory Board. Currently an advisory board member of Savile plc and Chairman of the Board of Trustees and Council member of the British Heart Foundation.

**07 MARY FRANCIS** MA, CBE\*†

Aged 60. A non-executive director appointed in 2005. Chairman of the Remuneration Committee. Former Director-General of the Association of British Insurers and former Deputy Private Secretary to the Queen. Previously a senior civil servant in HM Treasury and 10 Downing Street. She is Senior Independent Director of Centrica plc and a non-executive director of Aviva plc.

**08 SIMON CLARKE**\*

Aged 43. A non-executive director appointed in 2004. Previously Deputy Chairman of Northern Racing PLC and Director and the Vice-Chairman of the Racecourse Association.

**09 IAN MENZIES-GOW** MA\*†

Aged 66. A non-executive director appointed in 2002. Senior Independent Director since 23rd February 2009. Formerly Chairman of Geest PLC and Derbyshire Building Society, and prior to that held senior executive positions within the Hanson Group.

**10 PAUL RIGG** DL, CPFA\*†

Aged 62. A non-executive director appointed in 2004. Formerly Chief Executive of West Sussex County Council. He is a director of the Chichester Festival Theatre Ltd, and Chairman of the Weald and Downland Open Air Museum Ltd.

# SENIOR MANAGEMENT



**01 JOHN DODDS** BSc, FRICS  
REGIONAL DIRECTOR – MIDLANDS  
Aged 52. 7 years' service.

**02 MIKE HERBERT**  
REGIONAL DIRECTOR – NORTH STAFFORDSHIRE  
Aged 53. 18 years' service.

**03 RUPERT JOSELAND** BSc, MRICS  
REGIONAL DIRECTOR – SOUTH WEST  
Aged 39. 7 years' service.

**04 STEPHEN PROSSER** BSc, MRICS  
REGIONAL DIRECTOR – YORKSHIRE  
Aged 45. 11 years' service.

**05 TIM SEDDON** BSc, MRICS  
REGIONAL DIRECTOR – LONDON AND SOUTH EAST  
Aged 44. 3 years' service.

**06 MICHELLE TAYLOR** BSc, MRICS  
REGIONAL DIRECTOR – NORTH WEST  
Aged 46. 17 years' service.

**07 RUPERT WOOD** BSc, MRICS  
REGIONAL MANAGER – NORTHERN HOME COUNTIES  
Aged 35. 3 years' service.



# CORPORATE GOVERNANCE REPORT

The board is committed to maintaining high standards of corporate governance within the company. Throughout the year ended 30th November 2008, and up to the date of approval of the annual report and accounts the company has complied with Section 1 of the Combined Code on Corporate Governance issued in 2006 (the 'Code') except in relation to the following matters:

- The Code asks the board to identify each non-executive director it considers to be independent. Of the seven non-executive directors at the end of 2008, 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 twenty two 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. At the Annual General Meeting he will step down as a non-executive director and will not be seeking re-election. 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 issued share capital, gives him a very strong interest in challenging and scrutinising management to secure excellent performance from the company.
- 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 except for Christopher Roshier. 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.
- 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 board in 2004 which was endorsed by shareholders at the Annual General Meeting that same year. As of 11th February 2008 Anthony Glossop became non-executive Chairman. The roles of the Chairman and Chief Executive are carefully differentiated.

## BOARD OF DIRECTORS AND COMMITTEES

The board operates within the terms of its written authorities, which include a schedule of matters reserved for the approval of the board. The board currently consists of the non-executive Chairman, three executive directors and six non-executive directors. 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 board meets not less than ten times during the year and the Chairman and the non-executive directors also met without the executive directors being present. The programme of board meetings is tailored to enable some meetings to be held at the company's properties. In advance of each meeting, each director receives a board pack containing comprehensive briefing papers. Presentation on business and operational issues are made regularly to the board by senior management.

Ian Menzies-Gow 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 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) Audit Committee

The Audit Committee currently comprises all the non-executive directors except for Christopher Roshier. The Committee is chaired by John Salmon who, as a former partner of PricewaterhouseCoopers LLP, is considered by the board to have the required recent and relevant experience.

The company's Finance Director, Financial Controller and Internal Auditor attend Audit Committee meetings, but the Committee also meets without management being present and has private sessions with the auditors. The Committee has direct access to the internal and external 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 internal and external auditors.
- Reviewing the interim and annual results and reports to shareholders, and considering any matters raised by the internal and external auditors.
- Considering the appropriateness of the accounting policies of the company used in preparing its financial statements.
- Monitoring the integrity of the financial statements of the group and formal announcements relating to the group's financial performance, and reviewing significant financial reporting judgements contained therein.
- Reviewing the effectiveness of the group's internal audit function.
- Reviewing and monitoring the independence and objectivity of the company's external auditors.
- 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.
- Reviewing "whistle-blowing" arrangements within the company.
- 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.

During the year, the Committee was assisted in the performance of these duties by the company's internal auditor, tasked with formalising and documenting internal control procedures and ensuring compliance.

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.

#### b) Nomination Committee

The Nomination Committee comprises Anthony Glossop (as Chairman), Mary Francis, Ian Menzies-Gow, Paul Rigg and John Salmon.

The Committee ensures that the membership and composition of the board, including the balance of executive directors and non-executive directors, continues to be appropriate and undertakes a regular review of succession planning. During the year, on the recommendation of the Committee, the board agreed that Tim Haywood would resume his former responsibilities as Company Secretary.

#### c) Remuneration Committee

The composition and function of the Remuneration Committee are set out in the Directors' Remuneration Report.

## BOARD AND COMMITTEE ATTENDANCE

The attendance of board or Committee meetings during the year to 30th November 2008 was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
C.C.A. Glossop	12	—	5*	1
S.J. Burke	13	—	—	—
T.P. Haywood	13	3*	—	—
W.A. Oliver	13	1*	5*	—
S.W. Clarke	11	3	4	—
M. Francis	13	3	5	1
R.I. Menzies-Gow	12	3	4	1
D.P. Rigg	10	3	4	1
C.E. Roshier	11	2*	4*	—
J.H. Salmon	13	3	5	1
No. of meetings during the year	13	3	5	1

\* In attendance, but not a member of the Committee.

## CORPORATE GOVERNANCE REPORT

### 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 the year. The principal findings of the review were that “since the first review in 2005 many of the issues raised had improved significantly, and that there was a shared sense of strategic mission and vision . . . an improved process of risk management, good communication with shareholders and stakeholders, and . . . a highly committed and knowledgeable executive team”. The principal areas identified as requiring further work were:

1. Clarity of board agendas and papers
2. Discussion of the corporate domain
3. Succession planning
4. The role of the Chairman

During the year progress has been made against these recommendations in a number of areas, including the initiation of a management development programme to identify and develop talent; a growing focus on the macro-economic forces influencing the company’s markets; and a redefinition of the role and time commitment of the non-executive Chairman.

### 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.

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.

The analysis of the business’s key risks was also reviewed and redefined in the light of current experience.

The company’s policies with respect to its:

- a) financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and
- b) exposure to price risk, credit risk, liquidity risk and cash flow risk are contained in note 15 to the accounts.

### RISKS AND UNCERTAINTIES

The key business risks facing the company, their potential impact and 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. ECONOMIC/PROPERTY RISKS

The risks identified included:

- Availability of liquidity for potential property investors
- Demand for land from housebuilders
- Demand for space from occupiers
- Investment yield movements and difficulties ascertaining market values in illiquid markets
- Overexposure to single tenant/scheme/sector
- Changing public sector requirements

The principal mitigating actions are:

- Use of realistic, but conservative, property valuations
- 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 the UK, which is normally subject to relatively low-risk, low-returns from a stable and mature, albeit cyclical economy and property market. By involvement with many sectors of that economy and that property market, we are well diversified, without venturing overseas.

The current volatile economic climate, and the resultant illiquidity of UK financial and property markets, has increased risk levels in this area significantly. Furthermore, existing property valuations, though



undertaken with professional diligence by external experts, are now subject to higher degrees of volatility and uncertainty than in previous years. This is a macro-economic phenomenon that seriously affects our principal market. However, strong, well-run companies will survive this downturn, and will benefit from enhanced opportunities and reduced competition when conditions improve. In the meantime, we will address this higher risk profile by maintaining our conservative stance to funding, development and acquisitions.

## 2. FINANCIAL RISKS

The risks identified included:

- Ability to manage business within existing banking covenants
- Lack of available funds
- Ability to balance cash flows to meet changing market conditions
- Interest rates

The principal mitigating actions are:

- Detailed cash flow forecasting
- Recurring rent roll enabling interest costs to be met when development activity declines
- Acquisition transactions structured in self-financing manner
- Small number of high-quality banking relationships
- Hedging policy to contain interest rate risk
- Redefinition of covenants to ensure in line with business capabilities

**Assessment** — A breach of one or more of the covenants could result in the group's debt becoming subject to repayment on demand by its finance providers. Whilst this scenario is not currently envisaged, the group is subject to a number of risks and uncertainties which arise as a result of the current market conditions. In determining that the group is a going concern, we have considered these risks and uncertainties and have determined that they do not currently represent a significant threat to the group.

As a result of the factors set out on pages 19 and 20, over the past year the focus has been on reducing forward commitments and speculative development and progressing selective asset disposals to optimise cash flow, and to enable us to operate within our existing resources. This will necessarily limit the extent of development undertaken during this period.

## 3. ORGANISATIONAL/PEOPLE FACTORS

The risks identified included:

- Failure to retain or train skilled personnel
- Succession planning and talent management
- IT
- Disaster planning
- Need to manage cost base to meet lower activity levels

The principal mitigating actions are:

- Competitive remuneration packages
- Regular assessment of performance and identification of training needs
- Headcount reduction undertaken in period
- Regular communication of strategic and tactical objectives
- Properly resourced and structured IT solutions
- Appropriate disaster recovery procedures

**Assessment** — Employee turnover has historically been low, indicating good retention levels. Vacancies have been few, and are generally filled promptly, indicating the attractiveness of the company and remuneration packages. To support the long-term financial objectives, we will need to continue to improve the skills of our employees. In the short term, although we unfortunately had to implement a redundancy programme to reduce our cost base in line with activity levels, this was done without any adverse impact on our live schemes.

## 4. REGULATORY FACTORS

The risks identified included:

- Planning
- Tax
- 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 become more active in attempting to influence public policy debate, although meaningful and beneficial changes are very difficult to bring about, notwithstanding the formalities of extensive public consultation.

## 5. FAILURE TO SECURE SCHEMES

The risks identified included:

- Availability of finance
- Competition
- Reputation

The principal mitigating actions are:

- Regional offices in touch with their local market
- Dedicated central resource to support regional teams
- Flexible and innovative approach to acquisitions in response to changing market conditions
- Raising the profile of the company as the country's leading regeneration specialist

## CORPORATE GOVERNANCE REPORT

**Assessment** — The increasing focus on the regions to deliver acquisitions and the growing reputation and financial capacity of the company have enabled us to win a large number of schemes and to grow the hopper to record levels, while selling completed schemes into a buoyant market. In the current financially constrained climate, opportunities are fewer as buyer and seller expectations differ widely. We have nevertheless continued to make a number of excellent, self-financing acquisitions, and anticipate that the number of opportunities will increase as the downturn intensifies.

### 6. SOCIAL, ETHICAL AND ENVIRONMENTAL RISKS

The risks identified included:

- Health, safety & environment risk
- 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

**Assessment** — The initial assessment of environmental costs (and the subsequent optimising of remediation solutions) is an integral part of our acquisition and post-acquisition procedures. We seek to minimise or pass on any such environmental risks, and believe that the residual risk in this respect is acceptably low. In other social and ethical areas, the company has benefited from an excellent reputation, which is underpinned by a simple set of operating commitments.

### 7. REPUTATIONAL RISKS

The risks identified included:

- Failure to deliver on promises
- Involvement with controversial schemes/partners
- Failure to live up to expectations

The principal mitigating actions are:

- Adherence to system of principles and ethics
- Thorough and proactive PR to get messages across clearly
- Inclusion of reputational issues as an item in scheme selection process
- A strong culture of propriety led from the board
- Regular top-level meetings with local authorities, RDAs, and other government or quasi governmental bodies

**Assessment** — The company enjoys an excellent reputation with its stakeholders (including investors business partners and employees). This is based on, and reinforced by, a strong set of principles and consistent delivery of promises.

### 8. CONSTRUCTION RISK

The risks identified included:

- Build quality
- Remediation/contamination
- Liability issues
- Contractor failure

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
- Close monitoring of contractors' performance and financial viability

**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 passed on or minimised where possible, but cannot be eliminated. In our recent experience, the residual risks have been acceptably low.

### PRINCIPAL ACTIVITIES

The company acts as the holding company of a group of property investment and development companies. A list of the subsidiary and associated undertakings affecting the profit or net assets of the group is included in note F to the company accounts.

### DIRECTORS' INTERESTS IN ORDINARY SHARES

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

	30th November 2008	30th November 2007
<b>Beneficial</b>		
S.J. Burke	26,938	13,240
S.W. Clarke	7,026,546	3,859,332
M.E. Francis	1,000	1,000
C.C.A. Glossop	1,607,933	1,607,933
T.P. Haywood	91,251	87,823
W.A. Oliver	202,002	188,304
P. Rigg	1,875	1,875
C.E. Roshier	10,417	10,417
J. Salmon	2,000	2,000
<b>Non-beneficial</b>		
C.C.A. Glossop	100,000	100,000

The above interests do not include shares held under the share option schemes described in the Directors' Remuneration Report.

There has been no change in these beneficial interests between 30th November 2008 and 26th February 2009.

## SUBSTANTIAL INTERESTS

As at 26th February 2009 the company had been notified of the following interests in more than 3% of its issued share capital:

Shareholder	Number of Ordinary Shares Held	Percentage of Ordinary Share Capital
Clarke family holdings (excluding S.W. Clarke)	27,104,206	22.4%
J.D. Leavesley and connected parties	17,307,477	14.3%
Kempen Capital Management	4,707,438	3.9%
ING Investment Management	3,972,467	3.3%
Legal & General Investment Management	3,876,867	3.2%
Dimensional Fund Advisors	3,618,201	3.0%

## REAPPOINTMENT OF DIRECTORS

The directors listed on page 48 constituted the board during the year. Anthony Glossop, Tim Haywood, and Ian Menzies-Gow will retire from the board in accordance with the provisions of the company's Articles of Association and offer themselves for re-election at the 2009 Annual General Meeting.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract existed during the year in relation to the company's business in which any director was materially interested.

## 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.

During the year ended 30th November 2008 trade creditors represented an average of 30 days' purchases (2007: 26 days). This has been calculated by expressing year end creditors as a fraction of purchases made in the year, and multiplying the resulting fraction by 365 days.

## SHARE CAPITAL

On 30th November 2008 there were 120,773,954 ordinary shares of 10p in issue, each with one vote. There have been no changes in the company's share capital during the year under review.

## EMPLOYEES

The group encourages employee involvement and places emphasis on keeping its employees informed of the group's activities and performance. The company's executive runs quarterly management meetings at which staff are informed about information affecting them as employees, where their feedback is sought on decisions likely to affect their interests, and where a common awareness is achieved of the financial and economic factors affecting the company's performance. This information is then cascaded to staff at the

company's head office and regional offices. 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, to the continued employment of staff who become disabled, and to their continued career development and promotion. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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

## POLITICAL DONATIONS AND CHARITABLE DONATIONS

The company did not make any political donations in the year. Details of the company's charitable activities are included in the CSR review. Direct charitable donations during the year totalled £7,000 (2007: £8,000).

## 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 Annual General Meeting 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 Annual General Meeting, 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](http://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 Annual General Meeting, the company provides the opportunity to vote electronically through CREST (for further details see page 114).

## 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.



# DIRECTORS' REMUNERATION REPORT

This report has been drawn up in accordance with the Combined Code 2006 and the Companies Act 1985. It complies with the FSA's Listing Rules, 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 comprises Mary Francis (Chairman), Simon Clarke, Ian Menzies-Gow, Paul Rigg and John Salmon.

The Committee considers all aspects of the executive directors' remuneration and administers the company's share 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.

During 2008 the Committee was assisted by Watson Wyatt, who were appointed as its independent remuneration advisers in June 2008. Watson Wyatt do no other work for the Company. The Remuneration Committee was also assisted in its deliberations by the Chairman, the CEO and the Company Secretary. These executives were not present when their own remuneration arrangements were under discussion.

## REMUNERATION POLICY

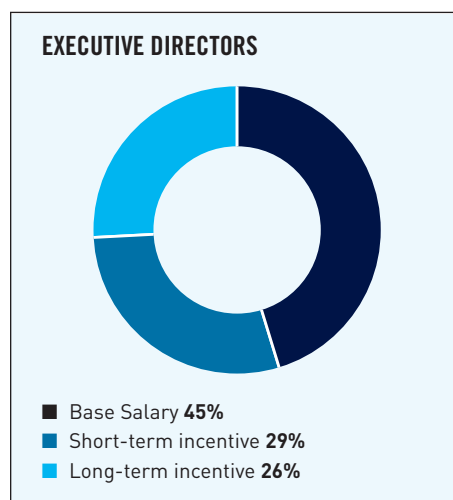
The objective of St. Modwen's remuneration policy is to attract, retain and motivate high calibre senior executives through competitive pay arrangements which are also in the best interests of shareholders. These include performance-related elements with demanding targets, in order to align the interests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

The overall aim is that the fixed elements of executive directors' remuneration (base salaries and pension benefits) 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.

The main elements of executive directors' remuneration comprise:

- **Base salary:** reviewed annually in the light of information on the external market and other relevant factors such as internal relativities and individual performance.
- **Annual bonus:** the aim is to provide a clear and direct incentive. Bonus normally comprises a single cash payment awarded at the end of the financial year. Bonus targets require performance based on financial, operational and strategic measures at company and personal levels. Awards range from 20% of base salary, if the minimum performance targets are met, to 125% for performance at the maximum.
- **Performance share plan:** an annual award of shares normally with a face value of 150% of base salary which vest, subject to achievement of performance targets, in whole or in part after three years. The plan was agreed by shareholders in 2007 and provides the main incentive to sustained, longer term performance. The plan rules require challenging performance targets to be set for each award to vest and stipulate that the measures used should be appropriate in the prevailing economic environment and circumstances of the company.
- **Pensions and benefits:** executive directors' pension benefits are funded through either the defined benefit scheme (now closed), or the defined contribution scheme. Executive directors also receive private medical insurance, life insurance and participate in the company car plan.
- **Shareholdings:** it has been the company's policy since 1st December 2006 that executive directors are expected to build up their shareholdings in the Company over a five year period to be, at a minimum, the value of one times base salary.

The diagram below shows the expected value of remuneration in terms of base salary, short-term and long-term incentives:



## EXECUTIVE DIRECTORS' REMUNERATION IN 2008

The year under review was one of considerable challenge and difficulty for the company, its shareholders and its management team. At its meetings during the year, the Committee discussed in depth what constitutes fair pay for the company's executives in these circumstances and agreed it should focus on meeting the following objectives:

- To take account of shareholders' interests at a time of declining shareholder value.
- To continue to motivate and retain the company's key executives.
- To ensure that performance targets remain both stretching and relevant.
- To incentivise the executive team to maintain a focus on the longer-term strength of the company, as well as addressing the shorter-term challenges of the recession.
- To ensure that decisions on executive directors' pay are aligned with decisions made for other employees of the Company.

The Committee was particularly mindful of the message it receives from many institutional fund managers: that they invest in St. Modwen because they have a high regard for its management team, led by the three executive directors. They see retention and motivation of the company's top team as a key objective for the Remuneration Committee, and are mindful of the fact that attractive opportunities continue to arise for executives of their quality in other companies — both quoted and private. At the same time, the Committee was aware of the expectation from shareholders and their representative bodies that remuneration should reflect declines in shareholder value in current market conditions. Applying these objectives required the Committee to reach balanced judgements in relation to remuneration in 2008 and in structuring remuneration for 2009. The overall effect was that the total remuneration of each of the executive directors was substantially lower in 2008 than in the previous year.

The remuneration arrangements for the year ended 30th November 2008 are set out below.

### BASE SALARIES

Base salaries for the year beginning 1st December 2007 were set at levels which would be externally competitive, since companies in the sector were still recruiting actively and retention remained an issue. The Chief Executive's and Finance Director's base salaries were raised in line with average increases in the market to £412,000 and £241,000 respectively. The Construction Director's salary was increased from £200,000 to £230,000 to recognise his increasing contribution to the company since his appointment as a director and to move his salary towards a market-comparable level.

### 2008 BONUS SCHEME

The executive directors had the opportunity to earn a total bonus of up to 125% of base salary, with up to 50% of the maximum allocated to achievement of a financial target and up to 50% to achievement of personal targets. The two elements were to be judged

independently. Performance against the financial target was not a condition for payment against the personal targets, since the latter focussed on both developing the longer-term strength of the company and on in-year priorities which were, in the Committee's view, essential elements of performance.

The financial target set by the Committee was based on growth in net asset value per share. The net asset value target was not met, and, therefore, no award was made in respect of the financial element of the bonus.

As noted above, the personal targets were focussed on:

Longer-term strength of the company:

- delivering marshalling milestones including planning permissions for key sites
- acquiring new land and properties
- improving management structures and training, and improving succession planning.

In-year priorities:

- cost control and asset management
- cash management
- bank covenants.

The executive directors' performance was assessed individually by the Committee against these targets, relying on audited information where appropriate.

The longer-term measures were substantially achieved, subject to some variations in personal performance reflected in the final amounts awarded (see below). Despite the difficult market conditions, acquisition and marshalling activity continued, with a number of outstanding achievements. In particular, the acquisition, marshalling and initiation of remediation works at Coed Darcy, and the selection by BP for the development of a further 2,500 acre portfolio, were outstanding achievements. As the year progressed, the in-year priorities became the key focus and in the deteriorating financial conditions were increasingly stretching to achieve. Each was fully met.

The bonus payments made to each of the executive directors, in accordance with the performance conditions, were: Bill Oliver 50% of maximum bonus, (62.5% of base salary); Steve Burke 48% of maximum bonus, (60% of base salary); Tim Haywood 36% of maximum bonus, (45% of base salary). The awards reflected the Committee's assessment of each individual's performance. In total, bonus payments were substantially below those awarded the previous year.

The Committee was conscious that it could be seen as inappropriate for the resulting bonus payments to be paid in cash at a time when shareholders had seen declines in the absolute value of their shares. Taking this into account, the Committee decided to make payment conditional on the executive directors undertaking to invest the bonus received, after payment of income tax and national

## DIRECTORS' REMUNERATION REPORT

insurance, in company shares and to retain those shares for a minimum period of two years.

In normal circumstances, once awarded, cash payments under the bonus scheme are a contractual right. Requiring the executive directors to invest the payments made to them into the company's shares was an exceptional decision, to which they agreed. Accordingly the shares purchased will not be forfeitable if an executive director leaves the Company.

### DEFERRED BONUS SCHEME

The deferred cash bonus plan that was in place between 2004 to 2006, was introduced as a retention tool. It required participants to receive half their annual bonus in cash with payment of the remainder deferred for a further three years. In respect of senior managers the deferment was subject only to continued employment with the company, and in the case of the executive directors an additional NAV growth condition applied. The plan was replaced by the current arrangements, under which an annual cash bonus is paid, at the end of the year in which it is earned, and long-term incentives are provided through a performance share plan.

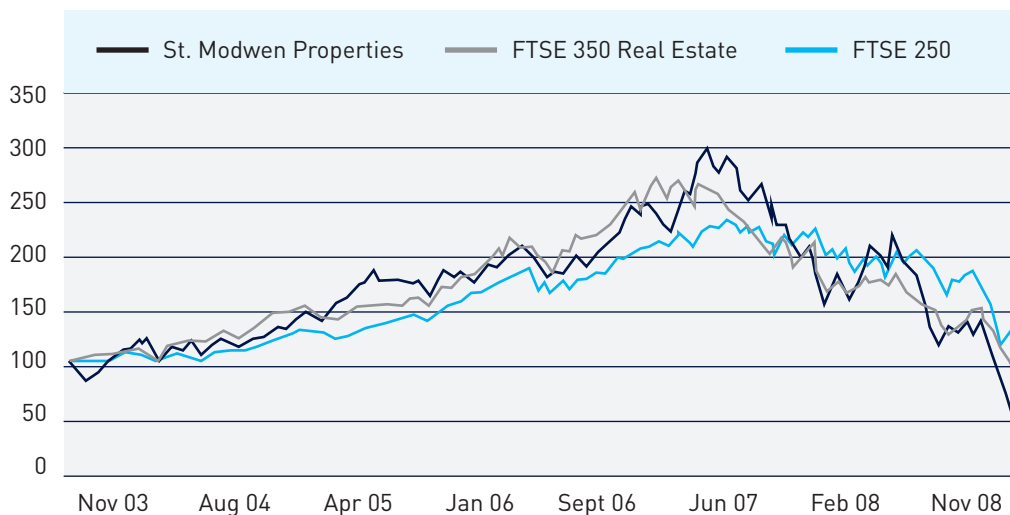
The deferred bonuses due for payment in 2009 were earned for performance in 2005. As Steve Burke was not appointed to the board until November 2006 his deferred bonus of £60,000 was not subject to further performance condition, so automatically vested in full.

For Bill Oliver and Tim Haywood, the deferred bonus target required NAV growth over three financial years between 2006–2008 to exceed RPI plus 5% per annum, which equated to a target of 31.3%. Over this period, NAV grew by 24.1%.

After very careful consideration, the Committee concluded that the deferred bonus should be paid. This was a balanced and difficult judgement, taken in the context of the Committee's overall remuneration decisions. In particular:

- The executive directors' actual and expected remuneration had been substantially reduced because of the decline in NAV in 2008. The financial element of the 2008 bonus (accounting for half the potential award) and the executive share option grant due to vest in early 2009 would both lapse. There is also a high probability that the entire performance share plan grants made in 2007 and 2008 will lapse.
- The Committee had used its discretion to request the executive directors to convert their 2008 cash bonuses into shares and undertake not to sell them for two years. The exercise of discretion had thus not been one-way.
- The deferred bonus target was set in 2003, at a time of steeply rising market values, and was not subsequently reviewed. The company's current remuneration schemes require all targets to be set taking account of current market conditions.
- NAV growth of 24.1% over the performance period was an exceptionally good result in relative terms. NAV's in the property sector as a whole are forecast to have declined by an average of 24.3% over the corresponding three-year performance period.
- The Committee was mindful of shareholders' concern that the executive team should be retained.

The vested amounts are Bill Oliver £217,000 and Tim Haywood £123,000. No decision has been taken on payment of the deferred bonuses earned in 2006 and due to be paid in 2010.



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



## SHARE OPTION PERFORMANCE AND AWARDS

As referred to above, the threshold NAV growth performance condition applying to the award of share options due to vest in 2009 has not been met. The Remuneration Committee has determined that the grant of share options will lapse.

In the current economic climate, it is also expected that NAV growth will fall substantially short of the targets set for performance share awards in 2009.

## PERFORMANCE SHARE PLAN ('PSP')

PSP awards to executive directors were granted in 2008 over shares to a value of 150% of base salary. The shares will vest after three years, subject to achievement of performance targets over three financial years ending 30th November 2010. Performance will be measured against two targets.

The first is cumulative real growth in net asset value per share ("net asset growth"). Net asset growth of 9% will earn PSP shares worth 31.5% of base salary at date of the award and growth of 44% will earn shares worth 125% of base salary at date of the award. These levels of growth are lower than those set for the PSP award granted in 2007 but, in accordance with the rules of the Plan, were agreed by the Committee, after very careful consideration, to be as challenging in the more difficult economic climate. They were notified to major shareholders before the 2008 AGM and were set out in the remuneration report which was approved at the AGM.

The second target is the company's absolute total shareholder return ("TSR"). If TSR over the three financial years ending 30th November 2010 is 75% or more, the PSP grant will be enhanced by 20%. No adjustment will be made if TSR is between 0% and 75%. Awards will be reduced by 20% if TSR is at or below 0%.

The combined effect of the two PSP targets is that vesting of shares worth 25% of base salary would be achieved for net asset growth of 9% over the three year period, and the maximum vesting would be worth 150%. Beneath 9% growth, no vesting will occur.

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

## EXECUTIVE DIRECTORS' REMUNERATION IN 2009

The Committee considered carefully the executive remuneration arrangements for 2009 having regard to operational and strategic priorities in a difficult market, seeking to balance shareholders' interests with the need to incentivise the executive team.

Executive directors' remuneration for 2009 comprises:

### BASE SALARIES

Base salaries were reviewed having regard to market conditions and the salary review being implemented for other staff which was budgeted at a 3% increase. Salaries effective from 1st December are Bill Oliver — £424,360; Steve Burke — £280,000; Tim Haywood — £248,230. Bill Oliver and Tim Haywood received salary increases of 3% in line with other staff and Steve Burke received an increase of 21.7% reflecting the continuing increase in his contribution since joining the board and external benchmarks. Base salaries continue to be below the market median for companies of a similar size in the property sector.

## PENSIONS AND BENEFITS

No changes have been made to policy and practice.

## 2009 BONUS SCHEME

In current market conditions, it is essential to set clear, stretching and realistic targets which relate directly to the company's strategy for both the short and longer term.

The Committee agreed the following performance conditions for the 2009 annual bonus:

- net asset value
- covenant compliance
- gearing levels
- land and property acquisitions and disposals
- marshalling activity
- personal elements including cost management.

The targets for each element are based on the budget agreed by the board and are considered by the Committee to be stretching in current market conditions.

Payment of bonus will not be dependent on achievement of any single target, since the targets are all of key importance to the short and longer term health of the company. The potential maximum award is 125% of base salary, and the Committee will have regard to the value which has been created for shareholders when determining bonus awards at the end of 2009.

## PERFORMANCE SHARE PLAN

The 2009 grant of shares under the PSP will vest according to performance in the three financial years from 2008 to 2011.

The potential maximum award has been reduced from 150% of base salary to 125%.

The Committee gave extensive consideration to the performance conditions to be set. The rules of the performance share plan approved by shareholders in 2007 require the Committee to set performance conditions for each annual grant which reflect current market conditions and the company's strategy. The company's goal continues to be the growth of net asset value per share. However, forecasts for net asset growth in the sector as a whole have been revised sharply downwards for the medium-term.

The Committee decided that for 2009, only half the award should be linked to absolute NAV growth targets. It set targets at levels which were lower than in the last two years, but which it considered to be stretching in the light of medium term prospects. The award has a maximum cumulative NAV target of 15% growth, which would earn 50% of the total PSP grant and which the Committee considers to be exceptionally stretching in the light of current forecasts. After consultation with shareholders, the minimum target has been set at 2% growth to ensure that executive directors are only rewarded for performance which delivers a positive return to shareholders. Net asset values are expected to fall across the market in the next one or even two years. The targets will therefore require positive growth of considerably more than the stated range of 2%–15% in 2010 or 2011. Achieving the minimum target will secure shares equivalent to only 12.5% of the potential PSP award, compared with 25% in the previous year.

## DIRECTORS' REMUNERATION REPORT

The Committee decided that the other half of the award should be subject to a measure of total shareholder return relative to the FTSE 350 Real Estate Index. For this portion of the award, minimum vesting is achieved for performance equal to the index (earning 12.5% of the total PSP grant), and maximum vesting (earning 50% of the total grant) for performance at 120% of the index. This approach will ensure that vesting of a significant proportion of the award will be dependent on out-performance by the company relative to its peers.

The absolute TSR adjustment which was applied to the PSP awards in 2007 and 2008 will not apply.

Share awards made to executive directors and other employees will remain within the overall limits allowed by the rules of the relevant plans.

Audited Information:

### EXECUTIVE SHARE OPTION SCHEMES<sup>(i)</sup>

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	—	60,000	—	—	134p	Sept 2005–Sept 2012
August 2003	—	112,000	—	—	200p	Aug 2006–Aug 2013
August 2004	—	89,500	39,250	—	279p	Aug 2007–Aug 2014
August 2005	—	87,250	33,750	39,500	443p	Aug 2008–Aug 2015
August 2006 <sup>(ii)</sup>	—	—	—	—	478p	n/a
As at 30th November 2008	500,000	348,750	73,000	39,500		

<sup>(i)</sup> All share options granted in 1999 to 2005 have vested in full having met the performance conditions.

<sup>(ii)</sup> All share options granted in 2006 will lapse because they have not met the performance condition for NAV growth over the three years to 30th November 2008.

No Executive Share options were granted to directors in 2007 or 2008, nor were any exercised by directors during 2008.

### PERFORMANCE SHARE PLAN

Directors' maximum entitlements, subject to the satisfaction of performance conditions, are as follows:

Date of Grant	W.A. Oliver	S.J. Burke	T.P. Haywood	Exercise Period
1st May 2007	87,235	45,317	50,981	May 2010–April 2017
12th February 2008	129,072	72,055	75,501	Feb 2011–Feb 2018
Total	216,307	117,372	126,482	

The average share price for the three days preceding 12th February 2008, the date of the 2008 grant, was 478.8p.

### NON-EXECUTIVE DIRECTORS' FEES

The level of non-executive directors' fees is recommended to the board by the Chairman and executive directors, having taken independent advice on market practice. For 2008 the level of the basic fee paid was £37,000 per director with additional payments of £9,000 to the Chairman of the Audit Committee and the Chairman of the Remuneration Committee and of £6,000 to the Senior Independent Director. Non-executive directors are not permitted to participate in the company's bonus, share or pension schemes.

For the year commencing 1st December 2008, non-executive directors' fees will be held at the same levels.

The Chairman's fee for 2008 was set at £281,000. The board agreed that from 1st December 2008 Anthony Glossop would take on a more typical non-executive Chairman role for a company the size of St Modwen. A review was carried out of the fees appropriate to this new role and his fees from 1st December 2008 were set at £125,000 per annum.

## SAVINGS RELATED SCHEMES

	Balance at 30th Nov 2007	Granted	Exercised	Lapsed	Balance at 30th Nov 2008	Exercise Price	Exercise Period
C.C.A. Glossop	6,072	—	—	—	<b>6,072</b>	248p–434p	Oct 2009–Mar 2012
W.A. Oliver	3,713	—	—	(3,713)	—	434p	n/a
S.J. Burke	3,383	—	—	(3,383)	—	484p	n/a
T.P. Haywood	7,497	2,424	(3,500)	—	<b>6,421</b>	248p–269p	Oct 2009–Mar 2013

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
T.P. Haywood	October 2008	201p	3,500	1

The share price as at 30th November 2008 was 114p. The highest price during the year was 532p and the lowest price was 86p.

Unaudited information

### SERVICE CONTRACTS

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

Unless specifically approved by the board, executive directors are not permitted to hold external non-executive directorships.

The non-executive directors have Letters of Appointment with notice periods of three months.

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

No director has any rights to compensation on loss of office (apart from payment in lieu of notice, where appropriate).

W.A. Oliver	24th January 2000
S.J. Burke	1st January 2006
T.P. Haywood	11th April 2003

Audited information

### 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 board, was as follows:

No. of executives	£'000
3	100–200
2	200–300
2	300–400



## DIRECTORS' REMUNERATION REPORT

### DIRECTORS' REMUNERATION

The remuneration of the directors for the year ended 30th November 2008 was as follows:

	Salary/Fees £'000	Annual bonus £'000	Benefits £'000	Total emoluments excluding pensions and pension contributions	
				2008 £'000	2007 £'000
<b>Executive</b>					
W.A. Oliver	412	258	34	<b>704</b>	886
S.J. Burke	230	138	16	<b>384</b>	463
T.P. Haywood	241	108	21	<b>370</b>	509
<b>Non-Executive</b>					
C.C.A. Glossop	281	—	22	<b>303</b>	373
S.W. Clarke	37	—	—	<b>37</b>	35
M.E. Francis	46	—	—	<b>46</b>	43
R.I. Menzies-Gow	37	—	—	<b>37</b>	35
D.P. Rigg	37	—	—	<b>37</b>	35
C.E. Roshier	43	—	—	<b>43</b>	40
J.H. Salmon	46	—	—	<b>46</b>	43
	1,410	504	93	<b>2,007</b>	2,462

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.

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 £29,560 were provided by the Company during the year to the widow of Sir Stanley Clarke (comprising mainly the provision of a car and driver). With effect from 1st December 2008 all such payments have ceased.

### PENSIONS

The company operates a pension scheme with both a defined benefit and defined contribution section, covering the majority of employees, including executive directors. In relation to the defined benefit 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 benefit 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.

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

	Age at 30th November 2008	Accrued pension		Transfer Value		Change in transfer value to 30th November 2008 less member contributions
		2008	2007	2008	2007	
		£'000 p.a.		£'000		
C.C.A. Glossop	67	248	240	4,546	3,961	585
S.J. Burke	49	22	19	286	203	74

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 £238,000 has been paid in the year).

Notes relating to the defined benefits scheme:

- 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.
- Accrued pension is that which would be paid annually at retirement age based on service to 30th November 2008.
- Members have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included above.
- 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).
- 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.
- A spouse's pension of 50% of the full pension is payable after the death in retirement of a member.
- Pension payments in respect of service in the Scheme after 5th April 1997 increase annually by the lower of the RPI increase and 5%. Pension in respect of service prior to 6th April 1997 increases annually by the lower of the RPI increase and 3%.
- 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:

	2008	2007
	£'000	£'000
W.A Oliver	62	58
T.P. Haywood	36	34

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

Approved by the board and signed on its behalf by


**Mary E. Francis**

Chairman, Remuneration Committee  
26th February 2009





# FINANCIAL STATEMENTS

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# DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under IFRSs as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

## GOING CONCERN

The directors are of the opinion that, for the reasons set out on pages 19 and 20, 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.

The report of the directors, as defined on page 1, has been approved by the board of directors. We confirm to the best of our knowledge:

- the group financial statements (prepared in accordance with International Financial Reporting Standards as adopted by the EU) and the parent company balance sheet (prepared under United Kingdom Generally Accepted Accounting Practice) give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the business review, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

**Bill Oliver**  
Chief Executive  
26th February 2009

**Tim Haywood**  
Finance Director

# INDEPENDENT AUDITORS' 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 2008 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement, and the related notes 1 to 22. These group 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 parent company financial statements of St. Modwen Properties PLC for the year ended 30th November 2008.

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 group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the parts of the directors' remuneration report described as having been 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 Report of the Directors is consistent with the group 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 Statement reflects the company's compliance with the nine provisions of the 2006 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 the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. 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 further information outside the Annual Report.

## 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 and the parts 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 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 and the parts 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 group financial statements and the parts of the Directors' Remuneration Report to be audited.

## 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 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parts of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the group financial statements.

## Deloitte LLP

Chartered Accountants and Registered Auditors  
Birmingham, United Kingdom  
26th February 2009



## GROUP INCOME STATEMENT

FOR THE YEAR ENDED 30TH NOVEMBER 2008

	Notes	2008 £m	2007 £m
<b>Revenue</b>	1	<b>146.5</b>	127.5
Net rental income	1	<b>25.7</b>	26.3
Development profit	1	<b>9.0</b>	32.4
Gains on disposal of investments/investment properties		<b>0.1</b>	11.4
Investment property revaluation (losses)/gains	7	<b>(49.7)</b>	60.3
Other net income	1	<b>7.3</b>	2.4
(Losses)/profits of joint ventures and associates (post-tax)	9	<b>(8.9)</b>	12.6
Administrative expenses	2	<b>(14.0)</b>	(16.4)
<b>(Loss)/profit before interest and tax</b>		<b>(30.5)</b>	129.0
Finance cost	3	<b>(49.3)</b>	(32.5)
Finance income	3	<b>6.7</b>	3.6
<b>(Loss)/profit before tax</b>		<b>(73.1)</b>	100.1
Tax credit/(charge)	4	<b>22.4</b>	(6.4)
<b>(Loss)/profit for the year</b>		<b>(50.7)</b>	93.7
<b>Attributable to:</b>			
Equity shareholders of the company	17	<b>(51.7)</b>	88.4
Minority interests	18	<b>1.0</b>	5.3
		<b>(50.7)</b>	93.7

	Notes	2008 pence	2007 pence
<b>Basic (loss)/earnings per share</b>	5	<b>(42.8)</b>	73.3
<b>Diluted (loss)/earnings per share</b>	5	<b>(42.8)</b>	72.4

## GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30TH NOVEMBER 2008

	Notes	2008 £m	2007 £m
(Loss)/profit for the year		<b>(50.7)</b>	93.7
Pension fund:			
— actuarial losses	19	<b>(0.4)</b>	(3.3)
— deferred tax thereon	19	<b>0.1</b>	0.9
<b>Total recognised income and expense</b>		<b>(51.0)</b>	91.3
<b>Attributable to:</b>			
— Equity shareholders of the company	18	<b>(52.0)</b>	86.0
— Minority interests	18	<b>1.0</b>	5.3
<b>Total recognised income and expense</b>		<b>(51.0)</b>	91.3

## GROUP BALANCE SHEET

AS AT 30TH NOVEMBER 2008

	Notes	2008 £m	2007 £m
<b>Non-current assets</b>			
Investment property	7	814.3	846.9
Operating property, plant and equipment	8	4.3	3.9
Investments in joint ventures, associates and other investments	9	64.2	75.4
Trade and other receivables	10	20.6	8.9
		<b>903.4</b>	935.1
<b>Current assets</b>			
Inventories	11	228.1	209.3
Trade and other receivables	10	48.5	31.6
Cash and cash equivalents		12.7	17.9
		<b>289.3</b>	258.8
<b>Current liabilities</b>			
Trade and other payables	12	(131.1)	(127.3)
Borrowings	13	(0.4)	(0.4)
Tax payables	4	(5.7)	(12.3)
		<b>(137.2)</b>	(140.0)
<b>Non-current liabilities</b>			
Trade and other payables	12	(201.4)	(128.0)
Borrowings	13	(433.8)	(419.4)
Deferred tax	4	(18.1)	(38.8)
		<b>(653.3)</b>	(586.2)
<b>Net assets</b>		<b>402.2</b>	467.7
<b>Capital and reserves</b>			
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	371.3	437.4
Own shares	17	(0.1)	(0.7)
Shareholders' equity		<b>392.7</b>	458.2
Minority interests	18	9.5	9.5
<b>Total equity</b>		<b>402.2</b>	467.7

These financial statements were approved by the board of directors on 26th February 2009 and were signed on its behalf by Anthony Glossop and Tim Haywood.

**Anthony Glossop**  
Chairman

**Tim Haywood**  
Finance Director

## GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH NOVEMBER 2008

	Notes	2008 £m	2007 £m
<b>Operating activities</b>			
(Loss)/profit before interest and tax		<b>(30.5)</b>	129.0
Gains on the disposal of investments		<b>(0.3)</b>	(6.7)
Losses/(gains) on investment property disposals		<b>0.2</b>	(4.7)
Share of (losses)/profits of joint ventures and associates (post-tax)	9	<b>8.9</b>	(12.6)
Investment property revaluation losses/(gains)	7	<b>49.7</b>	(60.3)
Depreciation	8	<b>0.5</b>	0.6
Increase in inventories		<b>(19.7)</b>	(109.2)
(Increase)/decrease in trade and other receivables		<b>(3.1)</b>	19.1
Increase in trade and other payables		<b>53.3</b>	1.2
Share options and share awards		<b>3.9</b>	0.1
Employer pension contributions		<b>(0.1)</b>	(0.2)
Tax (received)/paid	4(c)	<b>(4.8)</b>	1.8
<b>Net cash inflow/(outflow) from operating activities</b>		<b>58.0</b>	(41.9)
<b>Investing activities</b>			
Investment property disposals		<b>44.4</b>	44.4
Investment property additions		<b>(89.1)</b>	(141.9)
Disposal of investments		<b>0.9</b>	17.7
Property, plant and equipment additions		<b>(0.9)</b>	(0.7)
Investment in associate	9	<b>(2.3)</b>	—
Interest received		<b>2.5</b>	1.8
Dividends received		<b>4.0</b>	4.0
<b>Net cash outflow from investing activities</b>		<b>(40.5)</b>	(74.7)
<b>Financing activities</b>			
Dividends paid	6	<b>(14.1)</b>	(12.9)
Dividends paid to minorities	18	<b>(1.0)</b>	(0.6)
Interest paid		<b>(22.0)</b>	(18.1)
Purchase of own shares		<b>—</b>	(0.8)
New borrowings drawn		<b>23.5</b>	159.9
Repayment of borrowings		<b>(9.1)</b>	—
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(22.7)</b>	127.5
(Decrease)/increase in cash and cash equivalents		<b>(5.2)</b>	10.9
Cash and cash equivalents at start of year		<b>17.9</b>	7.0
<b>Cash and cash equivalents at end of year</b>		<b>12.7</b>	17.9



## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### BASIS OF PREPARATION

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the group for the year ended 30th November 2008 applied in accordance with the provisions of the Companies Act 1985.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties, derivative financial instruments and the defined benefit section of the group's pension scheme.

The group's functional currency is pounds sterling and its IFRS accounting policies are set out below.

### 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) of the company's financial statements.

VSM Estates (Holdings) Limited is 50% owned by St Modwen Properties PLC; however, under the funding agreement the group obtains the majority of the benefits of the entity and also retains the majority of the residual risks. This entity is therefore consolidated in accordance with SIC 12 "Consolidation — Special Purpose Entities".

All entities are consolidated from the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group transactions, balances, income and expense are eliminated on consolidation.

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

### INTERESTS IN JOINT 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 interest and 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.

### PROPERTIES

#### Investment properties

Investment properties, being freehold and leasehold properties held to earn rental income, for capital appreciation and/or for undetermined future use, are carried at fair value following initial recognition at the present value of the consideration payable. To establish fair value, investment properties are independently valued on the basis of market value. Any surplus or deficit arising is recognised in the income statement for the period.

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

Where an investment property is being redeveloped for continued use as an investment property, the property remains within investment property and any movement in valuation is recognised in the income statement.

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## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30TH NOVEMBER 2008

Investment property 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.

Investment properties are not depreciated.

### Inventories

Inventories principally comprise properties held for sale, properties under construction and land under option.

Cost comprises land, direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition. When inventory includes a transfer from investment properties, cost is recorded as the book value at the date of transfer. Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal.

### FINANCE COSTS

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 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

#### The group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Non-property assets held under finance leases are capitalised at the inception of the lease with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the 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.

Freehold interests in 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.

#### The group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

## INCOME TAXES

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, using the rates of tax expected to apply based on legislation enacted or substantively enacted at the balance sheet date, with the following exceptions:

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same authority and the group intends to settle its current tax assets and liabilities on a net basis.

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

## 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 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 year in which they become payable.

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 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. Where revenue is earned for development of property assets not owned, this is recognised when the group has substantially fulfilled its obligations in respect of the transaction.

#### Construction contracts

Revenue arising from construction contracts is recognised in accordance with the group's accounting policy on construction contracts (see below).

#### Rental income

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

#### Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### Dividend income

Dividend income from joint ventures is recognised when the shareholders' rights to receive payment have been established.

### CONSTRUCTION CONTRACTS

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The extent to which the contract is complete is determined by the total costs incurred to date as a percentage of the total anticipated costs for the entire contract. Variations in contract work, claims and incentive payments are included only to the extent they have been agreed with the purchaser.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### GOVERNMENT GRANTS

Government grants relating to property are treated as deferred income and released to profit or loss over the expected useful life of the assets concerned.

### SHARE-BASED PAYMENTS

When employee share options are exercised the employee has the choice of whether to have the liability to them settled by way of cash or the retention of shares. As it has been the company's practice to satisfy the majority of share options in cash and new shares are not issued to satisfy employee share option plans, the group accounts for its share option schemes as cash-settled. 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 balance sheet date. Revisions to the fair value of the accrued liability after the end of the vesting period are recorded in the income statement of the year in which they occur.



## FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for any amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled, or they expire.

### Trade and other receivables

Trade 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.

### Cash and cash equivalents

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

### 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 in finance income or finance expense as appropriate.

Interest incurred is not capitalised, but written off to the income statement using the effective interest rate method.

### 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.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all its liabilities. Equity instruments issued by the group are recorded at the proceeds received less direct issue costs.

## 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 the group's systems of internal control, historical experience and the advice of external experts (including qualified professional valuers and actuaries) together with 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.

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## ACCOUNTING POLICIES

FOR THE YEAR ENDED 30TH NOVEMBER 2008

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

**Going concern** The financial statements have been prepared on a going concern basis. This is discussed in the Business Review on pages 19 and 20, under the heading 'Financing, covenants and going concern'.

**Valuation of investment properties** Management has used the valuation performed by its independent valuers as the fair value of its investment properties. The valuation is performed according to RICS rules, including an assumption as to the existence of willing buyer/willing seller market evidence of transaction prices for similar properties and uses. The level of professional judgement applied by the external valuers has been increased in the year as the market environment is such that there are lower levels of activity, providing fewer directly comparable transactions.

**Net realisable value of inventories** The group has ongoing procedures for assessing the carrying value of inventories and identifying where this is in excess of net realisable value. Given the current state of the property market, the level of judgement applied by management at 30th November 2008 was further increased from previous years. The estimates and judgements used were based on information available at, and pertaining to, 30th November 2008. If the property market were to decline further from 30th November 2008 additional net realisable value provisions may be required.

**Estimation of remediation and other costs to complete** for both development and investment properties. In making an assessment of these costs there is inherent uncertainty and the group has developed systems of internal control to assess and review carrying values and the appropriateness of estimates made. Any changes to these estimates may impact the carrying values on investment properties and/or inventories.

**The calculation of deferred tax assets and liabilities** together with assessment of the recoverability of future tax losses. The recoverability of tax losses has been assessed and management considers that there are sufficient latent gains and future profits anticipated to be realised on the group's property portfolio to recover these in full.

**Calculation of the net present value of pension scheme liabilities** In calculating this liability it is necessary for actuarial assumptions to be made, including discount and mortality rates and the long-term rate of return upon scheme assets. The group engages a qualified actuary to assist with determining the assumptions to be made and evaluating these liabilities.

**IMPACT OF STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE**

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 1 (revised 2007) Presentation of Financial Statements  
 IAS 23 (revised 2007) Borrowing costs  
 IAS 27 (revised 2008) Consolidated and Separate Financial Statements  
 IAS 32 (amended)/IAS 1 (amended) Puttable Financial Instruments and Obligations Arising on Liquidation  
 IFRS 1 (amended)/IAS 27 (amended) Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate  
 IFRS 2 (amended) Share-based Payment — Vesting Conditions and Cancellations  
 IFRS 3 (revised 2008) Business Combinations  
 IFRS 8 Operating Segments  
 IFRIC 4 Determining whether an Arrangement contains a lease  
 IFRIC 5 Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds  
 IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies  
 IFRIC 8 Scope of IFRS 2  
 IFRIC 9 Reassessment of embedded derivatives  
 IFRIC 10 Interim reporting and impairments  
 IFRIC 11 IFRS 2 — Group and Treasury Share Transactions  
 IFRIC 12 Service Concession Arrangements  
 IFRIC 13 Customer Loyalty Programmes  
 IFRIC 14 IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction  
 IFRIC 15 Agreements for the Construction of Real Estate  
 IFRIC 16 Hedges of a Net Investment in a Foreign Operation  
 IFRIC 17 Distributions of Non-Cash Assets to Owners

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group.

**IMPLEMENTATION OF IFRS 7**

In the current financial year the group adopted IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) which is effective for annual reporting periods beginning on or after 1st January 2007, and the related amendment to IAS 1 'Presentation of Financial Statements' (IAS 1). The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 1. REVENUE AND GROSS PROFIT

	2008			Total £m
	Rental £m	Development £m	Other £m	
Revenue	33.7	101.8	11.0	146.5
Cost of sales	(8.0)	(92.8)	(3.7)	(104.5)
Gross profit	25.7	9.0	7.3	42.0

	2007			Total £m
	Rental £m	Development £m	Other £m	
Revenue	30.3	91.1	6.1	127.5
Cost of sales	(4.0)	(58.7)	(3.7)	(66.4)
Gross profit	26.3	32.4	2.4	61.1

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.

The group's total revenue for 2008 was £160.5m (2007: £138.2m) and in addition to the amounts above included service charge income of £5.3m (2007: £4.9m), for which there was an equivalent expense, interest income of £4.7m (2007: £1.8m) and dividends received from joint ventures of £4.0m (2007: £4.0m).

During the year the following amounts were recognised (as part of development revenue and cost of sales) in respect of construction contracts:

	2008 £m	2007 £m
Revenue	38.9	30.3
Cost of sales	(33.4)	(26.5)
Gross profit	5.5	3.8

Amounts due from customers of £nil (2007: £1.8m) were included in trade and other receivables in respect of contracts in progress at the balance sheet date.

Amounts due to customers of £nil (2007: £3.6m) were included in trade and other payables in respect of contracts in progress at the balance sheet date.

Retentions due from customers in respect of construction contracts of £0.5m (2007: £0.3m) were included in trade and other receivables at the balance sheet date.



## 2. OTHER INCOME STATEMENT DISCLOSURES

### A. ADMINISTRATIVE EXPENSES

Administrative expenses have been arrived at after charging:

	2008	2007
	£m	£m
Depreciation	0.5	0.6
Operating lease costs	1.3	0.8

### B. AUDITORS' REMUNERATION

	2008	2007
	£'000	£'000
Fees paid to auditors in respect of:		
– Fees payable for the audit of the company's annual accounts	115	105
– The audit of subsidiary companies and joint ventures pursuant to legislation	122	90
– Other services pursuant to legislation	58	25
– Tax services	124	167
– Services related to remuneration	—	86
Total fees	419	473

The 2007 figures above include fees paid to Deloitte LLP prior to their appointment as auditors. The above amounts include all amounts charged by the group auditors in respect of joint venture undertakings.

### C. EMPLOYEES

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

	2008	2007
	Number	Number
Property	137	129
Leisure and other activities	74	68
Administration	50	44
	261	241

The total payroll costs of these employees were:

	2008	2007
	£m	£m
Wages and salaries	11.3	12.1
Social security costs	1.4	1.5
Pension costs	0.8	0.8
	13.5	14.4

### D. SHARE-BASED PAYMENTS

The group has a save as you earn share option scheme which is 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 and performance share plan (PSP), full details of which are given in the directors' remuneration report on pages 56 to 63.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 2. OTHER INCOME STATEMENT DISCLOSURES CONTINUED

#### D. SHARE-BASED PAYMENTS CONTINUED

The following table illustrates the number and weighted average exercise price of, and movements in, share options during the year. As the PSP includes the grant of options at nil exercise price the weighted average prices below are calculated including and excluding the options under this plan.

	2008			Number of options	2007	
	Weighted average price				Weighted average price	
	Number of options	All options £	Excluding PSP £		All options £	Excluding PSP £
Outstanding at start of year	3,616,437	3.06	3.23	3,390,130	2.69	2.69
Granted	1,816,505	2.38	2.80	685,043	3.88	5.29
Forfeited	(158,682)	(3.25)	(3.25)	(12,838)	(2.48)	(2.48)
Exercised	(353,569)	(1.86)	(1.86)	(445,898)	(1.55)	(1.55)
Outstanding at end of year	4,920,691	2.88	3.17	3,616,437	3.06	3.23
Exercisable at year end	1,462,003	2.12	2.12	1,562,731	1.77	1.77

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

	Credit				
	to income statement	Risk-free interest rate	Expected volatility	Dividend yield	Share price
	£m	%	%	%	£*
<b>As at 30th November 2008</b>	<b>3.3</b>	<b>0.8-2.8</b>	<b>43.2-154.0</b>	<b>—</b>	<b>2.27</b>
As at 30th November 2007	0.4	4.6-5.3	24.0-40.4	2.3	4.69

\* Based on 90 day moving average.

The fair value of the balance sheet liability in respect of share options outstanding at the year end was £2.3m (2007: £6.2m) and included £1.6m (2007: £4.7m) in respect of options that had vested at the year end.

In arriving at fair value it has been assumed that, when vested, shares options are exercised in accordance with historical trends. Expected volatility was determined by reference to the historical volatility of the group's share price over a period consistent with the expected life of the options.

The weighted average share price at the date of exercise was £3.95 (2007: £5.90). The executive share options outstanding at the year end had a range of exercise prices between 99.0p and 538.0p (2007: 99.0p and 538.0p) with PSP options exercisable at £nil. Outstanding options had a weighted average maximum remaining contractual life of 5.5 years (2007: 6.1 years).

### 3. FINANCE COST AND FINANCE INCOME

	2008	2007
	£m	£m
Interest payable on borrowings	24.3	20.2
Amortisation of discount on deferred payment arrangements	7.8	9.9
Head rents treated as finance leases	0.2	0.2
Movement in fair value of interest rate derivatives	15.4	0.7
Interest on pension scheme liabilities (note 19)	1.6	1.5
<b>Total finance cost</b>	<b>49.3</b>	<b>32.5</b>

The finance cost on interest rate derivatives derives from financial liabilities held at fair value through profit or loss. All other finance costs derive from financial liabilities measured at amortised cost.

	2008	2007
	£m	£m
Interest receivable on cash deposits	2.5	1.8
Credit in respect of discount on deferred receivables	2.2	—
Expected return on pension scheme assets (note 19)	2.0	1.8
<b>Total finance income</b>	<b>6.7</b>	<b>3.6</b>

### 4. TAXATION

#### A. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2008	2007
	£m	£m
Tax (credit)/charge in the income statement		
<b>Corporation tax charge</b>		
Tax on current year (loss)/profit	0.2	8.1
Adjustments in respect of previous years	(2.0)	(0.1)
	(1.8)	8.0
<b>Deferred tax</b>		
Reversal of temporary differences	(2.9)	(11.7)
Impact of current year revaluations	(13.1)	11.8
Carry forward of tax losses	(3.2)	—
Adjustments in respect of previous years	(1.4)	(1.7)
	(20.6)	(1.6)
<b>Total tax (credit)/charge in the income statement</b>	<b>(22.4)</b>	<b>6.4</b>
Tax relating to items charged to equity		
<b>Deferred tax</b>		
Actuarial losses on pension schemes (note 19)	(0.1)	(0.9)
Tax credit in the statement of total recognised income and expense	(0.1)	(0.9)

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 4. TAXATION CONTINUED

#### B. RECONCILIATION OF EFFECTIVE TAX RATE

	2008	2007
	£m	£m
(Loss)/profit before tax	(73.1)	100.1
Less: Joint ventures and associates	8.9	(12.6)
Pre-tax (loss)/profit attributable to the group	(64.2)	87.5
Corporation tax at 28.67% (2007: 30%)	(18.4)	26.3
Permanent differences	1.6	1.6
Release of temporary differences in respect of industrial buildings	—	(6.7)
Release of deferred tax following rate change from 30% to 28%	—	(2.9)
Recognition of deferred tax asset for losses previously unrecognised	—	(6.1)
Investment property revaluations	(3.2)	(3.3)
Difference between chargeable gains and accounting profit	1.0	(0.7)
Current year (credit)/charge	(19.0)	8.2
Adjustments in respect of previous years	(3.4)	(1.8)
	<b>(22.4)</b>	6.4
Effective rate of tax	<b>35%</b>	7%

The post-tax results of joint ventures and associates are stated after a tax credit of £7.0m (2007: £2.8m charge). The effective tax rate for the group including joint ventures and associates is 36.7% (2007: 8.9%).

The UK Government announced that balancing allowances and balancing charges on industrial buildings were to be abolished with effect from 21st March 2007. Accordingly, temporary differences in respect of industrial buildings held for rental were released in the year ended 30th November 2007.

The UK Government announced that they would reduce the corporation tax rate for large companies to 28% with effect from 1st April 2008. Accordingly, as at 30th November 2007, deferred tax adjustments were restated to 28% as this is the rate at which they were expected to reverse.



#### 4. TAXATION CONTINUED

##### C. BALANCE SHEET

	2008		2007	
	Corporation tax £m	Deferred tax £m	Corporation tax £m	Deferred tax £m
Balance at start of the year	12.3	38.8	3.7	47.0
(Credit)/charge to the income statement	(1.8)	(20.6)	8.0	(1.6)
Credit directly to equity	—	(0.1)	—	(0.9)
Net (refund)/payment	(4.8)	—	1.8	—
Other	—	—	(1.2)	(5.7)
Balance at end of the year	5.7	18.1	12.3	38.8

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

	Property revaluations £m	Capital allowances £m	Appropriations to		Other temporary differences £m	Total £m
			trading stock £m	Unutilised tax losses £m		
Deferred tax liability/(asset) at start of year	48.4	2.8	1.4	(11.8)	(2.0)	38.8
(Credit)/charge to income statement	(17.2)	1.5	(0.4)	(3.4)	(1.1)	(20.6)
Credit directly to equity	—	—	—	—	(0.1)	(0.1)
Deferred tax liability/(asset) at end of year	31.2	4.3	1.0	(15.2)	(3.2)	18.1

The group has recognised a deferred tax asset in respect of tax losses of £15.2m. Of this £7.4m (2007: £nil) relates to tax losses carried forward in respect of 2008 and £7.8m (2007: £11.8m) to HMRC approved deductions available in subsidiary companies in future periods. The total asset is fully recognised on the basis that the losses or deductions will shelter the latent gains anticipated to be realised on the group's property portfolio which are reflected in the deferred tax liability for property revaluations.

There is no unprovided deferred tax.

##### 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 reasonably certain.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is set out below:

	2008	2007
	Number of shares	Number of shares
Weighted number of shares in issue*	120,688,232	120,636,100
Weighted number of dilutive shares	—	1,506,851
	<b>120,688,232</b>	<b>122,142,951</b>

	2008	2007
	£m	£m
(Loss)/earnings (basic and diluted)	<b>(51.7)</b>	88.4

	2008	2007
	pence	pence
Basic (loss)/earnings per share	<b>(42.8)</b>	73.3
Diluted (loss)/earnings per share	<b>(42.8)</b>	72.4

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

The group's share options are accounted for as cash-settled share-based payments. 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.

### 6. DIVIDENDS

Dividends paid during the year comprised the final dividend in respect of 2007 and the interim dividend in respect of 2008. No final dividend is proposed.

	2008		2007	
	p per share	£m	p per share	£m
<b>Paid</b>				
Final dividend in respect of previous year	7.8	9.4	6.8	8.2
Interim dividend in respect of current year	3.9	4.7	3.9	4.7
Total	<b>11.7</b>	<b>14.1</b>	10.7	12.9
<b>Proposed</b>				
Current year final dividend	—	—	7.8	9.4

The Employee Benefit Trust waives its entitlement to dividends.

## 7. INVESTMENT PROPERTY

	Freehold investment properties £m	Leasehold investment properties £m	Total £m
<b>Fair value</b>			
At 30th November 2006	395.5	340.9	736.4
Additions — new properties	38.0	5.0	43.0
Other additions	32.4	31.3	63.7
Transfers to inventories (note 11)	(13.2)	(20.9)	(34.1)
Disposals	(21.6)	(0.8)	(22.4)
Surplus on revaluation	42.3	18.0	60.3
At 30th November 2007	473.4	373.5	846.9
Additions — new properties	8.4	0.4	8.8
Other additions	46.2	31.7	77.9
Transfers (to)/from inventories (note 11)	(14.0)	14.9	0.9
Disposals	(9.7)	(60.8)	(70.5)
Deficit on revaluation	(37.2)	(12.5)	(49.7)
<b>At 30th November 2008</b>	<b>467.1</b>	<b>347.2</b>	<b>814.3</b>

Investment properties were valued at 30th November 2008 and 2007 by King Sturge & Co, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of market value. King Sturge & Co are independent professionally qualified external valuers and have recent experience in the relevant location and category of the properties being valued.

As at 30th November 2008 £776.8m (2007: £862.8m) of investment property was pledged as security for the group's loan facilities.

Included within leasehold investment properties are £3.9m (2007: £3.9m) of assets held under finance leases.

Cost of sales in respect of rental income as disclosed in note 1 comprise direct operating expenses (including repairs and maintenance) related to the investment property portfolio and includes £0.3m (2007: £0.3m) in respect of properties that did not generate any rental income.

Further details of the movements in investment property are given on pages 18 and 20 of the business review.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 8. OPERATING PROPERTY, PLANT AND EQUIPMENT

	Operating properties £m	Plant, machinery and equipment £m	Total £m
<b>Cost</b>			
At 30th November 2006	2.6	3.6	6.2
Additions	—	0.7	0.7
At 30th November 2007	2.6	4.3	6.9
Additions	—	0.9	0.9
Disposals	—	(0.2)	(0.2)
At 30th November 2008	2.6	5.0	7.6
<b>Depreciation</b>			
At 30th November 2006	0.4	2.0	2.4
Charge for the year	—	0.6	0.6
At 30th November 2007	0.4	2.6	3.0
Charge for the year	—	0.5	0.5
Disposals	—	(0.2)	(0.2)
At 30th November 2008	0.4	2.9	3.3
<b>Net book value</b>			
At 30th November 2006	2.2	1.6	3.8
At 30th November 2007	2.2	1.7	3.9
<b>At 30th November 2008</b>	<b>2.2</b>	<b>2.1</b>	<b>4.3</b>

Tenure of operating properties:

	2008 £m	2007 £m
Freehold	0.3	0.3
Leasehold	1.9	1.9
	<b>2.2</b>	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:

	2008			2007		
	Key Property	Other joint	Total	Key Property	Other joint	Total
	Investments	ventures and		Investments	ventures and	
Limited	associates	£m	Limited	associates	£m	
<b>Income statements</b>						
Revenue	10.6	5.3	15.9	35.6	5.5	41.1
Net rental income	7.6	(0.1)	7.5	8.5	0.1	8.6
Development profit	0.4	0.3	0.7	4.3	2.0	6.3
(Losses)/gains on disposals of investment properties	(0.2)	—	(0.2)	4.4	—	4.4
Investment property revaluation (losses)/gains	(13.5)	(1.4)	(14.9)	1.8	0.7	2.5
Administrative expenses	(0.1)	—	(0.1)	(0.1)	—	(0.1)
(Loss)/profit before interest and tax	(5.8)	(1.2)	(7.0)	18.9	2.8	21.7
Finance cost	(7.9)	(1.1)	(9.0)	(5.8)	(0.6)	(6.4)
Finance income	0.1	—	0.1	0.1	—	0.1
(Loss)/profit before tax	(13.6)	(2.3)	(15.9)	13.2	2.2	15.4
Taxation	6.4	0.6	7.0	(2.1)	(0.7)	(2.8)
(Loss)/profit for the year	(7.2)	(1.7)	(8.9)	11.1	1.5	12.6

Included in other joint ventures and associates above are profits from associated companies of £0.1m (2007: £0.1m).

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

	2008			2007		
	Key Property	Other joint	Total	Key Property	Other joint	Total
	Investments	ventures and		Investments	ventures and	
Limited	associates	£m	Limited	associates	£m	
<b>Balance sheets</b>						
Non-current assets	131.6	12.4	144.0	136.7	6.8	143.5
Current assets	24.1	23.9	48.0	26.2	17.7	43.9
Current liabilities	(12.5)	(25.3)	(37.8)	(10.4)	(5.5)	(15.9)
Non-current liabilities	(85.0)	(5.0)	(90.0)	(83.1)	(13.6)	(96.7)
Net assets	58.2	6.0	64.2	69.4	5.4	74.8
Equity at start of year	69.4	5.4	74.8	62.3	4.0	66.3
Investment in associate	—	2.3	2.3	—	—	—
(Loss)/profit for the year	(7.2)	(1.7)	(8.9)	11.1	1.4	12.5
Dividends paid	(4.0)	—	(4.0)	(4.0)	—	(4.0)
Equity at end of year	58.2	6.0	64.2	69.4	5.4	74.8
Group's share of joint ventures' net assets			64.2			74.8
Investment in Stoke on Trent Community Stadium Development Company Limited			—			0.6
			64.2			75.4

Included in other joint ventures and associates above are net assets of £2.6m (2007: £nil) in relation to associated companies. These net assets comprise total assets of £3.9m (2007: £nil) and total liabilities of £1.3m (2007: £nil).

During the year ended 30th November 2008 the group disposed of its entire shareholding in Stoke on Trent Community Stadium Development Company Limited, realising a gain of £0.4m. This gain is recorded as part of gains on disposal of investments/investment properties.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 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
Coed Darcy Limited	Associate	49%	Property investment and development

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

On 23rd May 2008 the group acquired a 49% holding in Coed Darcy Limited for £2.3m. No goodwill arose on the acquisition of the group's interest in this associate and the group share of the book value and provisional fair value of net assets acquired is detailed below:

	Book Value	Adjustments	Provisional Fair Value
	£m	£m	£m
Non-current assets	3.4	(0.4)	3.0
Current assets (including cash of £0.8m)	0.9	—	0.9
Current liabilities	(0.3)	(0.6)	(0.9)
Non-current liabilities (including debt of £0.6m)	(0.7)	—	(0.7)
<b>Net assets</b>	<b>3.3</b>	<b>(1.0)</b>	<b>2.3</b>

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

### 10. TRADE AND OTHER RECEIVABLES

	2008	2007
	£m	£m
<b>Non-current</b>		
Other debtors	20.6	8.9
<b>Current</b>		
Trade receivables	3.0	5.0
Prepayments and accrued income	6.2	1.7
Other debtors	35.9	19.7
Amounts due from joint ventures	3.4	3.2
Derivative financial instruments	—	2.0
	<b>48.5</b>	<b>31.6</b>

IFRS 7 disclosures in respect of financial assets included above are provided in note 15.

## 11. INVENTORIES

	2008	2007
	£m	£m
Properties held for sale	89.0	88.5
Properties under construction	113.6	100.0
Land under option	25.5	20.8
	<b>228.1</b>	209.3

The movement in inventories during the two years ended 30th November 2008 is as follows:

	£m
Balance at 30th November 2006	65.9
Additions	168.0
Transfers from investment property (note 7)	34.1
Disposals (transferred to cost of sales) (note 1)	(58.7)
Balance at 30th November 2007	209.3
Additions	112.5
Transfers to investment property (note 7)	(0.9)
Disposals (transferred to development cost of sales) (note 1)	(92.8)
<b>Balance at 30th November 2008</b>	<b>228.1</b>

The directors consider all inventories to be current in nature. The operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of issues including the strength of the property market.

Included within disposals of inventories are net realisable value provisions made during the year of £10.1m (2007: £5.1m).

As at 30th November 2008 £112.3m (2007: £12.4m) of inventory was pledged as security for the group's loan facilities.

## 12. TRADE AND OTHER PAYABLES

	2008	2007
	£m	£m
<b>Current</b>		
Trade payables	20.2	5.6
Amounts due to joint ventures	3.5	4.1
Other payables and accrued expenses	68.2	41.1
Provision for share options	0.9	4.8
Other payables on deferred terms	23.7	70.5
Derivative financial instruments	14.6	1.2
	<b>131.1</b>	127.3
<b>Non-current</b>		
Other payables and accrued expenses	21.3	1.7
Provision for share options	1.4	1.4
Other payables on deferred terms	174.8	121.0
Finance lease liabilities (head rents) (note 14)	3.9	3.9
	<b>201.4</b>	128.0

IFRS 7 disclosures in respect of financial liabilities included above are provided in note 15.

The other payables on deferred terms, all relate to VSM Estates (Holdings) Limited, which is required to make payments under a contractual timetable. In the normal course of events the payments will be made in line with the disposal of investment properties held on the balance sheet, and as a result the overall arrangement will be at least cash neutral.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 13. BORROWINGS

	2008	2007
	£m	£m
<b>Current</b>		
Floating rate unsecured loan notes	0.4	0.4
	<b>0.4</b>	0.4
<b>Non-current</b>		
Bank loans repayable between two and five years	376.1	295.4
Bank loans repayable after more than five years	57.7	124.0
	<b>433.8</b>	419.4

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

#### MATURITY PROFILE OF COMMITTED BANK FACILITIES

The majority of the group's bank debt is provided by bilateral revolving credit facilities, providing the flexibility to draw and repay loans as required. The maturity profile of the group's committed facilities is set out below:

	2008						
	Floating rate borrowings			Interest rate swaps			
	Drawn	Undrawn	Total	Earliest termination		Latest termination	
	£m	£m	£m	£m	%*	£m	%*
Less than one year†	0.4	5.0	5.4	80.0	4.70	—	—
One to two years	—	—	—	110.0	5.36	—	—
Two to three years	121.5	28.5	150.0	50.0	4.63	80.0	4.70
Three to four years	197.2	46.8	244.0	—	—	80.0	5.54
Four to five years	57.4	62.6	120.0	—	—	40.0	4.56
More than five years	57.7	42.3	100.0	—	—	40.0	4.87
<b>Total</b>	<b>434.2</b>	<b>185.2</b>	<b>619.4</b>	<b>240.0</b>	<b>4.99</b>	<b>240.0</b>	<b>4.99</b>

	2007						
	Floating rate borrowings			Interest rate swaps			
	Drawn	Undrawn	Total	Earliest termination		Latest termination	
	£m	£m	£m	£m	%*	£m	%*
Less than one year†	0.4	5.0	5.4	60.0	4.82	30.0	5.17
One to two years	—	—	—	80.0	4.70	—	—
Two to three years	—	—	—	80.0	5.54	30.0	4.47
Three to four years	164.7	85.3	250.0	20.0	4.48	80.0	4.71
Four to five years	130.7	13.3	144.0	—	—	80.0	5.54
More than five years	124.0	46.0	170.0	—	—	20.0	4.47
<b>Total</b>	<b>419.8</b>	<b>149.6</b>	<b>569.4</b>	<b>240.0</b>	<b>4.99</b>	<b>240.0</b>	<b>4.99</b>

\* Weighted average interest rate.

† In addition to the principal amounts included above, £2.2m (2007: £4.5m) of interest payable was committed at the year end. These amounts all fall due within three months of the year end.



### 13. BORROWINGS CONTINUED

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

£42m (2007: £40m) of the undrawn committed bank facilities are ring fenced for VSM Estates (Holdings) Limited.

Interest payable on the above loans is at a weighted average of 3.7% (2007: 7.1%) before taking into account the effects of hedging. At 30th November 2008 the weighted average facility maturity of the bank debt was 4 years (2007: 5 years).

#### INTEREST RATE PROFILE

The interest rate profile of the group's borrowings after taking into account the effects of hedging is:

	Total £m	Floating Rate Debt £m	Fixed Rate Debt £m	Weighted average fixed interest rate (%)	Weighted maturity of derivatives (years)*
<b>At 30th November 2008</b>	<b>434.2</b>	<b>194.2</b>	<b>240.0</b>	<b>4.99</b>	<b>1.31</b>
At 30th November 2007	419.8	179.8	240.0	4.99	1.75

\* Based on earliest termination dates.

All derivative financial instruments, which are classified as fair value through profit or loss, consist of sterling denominated interest swaps from floating to fixed rates ranging from 4.32% to 5.97%. In addition the group has a cap at 7.5% on a further £58m of floating rate debt. Details of the change in fair value of derivatives charged to the income statement are disclosed in note 3.

### 14. LEASING

#### OPERATING LEASE COMMITMENTS WHERE THE GROUP IS THE LESSEE

The group leases certain of its premises, motor vehicles and office equipment under operating leases. Future aggregate minimum lease rentals payable under non-cancellable operating leases are as follows:

	2008 £m	2007 £m
In one year or less	0.9	0.8
Between one and five years	2.8	0.7
In five years or more	1.5	0.2
	<b>5.2</b>	<b>1.7</b>

#### OPERATING LEASES WHERE THE GROUP IS THE LESSOR

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

	2008 £m	2007 £m
In one year or less	27.3	27.0
Between one and five years	80.1	74.8
In five years or more	178.7	140.0
	<b>286.1</b>	<b>241.8</b>

Contingent rents, calculated as a percentage of turnover for a limited number of tenants, of £0.4m (2007: £0.3m) were recognised during the year.

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 14. LEASING CONTINUED

#### OBLIGATIONS UNDER FINANCE LEASES

Finance lease liabilities payable in respect of the freehold interest in certain leasehold investment properties are as follows:

	2008		
	Minimum lease payments	Interest	Principal
	£m	£m	£m
Less than one year	0.2	0.2	—
Between one and five years	0.8	0.8	—
More than five years	67.9	64.0	3.9
	<b>68.9</b>	<b>65.0</b>	<b>3.9</b>

	2007		
	Minimum lease payments	Interest	Principal
	£m	£m	£m
Less than one year	0.2	0.2	—
Between one and five years	0.8	0.8	—
More than five years	68.1	64.2	3.9
	<b>69.1</b>	<b>65.2</b>	<b>3.9</b>

Finance leases are for periods of up to 999 years from inception and a discount rate of 6.0% (2007: 6.0%) has been used to derive the fair value of the principal amount outstanding. All lease obligations are denominated in sterling.

### 15. FINANCIAL INSTRUMENTS

Categories and classes of financial assets and liabilities are as follows:

		2008	2007
		£m	£m
<b>Financial assets</b>			
Derivative financial instruments held at fair value through profit or loss	a	—	2.0
Loans and receivables:			
Cash and cash equivalents	b	12.7	17.9
Trade and other receivables	b	57.3	34.0
		<b>70.0</b>	53.9
<b>Financial liabilities</b>			
Derivative financial instruments held at fair value through profit or loss	a	14.6	1.2
Amortised cost:			
Bank loans and overdrafts	b	434.2	419.8
Trade and other payables	b	77.2	37.7
Other payables on deferred terms	b	198.5	191.5
Finance lease liabilities (head rents)	b	3.9	3.9
		<b>728.4</b>	654.1

## 15. FINANCIAL INSTRUMENTS CONTINUED

Trade and other receivables above comprise other debtors, trade receivables and amounts due from joint ventures as disclosed in note 10, for current and non-current amounts, after deduction of £5.6m (2007: £2.8m) in respect of non-financial assets.

Trade and other payables above comprise trade payables, amounts due to joint ventures and other payables and accrued expenses as disclosed in note 12, for current and non-current amounts, after the deduction of £36.0m (2007: £18.8m) in respect of non-financial liabilities.

- a) Derivative financial instruments are carried at fair value. The fair value is calculated using quoted market prices relevant for the term and instrument.
- b) The directors consider that the carrying amount recorded in the financial statements approximates their fair value.

The group's capital, market, credit and liquidity risks are discussed below:

### CAPITAL RISK

The group manages its capital to ensure that the entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of debt (as disclosed in note 13), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings (as disclosed in notes 16 and 17).

### MARKET RISK

Market risk is the potential adverse change in group income or the value of group net worth arising from movements in interest rates or other market prices. The group's exposure to market risk consists of interest rate risk which is considered below.

**Interest rate risk management:** The group is exposed to interest rate risk as it borrows funds at variable interest rates. The group uses a combination of variable rate borrowings and interest rate swaps to manage the risk. As detailed in note 13, the use of bilateral facilities provides the flexibility to draw and repay loans as required.

**Interest rate sensitivity:** The following table details the group's sensitivity, on an after tax basis, to a 1% change in interest rates had the floating rate liability outstanding at the balance sheet date been in place for a full 12 months:

	2008	2007
	£m	£m
<b>1% increase in interest rates</b>		
Interest on borrowings	(3.1)	(2.9)
Effect of interest rate swaps	1.7	1.7
	<b>(1.4)</b>	<b>(1.2)</b>
<b>1% decrease in interest rates</b>		
Interest on borrowings	3.1	2.9
Effect of interest rate swaps	(1.7)	(1.7)
	<b>1.4</b>	<b>1.2</b>

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 15. FINANCIAL INSTRUMENTS CONTINUED

#### CREDIT RISK

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due.

The credit risk on the group's liquid funds and derivative financial instruments is limited because the counterparties are banks with high (generally AA) credit ratings. Bank deposits are only placed with banks in accordance with group policy that specifies minimum credit rating and maximum exposure. Credit risk on derivatives is closely monitored.

Trade and other receivables consist of amounts due from a large number of parties spread across geographical areas. The group does not have any significant concentrations of credit risk as the tenant base is large and diverse with the largest individual tenant accounting for £2m of gross rental income. Whilst the risk of individual tenant default has increased from the prior year, the nature of the tenant base is such that there is no significant change in the group's overall exposure to credit risk or how this is managed.

The carrying amount of financial assets, as detailed above, represents the group's maximum exposure to credit risk at the reporting date.

Included within trade and other receivables is £0.7m (2007: £0.7m) which is fully provided against as it represents estimated irrecoverable amounts. This allowance has been determined by a review of all significant balances that are past due and considering the reason for non-payment and the creditworthiness of the counterparty. A reconciliation of the changes in this account during the year is provided below.

	2008	2007
	£m	£m
<b>Movement in the allowance for doubtful debts</b>		
As at 1 December	0.7	0.7
Utilised	(0.3)	(0.1)
Amounts written off	0.3	0.1
	<b>0.7</b>	<b>0.7</b>

Trade and other receivables include £1.8m which are past due as at 30th November 2008 (2007: £2.6m) for which for which no provision has been made because the amounts are considered recoverable. The following table provides an ageing analysis of these balances.

	2008	2007
	£m	£m
<b>Number of days past due but not impaired</b>		
1-30 days	0.7	0.9
31-60 days	0.9	1.2
60 days +	0.2	0.5
	<b>1.8</b>	<b>2.6</b>



## 15. FINANCIAL INSTRUMENTS CONTINUED

### LIQUIDITY RISK

Liquidity risk is the risk that the group does not have sufficient financial resources available to meet its obligations as they fall due. The group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities and through the use of bilateral facilities, overdrafts and cash with a range of maturity dates to ensure continuity of funding.

The current volatile economic climate has increased the group's liquidity risk from the prior year. As a result the focus has been on reducing forward commitments and speculative development and progressing selective asset disposals to optimise cash flow.

The maturity profile of the anticipated future cash flows for bank loans and overdrafts is shown in note 13. The maturity profile for the group's other non-derivative financial liabilities, on an undiscounted basis, is as follows:

	Less than 1 month £m	1-3 months £m	3 months to 1 year £m	1-5 years £m	More than 5 years £m	Total £m
<b>2008</b>						
Trade and other payables	27.6	12.9	11.6	23.5	67.9	143.5
Other payables on deferred terms	—	12.2	11.6	182.0	—	205.8
	<b>27.6</b>	<b>25.1</b>	<b>23.2</b>	<b>205.5</b>	<b>67.9</b>	<b>349.3</b>
	Less than 1 month £m	1-3 months £m	3 months to 1 year £m	1-5 years £m	More than 5 years £m	Total £m
<b>2007</b>						
Trade and other payables	16.6	9.5	7.1	5.5	68.1	106.8
Other payables on deferred terms	—	—	72.6	131.5	—	204.1
	16.6	9.5	79.7	137.0	68.1	310.9

The group's approach to cash flow, financing and bank covenants is discussed further in the financial review section of the business review on pages 19 to 20.

## 16. SHARE CAPITAL

	2008 £m	2007 £m
<b>Authorised:</b>		
Equity share capital		
150,000,000 Ordinary 10p shares	15.0	15.0
<b>Allotted and fully paid:</b>		
Equity share capital		
120,773,954 Ordinary 10p shares	12.1	12.1

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

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 17. RESERVES

	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m
At 30th November 2006	9.1	0.3	364.3	(0.8)
Profit for the year attributable to shareholders	—	—	88.4	—
Pension fund actuarial losses (note 19)	—	—	(2.4)	—
Net share disposals	—	—	—	0.1
Dividends paid (note 6)	—	—	(12.9)	—
At 30th November 2007	9.1	0.3	437.4	(0.7)
Loss for the year attributable to shareholders	—	—	(51.7)	—
Pension fund actuarial losses (note 19)	—	—	(0.3)	—
Net share disposals	—	—	—	0.6
Dividends paid (note 6)	—	—	(14.1)	—
<b>At 30th November 2008</b>	<b>9.1</b>	<b>0.3</b>	<b>371.3</b>	<b>(0.1)</b>

'Own shares' represents the cost of 33,590 (2007: 137,854) shares held by the Employee Benefit Trust. The market value of the shares held at 30th November 2008 was £38,292 (2007: £584,501).

### 18. RECONCILIATION OF MOVEMENT IN EQUITY

	2008			2007		
	Equity shareholders £m	Minority interests £m	Total £m	Equity shareholders £m	Minority interests £m	Total £m
Total recognised income and expense	(52.0)	1.0	(51.0)	86.0	5.3	91.3
Dividends paid	(14.1)	(1.0)	(15.1)	(12.9)	(0.6)	(13.5)
Net disposal of own shares	0.6	—	0.6	0.1	—	0.1
Equity at start of year	458.2	9.5	467.7	385.0	4.8	389.8
<b>Equity at end of year</b>	<b>392.7</b>	<b>9.5</b>	<b>402.2</b>	<b>458.2</b>	<b>9.5</b>	<b>467.7</b>

## 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 £0.3m (2007: £0.4m) for the defined benefit section and £0.5m (2007: £0.4m) for the defined contribution section.

The last formal actuarial valuation of the scheme was at 5th April 2008, when the market value of the net assets of the scheme was £32.9m. The valuation was performed using the 'Projected Unit Credit Method' under IAS 19. The main actuarial assumptions were:

Investment rate of return:	pre-retirement	6.3% p.a.
	post-retirement	4.8% p.a.
Increase in earnings*		6.6% p.a.
Increase in pensions		3.6% p.a.

\* Capped to 5.6% for certain members.

The valuation showed a funding level of 104%.

The actuarial valuation of the defined benefit section, a final salary scheme, was updated to 30th November 2008 on an IAS basis by a qualified independent actuary. The major assumptions used by the actuary were:

	2008	2007	2006
Rate of increase in salaries	<b>4.8%</b>	5.5%	5.1%
Rate of increase in deferred pensions	<b>2.8%</b>	3.5%	3.1%
Rate of increase in pensions in payment			
Pre-6th April 1997 benefits	<b>2.8%</b>	3.0%	3.0%
Post-5th April 1997 benefits	<b>2.8%</b>	3.5%	3.1%
Discount rate	<b>6.2%</b>	5.8%	5.0%
Inflation assumption	<b>2.8%</b>	3.5%	3.1%

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 26.8 years and non-retired members for 27.7 years, based on the normal retirement age of 65).

The group expects to make contributions of £0.5m to the defined benefit section of the scheme in 2009. As the defined benefit section of the scheme is a closed scheme valued under the 'Projected Unit Cost Method' the service cost is likely to increase in future years as members approach retirement.

The fair values of assets in the defined benefit section of the scheme and the expected rates of return, based on market expectations, were:

	2008		2007		2006	
	%	£m	%	£m	%	£m
Equities	<b>5.9</b>	<b>13.3</b>	6.1	19.4	5.8	18.0
Bonds	<b>7.2</b>	<b>0.5</b>	5.8	0.4	4.9	0.3
Property	<b>5.9</b>	<b>9.9</b>	6.1	11.7	5.8	9.8
Cash and other assets	<b>4.4</b>	<b>1.2</b>	4.6	3.5	4.3	5.8
		<b>24.9</b>		35.0		33.9
Actuarial value of liabilities		<b>(23.6)</b>		(29.0)		(31.1)
Unrecognised surplus		<b>(1.3)</b>		(6.0)		—
Surplus in the scheme		—		—		2.8
Related deferred tax liability		—		—		(0.8)
Fair value of pension asset net of deferred tax		—		—		2.0

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 19. PENSIONS CONTINUED

When a pension asset (net surplus) arises and the directors consider it is controlled by the company such that future economic benefits will be available to the company, it is carried forward in accordance with the requirements of IFRIC 14.

At the previous balance sheet date, a surplus existed but having reviewed the trust deed and scheme rules the directors were of the view that the company did not have sufficient control and accordingly the surplus was not recognised. The directors have given further consideration to how the company might be able to access the economic benefits inherent in an actuarial surplus in the scheme. This may enable the company to recognise a surplus in future periods.

The cumulative amount of actuarial gains and losses (before unrecognised surplus of £1.3m) recorded in the group statement of recognised income and expense is a loss of £0.1m (2007: £5.0m gain).

#### ANALYSIS OF THE AMOUNT CHARGED TO OPERATING PROFIT

	2008	2007	2006
	£m	£m	£m
Current service cost	(0.4)	(0.5)	(0.5)
Employee contributions	0.1	0.1	0.1
Total operating charge	(0.3)	(0.4)	(0.4)

#### ANALYSIS OF THE AMOUNT CREDITED/(CHARGED) TO FINANCE COSTS AND INCOME

	2008	2007	2006
	£m	£m	£m
Expected return on pension scheme assets	2.0	1.8	1.6
Interest on pension scheme liabilities	(1.6)	(1.5)	(1.5)
	0.4	0.3	0.1

The actual return on pension scheme assets was a loss of £6.9m (2007: £1.7m gain). The expected return on pension scheme assets was calculated assuming cash and gilts will make returns in line with the yield on the 20 year gilt index and that equities and properties will return 1.5% above this. Corporate bonds have been assumed to return in line with the yield on the iboxx over 15 year corporate bond index.

#### ANALYSIS OF THE AMOUNT RECOGNISED IN THE GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2008	2007	2006
	£m	£m	£m
Difference between expected and actual return on assets	(8.9)	(0.1)	2.7
Experience gains and losses arising on fair value of scheme liabilities	(3.8)	(3.0)	(1.1)
Effects of changes in the demographic and financial assumptions underlying the fair value of the scheme liabilities	7.6	5.8	0.9
Change in unrecognised surplus	4.7	(6.0)	—
Total actuarial (loss)/gain	(0.4)	(3.3)	2.5

#### ANALYSIS OF THE MOVEMENT IN THE FAIR VALUE OF THE SCHEME LIABILITIES

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Beginning of year	29.0	31.1	29.8	24.0	21.6
Movement in year:					
Current service cost	0.4	0.5	0.5	0.6	0.7
Employee contributions	(0.1)	(0.1)	(0.1)	(0.1)	—
Interest cost	1.6	1.5	1.5	1.3	1.2
Actuarial gains and losses	(3.7)	(2.8)	0.2	4.6	1.4
Benefits paid	(3.6)	(1.2)	(0.8)	(0.6)	(0.9)
End of year	23.6	29.0	31.1	29.8	24.0

## 19. PENSIONS CONTINUED

### ANALYSIS OF THE MOVEMENT IN THE FAIR VALUE OF THE SCHEME ASSETS

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Beginning of year	35.0	33.9	29.3	24.0	20.2
Movement in year:					
Expected return on scheme assets	2.0	1.8	1.6	1.5	1.3
Contributions by employer	0.4	0.6	1.1	0.6	2.1
Actuarial gains and losses	(8.9)	(0.1)	2.7	3.8	1.3
Benefits paid	(3.6)	(1.2)	(0.8)	(0.6)	(0.9)
End of year	24.9	35.0	33.9	29.3	24.0
Surplus/(deficit) in scheme at the year end	1.3	6.0	2.8	(0.5)	—
Unrecognised surplus	(1.3)	(6.0)	—	—	—
Net surplus	—	—	2.8	(0.5)	—

### HISTORY OF EXPERIENCE GAINS AND LOSSES

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Difference between expected and actual return on scheme assets					
Amount	(8.9)	(0.1)	2.7	3.8	1.3
Percentage of scheme assets	(35.7%)	(0.3%)	8.0%	13.0%	5.4%
Experience gains and losses on scheme liabilities					
Amount	(3.8)	(3.0)	(1.1)	0.3	(0.9)
Percentage of fair value of scheme liabilities	16.1%	10.3%	3.5%	(1.0%)	3.8%
Changes in assumptions underlying the fair value of scheme liabilities					
Amount	7.6	5.8	0.9	(4.9)	(0.5)
Percentage of fair value of scheme liabilities	32.2%	20.0%	2.9%	(16.4%)	(2.1%)
Change in unrecognised surplus	4.7	(6.0)	—	—	—
Total actuarial gain/(loss) recognised in the statement of recognised income and expense					
Amount	(0.4)	(3.3)	2.5	(0.8)	(0.1)
Percentage of present value of scheme liabilities	(1.7%)	(11.4%)	8.0%	(2.7%)	(0.4%)
Deferred taxation attributable to pension movements (note 4)	0.1	0.9	(0.7)	0.3	—
Pension scheme movement for the year net of deferred tax	(0.3)	(2.4)	1.8	(0.5)	(0.1)

## 20. CAPITAL COMMITMENTS

At 30th November 2008 the group had contracted capital expenditure of £3,093,000 (2007: £14,184,000). In addition, the group's share of the contracted capital expenditure of its joint venture undertakings was £162,000 (2007: £nil). All capital commitments relate to investment properties.

## 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 performance of VSM Estates (Holdings) Limited (VSM). This is a guarantee in the ordinary course of business and would require the guarantors to step into VSM's place in the event of a default on Project MoDEL. Completion of the project is not considered onerous as the forecast revenues exceed the anticipated costs and it is not anticipated that there would be any net outflow in this regard.

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 £18.4m.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### 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 £1.3m (2007: £2.4m).

#### HOLAW (462) LIMITED ('HOLAW')

During the year Holaw repaid £0.1m of its loan (2007: £0.1m). The balance due to the group at the year end was £0.5m (2007: £0.6m). No interest is charged on the loan.

#### BARTON BUSINESS PARK LIMITED ('BARTON')

During the year the group repaid £0.1m of its loan to Barton (2007: nil). The balance due to Barton at the year end was £3.4m (2007: £3.5m). No interest is charged on this balance.

#### SOWCREST LIMITED ('SOWCREST')

During the year the group provided management services to Sowcrest for which it received fees totalling £0.6m.

In addition, during the year £1.2m was paid to Sowcrest (2007: £2.9m received from Sowcrest) leaving an amount due from Sowcrest at the year end of £0.4m (2007: £0.8m due to Sowcrest). 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 (2007: £2.2m). The loan is secured and interest is chargeable at 1.5% (2007: 1.5%) above base rate.

#### ST. MODWEN PENSION SCHEME

No sales of property were made to the pension scheme during the year (2007: £2.1m). The group occupies offices owned by the pension scheme with a value of £0.5m (2007: £0.6m).

#### NON-WHOLLY OWNED SUBSIDIARIES

The company provides administrative and management services and provides a central purchase ledger system to subsidiary companies. In addition, the company also operates a central treasury function which lends to and borrows from subsidiary undertakings as appropriate. 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	
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
Stoke-on-Trent Regeneration Limited	—	—	(0.2)	(1.0)	4.2	(5.1)
Stoke-on-Trent Regeneration (Investments) Limited	—	—	—	0.1	0.2	0.2
Uttoxeter Estates Limited	—	—	—	—	(0.1)	—
Widnes Regeneration Limited	—	—	0.1	0.3	(2.2)	3.7
Trentham Leisure Limited	0.8	0.4	1.6	1.5	(21.4)	24.5
Norton & Proffitt Developments Limited	—	—	—	—	0.9	9.1
VSM Estates (Holdings) Limited	0.2	0.3	—	—	6.5	(1.7)
	<b>1.0</b>	<b>0.7</b>	<b>1.5</b>	<b>0.9</b>	<b>(11.9)</b>	<b>30.7</b>

With the exception of SPD, all amounts due to the group are unsecured and will be settled in cash. All amounts above are stated before provisions for doubtful debts of £0.4m (2007: £0.4m). No guarantees have been given or received from related parties.

#### KEY MANAGEMENT PERSONNEL

The directors and senior management are considered to be the group's key management personnel and their remuneration is disclosed in the directors' remuneration report.

## COMPANY BALANCE SHEET

AS AT 30TH NOVEMBER 2008

	Notes	2008 £m	2007 £m
<b>Fixed assets</b>			
Tangible assets	(E)	1.4	1.1
Investments	(F)	344.3	389.0
		<b>345.7</b>	390.1
<b>Current assets</b>			
Debtors	(G)	465.9	400.2
Cash at bank and in hand		7.4	17.0
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	(H)	(134.2)	(147.8)
<b>Net current assets</b>		<b>339.1</b>	269.4
<b>Total assets less current liabilities</b>		<b>684.8</b>	659.5
Creditors: amounts falling due after more than one year	(H)	(288.9)	(228.8)
<b>Net assets</b>		<b>395.9</b>	430.7
<b>Capital and reserves</b>			
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)	269.7	314.5
Profit and loss account	(L)	104.8	95.4
Own shares	(L)	(0.1)	(0.7)
<b>Equity shareholders' funds</b>		<b>395.9</b>	430.7

These financial statements were approved by the board of directors on 26th February 2009 and were signed on its behalf by Anthony Glossop and Tim Haywood.

**Anthony Glossop**

Chairman

**Tim Haywood**

Finance Director

## NOTES TO THE COMPANY ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### (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.

#### ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention, modified by the revaluation of investment properties, derivative financial instruments and the defined benefit section of the company's pension scheme.

#### 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.

#### 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 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 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.

#### 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.

#### 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, 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.
- 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.

#### **INTEREST**

Interest 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 PAYMENTS**

When employee share options are exercised the employee has the choice of whether to have the liability to them settled by way of cash or the retention of shares. As it has been the company's practice to satisfy the majority of share options in cash and new shares are not issued to satisfy employee share option plans, the group accounts for its share option schemes as cash-settled. 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 balance sheet date. Revisions to the fair value of the accrued liability after the end of the vesting period are recorded in the income statement of the year in which they occur.

#### **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 expense.

#### **OPERATING LEASES**

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

#### **CASH FLOW STATEMENT**

The company has taken advantage of the exemption permitted by FRS 1 not to present a cash flow statement.

## NOTES TO THE COMPANY ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### (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 ended 30th November 2008 was £23.8m (2007: £12.8m loss).

### (C) OPERATING EXPENSES

#### (I) AUDIT FEES

	2008	2007
	£'000	£'000
Fees paid to Deloitte LLP in respect of:		
— Fees payable for the audit of the company's annual accounts	115	105
— Other services pursuant to legislation	26	25
— Tax services	86	82
— Other services	—	86
	<b>227</b>	<b>298</b>

#### (II) EMPLOYEES

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

	2008	2007
	Number	Number
Property	137	129
Leisure and other activities	47	44
Administration	50	44
	<b>234</b>	<b>217</b>

The total payroll costs of these employees were:

	2008	2007
	£m	£m
Wages and salaries	10.8	11.7
Social security costs	1.3	1.4
Pension costs	0.8	0.8
	<b>12.9</b>	<b>13.9</b>

### (D) DIVIDENDS

Dividends paid during the year comprised the final dividend in respect of 2007 and the interim dividend in respect of 2008. No final dividend is proposed.

	2008		2007	
	p per share	£m	p per share	£m
<b>Paid</b>				
Final dividend in respect of previous year	7.8	9.4	6.8	8.2
Interim dividend in respect of current year	3.9	4.7	3.9	4.7
Total	<b>11.7</b>	<b>14.1</b>	<b>10.7</b>	<b>12.9</b>
<b>Proposed</b>				
Current year final dividend	—	—	7.8	9.4

The Employee Benefit Trust waives its entitlement to dividends.



**(E) TANGIBLE FIXED ASSETS**

	Long leasehold investment properties £m	Plant, machinery and equipment £m	Total £m
<b>Cost or valuation</b>			
At 30th November 2007	0.6	1.8	2.4
Additions	—	0.8	0.8
Disposals	—	(0.2)	(0.2)
Revaluation	(0.1)	—	(0.1)
<b>At 30th November 2008</b>	<b>0.5</b>	<b>2.4</b>	<b>2.9</b>
<b>Depreciation</b>			
At 30th November 2007	—	1.3	1.3
Charge for the year	—	0.4	0.4
Disposals	—	(0.2)	(0.2)
<b>At 30th November 2008</b>	<b>—</b>	<b>1.5</b>	<b>1.5</b>
<b>Net book value</b>			
At 30th November 2007	0.6	0.5	1.1
<b>At 30th November 2008</b>	<b>0.5</b>	<b>0.9</b>	<b>1.4</b>

Investment properties were valued at 30th November 2008 and 2007 by King Sturge & Co, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of market value. King Sturge & Co are professionally qualified independent external valuers and have recent experience in the relevant location and category of the properties being valued.

Long leasehold investment properties are currently let under operating leases for the purpose of generating rental income.

**(F) INVESTMENTS HELD AS FIXED ASSETS**

	Investment in subsidiary companies £m	Investment in joint ventures £m	Total £m
<b>Valuation</b>			
At 30th November 2007	314.7	74.3	389.0
Revaluation of investments	(38.7)	(6.0)	(44.7)
<b>At 30th November 2008</b>	<b>276.0</b>	<b>68.3</b>	<b>344.3</b>
<b>Cost</b>			
At 30th November 2008 and 30th November 2007	76.2	26.5	102.7

**SUBSIDIARY COMPANIES**

At 30th November 2008 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

All principal subsidiaries are registered and operated in England and Wales.

## NOTES TO THE COMPANY ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### (F) INVESTMENTS HELD AS FIXED ASSETS CONTINUED

#### JOINT VENTURES

At 30th November 2008 the joint ventures were:

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

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

### (G) DEBTORS

	2008 £m	2007 £m
Trade debtors	—	0.2
Amounts due from subsidiaries	452.1	380.9
Amounts due from joint venture and associated companies	3.1	2.8
Other debtors	3.3	11.9
Prepayments and accrued income	1.6	1.2
Derivative financial instruments	—	2.0
Deferred tax asset (see note (J))	5.8	1.2
	<b>465.9</b>	<b>400.2</b>

### (H) CREDITORS

	2008 £m	2007 £m
<b>Amounts falling due within one year:</b>		
Bank overdraft	10.4	24.8
Amounts due to subsidiaries	96.5	103.3
Amounts due to joint venture and associated companies	3.5	4.2
Other tax and social security	—	0.1
Other creditors	2.3	0.5
Accruals and deferred income	6.9	13.7
Derivative financial instruments	14.6	1.2
	<b>134.2</b>	<b>147.8</b>
<b>Amounts falling due after more than one year:</b>		
Bank loans	287.5	227.4
Accruals and deferred income	1.4	1.4
	<b>288.9</b>	<b>228.8</b>

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:

	<b>2008</b>	2007
	<b>£m</b>	£m
Less than one year	<b>10.4</b>	24.8
Two to five years	<b>287.5</b>	211.0
More than five years	—	16.4
<b>Total</b>	<b>297.9</b>	252.2

The bank borrowings can be further analysed as follows:

	<b>2008</b>	2007
	<b>£m</b>	£m
Wholly repayable within five years	<b>297.9</b>	235.8
Not wholly repayable in five years	—	16.4
<b>Total</b>	<b>297.9</b>	252.2

**(J) DEFERRED TAXATION**

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

	Provided		Unprovided	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>£m</b>	£m	<b>£m</b>	£m
Capital allowances in excess of depreciation	<b>0.1</b>	1.0	—	—
Other timing differences	<b>(5.9)</b>	(2.2)	<b>0.9</b>	—
	<b>(5.8)</b>	(1.2)	<b>0.9</b>	—

**RECONCILIATION OF MOVEMENT ON DEFERRED TAX ASSET INCLUDED IN DEBTORS**

	£m
Balance as at 30th November 2007	(1.2)
Profit and loss account	(4.6)
<b>Balance as at 30th November 2008</b>	<b>(5.8)</b>

**RECONCILIATION OF DEFERRED TAX LIABILITY INCLUDED IN PENSION SCHEME ASSET**

	£m
Balance as at 30th November 2007	—
Profit and loss account	(0.1)
Statement of total recognised gains and losses	0.1
<b>Balance as at 30th November 2008</b>	<b>—</b>

## NOTES TO THE COMPANY ACCOUNTS

FOR THE YEAR ENDED 30TH NOVEMBER 2008

### (K) SHARE CAPITAL

	2008	2007
	£m	£m
<b>Authorised:</b>		
Equity share capital		
150,000,000 Ordinary 10p shares	15.0	15.0
<b>Allotted and fully paid:</b>		
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	Capital redemption reserve	Revaluation reserve	Profit & loss account	Own shares
	£m	£m	£m	£m	£m
At 30th November 2007	9.1	0.3	314.5	95.4	(0.7)
Surplus on revaluation of investments	—	—	(44.8)	—	—
Retained profit for the year (note B)	—	—	—	23.8	—
Net share disposals	—	—	—	—	0.6
Dividends paid (note D)	—	—	—	(14.1)	—
Actuarial loss on pension scheme (note M)	—	—	—	(0.4)	—
Movement on deferred tax relating to pension asset (note J)	—	—	—	0.1	—
<b>At 30th November 2008</b>	<b>9.1</b>	<b>0.3</b>	<b>269.7</b>	<b>104.8</b>	<b>(0.1)</b>

'Own shares' represents the cost of 33,590 (2007: 137,854) shares held by the Employee Benefit Trust. The market value of the shares held at 30th November 2008 was £38,292 (2007: £584,501). In addition, the Employee Benefit Trust has £1.7m of cash and £12.0m due from the company that can only be used for the benefit of employees.

### (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 IAS 19 Employee Benefits disclosures for the group, also addresses the requirements of FRS 17 "Retirement Benefits" for the company.

**(N) OPERATING LEASE COMMITMENTS****OPERATING LEASE COMMITMENTS WHERE THE COMPANY IS THE LESSEE**

Annual commitments under non-cancellable operating leases are as follows:

	2008		2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
<b>Operating leases which expire:</b>				
In one year or less	0.3	0.1	—	0.1
Between one and five years	—	0.6	0.3	0.4
In more than five years	0.5	—	—	—
	<b>0.8</b>	<b>0.7</b>	0.3	0.5

**(O) 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 performance of VSM Estates (Holdings) Limited (VSM). This is a guarantee in the ordinary course of business and would require the guarantors to step into VSM's place in the event of a default on Project MoDEL. Completion of the project is not considered onerous as the forecast revenues exceed the anticipated costs and it is not anticipated that there would be any net outflow in this regard.

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 £18.4m.

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



# INDEPENDENT AUDITORS' 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 2008 which comprise the Company balance sheet and the related notes A to O. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of St. Modwen Properties PLC for the year ended 30th November 2008 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, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Report of the Directors is consistent with the parent company 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 the other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises the Report of the Directors. 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 further information outside the Annual Report.

## 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. 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 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.

## 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 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the parent company financial statements.

## Deloitte LLP

Chartered Accountants and Registered Auditors  
Birmingham, United Kingdom  
26th February 2009

# FIVE YEAR RECORD

## AS AT 30TH NOVEMBER 2008

	2004	2005	2006	2007	2008
	£m	£m	£m	£m	£m
Rental income*	44.3	45.2	40.3	34.9	<b>33.2</b>
Property profits*	34.0	39.3	44.6	54.5	<b>9.7</b>
Revaluation surplus/(deficit)*	26.1	44.9	55.6	62.8	<b>(64.6)</b>
Pre-tax profit/(loss)†	64.3	82.9	96.9	100.1	<b>(73.1)</b>
Earnings/(loss) per share (pence)	41.5	55.4	61.6	73.3	<b>(42.8)</b>
Dividends paid per share (pence)	7.6	8.8	10.2	11.7	<b>3.9</b>
Dividend cover (times)	5.5	6.3	6.0	6.3	<b>(11.0)</b>
Net assets per share (pence)	219.8	268.3	322.8	387.3	<b>333.0</b>
Increase/(decrease) on prior year	25%	22%	20%	20%	<b>(14%)</b>
<b>Net assets employed</b>					
Investment properties	454.2	481.2	736.4	846.9	<b>814.3</b>
Investments	49.9	68.5	77.9	75.4	<b>64.2</b>
Inventories	48.1	36.1	65.9	209.3	<b>228.1</b>
Other net liabilities	(59.4)	(54.0)	(237.5)	(262.0)	<b>(282.9)</b>
Net borrowings	(227.3)	(207.8)	(252.9)	(401.9)	<b>(421.5)</b>
Net assets	265.5	324.0	389.8	467.7	<b>402.2</b>
<b>Financed by</b>					
Share capital	12.1	12.1	12.1	12.1	<b>12.1</b>
Reserves	252.2	308.7	373.7	446.8	<b>380.7</b>
Own shares	(1.9)	(0.4)	(0.8)	(0.7)	<b>(0.1)</b>
Minority interests	3.1	3.6	4.8	9.5	<b>9.5</b>
	265.5	324.0	389.8	467.7	<b>402.2</b>

\* Including share of joint ventures.

† Including post-tax profit of joint ventures.

The figures above are all presented under IFRS.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixty-eighth Annual General Meeting of St. Modwen Properties PLC will be held at 12.00 noon on Friday, 3rd April 2009 at the Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham, B31 2TS for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the report of the directors and the accounts for the year ended 30th November 2008.
2. To re-elect Anthony Glossop as a director.
3. To re-elect Tim Haywood as a director.
4. To re-elect Ian Menzies-Gow as a director.
5. To reappoint Deloitte LLP as Auditors of the company to hold office until the conclusion of the next General Meeting at which accounts are laid and to authorise the directors to determine their remuneration.

## SPECIAL BUSINESS

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

### 6. Ordinary Resolution

That the directors' remuneration report for the year ended 30th November 2008 be approved.

### 7. 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 3rd July 2010 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.

### 8. 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 3rd July 2010 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.

### 9. 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:

- (a) be limited to 12,077,395 ordinary shares of 10p each;
- (b) 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
- (c) expire on 3rd July 2010 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.

By order of the Board

### Tim Haywood

Company Secretary  
26th February 2009

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

## Explanatory notes to the Resolutions

- 1 Resolution 1 is to receive the Accounts and the Reports of the Directors and the Auditors for the year ended 30th November 2008.
- 2 Resolutions 2 to 4 concern the re-election of directors retiring in accordance with the Articles of Association of the Company. At this year's Annual General Meeting, the Directors to retire by rotation will be Anthony Glossop, Tim Haywood and Ian Menzies-Gow. Each of the directors has undergone, during the year, a performance evaluation and the board remains satisfied that each director proposed for re-election remains committed to the role and continues to be an effective and valuable member of the board. Biographical details of these directors can be found on page 48.
- 3 Resolution 5 is proposed to re-appoint Deloitte LLP as auditors to hold office until the next general meeting of the company at which accounts are presented and to authorise the directors to determine the level of the auditors' remuneration.
- 4 Resolution 6 is to approve the Directors' Remuneration Report, which is included on pages 56 to 63 and provides details of the group's remuneration policy for the directors and senior executives. In accordance with the Directors' Remuneration Report Regulations 2002, the vote on this resolution is advisory and no director's remuneration is conditional upon the passing of this resolution.

- 5 The existing general authority of the directors to allot shares and the current disapplication of the statutory pre-emption rights granted at the company's 2008 Annual General Meeting 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").

Resolution 7, 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). The board has no intention at present to exercise the authority to allot shares under this resolution.

Resolution 8, 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 3rd July 2010 if earlier, when the directors intend to seek renewal of the authorities.

- 6 Resolution 9 is to renew the authority for the company to purchase certain of its own shares 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.

The following notes explain your general rights as a shareholder and your right to attend and vote at this AGM or to appoint someone else to vote on your behalf.

- a) A member entitled to attend and vote at this meeting may appoint a proxy to attend, speak and vote on his/her behalf. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares of the member. A proxy need not be a member but must attend the meeting in person. Proxy forms should be lodged with the registrar's office or submitted not later than 48 hours before the time for which the meeting is convened. Completion of the appropriate proxy form does not prevent a

member from attending and voting in person if he/she is entitled to do so and so wishes.

- b) Any person to whom this notice is sent who is a person nominated under s146 Companies Act 2006 to enjoy information rights ("Nominated Person") may, under an agreement with the member who nominated him/her, have a right to be appointed, or have someone else appointed, as a proxy for the meeting. If a Nominated Person does not have this right or does not wish to exercise it, he or she may have a right under such an agreement to give the member voting instructions.
- c) The statement of the rights of members in relation to the appointment of proxies in Note (a) does not apply to Nominated Persons.
- d) As at 26th February 2009 (being the last working day prior to the publication of this notice), the company's issued share capital consisted of 120,773,954 shares, carrying one vote each, which represents the total voting rights in the company as at that date.
- e) The following documents are available for inspection during normal business hours at the registered office of the company on any business day and may also be inspected at the Innovation Centre, 1 Devon Way, Longbridge Technology Park, Birmingham, B31 2TS at least 15 minutes prior to the commencement of, and during the continuance of, the Annual General Meeting:
- (i) copies of the directors' service contracts with the company;
  - (ii) copies of the Non-Executive Directors' letters of appointment; and
  - (iii) a copy of the company's current Memorandum and Articles of Association.
- 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 1st April 2009 (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,

# NOTICE OF ANNUAL GENERAL MEETING

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 the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK'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 to 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 Company'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 company'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 Euroclear UK does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- h) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.
- i) Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if the proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
- j) To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars helpline on 0871 384 2198 or you may photocopy the form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.



# 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 Establishment 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.

**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.

**CSR** — corporate and social responsibility.

**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)** is 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 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 profit before interest and tax (excluding non-cash items such as investment property revaluations) plus the realisation of previous years' revaluations, as a percentage of net interest (excluding non-cash items such as mark-to-market of interest rate swaps).

**IPD** is the Investment Property Databank Ltd., a company that produces an independent benchmark of property returns.

**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.

**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.

**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.

**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.

**Void** 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.

# SHAREHOLDER INFORMATION

## Financial Calendar

Annual General Meeting	3rd April 2009
Announcement of 2009 interim results	July 2009
Announcement of 2009 final results	February 2010

## Ordinary shareholdings at 30th November 2008

	Shareholders		Shares	
	No.	%	No. (m)	%
<b>By shareholder</b>				
Directors and connected persons	11	0.2	9.0	7.5
Individuals	3,916	83.0	62.5	51.8
Insurance companies, nominees and pension funds	688	14.6	54.6	45.2
Other limited companies and corporate bodies	115	2.4	3.7	3.0

	Shareholders		Shares	
	No.	%	No. (m)	%
<b>By shareholding</b>				
Up to 500	1,297	27.5	0.3	0.3
501 to 1,000	903	19.1	0.7	0.6
1,001 to 5,000	1,688	35.8	3.9	3.2
5,001 to 10,000	361	7.7	2.6	2.2
10,001 to 50,000	301	6.4	6.3	5.2
50,001 to 100,000	59	1.2	4.2	3.5
100,001 to 500,000	68	1.4	13.6	11.3
500,001 to 1,000,000	18	0.4	13.3	11.0
1,000,001 and above	24	0.5	75.8	62.7

## Registrars

The registrars to the company are Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DH.

Shareholder enquiry line: 0871 384 2198. The registrars' website is: [www.shareview.co.uk](http://www.shareview.co.uk). Registering on this website will enable you, amongst other features, to view your St. Modwen Properties shareholding online.

# ADVISERS

## ADVISERS

### Auditors

Deloitte LLP

### Joint Stockbrokers

JP Morgan Cazenove

Numis Securities

## REGISTERED OFFICE

Sir Stanley Clarke House

7 Ridgeway

Quinton Business Park

Birmingham

B32 1AF

## COMPANY NUMBER

349201



### INSIDE BACK COVER - TRENTHAM

The Observatory Wheel at the Trentham Estate, yet another facet to this popular visitor attraction.







**ST. MODWEN PROPERTIES PLC  
HEAD OFFICE & MIDLANDS**

**REGIONAL OFFICE**

Sir Stanley Clarke House  
7 Ridgeway  
Quinton Business Park  
Birmingham  
B32 1AF  
0121 222 9400

[stmodwen.co.uk](http://stmodwen.co.uk)  
[info@stmodwen.co.uk](mailto:info@stmodwen.co.uk)

**REGIONAL OFFICES:**

**LONDON & SOUTH EAST**

180 Great Portland Street  
London  
W1W 5QZ  
020 7788 3700

**SOUTH WEST**

King's Weston Lane  
Avonmouth  
Bristol  
BS11 8AZ  
0117 316 7780

**YORKSHIRE**

Ground Floor, Unit 2  
Landmark Court  
Elland Road  
Leeds  
LS11 8JT  
0113 272 7070

**NORTH STAFFORDSHIRE**

The Trentham Estate  
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Stone Road  
Trentham  
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**NORTH WEST**

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Risley  
Warrington  
WA3 6BX  
01925 825950

**NORTHERN HOME COUNTIES**

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