PRESS RELEASE

SEGRO

16 FEBRUARY 2018

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

SEGRO plc ('SEGRO' / 'Company' / 'Group') today announces its results for the year ended 31 December 2017.

- **SEGRO has delivered another strong set of financial, operating and portfolio performance metrics, and a record level of development completions, almost all of which have been leased.**
- **Adjusted pre-tax profit up 25.7 per cent** reflects our focus on customer and portfolio management (which delivered high customer retention rates, like-for-like rental growth and a low vacancy rate) and investment during the year (principally acquiring full ownership of the Airport Property Partnership portfolio and a record level of development capital expenditure).
- **Adjusted EPS up 5.9 per cent to 19.9 pence** (2016: 18.8 pence[1]), incorporating the new shares issued in the March Rights Issue. **IFRS EPS of 98.5 pence** (2016: 51.6 pence[1]), also includes the impact of the 13.6 per cent increase (2016: 4.8 per cent increase) in the value of our portfolio.
- **EPRA NAV per share up 16.3 per cent to 556 pence** (31 December 2016: 478 pence[1]).
- **Balance sheet significantly strengthened by the Rights Issue and debt refinancing activity.** We completed £2.7 billion of financing activity for SEGRO and SELP, reducing the average cost of debt to 2.1 per cent and improving the efficiency and strength of the balance sheet.
- **Future earnings prospects underpinned by 1.2 million sq m of development projects under construction or in advanced pre-let discussions, equivalent to almost one-fifth of our current portfolio.** The current development pipeline is capable of generating £43 million of rent, equating to a yield on cost of nearly 8 per cent, over half 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 future growth.
- **Final dividend increased by 6.1 per cent to 11.35 pence** (2016 final dividend: 10.7 pence[1]).

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

"SEGRO has delivered another strong set of results in 2017 with some of our best ever operating metrics, underpinned by record levels of development completions (almost all of which is pre-leased) our active investment and asset management, as well as further portfolio valuation growth.

"Occupier demand in early 2018 is strong across all our markets and supply of modern warehouse space remains constrained. The prospects for rental growth, particularly in the UK, remain good, and rental values are improving in our Continental Europe urban warehouse portfolio. Investor appetite for prime warehouses remains unsated, attracted by the occupational market fundamentals.

"The structural drivers of demand in our sector (urbanisation, growth of the digital economy and e-commerce) are likely to underpin occupier demand for some time to come and these, coupled with our modern, well-located assets, our current development pipeline and our land bank all offer significant opportunities for future growth."

FINANCIAL AND OPERATING HIGHLIGHTS[2]

Valuation gains across the portfolio reflect asset management and investor demand

- **Portfolio capital value growth of 13.6 per cent** (2016: 4.8 per cent) driven mainly by a 15.8 per cent increase in the like-for-like value of our UK portfolio (2016: 4.6 per cent) and 6.2 per cent in Continental Europe (2016: 0.6 per cent). The increase reflects the benefits of active management of our portfolio, yield compression and improving rental values, enhanced by gains from our development activity.
- **Rental values (ERVs) increased by 3.1 per cent**. Rental values in the UK increased by 3.9 per cent (2016: 4.7 per cent) and by 1.2 per cent in Continental Europe (2016: 0.3 per cent).

Strong development and asset management activity, supported by positive market conditions

- **19 per cent increase in new rent contracted in the period** to £53.5 million (2016: £44.9 million), of which £28.6 million (2016: £23.4 million) is from new development pre-let agreements and lettings of speculative space prior to completion.
- **2.6 per cent like-for-like net rental income growth** (5.1 per cent increase in the UK, 2.5 per cent decrease in Continental Europe) aided by a 9.5 per cent uplift on rent reviews and renewals, mainly from capturing reversionary potential accumulated in recent years in the UK portfolio.
- **Low vacancy rate of 4.0 per cent** (31 December 2016: 5.7 per cent) and customer retention increasing to 81 per cent (2016: 75 per cent) of rent at risk from expiry or customer break, reflecting our focus on customer service.

Capital allocation focused on accretive development programme and acquisitions to build scale in our target markets

- **Net investment of £592 million in 2017** including development capital expenditure of £414 million and the acquisition of 50 per cent of the £1.1 billion APP portfolio.
- **Total development capex for 2018 again expected to exceed £350 million.**
- **£43 million of potential rent from current development pipeline**, of which over half has been secured through pre-lets and lettings prior to completion.
- **Further 'near-term' pre-let projects** associated with £22 million of rent are at advanced stages of negotiation.

Balance sheet strengthened with £2.7 billion of new financing during the year

- **£573 million of (gross) proceeds from the Rights Issue in March** provided capital to acquire the APP portfolio and to pursue further development.
- **£2.1 billion of new debt for SEGRO and SELP** was signed during the year, repaying more costly, less flexible debt, significantly improving our capital structure, improving the average cost of debt to 2.1 per cent (2016: 3.4 per cent) and the average debt maturity to 10.8 years (2016: 6.2 years).
- **Look-through LTV ratio of 30 per cent** (31 December 2016: 33 per cent).

[1] Historic metrics for earnings per share, dividend per share and net asset value per share have been adjusted by a bonus adjustment factor of 1.046 to reflect the Rights Issue carried out in March 2017.

[2] 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[1]

Income statement metrics	2017	2016	Change per cent
Adjusted[2] profit before tax (£m)	194.2	154.5	25.7
IFRS profit before tax (£m)	976.3	426.4	–
Adjusted[3] earnings per share (pence)	19.9	18.8	5.9
IFRS earnings per share (pence)	98.5	51.6	–
Dividend per share (pence)	16.6	15.7	5.7

Balance sheet metrics	31 December 2017	31 December 2016	Change per cent
Portfolio valuation (SEGRO share, £m)	8,039	6,345	13.6[6]
EPRA[4 5] net asset value per share (pence, diluted)	556	478	16.3
IFRS net asset value per share (pence, diluted)	554	480	15.4
Group net borrowings (£m)	1,954	1,598	–
Loan to value ratio including joint ventures at share (per cent)	30	33	–

1 Per share figures have been adjusted by a bonus adjustment factor of 1.046 to reflect the Rights Issue in March 2017.

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

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

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

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

6 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.

WEBCAST / CONFERENCE CALL FOR INVESTORS AND ANALYSTS

A live webcast of the results presentation will be available from 09:00 (UK time) at:

https://edge.media-server.com/m6/p/okpi88oo

The webcast will be available for replay at SEGRO's website at: http://www.segro.com/investors by the close of business.

A conference call facility will be available at 09:00 (UK time) on the following number:

Dial-in:	+44 (0)330 336 9411
Access code:	6261992

An audio recording of the conference call will be available until 23 February 2018 on:

UK & International:	+44 (0) 20 7660 0134
Access code:	6261992

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 2017 Property Analysis Report and other information about SEGRO.

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FINANCIAL CALENDAR

2017 final dividend ex-div date	22 March 2018
2017 final dividend record date	23 March 2018
2017 final dividend scrip dividend price announced	29 March 2018
2017 final dividend payment date	3 May 2018
2018 First Quarter Trading Update	18 April 2018
Half Year 2018 Results	26 July 2018

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 6.7 million square metres of space (72 million square feet) valued at over £9 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 nine 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

2017 has been another year of delivery for SEGRO, culminating in strong financial results and a significantly improved capital structure. Our focus on Operational Excellence and Disciplined Capital Allocation has delivered some of our best ever operating metrics, a record volume of (almost fully leased) completed developments, greater scale in our target markets and a 16 per cent increase our EPRA NAV. Our modern, well-located assets, our current development pipeline and our land bank all offer significant opportunities for future growth. Our main achievements in 2017 include:

- The acquisition of £702 million of buildings and development land (primarily taking full ownership of the Airport Property Partnership (APP) portfolio) in locations with strong occupier demand, and disposal of £525 million of buildings and land to release funds for further growth;
- Continued active management of our existing properties to ensure customers want to stay with us for longer, achieving high customer satisfaction results;
- Completion of the largest volume of developments in any year of the Company's history, building 654,900 sq m of properties to high environmental standards, almost all of which have now been leased;
- Contracting £53.5 million of new rent, 19 per cent more than last year; and
- Raised £573 million of new equity and raised or refinanced £2.1 billion of debt to ensure that our balance sheet is in a strong position to take advantage of future opportunities.

Our results reflect this activity: adjusted profit before tax is up 25.7 per cent to £194.2 million (IFRS: £976.3 million, up 129 per cent) and adjusted earnings per share are up 5.9 per cent to 19.9 pence (IFRS: 98.5 pence, up 91 per cent). Our EPRA NAV per share is up 16.3 per cent to 556 pence (IFRS: 554 pence, up 15 per cent), driven substantially by a 13.6 per cent increase in our portfolio value, which now totals £8.0 billion (reflecting our share of £9.3 billion of assets under management).

We have also taken significant steps to improve our capital structure, reducing our average cost of debt to 2.1 per cent (31 December 2016: 3.4 per cent) and extending the duration of our debt to 10.8 years (31 December 2016: 6.2 years). SEGRO remains conservatively funded with a loan-to-value ratio of 30 per cent.

The combination of a strong set of financial results in 2017 and our optimistic outlook for 2018 and beyond means that we are recommending a final dividend of 11.35 pence, an increase of 6.1 per cent.

Supportive market environment

The economic environment across our markets has remained supportive, with a particular improvement in sentiment in France and more generally across Continental Europe. In tandem, e-commerce continues to take a greater share of retail sales across all of our markets.

The combination of these factors has resulted in robust levels of occupier demand for well-located, high quality warehouse space from retailers, third party logistics operators and parcel delivery companies, among others. At the same time, supply of new warehousing remains stable and is particularly constrained in our urban markets where competition from higher value uses (such as residential) is a significant barrier to entry for industrial developers without land on which to build. This favourable demand-supply balance has translated into strong demand for our developments, both pre-lets and those built speculatively, as well as rental value (ERV) growth in a number of our markets, most apparent in the UK, but also in urban warehouses in France and Germany.

The positive occupier market conditions and low interest rates across Europe have continued to drive investor interest: according to data from CBRE, industrial investment volumes across Europe increased by 67 per cent, significantly influenced by two large, pan-European warehouse portfolios which were sold during the year to global investors. Industrial asset values have also improved further, reflected in yields which are around 30 to 40 basis points lower than a year ago.

High quality, sustainable portfolio

Our unique portfolio of big box and urban warehouses in key European transport hubs and population centres has allowed us to make the most of economic growth across Europe and, in particular, to capitalise on the changing nature of retailing towards e-commerce and consumer convenience. The portfolio is well let, with a vacancy rate of 4.0 per cent and a weighted average lease term of 7.4 years, both improving from a year ago. These operating metrics are reflected in the findings of our annual customer satisfaction survey in which 87 per cent of our customers rated SEGRO as “Good” or ”Excellent”.

The portfolio was strengthened by the acquisition of the outstanding 50 per cent interest in the APP portfolio which gives us full ownership of this irreplaceable collection of properties with enviable access to London’s major airports, particularly Heathrow. In addition, our development pipeline delivered 654,900 sq m of warehousing for a wide variety of customers across our major markets, in all cases adhering to our exacting sustainability standards and helping us meet our SEGRO 2020 environmental targets.

Our talented people

SEGRO’s culture and working environment are critical to ensuring that we attract and retain the most talented people. In 2015, we drew on the experience and opinions of all of our people to establish our Purpose and Values, and these are at the heart of how we work together and with all our stakeholders.

Over 300 people are employed at SEGRO in 11 offices across Europe and we work hard to ensure that they are able to meet, mix and share ideas with each other. We encourage short- and longer-term secondments between offices and countries, and we have invested in a new social media-style intranet site to enhance internal communication and discussion. We are also passionate about enabling our people to achieve career and personal ambitions through investment in training courses, flexible working conditions and time off to pursue charitable activities.

The success of SEGRO is a reflection of the hard work and the talent of our people and I am grateful to all of them for the part they have played in making 2017 such an outstanding year.

Entering 2018 with confidence

Occupier demand in early 2018 is strong across all our markets and there is no evidence of any imminent over-supply of modern warehouse space. The prospects for rental growth, particularly in the UK, remain good, and rental values in our urban warehouse portfolio in Continental Europe are also increasing. The structural drivers of demand in our sector (urbanisation, growth of the digital economy and e-commerce) are likely to underpin occupier demand for some time to come.

Investor demand for prime warehouses also remains healthy, attracted by the favourable occupational market fundamentals and the relatively attractive yields in a low interest rate environment. The outlook for capital growth is difficult to assess, as we have little control over the multitude of drivers, particularly macroeconomic and political. However, we are confident that our high quality portfolio and our focus on asset management will enable us to outperform the wider market.

The work we have undertaken in recent years to improve the quality and focus of our portfolio and strengthen our balance sheet means that we are well placed both to take advantage of the opportunities and to overcome the challenges that the future may bring.

Our portfolio is in a strong position, we are well capitalised, and we enter 2018 with confidence. We continue to see opportunities to grow our business through further disciplined investment, active management of our portfolio and a prudent approach to financing. Our warehouses are occupied by a diverse range of customers and businesses and we will continue to respond to their needs, creating the space that enables extraordinary things to happen.

A STRATEGY TO GENERATE ATTRACTIVE, SUSTAINABLE RETURNS

Our goal is to be the best owner-manager and developer of warehouse properties in Europe and a leading income-focused REIT.

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:** Picking the right markets and assets to create the right portfolio shape by actively managing the portfolio composition and adapting our capital deployment according to our assessment of the property cycle.
- **Operational Excellence:** Optimising performance from the portfolio through dedicated customer service, expert asset management, development and operational efficiency.
- **Efficient Capital and Corporate Structure:** We aim to underpin the property level returns from our portfolio with a lean overhead structure and appropriate financial leverage through the cycle.

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, or can achieve, critical mass.

DISCIPLINED CAPITAL ALLOCATION — ACQUISITION ACTIVITY

We invested a net £591 million in our portfolio during the year, combining acquisitions of £702 million of land and assets and development investment of £414 million, funded in part by £525 million of disposals.

Acquisitions focused on building scale in core markets

Our largest acquisition was the transaction in which we acquired full ownership of the £1.1 billion APP property portfolio through the purchase of a 50 per cent interest from our joint venture partner, Aviva Investors. Having full ownership of this unique portfolio allows us to plan with greater certainty and flexibility.

The portfolio, which was acquired at a price in line with book value at 31 December 2016, increased in value by 11 per cent on a like-for-like basis during 2017.

There is significant potential for near- and long-term development within the portfolio. In particular, redevelopment of the Heathrow Cargo Centre remains an important source of development-led growth in future but we are unlikely to commence this until there is greater clarity over expansion of the airport. In the meantime, cargo volumes passing through the airport have surged by 10 per cent in 2017, demonstrating the strength of demand for cargo space and the urgent need for greater capacity.

We also acquired two big box assets (one in the UK Midlands, and the other in Lyon which was acquired through our SELP joint venture) both in exchange for assets in locations not core to our future strategy. These acquisitions have increased our scale in two important logistics markets and improved the focus and quality of our portfolio.

The consideration for the asset acquisitions (£610 million) reflected a blended topped-up initial yield of 4.2 per cent.

Acquisitions completed in 2017

Asset type	Purchase price[1] (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	59.2	5.3	5.3
Urban warehousing	550.9	3.6	4.1
Land[3]	92.3	n/a	n/a
Total acquisitions completed in 2017	**702.4**	**3.7[2]**	**4.2[2]**

1 Excluding acquisition costs.

2 Yield excludes land transactions.

3 Land acquisitions are discussed in Future Development Pipeline.

Acquisitions: what to expect in 2018

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 2017, we sold £525 million of assets and land, including £150 million as part consideration for the acquisition of the APP portfolio, and a portfolio of Continental European big box warehouses and land sold to SELP for which we received £30 million net proceeds from an effective sale of a 50 per cent interest. Additionally, we disposed of £92 million of land, primarily comprising a site in West London sold to a residential developer, taking advantage of the demand for residential space in an area well serviced by public transport but on a site which was unsuitable for modern industrial development.

The balance of the disposals mainly comprised seven estates in disparate locations in Germany, a retail-focused asset in Paris and a large multi-let industrial estate in Basingstoke, approximately 45 miles southwest of London. We also took the opportunity to dispose of a big box warehouse in the Midlands which was located outside our target market.

We also undertook the first disposals from the SELP joint venture, selling four big box warehouse estates for €59 million, releasing funds for future investment.

These disposals, in partnership with the acquisitions, further improve the management intensity and risk profile of our portfolio, while crystallising a cumulative gain on sale of 3 per cent compared to book values at 31 December 2016.

Disposals completed in 2017

Asset type	Disposal proceeds (£m, SEGRO share)	Net initial yield (%)	Topped-up net initial yield (%)
Big box logistics	87.3	7.0	7.1
Light industrial	296.5	5.5	6.0
Higher value use buildings	49.3	5.3	5.3
Land	91.8	n/a	n/a
Total disposals completed in 2017	**524.9**	**5.8[1]**	**6.1[1]**

1 Yield excludes land transactions.

Disposals: what to expect in 2018

While investor demand for industrial properties remains strong, we will 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, accelerating in the second half, in part reflecting the sale of two large, pan-European portfolios. As a result, investment volumes across Europe, but particularly in the UK, increased sharply from the record high achieved in 2016. Investor appetite for assets in Continental Europe has been helped by the improvement in economic sentiment, the emergence of rental growth and attractive yields compared to low interest rates.

The Group's property portfolio was valued at £8.0 billion at 31 December 2017 (£9.3 billion of assets under management). The portfolio valuation, including completed assets, land and buildings under construction, increased by 13.6 per cent on a like-for-like basis (adjusting for capital expenditure and asset recycling during the year) compared to 4.8 per cent in 2016.

This primarily comprises a 13.2 per cent increase in the assets held throughout the year (2016: 3.4 per cent), driven by around 40 basis points of yield compression (after adjusting for the APP portfolio acquisition) and a 3.1 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 18.9 per cent (2016: 9.3 per cent).

Assets held throughout the year in the UK increased in value by 15.8 per cent (2016: 4.6 per cent), outperforming the MSCI-IPD UK Industrial quarterly index which increased by 13.9 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 5.0 per cent (31 December 2016: 5.6 per cent), while rental values improved by 3.9 per cent (2016: 4.7 per cent).

Assets held throughout the year in Continental Europe increased in value by 6.2 per cent (2016: 0.6 per cent) on a constant currency basis, reflecting a combination of yield compression to 6.0 per cent (31 December 2016: 6.6 per cent) and rental value growth of 1.2 per cent (2016: 0.3 per cent). We continue to experience little market rental value growth in our big box portfolio in Continental Europe (0.6 per cent) but rents are responding to improving demand and a lack of quality supply for our wholly-owned, urban warehouse assets where ERVs increased by 2.1 per cent.

More details of our property portfolio can be found in the 2017 Property Analysis Report available at www.segro.com/investors.

Valuations: what to expect in 2018

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.

Nevertheless, the prospects for our portfolio of big box and urban warehouses remain good, supported by structural drivers of demand and disciplined supply, and prime yields continue to appear attractive compared to government (risk-free) bond yields, enhanced by ongoing rental growth. 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 2017[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	1,061,790	3,022.5	205.1	3,227.6	3,227.6	17.6	3.9	4.8	4.2
Thames Valley and National Logistics	1,032,194	2,036.2	246.5	2,282.7	2,288.2	13.2	4.7	5.2	5.2
UK Total	**2,093,984**	**5,058.7**	**451.6**	**5,510.3**	**5,515.8**	**15.8**	**4.2**	**5.0**	**4.6**
Continental Europe									
Germany/Austria	1,215,201	651.4	145.8	797.2	1,220.0	7.4	5.5	5.4	1.5
Belgium/Netherlands	282,571	109.2	21.6	130.8	226.6	2.5	6.1	6.4	8.7
France	1,040,401	558.0	108.4	666.4	947.0	10.3	6.1	6.1	2.0
Italy/Spain	668,762	332.4	110.8	443.2	542.5	3.4	6.0	5.9	0.9
Poland	1,226,878	401.0	26.4	427.4	751.4	1.4	7.0	6.9	4.7
Czech Republic/Hungary	139,668	49.7	13.7	63.4	119.9	8.2	6.2	6.4	5.5
Continental Europe Total	**4,573,481**	**2,101.7**	**426.7**	**2,528.4**	**3,807.4**	**6.2**	**6.1**	**6.0**	**2.8**
GROUP TOTAL	**6,667,465**	**7,160.4**	**878.3**	**8,038.7**	**9,323.2**	**13.2**	**4.8**	**5.3**	**4.0**

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 2017 is 4.5 per cent.

OPERATIONAL EXCELLENCE – ACTIVE ASSET MANAGEMENT

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

Urban warehouses account for 55 per cent of our portfolio value. They are located mainly on the edges of 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, in Slough, from data centre users.

Big box warehouses, classed as those over 10,000 sq m in size, account for 41 per cent of our portfolio value. These 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, Leipzig and Hamburg) and Poland (Warsaw, Łódz and Poznań, and the industrial region of Silesia).

We have continued to see strong occupier demand for warehouses across our markets, reflected in the 19 per cent increase in contracted rent compared to 2016. Our vacancy rate remains low, and significant lettings in our London portfolio mean that overall lettings of existing space have increased compared to last year. In addition, we have captured reversionary potential from our UK portfolio and from indexation provisions in our Continental European leases.

Data on the logistics markets in the UK (from JLL) and France (from CBRE) implies that available space continues to equate to less than one year of take-up. This supply-demand tension has manifested itself in our own experience through increased rent from pre-let agreements signed during the year as occupiers seek to secure new space in supply-constrained markets. Take-up levels across our markets were broadly in line with, or ahead of, the long-term average.

Speculative development of big box warehouses remains disciplined and, indeed, lower in the UK than in 2016 reflecting perhaps heightened levels of economic and political uncertainty. We continue to see no evidence of over-supply of space in any of our markets.

Growing rental income from letting existing space and new developments

At 31 December 2017, our portfolio generated passing rent of £324 million, rising to £358 million once rent free periods expire ("headline rent"). During the year, we contracted £53.5 million of new headline rent, 19 per cent higher than in 2016 (£44.9 million) and a 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 32 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 around 60 per cent of our take-up during the year, including Amazon which occupied almost 250,000 sq m of the Company's space in the UK, Germany, Spain and Italy in both big box and urban warehouses.

Manufacturing companies are also increasingly important occupiers of our warehouse space, accounting for 18 per cent of our headline rent. They comprised 10 per cent of take-up during the year and included a number of companies associated with the automotive sector such as Jaguar Land Rover, Dräxlmaier and Plastic Omnium, which manufactures auto exteriors.

Summary of key leasing data for 2017[1]

Summary of key leasing data for the year to 31 December[1]		**2017**	**2016**
Take-up of existing space[2] (A)	£m	13.9	14.2
Space returned[3] (B)	£m	(8.7)	(14.1)
NET ABSORPTION OF EXISTING SPACE (A-B)	**£m**	**5.2**	**0.1**
Other rental movements (rent reviews, renewals, indexation)[2] (C)	£m	4.9	1.9
RENT ROLL GROWTH FROM EXISTING SPACE	**£m**	**10.1**	**2.0**
Take-up of developments completed in the period – pre-let space[2] (D)	£m	22.7	19.0
Take-up of speculative developments completed in the past two years[2] (D)	£m	7.9	8.1
TOTAL TAKE UP[2] (A+C+D)	**£m**	**49.4**	**43.2**
Less take-up of pre-lets and speculative lettings signed in prior periods[2]	£m	(24.5)	(21.7)
Pre-lets and lettings on speculative developments signed in the period for future delivery[2]	£m	28.6	23.4
RENTAL INCOME CONTRACTED IN THE PERIOD[2]	**£m**	**53.5**	**44.9**
Take-back of space for redevelopment	£m	(3.3)	(1.1)
Retention rate[4]	%	81	75

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.

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 9.5 per cent (2016: 5.4 per cent) for the portfolio as a whole compared to previous headline rent. During the year, new rents agreed at review and renewal were 12.9 per cent higher in the UK (2016: 6.4 per cent) as reversion accumulated over the past five years was reflected in new rents agreed, adding £3.5 million of headline rent. In Continental Europe, rents agreed on renewal were 0.9 per cent lower than previous headline rents (2016: 0.1 per cent lower), equating to a less than £0.1 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 2017, 87 per cent of the 293 customers participating in the surveys rated their experience as a SEGRO customer as “good” or “excellent”, up from 79 per cent in 2016.
- **Vacancy remains low at 4.0 per cent.** The vacancy at 31 December 2017 was 4.0 per cent, an improvement from 5.7 per cent at the end of 2016. Approximately 0.6 percentage points relates to recently completed speculative developments. The vacancy rate is at the lower end of our expected range of between 4 and 6 per cent. Treating short term lettings as vacancy would only increase the vacancy rate to 4.5 per cent (31 December 2016: 6.3 per cent). The average vacancy rate during the period was 5.0 per cent, broadly in line with 2016 (5.2 per cent).
- **High retention rate of 81 per cent**. During the period, space equating to £8.7 million (2016: £14.1 million) of rent was returned to us, including £1.3 million of rent lost due to insolvency (2016: £1.4 million). We took back space equating to an additional £3.3 million for redevelopment, and this is almost exclusively related to a well-located site near Heathrow Airport following DHL’s relocation to its new SEGRO facility at Poyle. Approximately £26 million of headline rent was at risk from a break or lease expiry during the period of which we retained 75 per cent in existing space, with a further 6 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 6.8 per cent of the headline rent (2016: 7.3 per cent). The portfolio’s weighted average lease length increased to 7.4 years to first break and 8.9 years to expiry (31 December 2016: 7.1 years to first break, 8.7 years to expiry). Lease terms are longer in the UK (8.4 years to break) than in Continental Europe (5.7 years to break).
- **£10 million of net new rent from existing assets.** The combination of these strong metrics enabled us to generate £13.9 million of headline rent from new leases on existing assets (2016: £14.2 million) and £4.9 million from rent reviews, lease renewals and indexation (2016: £1.9 million). This is a function of the strong demand we are experiencing for our assets and is reflected in take back of space from lease expiries and breaks which totalled £8.7 million of headline rent, £5.4 million lower than in 2016 (£14.1 million).
- **£29 million of rent contracted from pre-let agreements (2016: £23 million)**. In addition to increased rents from existing assets, we contracted £28.6 million of headline rent from pre-let agreements and lettings of speculative developments prior to completion (2016: £23.4 million), of which £6 million was from supermarkets including Carrefour in France and £9 million from retailers, including Italian fashion retailer Yoox Net-a-Porter and Amazon.
- **Rent roll growth increased to £41.5 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 £41.5 million in 2017, from £29.7 million in 2016.

Asset Management: what to expect in 2018

Occupier demand remains strong so we expect to retain a low vacancy rate and that rent roll growth will remain positive. £38 million of headline rent is at risk of break or expiry in 2018 and we expect customer retention to remain high, albeit possibly not at the unusually high level of 2017.

OPERATIONAL EXCELLENCE — DEVELOPMENT ACTIVITY

The new equity provided through the 2016 Equity Placing and the 2017 Rights Issue has enabled us to accelerate the investment in our development pipeline. During 2017, we invested £414 million (2016: £302 million) in new developments, of which £45 million was for infrastructure, and a further £92 million in our land bank to expand our development capacity in a record year for development completions.

Many of the projects completed and in our current development pipeline are those identified at the time of the equity raises.

- At the time of the equity placing in September 2016, we identified projects under development or awaiting approval associated with £456 million of capital expenditure, 95 per cent of which have either completed or are in the current development pipeline.
- At the time of the Rights Issue in March 2017, we identified projects under development or awaiting approval requiring £165 million of capital expenditure, 70 per cent of which have either completed or are in the current development pipeline.
- A further £175 million of proceeds of the Rights Issue were allocated to future development on our land bank. In particular, we have committed to a phased development of SEGRO Logistics Park East Midlands Gateway, a 600,000 sq m logistics park adjacent to East Midlands Airport where, early in 2018, we secured our first pre-let for a 120,000 sq m warehouse. Please refer to the Finance Review for further details of the Rights Issue.

Development projects completed

We completed 654,900 sq m of new space during the period, a record level for SEGRO. These projects were 83 per cent pre-let prior to the start of construction and were 93 per cent let as at 31 December 2017, generating £24.9 million of headline rent, with a potential further £1.9 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 8.3 per cent when fully let.

Amongst the projects completed in the year were 576,300 sq m of big box warehouse space, which has been entirely let and 74,600 sq m of speculative urban warehouses, primarily in Continental Europe, two-thirds of which have been let.

Current development pipeline

At 31 December 2017, we had development projects approved, contracted or under construction totalling 693,850 sq m, representing £266 million of future capital expenditure and £43.3 million of annualised gross rental income when fully let. These projects are 50 per cent pre-let (rising to 58 per cent, adjusted for lettings secured in early 2018) and should yield 7.6 per cent on total development cost when fully occupied.

- In the UK, we have 79,200 sq m of space approved or under construction, including two sites in East London, one of which has been pre-let to DPD. We are also continuing our rejuvenation of the Slough Trading Estate with 26,100 sq m of new space, including two new data centres and a Premier Inn hotel.
- In Continental Europe, we have 614,600 sq m of space approved or under construction. This includes a 62,700 sq m two-storey urban warehouse in Paris: we secured a pre-let for 20 per cent of the space prior to construction and, early in 2018, we secured a letting for the whole of the remaining building.

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 Berlin, Frankfurt and Cologne.

Within our Continental European development programme, approximately £9.5 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 2017, SEGRO sold £39 million of completed assets to SELP, representing a net disposal of £19.5 million.

Further details of our completed projects and current development pipeline are available in the 2017 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 500,000 sq m of space, equating to approximately £236 million of additional capital expenditure and £22 million of additional rent.

Land bank

Our land bank identified for future development totalled 587 hectares at 31 December 2017, equating to £401 million, or around 5 per cent of our total portfolio. We invested £92 million in acquiring new land during the year, including land sourced from the Roxhill and East Plus agreements and land associated with developments expected to start in the short term.

We estimate that our land bank, including the near-term projects above, can support 2.7 million sq m of development over the next five years. The prospective capital expenditure associated with the future pipeline is £1.2 billion. It could generate £125 million of gross rental income, representing a yield on total development cost (including land and notional finance costs) of 7.8 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.

Land with a total value of £95 million has been identified as suited to alternative use or surplus to our short term requirements, a reduction from £125 million at 31 December 2016, following the sale of the former Northfields industrial estate in Park Royal to a residential developer. The largest single component is a brownfield site in Hayes, West London, which was formerly a Nestlé factory. We have received conditional planning consent for the site and, on receipt of final permission, we will sell the land zoned for residential use to our partner, Barratt London, and will develop the warehouse element ourselves.

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 over 1.1 million sq m of space and generating £60 million of headline rent for a blended yield of between 7 and 8 per cent.

Development: What to expect in 2018

Occupier demand remains strong so we expect to continue the pace of development, investing in excess of £350 million during the year, with a further £50 million associated with infrastructure expenditure.

FINANCE REVIEW: EFFICIENT CAPITAL STRUCTURE, STRONG OPERATING RESULT

Financial highlights

	31 December 2017	31 December 2016
IFRS[1 3] net asset value (NAV) per share (p)	554	480
EPRA[1 3] NAV per share (diluted) (p)	556	478
IFRS profit before tax (£m)	976.3	426.4
Adjusted[2] profit before tax (£m)	194.2	154.5
IFRS earnings per share (EPS) (p)[3]	98.5	51.6
Adjusted[2 3] EPS (p)	19.9	18.8

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.

3 The comparatives in pence per share have been re-presented to reflect the impact of the rights issue in March 2017 by applying a bonus adjustment factor of 1.046 as detailed 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. No such adjustments have been made in the current or 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

	2017 £m	2016 £m
Gross rental income	**272.9**	225.5
Property operating expenses	**(52.2)**	(44.9)
Net rental income	**220.7**	180.6
Joint venture management fee income	**24.3**	18.6
Administration expenses	**(39.7)**	(31.4)
Share of joint ventures' Adjusted profit after tax	**47.6**	55.4
Adjusted operating profit before interest and tax	**252.9**	223.2
Net finance costs	**(58.7)**	(68.7)
Adjusted profit before tax	**194.2**	154.5
Tax on Adjusted profit	**(1.2)**	(1.8)
Non-controlling interests share of Adjusted profit	**(0.2)**	(0.1)
Adjusted profit after tax	**192.8**	152.6

Adjusted profit before tax increased by 25.7 per cent to £194.2 million (2016: £154.5 million) during 2017 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 £40.1 million to £220.7 million, reflecting the positive net impact of investment activity in particular the acquisition of the APP portfolio in March 2017 and development completions during the period, offset by the impact of disposals.

Like-for-like net rental income	2017 £m	2016 £m	Change %
UK	**154.9**	147.4	5.1
Continental Europe	**68.9**	70.7	(2.5)
Like-for-like net rental income	**223.8**	218.1	2.6
Other[1]	**(4.8)**	(3.6)	
Like-for-like net rental income (after other)	**219.0**	214.5	2.1
Development lettings	**27.1**	6.7	
Properties taken back for development	**0.2**	1.7	
Like-for-like net rental income plus developments	**246.3**	222.9	
Properties acquired	**22.6**	2.7	
Properties sold	**13.9**	32.7	
Net rental income before surrenders, dilapidations and exchange	**282.8**	258.3	
Lease surrender premiums and dilapidations income	**1.8**	1.8	
Other items and rent lost from lease surrenders	**5.9**	5.5	
Impact of exchange rate difference between periods	**–**	(6.2)	
Net rental income including joint venture fees	**290.5**	259.4	
Share of joint venture fees	**(11.3)**	(8.7)	
Net rental after share of joint venture fees	**279.2**	250.7	

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 £5.7 million, or 2.6 per cent, compared to 2016. This is mainly due to strong rental performance in our UK portfolio particularly in Greater London more than offsetting a modest fall in Continental Europe.

Income from joint ventures

Joint venture management fee income increased by £5.7 million to £24.3 million. The increase was mainly due to the higher performance fees from the APP joint venture which crystallised on acquisition.

SEGRO's share of joint ventures' Adjusted profit after tax decreased by £7.8 million from £55.4 million in 2016 to £47.6 million in 2017, reflecting the acquisition of the remaining 50 per cent of the APP property portfolio in March 2017. After this date all the rental income from APP was recognised within gross rental income, rather than within Share of Joint Ventures' Adjusted profit.

The Group's largest remaining joint venture, SELP, contributed £49.5 million (at share), an increase of £8.4 million compared to last year following growth through acquisitions and development completions.

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 2017 has increased to 24.6 per cent from 23 per cent for 2016, above our 20 per cent target. The calculation is set out in Table 6 of the Supplementary Notes to the condensed financial information.

While gross rental income (the denominator) has increased by £37.3 million, total costs have increased by £14.1 million. This is due mainly to increased staff costs, particularly share based payments which have increased due to the outperformance of our property portfolio compared to the market.

Excluding share based payments, the cost ratio would be 21.7 per cent, a moderate increase from 21.0 per cent in 2016.

Net finance costs

Net finance costs (including adjustments) decreased by £10.0 million in 2017 to £58.7 million primarily as a result of the debt refinancing undertaken in the year and reduction in drawn debt as a result of proceeds from the Rights Issue, as detailed further on page 21.

Taxation

The tax charge on Adjusted profit of £1.2 million (2016: £1.8 million) reflects an effective tax rate of 0.6 per cent (2016: 1.2 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 19.9 pence compared to 18.8 pence in 2016 which has been restated from 19.7 pence following adjustment due to the Rights Issue during the year as detailed further in Note 11. This reflects a £40.2 million improvement in Adjusted profit after tax and non-controlling interests, and an increased average number of shares as a result of the Rights Issue in March 2017, the equity placing in September 2016 and the take-up of the scrip dividend option offered with the 2016 final and 2017 interim dividends.

IFRS PROFIT

IFRS profit before tax in 2017 was £976.3 million (2016: £426.4 million), equating to basic post-tax IFRS earnings per share of 98.5 pence compared with 51.6 pence for 2016 (restated from 53.9 pence following the Rights Issue - see Note 11), 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 £889.0 million in 2017 (2016: £246.0 million) have been recognised in the Income Statement as the value of our portfolio increased during the year. These comprised an unrealised valuation surplus on invested properties of £872.4 million (2016: £231.3 million) and a profit of £16.6 million on asset disposals (2016: £16.7 million). There was no provision against trading properties in the year (2016: £2.0 million loss).

SEGRO's share of realised and unrealised gains on properties held in joint ventures was £77.7 million (2016: £42.8 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 £145.3 million. IFRS earnings were also impacted by a net fair value loss on interest rate swaps and other derivatives of £21.5 million (2016: £2.6 million) and a tax charge of £20.0 million (2016: £7.7 million) of which £18.8 million (2016: £5.9 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 2016	**4,162.1**	**871.5[1]**	**478**
Realised and unrealised property gain	966.7		
Adjusted profit after tax	192.8		
Dividend net of scrip shares issued (2016 final)	(118.1)		
Net proceeds from the rights issue	556.5		
Exchange rate movement (net of hedging)	21.0		
Debt refinancing	(145.3)		
Other	(28.0)		
EPRA net assets attributable to ordinary shareholders at 31 December 2017	**5,607.7**	**1,007.7**	**556**

1 Re-presented for a bonus adjustment factor of 1.046.

At 31 December 2017, IFRS net assets attributable to ordinary shareholders were £5,585.4 million (31 December 2016: £4,182.1 million), reflecting 554 pence per share (31 December 2016: 480 pence restated from 502 pence following the Rights Issue see Note 11) on a diluted basis.

EPRA NAV per share at 31 December 2017 was 556 pence (31 December 2016: 478 pence, restated from 500 pence following the Rights Issue), the 16 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, before financing activity (in respect of closing out debt and interest rate swaps), was £132.2 million in 2017, an increase of £31.0 million from 2016. This was mainly due to the impact from increased Adjusted profit in the year. In addition financing activity, being the cost of early close out of debt (£140.4 million outflow), as detailed further in the debt refinancing section above, and associated derivative transactions (£50.9 million outflow and £34.8 million inflow) totalling £156.5 million, gives a total operating outflow for the year of £24.3 million.

The Group made net divestments of £333.3 million of investment and development properties (including options and loans to joint ventures) during the year on a cash flow basis (2016: £84.2 million investment). This includes cash from disposals of £317.2 million (2016: £614.0 million), the decrease primarily due to the disposal of the Bath Road office portfolio in 2016. The Group spent £457.9 million (2016: £429.7 million) to purchase and develop investment properties, and it divested £28.4 million in joint ventures (2016: £63.4 million investment).

Other significant cash flows include an inflow of £557.2 million net proceeds from the issue of ordinary shares, of which £556.5 million relates to net proceeds from the Rights Issue. The 2016 comparative of £318.4 million includes the inflow from the equity placing in September 2016. Furthermore the Group paid dividends of £118.1 million (2016: £89.0 million) where cash flows are lower than the total dividend due to the level of scrip uptake. The settlement of foreign exchange derivatives has led to a net outflow of £63.4 million (2016: £168.4 million) as the euro has strengthened in the year, but to a lesser extent than in the prior year.

Overall, net debt has increased in the year from £1,598.4 million to £1,954.2 million.

Cash flow and net debt reconciliation

	2017 £m	2016 £m
Opening net debt	**(1,598.4)**	(1,806.5)
Cash flow from operations	**189.9**	156.7
Finance costs (net)	**(79.4)**	(71.1)
Dividends received (net)	**26.6**	26.5
Tax paid	**(4.9)**	(10.9)
Free cash flow	**132.2**	101.2
Dividends paid	**(118.1)**	(89.0)
Acquisitions and development of investment properties	**(457.9)**	(429.7)
Investment property sales	**317.2**	614.0
Acquisition of interests in property	**(3.8)**	(36.7)
Net divestment/(investment) in joint ventures	**28.4**	(63.4)
Acquisition of APP	**(217.2)**	–
Debt and IRS close out costs	**(156.5)**	–
Net settlement of foreign exchange derivatives	**(63.4)**	(168.4)
Proceeds from issue of ordinary shares	**557.2**	318.4
Other items	**4.9**	(5.8)
Net funds flow	**23.0**	240.6
Non-cash movements	**(7.5)**	(3.9)
Exchange rate movements	**19.1**	(28.6)
Acquisition of APP	**(390.4)**	–
Closing net debt	**(1,954.2)**	(1,598.4)

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 £1,754.2 million, an increase of £1,044.7 million compared to 2016, which includes higher development expenditure and the acquisition of the APP portfolio as detailed in Note 6. More detail on acquisitions can be found in the Disciplined Capital Allocation section on page 7.

Development capital expenditure increased by £112.5 million to £414.1 million, reflecting our stated intention to increase the level of investment in developments, both speculative and pre-let, to take advantage of strong occupier demand for modern space in our markets. Development spend incorporates interest capitalised of £7.4 million (2016: £5.8 million) including joint ventures at share.

Spend on existing completed properties totalled £24.3 million (2016: £22.0 million), of which £15.0 million (2016: £13.0 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 5 per cent of Adjusted profit before tax and 1 per cent of total spend.

EPRA capital expenditure analysis

	2017			2016		
	Wholly owned £m	**Joint ventures £m**	**Total £m**	Wholly owned £m	Joint ventures £m	Total £m
Acquisitions	**1,212.2[1]**	**82.2**	**1,294.4**	254.2[1]	105.1	359.3
Development[4]	**368.3[2]**	**45.8**	**414.1**	265.4[2]	36.2	301.6
Completed properties[4]	**19.7[3]**	**4.6**	**24.3**	17.4[3]	4.6	22.0
Other[5]	**16.7**	**4.7**	**21.4**	19.8	6.8	26.6
Total	**1,616.9**	**137.3**	**1,754.2**	556.8	152.7	709.5

1 Being £1,212.2 million investment property (including £1,112.6 million in respect of the APP property portfolio) and £nil trading property (2016: £254.2 million and £nil million respectively) see Note 12.

2 Being £367.8 million investment property and £0.5 million trading property (2016: £261.6 million and £3.8 million respectively) see Note 12.

3 Being £19.7 million investment property and £nil trading property (2016: £17.2 million and £0.4 million respectively) see Note 12.

4 Includes wholly owned capitalised interest of £6.6 million (2016: £5.0 million) as further analysed in Note 8 and share of joint venture capitalised interest of £0.8 million (2016: £0.8 million).

5 Tenant incentives, letting fees and rental guarantees.

TREASURY POLICIES AND GOVERNANCE

The Group Treasury function operates within a formal treasury 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.

FINANCIAL POSITION AND FUNDING

During the year, we have significantly restructured SEGRO's capital position. The cost and efficiency of our borrowings have both been improved through refinancing secured and expensive legacy debt, and our capital structure has been strengthened through raising £573 million of new equity in the March Rights Issue. Both have also given us extensive capacity to invest in development and acquisition opportunities without over-leveraging the balance sheet.

Financial Key Performance Indicators

	2017		2016	
	SEGRO Group	**SEGRO Group and JVs at share**	SEGRO Group	SEGRO Group and JVs at share
Net borrowings (£m)	**1,954.2**	**2,397.7**	1,598.4	2,091.0
Available cash and undrawn facilities (£m)	**1,192.2**	**1,303.6**	566.9	683.1
Balance sheet gearing (%)	**35**	**n/a**	38	n/a
Loan to value ratio (%)	**29**	**30**	34	33
Weighted average cost of debt[1] (%)	**2.3**	**2.1**	3.9	3.4
Interest cover[2] (times)	**3.4**	**3.9**	2.4	2.9
Average duration of debt (years)	**11.7**	**10.8**	6.5	6.2

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

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

At 31 December 2017, the Group's net borrowings (including the Group's share of borrowings in joint ventures) were £2,397.7 million (31 December 2016: £2,091.0 million), at a weighted average cost of 2.1 per cent and an average duration of 10.8 years. The Company's loan to value ratio (including joint ventures at share) was 30 per cent (31 December 2016: 33 per cent) and it had £1,192.2 million of cash and undrawn facilities available for investment.

Rights Issue and APP acquisition

In March 2017, after assessing the impact on our balance sheet of funding the acquisition of the APP portfolio and our future development plans, the Board resolved to issue new equity through a fully underwritten Rights Issue. The Rights Issue raised gross proceeds of £573 million (net proceeds of £557 million) through the issue of 166.0 million new shares, reflecting one new share for every five shares in issue at a price of 345 pence per share. The net proceeds of the Rights Issue were allocated to funding the APP portfolio acquisition (£216 million), with the balance to be used to fund future development capital expenditure (see Operational Excellence: Development Activity for details of development expenditure).

Rights Issues are structured as the issue of shares at a discount to the prevailing market price, with all shareholders having a right to participate. As a result of these two key elements, per share metrics in prior periods are required by IFRS accounting standards to be divided by a "bonus adjustment factor" (in our case 1.046) to ensure that the history is comparable. For example, the reported 2016 adjusted earnings per share were 19.7 pence, the dividend per share was 16.4 pence and the EPRA NAV per share was 500 pence. By applying the bonus adjustment factor, these become 18.8 pence, 15.7 pence and 478 pence respectively.

The consideration paid to Aviva for its 50 per cent share of the APP portfolio was calculated with reference to its valuation of £1.1 billion at 31 December 2016. This was adjusted for debt secured against the assets of £390 million and other small movements post year-end, valuing its 50 per cent interest at £365 million, which was satisfied by the disposal to Aviva of £149 million of property assets and £216 million of cash funded by the Rights Issue.

The impact of the acquisition of the APP portfolio on our LTV ratio, if we had financed it with debt, would have been to increase it from 33 per cent as at 31 December 2016 to 37 per cent. Based on our expected development capital expenditure of in excess of £300 million at the time, the LTV would have increased further to a level we judged to be too high. By applying the proceeds of the Rights Issue, the LTV fell to a pro forma 28.5 per cent, providing us with sufficient capacity to fund our foreseeable development plans.

Debt refinancing

During 2017, we have taken advantage of favourable financing conditions to improve the efficiency and duration of the borrowings in both the Group and SELP. In three transactions, we issued a total of £1.77 billion of new debt with an average maturity of 12.6 years and average coupon of 2.1 per cent, and also increased our bank facilities by £388 million. This, combined with associated derivative transactions, has increased SEGRO's debt maturity to 10.8 years (31 December 2016: 6.2 years) and reduced the average cost of debt to 2.1 per cent (31 December 2016: 3.4 per cent). The refinancing activity has enabled the Group to repay approximately £1.3 billion more expensive, less flexible, shorter term debt for a cost of approximately £145 million above book value.

- In May 2017, SEGRO undertook a debut euro denominated transaction, issuing €650 million of US Private Placement notes across three tranches with an average maturity of 11.2 years and an average coupon of 1.9 per cent. The proceeds were used to repay a £200 million 5.5 per cent June 2018 maturity sterling bond and £390 million of secured debt that was acquired as part of the APP transaction.
- In October 2017, the Group entered the sterling bond markets for the first time since 2009. We undertook a sterling liability management exercise to repurchase £550 million of high coupon (6.7 per cent average) sterling bonds for a total cost of £677 million, and issued two new long sterling dated bonds: £350 million 12 year at a coupon of 2.375 per cent and £400 million 20 year at a coupon of 2.875 per cent.

- In November 2017, SELP issued a second €500 million, eight year unsecured bond at a coupon of 1.5 per cent. The proceeds were used to repay the majority of SELP's remaining secured financing and provide additional liquidity to the venture.
- In December 2017, the Group increased its revolving credit facility commitments by €438 million to €1,218 million.

Following these transactions, gross borrowings of SEGRO Group were £2,063.5 million at 31 December, all but £3.6 million of which were unsecured, and cash and cash equivalent balances were £109.3 million. SEGRO's share of gross borrowings in its joint venture was £463.5 million (all of which were advanced on a non-recourse basis to SEGRO) and cash and cash equivalent balances of £20.0 million.

Funds available to SEGRO (excluding cash and undrawn facilities held in joint ventures) at 31 December 2017 totalled £1,192.2 million, comprising £109.3 million of cash and short-term investments and £1,082.9 million of undrawn bank facilities provided by the Group's relationship banks, of which only £5 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.

GEARING AND FINANCIAL COVENANTS

The key leverage metric for SEGRO is its 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 2017 on this "look-through" basis was 30 per cent.

Our 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 2017, as defined within the principal debt funding arrangements of the Group, was 35 per cent (31 December 2016: 38 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 55 per cent from their 31 December 2017 values to reach the gearing covenant threshold of 160 per cent. A 55 per cent fall in property values would equate to an LTV ratio of approximately 66 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 2017, the Group comfortably met this ratio at 3.4 times. On a look-through basis, including joint ventures, this ratio was 3.9 times.

We mitigate the risk of over-gearing the Company and breaching debt covenants by carefully monitoring the impact of investment decisions on our LTV and by stress-testing our balance sheet to potential changes in property values. As explained above, we took the decision to raise equity in March after assessing the impact on our leverage of the acquisition of the remainder of the APP portfolio and our future development plans. We also expect to continue to recycle assets to part fund future investment.

Our intention for the foreseeable future is to maintain our LTV at between 30 and 35 per cent, lower than our mid-cycle target of 40 per cent. This 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 2017, 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 10.8 years. With a majority of the Group's bank debt facilities not due to mature until 2022, and no debt maturities in 2018, 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 both at a Group level and by major borrowing currency (currently euro and sterling), including the impact of derivative financial instruments.

At 31 December 2017, including the impact of derivative instruments, 79 per cent (2016: 80 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 2017, the adjusted net finance cost of the Group would have increased by approximately £5.8 million representing around 3 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 eliminated from Adjusted profit after tax.

FOREIGN CURRENCY TRANSLATION EXPOSURE

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 50 and 100 per cent of its foreign currency gross assets through either borrowings or derivative instruments. At 31 December 2017, the Group had gross foreign currency assets which were 69 per cent hedged by gross foreign currency denominated liabilities (including the impact of derivative financial instruments).

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 2017 weakened by 10 per cent against sterling (€1.24, in the case of euros), net assets would have decreased by approximately £65 million and there would have been a reduction in gearing of approximately 1.7 per cent and in the LTV of 1.3 per cent.

The average exchange rate used to translate euro denominated earnings generated during 2017 into sterling within the consolidated income statement of the Group was €1.14:£1. Based on the hedging position at 31 December 2017, and assuming that this position had applied throughout 2017, if the euro had been 10 per cent weaker than the average exchange rate (€1.25:£1), Adjusted profit after tax for the year would have been approximately £6.7 million (3.4 per cent) lower than reported. If it had been 10 per cent stronger, Adjusted profit after tax for the year would have been approximately £8.2 million (4.2 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 pay-out 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 0.65 pence to 11.35 pence (2016: 10.7 pence, adjusted for the Rights Issue bonus adjustment factor) 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 3 May 2018 to shareholders on the register at the close of business on 23 March 2018.

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

- the policy of targeting a pay-out 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 2017 and the outlook for earnings.

The total dividend for the year will, therefore, be 16.6 pence, a rise of 5.7 per cent on 2016 (15.7 pence, adjusted) and represents payment of 86 per cent of Adjusted profit after tax and 83 per cent of Adjusted EPS.

As at 31 December 2017 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 2017 of over 4 times (2016: 3 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 2017 final dividend, allowing shareholders to choose whether to receive the dividend in cash or new shares. In 2017, 13 per cent of the 2016 final dividend and 34 per cent of the 2017 interim dividend was paid in new shares, equating to £27.6 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 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 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.

In order to robustly assess the principal risks facing the Group, the Board has taken a number of measures. 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 has approved 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; the Executive Committee, other monitoring committees, and the risk management function overseen by the Group Risk Committee provide the second; and Internal Audit provide the third line of defence.

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

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. 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 provide 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 also 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 customers, 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 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 across the following pages.

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 2017; and whether the risk is within our appetite (after the application of our mitigations).

Since 2016, four principal risks have been combined into the Financing Strategy risk described below. Development Execution has been added in the light of the scale and nature of the Group's development programme. The European economic environment risk previously reported has been de-classified.

PRINCIPAL RISK		MITIGATIONS	IMPACT AND CHANGE IN 2017
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.	<u>Impact on strategy:</u> Disciplined Capital Allocation <u>Change in 2017:</u> 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.	<u>Impact on strategy:</u> Disciplined Capital Allocation <u>Change in 2017:</u> Similar risk Risk is within appetite.
3. 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.	<u>Impact on strategy:</u> Disciplined Capital Allocation <u>Change in 2017:</u> Similar risk Risk is within appetite.
4. 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	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.	<u>Impact on strategy:</u> Disciplined Capital Allocation and Operational Excellence <u>Change in 2017:</u> Increased risk This risk has increased as a result of our increased

	speculatively developed buildings arising from a sharp deterioration in occupier demand. This is a medium-term risk with a moderate likelihood.	Our short development lead-times enable a quick response to changing market conditions	development pipeline. 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 short and 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. As well as the Rights Issue, 2017 saw extensive financing and re-financing activity with a US private placement, a bond buyback and issue, a SELP bond issue, and increased revolving debt facilities. These actions have strengthened the balance sheet, lowered the average cost of debt, increased debt maturity, and demonstrated the ability to access debt capital markets.	<u>Impact on strategy:</u> Efficient Capital and Corporate Structure <u>Change in 2017:</u> Decreased risk This risk has reduced as a result of the equity and debt funding secured in the year. Risk is within appetite.
6. Disruptive Brexit	The uncertainty associated with the UK's decision to exit the EU may impact investment, capital, financial (including foreign exchange) and occupier markets in the UK during the transition period as the terms of exit and future relationships are negotiated, and in the long term. In the long term, exit from the EU could reduce 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. The likelihood of severe adverse impact on the Group is judged to be low.	A Brexit-specific risk register is maintained and we continue to monitor a range of indicators across occupational, investment and capital markets. We have not observed significant adverse factors to date. Structural drivers of demand appear to have continued to outweigh any Brexit-related uncertainties. Nevertheless, in the light of increased uncertainty, the Group has continued to adopt a cautious approach to land acquisition and speculative development. The Group's high quality portfolio of prime industrial assets is diverse in terms of geography and 32 per cent of gross asset value at share is in Continental Europe and sector exposure. The Group's existing strategy for resilience through the market cycle also provides mitigations. As well as the underlying quality and diversity of the portfolio, these include substantial covenant headroom, access to diverse sources of funding, and FX and interest rate hedging. In addition, our short development lead-times enable a quick response to changing market conditions.	<u>Impact on strategy:</u> Disciplined Capital Allocation and Efficient Capital and Corporate Structure <u>Change in 2017:</u> Increased risk The increased rating is a reflection of continuing uncertainty as March 2019 approaches. Risk is within appetite.
7. 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 anti-bribery 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 biannually. 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.	<u>Impact on strategy:</u> Operational Excellence <u>Change in 2017:</u> Similar risk Risk is within appetite.

8. 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 and Safety Construction Standard. A new online Health and Safety system, named Safety Matters, has been launched to enhance tracking, trend analysis, and compliance monitoring against agreed safety standards.	Impact on strategy: Operational Excellence Change in 2017: Similar risk Risk is within appetite.
9. 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 2017: Increased risk This risk has increased as a result of the political events noted above. 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 2017. 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 15 February 2018 and signed on its behalf by:

David Sleath

Chief Executive

15 February 2018

Soumen Das

Chief Financial Officer

15 February 2018

CONDENSED GROUP INCOME STATEMENT

For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Revenue	4	**334.7**	283.5
Gross rental income	4	**272.9**	225.5
Property operating expenses	5	**(52.2)**	(44.9)
Net rental income		**220.7**	180.6
Joint venture management fee income	4	**24.3**	18.6
Administration expenses		**(39.7)**	(31.4)
Share of profit from joint ventures after tax		**108.1**	85.1
Realised and unrealised property gain	6	**889.0**	246.0
Goodwill and other amounts written off on acquisitions and amortisation of intangibles		**(0.6)**	(0.2)
Operating profit		**1,201.8**	498.7
Finance income	8	**40.6**	46.7
Finance costs	8	**(266.1)**	(119.0)
Profit before tax		**976.3**	426.4
Tax	9	**(20.0)**	(7.7)
Profit after tax		**956.3**	418.7
Attributable to equity shareholders		**952.7**	417.7
Attributable to non-controlling interests		**3.6**	1.0
Earnings per share (pence)[1]			
Basic	11	**98.5**	51.6
Diluted	11	**97.9**	51.3

1 The comparative earning per share has been re-presented following the rights issue detailed in Note 11.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 £m	2016 £m
Profit for the year	**956.3**	418.7
Items that will not be reclassified subsequently to profit or loss		
Actuarial (loss)/gain on defined benefit pension schemes	**(16.2)**	15.0
	(16.2)	15.0
Items that may be reclassified subsequently to profit or loss		
Foreign exchange movement arising on translation of international operations	**27.3**	114.1
Decrease in value of available-for-sale investments	**–**	(0.3)
Fair value movements on derivatives in effective hedge relationships	**(6.4)**	(86.4)
	20.9	27.4
Tax on components of other comprehensive income	**–**	–
Other comprehensive profit before transfers	**4.7**	42.4
Transfer to income statement of amount realised on fair value of interest rate swaps and derivatives	**3.1**	–
Transfer to income statement of realised foreign exchange movements	**–**	(2.0)
Total comprehensive profit for the year	**964.1**	459.1
Attributable to equity shareholders	**960.6**	458.5
Attributable to non-controlling interests	**3.5**	0.6

CONDENSED GROUP BALANCE SHEET

As at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill and other intangibles		**4.0**	3.1
Investment properties		**6,745.4**	4,714.4
Other interests in property		**13.4**	9.6
Plant and equipment		**14.7**	16.1
Investments in joint ventures		**792.0**	1,066.2
Available-for-sale investments		**–**	0.7
Derivative financial instruments		**60.7**	80.1
Pension assets		**38.7**	45.7
		7,668.9	5,935.9
Current assets			
Trading properties		**12.5**	25.4
Trade and other receivables		**141.8**	102.8
Derivative financial instruments		**2.6**	12.6
Cash and cash equivalents		**109.3**	32.0
		266.2	172.8
Total assets		**7,935.1**	6,108.7
Liabilities			
Non-current liabilities			
Borrowings		**2,063.5**	1,630.4
Deferred tax provision		**34.6**	16.3
Trade and other payables		**–**	4.7
Derivative financial instruments		**–**	14.7
		2,098.1	1,666.1
Current liabilities			
Trade and other payables		**247.5**	246.5
Derivative financial instruments		**4.0**	11.1
Tax liabilities		**1.3**	4.1
		252.8	261.7
Total liabilities		**2,350.9**	1,927.8
Net assets		**5,584.2**	4,180.9
Equity			
Share capital		**100.3**	83.0
Share premium		**1,998.6**	1,431.1
Capital redemption reserve		**113.9**	113.9
Own shares held		**(3.3)**	(5.5)
Other reserves		**225.7**	196.2
Retained earnings brought forward		**2,363.4**	2,050.3
Profit for the year attributable to owners of the parent		**952.7**	417.7
Other movements		**(165.9)**	(104.6)
Retained earnings		**3,150.2**	2,363.4
Total equity attributable to owners of the parent		**5,585.4**	4,182.1
Non-controlling interests		**(1.2)**	(1.2)
Total equity		**5,584.2**	4,180.9
Net assets per ordinary share (pence)[1]			
Basic	11	**557**	482
Diluted	11	**554**	480

1 The comparative net assets per ordinary share have been re-presented as detailed in Note 11.

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

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[1]	**(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[2]	**(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**

For the year ended 31 December 2016

	Balance 1 January 2016 £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 2016 £m
Ordinary share capital	74.8	–	–	–	7.5	–	0.7	–	83.0
Share premium	1,091.4	–	–	–	310.9	–	28.8	–	1,431.1
Capital redemption reserve	113.9	–	–	–	–	–	–	–	113.9
Own shares held	(6.3)	–	–	–	–	(2.3)	–	3.1	(5.5)
Other reserves:									
Share based payments reserve	8.5	–	–	–	–	7.0	–	(2.0)	13.5
Fair value reserve for AFS[1]	0.1	–	–	(0.3)	–	–	–	–	(0.2)
Translation, hedging and other reserves	(11.9)	114.1	–	(86.4)	–	(2.0)	–	–	13.8
Merger reserve	169.1	–	–	–	–	–	–	–	169.1
Total other reserves	165.8	114.1	–	(86.7)	–	5.0	–	(2.0)	196.2
Retained earnings	2,050.3	–	417.7	15.0	–	–	(118.5)	(1.1)	2,363.4
Total equity attributable to equity shareholders	3,489.9	114.1	417.7	(71.7)	318.4	2.7	(89.0)	–	4,182.1
Non-controlling interests[2]	(1.8)	(0.4)	1.0	–	–	–	–	–	(1.2)
Total equity	3,488.1	113.7	418.7	(71.7)	318.4	2.7	(89.0)	–	4,180.9

1 AFS is the term used for "Available-for-sale investments" and is shown net of deferred tax.
2 Non-controlling interests relate to Vailog Sarl

CONDENSED GROUP CASH FLOW STATEMENT

For the year ended 31 December 2017

	2017 £m	2016 £m
Cash flows from operating activities	**189.9**	156.7
Interest received	**61.2**	69.8
Dividends received	**26.6**	26.5
Interest paid	**(140.6)**	(140.9)
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	**(140.4)**	–
Tax paid	**(4.9)**	(10.9)
Net cash (used in)/received from operating activities	**(24.3)**	101.2
Cash flows from investing activities		
Purchase and development of investment properties	**(457.9)**	(429.7)
Acquisition of APP assets[1]	**(217.2)**	–
Sale of investment properties	**317.2**	614.0
Acquisition of other interests in property	**(3.8)**	(36.7)
Purchase of plant and equipment and intangibles	**(2.0)**	(3.5)
Sale of available-for-sale investments	**0.6**	–
Investment in joint ventures	**(137.8)**	(184.3)
Divestment in joint ventures	**166.2**	120.9
Net cash (used in)/received from investing activities	**(334.7)**	80.7
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(118.1)**	(89.0)
Proceeds from borrowings	**1,342.1**	42.5
Repayment of borrowings	**(1,274.5)**	(267.7)
Settlement of foreign exchange derivatives	**(63.4)**	(168.4)
Proceeds from issue of ordinary shares	**557.2**	318.4
Purchase of ordinary shares	**(6.7)**	(2.3)
Net cash received from/(used in) financing activities	**436.6**	(166.5)
Net increase in cash and cash equivalents	**77.6**	15.4
Cash and cash equivalents at the beginning of the year	**32.0**	16.4
Effect of foreign exchange rate changes	**(0.3)**	0.2
Cash and cash equivalents at the end of the year	**109.3**	32.0

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 2017 and 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 (approved by the Board on 15 February 2018) 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 2016 financial statements.

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 2018.

There have been no changes to the basis of accounting on adoption of new standards and amendments to standards and interpretations which have become effective for the first time for this financial year.

The principal exchange rates used to translate foreign currency denominated amounts are: Balance sheet: £1 = €1.13 (31 December 2016: £1 = €1.17) and Income statement: £1 = €1.14 (31 December 2016: £1 = €1.22).

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 non-recurring, unusual or significant by virtue of size and nature. No non-EPRA adjustments to underlying profit were made in the current or prior periods.

	2017	2016
	£m	£m
Gross rental income	**272.9**	225.5
Property operating expenses	**(52.2)**	(44.9)
Net rental income	**220.7**	180.6
Joint venture management fee income	**24.3**	18.6
Administration expenses	**(39.7)**	(31.4)
Share of joint ventures' Adjusted profit after tax[1]	**47.6**	55.4
Adjusted operating profit before interest and tax	**252.9**	223.2
Net finance costs (including adjustments)	**(58.7)**	(68.7)
Adjusted profit before tax	**194.2**	154.5
Adjustments to reconcile to IFRS:		
Adjustments to the share of profit from joint ventures after tax[1]	**60.5**	29.7
Profit on sale of investment properties	**17.0**	16.4
Valuation surplus on investment properties	**872.4**	231.3
(Loss)/gain on sale of trading properties	**(0.4)**	0.3
Increase in provision for impairment of trading properties	**–**	(2.0)
Goodwill and other amounts written off on acquisitions and amortisation of intangibles	**(0.6)**	(0.2)
Cost of early close out of bank debt	**(145.3)**	(1.0)
Net fair value loss on interest rate swaps and other derivatives	**(21.5)**	(2.6)
Total adjustments	**782.1**	271.9
Profit before tax	**976.3**	426.4
Tax		
On Adjusted profit	**(1.2)**	(1.8)
In respect of adjustments	**(18.8)**	(5.9)
	(20.0)	(7.7)
Profit after tax before non-controlling interests	**956.3**	418.7
Non-controlling interests:		
Less: share of adjusted profit attributable to non-controlling interests	**(0.2)**	(0.1)
: share of adjustments attributable to non-controlling interests	**(3.4)**	(0.9)
Profit after tax and non-controlling interests	**952.7**	417.7
Of which:		
Adjusted profit after tax	**192.8**	152.6
Total adjustments after tax and non-controlling interests	**759.9**	265.1
Profit attributable to equity shareholders	**952.7**	417.7

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 and National Logistics, Northern Europe (principally Germany), Southern Europe (principally France) and Central Europe (principally Poland), which are managed and reported to the Board as separate and distinct Business Units.

	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			
Greater London	**112.4**	**101.8**	**(1.8)**	**108.3**	**3,227.6**	**–**	**1,174.9**
Thames Valley and National Logistics	**99.2**	**91.9**	**(0.1)**	**91.7**	**2,280.9**	**7.5**	**141.5**
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**

	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 2016			
Greater London	76.7	67.5	14.5	88.5	1,777.5	363.4	28.6
Thames Valley and National Logistics	95.6	88.7	(0.1)	88.5	1,991.7	12.6	230.2
Northern Europe	25.0	17.5	16.5	36.5	378.8	396.9	88.4
Southern Europe	22.9	15.5	12.6	28.9	474.6	222.3	179.5
Central Europe	5.3	2.9	13.2	19.1	117.2	319.5	10.3
Other[1]	–	(11.5)	(1.3)	(38.3)	–	(248.5)	0.8
Total	225.5	180.6	55.4	223.2	4,739.8	1,066.2	537.8

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 SARL, 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. This includes the APP asset acquisition disclosed in Note 6. The "Other" category includes non-property related spend, primarily IT.

Revenues from the most significant countries within the Group were UK £229.6 million (2016: £185.8 million), France £29.8 million (2016: £30.4 million), Germany £27.0 million (2016: £26.8 million) and Poland £12.0 million (2016: £10.9 million).

4. REVENUE

	2017 £m	2016 £m
Rental income from investment properties	**257.8**	210.6
Rental income from trading properties	**1.8**	1.8
Rent averaging	**11.8**	11.8
Management fees	**1.1**	1.2
Surrender premiums	**0.4**	0.1
Gross rental income	**272.9**	225.5
Joint venture fees - management fee	**16.8**	17.7
- performance and other fees	**7.5**	0.9
Service charge income	**23.8**	19.4
Proceeds from sale of trading properties	**13.7**	20.0
Total revenue	**334.7**	283.5

5. PROPERTY OPERATING EXPENSES

	2017 £m	2016 £m
Vacant property costs	**7.6**	5.6
Letting, marketing, legal and professional fees	**8.4**	7.9
Bad debt expense	**0.9**	0.2
Other expenses, net of service charge income[1]	**10.2**	9.8
Property management expenses	**27.1**	23.5
Property administration expenses[2]	**29.3**	25.0
Costs capitalised[3]	**(4.2)**	(3.6)
Total property operating expenses	**52.2**	44.9

1 Total Other expenses were £34.0 million (2016: £29.2 million) and are presented net of service charge income of £23.8 million (2016: £19.4 million) in the table above.

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

3 Costs capitalised 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.

On 9 March 2017 SEGRO acquired the remaining 50 per cent interest in the Airport Property Partnership (APP) joint venture property portfolio it did not already own for £365.0 million (funded with a combination of £216 million of cash and the disposal of £149 million of assets to the joint venture partner). Consequently, the APP share of profit is only included in the table below to 9 March 2017 (the date of acquisition) and no balance sheet in respect of APP is included at 31 December 2017. This asset acquisition transaction has primarily resulted in property acquisitions of £1,112.6 million (see Note 12) and associated net debt of £379.2 million being recognised.

	SEGRO European Logistics Partnership £m	**Airport Property Partnership £m**	**Roxhill £m**	**At 100% 2017 £m**	At 100% 2016 £m	**At 50% 2017 £m**	At 50% 2016 £m
Gross rental income	**138.5**	**8.9**	**–**	**147.4**	165.5	**73.7**	82.7
Property operating expenses							
-underlying property operating expenses	**(5.9)**	**(0.2)**	**–**	**(6.1)**	(5.7)	**(3.0)**	(2.8)
-vacant property costs	**(1.3)**	**(0.6)**	**–**	**(1.9)**	(2.1)	**(0.9)**	(1.1)
-property management fees	**(12.5)**	**(1.5)**	**–**	**(14.0)**	(16.8)	**(7.0)**	(8.4)
-performance and other fees	**–**	**(8.5)**	**–**	**(8.5)**	(0.7)	**(4.3)**	(0.3)
Net rental income	**118.8**	**(1.9)**	**–**	**116.9**	140.2	**58.5**	70.1
Administration expenses	**(1.6)**	**–**	**(0.1)**	**(1.7)**	(1.6)	**(0.9)**	(0.8)
Net finance costs (including adjustments)	**(10.8)**	**(1.6)**	**–**	**(12.4)**	(24.5)	**(6.2)**	(12.2)
EPRA profit/(loss) before tax	**106.4**	**(3.5)**	**(0.1)**	**102.8**	114.1	**51.4**	57.1
Tax	**(7.5)**	**–**	**–**	**(7.5)**	(3.3)	**(3.8)**	(1.7)
Adjusted profit/(loss) after tax	**98.9**	**(3.5)**	**(0.1)**	**95.3**	110.8	**47.6**	55.4
Adjustments:							
Profit on sale of investment properties	**0.7**	**0.9**	**–**	**1.6**	6.9	**0.8**	3.5
Valuation surplus on investment properties	**153.6**	**0.1**	**–**	**153.7**	78.6	**76.9**	39.3
Cost of early close out of bank	**(3.7)**	**–**	**–**	**(3.7)**	(13.6)	**(1.9)**	(6.8)
Net fair value loss interest rate swaps and other derivatives	**–**	**(6.2)**	**–**	**(6.2)**	(2.8)	**(3.1)**	(1.4)
Tax in respect of adjustments	**(24.4)**	**–**	**–**	**(24.4)**	(9.8)	**(12.2)**	(4.9)
Total adjustments	**126.2**	**(5.2)**	**–**	**121.0**	59.3	**60.5**	29.7
Profit/(loss) after tax	**225.1**	**(8.7)**	**(0.1)**	**216.3**	170.1	**108.1**	85.1
Other comprehensive income/(loss)	**–**	**6.2**	**–**	**6.2**	(4.2)	**3.1**	(2.1)
Total comprehensive income/(loss) for the year	**225.1**	**(2.5)**	**(0.1)**	**222.5**	165.9	**111.2**	83.0

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% 2017 £m	At 100% 2016 £m	At 50% 2017 £m	At 50% 2016 £m
Investment properties[1]	**2,556.8**	**3.6**	**–**	**2,560.4**	3,210.0	**1,280.2**	1,605.0
Other interests in property	**–**	**16.1**	**–**	**16.1**	13.3	**8.1**	6.6
Other assets	**–**	**–**	**–**	**–**	0.2	**–**	0.1
Total non-current assets	**2,556.8**	**19.7**	**–**	**2,576.5**	3,223.5	**1,288.3**	1,611.7
Trading properties	**–**	**–**	**1.1**	**1.1**	1.1	**0.6**	0.6
Other receivables	**77.3**	**3.8**	**1.0**	**82.1**	80.9	**41.1**	40.4
Cash and cash equivalents	**39.9**	**–**	**–**	**39.9**	123.9	**20.0**	62.0
Total current assets	**117.2**	**3.8**	**2.1**	**123.1**	205.9	**61.7**	103.0
Total assets	**2,674.0**	**23.5**	**2.1**	**2,699.6**	3,429.4	**1,350.0**	1,714.7
Borrowings	**(926.9)**	**–**	**–**	**(926.9)**	(1,109.1)	**(463.5)**	(554.6)
Deferred tax	**(104.2)**	**–**	**–**	**(104.2)**	(76.0)	**(52.1)**	(38.0)
Other liabilities	**–**	**(8.5)**	**–**	**(8.5)**	(5.3)	**(4.3)**	(2.6)
Total non-current liabilities	**(1,031.1)**	**(8.5)**	**–**	**(1,039.6)**	(1,190.4)	**(519.9)**	(595.2)
Other liabilities	**(75.6)**	**(0.5)**	**–**	**(76.1)**	(99.8)	**(38.1)**	(49.9)
Derivative financial instruments	**–**	**–**	**–**	**–**	(6.9)	**–**	(3.4)
Total current liabilities	**(75.6)**	**(0.5)**	**–**	**(76.1)**	(106.7)	**(38.1)**	(53.3)
Total liabilities	**(1,106.7)**	**(9.0)**	**–**	**(1,115.7)**	(1,297.1)	**(558.0)**	(648.5)
Net assets	**1,567.3**	**14.5**	**2.1**	**1,583.9**	2,132.3	**792.0**	1,066.2

1 Investment properties held by SELP include assets held for sale of £48.0 million (at 100%) at 31 December 2017 (2016: £nil).

The external borrowings of the joint ventures are non-recourse to the Group. At 31 December 2017, the fair value of £926.9 million (2016: £1,109.1 million) of borrowings was £938.6 million (2016: £1,108.6 million). This results in a fair value adjustment decrease in net assets of £11.7 million (2016: £0.5 million increase), at share £5.9 million (2016: £0.2 million). On 20 November 2017 SELP issued an eight year, €500.0 million unsecured bond at an annual coupon of 1.50 per cent as discussed further in the Finance Review.

In February 2016, SEGRO entered into an agreement with Roxhill Development Group to develop a portfolio of big box logistics assets in the UK through a series of joint ventures which are at various stages of planning and development.

SEGRO provides certain services, including venture advisory and asset management to the SELP joint venture and receives fees for doing so. Performance fees may also be payable from SELP to SEGRO based on its IRR subject to certain hurdle rates. The first calculation and potential payment is on the fifth anniversary of the inception of SELP, 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.

Based on property values at 31 December 2017, the net profit impact on the Group of the first calculation, taking account of the gross fee due, the cost of the fee payable by SELP (at share) and the clawback terms, is estimated to be around £7 million but subject to change for transactions and market related performance through the remainder of the measurement period.

6(iii) Investments by Group

	2017 £m	2016 £m
Cost or valuation at 1 January	**1,066.2**	867.3
Exchange movement	**24.9**	87.8
Acquisitions	**–**	13.2
Additions	**51.7**	47.1
Disposals and net divestments[1]	**(435.4)**	(5.7)
Dividends received	**(26.6)**	(26.5)
Share of profit after tax	**108.1**	85.1
Items taken to other comprehensive income	**3.1**	(2.1)
Cost or valuation at 31 December	**792.0**	1,066.2

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

Dividends received were £26.6 million (2016: £26.5 million), of which £19.6 million (2016: £9.6 million) was from SELP and £7.0 million (2016: £16.9 million) was from APP.

7. REALISED AND UNREALISED PROPERTY GAIN

	2017 £m	2016 £m
Profit on sale of investment properties	**17.0**	16.4
Valuation surplus on investment properties	**872.4**	231.3
(Loss)/gain on sale of trading properties	**(0.4)**	0.3
Increase in provision for impairment of trading properties	**–**	(2.0)
Total realised and unrealised property gain	**889.0**	246.0

8. NET FINANCE COSTS

Finance income	2017 £m	2016 £m
Interest received on bank deposits and related derivatives	**34.7**	32.0
Fair value gain on interest rate swaps and other derivatives	**4.5**	13.8
Net interest income on defined benefit obligations	**1.3**	0.9
Exchange differences	**0.1**	–
Total finance income	**40.6**	46.7
Finance costs		
Interest on overdrafts, loans and related derivatives	**(98.8)**	(103.4)
Cost of early close out of debt	**(145.3)**	(1.0)
Amortisation of issue costs	**(2.6)**	(2.9)
Total borrowing costs	**(246.7)**	(107.3)
Less amount capitalised on the development of properties	**6.6**	5.0
Net borrowing costs	**(240.1)**	(102.3)
Fair value loss on interest rate swaps and other derivatives	**(26.0)**	(16.4)
Exchange differences	–	(0.3)
Total finance costs	**(266.1)**	(119.0)
Net finance costs	**(225.5)**	(72.3)

Net finance costs (including adjustments) in Adjusted profit (Note 2) are £58.7 million (2016: £68.7 million). This excludes net fair value gains and losses on interest rate swaps and other derivatives of £21.5 million loss (2016: £2.6 million loss) and the cost of early close out of debt of £145.3 million (2016: £1.0 million).

The early close out of debt arose as part of the debt refinancing exercise which took place during the year and is discussed in more detail in the Finance Review. This primarily arises in respect of premium paid, and to a lesser extent reduced fees and the acceleration of unamortised costs, in September 2017 to close out of £550 million sterling bonds, which totalled £133.1 million. The balance relates to similar costs incurred in repaying the £200 million 2018 bond in May 2017 and the cost to early repay a term loan in July 2017.

The interest capitalisation rates for 2017 ranged from 3.0 per cent to 4.0 per cent (2016: 4.0 per cent to 5.3 per cent). Interest is capitalised gross of tax relief.

9. TAX

9(i) Tax on profit

	2017 £m	2016 £m
Tax on:		
On Adjusted profit	**(1.2)**	(1.8)
In respect of adjustments	**(18.8)**	(5.9)
Total tax charge	**(20.0)**	(7.7)
Current tax		
United Kingdom		
Current tax charge	**–**	(1.7)
Total UK tax charge	**–**	(1.7)
Overseas		
Current tax charge	**(1.9)**	(3.9)
Adjustments in respect of earlier years	**–**	0.1
	(1.9)	(3.8)
Total current tax charge	**(1.9)**	(5.5)
Deferred tax		
Origination and reversal of temporary differences	**(1.3)**	(1.1)
Released in respect of property disposals in the year	**1.0**	4.8
On valuation movements	**(18.1)**	(5.1)
Total deferred tax in respect of investment properties	**(18.4)**	(1.4)
Other deferred tax	**0.3**	(0.8)
Total deferred tax charge	**(18.1)**	(2.2)
Total tax charge on profit on ordinary activities	**(20.0)**	(7.7)

9(ii) Deferred tax liabilities

Movement in deferred tax was as follows:

	Balance 1 January 2017 £m	**Exchange movement £m**	**Acquisitions / (disposals) £m**	**Recognised in income £m**	**Balance 31 December 2017 £m**
Valuation surpluses and deficits on properties	**8.2**	**0.7**	**(0.7)**	**17.4**	**25.6**
Accelerated tax allowances	**6.1**	**0.3**	**(0.3)**	**1.3**	**7.4**
Deferred tax asset on revenue losses	**(0.3)**	**–**	**–**	**(0.9)**	**(1.2)**
Others	**2.3**	**0.2**	**–**	**0.3**	**2.8**
Total deferred tax liabilities	**16.3**	**1.2**	**(1.0)**	**18.1**	**34.6**

10. DIVIDENDS

	2017 £m	2016 £m
Ordinary dividends paid		
Interim dividend for 2017 @ 5.25 pence per share	**52.7**	–
Final dividend for 2016 @ 10.7 pence per share[1]	**93.0**	–
Interim dividend for 2016 @ 5.0 pence per share[1]	**–**	39.2
Final dividend for 2015 @ 10.1 pence per share[1]	**–**	79.3
Total dividends	**145.7**	118.5

1 As adjusted by a bonus adjustment factor, see Note 11.

The Board recommends a final dividend for 2017 of 11.35 pence which is estimated to result in a distribution of up to £113.8 million. The total dividend paid and proposed per share in respect of the year ended 31 December 2017 is 16.6 pence (2016: 15.7 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 1.2 million shares (2016: 1.5 million) being the average number of shares held on trust for employee share schemes and net assets per share calculations exclude 0.9 million shares (2016: 1.4 million) being the actual number of shares held on trust for employee share schemes at year end.

11(i) Earnings per ordinary share (EPS)

	2017			2016		
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million[3]	Pence per share[3]
Basic EPS	**952.7**	**967.3**	**98.5**	417.7	809.9	51.6
Dilution adjustments:						
Shard and save as you earn schemes	**–**	**5.5**	**(0.6)**	–	4.6	(0.3)
Diluted EPS	**952.7**	**972.8**	**97.9**	417.7	814.5	51.3
Basic EPS	**952.7**	**967.3**	**98.5**	417.7	809.9	51.6
Adjustments to profit before tax[1]	**(782.1)**		**(80.9)**	(271.9)		(33.6)
Deferred tax on investment property which does not crystallise unless sold	**18.5**		**1.9**	1.4		0.2
Other tax	**0.3**		**–**	4.5		0.5
Non-controlling interest on adjustments	**3.4**		**0.4**	0.9		0.1
Adjusted EPS[2]	**192.8**	**967.3**	**19.9**	152.6	809.9	18.8

1 Details of adjustments are included in Note 2.

2 Based on basic number of shares.

3 Comparative number of shares and pence per share re-presented for a bonus adjustment factor of 1.046.

On 28 March 2017, the Company issued 166,033,133 new ordinary shares of 10 pence each through a Rights Issue. To reflect the Rights Issue, the number of shares previously used to calculate basic and diluted and earnings per share and adjusted earnings per share have been amended in the table above. A bonus adjustment factor of 1.046 has been applied, based on the ratio of an adjusted closing share price of 468.6 pence per share on 10 March 2017, the business day before the shares started trading ex-rights and the theoretical ex-rights price at that date of 448.0 pence per share.

Prior to this re-presentation, the EPS for the year ended 31 December 2016 was 53.9 pence (basic), 53.6 pence (diluted) and 19.7 pence (adjusted).

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

	2017			2016		
	Equity attributable to ordinary shareholders £m	Shares million	Pence per share	Equity attributable to ordinary shareholders £m	Shares million	Pence per share[1]
Basic NAV	**5,585.4**	**1,002.0**	**557**	4,182.1	866.8	482
Dilution adjustments:						
Share and save as you earn schemes	**–**	**5.7**	**(3)**	–	4.7	(2)
Diluted NAV	**5,585.4**	**1,007.7**	**554**	4,182.1	871.5	480
Fair value adjustment in respect of interest rate derivatives – Group	**(60.7)**		**(6)**	(76.5)		(9)
Fair value adjustment in respect of interest rate derivatives – Joint ventures	**–**		**–**	3.4		–
Deferred tax in respect of depreciation and valuation surpluses – Group	**30.7**		**3**	14.3		2
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**52.3**		**5**	38.8		5
EPRA NAV	**5,607.7**	**1,007.7**	**556**	4,162.1	871.5	478
Fair value adjustment in respect of debt – Group	**(163.5)**		**(16)**	(359.7)		(41)
Fair value adjustment in respect of debt – Joint ventures	**(5.9)**		**(1)**	0.2		–
Fair value adjustment in respect of interest rate swap derivatives – Group	**60.7**		**6**	76.5		9
Fair value adjustment in respect of interest rate swap derivatives – Joint ventures	**–**		**–**	(3.4)		–
Deferred tax in respect of depreciation and valuation surpluses – Group	**(30.7)**		**(3)**	(14.3)		(2)
Deferred tax in respect of depreciation and valuation surpluses – Joint ventures	**(52.3)**		**(5)**	(38.8)		(5)
EPRA triple net NAV (NNNAV)	**5,416.0**	**1,007.7**	**537**	3,822.6	871.5	439

1 Comparative number of shares and pence per share re-presented for a bonus adjustment factor of 1.046.

There were no fair value adjustment in respect of trading properties for the Group or joint ventures in 2017 and 2016.

As set out in Note 11 (i), the number of shares used to calculate basic and diluted NAV and EPRA and EPRA triple net NAV for the year ended 31 December 2016 have been amended in the table above by a bonus adjustment factor of 1.046. Prior to this re-presentation, the NAV for the year ended 31 December 2016 was 505 pence (basic), 502 pence (diluted), 500 pence (EPRA) and 459 pence (EPRA triple net).

12. PROPERTIES

12(i) Investment properties

	Completed £m	Development £m	Total £m
At 1 January 2017	**4,045.2**	**597.7**	**4,642.9**
Exchange movement	**25.3**	**10.1**	**35.4**
Property acquisitions	**1,130.0**	**82.2**	**1,212.2**
Additions to existing investment properties	**19.7**	**367.8**	**387.5**
Disposals	**(393.5)**	**(86.3)**	**(479.8)**
Transfers on completion of development	**306.2**	**(306.2)**	**–**
Revaluation surplus during the period	**759.2**	**113.2**	**872.4**
At 31 December 2017	**5,892.1**	**778.5**	**6,670.6**
Add tenant lease incentives, letting fees and rental guarantees	**74.8**	**–**	**74.8**
Total investment properties	**5,966.9**	**778.5**	**6,745.4**

Investment properties are stated at fair value as at 31 December 2017 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. 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 in relation to the activities of 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. Property acquisitions include £1,112.6 million in respect of the APP property portfolio acquisition, discussed further in Note 6. The purchase of the APP property portfolio and associated net assets has been accounted for as an asset acquisition, on the basis that the acquisition only resulted in the transfer of ownership of property and related net assets, no employees were being acquired or inherited as part of the transaction and the acquired assets cannot operate independently from the rest of the SEGRO Group.

No trading properties were transferred to investment properties during 2017 (2016: £nil).

Long-term leasehold values within investment properties amount to £60.8 million (2016: £34.1 million). All other properties are freehold.

12(ii) Trading properties

	Completed £m	Development £m	Total £m
At 1 January 2017	**15.1**	**9.9**	**25.0**
Exchange movement	**0.3**	**0.4**	**0.7**
Additions	**–**	**0.5**	**0.5**
Disposals	**(11.7)**	**(2.0)**	**(13.7)**
Increase in provision for impairment in the year	**–**	**–**	**–**
At 31 December 2017	**3.7**	**8.8**	**12.5**
Add tenant lease incentives, letting fees and rental guarantees	**–**	**–**	**–**
Total trading properties	**3.7**	**8.8**	**12.5**

Trading properties were externally valued, as detailed in Note 12(i), resulting in an increase in the provision for impairment of £nil million (2016: £2.0 million). Based on the fair value at 31 December 2017, the portfolio has no unrecognised surplus (2016: £nil).

13. NET BORROWINGS AND FINANCIAL INSTRUMENTS

	2017 £m	2016 £m
In one year or less	–	–
In more than one year but less than two	104.6	199.6
In more than two years but less than five	364.5	860.6
In more than five years but less than ten	434.8	371.9
In more than ten years	1,159.6	198.3
In more than one year	2,063.5	1,630.4
Total borrowings	2,063.5	1,630.4
Cash and cash equivalents	(109.3)	(32.0)
Net borrowings	1,954.2	1,598.4
Total borrowings is split between secured and unsecured as follows:		
Secured (on land and buildings)	3.6	3.9
Unsecured	2,059.9	1,626.5
Total borrowings	2,063.5	1,630.4
Currency profile of total borrowings after derivative instruments		
Sterling	755.3	562.4
Euros	1,312.9	1,083.3
US dollars	(4.7)	(15.3)
Total borrowings	638.4	1,630.4
Maturity profile of undrawn borrowing facilities		
In one year or less	5.0	5.0
In more than one year but less than two	–	–
In more than two years	1,077.9	529.9
Total available undrawn facilities	1,082.9	534.9
Fair value of financial instruments		
Book value of debt	2,063.5	1,630.4
Interest rate derivatives	(60.7)	(76.5)
Foreign exchange derivatives	1.4	9.6
Book value of debt including derivatives	2,004.2	1,563.5
Net fair market value	2,167.7	1,923.2
Mark to market adjustment (pre-tax)	163.5	359.7

During the year the Group undertook a debt refinancing exercise including issuing €650 million of US Private Placement notes and £750 million of long dated sterling bonds and repurchasing £550 million of shorter dated sterling bonds all stated at face value. The debt refinancing is discussed in more detail in the Finance Review.

14. SHARE CAPITAL

	Number of shares £m	Par value of shares £m
Issued and fully paid ordinary shares at 10p each:		
At 1 January 2017	830.1	83.0
Issue of shares – 2017 Rights Issue	166.0	16.6
Issue of shares – scrip dividend	5.5	0.6
Issue of shares – other	1.3	0.1
Ordinary shares of 10p each at 31 December 2017	1,002.9	100.3

On 10 March 2017 the Company announced a 1 for 5 Rights Issue of 166,033,133 ordinary shares of 10 pence each in the capital of the Company at a price of 345 pence per share. The combined impact was that the Company raised a total of £572.8 million, before £16.3 million expenses, and as a result on 28 March 2017 the Company's share capital increased by £16.6 million and share premium by £539.9 million.

15. NOTES TO THE CONDENSED GROUP CASH FLOW STATEMENT

15(i) Reconciliation of cash generated from operations

	2017 £m	2016 £m
Operating profit	**1,201.8**	498.7
Adjustments for:		
Depreciation of property, plant and equipment	**1.9**	3.1
Share of profit from joint ventures after tax	**(108.1)**	(85.1)
Profit on sale of investment properties	**(17.0)**	(16.4)
Goodwill and other amounts written off on acquisitions and amortisation of intangibles	**0.6**	0.2
Revaluation surplus on investment properties	**(872.4)**	(231.3)
Pension past service credit and settlement costs	**–**	(2.3)
Pensions and other provisions	**2.1**	(1.2)
	208.9	165.7
Changes in working capital:		
Decrease in trading properties	**13.6**	17.6
Increase in debtors and tenant incentives	**(16.5)**	(31.2)
(Decrease)/Increase in creditors	**(16.1)**	4.6
Net cash inflow generated from operations	**189.9**	156.7

15(ii) Analysis of net debt

			Cash movements		**Non-cash adjustments**					
	At 1 January 2017 £m	Acquired[2] £m	Cash inflow[3] £m	Cash outflow[4] £m	Exchange movement £m	Interest accretion £m	Fair value changes £m	Cost of early close out of debt £m	Other non-cash Adjustment[1] £m	**At 31 December 2017 £m**
Bank loans and loan capital	1,642.8	390.4	1,342.1	(1,414.9)	(19.4)	–	–	140.4	–	**2,081.4**
Capitalised finance costs	(12.4)	–	–	(13.0)	–	–	–	4.9	2.6	**(17.9)**
Total borrowings	1,630.4	390.4	1,342.1	(1,427.9)	(19.4)	–	–	145.3	2.6	**2,063.5**
Cash in hand and at bank[5]	(32.0)	(11.2)	(66.4)	–	0.3	–	–	–	–	**(109.3)**
Net debt	1,598.4	379.2	1,275.7	(1,427.9)	(19.1)	–	–	145.3	2.6	**1,954.2**

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

2 Acquired represents cash and debt assumed from the APP property transaction as detailed further in Note 6.

3 Proceeds from borrowings of £1,342.1 million.

4 Group cash outflow of £1,414.9 million, comprises the repayment of borrowings of £1,274.5 million and cash settlement for early repayment of debt of £140.4 million.

5 Total increase in cash and cash equivalents for the Group of £77.3 million as detailed in the cash flow statement comprises an increase in cash of £66.1 million and cash acquired in the APP property transaction of £11.2 million.

16. 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

	2017		2016	
	£m	**Pence per share**	**£m**	**Pence per share**
EPRA Earnings	**192.8**	**19.9**	152.6	18.8
EPRA NAV	**5,607.7**	**556**	4,162.1	478
EPRA NNNAV	**5,416.0**	**537**	3,822.6	439
EPRA net initial yield		**4.3%**		4.8%
EPRA 'topped up' net initial yield		**4.8%**		5.3%
EPRA vacancy rate		**4.0%**		5.7%
Total EPRA cost ratio (including vacant property costs)		**24.6%**		23.0%
Total EPRA cost ratio (excluding vacant property costs)		**22.1%**		20.8%

TABLE 2: INCOME STATEMENT, PROPORTIONAL CONSOLIDATION

		2017			2016		
	Notes	**Group £m**	**JV £m**	**Total £m**	**Group £m**	**JV £m**	**Total £m[1]**
Gross rental income	2, 6	**272.9**	**73.7**	**346.6**	225.5	82.7	308.2
Property operating expenses	2, 6	**(52.2)**	**(3.9)**	**(56.1)**	(44.9)	(3.9)	(48.8)
Net rental income		**220.7**	**69.8**	**290.5**	180.6	78.8	259.4
Joint venture management fee income[2]	2	**24.3**	**(11.3)**	**13.0**	18.6	(8.7)	9.9
Administration expenses		**(39.7)**	**(0.9)**	**(40.6)**	(31.4)	(0.8)	(32.2)
Operating profit before interest and tax		**205.3**	**57.6**	**262.9**	167.8	69.3	237.1
Net finance costs (including adjustments)	2, 6	**(58.7)**	**(6.2)**	**(64.9)**	(68.7)	(12.2)	(80.9)
Profit before tax		**146.6**	**51.4**	**198.0**	99.1	57.1	156.2
Tax on EPRA earnings	2, 6	**(1.2)**	**(3.8)**	**(5.0)**	(1.8)	(1.7)	(3.5)
EPRA earnings		**145.4**	**47.6**	**193.0**	97.3	55.4	152.7
Less: non-controlling interest on EPRA profit		**(0.2)**	**–**	**(0.2)**	(0.1)	–	(0.1)
EPRA earnings after non-controlling interests		**145.2**	**47.6**	**192.8**	97.2	55.4	152.6
Number of shares, million				**967.3**			809.9
EPRA EPS, pence per share – basic				**19.9**			18.8
Number of shares				**972.8**			814.5
EPRA EPS, pence per share – diluted				**19.8**			18.7

1 Prior to the re-presentation in Note 11(i) the number of shares million for 31 December 2016 was 774.3 and 778.7 (diluted). The EPS was 19.7 (basic) and 19.6 (diluted).

2 Joint venture management 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

		2017			2016		
	Notes	**Group £m**	**JV £m**	**Total £m**	**Group £m**	**JV £m**	**Total £m[2]**
Investment properties	12, 6	**6,745.4**	**1,280.2**	**8,025.6**	4,714.4	1,605.0	6,319.4
Trading properties	12, 6	**12.5**	**0.6**	**13.1**	25.4	0.6	26.0
Total properties		**6,757.9**	**1,280.8**	**8,038.7**	4,739.8	1,605.6	6,345.4
Investment in joint ventures	6	**792.0**	**(792.0)**	**–**	1,066.2	(1,066.2)	–
Other net liabilities		**(10.3)**	**(45.3)**	**(55.6)**	(25.5)	(46.8)	(72.3)
Net borrowings	13, 6	**(1,954.2)**	**(443.5)**	**(2,397.7)**	(1,598.4)	(492.6)	(2,091.0)
Total shareholders' equity[1]		**5,585.4**	**–**	**5,585.4**	4,182.1	–	4,182.1
EPRA adjustments	11			**22.3**			(20.0)
EPRA NAV				**5,607.7**			4,162.1
Number of shares, million				**1,007.7**			871.5
EPRA NAV, pence per share				**556**			478

1 After non-controlling interests.

2. Prior to the re-presentation in Note 11(i) the shares million for 31 December 2016 was 833.2 and the EPRA NAV was 500.

Note: Loan to value of 29.8 per cent is calculated as net borrowings of £2,397.7 million divided by total properties £8,038.7 million (2016: 33 per cent; £2,091.0 million net borrowings; £6,345.4 million total properties).

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

Combined property portfolio including joint ventures at share - 2017	**Notes**	**UK £m**	**Continental Europe £m**	**Total £m**
Total properties	Table 3	**5,510.3**	**2,528.4**	**8,038.7**
Add valuation surplus not recognised on trading properties[1]		–	–	–
Combined property portfolio per external valuers' report		**5,510.3**	**2,528.4**	**8,038.7**
Less development properties (investment, trading and joint venture)		(451.6)	(426.7)	(878.3)
Net valuation of completed properties		**5,058.7**	**2,101.7**	**7,160.4**
Add notional purchasers' costs		340.9	99.8	440.7
Gross valuation of completed properties including notional purchasers' costs	A	**5,399.6**	**2,201.5**	**7,601.1**
Income				
Gross passing rents[2]		213.1	122.5	335.6
Less irrecoverable property costs		(3.0)	(5.4)	(8.4)
Net passing rents	B	**210.1**	**117.1**	**327.2**
Adjustment for notional rent in respect of rent frees		18.3	16.3	34.6
Topped up net rent	C	**228.4**	**133.4**	**361.8**
Including fixed/minimum uplifts[4]		9.0	1.1	10.1
Total topped up net rent		**237.4**	**134.5**	**371.9**
Yields – 2017		%	%	%
EPRA net initial yield[3]	B/A	3.9	5.3	4.3
EPRA topped up net initial yield[3]	C/A	4.2	6.1	4.8
Net true equivalent yield		5.0	6.0	5.3

1 Trading properties are recorded in the condensed financial information 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 (CE).

TABLE 5: EPRA VACANCY RATE

	2017 £m	2016 £m
Annualised potential rental value of vacant premises	**16.0**	20.3
Annualised potential rental value for the completed property portfolio	**401.2**	354.0
EPRA vacancy rate	**4.0%**	5.7%

TABLE: 6 EPRA COST RATIO/TOTAL COST RATIO

	Notes	2017 £m	2016 £m
Costs			
Property operating expenses[1]	5	**52.2**	44.9
Administration expenses		**39.7**	31.4
Share of joint venture property operating and administration expenses[2]	6	**11.8**	13.1
Less:			
Joint venture property management income fee and management fees[3]		**(19.1)**	(18.9)
Total costs (A)		**84.6**	70.5
Group vacant property costs	5	**(7.6)**	(5.6)
Share of joint venture vacant property costs	6	**(0.9)**	(1.1)
Total costs excluding vacant property costs (B)		**76.1**	63.8
Gross rental income			
Gross rental income		**272.9**	225.5
Share of joint venture property gross rental income		**73.7**	82.7
Less:			
Management fees[3]		**(2.3)**	(1.2)
Total gross rental income (C)		**344.3**	307.0

	%	%
Total EPRA cost ratio (including vacant property costs) (A)/(C)	**24.6**	23.0
Total EPRA cost ratio (excluding vacant property costs) (B)/(C)	**22.1**	20.8
Total costs (A)	**84.6**	70.5
Share based payments	**(10.0)**	(6.1)
Total costs after share based payments (D)	**74.6**	64.4
Total gross rental income (C)	**344.3**	307.0
Total cost ratio after share based payments (D)/(C)	**21.7%**	21.0%

1 Property operating expenses are net of costs capitalised in accordance with IFRS of £4.2 million (2016: £3.6 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 £16.8 million (2016: £17.7 million) and management fees, including joint ventures, of £2.3 million (2016: £1.2 million) which 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, a 50-50 joint venture between SEGRO and Aviva Investors, now fully owned by SEGRO.

Bonus adjustment factor: Under IFRS accounting standards, historic per share metrics (primarily earnings, net asset value and dividend) are required to be adjusted for the bonus element of a rights issue so that the history is comparable. The adjustment factor for the bonus element is calculated as the closing share price before the ex-rights date divided by the theoretical ex-rights price of the share. For SEGRO's March 2017 Rights Issue, the bonus adjustment factor applied is 1.046.

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 development pipeline), together with potential schemes not yet commenced on land owned or controlled by the Group (future development pipeline). Within the future development pipeline are pre-let development projects which have been approved but are subject to final planning approval or other conditions being met ("near-term" development pipeline).

EPRA: The European Public Real Estate Association, a real estate industry body, which has issued Best Practices Recommendations Guidelines 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.

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 and trading properties). 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. Rent is assumed to be paid quarterly in advance, in line with standard UK lease terms.

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).

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.

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.

Take-back: 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 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.