PRESS RELEASE

SEGRO

15 FEBRUARY 2019

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

SEGRO plc ('SEGRO' / 'Company' / 'Group') announces its results for the year ended 31 December 2018.

- **SEGRO announces a strong set of operating, financial and portfolio performance metrics, and another record year of development, the majority of which has already been leased.**
- **Adjusted pre-tax profit, up 24.4 per cent,** reflects our development success and our focus on customer and portfolio management, which delivered high customer retention rates, like-for-like rental growth and a low vacancy rate.
- **Adjusted EPS of 23.4 pence, including 1.2 pence net impact from a performance fee from SELP.** Excluding the (non-recurring) performance fee, the adjusted EPS would be 22.2 pence, an increase of 11.6 per cent compared to 2017 (19.9 pence). **IFRS EPS of 105.4 pence** (2017: 98.5 pence) also includes the impact of the 10.7 per cent increase (2017: 13.6 per cent increase) in the value of our portfolio.
- **EPRA NAV per share up 16.9 per cent to 650 pence** (31 December 2017: 556 pence).
- **Future earnings prospects underpinned by 1.3 million sq m of development projects under construction or in advanced pre-let discussions.** The projects under construction are all due to complete in 2019 and are expected to generate £46 million of rent, almost three quarters of which has been secured through pre-lets and lettings prior to completion. Our land bank and land under our control provide significant potential for further growth.
- **2018 full year dividend increased by 13.3 per cent to 18.8 pence** (2017 dividend: 16.6 pence). Final dividend increased by 16.7 per cent to 13.25 pence (2017: 11.35 pence).

Commenting on the results, David Sleath, Chief Executive, said:

"2018 has been a successful year for SEGRO. The extensive development activity that has been our focus over the past few years, the success of which has been underpinned by the structural themes of e-commerce and urbanisation driving occupier demand, means we now have portfolio of very high quality and well-located warehouses. The combination of this prime portfolio and our active approach to asset management has enabled us to grow rents and maintain high occupancy across our markets.

"Development completions and pre-leasing levels in 2018 both exceeded a record previous year and, with customers already signed up to almost three quarters of our developments under construction, we believe that our significant longer-term pipeline and land bank have substantial potential that will continue to deliver attractive development returns and future income growth."

FINANCIAL AND OPERATING HIGHLIGHTS[1]

Strong investor demand and asset management have driven valuation gains across the portfolio

- **Portfolio capital value growth of 10.7 per cent** (2017: 13.6 per cent) driven by a 12.0 per cent increase in the like-for-like value of our UK portfolio (2017: 15.8 per cent) and 5.1 per cent in Continental Europe (2017: 6.2 per cent). The increase reflects the benefits of active management of our portfolio, modest further yield compression and improving rental values, enhanced by gains from our development activity.
- **Estimated rental values (ERVs) increased by 3.4 per cent** (2017: 3.1 per cent). Rental values in our UK portfolio increased by 4.7 per cent (2017: 3.9 per cent) and by 0.7 per cent in Continental Europe (2017: 1.2 per cent).

Active asset management and high levels of development have led to strong operational performance

- **24.1 per cent increase in annualised new rent contracted in the period** to £66.4 million (2017: £53.5 million), of which £41.5 million (2017: £28.6 million) is from new development pre-let agreements and lettings of speculative space prior to completion.
- **3.1 per cent like-for-like net rental income growth** (4.1 per cent in the UK, 1.0 percent in Continental Europe) aided by an 8.8 per cent uplift on rent reviews and renewals, mainly from capturing reversionary potential accumulated in recent years in the UK portfolio.
- **Vacancy rate remains low at 5.2 per cent** (31 December 2017: 4.0 per cent), the increase due to completion of speculative developments during the period. The vacancy rate on the standing portfolio is stable at 3.4 per cent. Our focus on customer service continues to drive operational performance with customer retention increasing to 89 per cent (2017: 81 per cent) of rent at risk from expiry or customer break.

Capital allocation focused on accretive development programme which will continue to deliver value in 2019

- **Net investment of £327 million in 2018** including £688 million invested in development capex, infrastructure and land, £81 million of asset acquisitions, offset by £442 million of asset and land disposals (including sales of assets to our SELP joint venture).
- **Total development capex for 2019, including infrastructure and land acquisitions, expected to exceed £600 million.**
- **£46 million of potential rent from current development pipeline**, of which almost three quarters has been secured. The entire current pipeline is due to complete in 2019.
- **Further 'near-term' pre-let projects** associated with £23 million of rent are at advanced stages of negotiation.

Balance sheet is in good health

- **SEGRO continues to be conservatively financed.** The average cost of debt has reduced to 1.9 per cent (2017: 2.1 per cent), the long average debt maturity has been retained at 10.2 years (2017: 10.8 years) and look-through LTV ratio has reduced to 29 per cent (31 December 2017: 30 per cent).
- **£423 million of new debt for SEGRO and SELP** was signed during the year, further strengthening the balance sheet. SEGRO has over £1.2 billion of cash and available facilities at its disposal.

[1] Figures quoted on pages 1 to 14 refer to SEGRO's share, except for land (hectares) and space (square metres) which are quoted at 100 per cent, unless otherwise stated. Please refer to the Presentation of Financial Information statement in the Financial Review for further details.

FINANCIAL SUMMARY

Income statement metrics	2018	2017	Change per cent
Adjusted[1] profit before tax (£m)	241.5	194.2	24.4
IFRS profit before tax (£m)	1,099.1	976.3	12.6
Adjusted[2] earnings per share (pence)	23.4	19.9	17.6
IFRS earnings per share (pence)	105.4	98.5	7.0
Dividend per share (pence)	18.8	16.6	13.3

Balance sheet metrics	31 December 2018	31 December 2017	Change per cent
Portfolio valuation (SEGRO share, £m)	9,425	8,039	10.7[5]
EPRA[3 4] net asset value per share (pence, diluted)	650	556	16.9
IFRS net asset value per share (pence, diluted)	644	554	16.2
Group net borrowings (£m)	2,177	1,954	–
Loan to value ratio including joint ventures at share (per cent)	29	30	–

1 A reconciliation between Adjusted profit before tax and IFRS profit before tax is shown in Note 2.

2 A reconciliation between Adjusted earnings per share and IFRS earnings per share is shown in Note 11(i).

3 A reconciliation between EPRA net asset value per share and IFRS net asset value per share is shown in Note 11(ii).

4 Calculations for EPRA performance measures are shown in the Supplementary Notes to the condensed financial information.

5 Percentage valuation movement during the period based on the difference between opening and closing valuations for all properties including buildings under construction and land, adjusting for capital expenditure, acquisitions and disposals.

CONFERENCE CALL FOR INVESTORS AND ANALYSTS

SEGRO management will host a conference call at 08:00 (UK time).

The conference call facility will be available at 08:00 (UK time) on the following number:

Dial-in: +44 (0)844 571 8892
Access code: 8299014

An audio recording of the conference call will be available until 22 February 2019 on:

UK & International: +44 (0) 3333 009785
Access code: 8299014#

A video interview with David Sleath, Chief Executive, discussing the results is now available to view on www.segro.com, together with this announcement, the FY 2018 Property Analysis Report and other information about SEGRO.

CONTACT DETAILS FOR INVESTOR / ANALYST AND MEDIA ENQUIRIES:

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FINANCIAL CALENDAR

2018 final dividend ex-div date	21 March 2019
2018 final dividend record date	22 March 2019
2018 final dividend scrip dividend price announced	28 March 2019
2018 final dividend payment date	2 May 2019
2019 First Quarter Trading Update	17 April 2019
Half Year 2019 Results	23 July 2019

ABOUT SEGRO

SEGRO is a UK Real Estate Investment Trust (REIT), and a leading owner, manager and developer of modern warehouses and light industrial property. It owns or manages 7 million square metres of space (75 million square feet) valued at £11 billion serving customers from a wide range of industry sectors. Its properties are located in and around major cities and at key transportation hubs in the UK and in eight other European countries.

See www.SEGRO.com for further information.

Forward-Looking Statements: This announcement contains certain forward-looking statements with respect to SEGRO's expectations and plans, strategy, management objectives, future developments and performances, costs, revenues and other trend information. These statements are subject to assumptions, risk and uncertainty. Many of these assumptions, risks and uncertainties relate to factors that are beyond SEGRO's ability to control or estimate precisely and which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Certain statements have been made with reference to forecast process changes, economic conditions and the current regulatory environment. Any forward-looking statements made by or on behalf of SEGRO are based upon the knowledge and information available to Directors on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and SEGRO's shareholders are cautioned not to place undue reliance on the forward-looking statements. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules), SEGRO does not undertake to update forward-looking statements to reflect any changes in events, conditions or circumstances on which any such statement is based. Past share performance cannot be relied on as a guide to future performance. Nothing in this announcement should be construed as a profit forecast.

Neither the content of SEGRO's website nor any other website accessible by hyperlinks from SEGRO's website are incorporated in, or form part of, this announcement.

CHIEF EXECUTIVE'S REVIEW

In 2018, SEGRO has delivered another set of strong financial and operating metrics, completed a record volume of developments and continued to strengthen its capital structure. We have stayed true to our strategy, committing to Operational Excellence and Disciplined Capital Allocation, and as a result our business is in robust health and well positioned for the future.

The main highlights of 2018 include:

- A strong performance in contracting new rent. £66.4 million was signed in the period, including £11.7 million of rent for over 200,000 sq m of development at our flagship SEGRO Logistics Park East Midlands Gateway.
- Continued asset recycling to take advantage of investor demand for warehousing, while also reducing our exposure both to assets with limited future growth potential and to non-core markets.
- Another record year of development, completing 673,400 sq m of space, of which 83 per cent is already let, generating over £40 million of new income. This includes our first multi-level warehouse in Paris.
- Celebrating a successful five years of partnership with PSP Investments through our SELP joint venture. The portfolio has grown significantly over the period, now totalling €3.5 billion of big box warehouses, and has delivered a return well ahead of target, triggering the payment of a performance fee to SEGRO as venture manager.
- Acquiring the management platform of Roxhill, having entered a partnership with them in 2016 which gave SEGRO phased access to a portfolio of big box warehouse development sites in the Midlands and South-East regions of the UK. We welcomed the Roxhill team into SEGRO in the fourth quarter and look forward to working together on an exceptional pipeline of development sites.
- Completing a US Private Placement of €300 million, using the proceeds in part to repay our remaining 2019 bonds and to provide further capacity to fund investment opportunities, particularly in our development pipeline.

This activity has been reflected in a strong set of results: adjusted profit before tax is up 24.4 per cent to £241.5 million (IFRS: £1,099.1 million, up 12.6 per cent) and adjusted earnings per share are up 17.6 per cent to 23.4 pence (IFRS: 105.4 pence, up 7 per cent). Our 2018 earnings include a non-recurring performance fee from our SELP joint venture of £13.1 million which has an impact of 1.2 pence on adjusted earnings per share. Our EPRA NAV per share is up 16.9 per cent to 650 pence (IFRS: 644 pence, up 16.2 per cent) driven substantially by a 10.7 per cent increase in our portfolio value, which now totals £9.4 billion (reflecting our share of £11.0 billion of assets under management).

Our balance sheet is also in good shape. Our average cost of debt remains low at 1.9 per cent (31 December 2017: 2.1 per cent) with an average duration of 10.2 years (31 December 2017: 10.8 years). SEGRO remains conservatively funded with a loan-to-value ratio of 29 per cent (31 December 2017: 30 per cent) and we have over £1.2 billion of cash and available facilities at our disposal, providing significant financing flexibility.

The combination of a strong set of financial results in 2018 and our optimistic outlook for 2019 and beyond means that we are recommending a 16.7 per cent increase in final dividend to 13.3 pence per share, making a total distribution of 18.8 pence for 2018 as a whole (2017: 16.6 pence).

MARKET ENVIRONMENT CONTINUES TO BE SUPPORTIVE

Our business continues to thrive as e-commerce and convenience retailing, as well as urbanisation, continue to drive the re-engineering of supply chains and the associated increasing demand for both big box and urban warehouses. These powerful structural drivers are proving to be more significant influences on occupier and investor demand for warehouses than the rather sedate pace of economic growth.

As a result, we continue to see healthy occupier demand across all our markets and our portfolio of well-located, modern space is highly desirable for a wide range of occupiers, in particular online retailers, third party logistics operators and parcel delivery companies.

The supply response continues to be controlled and although there has been a modest increase in speculative development in the UK big box market, it is generally well supported by levels of occupational demand. We continue to take a low risk approach to development and have already pre-let 73 per cent of our current pipeline, all of which is expected to complete in 2019.

In our urban markets, industrial land continues to be converted into other higher value uses (primarily residential) and this makes urban warehousing ever more scarce. As a result rental values have continued to increase, particularly in urban warehouses in the UK, and there are increasing pockets of growth in France, Germany and Poland. It also means that developers are looking at ways to intensify land use and in 2018 we completed our first multi-level warehouse on the outskirts of Paris, which is already fully let.

Industrial asset values have improved even further, due to continued demand from investors who seek exposure to the favourable market dynamics, and yields are now around 10 to 20 basis points lower than a year ago.

A PORTFOLIO WELL PLACED TO MEET OUR CUSTOMERS' REQUIREMENTS

The portfolio reshaping that we have carried out in the early-mid part of the decade has left us well positioned to benefit from the structural drivers at play in our major markets. Our portfolio is well occupied on long leases as customers invest more in automation and fit-out and seek to secure space close to their end customers for the longer term.

The majority of our acquisitions in 2018 have been focused on urban warehousing in Continental Europe, and we have continued to invest in land to provide future development opportunities.

Our development team has delivered 673,400 sq m of new space for a diverse range of occupiers across our markets and we continue to focus on sustainability in all of our developments, helping us to meet our SEGRO 2020 environmental targets.

Our development pipeline is an important source of growth and we have over 800,000 sq m of new space under construction, capable of generating £46 million of new rent, of which almost three-quarters has been secured through pre-lets.

PEOPLE AT THE CORE OF OUR SUCCESS

Attracting and retaining talented people is key to our success. We have a strong company culture and continue to be guided by our Purpose and Values in every part of our business.

Over 300 people now work in our 14 offices across Europe and our cross-border working groups ensure that ideas and best practices are shared amongst the wider business. Our social media style intranet also enables more informal communication.

We want everyone to be able to maximise their potential at SEGRO and continue to develop in our 'Space to Grow' programme that offers a broad range of training. We have invested in technology that allows our employees to work more flexibly and encourage diversity and inclusion throughout the workplace.

We held our third SEGRO-wide Day of Giving during the year and over 200 employees across Europe spent a day out of the office participating in a wide variety of charitable activities.

Every two years, we conduct an independent survey of all our employees, to ensure that we maintain our position as an employer of choice. The survey was carried out in December 2018 and the early results indicate a very high level of employee engagement and satisfaction, placing SEGRO at the upper end of the top quartile of companies surveyed by our external provider, and showing further progress from our 2016 survey.

Our successes are a testament to the skills and dedication of our people and I am grateful to them for all of their efforts throughout 2018.

OPTIMISTIC OUTLOOK DESPITE WIDER POLITICAL AND ECONOMIC UNCERTAINTY

We own a portfolio of prime warehouses located in Europe's most important cities and logistics hubs.

- Our urban warehouses, making up almost two-thirds of our assets, are concentrated in and around Europe's largest cities, where land supply is tight and occupier demand is strong. These are well placed to capture further growth in both rental income and rental values.
- Our big box warehouses, located along Europe's main transport corridors and in its major logistics hubs, are increasingly core parts of countries' national infrastructure, as companies seek to improve the efficiency and speed of their supply chains. These form an important part of our development activity: the total returns are attractive, and the development risk is mitigated by securing pre-let agreements on most of our projects.

Our balance sheet is in good shape too, with conservative leverage and over £1 billion of cash and available lending facilities. These give us the capacity to take advantage of investment opportunities that arise, while also providing a healthy buffer against broader macro-economic challenges that the future may bring.

We believe that the structural drivers of demand in our sector (particularly e-commerce and urbanisation) will continue regardless of short term economic and political volatility and this should underpin occupier demand for the foreseeable future, helping to minimise the impact on our business.

As a result, we continue to see potential for further rental growth across the portfolio, particularly from the continued imbalance of limited supply and strong occupier demand in our urban warehouse markets, realisation of reversionary potential in our UK portfolio and from our significant pipeline of developments currently under construction. Investor demand for prime warehouses also remains healthy and, whilst it is difficult to assess the outlook for capital values, our portfolio is well let to a diverse range of customers and customer sectors on long leases.

Whilst we remain alert to market risks, we are optimistic about our prospects for the coming year and beyond. We will continue to focus on active asset management to ensure we are maximising returns from our existing portfolio while also developing new warehouses where we see strong occupier demand. Our customers come from a wide range of industries and sectors and whilst they continue to grow and adapt their business models, we will respond by creating the space that enables extraordinary things to happen.

A STRATEGY TO GENERATE ATTRACTIVE, SUSTAINABLE RETURNS

Our strategy for achieving this goal is to create a portfolio of high quality big box and urban warehouses in the strongest markets which generate attractive, low risk, income-led returns with above average rental and capital growth when market conditions are positive, and are resilient in a downturn. We seek to enhance returns through development, while ensuring that the short-term income 'drag' associated with holding land does not outweigh the long-term potential benefits.

Fundamental to our strategy are three key pillars of activity which should combine to deliver an attractive, income-led total property return:

- Disciplined Capital Allocation
- Operational Excellence
- Efficient Capital and Corporate Structure.

The combination of these elements should translate into sustainable, attractive returns for our shareholders in the form of progressive dividends and net asset value growth over time.

Our portfolio comprises modern big box and urban warehouses which are well specified and located, with good sustainability credentials, and which should benefit from a low structural void rate and relatively low-intensity asset management requirements.

Our assets are concentrated in the strongest European submarkets which display attractive property market characteristics, including good growth prospects, limited supply availability and where we already have critical mass, or believe we will be able to achieve it in a reasonable timeframe.

DISCIPLINED CAPITAL ALLOCATION

We invested a net £327 million in our portfolio during the year, combining acquisitions of £221 million of land and assets and development investment of £548 million, funded in part by £442 million of disposals.

Acquisitions focused on building scale in urban warehousing

2018 was a quieter year for acquisitions than 2017 as we focused investment on our development pipeline. We did however acquire a number of urban warehousing assets in Paris and Warsaw, which will help us to achieve scale in these fast-growing markets.

One of these transactions involved an asset swap in Paris, exchanging a retail-focused industrial estate for a multi-let urban warehouse that neighbours our existing holdings in Le Blanc-Mesnil.

The consideration for the asset acquisitions was £81 million, reflecting a blended topped-up initial yield of 5.3 per cent.

Acquisitions completed in 2018

Asset type	Purchase price[1] (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	11.3	-	-
Urban warehousing	70.1	6.1	6.1
Land[3]	139.7	-	-
Total acquisitions completed in 2018	**221.1**	**5.3[2]**	**5.3[2]**

1 Excluding acquisition costs.

2 Yield excludes land transactions.

3 Land acquisitions are discussed in Future Development Pipeline.

Acquisitions: what to expect in 2019

We will continue to look for acquisitions of income-producing assets in line with our strategy and which offer attractive risk-adjusted returns. However, the majority of our investment is likely to remain focused on development.

DISCIPLINED CAPITAL ALLOCATION — ASSET RECYCLING

During 2018, we sold £442 million of land and assets, taking advantage of strong investor demand to realise profits and release capital to reinvest in our business.

The largest sale was a logistics warehouse in Rome which was a built for a global online retail company and designed to cater for its specific requirements. Shortly after completing construction we identified a high level of investor demand for such assets and decided to sell the unit to capitalise on this demand. The asset was sold for €118 million, a significant premium to book value.

We also sold four big box warehouses in Belgium on behalf of SELP for net proceeds of €83 million (SEGRO share: €42 million), successfully concluding our presence in the country and in line with our strategy to exit markets where we do not have, or do not expect to achieve, a scale position.

As in previous years, we sold a portfolio of Continental European big box warehouses developed by SEGRO to SELP for which we received £126 million net proceeds from an effective sale of a 50 per cent interest.

The consideration for the asset disposals was £372 million, reflecting a blended topped-up initial yield of 5.3 per cent. The disposals generated a gain on sale of 13 per cent compared to book values at 31 December 2017.

Additionally, we disposed of £70 million of land, primarily comprising a site in West London sold to a residential developer.

These disposals, in partnership with the acquisitions, further improve the management intensity and risk profile of our portfolio.

Disposals completed in 2018

Asset type	Disposal proceeds (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	321.6	5.4	5.4
Urban warehousing	50.8	4.4	4.5
Land	69.8	-	-
Total disposals completed in 2018	**442.2**	**5.3[1]**	**5.3[1]**

1 Yield excludes land transactions.

Disposals: what to expect in 2019

While investor demand for industrial properties remains strong, we expect to continue to recycle assets where we believe we can generate better returns from deploying our capital in other opportunities.

Valuation gains from asset management, development, and market-driven yield Improvement

Warehouse property values across Europe increased throughout the year, particularly in the first half of the year. After a very active 2017, investment volumes across Europe were slightly lower in 2018 but still well ahead of historic average levels, and the strength of investor demand appears to be continuing into 2019.

The Group's property portfolio was valued at £9.4 billion at 31 December 2018 (£11.0 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, increased by 10.7 per cent on a like-for-like basis (adjusting for capital expenditure and asset recycling during the year) compared to 13.6 per cent in 2017.

This primarily comprises a 10.1 per cent increase in the assets held throughout the year (2017: 13.2 per cent), driven by between 10 and 20 basis points of yield compression and a 3.4 per cent increase in our valuer's estimate of the market rental value of our portfolio (ERV). In total, our portfolio generated a total property return of 15.4 per cent (2017: 18.9 per cent).

Assets held throughout the year in the UK increased in value by 12.0 per cent (2017: 15.8 per cent), outperforming the MSCI UK Industrial quarterly index which increased by 11.4 per cent. The performance reflects a combination of yield compression across the portfolio and the capture of reversionary potential in lease reviews and renewals, particularly in London. The true equivalent yield applied to our UK portfolio was 4.8 per cent (31 December 2017: 5.0 per cent), while rental values improved by 4.7 per cent (2017: 3.9 per cent).

Assets held throughout the year in Continental Europe increased in value by 5.1 per cent (2017: 6.2 per cent) on a constant currency basis, reflecting a combination of yield compression to 5.9 per cent (31 December 2017: 6.0 per cent) and rental value growth of 0.7 per cent (2017: 1.2 per cent).

More details of our property portfolio can be found in Note 12 and in the 2018 Property Analysis Report available at www.segro.com/investors.

Valuations: what to expect in 2019

Capital growth forecasts are notoriously difficult given the multitude of drivers (particularly interest rates and credit spreads) most of which are outside our direct control. Political and macro-economic uncertainty (particularly with regards to the UK's future relationship with the European Union) means that we enter 2019 with low visibility regarding the outlook for values.

Nevertheless, the prospects for our portfolio of big box and urban warehouses remain good, supported by structural drivers of demand and disciplined supply. This means that we are optimistic about the potential for further rental value growth, particularly in our urban warehouse portfolio. Prime yields continue to appear attractive compared to government (risk-free) bond yields, and this premium should be supportive for current valuation levels. We believe that our high quality portfolio and our focus on asset management will enable us to outperform the wider market.

Property portfolio metrics at 31 December 2018[1]

		Portfolio value, £m					Yield[3]		
	Lettable area sq m (AUM)	Completed	Land & development	Combined property portfolio	Combined property portfolio (AUM)	Valuation movement[2 3] %	Topped-up net initial %	Net true equivalent %	Vacancy (ERV)[4] %
UK									
Greater London	1,079,510	3,585.5	139.0	3,724.5	3,724.5	15.8	3.4	4.6	5.2
Thames Valley	527,531	1,526.2	112.3	1,638.5	1,638.5	7.8	4.5	5.0	3.5
National Logistics	497,927	662.1	340.9	1,003.0	1,008.3	2.9	4.4	5.2	10.2
UK Total	**2,104,968**	**5,773.8**	**592.2**	**6,366.0**	**6,371.3**	**12.0**	**3.8**	**4.8**	**5.4**
Continental Europe									
Germany/Austria	1,236,376	799.4	140.7	940.1	1,407.4	4.5	4.7	5.3	9.4
Netherlands	241,565	101.8	19.6	121.4	209.9	0.4	5.9	5.9	11.0
France	1,213,615	812.7	32.9	845.6	1,195.3	7.3	5.4	5.5	2.4
Italy/Spain	706,204	322.0	256.0	578.0	814.9	7.4	5.5	5.7	1.0
Poland	1,314,756	472.2	23.1	495.3	849.5	2.2	6.9	6.7	3.5
Czech Republic/Hungary	169,286	67.5	11.6	79.1	151.0	8.5	5.8	6.0	3.2
Continental Europe Total	**4,881,802**	**2,575.6**	**483.9**	**3,059.5**	**4,628.0**	**5.1**	**5.5**	**5.9**	**4.9**
GROUP TOTAL	**6,986,770**	**8,349.4**	**1,076.1**	**9,425.5**	**10,999.3**	**10.1**	**4.3**	**5.1**	**5.2**

1 Figures reflect SEGRO wholly owned assets and its share of assets held in joint ventures unless stated "AUM" which refers to all assets under management.

2 Valuation movement is based on the difference between the opening and closing valuations for properties held throughout the period, allowing for capital expenditure, acquisitions and disposals.

3 In relation to completed properties only.

4 Vacancy rate excluding short term lettings for the Group at 31 December 2018 is 5.6 per cent.

OPERATIONAL EXCELLENCE – ACTIVE ASSET MANAGEMENT

Our portfolio comprises two main asset types: urban warehouses and big box warehouses. The demand-supply dynamics are positive, and vary by both type and geography.

Urban warehouses

Urban warehouses account for 67 per cent of our portfolio value. They tend to be smaller warehouses, varying in size from units less than 100 sq m to buildings over 10,000 sq m, and are located mainly in and on the edges of major cities, including London, Paris, Düsseldorf, Berlin and Warsaw, where land supply is restricted and there is strong demand for warehouse space, particularly catering for the needs of last mile delivery and, around London, from data centre users.

There is little comparative market data available for urban warehouses but our experience continues to be good. Our portfolio is concentrated in London and South-East England (84 per cent) and major cities in Continental Europe (16 per cent). These locations share similar characteristics in terms of limited (and shrinking) supply of industrial land and growing populations, while occupiers are attracted to modern warehouses with plenty of yard space to allow easy and safe vehicle circulation. We believe that this enduring occupier demand and limited supply bodes well for future rental growth.

Big box warehouses

Big box warehouses account for 31 per cent of our portfolio value. They tend to be used for storage, processing and distribution of goods on a regional, national or international basis and are, therefore, much larger than urban warehouses, usually well over 10,000 sq m and, increasingly, over 100,000 sq m.

They are focused on the major logistics hubs and corridors in the UK (South-East and Midlands regions), France (the logistics 'spine' linking Lille, Paris, Lyon and Marseille), Germany (Düsseldorf, Berlin, Frankfurt and Hamburg) and Poland (Warsaw, Łódż and Poznań, and the industrial region of Silesia).

Our portfolio is concentrated in the Midlands and South-East regions of the UK (36 per cent) and major Continental European transport hubs and corridors (64 per cent). Occupier demand continues to be healthy across all of our markets, but there has been an increased supply response in UK big box during 2018.

According to JLL, prime logistics vacancy rates increased in the UK during 2018, primarily due to an increase in speculative development. However, take-up levels were at record levels therefore supply still equates to barely more than a year's worth of take-up.

This additional supply may mean that the pace of rental growth in the UK big box market slows in 2019, although we are optimistic about the underlying strength of occupier demand in the long term. UK big box warehouses account for 11 per cent of our total portfolio of completed assets and all our developments are pre-let so our exposure to this market is limited.

We continue to believe that the prospects for significant rental growth in big box warehouses in Continental Europe are limited, but occupier demand remains strong. We do not see evidence of oversupply in any of the markets in which we operate.

Growing rental income from letting existing space and new developments

At 31 December 2018, our portfolio generated passing rent of £350 million, rising to £386 million once rent free periods expire ("headline rent"). During the year, we contracted £66.4 million of new headline rent, 24 per cent higher than in 2017 (£53.5 million) and a new record level for SEGRO, with particularly significant contributions from rent reviews and renewals in the UK and new pre-let agreements.

Our customer base remains well diversified, reflecting the multitude of uses of warehouse space. Our top 20 customers account for 31 per cent of total headline rent, and our largest customer, Deutsche Post DHL, accounts for 4.7 per cent.

Approximately half of our customers are involved in businesses affected by e-commerce, including third party logistics and parcel delivery businesses, and retailers. These businesses accounted for more than 60 per cent of our take-up during the year.

We monitor a number of asset management performance indicators to assess our performance:

- **Rental growth from lease reviews and renewals**. These generated an uplift of 8.8 per cent (2017: 9.5 per cent) for the portfolio as a whole compared to previous headline rent. During the year, new rents agreed at review and renewal were 12.8 per cent higher in the UK (2017: 12.9 per cent) as reversion accumulated over the past five years was reflected in new rents agreed, adding £5.7 million of headline rent. In Continental Europe, rents agreed on renewal were 2.2 per cent lower than previous headline rents (2017: 0.9 per cent lower), equating to a less than £0.4 million reduction in the rent roll, reflecting indexation provisions which have increased rents paid over recent years to above market rental levels.
- **High levels of customer satisfaction**. Although the quality and location of our portfolio is important to our customers, we believe that the service we provide is crucial to maintaining high customer retention and low vacancy. We carry out a rolling survey of our customer base throughout the year to identify and rectify issues promptly. In 2018, almost one third of our customer base responded and 80 per cent of the 305 participants in the surveys rated their experience as a SEGRO customer as "good" or "excellent" (2017: 87 per cent).
- **Vacancy remains low at 5.2 per cent**. The vacancy at 31 December 2018 was 5.2 per cent (31 December 2017: 4.0 per cent), the increase mainly due to recently completed speculative developments. The vacancy rate on our standing stock remained low at 3.4 per cent (2017: 3.4 per cent). The vacancy rate is still comfortably within the target range of between 4 and 6 per cent. The average vacancy rate during the period was stable at 5.0 per cent (2017: 5.0 per cent).

- **High retention rate of 89 per cent**. During the period, space equating to £12.2 million (2017: £8.7 million) of rent was returned to us, including £1.1 million of rent lost due to insolvency (2017: £1.3 million). We took back space equating to £0.7 million of rent for redevelopment. Approximately £61 million of headline rent was at risk from a break or lease expiry during the period of which we retained 87 per cent in existing space, with a further 2 per cent retained but in new premises.
- **Lease terms continue to offer attractive income security**. The level of incentives agreed for new leases (excluding those on developments completed in the period) represented 5.6 per cent of the headline rent (2017: 6.8 per cent). The portfolio's weighted average lease length was stable at 7.5 years to first break and 8.9 years to expiry (31 December 2017: 7.4 years to first break, 8.9 years to expiry). Lease terms are longer in the UK (8.9 years to break) than in Continental Europe (5.4 years to break).
- **£9 million of net new rent from existing assets.** The combination of these strong metrics has enabled us to generate £12.9 million of headline rent from new leases on existing assets (2017: £13.9 million) and £8.3 million from rent reviews, lease renewals and indexation (2017: £4.9 million). This was offset by rent from space returned of £12.2 million (2017: £8.7 million)
- **£42 million of rent contracted from pre-let agreements (2017: £29 million)**. In addition to increased rents from existing assets, we contracted £41.5 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2017: £28.6 million), of which £12 million was for three units at our flagship SEGRO Logistics Park East Midlands Gateway, due to complete in Spring 2019. Other notable pre-lettings include a big box unit in Verona for Zalando and a number of units at our Strykow development in Poland, let to Corning, Valeo and LPP.
- **Rent roll growth increased to £53.5 million**. An important element of achieving our goal of being a leading income-focused REIT is to grow our rent roll, primarily through increasing rent from our existing assets and then from generating new rent through development. Rent roll growth, which reflects net new headline rent from existing space (adjusted for take-backs of space for development), take-up of developments and pre-lets agreed during the period, increased to £53.5 million in 2018, from £41.5 million in 2017.

ASSET MANAGEMENT: WHAT TO EXPECT IN 2019

Occupier demand remains strong so we expect to retain a low vacancy rate and that rent roll growth will remain positive. £34 million of headline rent is at risk of break or expiry in 2019 and we expect customer retention levels to remain high

Summary of key leasing data for 2018[1]

Summary of key leasing data for the year to 31 December[1]		2018	2017
Take-up of existing space[2] (A)	£m	12.9	13.9
Space returned[3] (B)	£m	(12.2)	(8.7)
NET ABSORPTION OF EXISTING SPACE (A-B)	**£m**	**0.7**	**5.2**
Other rental movements (rent reviews, renewals, indexation)[2] (C)	£m	8.3	4.9
RENT ROLL GROWTH FROM EXISTING SPACE	**£m**	**9.0**	**10.1**
Take-up of pre-let developments completed in the year (signed in prior years)[2] (D)	£m	24.3	22.7
Take-up of speculative developments completed in the past two years[2] (D)	£m	9.7	7.9
TOTAL TAKE UP[2] (A+C+D)	**£m**	**55.2**	**49.4**
Less take-up of pre-lets and speculative lettings signed in prior years[2]	£m	(30.3)	(24.5)
Pre-lets and lettings on speculative developments signed in the year for future delivery[2]	£m	41.5	28.6
RENTAL INCOME CONTRACTED IN THE YEAR[2]	**£m**	**66.4**	**53.5**
Take-back of space for redevelopment	£m	(0.7)	(3.3)
Retention rate[4]	%	89	81

1 All figures reflect exchange rates at 31 December and include joint ventures at share.

2 Annualised rental income, after the expiry of any rent-free periods.

3 Annualised rental income, excluding space taken back for redevelopment.

4 Headline rent retained as a percentage of total headline rent at risk from break or expiry during the period.

OPERATIONAL EXCELLENCE — DEVELOPMENT ACTIVITY

During 2018, we invested £548 million (2017: £414 million) in new developments, of which £47 million was for infrastructure, and a further £140 million to replenish our land bank to enable future development.

DEVELOPMENT PROJECTS COMPLETED

2018 was another record year for SEGRO and we completed 673,400 sq m of new space. These projects were 61 per cent pre-let prior to the start of construction and were 83 per cent let as at 31 December 2018, generating £33.5 million of headline rent, with a potential further £6.7 million to come when the remainder of the space is let. This translates into a yield on total development cost (including land, construction and finance costs) of 8.2 per cent when fully let.

We completed 433,500 sq m of big box warehouse space, which are almost fully let to occupiers including Amazon, Lidl and Yoox.

We completed 227,600 sq m of urban warehouses which are 67 per cent let. These include the completion of our first multi-level warehouse in Paris Gennevilliers, delivering 62,000 sq m of space that has been fully let to retailers Ikea and Leroy Merlin. In the UK, we completed the first of the East Plus sites in East London, including a new parcel delivery centre for DPD at SEGRO Park Newham. On the Slough Trading Estate, we completed two warehouses for data centre operators and a new Premier Inn hotel, enhancing the amenity offering on the estate.

CURRENT DEVELOPMENT PIPELINE

At 31 December 2018, we had development projects approved, contracted or under construction totalling 827,700 sq m, representing £211 million of future capital expenditure to complete and £46 million of annualised gross rental income when fully let. These projects are 73 per cent pre-let and should yield 7.1 per cent on total development cost when fully occupied.

- In the UK, we have 273,800 sq m of space approved or under construction, including three pre-let units at our flagship East Midlands Gateway logistics park, totalling just under 200,000 sq m of space.
- In Continental Europe, we have 554,000 sq m of space approved or under construction. This includes a 126,600 sq m building pre-let by Zalando, a major online fashion retailer.

We continue to focus our speculative developments primarily on urban warehouse projects, particularly in the UK and Germany, where modern space is in short supply and occupier demand is strong. In the UK, our speculative projects are focused in East London, Enfield in North London and on the Slough Trading Estate. In Continental Europe, we continue to build scale in Germany, where projects are underway in Munich, Düsseldorf and Oberhausen.

Within our Continental European development programme, approximately £11 million of potential gross rental income is associated with big box warehouses developed outside our SELP joint venture. Under the terms of the joint venture, SELP has the option, but not the obligation, to acquire these assets shortly after completion. Assuming SELP exercises its option, we would retain a 50 per cent share of the rent after disposal. In 2018, SEGRO sold £252 million of completed assets to SELP, representing a net disposal of £126 million.

Further details of our completed projects and current development pipeline are available in the 2018 Property Analysis Report, which is available to download at www.segro.com/investors.

FUTURE DEVELOPMENT PIPELINE

Near-term development pipeline

Within the future development pipeline are a number of pre-let projects which are close to being approved, awaiting either final conditions to be met or planning approval to be granted. We expect to commence these projects within the next six to twelve months.

These projects total just over 441,500 sq m of space, equating to approximately £218 million of additional capital expenditure and £23 million of additional rent.

Land bank

Our land bank identified for future development totalled 637 hectares at 31 December 2018, equating to £472 million, or around 5 per cent of our total portfolio. We invested £140 million in acquiring new land during the year, including land sourced from the East Plus agreements and land associated with developments already underway or expected to start in the short term.

We estimate that our land bank, including the near-term projects above, can support 2.5 million sq m of development over the next five years. The prospective capital expenditure associated with the future pipeline is £1.1 billion. It could generate £115 million of gross rental income, representing a yield on total development cost (including land and notional finance costs) of 7.2 per cent. These figures are indicative based on our current expectations and are dependent on our ability to secure pre-let agreements, planning permissions, construction contracts and on our outlook for occupier conditions in local markets.

At 31 December 2018, we had exchanged contracts to acquire approximately £200 million of land ideally suited to big box warehouse development in the UK and in Germany. Completion is conditional on gaining appropriate planning permission. A further £70 million is under offer.

Land with a total value of £26 million has been identified as surplus to our short-term requirements, a reduction from £95 million at 31 December 2017, following the sale of half of the former Nestle site in Hayes to a residential developer. Another £42 million is associated with a property we are building which will be sold to the occupier on completion.

Land held under option agreements

Land sites held under option agreements are not included in the figures above but together represent significant further development opportunities, primarily in the UK, including sites for urban warehousing in East London and for big box warehouses in the Midlands and South East regions.

The options are held on the balance sheet at a value of £21 million (including joint ventures at share). Those we expect to exercise over the next two to three years are for land capable of supporting just under 0.9 million sq m of space and generating approximately £50 million of headline rent for a blended yield of approximately 7 per cent.

DEVELOPMENT: WHAT TO EXPECT IN 2019

Occupier demand remains strong so we expect to continue the pace of development, investing in excess of £600 million during the year in development capex, infrastructure and new land.

FINANCE REVIEW: EFFICIENT CAPITAL STRUCTURE, STRONG OPERATING RESULT

Financial highlights

	31 December 2018	31 December 2017
IFRS[1] net asset value (NAV) per share (p)	644	554
EPRA[1] NAV per share (diluted) (p)	650	556
IFRS profit before tax (£m)	1,099.1	976.3
Adjusted[2] profit before tax (£m)	241.5	194.2
IFRS earnings per share (EPS) (p)	105.4	98.5
Adjusted[2] EPS (p)	23.4	19.9

1 A reconciliation between IFRS NAV and its EPRA equivalent is shown in Note 11.

2 A reconciliation between IFRS profit before tax and Adjusted profit before tax is shown in Note 2 and between IFRS EPS and Adjusted EPS is shown in Note 11.

Presentation of financial information

The condensed financial information is prepared under IFRS where the Group's interests in joint ventures are shown as a single line item on the income statement and balance sheet and subsidiaries are consolidated at 100 per cent.

The Adjusted profit measure reflects the underlying financial performance of the Group's property rental business, which is our core operating activity. It is based on the Best Practices Recommendations Guidelines of the European Public Real Estate Association (EPRA) which are widely used alternate metrics to their IFRS equivalents within the European real estate sector (further details can be found at www.epra.com). In calculating Adjusted profit, the Directors may also exclude additional items considered to be non-recurring, unusual, or significant by virtue of size and nature. In the period to 31 December 2018, £51.8 million of pension buy-out costs in respect of the SEGRO pension scheme have been incurred which have been excluded as an adjustment to EPRA profit when calculating Adjusted profit. Further details are given in Note 2. No such adjustments have been made in the prior period.

A detailed reconciliation between Adjusted profit after tax and IFRS profit after tax is provided in Note 2 to the condensed financial information. This is not on a proportionally-consolidated basis.

ADJUSTED PROFIT

Adjusted profit

	2018 £m	2017 £m
Gross rental income	**297.7**	272.9
Property operating expenses	**(50.1)**	(52.2)
Net rental income	**247.6**	220.7
Joint venture fee income	**44.9**	24.3
Administration expenses	**(44.1)**	(39.7)
Share of joint ventures' Adjusted profit[1]	**39.0**	47.6
Adjusted operating profit before interest and tax	**287.4**	252.9
Net finance costs	**(45.9)**	(58.7)
Adjusted profit before tax	**241.5**	194.2
Tax on Adjusted profit	**(4.4)**	(1.2)
Non-controlling interests share of Adjusted profit	**(0.6)**	(0.2)
Adjusted profit after tax	**236.5**	192.8

1. Comprises net property rental income less administration expenses, net interest expenses and taxation.

Adjusted profit before tax increased by 24.4 per cent to £241.5 million (2017: £194.2 million) during 2018 as a result of the above movements (see Note 2).

Reconciliations between SEGRO Adjusted metrics and EPRA metrics are provided in the Supplementary Notes to the condensed financial information, which also include EPRA metrics as well as SEGRO's Adjusted income statement and balance sheet presented on a proportionally consolidated basis.

SEGRO monitors these alternative metrics, as well as the EPRA metrics for vacancy rate, net asset value and total cost ratio, as they provide a transparent and consistent basis to enable comparison between European property companies.

Net rental income

Net rental income increased by £26.9 million to £247.6 million, reflecting the positive net impact of development completions and investment activity during the period, offset by the impact of disposals.

Like-for-like net rental income (including JVs at share)	**2018 £m**	2017 £m	Change %
UK	**171.3**	164.5	4.1
Continental Europe	**78.4**	77.6	1.0
Like-for-like net rental income	**249.7**	242.1	3.1
Other[1]	**(5.7)**	(4.8)	
Like-for-like net rental income (after other)	**244.0**	237.3	2.8
Development lettings	**28.4**	8.3	
Properties taken back for development	**0.1**	1.0	
Like-for-like net rental income plus developments	**272.5**	246.6	
Properties acquired	**30.4**	17.2	
Properties sold	**7.3**	22.8	
Net rental income before surrenders, dilapidations and exchange	**310.2**	286.6	
Lease surrender premiums and dilapidations income	**1.2**	1.3	
Other items and rent lost from lease surrenders	**6.7**	3.4	
Impact of exchange rate difference between periods	**–**	(0.8)	
Net rental income (including joint ventures at share)	**318.1**	290.5	
Share of joint venture management fees	**(7.0)**	(7.0)	
Share of joint venture performance fees	**(13.1)**	(4.3)	
Net rental income after SEGRO share of joint venture fees	**298.0**	279.2	

1 Other includes the corporate centre and other costs relating to the operational business which are not specifically allocated to a geographical business unit.

On a like-for-like basis, before other items (primarily corporate centre and other costs not specifically allocated to a geographic business unit), net rental income increased by £7.6 million, or 3.1 per cent, compared to 2017. This is due to strong rental performance in our UK portfolio (4.1 per cent increase) and a 1.0 per cent increase in our Continental Europe portfolio.

Income from joint ventures

Joint venture fee income increased by £20.6 million to £44.9 million. This increase is due to a performance fee from SELP of £26.2 million in the year. The prior year included fees from APP of £8.5 million, a former joint venture.

SEGRO's share of joint ventures' Adjusted profit after tax decreased by £8.6 million from £47.6 million in 2017 to £39.0 million in 2018. The decrease is due to the inclusion of the net cost of the performance fee paid by SELP to SEGRO of £11.9 million (at share, being £13.1 million less tax of £1.2 million).

The share of joint ventures Adjusted profit after tax are primarily from the SELP joint venture in 2018. The 2017 results also included two months of APP (£1.7 million loss at share) which was acquired 100 per cent in the prior year.

Administrative and operating costs

The Group is focused on managing its cost base and uses a Total Cost Ratio (TCR) as a key measure of cost management. The TCR for 2018 has decreased to 22.9 per cent from 24.6 per cent for 2017, above our 20 per cent target. The calculation is set out in Table 6 of the Supplementary Notes to the condensed financial information.

Total costs have remained broadly flat (£84.5 million in 2018 compared to £84.6 million in 2017) whereas gross rental income (the denominator) has increased from £344.3 million to £368.9 million through the growth of the business through acquisitions and development completions in the current and prior years, in particular in Greater London and Southern Europe.

Excluding share based payments, the cost ratio would be 19.9 per cent, a decrease from 21.7 per cent in 2017.

Net finance costs

Net finance costs (including adjustments) decreased by £12.8 million in 2018 to £45.9 million primarily as a result of the debt refinancing undertaken over the current and prior periods thereby reducing the average cost of debt. Capitalised interest costs have increased in line with development spend.

Taxation

The tax charge on Adjusted profit of £4.4 million (2017: £1.2 million) reflects an effective tax rate of 1.8 per cent (2017: 0.6 per cent), consistent with a Group target tax rate of less than 3 per cent.

The Group's target tax rate reflects the fact that over three-quarters of its assets are located in the UK and France and qualify for REIT and SIIC status respectively in those countries. This status means that income from rental profits and gains on disposals of assets in the UK and France are exempt from corporation tax, provided SEGRO meets a number of conditions including, but not limited to, distributing 90 per cent of UK taxable profits.

Adjusted earnings per share

Adjusted earnings per share are 23.4 pence compared to 19.9 pence in 2017.

The total impact of the SELP performance fee on adjusted earnings per share is 1.2 pence (£12.3 million) being joint venture fee income after tax (£24.2 million) less expense after tax in share of joint venture after tax (£11.9 million).

IFRS PROFIT

IFRS profit before tax in 2018 was £1,099.1 million (2017: £976.3 million), equating to basic post-tax IFRS earnings per share of 105.4 pence compared with 98.5 pence for 2017, principally reflecting higher realised and unrealised gains in both the wholly-owned and joint venture portfolios.

A reconciliation between Adjusted profit before tax and IFRS profit before tax is provided in Note 2 to the condensed financial information.

Realised and unrealised gains on wholly-owned investment and trading properties of £852.6 million in 2018 (2017: £889.0 million) have been recognised in the Income Statement as the value of our portfolio increased during the year. These included an unrealised valuation surplus on invested properties of £791.4 million (2017: £872.4 million) and a profit of £56.5 million on asset disposals (2017: £16.6 million). There was no provision against trading properties in the year.

SEGRO's share of realised and unrealised gains on properties held in joint ventures was £101.1 million (2017: £77.7 million) almost entirely in respect of the SELP portfolio and is further analysed in Note 6.

The cost of closing out debt in the year was £6.4 million following the buy back of the SEGRO bonds maturing in 2019. IFRS earnings were also impacted by a net fair value loss on interest rate swaps and other derivatives of £22.0 million (2017: £21.5 million) and a tax charge of £33.0 million (2017: £20.0 million) of which £28.6 million (2017: £18.8 million) arises in respect of adjustments, primarily in relation to property.

BALANCE SHEET

EPRA net asset value

	£m	Shares million	Pence per share
EPRA net assets attributable to ordinary shareholders at 31 December 2017	**5,607.7**	**1,007.7**	**556**
Realised and unrealised property gain	953.7		94
Adjusted profit after tax	236.5		23
Dividend net of scrip shares issued (2017 final and 2018 interim)	(120.4)		(17)
Pension buy-out costs	(51.8)		(5)
Other	(5.4)		(1)
EPRA net assets attributable to ordinary shareholders at 31 December 2018	**6,620.3**	**1,018.7**	**650**

At 31 December 2018, IFRS net assets attributable to ordinary shareholders were £6,564.0 million (31 December 2017: £5,585.4 million), reflecting 644 pence per share (31 December 2017: 554 pence) on a diluted basis.

EPRA NAV per share at 31 December 2018 was 650 pence (31 December 2017: 556 pence), the 17 per cent increase primarily reflects property gains in the period. The table above highlights the other principal factors behind the increase. A reconciliation between IFRS and EPRA NAV is available in Note 11 to the condensed financial information.

Cash flow and net debt reconciliation

Cash flow generated from operations was £200.3 million in 2018, an increase of £224.6 million from 2017. The prior period included a net cash outflow of £156.5 million in respect of the early close out of debt and derivatives. The underlying increase is driven by increased Adjusted profit in the year including the receipt of a £52.4 million performance fee discussed further in Note 6.

The Group made net investments of £276.5 million of investment and development properties (including options and loans to joint ventures) during the year on a cash flow basis (2017: £333.3 million investment). This includes cash from disposals of £480.4 million (2017: £317.2 million). The Group spent £637.1 million (2017: £457.9 million) to purchase and develop investment properties and it invested £99.2 million in joint ventures (2017: £28.4 million divestment).

Other significant cash flows include dividends paid of £120.4 million (2017: £118.1 million) where cash flows are lower than the total dividend due to the level of scrip uptake.

Overall, net debt has increased in the year from £1,954.2 million to £2,177.0 million.

Cash flow and net debt reconciliation

	2018 £m	2017 £m
Opening net debt	**(1,954.2)**	(1,598.4)
Cash flow from operations	**235.1**	189.9
Finance costs (net)	**(55.1)**	(79.4)
Debt and IRS close out costs	**(5.7)**	(156.5)
Dividends received (net)	**28.6**	26.6
Tax paid	**(2.6)**	(4.9)
Free cash flow	**200.3**	(24.3)
Dividends paid	**(120.4)**	(118.1)
Acquisitions and development of investment properties	**(637.1)**	(457.9)
Investment property sales	**480.4**	317.2
Acquisition of interests in property and other investments	**(20.6)**	(3.8)
Net (investment)/divestment in joint ventures	**(99.2)**	28.4
Acquisition of APP	**–**	(217.2)
Net settlement of foreign exchange derivatives	**(6.4)**	(63.4)
Proceeds from issue of ordinary shares	**0.6**	557.2
Other items	**5.4**	4.9
Net funds flow	**(197.0)**	23.0
Non-cash movements	**(9.8)**	(7.5)
Exchange rate movements	**(16.0)**	19.1
Acquisition of APP	**–**	(390.4)
Closing net debt	**(2,177.0)**	(1,954.2)

Capital expenditure

The table below sets out analysis of the capital expenditure during the year. This includes acquisition and development spend, on an accruals basis, in respect of the Group's wholly-owned investment and trading property portfolios, as well as the equivalent amounts for joint ventures at share.

Total spend for the year was £957.0 million, a decrease of £797.2 million compared to 2017, which included £1,112.6 million in respect of the acquisition of the APP property portfolio. More detail on acquisitions can be found in the Disciplined Capital Allocation section.

Development capital expenditure increased by £134.1 million to £548.2 million, reflecting our intention to increase development spend to meet occupier demand. Development spend incorporates interest capitalised of £10.0 million (2017: £7.4 million) including joint ventures at share.

Spend on existing completed properties totalled £30.3 million (2017: £24.3 million), of which £17.1 million (2017: £15.0 million) was for major refurbishment, infrastructure and fit-out costs prior to re-letting. The balance mainly comprises more minor refurbishment and fit-out costs, which equates to less than 6 per cent of Adjusted profit before tax and 2 per cent of total spend.

EPRA capital expenditure analysis

	2018			2017		
	Wholly owned £m	**Joint ventures £m**	**Total £m**	Wholly owned £m	Joint ventures £m	Total £m
Acquisitions	**193.7[1]**	**162.0**	**355.7**	1,212.2	82.2	1,294.4
Development[4]	**482.3[2]**	**65.9**	**548.2**	368.3	45.8	414.1
Completed properties	**23.9[3]**	**6.4**	**30.3**	19.7	4.6	24.3
Other[5]	**16.6**	**6.2**	**22.8**	16.7	4.7	21.4
Total	**716.5**	**240.5**	**957.0**	1,616.9	137.3	1,754.2

1 Being £193.7 million investment property and £nil trading property (2017: £1,212.2 million (including £1,112.6 million in respect of the APP property portfolio) and £nil million respectively) see Note 12.

2 Being £461.8 million investment property and £20.5 million trading property (2017: £367.8 million and £0.5 million respectively) see Note 12.

3 Being £23.9 million investment property and £nil trading property (2017: £19.7 million and £nil million respectively) see Note 12.

4 Includes wholly owned capitalised interest of £9.2 million (2017: £6.6 million) as further analysed in Note 8 and share of joint venture capitalised interest of £0.8 million (2017: £0.8 million).

5 Tenant incentives, letting fees and rental guarantees.

FINANCIAL POSITION AND FUNDING

We have continued to improve SEGRO's capital structure during the year, arranging £423 million of new debt financing for SEGRO and SELP and building on the significant refinancing activity undertaken in 2017.

In August 2018, SEGRO undertook its second euro-denominated US Private Placement transaction. The Group issued €300 million of notes across two tranches with an average maturity of 13.3 years and an average coupon of 2.19 per cent. The proceeds were used in part to buy back the remaining £102 million of SEGRO bonds maturing in 2019.

At 31 December 2018, SEGRO's average debt maturity was 10.2 years (31 December 2017: 10.8 years) and its average cost of debt was 1.9 per cent (31 December 2017: 2.1 per cent).

The gross borrowings of the SEGRO Group totalled £2,243.5 million at 31 December, all but £3.2 million of which were unsecured, and cash and cash equivalent balances were £66.5 million.

SEGRO's share of gross borrowings in its SELP and other joint ventures was £560.2 million (all of which were advanced with no recourse to SEGRO) and cash and cash equivalent balances of £23.8 million.

Funds available to SEGRO (excluding cash and undrawn facilities held in joint ventures) at 31 December 2018 totalled £1,177.8 million, comprising £66.5 million of cash and short-term investments and £1,111.3 million of undrawn bank facilities of which only £14 million was uncommitted. Cash and cash equivalent balances, together with the Group's interest rate and foreign exchange derivatives portfolio, are spread amongst a strong group of banks, all of which have a credit rating of A- or better.

In September, the lenders to SELP's revolving credit facility consented to extend maturity by a further year. During November, the lenders increased facility commitments by €100 million. SELP's final maturity date for its revolving credit facility is 2022 and total commitments are €300 million.

Financial Key Performance Indicators

	2018		2017	
	SEGRO Group	**SEGRO Group and JVs at share**	SEGRO Group	SEGRO Group and JVs at share
Net borrowings (£m)	**2,177.0**	**2,713.4**	1,954.2	2,397.7
Available cash and undrawn facilities (£m)	**1,177.8**	**1,248.9**	1,192.2	1,303.6
Balance sheet gearing (%)	**33**	**N/A**	35	N/A
Loan to value ratio (%)	**28**	**29**	29	30
Weighted average cost of debt[1] (%)	**2.1**	**1.9**	2.3	2.1
Interest cover[2] (times)	**4.5**	**4.9**	3.4	3.9
Average duration of debt (years)	**11.4**	**10.2**	11.7	10.8

1 Based on gross debt, excluding commitment fees and amortised costs.

2 Net rental income/Adjusted net finance costs (before capitalisation).

TREASURY POLICIES AND GOVERNANCE

The Group Treasury function operates within a formal policy covering all aspects of treasury activity, including funding, counterparty exposure and management of interest rate, currency and liquidity risks. Group Treasury reports on compliance with these policies on a quarterly basis and policies are reviewed regularly by the Board.

GEARING AND FINANCIAL COVENANTS

The key leverage metric for SEGRO is its proportionally consolidated loan to value ratio (LTV) which incorporates assets and net debt on SEGRO's balance sheet and SEGRO's share of assets and net debt on the balance sheets of its joint ventures. The LTV at 31 December 2018 on this basis was 29 per cent (31 December 2017: 30 per cent).

SEGRO's borrowings contain gearing covenants based on Group net debt and net asset value, excluding debt in joint ventures. The gearing ratio of the Group at 31 December 2018, as defined within the principal debt funding arrangements of the Group, was 33 per cent (31 December 2017: 35 per cent). This is significantly lower than the Group's tightest financial gearing covenant within these debt facilities of 160 per cent.

Property valuations would need to fall by around 56 per cent from their 31 December 2018 values to reach the gearing covenant threshold of 160 per cent. A 56 per cent fall in property values would equate to an LTV ratio of approximately 65 per cent.

The Group's other key financial covenant within its principal debt funding arrangements is interest cover, requiring that net interest before capitalisation be covered at least 1.25 times by net property rental income. At 31 December 2018, the Group comfortably met this ratio at 4.5 times. On a proportionally consolidated basis, including joint ventures, this ratio was 4.9 times.

We mitigate the risk of over-gearing the Company and breaching debt covenants by using a combination of debt and equity to fund our investment activity, by carefully monitoring the impact of investment decisions on our LTV and by stress-testing our balance sheet to potential changes in property values.

Our intention for the foreseeable future is to maintain our LTV at a level closer to 30 per cent, lower than our mid-cycle target of 40 per cent.

This approach provides the flexibility to take advantage of investment opportunities arising and ensures significant headroom compared to our tightest gearing covenants should property values decline.

At 31 December 2018, there were no debt maturities falling due within 12 months and the weighted average maturity of the gross borrowings of the Group (including joint ventures at share) was 10.2 years. With a majority of the Group's bank debt facilities not due to mature until 2023, and no debt maturities until December 2020, this long average debt maturity translates into a favourable, well spread debt funding maturity profile which reduces future refinancing risk.

INTEREST RATE RISK

The Group's interest rate risk policy is designed to ensure that we limit our exposure to volatility in interest rates. The policy states that between 50 and 100 per cent of net borrowings (including the Group's share of borrowings in joint ventures) should be at fixed or capped rates, including the impact of derivative financial instruments.

At 31 December 2018, including the impact of derivative instruments, 67 per cent (2017: 79 per cent) of the net borrowings of the Group (including the Group's share of borrowings within joint ventures) were at fixed or capped rates.

As a result of the fixed rate cover in place, if short-term interest rates had been 1 per cent higher throughout the year to 31 December 2018, the adjusted net finance cost of the Group would have increased by approximately £10.7 million representing around 5 per cent of Adjusted profit after tax.

The Group elects not to hedge account its interest rate derivatives portfolio. Therefore, movements in its fair value are taken to the income statement but, in accordance with EPRA Best Practices Recommendations Guidelines, these gains and losses are excluded from Adjusted profit after tax.

FOREIGN CURRENCY TRANSLATION RISK

The Group has negligible transactional foreign currency exposure, but does have a potentially significant currency translation exposure arising on the conversion of its substantial foreign currency denominated assets (mainly euro) and euro denominated earnings into sterling in the Group consolidated accounts.

The Group seeks to limit its exposure to volatility in foreign exchange rates by hedging between 29 and 100 per cent of its foreign currency gross assets through either borrowings or derivative instruments. At 31 December 2018, the Group had gross foreign currency assets which were 67 per cent hedged by gross foreign currency denominated liabilities (including the impact of derivative financial instruments), compared to 69 per cent at 31 December 2017.

Including the impact of forward foreign exchange and currency swap contracts used to hedge foreign currency denominated net assets, if the value of the other currencies in which the Group operates at 31 December 2018 weakened by 10 per cent against sterling (to €1.22, in the case of euros), net assets would have decreased by approximately £84 million and there would have been a reduction in gearing of approximately 1.6 per cent and in the LTV of 1.3 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2018 into sterling within the consolidated income statement of the Group was €1.13:£1. Based on the hedging position at 31 December 2018, and assuming that this position had applied throughout 2018, if the euro had been 10 per cent weaker than the average exchange rate (€1.24:£1), Adjusted profit after tax for the year would have been approximately £8.9 million (3.8 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £10.9 million (4.6 per cent) higher than reported.

GOING CONCERN

As noted in the Financial Position and Funding section, the Group has a strong liquidity position, a favourable debt maturity profile and substantial headroom against financial covenants. Accordingly, it can reasonably expect to continue to have good access to capital markets and other sources of funding.

Having made enquiries and having considered the principal risks facing the Group, including liquidity and solvency risks, and material uncertainties, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future (a period of at least 12 months from the date of approval of the Financial Statements). Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

DIVIDEND INCREASE REFLECTS A STRONG YEAR AND CONFIDENCE FOR THE FUTURE

Under the UK REIT rules, we are required to pay out 90 per cent of UK-sourced, tax-exempt rental profits as a 'Property Income Distribution' (PID). Since we also receive income from our properties in Continental Europe, our total dividend should normally exceed this minimum level and we target a payout ratio of 85 to 95 per cent of Adjusted profit after tax. We aim to deliver a progressive and sustainable dividend which grows in line with our profitability in order to achieve our goal of being a leading income-focused REIT.

The Board has concluded that it is appropriate to recommend an increase in the final dividend per share of 1.9 pence to 13.25 pence (2017: 11.35 pence) which will be paid as a PID. The Board's recommendation is subject to approval by shareholders at the Annual General Meeting, in which event the final dividend will be paid on 2 May 2019 to shareholders on the register at the close of business on 22 March 2019.

In considering the final dividend, the Board took into account:

- the policy of targeting a payout ratio of between 85 and 95 per cent of Adjusted profit after tax;
- the desire to ensure that the dividend is sustainable and progressive throughout the cycle; and
- the results for 2018 and the outlook for earnings.

The total dividend for the year will, therefore, be 18.8 pence, a rise of 13.3 per cent on 2017 (16.6 pence) and represents distribution of 85 per cent of Adjusted profit after tax and Adjusted EPS once the SELP performance fee, which will not recur in 2019, is excluded (80 per cent including the fee).

As at 31 December 2018 the Company had distributable reserves that provide cover for the total of the interim dividend paid and the final dividend proposed in respect of the year ended 31 December 2018 of over 4 times (2017: 4 times). When required the Company can receive dividends from its subsidiaries to further increase the distributable reserves.

The Board has decided to retain a scrip dividend option for the 2018 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2018, 38 per cent of the 2017 final dividend and 22 per cent of the 2018 interim dividend was paid in new shares, equating to £49 million of cash retained on the balance sheet.

STATEMENT OF PRINCIPAL RISKS

The Group recognises that its ability to manage risk effectively throughout the organisation continues to be central to its success. Our approach to risk management aims to bring controllable risks within our appetite, and to enable our decision making to balance uncertainty against the objective of creating and protecting value for our shareholders.

OUR INTEGRATED AND ROBUST APPROACH TO RISK MANAGEMENT

The Board has overall responsibility for ensuring that risk is effectively managed across the Group. The Audit Committee monitors the effectiveness of the Group's risk management process on behalf of the Board.

The risk management process is designed to identify, evaluate and mitigate the significant risks that the Group faces. The process aims to understand and mitigate, rather than eliminate, the risk of failure to achieve business objectives, and therefore can only provide reasonable and not absolute assurance.

The Board recognises that it has limited control over many of the external risks it faces, such as the macro-economic, political and regulatory environment, but it reviews the potential impact of such risks on the business and actively considers them in its decision making.

The Board also monitors internal risks and ensures that appropriate controls are in place to manage them.

The Board has performed a robust assessment of the principal risks facing the Group. The Board has formally reviewed the principal risks twice during the year. The Board has also completed its annual review and approval of the Group's risk appetite, and the Group's risk management policy. The Audit Committee receives a report twice a year on how the Group Risk Register has been compiled.

The Group adopts the 'three lines of defence' model of risk management. Operational management, the individual risk manager and risk owner provide the first line of defence. The Executive Committee, other monitoring committees, and the risk management function overseen by the Group Risk Committee provide the second line of defence. Finally, Internal Audit provide the third line of defence.

Risks are considered within each area of the business to ensure that risk management is fully embedded within the Group's culture and decision-making processes.

We have put risk appetite at the heart of our risk management processes. Risk appetite is integral both to our consideration of strategy and to our medium-term planning process. Risk appetite also defines specific tolerances and targets for key metrics and the criteria for assessing the potential impact of risks and our mitigation of them.

The most significant risks and mitigating controls are detailed in the Group Risk Register. Risks are assessed in both unmitigated (assuming that no controls are in place) and residual (with mitigating controls operating normally) states. This assessment directly relates potential impact to risk appetite so that it is clear whether each risk is comfortably within appetite, tolerable, intolerable or below appetite. We also formally assess the velocity of the most significant risks to determine how quickly they might cause an intolerable impact on us.

A Key Risk Indicator (KRI) dashboard is produced on a monthly basis to show actual and forecast performance against risk appetite metrics. KRIs are considered in the Group's Medium Term Plan.

Mitigations for each risk are documented and monitored in the Group Risk Register. The Register is used as a key input to determine priorities for the Group's internal audit assurance programme. Furthermore, management's annual assessment of control effectiveness is driven by the Group's Risk Register.

OUR RISK APPETITE

While our appetite for risk will vary over time and during the course of the property cycle, in general the Group maintains a fairly low appetite for risk, appropriate to our strategic objectives of delivering a sustainable progressive dividend stream, supported by long-term growth in net asset value per share.

Property Risk

We recognise that, in seeking outperformance from our portfolio, the Group must accept a balanced level of property risk – with diversity in geographic locations and asset types and an appropriate mixture of stabilised income producing and opportunity assets – in order to enhance opportunities for superior returns.

Our target portfolio should deliver attractive, low risk income returns with strong rental and capital growth when market conditions are positive and show relative resilience in a downturn. We aim to enhance these returns through development, but we seek both to ensure that the 'drag' associated with holding development land does not outweigh the potential benefits, and to mitigate the risks – including letting and construction risks – inherent in development.

In line with our income focus, we have a low appetite for risks to income from customer default or insolvency, and accordingly seek a diverse occupier base with strong covenants and avoid over-exposure to individual occupiers in specialist properties.

Financial Risk

The Group maintains a low to moderate appetite for financial risk in general, with a very low appetite for risks to solvency and gearing covenant breaches.

As an income-focused REIT we have a low appetite for risks to maintaining stable progression in earnings and dividends over the long term. We are, however, prepared to tolerate fluctuations in dividend cover as a consequence of capital recycling activity.

We also seek long-term growth in net asset value per share. Our appetite for risks to net asset value from the factors within our control is low, albeit acknowledging that our appetite for moderate leverage across the cycle amplifies the impact of market driven asset valuation movements on net asset value.

Corporate Risk

We have a very low appetite for risks to our good reputation and risks to being well-regarded by our investors, regulators, employees, customers, business partners, suppliers, lenders and by the wider communities and environments in which we operate.

Our responsibilities to these stakeholders include compliance with all relevant laws; accurate and timely reporting of financial and other regulatory information; safeguarding the health and safety of employees, suppliers, customers and other users of our assets; safeguarding the environment; compliance with codes of conduct and ethics; ensuring business continuity; and making a positive contribution to the communities in which we operate.

PRINCIPAL RISKS

The principal risks have the potential to affect SEGRO's business materially. Risks are classified as 'principal' based on their potential to intolerably exceed our appetite (considering both inherent and residual impact) and cause material harm to the Group.

Some risks that may be unknown at present, as well as other risks that are currently regarded as immaterial and therefore not detailed here, could turn out to be material in the future.

The current principal risks facing the Group are described below.

The descriptions indicate the potential areas of impact on the Group's strategy; the time-horizon and probability of the risk; the principal activities that are in place to mitigate and manage such risks; the committees that provide second line of defence oversight; changes in the level of risk during the course of 2018; and whether the risk is within our appetite (after the application of our mitigations).

Management has actively considered emerging risks during the year. To this end, the Executive Committee undertakes a risk 'horizon scan' twice a year, and the risk management function undertakes an annual survey of peers and other listed companies to identify potential risks for consideration.

Whilst no principal risks have been added or removed in 2018, three of our risks have increased, and one has reduced since 2017.

PRINCIPAL RISK		MITIGATIONS	IMPACT AND CHANGE IN 2018
1. Market Cycle	The property market is cyclical and there is a continuous risk that the Group could either misinterpret the market or fail to react appropriately to changing market conditions, which could result in capital being invested or disposals taking place at the wrong price or time in the cycle. This is a continuous risk with a moderate likelihood.	The Board, Executive Committee and Investment Committee monitor the property market cycle on a continual basis and adapt the Group's investment/divestment strategy in anticipation of changing market conditions. Multiple, diverse investment and occupier market intelligence is regularly received and considered - both from internal 'on the ground' sources and from independent external sources. Upside and downside scenarios are incorporated into Investment Committee papers to assess the impact of differing market conditions.	Impact on strategy: Disciplined Capital Allocation Change in 2018: Similar risk Risk is within appetite.
2. Portfolio Strategy	The Group's Total Property and/or Shareholder Returns could underperform in absolute or relative terms as a result of an inappropriate portfolio strategy. This could result from: • Holding the wrong balance of prime or secondary assets; • Holding the wrong amounts or types of land, leading to diluted returns and/or constraints on development opportunities; • Holding the wrong level of higher risk 'opportunity' assets or too many old or obsolete assets which dilute returns; and • Holding assets in the wrong geographical markets; missing opportunities in new markets or lacking critical mass in existing markets. This is a continuous risk with a moderate likelihood.	The Group's portfolio strategy is subject to regular review by the Board to consider the desired shape of the portfolio in order to meet the Group's overall objectives and to determine our response to changing opportunities and market conditions. The Group's Disciplined Capital Allocation is informed by comprehensive asset plans and independent external assessments of market conditions and forecasts. Regular portfolio analysis ensures the portfolio is correctly positioned in terms of location and asset type, and retains the right balance of core and opportunity assets. The annual asset planning exercise provides a bottom-up assessment of the performance and potential for all assets to identify underperforming assets that are considered for sale.	Impact on strategy: Disciplined Capital Allocation Change in 2018: Similar risk Risk is within appetite.
3. Disruptive Brexit	The uncertainty associated with Brexit may adversely impact investment, capital, financial (including FX), occupier and labour markets in the UK as the nature and timing of exit and future relationships are negotiated. In most scenarios there may be extended periods of uncertainty, leading to market impacts that are less acute but persistent. In the event of a 'no deal' disorderly Brexit these impacts could be acute. In the long term, exit from the EU could impact levels of investor and occupier demand as a result of reduced trade and/or the relocation of corporations and financial institutions away from the UK. Nevertheless, the likelihood of severe adverse impact on the Group is judged to be low.	We maintain a Brexit-specific risk register and monitor a range of indicators across occupational, investment and capital markets. We engage in dialogue with key customers. To date, we have not observed significant adverse factors. We have engaged in dialogue with key customers, and with key suppliers to understand labour and material supply risks. To date, we have not observed significant adverse factors. Structural drivers of demand appear to have continued to outweigh any Brexit-related uncertainties. Structural drivers of demand appear to have continued to outweigh any Brexit-related uncertainties. The Group has, however, continued to adopt a disciplined approach to land acquisition and speculative development. The Group's strategy provides resilience through the market cycle. As well as the underlying quality and diversity of the portfolio, mitigations include substantial covenant headroom, access to diverse sources of funding, FX and interest rate hedging, and short, responsive development lead-times.	Impact on strategy: Disciplined Capital Allocation, Operational Excellence and Efficient Capital and Corporate Structure Change in 2018: Increased risk The increased rating is a reflection of persisting uncertainty as deadlines become imminent. Risk is within appetite.

4. Health and Safety	Health and safety management processes could fail, leading to a loss of life, litigation, fines and serious reputational damage to the Group. This is a continuous risk with a low likelihood of causing significant harm to the Group. Nevertheless, we note that this risk is somewhat increased by the scale of the Group's development activity.	The Group manages an active health and safety management system, with a particular focus on managing the quality and compliance to good health and safety practice of construction and maintenance contractors. A published Health and Safety policy is backed up by independent site inspections of both existing assets as well as development projects against SEGRO's Health & Safety Construction Standard. We continue to improve health and safety standards on our construction sites, and work more closely with our contractors and health and safety consultants to increase understanding and implementation of SEGRO's requirements. We have undertaken a comprehensive review of all industrial estates across the Group's portfolio to assess the potential pedestrian and traffic movement risk. Those estates that were considered high risk were independently assessed by traffic management experts and recommendations actioned appropriately.	Impact on strategy: Operational Excellence Change in 2018: Increased risk Risk is within appetite.
5. Financing Strategy	The Group could suffer an acute liquidity or solvency crisis, financial loss or financial distress as a result of a failure in the design or execution of its financing strategy. Such an event may be caused by: a failure to obtain debt funding (e.g. due to market disruption or rating downgrade); having an inappropriate debt structure (including leverage level, debt maturity, interest rate or currency exposure); poor forecasting; default on loan agreements as a result of a breach of financial or other covenants; or counterparty default. This is both a short and a long-term risk with a very low likelihood.	The Group's financing strategy is aligned with our long-term business strategy, the Medium Term Plan and our risk appetite. The Treasury policy defines key policy parameters and controls to support execution of the strategy. The Group regularly reviews its changing financing requirements in the light of opportunities and market conditions. Financing activity in 2018 has strengthened the balance sheet, increased average debt maturity, lowered the average cost of debt, and demonstrated our ability to access a range of debt capital markets. Liquidity remains strong and there is substantial headroom against all of our financial covenants.	Impact on strategy: Efficient Capital and Corporate Structure Change in 2018: Reduced risk This risk has reduced as a result of the equity and debt funding secured in the year. Risk is within appetite.
6. Development Plan Execution	The Group has an extensive current programme and future pipeline of developments. The Group could suffer significant financial losses from: • Cost over-runs on larger, more complex projects. • Increased competition and/or construction costs (from labour market changes or weakened supply competition) leading to reduced or uneconomic development yields. • Above-appetite exposure to non-income producing land, infrastructure and speculatively developed buildings arising from a sharp deterioration in occupier demand. This is a medium-term risk with a moderate likelihood.	Our appetite for exposure to non-income producing assets (including land, infrastructure and speculative developments) is monitored closely. We retain a high level of 'optionality' in our future development programme including at the point of land acquisition, commitment to infrastructure and commitment to building. The development programme remains weighted towards pre-let opportunities. The risk of cost-overruns is mitigated by our experienced development teams and the use of trusted advisors and contractors. Our short development lead-times enable a quick response to changing market conditions	Impact on strategy: Disciplined Capital Allocation and Operational Excellence Change in 2018: Similar risk Risk is within appetite.
7. Investment Plan Execution	Decisions to buy, hold, sell or develop assets could be flawed due to uncertainty in analysis, quality of assumptions, poor due diligence or unexpected changes in the economic or operating environment. Our investment decisions could be insufficiently responsive to implement our strategy effectively. This is a continuous risk with a moderate likelihood as changing investment and occupier market conditions require constant adaptation.	Asset plans are prepared annually for all estates to determine where to invest capital in existing assets and to identify assets for disposal. Locally-based property investment and operational teams provide market intelligence and networking to source attractive opportunities. Policies are in place to govern evaluation, due diligence, approval, execution and subsequent review of investment activity. The Investment Committee meets frequently to review investment and disposal proposals and to consider appropriate capital allocation. Investment hurdle rates are regularly reappraised taking into account estimates of our weighted average cost of capital. Major capital investment and disposal decisions are subject to Board approval.	Impact on strategy: Disciplined Capital Allocation Change in 2018: Similar risk Risk is within appetite.

8. Political and Regulatory	The Group could fail to anticipate significant political, legal, tax or regulatory changes, leading to a significant un-forecasted financial or reputational impact. In general, regulatory matters present medium- to long-term risks with a low likelihood of causing significant harm to the Group. Political risks could impact business confidence and conditions in the short and longer terms.	Emerging risks in this category are reviewed regularly by the Executive Committee. Corporate heads of function consult with external advisers, attend industry and specialist briefings, and sit on key industry bodies such as EPRA and BPF. A number of potential risks were identified, assessed and managed during the course of the year. None were individually considered to be material enough to be classified as principal risks.	Impact on strategy: Disciplined Capital Allocation and Efficient Capital and Corporate Structure Change in 2018: Increased risk The increased rating reflects levels of Political uncertainty in markets including the UK, Italy, France and Germany. Risk is within appetite.
9. Operational delivery and compliance	The Group's ability to protect its reputation, revenues and shareholder value could be damaged by operational failures such as: environmental damage; failing to attract, retain and motivate key staff; a breach of antibribery and corruption or other legislation; major customer default; supply chain failure; the structural failure of one of our assets; a major high-profile incident involving one of our assets; a cyber-security breach; or failure to respond to the consequences of climate change. Compliance failures, such as breaches of joint venture shareholders' agreements, loan agreements or tax legislation could also damage reputation, revenue and shareholder value. This is a continuous risk with a low likelihood of causing significant harm to the Group.	The Group maintains a strong focus on Operational Excellence. The Executive, Operations, and Business Information Systems Committees regularly monitor the range of risks to property management, construction, compliance, business continuity, organisational effectiveness, customer management and cyber security. The Group's tax compliance is managed by an experienced internal tax team. REIT and SIIC tax regime compliance is demonstrated at least bi-annually. Compliance with joint venture shareholder agreements is managed by experienced property operations, finance and legal staff. The SELP JV additionally has comprehensive governance and compliance arrangements in place, including dedicated management, operating manuals, and specialist third-party compliance support.	Impact on strategy: Operational Excellence Change in 2018: Similar risk Risk is within appetite.

RESPONSIBILITY STATEMENT

The Statement of Directors' Responsibilities below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 31 December 2018. Certain parts of the Annual Report and Accounts have not been included in this announcement as set out in Note 1 to the condensed financial information.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Governance section of the Annual Report confirm that, to the best of their knowledge:

(a) the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors on 14 February 2019 and signed on its behalf by:

David Sleath

Chief Executive

14 February 2019

Soumen Das

Chief Financial Officer

14 February 2019

CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Revenue	4	**369.0**	334.7
Gross rental income	4	**297.7**	272.9
Property operating expenses	5	**(50.1)**	(52.2)
Net rental income		**247.6**	220.7
Joint venture fee income	4	**44.9**	24.3
Administration expenses		**(44.1)**	(39.7)
Pension buy-out costs	2	**(51.8)**	–
Share of profit from joint ventures after tax	6	**124.2**	108.1
Realised and unrealised property gain	7	**852.6**	889.0
Goodwill and other amounts written off on acquisitions and amortisation of intangibles		**–**	(0.6)
Operating profit		**1,173.4**	1,201.8
Finance income	8	**33.4**	40.6
Finance costs	8	**(107.7)**	(266.1)
Profit before tax		**1,099.1**	976.3
Tax	9	**(33.0)**	(20.0)
Profit after tax		**1,066.1**	956.3
Attributable to equity shareholders		**1,062.6**	952.7
Attributable to non-controlling interests		**3.5**	3.6
Earnings per share (pence)			
Basic	11	**105.4**	98.5
Diluted	11	**104.8**	97.9

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**1,066.1**	956.3
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain/(loss) on defined benefit pension schemes	**11.0**	(16.2)
	11.0	(16.2)
Items that may be reclassified subsequently to profit or loss		
Foreign exchange movement arising on translation of international operations	**29.4**	27.3
Fair value movements on derivatives in effective hedge relationships	**(12.6)**	(6.4)
	16.8	20.9
Tax on components of other comprehensive income	**–**	–
Other comprehensive profit before transfers	**27.8**	4.7
Transfer to income statement of amount realised on fair value of interest rate swaps and derivatives	**–**	3.1
Total comprehensive profit for the year	**1,093.9**	964.1
Attributable to equity shareholders	**1,090.5**	960.6
Attributable to non-controlling interests	**3.4**	3.5

CONDENSED GROUP BALANCE SHEET

As at 31 December 2018

	Notes	**2018 £m**	2017 £m
Assets			
Non-current assets			
Intangible assets		**3.9**	4.0
Investment properties	12	**7,801.4**	6,745.4
Other interests in property		**15.4**	13.4
Plant and equipment		**13.3**	14.7
Investments in joint ventures	6	**999.9**	792.0
Other investments	7	**23.6**	–
Other receivables		**26.8**	–
Derivative financial instruments		**25.7**	60.7
Pension assets		**–**	38.7
		8,910.0	7,668.9
Current assets			
Trading properties	12	**51.7**	12.5
Trade and other receivables		**128.7**	141.8
Derivative financial instruments		**11.7**	2.6
Cash and cash equivalents	13	**66.5**	109.3
		258.6	266.2
Total assets		**9,168.6**	7,935.1
Liabilities			
Non-current liabilities			
Borrowings	13	**2,243.5**	2,063.5
Deferred tax provision	9	**26.9**	34.6
Trade and other payables		**26.2**	–
Derivative financial instruments		**2.9**	–
		2,299.5	2,098.1
Current liabilities			
Trade and other payables		**261.9**	247.5
Derivative financial instruments		**2.8**	4.0
Tax liabilities		**40.4**	1.3
		305.1	252.8
Total liabilities		**2,604.6**	2,350.9
Net assets		**6,564.0**	5,584.2
Equity			
Share capital		**101.3**	100.3
Share premium		**2,047.7**	1,998.6
Capital redemption reserve		**113.9**	113.9
Own shares held		**(2.0)**	(3.3)
Other reserves		**246.2**	225.7
Retained earnings brought forward		**3,150.2**	2,363.4
Profit for the year attributable to owners of the parent		**1,062.6**	952.7
Other movements		**(155.9)**	(165.9)
Retained earnings		**4,056.9**	3,150.2
Total equity attributable to owners of the parent		**6,564.0**	5,585.4
Non-controlling interests		**–**	(1.2)
Total equity		**6,564.0**	5,584.2
Net assets per ordinary share (pence)			
Basic	11	**648**	557
Diluted	11	**644**	554

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Balance 1 January 2018 £m	Exchange movement £m	Retained Earnings £m	Items taken to other comprehensive income £m	Shares issued £m	Other £m	Dividends £m	Transfers £m	Balance 31 December 2018 £m
Ordinary share capital	**100.3**	**–**	**–**	**–**	**0.2**	**–**	**0.8**	**–**	**101.3**
Share premium	**1,998.6**	**–**	**–**	**–**	**0.4**	**–**	**48.7**	**–**	**2,047.7**
Capital redemption reserve	**113.9**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**113.9**
Own shares held	**(3.3)**	**–**	**–**	**–**	**–**	**(1.1)**	**–**	**2.4**	**(2.0)**
Other reserves:									
Share based payments reserve	**18.7**	**–**	**–**	**–**	**–**	**10.3**	**–**	**(6.7)**	**22.3**
Translation, hedging and other reserves	**37.9**	**29.5**	**–**	**(12.6)**	**–**	**–**	**–**	**–**	**54.8**
Merger reserve	**169.1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**169.1**
Total other reserves	**225.7**	**29.5**	**–**	**(12.6)**	**–**	**10.3**	**–**	**(6.7)**	**246.2**
Retained earnings	**3,150.2**	**–**	**1,062.6**	**11.0**	**–**	**(1.3)**	**(169.9)**	**4.3**	**4,056.9**
Total equity attributable to equity shareholders	**5,585.4**	**29.5**	**1,062.6**	**(1.6)**	**0.6**	**7.9**	**(120.4)**	**–**	**6,564.0**
Non-controlling interests[1]	**(1.2)**	**(0.1)**	**3.5**	**–**	**–**	**(2.2)**	**–**	**–**	**–**
Total equity	**5,584.2**	**29.4**	**1,066.1**	**(1.6)**	**0.6**	**5.7**	**(120.4)**	**–**	**6,564.0**

For the year ended 31 December 2017

	Balance 1 January 2017 £m	Exchange movement £m	Retained Earnings £m	Items taken to other comprehensive income £m	Shares issued £m	Other £m	Dividends £m	Transfers £m	Balance 31 December 2017 £m
Ordinary share capital	83.0	–	–	–	16.7	–	0.6	–	100.3
Share premium	1,431.1	–	–	–	540.5	–	27.0	–	1,998.6
Capital redemption reserve	113.9	–	–	–	–	–	–	–	113.9
Own shares held	(5.5)	–	–	–	–	(6.7)	–	8.9	(3.3)
Other reserves:									
Share based payments reserve	13.5	–	–	–	–	10.3	–	(5.1)	18.7
Fair value reserve for AFS	(0.2)	–	–	–	–	–	–	0.2	–
Translation, hedging and other reserves	13.8	27.4	–	(6.4)	–	3.1	–	–	37.9
Merger reserve	169.1	–	–	–	–	–	–	–	169.1
Total other reserves	196.2	27.4	–	(6.4)	–	13.4	–	(4.9)	225.7
Retained earnings	2,363.4	–	952.7	(16.2)	–	–	(145.7)	(4.0)	3,150.2
Total equity attributable to equity shareholders	4,182.1	27.4	952.7	(22.6)	557.2	6.7	(118.1)	–	5,585.4
Non-controlling interests[1]	(1.2)	(0.1)	3.6	–	–	(3.5)	–	–	(1.2)
Total equity	4,180.9	27.3	956.3	(22.6)	557.2	3.2	(118.1)	–	5,584.2

1 Non-controlling interests relate to Vailog S.r.l.

CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2018

	Notes	**2018 £m**	2017 £m
Cash flows from operating activities	14	**235.1**	189.9
Interest received		**44.1**	61.2
Dividends received		**28.6**	26.6
Interest paid		**(99.2)**	(140.6)
Cost of early close out of interest rate derivatives and new derivatives transacted		–	(50.9)
Proceeds from early close out of interest rate derivatives		**–**	34.8
Cost of early close out of debt		**(5.7)**	(140.4)
Tax paid		**(2.6)**	(4.9)
Net cash received from/(used in) operating activities		**200.3**	(24.3)
Cash flows from investing activities			
Purchase and development of investment properties		**(637.1)**	(457.9)
Acquisition of APP assets[1]		–	(217.2)
Sale of investment properties		**480.4**	317.2
Acquisition of other interests in property		**(2.0)**	(3.8)
Purchase of plant and equipment and intangibles		**(1.6)**	(2.0)
(Acquisition)/sale of investments		**(18.6)**	0.6
Investment in joint ventures		**(200.2)**	(137.8)
Divestment in joint ventures		**101.0**	166.2
Net cash used in investing activities		**(278.1)**	(334.7)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		**(120.4)**	(118.1)
Proceeds from borrowings		**264.1**	1,342.1
Repayment of borrowings		**(102.0)**	(1,274.5)
Settlement of foreign exchange derivatives		**(6.4)**	(63.4)
Proceeds from issue of ordinary shares		**0.6**	557.2
Purchase of ordinary shares		**(1.1)**	(6.7)
Net cash generated from financing activities		**34.8**	436.6
Net (decrease)/increase in cash and cash equivalents		**(43.0)**	77.6
Cash and cash equivalents at the beginning of the year		**109.3**	32.0
Effect of foreign exchange rate changes		**0.2**	(0.3)
Cash and cash equivalents at the end of the year	13	**66.5**	109.3

1 Acquisition of APP includes £1.2 million of transaction costs.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in this announcement does not constitute the consolidated statutory accounts for the years ended 31 December 2018 and 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 (approved by the Board on 14 February 2019) will be delivered following the Company's annual general meeting. The external auditor has reported on the accounts and their reports did not contain any modifications or emphasis of matter paragraphs.

Given due consideration to the nature of the Group's business and financial position, including the financial resources available to the Group, the Directors consider that the Group is a going concern and this financial information is prepared on that basis.

The financial information set out in this announcement is based on the consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The financial information is in accordance with the accounting policies set out in the 2017 financial statements apart from a number of new standards and amendments to IFRSs that became effective for the financial year beginning on 1 January 2018 and detailed further below.

While the financial information included in these condensed financial statements has been prepared in accordance with the recognition and measurement criteria of IFRSs as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs by March 2019.

In the current year, the Group has applied a number of new standards and amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

As a result the Group had to update the wording of its accounting policies following the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' but there was no material impact on the financial statements and no retrospective adjustments following their adoption. The other amendments did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.11 (31 December 2017: £1 = €1.13) and Income statement: £1 = €1.13 (31 December 2017: £1 = €1.14).

2. ADJUSTED PROFIT

Adjusted profit is a non-GAAP measure and is the Group's measure of underlying profit, which is used by the Board and senior management to measure and monitor the Group's income performance. It is based on the Best Practices Recommendations Guidelines of European Public Real Estate Association (EPRA), which calculate profit excluding investment and development property revaluations and gains or losses on disposals. Changes in the fair value of financial instruments and associated close-out costs and their related taxation, as well as other permitted one-off items, are also excluded. Refer to the Supplementary Notes for all EPRA adjustments.

The Directors may also exclude from the EPRA profit measure additional items (gains and losses) which are considered by them to be nonrecurring, unusual or significant by virtue of size and nature. In the period to 31 December 2018, £51.8 million of pension buy-out costs incurred in respect of the SEGRO Pension Scheme following the commitment to buy-out the scheme during the period, were excluded from the calculation of Adjusted profit, as detailed further below. There is no tax effect of this item in the period to 31 December 2018. No non-EPRA adjustments to underlying profit were made in 2017.

During 2018, and following approval from the SEGRO plc Board, the Trustees of the SEGRO Pension Scheme ('the Scheme') contracted to buy-out the Scheme. The Trustees decided to insure members' benefits with a third party specialist insurance company, and the terms and conditions of the buy-out were agreed on 6 December 2018 subject to true-up following a data verification exercise expected to be completed during 2019. At this point the final settlement of the Scheme will be triggered, the buy-out complete and the Scheme, ultimately, wound-up. The transaction, which has been funded from the assets of the Scheme, will de-risk this scheme and reduce the administrative burden of managing it. In 2018, pension buy-out costs of £51.8 million (2017: £nil) have been recognised in the Income Statement in conjunction with this process.

	2018 £m	2017 £m
Gross rental income	**297.7**	272.9
Property operating expenses	**(50.1)**	(52.2)
Net rental income	**247.6**	220.7
Joint venture fee income	**44.9**	24.3
Administration expenses	**(44.1)**	(39.7)
Share of joint ventures' Adjusted profit after tax[1]	**39.0**	47.6
Adjusted operating profit before interest and tax	**287.4**	252.9
Net finance costs (including adjustments)	**(45.9)**	(58.7)
Adjusted profit before tax	**241.5**	194.2
Adjustments to reconcile to IFRS:		
Adjustments to the share of profit from joint ventures after tax[1]	**85.2**	60.5
Profit on sale of investment properties	**56.5**	17.0
Valuation surplus on investment properties	**791.4**	872.4
Loss on sale of trading properties	**–**	(0.4)
Valuation surplus on other investments	**4.7**	–
Goodwill and other amounts written off on acquisitions and amortisation of intangibles	**–**	(0.6)
Cost of early close out of bank debt	**(6.4)**	(145.3)
Net fair value loss on interest rate swaps and other derivatives	**(22.0)**	(21.5)
Pension buy-out costs	**(51.8)**	–
Total adjustments	**857.6**	782.1
Profit before tax	**1,099.1**	976.3
Tax		
On Adjusted profit	**(4.4)**	(1.2)
In respect of adjustments	**(28.6)**	(18.8)
Total tax adjustments	**(33.0)**	(20.0)
Profit after tax before non-controlling interests	**1,066.1**	956.3
Non-controlling interests:		
Less: share of adjusted profit attributable to non-controlling interests	**(0.6)**	(0.2)
: share of adjustments attributable to non-controlling interests	**(2.9)**	(3.4)
Profit after tax and non-controlling interests	**1,062.6**	952.7
Of which:		
Adjusted profit after tax	**236.5**	192.8
Total adjustments after tax and non-controlling interests	**826.1**	759.9
Profit attributable to equity shareholders	**1,062.6**	952.7

1 A detailed breakdown of the adjustments to the share of profit from joint ventures is included in Note 6.

3. SEGMENTAL ANALYSIS

The Group's reportable segments are the geographical Business Units: Greater London, Thames Valley, National Logistics (UK), Northern Europe (principally Germany), Southern Europe (principally France) and Central Europe (principally Poland), which are managed and reported to the Board as separate distinct Business Units.

In 2018, as a result of the growth and the importance of the UK Big Box Logistics Warehouses to SEGRO's portfolio and the acquisition of the Roxhill management platform in the period the new distinct Business Unit 'National Logistics' has been identified and separately reported to the Board. This has resulted in the segment reported in the Annual Report and Accounts 2017 'Thames Valley and National Logistics' being separated into two separate segments 'Thames Valley' and 'National Logistics'.

	Gross rental income £m	**Net rental income £m**	**Share of joint ventures' Adjusted profit £m**	**Adjusted PBIT £m**	**Total directly owned property assets £m**	**Investments in joint ventures £m**	**Capital expenditure[2] £m**
			31 December 2018				
Thames Valley	**70.1**	**65.1**	**–**	**65.1**	**1,638.5**	**–**	**20.3**
National Logistics	**31.0**	**29.2**	**(0.2)**	**29.0**	**999.0**	**3.7**	**170.1**
Greater London	**127.4**	**118.7**	**–**	**118.3**	**3,724.5**	**–**	**50.4**
Northern Europe	**21.7**	**14.0**	**22.7**	**41.3**	**505.7**	**507.2**	**79.2**
Southern Europe	**39.6**	**30.8**	**20.3**	**53.3**	**837.2**	**611.8**	**348.7**
Central Europe	**7.9**	**4.8**	**18.8**	**28.2**	**148.2**	**397.0**	**31.2**
Other[1]	**–**	**(15.0)**	**(22.6)**	**(47.8)**	**–**	**(519.8)**	**1.6**
Total	**297.7**	**247.6**	**39.0**	**287.4**	**7,853.1**	**999.9**	**701.5**

	Gross rental income £m	Net rental income £m	Share of joint ventures' Adjusted profit £m	Adjusted PBIT £m	Total directly owned property assets £m	Investments in joint ventures £m	Capital expenditure[2] £m
			31 December 2017				
Thames Valley (represented)	70.1	64.6	–	64.6	1,474.5	–	103.0
National Logistics (represented)	29.1	27.3	(0.1)	27.1	806.4	7.5	38.5
Thames Valley and National Logistics[3]	99.2	91.9	(0.1)	91.7	2,280.9	7.5	141.5
Greater London	112.4	101.8	(1.8)	108.3	3,227.6	–	1,174.9
Northern Europe	24.8	15.4	21.5	40.6	409.2	474.0	55.6
Southern Europe	30.6	22.0	16.2	40.4	729.9	386.8	212.9
Central Europe	5.9	3.1	17.9	24.3	110.3	356.5	15.3
Other[1]	–	(13.5)	(6.1)	(52.4)	–	(432.8)	2.0
Total	272.9	220.7	47.6	252.9	6,757.9	792.0	1,602.2

1 Other includes the corporate centre, SELP holding companies and costs relating to the operational business which are not specifically allocated to a geographical business unit. This includes the bonds held by SELP Finance S.a r.l, a Luxembourg entity.

2 Capital expenditure includes additions and acquisitions of investment and trading properties but does not include tenant incentives, letting fees and rental guarantees. 2017 comparatives includes the APP asset acquisition. The 'Other' category includes non-property related spend, primarily IT.

3 Segment 'Thames Valley and National Logistics' as reported in the Annual Report & Accounts 2017.

Revenues from the most significant countries within the Group were UK £236.8 million (2017: £229.6 million), France £31.5 million (2017: £29.8 million), Germany £25.7 million (2017: £27.0 million) and Poland £16.3 million (2017: £12.0 million).

4. REVENUE

	2018 £m	2017 £m
Rental income from investment and trading properties	**282.8**	259.6
Rent averaging	**12.5**	11.8
Management fees	**1.3**	1.1
Surrender premiums and dividend income from property related investments	**1.1**	0.4
Gross rental income	**297.7**	272.9
Joint venture fees - management fee	**18.7**	16.8
- performance and other fees[1]	**26.2**	7.5
Joint venture fee income	**44.9**	24.3
Service charge income	**25.5**	23.8
Proceeds from sale of trading properties	**0.9**	13.7
Total revenue	**369.0**	334.7

1 Performance and other fees of £26.2 million in 2018 was received from the SELP joint venture (See Note 6(ii) for further details).

5. PROPERTY OPERATING EXPENSES

	2018 £m	2017 £m
Vacant property costs	**5.1**	7.6
Letting, marketing, legal and professional fees	**8.0**	8.4
Loss allowance and impairment of receivables	**0.3**	0.9
Other expenses, net of service charge income[1]	**10.3**	10.2
Property management expenses	**23.7**	27.1
Property administration expenses[2]	**31.0**	29.3
Costs capitalised[3]	**(4.6)**	(4.2)
Total property operating expenses	**50.1**	52.2

1 Total Other expenses were £35.8 million (2017: £34.0 million) and are presented net of service charge income of £25.5 million (2017: £23.8 million) in the table above.

2 Property administration expenses predominantly relate to the employee staff costs of personnel directly involved in managing the property portfolio.

3 Costs capitalised primarily relate to internal employee staff costs directly involved in developing the property portfolio.

6. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

6(i) Profit from joint ventures after tax

The table below presents a summary Income Statement of the Group's largest joint ventures, all of which are accounted for using the equity method. Roxhill operates in the UK and develops big box logistics assets and SELP is incorporated in Luxembourg and owns logistics property assets in Continental Europe. The Group holds 50 per cent of the share capital and voting rights in the joint ventures.

	SEGRO European Logistics Partnership £m	**Roxhill £m**	**At 100% 2018 £m**	At 100% 2017 £m	**At 50% 2018 £m**	At 50% 2017 £m
Gross rental income	**150.9**	**–**	**150.9**	147.4	**75.5**	73.7
Property operating expenses						
-underlying property operating expenses	**(8.0)**	**(0.1)**	**(8.1)**	(6.1)	**(4.1)**	(3.0)
-vacant property costs	**(1.8)**	**–**	**(1.8)**	(1.9)	**(0.9)**	(0.9)
-property management fees	**(13.9)**	**–**	**(13.9)**	(14.0)	**(7.0)**	(7.0)
-performance and other fees	**(26.2)**	**–**	**(26.2)**	(8.5)	**(13.1)**	(4.3)
Net rental income	**101.0**	**(0.1)**	**100.9**	116.9	**50.4**	58.5
Administration expenses	**(2.5)**	**(0.1)**	**(2.6)**	(1.7)	**(1.3)**	(0.9)
Net finance costs (including adjustments)	**(15.1)**	**(0.2)**	**(15.3)**	(12.4)	**(7.6)**	(6.2)
EPRA profit/(loss) before tax	**83.4**	**(0.4)**	**83.0**	102.8	**41.5**	51.4
Tax	**(5.0)**	**–**	**(5.0)**	(7.5)	**(2.5)**	(3.8)
Adjusted profit/(loss) after tax	**78.4**	**(0.4)**	**78.0**	95.3	**39.0**	47.6
Adjustments:						
Profit on sale of investment properties	**15.2**	**–**	**15.2**	1.6	**7.6**	0.8
Valuation surplus on investment properties	**187.0**	**–**	**187.0**	153.7	**93.5**	76.9
Cost of early close out of bank	**–**	**–**	**–**	(3.7)	**–**	(1.9)
Net fair value loss interest rate swaps and other derivatives	**–**	**–**	**–**	(6.2)	**–**	(3.1)
Tax in respect of adjustments	**(31.7)**	**–**	**(31.7)**	(24.4)	**(15.9)**	(12.2)
Total adjustments	**170.5**	**–**	**170.5**	121.0	**85.2**	60.5
Profit/(loss) after tax	**248.9**	**(0.4)**	**248.5**	216.3	**124.2**	108.1
Other comprehensive income	**–**	**–**	**–**	6.2	**–**	3.1
Total comprehensive income/(loss) for the year	**248.9**	**(0.4)**	**248.5**	222.5	**124.2**	111.2

6(ii) Summarised Balance Sheet information in respect of the Group's joint ventures

	SEGRO European Logistics Partnership £m	Roxhill £m	Other £m	At 100% 2018 £m	At 100% 2017 £m	At 50% 2018 £m	At 50% 2017 £m
Investment properties[1]	**3,133.9**	**–**	**–**	**3,133.9**	2,560.4	**1,566.9**	1,280.2
Other interests in property	**1.3**	**9.6**	**–**	**10.9**	16.1	**5.4**	8.1
Total non-current assets	**3,135.2**	**9.6**	**–**	**3,144.8**	2,576.5	**1,572.3**	1,288.3
Trading properties	**–**	**3.7**	**1.1**	**4.8**	1.1	**2.4**	0.6
Other receivables	**153.3**	**5.2**	**1.4**	**159.9**	82.1	**80.0**	41.1
Cash and cash equivalents	**45.3**	**2.3**	**–**	**47.6**	39.9	**23.8**	20.0
Total current assets	**198.6**	**11.2**	**2.5**	**212.3**	123.1	**106.2**	61.7
Total assets	**3,333.8**	**20.8**	**2.5**	**3,357.1**	2,699.6	**1,678.5**	1,350.0
Borrowings	**(1,120.4)**	**–**	**–**	**(1,120.4)**	(926.9)	**(560.2)**	(463.5)
Deferred tax	**(123.5)**	**–**	**–**	**(123.5)**	(104.2)	**(61.8)**	(52.1)
Other liabilities	**–**	**–**	**–**	**–**	(8.5)	**–**	(4.3)
Total non-current liabilities	**(1,243.9)**	**–**	**–**	**(1,243.9)**	(1,039.6)	**(622.0)**	(519.9)
Other liabilities	**(99.3)**	**(13.5)**	**(0.6)**	**(113.4)**	(76.1)	**(56.6)**	(38.1)
Total current liabilities	**(99.3)**	**(13.5)**	**(0.6)**	**(113.4)**	(76.1)	**(56.6)**	(38.1)
Total liabilities	**(1,343.2)**	**(13.5)**	**(0.6)**	**(1,357.3)**	(1,115.7)	**(678.6)**	(558.0)
Net assets	**1,990.6**	**7.3**	**1.9**	**1,999.8**	1,583.9	**999.9**	792.0

1 Investment properties held by SELP include assets held for sale of £nil million (at 100%) at 31 December 2018 (2017: £48.0 million).

The external borrowings of the joint ventures are non-recourse to the Group. At 31 December 2018, the fair value of £1,120.4 million (2017: £926.9 million) of borrowings was £1,104.3 million (2017: £938.6 million). This results in a fair value adjustment increase in EPRA triple net asset value of £16.1 million (2017: £11.7 million decrease), at share £8.0 million (2017: £5.9 million decrease), see Note 11.

SEGRO provides certain services, including venture advisory and asset management to the SELP joint venture and receives fees for doing so. Performance fees are payable from SELP to SEGRO based on its IRR subject to certain hurdle rates. The first calculation and payment was on the fifth anniversary of the inception of SELP, being October 2018, but 50 per cent of this is subject to clawback based on performance over the period to the tenth anniversary, October 2023. If performance has improved at this point, additional fees might be triggered.

The first fee paid by SELP in October 2018 including the amount subject to clawback, was £52.4 million. Only £26.2 million representing the 50 per cent of the performance fee paid not subject to future claw back has been recognised by SEGRO in the 2018 Income Statement (see Note 4). The 50 per cent subject to clawback has been recognised as a contract liability within Trade and other payables at 31 December 2018. SELP has recognised a corresponding performance fee expense of £26.2 million (at share £13.1 million) and deferred expense of £26.2 million (at share £13.1 million) in other receivables shown in the table above.

The net profit before tax impact on the SEGRO 2018 Group Income Statement of the performance fee is a £13.1 million profit and the net profit after tax impact is a £12.3 million profit.

6(iii) Investments by Group

	2018 £m	2017 £m
Cost or valuation at 1 January	**792.0**	1,066.2
Exchange movement	**17.4**	24.9
Additions	**99.2**	51.7
Disposals and net divestments[1]	**(4.3)**	(435.4)
Dividends received	**(28.6)**	(26.6)
Share of profit after tax	**124.2**	108.1
Items taken to other comprehensive income	**–**	3.1
Cost or valuation at 31 December	**999.9**	792.0

1 Net divestments represents the net movement of loans held with joint ventures.

Dividends received were £28.6 million (2017: £26.6 million), of which £28.6 million (2017: £19.6 million) was from SELP (2017: £7.0 million was received from APP).

7. REALISED AND UNREALISED PROPERTY GAIN

	2018 £m	2017 £m
Profit on sale of investment properties	**56.5**	17.0
Valuation surplus on investment properties	**791.4**	872.4
Loss on sale of trading properties	**–**	(0.4)
Valuation surplus on other investments[1]	**4.7**	–
Total realised and unrealised property gain	**852.6**	889.0

1 On 16 January 2018 SEGRO acquired 19.39 per cent of the share capital of Sofibus Patrimoine (“Sofibus”), an entity listed on the Euronext stock exchange in France. The investment of £23.6 million is held within Other Investments on the Balance Sheet (2017: £nil). The investment in Sofibus has been fair valued at 31 December 2018 resulting in a valuation surplus of £4.7 million being recognised in the Income Statement (2017: £nil).

8. NET FINANCE COSTS

Finance income	**2018 £m**	2017 £m
Interest received on bank deposits and related derivatives	**29.9**	34.7
Fair value gain on interest rate swaps and other derivatives	**2.6**	4.5
Net interest income on defined benefit asset	**0.9**	1.3
Exchange differences	**–**	0.1
Total finance income	**33.4**	40.6
Finance costs		
Interest on overdrafts, loans and related derivatives	**(82.3)**	(98.8)
Cost of early close out of debt	**(6.4)**	(145.3)
Amortisation of issue costs	**(3.4)**	(2.6)
Total borrowing costs	**(92.1)**	(246.7)
Less amount capitalised on the development of properties	**9.2**	6.6
Net borrowing costs	**(82.9)**	(240.1)
Fair value loss on interest rate swaps and other derivatives	**(24.6)**	(26.0)
Exchange differences	**(0.2)**	–
Total finance costs	**(107.7)**	(266.1)
Net finance costs	**(74.3)**	(225.5)

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £45.9 million (2017: £58.7 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £22.0 million loss (2017: £21.5 million loss) and the cost of early close out of debt of £6.4 million (2017: £145.3 million).

The interest capitalisation rates for 2018 ranged from 2.5 per cent to 3.0 per cent (2017: 3.0 per cent to 4.0 per cent). Interest is capitalised gross of tax relief.

9. TAX

9(i) Tax on profit

	2018 £m	2017 £m
Tax on:		
On Adjusted profit	**(4.4)**	(1.2)
In respect of adjustments	**(28.6)**	(18.8)
Total tax charge	**(33.0)**	(20.0)
Current tax		
Overseas		
Current tax charge	**(40.5)**	(1.9)
Adjustments in respect of earlier years	**(0.6)**	–
	(41.1)	(1.9)
Total current tax charge	**(41.1)**	(1.9)
Deferred tax		
Origination and reversal of temporary differences	**(1.6)**	(1.3)
Released in respect of property disposals in the year	**20.5**	1.0
On valuation movements	**(9.9)**	(18.1)
Total deferred tax in respect of investment properties	**9.0**	(18.4)
Other deferred tax	**(0.9)**	0.3
Total deferred tax credit/(charge)	**8.1**	(18.1)
Total tax charge on profit on ordinary activities	**(33.0)**	(20.0)

9(ii) Deferred tax liabilities

Movement in deferred tax was as follows:

	Balance 1 January 2018 £m	Exchange movement £m	Acquisitions / (disposals) £m	Recognised in income £m	Balance 31 December 2018 £m
Valuation surpluses and deficits on properties/accelerated tax allowances	**33.0**	**0.4**	**(0.1)**	**(8.1)**	**25.2**
Deferred tax asset on revenue losses	**(1.2)**	**(0.1)**	**0.1**	**(0.2)**	**(1.4)**
Others	**2.8**	**0.1**	**–**	**0.2**	**3.1**
Total deferred tax liabilities	**34.6**	**0.4**	**–**	**(8.1)**	**26.9**

10. DIVIDENDS

	2018 £m	2017 £m
Ordinary dividends paid		
Interim dividend for 2018 @ 5.55 pence per share	**56.1**	–
Final dividend for 2017 @ 11.35 pence per share	**113.8**	–
Interim dividend for 2017 @ 5.25 pence per share	**–**	52.7
Final dividend for 2016 @ 10.71 pence per share[1]	**–**	93.0
Total dividends	**169.9**	145.7

1 As adjusted by a bonus adjustment of 1.046 following a rights issue in March 2017.

The Board recommends a final dividend for 2018 of 13.25 pence which is estimated to result in a distribution of up to £134.3 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2018 is 18.8 pence (2017: 16.6 pence).

11. EARNINGS AND NET ASSETS PER ORDINARY SHARE

The earnings per share calculations use the weighted average number of shares in issue during the year and the net assets per share calculations use the number of shares in issue at year end. Earnings per share calculations exclude 0.7 million shares (2017: 1.2 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 0.7 million shares (2017: 0.9 million) being the actual number of shares held on trust for employee share schemes at year end.

11(i) Earnings per ordinary share (EPS)

	2018			2017		
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share
Basic EPS	**1,062.6**	**1,008.6**	**105.4**	952.7	967.3	98.5
Dilution adjustments:						
Shard and save as you earn schemes	**–**	**5.8**	**(0.6)**	–	5.5	(0.6)
Diluted EPS	**1,062.6**	**1,014.4**	**104.8**	952.7	972.8	97.9
Basic EPS	**1,062.6**	**1,008.6**	**105.4**	952.7	967.3	98.5
Adjustments to profit before tax[1]	**(857.6)**		**(85.0)**	(782.1)		(80.9)
Tax in respect of Adjustments	**28.6**		**2.8**	18.8		1.9
Non-controlling interest on adjustments	**2.9**		**0.2**	3.4		0.4
Adjusted EPS[2]	**236.5**	**1,008.6**	**23.4**	192.8	967.3	19.9

1 Details of adjustments are included in Note 2.

2 Based on basic number of shares.

11(ii) Net asset value per share (NAV)

	2018			2017		
	Equity attributable to ordinary shareholders £m	**Shares million**	**Pence per share**	Equity attributable to ordinary shareholders £m	Shares million	Pence per share
Basic NAV	**6,564.0**	**1,012.8**	**648**	5,585.4	1,002.0	557
Dilution adjustments:						
Share and save as you earn schemes	**–**	**5.9**	**(4)**	–	5.7	(3)
Diluted NAV	**6,564.0**	**1,018.7**	**644**	5,585.4	1,007.7	554
Fair value adjustment in respect of interest rate derivatives – Group	**(35.0)**		**(3)**	(60.7)		(6)
Fair value adjustment in respect of trading properties – Group	**2.2**		**–**	–		–
Fair value adjustment in respect of trading properties – Joint Ventures	**0.9**		**–**	–		–
Deferred tax in respect of depreciation and valuation surpluses – Group	**26.4**		**3**	30.7		3
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**61.8**		**6**	52.3		5
EPRA NAV	**6,620.3**	**1,018.7**	**650**	5,607.7	1,007.7	556
Fair value adjustment in respect of debt – Group	**(17.4)**		**(1)**	(163.5)		(16)
Fair value adjustment in respect of debt – Joint ventures	**8.0**		**1**	(5.9)		(1)
Fair value adjustment in respect of interest rate swap derivatives – Group	**35.0**		**3**	60.7		6
Deferred tax in respect of depreciation and valuation surpluses – Group	**(26.4)**		**(3)**	(30.7)		(3)
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**(61.8)**		**(6)**	(52.3)		(5)
EPRA triple net NAV (NNNAV)	**6,557.7**	**1,018.7**	**644**	5,416.0	1,007.7	537

12. PROPERTIES

12(i) Investment properties

	Completed £m	Development £m	Total £m
At 1 January 2018	**5,892.1**	**778.5**	**6,670.6**
Exchange movement	**20.0**	**5.9**	**25.9**
Property acquisitions	**73.5**	**120.2**	**193.7**
Additions to existing investment properties	**23.9**	**461.8**	**485.7**
Disposals	**(385.7)**	**(45.8)**	**(431.5)**
Transfers on completion of development	**506.6**	**(506.6)**	**–**
Transfer to trading properties	**–**	**(19.3)**	**(19.3)**
Revaluation surplus during the year	**697.4**	**94.0**	**791.4**
At 31 December 2018	**6,827.8**	**888.7**	**7,716.5**
Add tenant lease incentives, letting fees and rental guarantees	**84.9**	**–**	**84.9**
Total investment properties	**6,912.7**	**888.7**	**7,801.4**

Investment properties are stated at fair value as at 31 December 2018 based on external valuations performed by professionally qualified valuers. The Group's wholly-owned and joint venture property portfolio is valued by CBRE Ltd on a half yearly basis (apart from one asset valued by Knight Frank). The valuations conform to International Valuation Standards and were arrived at by reference to market evidence of the transaction prices paid for similar properties. In estimating the fair value of the properties, the valuers consider the highest and best use of the properties. There has been no change to the valuation technique during the year.

Fees payable to CBRE Ltd for the valuation of the Group's wholly-owned properties are based on a fixed percentage of the property portfolio's valuation. CBRE Ltd also undertakes some professional and agency work on behalf of the Group, although this is limited relative to the activities provided to the Group as a whole. The firm advises us that the total fees paid by the Group represent less than 5 per cent of its total revenue in any year.

Completed properties include buildings that are occupied or are available for occupation. Development properties include land available for development (land bank), land under development and construction in progress.

During 2018 a plot of land with a carrying value of £19.3 million was transferred to trading properties following the agreement in the year to develop and sell the asset on completion (2017: £nil). No trading properties were transferred to investment properties during 2018 (2017: £nil).

Long-term leasehold values within investment properties amount to £120.3 million (2017: £60.8 million). All other properties are freehold.

The disposals of completed properties during the year includes properties with a carrying value of £242.0 million sold to the SELP joint venture.

12(ii) Trading properties

	Completed £m	Development £m	Total £m
At 1 January 2018	**3.7**	**8.8**	**12.5**
Exchange movement	**–**	**0.3**	**0.3**
Additions	**–**	**20.5**	**20.5**
Disposals	**–**	**(0.9)**	**(0.9)**
Transfer from investment properties	**–**	**19.3**	**19.3**
At 31 December 2018	**3.7**	**48.0**	**51.7**
Add tenant lease incentives, letting fees and rental guarantees	**–**	**–**	**–**
Total trading properties	**3.7**	**48.0**	**51.7**

Trading properties were externally valued, as detailed in Note 12(i), resulting in no increase in the provision for impairment (2017: £nil). Based on the fair value at 31 December 2018, the portfolio has unrecognised surplus of £2.2 million (2017: £nil).

13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

	2018 £m	2017 £m
In one year or less	**–**	–
In more than one year but less than two	**250.0**	104.6
In more than two years but less than five	**115.9**	364.5
In more than five years but less than ten	**533.8**	434.8
In more than ten years	**1,343.8**	1,159.6
In more than one year	**2,243.5**	2,063.5
Total borrowings	**2,243.5**	2,063.5
Cash and cash equivalents	**(66.5)**	(109.3)
Net borrowings	**2,177.0**	1,954.2
Total borrowings is split between secured and unsecured as follows:		
Secured (on land and buildings)	**3.2**	3.6
Unsecured	**2,240.3**	2,059.9
Total borrowings	**2,243.5**	2,063.5
Currency profile of total borrowings after derivative instruments		
Sterling	**759.6**	755.3
Euros	**1,483.9**	1,312.9
US dollars	**–**	(4.7)
Total borrowings	**2,243.5**	2,063.5
Maturity profile of undrawn borrowing facilities		
In one year or less	**14.0**	5.0
In more than one year but less than two	**–**	–
In more than two years	**1,097.3**	1,077.9
Total available undrawn facilities	**1,111.3**	1,082.9
Fair value of financial instruments		
Book value of debt	**2,243.5**	2,063.5
Interest rate derivatives	**(35.0)**	(60.7)
Foreign exchange derivatives	**3.3**	1.4
Book value of debt including derivatives	**2,211.8**	2,004.2
Net fair market value	**2,229.2**	2,167.7
Mark to market adjustment (pre-tax)	**17.4**	163.5

During the year the Group undertook a debt refinancing including issuing €300 million of US Private Placement notes and repurchasing £102 million of shorter dated sterling bonds all stated at face value. The debt refinancing is discussed in more detail in the Finance Review.

14. NOTES TO THE CONDENSED GROUP CASH FLOW STATEMENT

14(i) Reconciliation of cash generated from operations

	2018 £m	2017 £m
Operating profit	**1,173.4**	1,201.8
Adjustments for:		
Depreciation of property, plant and equipment	**2.9**	1.9
Share of profit from joint ventures after tax	**(124.2)**	(108.1)
Profit on sale of investment properties	**(56.5)**	(17.0)
Goodwill and other amounts written off on acquisitions and amortisation of intangibles	**–**	0.6
Revaluation surplus on investment properties	**(791.4)**	(872.4)
Valuation gain on other investments	**(4.7)**	–
Pension buy-out costs (see Note 2)	**51.8**	–
Other provisions	**6.1**	2.1
	257.4	208.9
Changes in working capital:		
(Increase)/decrease in trading properties	**(19.5)**	13.6
Increase in debtors and tenant incentives	**(13.7)**	(16.5)
Increase/(decrease) in creditors	**10.9**	(16.1)
Net cash inflow generated from operations	**235.1**	189.9

14(ii) Analysis of net debt

		Cash movements		Non-cash adjustments				
	At 1 January 2018 £m	Cash inflow[2] £m	Cash outflow[3] £m	Exchange movement £m	Fair value changes £m	Cost of early close out of debt £m	Other non-cash Adjustment[1] £m	**At 31 December 2018 £m**
Bank loans and loan capital	2,081.4	264.1	(107.7)	16.2	–	5.7	–	**2,259.7**
Capitalised finance costs	(17.9)	–	(2.4)	–	–	0.7	3.4	**(16.2)**
Total borrowings	2,063.5	264.1	(110.1)	16.2	–	6.4	3.4	**2,243.5**
Cash in hand and at bank	(109.3)	–	43.0	(0.2)	–	–	–	**(66.5)**
Net debt	1,954.2	264.1	(67.1)	16.0	–	6.4	3.4	**2,177.0**

1 The other non-cash adjustment relates to the amortisation of issue costs. See Note 8.

2 Proceeds from borrowings of £264.1 million.

3 Cash outflow of £110.1 million, comprises the repayment of borrowings of £102.0 million, cash settlement for early repayment of debt of £5.7 million and capitalised issue costs of £2.4 million.

15. RELATED PARTY TRANSACTIONS

There have been no undisclosed material changes in the related party transactions as described in the last annual report, other than those disclosed elsewhere in this condensed set of financial information.

SUPPLEMENTARY NOTES NOT PART OF CONDENSED FINANCIAL INFORMATION

TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

		2018		2017	
	Notes	**£m**	**Pence per share**	**£m**	**Pence per share**
EPRA Earnings	Table 2	**184.7**	**18.3**	192.8	19.9
EPRA NAV	Table 3	**6,620.3**	**650**	5,607.7	556
EPRA NNNAV	Note 11	**6,557.7**	**644**	5,416.0	537
EPRA net initial yield	Table 4		**3.9%**		4.3%
EPRA 'topped up' net initial yield	Table 4		**4.3%**		4.8%
EPRA vacancy rate	Table 5		**5.2%**		4.0%
Total EPRA cost ratio (including vacant property costs)	Table 6		**36.9%**		24.6%
Total EPRA cost ratio (excluding vacant property costs)	Table 6		**35.3%**		22.1%

TABLE 2: INCOME STATEMENT, PROPORTIONAL CONSOLIDATION

		2018			2017		
	Notes	**Group £m**	**JV £m**	**Total £m**	**Group £m**	**JV £m**	**Total £m**
Gross rental income	2,6	**297.7**	**75.5**	**373.2**	272.9	73.7	346.6
Property operating expenses	2,6	**(50.1)**	**(5.0)**	**(55.1)**	(52.2)	(3.9)	(56.1)
Net rental income		**247.6**	**70.5**	**318.1**	220.7	69.8	290.5
Joint venture fee income[1]	2,6	**44.9**	**(20.1)**	**24.8**	24.3	(11.3)	13.0
Administration expenses	2,6	**(44.1)**	**(1.3)**	**(45.4)**	(39.7)	(0.9)	(40.6)
Adjusted operating profit before interest and tax		**248.4**	**49.1**	**297.5**	205.3	57.6	262.9
Net finance costs (including adjustments)	2,6	**(45.9)**	**(7.6)**	**(53.5)**	(58.7)	(6.2)	(64.9)
Adjusted profit before tax		**202.5**	**41.5**	**244.0**	146.6	51.4	198.0
Tax on adjusted profit	2,6	**(4.4)**	**(2.5)**	**(6.9)**	(1.2)	(3.8)	(5.0)
Adjusted earnings		**198.1**	**39.0**	**237.1**	145.4	47.6	193.0
Non-controlling interest on adjusted profit	2,6	**(0.6)**	**–**	**(0.6)**	(0.2)	–	(0.2)
Adjusted earnings after non-controlling interests (A)		**197.5**	**39.0**	**236.5**	145.2	47.6	192.8
Number of shares, million	11			**1,008.6**			967.3
Adjusted EPS, pence per share	11			**23.4**			19.9
Number of shares	11			**1,014.4**			972.8
Adjusted EPS, pence per share – diluted				**23.3**			19.8

EPRA earnings							
Adjusted earnings after tax and non-controlling interests (A)		**197.5**	**39.0**	**236.5**	145.2	47.6	192.8
Pension buy-out costs	2	**(51.8)**	**–**	**(51.8)**	–	–	–
EPRA earnings after tax and non-controlling interests		**145.7**	**39.0**	**184.7**	145.2	47.6	192.8
Number of shares				**1,008.6**			967.3
EPRA EPS, pence per share				**18.3**			19.9
Number of shares				**1,014.4**			972.8
EPRA EPS, pence per share – diluted				**18.2**			19.8

1 Joint venture fee income includes the cost of such fees borne by the joint ventures which are shown in Note 6 within net rental income.

TABLE 3: BALANCE SHEET, PROPORTIONAL CONSOLIDATION

	Notes	2018 Group £m	2018 JV £m	2018 Total £m	2017 Group £m	2017 JV £m	2017 Total £m
Investment properties	12,6	**7,801.4**	**1,566.9**	**9,368.3**	6,745.4	1,280.2	8,025.6
Trading properties	12,6	**51.7**	**2.4**	**54.1**	12.5	0.6	13.1
Total properties		**7,853.1**	**1,569.3**	**9,422.4**	6,757.9	1,280.8	8,038.7
Investment in joint ventures	6	**999.9**	**(999.9)**	**–**	792.0	(792.0)	–
Other net liabilities		**(112.0)**	**(33.0)**	**(145.0)**	(10.3)	(45.3)	(55.6)
Net borrowings	13,6	**(2,177.0)**	**(536.4)**	**(2,713.4)**	(1,954.2)	(443.5)	(2,397.7)
Total shareholders' equity[1]		**6,564.0**	**–**	**6,564.0**	5,585.4	–	5,585.4
EPRA adjustments	11			**56.3**			22.3
EPRA NAV	11			**6,620.3**			5,607.7
Number of shares, million	11			**1,018.7**			1,007.7
EPRA NAV, pence per share	11			**650**			556

1 After non-controlling interests.

Note: Loan to value of 28.8 per cent is calculated as net borrowings of £2,713.4 million divided by total properties £9,422.4 million (2017: 29.8 per cent; £2,397.7 million net borrowings; £8,038.7 million total properties).

TABLE 4: EPRA NET INITIAL YIELD AND TOPPED-UP NET INITIAL YIELD

Combined property portfolio including joint ventures at share - 2018	**Notes**	**UK £m**	**Continental Europe £m**	**Total £m**
Total properties per financial statements	Table 3	**6,363.8**	**3,058.6**	**9,422.4**
Add valuation surplus not recognised on trading properties[1]		2.2	0.9	3.1
Combined property portfolio per external valuers' report		**6,366.0**	**3,059.5**	**9,425.5**
Less development properties (investment, trading and joint ventures)		(592.2)	(483.9)	(1,076.1)
Net valuation of completed properties		**5,773.8**	**2,575.6**	**8,349.4**
Add notional purchasers' costs		390.6	141.0	531.6
Gross valuation of completed properties including notional purchasers' costs	A	**6,164.4**	**2,716.6**	**8,881.0**
Income				
Gross passing rents[2]		224.4	131.0	355.4
Less irrecoverable property costs		(2.9)	(6.5)	(9.4)
Net passing rents	B	**221.5**	**124.5**	**346.0**
Adjustment for notional rent in respect of rent frees		11.8	24.4	36.2
Topped up net rent	C	**233.3**	**148.9**	**382.2**
Including fixed/minimum uplifts[4]		9.7	1.0	10.7
Total topped up net rent		**243.0**	**149.9**	**392.9**

Yields – 2018		%	%	%
EPRA net initial yield[3]	B/A	3.6	4.6	3.9
EPRA topped up net initial yield[3]	C/A	3.8	5.5	4.3
Net true equivalent yield		4.8	5.9	5.1

1 Trading properties are recorded in the Financial Statements at the lower of cost and net realisable value, therefore valuations above cost have not been recognised.

2 Gross passing rent excludes short-term lettings and licences.

3 In accordance with the Best Practices Recommendations of EPRA.

4 Certain leases contain clauses which guarantee future rental increases, whereas most leases contain five yearly, upwards only rent review clauses (UK) or indexation clauses (Continental Europe).

TABLE 5: EPRA VACANCY RATE

	2018 £m	2017 £m
Annualised potential rental value of vacant premises	**23.1**	16.0
Annualised potential rental value for the completed property portfolio	**441.3**	401.2
EPRA vacancy rate	**5.2%**	4.0%

TABLE 6: TOTAL COST RATIO/EPRA COST RATIO

	Notes	2018 £m	2017 £m
Costs			
Property operating expenses[1]	5	**50.1**	52.2
Administration expenses		**44.1**	39.7
Share of joint venture property operating and administration expenses[2]	6	**13.3**	11.8
Less:			
Joint venture property management fee income, management fees and other costs recovered through rents but not separately invoiced[3]		**(23.0)**	(19.1)
Total costs (A)		**84.5**	84.6
Gross rental income			
Gross rental income	4	**297.7**	272.9
Share of joint venture property gross rental income	6	**75.5**	73.7
Less:			
Management fees and other costs recovered through rents but not separately invoiced[3]		**(4.3)**	(2.3)
Total gross rental income (B)		**368.9**	344.3
Total cost ratio (A)/(B)		**22.9%**	24.6%
Total costs (A)		**84.5**	84.6
Share based payments		**(11.1)**	(10.0)
Total costs after share based payments (C)		**73.4**	74.6
Total cost ratio after share based payments (C)/(B)		**19.9%**	21.7%

EPRA cost ratio			
Total costs (A)		**84.5**	84.6
Pension buy-out costs	2	**51.8**	–
EPRA total costs including vacant property costs (D)		**136.3**	84.6
Group vacant property costs	5	**(5.1)**	(7.6)
Share of joint venture vacant property costs	6	**(0.9)**	(0.9)
EPRA total costs excluding vacant property costs (E)		**130.3**	76.1
Total gross rental income (B)		**368.9**	344.3
Total EPRA cost ratio (including vacant property costs) (D)/(B)		**36.9%**	24.6%
Total EPRA cost ratio (excluding vacant property costs) (E)/(B)		**35.3%**	22.1%

1 Property operating expenses are net of costs capitalised in accordance with IFRS of £4.6 million (2017: £4.2 million) (see Note 5 for further detail on the nature of costs capitalised).

2 Share of joint venture property operating and administration expenses after deducting costs related to performance and other fees.

3 Includes joint venture management fees income of £18.7 million (2017: £16.8 million) and management fees and other costs recovered through rents but not separately invoiced, including joint ventures, of £4.3 million (2017: £2.3 million). These items have been represented as an offset against costs rather than a component of income in accordance with EPRA BPR Guidelines as they are reimbursing the Group for costs incurred.

GLOSSARY OF TERMS

APP: Airport Property Partnership, formerly a 50-50 joint venture between SEGRO and Aviva Investors, which was dissolved in 2017 when SEGRO acquired Aviva's 50 per cent interest in the portfolio.

Completed portfolio: The completed investment properties and the Group's share of joint ventures' completed investment properties. Includes properties held throughout the period, completed developments and properties acquired during the period.

Development pipeline: The Group's current programme of developments authorised or in the course of construction at the Balance Sheet date (Current Pipeline), together with potential schemes not yet commenced on land owned or controlled by the Group (Future Pipeline).

EPRA: The European Public Real Estate Association, a real estate industry body, which has issued Best Practices Recommendations in order to provide consistency and transparency in real estate reporting across Europe.

Estimated cost to completion: Costs still to be expended on a development or redevelopment to practical completion, including attributable interest.

Estimated rental value (ERV): The estimated annual market rental value of lettable space as determined biannually by the Group's valuers. This will normally be different from the rent being paid.

Gearing: Net borrowings divided by total shareholders' equity excluding intangible assets and deferred tax provisions.

Gross rental income: Contracted rental income recognised in the period in the Income Statement, including surrender premiums. Lease incentives, initial costs and any contracted future rental increases are amortised on a straight-line basis over the lease term.

Headline rent: The annual rental income currently receivable on a property as at the Balance Sheet date (which may be more or less than the ERV) ignoring any rent-free period.

Hectares (Ha): The area of land measurement used in this analysis. The conversion factor used, where appropriate, is 1 hectare = 2.471 acres.

IFRS: International Financial Reporting Standards, the standards under which SEGRO reports its financial accounts.

Investment property: Completed land and buildings held for rental income return and/or capital appreciation.

Joint venture: An entity in which the Group holds an interest and which is jointly controlled by the Group and one or more partners under a contractual arrangement whereby decisions on financial and operating policies essential to the operation, performance and financial position of the venture require each partner's consent.

Loan to value (LTV): Net borrowings divided by the carrying value of total property assets (investment, owner occupied, trading properties and, if appropriate, assets held for sale on the balance sheet). This is reported on a 'look-through' basis (including joint ventures at share).

MSCI-IPD: MSCI Real Estate calculates the IPD indices of real estate performance around the world.

Net initial yield: Passing rent less non-recoverable property expenses such as empty rates, divided by the property valuation plus notional purchasers' costs. This is in accordance with EPRA's Best Practices Recommendations.

Net rental income: Gross rental income less ground rents paid, net service charge expenses and property operating expenses.

Net true equivalent yield: The internal rate of return from an investment property, based on the value of the property assuming the current passing rent reverts to ERV and assuming the property becomes fully occupied over time. It assumes that rent is received quarterly in advance.

Passing rent: The annual rental income currently receivable on a property as at the Balance Sheet date (which may be more or less than the ERV). Excludes rental income where a rent free period is in operation. Excludes service charge income (which is netted off against service charge expenses).

Pre-let: A lease signed with an occupier prior to commencing construction of a building.

REIT: A qualifying entity which has elected to be treated as a Real Estate Investment Trust for tax purposes. In the UK, such entities must be listed on a recognised stock exchange, must be predominantly engaged in property investment activities and must meet certain ongoing qualifications. SEGRO plc and its UK subsidiaries achieved REIT status with effect from 1 January 2007.

Rent-free period: An incentive provided usually at commencement of a lease during which a customer pays no rent. The amount of rent free is the difference between passing rent and headline rent.

Rent roll: See Passing Rent.

SELP: SEGRO European Logistics Partnership, a 50-50 joint venture between SEGRO and Public Sector Pension Investment Board (PSP Investments) established in 2013 to own big box warehouses in Continental Europe.

SIIC: Sociétés d'investissements Immobiliers Cotées are the French equivalent of UK Real Estate Investment Trusts (see REIT).

Speculative development: Where a development has commenced prior to a lease agreement being signed in relation to that development.

SPPICAV: Société de Placement à Prépondérance Immobilière à Capital Variable is a French equivalent of UK Real Estate Investment Trusts (see REIT).

Square metres (sq m): The area of buildings measurements used in this analysis. The conversion factor used, where appropriate, is one square metre = 10.7639 square feet.

Takeback: Rental income lost due to lease expiry, exercise of break option, surrender or insolvency.

Topped up net initial yield: Net initial yield adjusted to include notional rent in respect of let properties which are subject to a rent free period at the valuation date. This is in accordance with EPRA's Best Practices Recommendations.

Total property return (TPR): A measure of the ungeared return for the portfolio and is calculated as the change in capital value, less any capital expenditure incurred, plus net rental income, expressed as a percentage of capital employed over the period concerned, as calculated by MSCI Real Estate and excluding land.

Total shareholder return (TSR): A measure of return based upon share price movement over the period and assuming reinvestment of dividends.

Trading property: Property being developed for sale or one which is being held for sale after development is complete.

Yield on cost: The expected gross yield based on the estimated current market rental value (ERV) of the developments when fully let, divided by the book value of the developments at the earlier of commencement of the development or the balance sheet date plus future development costs and estimated finance costs to completion.

Yield on new money: The yield on cost excluding the book value of land if the land is owned by the Group in the reporting period prior to commencement of the development.